(49)

ECONOMY - General
1-5-80 - 31-12-80

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Hansard

12/6/80

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Debate: Second Finance Bill
(Second Reading)

See Hansard 17 Cols. 9181- 9194

12/6/80

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~~Bill~~

Debate: Appropriation Bill
(3rd Reading)

See Hansard 17 Cols 9007 - 9052.

4/6/80

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Estimate of Expenditure – Motion on Gov. Policy

See S. Hansard 17 Cols 2175-2205

+ 2206 - 2238

+ 2249 - 2260

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Industrial Development Amendment Bill

See S. Hansard 11 Cols 2130-2136

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Debate: Appropriation Bill
Committee Stage resumed)

See Hansard 16 Cols 7713-7793

See Cols 7775 - 7783
for departmental allocations.

30/5/80

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Appropriation Bill

Votes 17 — "Interior"
19 — " Gov. Printing Works"

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Appropriation Bill

Vote No 16 - "Justice"

See Hansard 7549 - 7632.

28/5/80.

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Appropriation Bill (Committee Stage resumed)

Vote No 14 "Coloured Relations"

See Hansard 15 Col 7365 - 7501

26/6/80

Appropriation Bill (Committee Stage)

See Hansard 15 Cols 7135 - 7331

23/5/80

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APPROPRIATION BILL

Vote No 20 – "Water affairs, Forestry + Environment Conservation"

See Hansard 14 Cols 7021 – 7132

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Appropriation Bill

Vote No 25 "National Education"

See Hansard 14 cols 6795 - 7020

19/5/80.

Appropriation Bill

Vote No 21 - "Foreign affairs + Information"

See Hansard 14 6573 — 6753

16/5/80

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Appropriation Bill.
Vote No 22 - "Mineral +
Energy affairs"

See Hansard 13 Cols. 6459 - 6563

13/5/80

Debate: Appropriation Bill
(3rd Reading Resumed)

See Hansard 17 Cols. 9250 - 9475

[illegible] 13/5/80

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Appropriation Bill

Vote No 13 "Community Development"

See Hansard 13 Columns 6275 – 6425

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Appropriation Bill

Vote No 8 - "Commerce + Consumer Affairs"

Vote No 9 - "Industries"

See Hansard 13 Cols 6135 - 6229.

+ " " " 6247 - 6275

12/5/80

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Appropriation Bill
" Vote No 24 - "Prisons"

Hans. 13 Cols 6081 – 6136.

9/5/80

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<u>Appropriation Bill</u>

Committee Stage

Vote 24 – "Prisons"

See Hansard 12 ~~Cols 60776080~~
Cols 6077 – 6080

9/5/80

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Appropriation Bill

Committee Stage Resumed

Vote No 23 - "Police"

See Hansard 12 Cols. 5959 - 6077

8/5/80

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Appropriation Bill

Committee Stage Resumed.

" Vote No 15 - "Indian Affairs"

See Hansard 12 Cols 5873 - 5955

6/5/80

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APPROPRIATION BILL

"Committee Stage resumed".

Vote No 6 - "Co-operation + Development"

See Hansard 12 Cols 5835 - 5873

5/5/80

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Appropriation Bill

Vote No 7. "Agriculture + Fisheries"
Contd

See Hansard 12 Cols 5481-5524

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Appropriation Bill

('Committee Stage Resumed)

Vote No. 7. -" Agriculture + Fisheries"

See Hansard II cols. 5367 - 5479.

30/4/80

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Appropriation Bill
"Committee Stage resumed"
Vote No 4 - "Defence"

See Hansard " Cols 5171- 5319

28/4/80

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<u>Appropriation Bill</u>

(Committee Stage resumed)

Vote No 3 – "Prime Minister"

See Hansard II – Cols 4905 – 5171

2/4/80

49

Appropriation Bill
(2nd Reading Resumed)

+
~~Vote 2 Parliament~~

See Hansard 4494 - 4538.

14/4/80

Appropriation Bill
(Second Reading Resumed).

See Hansard 9 col 3637 - 4249.

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Defence Force. You have always been an enemy of the Police and the Defence Force.

*Mr SPEAKER: Order!

In accordance with Standing Order No. 22, the House adjourned at 18h30.

WEDNESDAY, 26 MARCH 1980

Prayers—14h15.

WELCOMING OF PRESIDENT AND MRS. MANGOPE OF BOPHUTHATSWANA

(Announcement)

*Mr. SPEAKER: It is my privilege to announce that the House of Assembly is today honoured by the presence of Their Excellencies Kgosi L. M. Mangope, President of the Republic of Bophuthatswana, and Mrs. Mangope. On behalf of the members of the House of Assembly I wish to welcome Your Excellencies most sincerely at this important Parliamentary occasion.

†This is the first time that a head of state of another country is officially welcomed in the Parliament of the Republic of South Africa, and in this respect, too, your presence is therefore a significant historic event. May this visit contribute to the further promotion of good relations between the Parliaments of our two countries.

*Because of other engagements President Mangope and his party will be able to attend the proceedings here for approximately half an hour only.

APPROPRIATION BILL

(Second Reading)

The MINISTER OF FINANCE: Mr. Speaker, I move—

That the Bill be now read a Second Time.

A national budget is not merely an [illegible] in accounting. It is a major instrument [illegible] economic policy. In introducing the [illegible] for 1980-'81, it is therefore incumbent [illegible] me to present the Government's assessment of the state of the economy and to set out [illegible] official financial policy for the period [illegible]

General Domestic Economic Conditions

During the past year domestic economic conditions have continued to improve [illegible] upward phase of the business cycle [illegible] began towards the end of 1977, was not [illegible] sustained but also gathered further momentum. The real gross domestic product, [illegible] had risen by less than ¼% in 1977 and [illegible] about 2½% in 1978, increased by about [illegible] in 1979.

The initial impetus for the present upswing came from substantial increases in the [illegible] of exports and the net gold output, which [illegible] due course also exerted expansionary effects on domestic expenditure and output. [illegible] Government consumption expenditure [illegible] again showed virtually no increase in [illegible] terms in 1979, real private consumption increased moderately by 2,8%. Real gross domestic fixed investment, which had declined during the preceding three years, [illegible] creased by about 2% in 1979. Although [illegible] private fixed investment was no higher [illegible] 1979 than in 1978, it did begin to show signs of a modest recovery towards the end of 1979. Real inventory investment, however, still remained negative for the year 1979 as a whole.

The number of registered unemployed Whites, Coloureds and Asians declined [illegible] about 1½% of the relevant labour force [illegible] December 1979, which is exceptionally low. Black unemployment also declined, though clearly there is scope for further improvement in this respect.

In general, it would appear that, although the present upswing has in recent months shown clear signs of acceleration, it has not yet gathered adequate momentum. The rate of real economic growth, although rising, is still below that of which the South African economy is capable under present circumstances.

In this regard a distinction must be drawn between the financial and the real spheres of the economy. In the financial sphere there has been an exceptional expansion of activity

[illegible] the past year. But real economic [illegible] has not yet increased to its full [illegible]. This is particularly true of fixed [illegible] investment in plant, equipment and [illegible]—the key to our future growth. [illegible] same applies to manufacturing output, [illegible] has recovered well over the past year [illegible] is still only about 6½% higher than four [illegible] ago. In addition, real imports—[illegible] the best single indicator of real [illegible] activity in South Africa—were [illegible] somewhat lower in 1979 than in [illegible] and have risen only moderately in [illegible] months.

[illegible] has remained a serious problem [illegible] the consumer price index increased by [illegible] 14% between February 1979 and February 1980. I shall return to the nature and the [illegible] implications of this inflation later in [illegible] address.

Balance of Payments

South Africa's balance of payments has gone from strength to strength. The surplus on current account increased to the record figure of R3 107 million in 1979. This was equivalent to 6.5% of gross domestic product.

One reason for this remarkable performance was an increase of 55% in the value of net gold output to just over R6 000 million in 1979, which largely reflected the increase in the average London fixing price of gold from $193 per fine ounce in 1978 to $307 per fine ounce in 1979. In addition, the value of merchandise exports increased by 19% to a total of R8 856 million in 1979.

The value of imports increased in 1979 by about 21% to a total of R9 669 million. As I have already indicated, however, the volume of imports declined somewhat, with the result that the ratio of real imports to real gross domestic product declined in 1979 to the exceptionally low level of 14%, compared with an average of over 18% for the post-war period as a whole.

The remarkable surplus on current account in 1979 was accompanied by an equally remarkable net outflow of capital. Long-term capital showed a net outflow of R755 million, mainly reflecting substantial repayments of foreign loans in response to widening interest rate differentials—the result of declining domestic rates and rising overseas rates. In addition, there was a net outflow of short-term capital of R1 886 million, excluding a decline of R441 million in "reserve-related liabilities". This was largely the direct result of the "switching" of trade financing from overseas to domestic sources of credit, also in response to the large interest rate differentials. The net result of these various developments was a further increase in the net gold and other foreign reserves of R466 million during 1979.

Monetary and Financial Conditions

These dramatic balance of payments changes were accompanied by important monetary and financial developments. The broadly defined money supply increased by about 13% in 1979, which was once again below the rate of inflation and not excessive in the existing circumstances. Indeed, over the past four years the average annual rate of increase of the broad money supply was only about 10%, by comparison with the excessively high average annual rate of more than 20% between 1973 and 1975.

It is true that, after showing an actual decline during the first half of 1979, the broad money supply increased during the second half of the year at an annual rate of about 30%, which was clearly excessive and in conflict with our overall financial policy. But this excessive increase was largely a temporary aberration and not an indication of a longer-term trend. It partly reflected large net redemptions of government loans and the early repayment in November 1979 of loan levies, which resulted at the time in a sharp decline in the deposits of the government sector with the banking sector.

The more important point is that the excessive rise in money supply during the second half of 1979 has not brought about any undue increase in either investment or consumption. This is not difficult to understand. Most of the excess liquidity held by the non-bank private sector has thus far been concentrated in the hands of the mining houses and other large exporters, and has not yet found its way into the pockets of salary and wage earners in general. It has remained in what economists call a "liquidity trap" and has not yet been spent on either domestically produced or imported goods and services. This does not mean that the rate of increase of money supply requires no further attention. It clearly does, as I shall point out presently.

Another significant monetary development during the past year was the substantial further easing of money market conditions and the resultant sharp decline in interest rates on call money, treasury bills, bank acceptances, trade bills and other money market paper. The treasury bill rate, for example, declined from 7,39% at the beginning of 1979 to its present level of 4,14%. In reaction to these market tendencies, the Reserve Bank reduced its Bank Rate three times in 1979 to its present level of 7%. In terms of the existing understanding between the Reserve Bank and the commercial banks regarding the relationship between Bank rate and prime overdraft rate, this resulted in a decline in the latter rate from 11,5% to its present level of 9,5%.

These adjustments, however, left an abnormally wide gap of more than 5% between the prime overdraft rate and the treasury bill rate and related money market rates, and thereby brought about an upsurge in so-called "non-bank intermediation" or "grey market activities", i.e. borrowing and lending outside the banking system. In response to interest rate incentives, there has, for example, been an abnormal expansion of the use of endorsed trade bills and other money market paper in substitution for ordinary bank overdrafts. If left unchecked, this process could not only make monetary statistics less meaningful and monetary policy less effective, but also banking practices less sound.

We therefore find ourselves with a liquidity "overhang" and an interest rate dilemma. On the one hand, our entire interest rate structure is abnormally low in relation to rates in the United States and the United Kingdom, resulting in the large net outflow of short-term capital to which I referred earlier. At the same time, within our own interest rate structure the rates on money market paper are abnormally low in relation to Bank rate and prime overdraft rates, resulting in substantial non-bank intermediation".

The main reasons for this abnormal state of affairs are to be found in the unusual combination in South Africa at present of a large current account surplus, exchange control on capital movements and a still sluggish demand for loanable funds in general. Despite the enormous switching of trade credits, the net result has still been an accumulation of excess liquidity and the interest rate distortions I have described. Too much money has, in effect, been chasing not too few goods but too little scrip.

For similar reasons, conditions in the capital market have also eased. The yields on long-term government securities declined from 9,72% in December 1978 to its present level of about 9,23%. During 1979 Stock Exchange turnover rose substantially. Mining share prices increased by 91%, financial share prices by 62% and industrial and commercial share prices by 54%. This high level of activity in the financial sphere of the economy continued in the early months of 1980.

I now turn to the policy implications of the analysis I have presented of the state of the economy.

Recent Financial Policy

In recent years our short-term economic policy has passed through three phases. During Phase I we applied restrictive fiscal and monetary policies in order to improve the balance of payments and to reduce inflationary pressures emanating from excessive spending. The success of these policies, together with other favourable developments, enabled us in Phase II to adopt a policy of "growth with financial discipline". In last year's Budget Speech I announced the beginning of Phase III of our broad economic strategy, in which more emphasis was to be placed upon economic growth, but still with the retention of financial discipline. I described this new policy as one of "growth from strength".

The fiscal policy component of this new strategy was aimed at promoting more rapid economic growth in the private sector. To this end, I kept a tight rein on government spending, reduced and adjusted tax and loan levy rates, and budgeted for an increase of 46,5% in the "deficit before borrowing" to a total of R2 803 million. This increase was designed to have an expansionary impact on private consumption and investment and therefore on the rate of economic growth. Moreover, as part of the proposed financing of this deficit, provision was made for a drawing on the Stabilization Account of R217 million, with a view to ensuring an adequate increase in the broad money supply as part of the growth policy.

During the ensuing months, however, various unexpected developments, including

substantial further increases in gold and oil prices, brought about significant changes in both the domestic economic situation and the budget outturn. In response to these changes, I announced a package of expansionary fiscal adjustments on 18 September, including new additions to food and transport subsidies and pensions, and the early repayment of a loan levy on individuals in September. Although this package succeeded to a large extent in bringing fiscal policy back on course, tax revenues remained so buoyant that the "deficit before borrowing" for the 1979/'80 fiscal year is now estimated at only R1 683 million, instead of R2 803 million as provided for in the budget. In addition, there has been no need to draw on the Stabilization Account to assist in financing this deficit. In fact, I expect the current financial year to end with a very useful surplus on Monday next.

It must be concluded, therefore, that fiscal policy as a whole has been more conservative and less expansionary than planned in last year's budget. As far as the monetary effects of the Government's fiscal operations are concerned, this outcome is to be welcomed, as other factors have provided for an adequate, and at times even excessive increase in the broad money supply. However, the reduced "deficit before borrowing" means that the income generated directly and indirectly by fiscal operations has been smaller than planned. At the same time, the budget did serve to redistribute income in a way which encouraged consumption and investment.

Another component of the "growth from strength" policy was the progress made in the implementation of the Government's new exchange rate policy of managed floating, as well as the introduction of the financial rand system and improvements in the forward exchange market. By affording the authorities more independence in domestic monetary and fiscal policies, these new exchange rate arrangements facilitated the movement from Phase II to Phase III.

In accordance with the "growth from strength" strategy, there was also a relaxation of domestic monetary policy. Apart from the three reductions in Bank rate, relaxations were made in liquid asset requirements and in bank credit ceilings. As the year progressed, the Reserve Bank also made good use of open-market operations and the issuing of tap treasury bills in an attempt to cope with the marked fluctuations in liquidity.

Disciplined Growth from Strength

Against this background, I have no hesitation in announcing that the Government's broad economic policy for the period ahead will remain one of "disciplined growth from a position of basic strength" or, more briefly, "growth from strength". The justification for such a policy is even stronger now than it was a year ago. Indeed, the policy can now justifiably be described as one of "more growth from greater strength". The events of the past year, together with the favourable effects of our broad financial policy, have increased not only the basic strength of the South African economy but also the scope for more rapid economic growth. Fiscal and monetary policies in the period ahead will therefore be directed towards utilizing this scope to the full and on a sound basis. The economy is clearly moving in the right direction—what is required now is to ensure that this movement is sustained and that it gathers adequate momentum.

This continued emphasis on growth will be accompanied by an equally strong emphasis on the maintenance of strict financial discipline. In present circumstances in South Africa there is no conflict between more rapid growth and continued financial discipline. Indeed, it is a major theme of this budget that, as matters stand at present, growth and discipline form a virtually unbeatable combination.

The question might be asked whether it is still necessary deliberately to promote economic growth. Is the present upswing not already strong enough? What about the danger of demand inflation? Can the balance of payments cope with a higher rate of growth?

The key to the answers to these questions lies, I believe, in the distinction I drew earlier between the upsurge in activity in the financial sphere in South Africa and the relatively sluggish upswing in real economic activity. There is a need to attain a more rapid and sustained increase, in real terms, in such areas of economic activity as production, employment, investment and imports. A mere recovery from a low level is not enough. We can and must break new ground and move ahead.

To count our growth chickens before they are hatched, would therefore be a mistake.

We cannot sit back and simply assume that the upswing will gather adequate momentum without appropriate adjustments in fiscal and monetary policies. It must remain a fundamental aim of economic policy to ensure that South Africa will fully utilize its growth potential in 1980. In making this definitive policy statement, I cannot, however, emphasize strongly enough the need to guard against the danger of lapsing into a state of euphoria about the economy simply because the price of gold has risen to record heights in recent months. From the Government side, I can give the absolute and final assurance that the authorities will not base their policies on over-optimistic assumptions about the gold price. While I remain convinced that the gold price will show an upward trend in the long run, the events of the past two weeks have shown once again how widely it can fluctuate in the short term.

At the same time, we must guard against the opposite danger of undue timidity and inertia. To begin with, South Africa's present economic strength is based upon much more than the increase in the price of gold. This is also the considered view expressed in a favourable report on the South African economy handed to me two weeks ago by a team of experts from the International Monetary Fund, in which particular emphasis is placed on the rewards South Africa is now reaping from what they call "its determined stabilization policies over the past few years". Moreover, the higher gold price should surely be viewed as a favourable development which, if appropriately dealt with, increases the scope for economic growth in South Africa. We have now been afforded the kind of opportunity for sound economic expansion which comes along very rarely in the life of a nation. We must use it wisely to make South Africa strong and prosperous.

A further point to stress is that restraint on government spending remains a keystone of our strategy. As before, our growth policy will consist essentially of providing the private sector with both the scope and incentive for rapid economic expansion. Excessive increases in government spending at this stage would soon bring us to the point where, in order to avoid living beyond our means as a nation, we might have to impose restrictive measures on private sector expansion. If that happens, the public sector would be guilty of "crowding out the private sector"—a phenomenon which is well known and feared in many countries, but which the Government is determined to avoid in South Africa.

This policy of curbing government spending while promoting economic growth in the private sector is in full accordance with the Government's total economic strategy and the Prime Minister's new initiative in regard to the Constellation of States in Southern Africa. The Prime Minister himself made this abundantly clear when he addressed business leaders at the historic meeting in the Carlton Hotel in Johannesburg on 22 November 1979.

Since fiscal policy will form the key element in our policy of encouraging private sector expansion, the full pattern of our strategy for the coming year will only unfold as I present my detailed budget proposals today. As I proceed, it will, I hope, become clear that the expansionary element of our policy is largely aimed at supporting the present recovery in private consumption and investment by increasing the real disposable incomes of individuals—i.e. incomes adjusted for price increases and changes in direct taxes—and by enhancing the financial capacity of companies to expand fixed and inventory investment.

Anti-inflationary Policy

Another major objective of official economic policy in 1980, equal in importance to that of promoting output and employment, is to curb the rate of inflation. Since the evidence shows that our present inflation is mainly of the cost-push kind, it cannot be combated effectively by depressing output and sacrificing sound growth. Moreover, the very existence of a surplus on the current account of the balance of payments equivalent to more than 6% of gross domestic product, means that the scope for imports to rise is so great that it is difficult to envisage the early emergence of a general shortage of goods in relation to aggregate demand.

The inflation of the past year must be attributed in large measure to substantial further increases in fuel prices, "administered" prices or tariffs, and food prices, as well as to the continued application of the official policy of narrowing the gap between White and Black wages. None of these causes could be removed by measures to curb aggregate demand, such as, for example, tax increases. Sight must also not be lost of the fact that, despite salary and wage increases, there was actually a fractional decline in the average real remuneration of workers in the non-agricultural sectors of the economy during the first three quarters of 1979.

What does pose a serious inflationary threat for the year ahead is the virtual certainty that shortages of skilled and semi-skilled labour will develop if the economy grows at the desired rate. These and other "bottlenecks" are bound to create upward pressures on labour and certain other costs. The signs of this are already evident in many directions. But this is a different problem from that of general demand inflation and requires different treatment.

If a reduction in general demand is not the answer in present circumstances, how then must inflation be countered?

First and foremost, we must ensure that government spending and the broad money supply are kept under effective control in order to prevent the emergence of demand inflation at a later stage.

Secondly, we should act on the supply side, by putting greater emphasis on the training and better utilization of labour resources, particularly with a view to preventing or eliminating bottlenecks and raising productivity in general. With this in mind, I shall make certain specific budget proposals today.

Thirdly, if warranted by supply and demand conditions in the foreign exchange market, the commercial rand, which has since January 1979 already appreciated by 7,3% on average against all other currencies and by 7,5% against the United States dollar, should be permitted to float upwards still further. This would reduce the prices of imported goods in terms of rand and thereby counteract cost increases.

Fourthly, we should put no artificial impediments in the way of imports if the demand for goods and services increases as expected.

Fifthly, action should be taken against any form of monopolistic exploitation of the public.

Sixthly, now that most of the large and essential upward adjustments to electricity and railway tariffs and certain other administered prices have been made, strict discipline

will have to be applied to prevent any undue further increases in such prices.

Finally, today's budget will include a specific tax proposal aimed at lowering certain costs or, at least, slowing down their rate of increase.

Apart from these seven ways of tackling the main causes of inflation, I shall also announce steps to alleviate some of the symptoms of inflation and to reduce its burden on those groups least able to bear it.

Monetary Policy in the Broad Sense

I now turn to monetary policy in the broad sense. The importance, particularly under present circumstances, of closely co-ordinating policies regarding the financing of the Government's "deficit before borrowing", the broad money supply, exchange rates and interest rates cannot be stressed enough.

In a nutshell, the main monetary and banking problems requiring attention at present are the fluctuations in the broad money supply, the liquidity "overhang", the distorted interest rate structure and the resultant abnormal increase in borrowing and lending outside the banking system.

To deal with these problems, I envisage a combination of the following policies:

The first is the promotion of more rapid real economic growth—our basic strategy. If successful, this should in due course result in an increase in the demand for loanable funds and a decline in the current account surplus, which should combine to absorb some of the excess liquidity and to bring about a better alignment of relative interest rates. The best way to absorb "idle money" is to put it to productive use on a sound basis.

Secondly, we shall aim at attaining an adequate but not excessive rate of increase in the broad money supply. What would be "adequate but not excessive" in present circumstances, is difficult to say in advance, particularly in view of the uncertainty surrounding the gold price and overseas economic developments in general. But for the year as a whole, a rate of increase somewhat below that of the rate of inflation would not seem unreasonable. This would accommodate the expected increase in the growth rate while at the same time exerting a restraining influence on inflation.

To this end, I propose to finance the

"deficit before borrowing" in the 1980-'81 budget in a manner which will not result in the creation of any money at all. In other words, I propose to avoid any net recourse to the banking system. Indeed, if the net gold and other foreign reserves were to continue rising substantially, we shall go further and actually reduce the net claims of the banking sector on the government sector in order to counteract the expansionary monetary effects of the balance of payments surplus. This would then leave adequate scope for the necessary expansion of bank credit to the private sector. Of course, to the extent that the rise in net foreign reserves was slowed down through a policy of permitting the commercial rand to appreciate, there would be less need for the authorities to exert a negative effect on the money supply through their own financing operations.

As part of the policy of influencing the money supply and interest rates, the Reserve Bank yesterday announced an increase in the credit ceilings of banking institutions of 6% of their base figures at the end of 1975, in addition to the normal increase of ½% per month. At the same time the Bank made various adjustments to the cash reserve and liquid asset requirements of the banks. If necessary, the Bank might also resort to issuing its own securities as a means of mopping up liquidity.

The third component of broad monetary policy will be the further relaxation of exchange control in order to prevent the large current account surplus from "bottling up" excess liquidity in the domestic money market. The speed with which we shall move in this direction will depend on the extent of our overall balance of payments surplus. I have, however, decided upon certain immediate relaxations, the details of which are included in a separate document which I shall table today. The main relaxation is the decision to grant approval more readily for early repayments of certain foreign loans to take advantage of interest rate differentials. In addition, certain relaxations will be made in respect of travel, maintenance and study allowances and transfers of gifts.

Economic Prospects

If we succeed in applying the appropriate combination of fiscal and monetary policies along the lines I have just outlined, I envisage that, in the period ahead, we can simultaneously attain a higher real economic growth rate, increased employment, a further strengthening of the rand, and higher net gold and other foreign reserves. In the absence of unforeseen developments, we might even add to this impressive list a gradual reduction in the rate of inflation—if not in absolute terms, then at least in relation to the inflation rates of our main trading partners. And this in a world which, according to the latest official forecasts, will in 1980 experience a combination of slower growth, higher inflation and serious balance of payments difficulties.

Against this broad policy background I shall now proceed to deal with the Government's Accounts. I start with the financial year 1979-'80.

The Financial Year 1979-'80

The current financial year is characterized by the exceptionally favourable outcome of exchequer receipts. Customs and excise collections, at R1 301 million, are by and large consistent with the original estimates, but inland revenue is now estimated at R8 495 million, which is R1 362 million, or 19,1% more than the original estimate. Total revenue receipts for the financial year, as contained in the revised revenue estimates which I shall table today, are expected to run to R9 797 million, compared with the original estimate of R8 416 million, an increase of R1 381 million, or 16,4%.

On the expenditure side, total spending is at present estimated at R11 480 million. This represents a moderate increase of 2,3% on the original estimate and an increase of approximately 15% on actual expenditure during the previous financial year. In real terms there has been at most a nominal increase in government spending and I am satisfied that we have successfully achieved our basic objective of economy in detail in respect of the Government's Accounts. In this context the old saying seems to be appropriate: "If you don't get everything you want, think of the things you don't get that you don't want."

Due to the relatively small unforeseen additional expenditure, compared with the relatively large additional revenue receipts, the exchequer deficit before borrowing for the financial year has decreased dramatically in comparison with the original estimate. It will, in consequence, not be necessary to withdraw R217 million from the Stabilization Account as originally budgeted for. Moreover, the opening balance for the financial year is larger than anticipated, and the amount of loans raised abroad at R277 million, is R77 million more than allowed for. Consequently it is now possible to borrow approximately R612 million less in the domestic market than originally anticipated, and still to close the financial year with an estimated gross surplus of R296 million.

While the opportunity presents itself, I would like specifically to allocate this windfall toward certain expenditure items which, together with further augmentation, to my mind deserve the highest priority. Napoleon said: "As a general rule nobody has money who ought to have it." We shall see what we can do about that.

Defence

Hon. members will probably agree that in the dangerous world in which we live defence has a very high claim on the exchequer surplus, not only to increase the Defence Force's preparedness, but also to cope financially with any unfavourable future developments. The situation on our borders requires vigilance and preparedness and increasing costs have also had their effect on defence spending. I therefore propose that an amount of R160 million be transferred from the exchequer surplus to the Special Defence Account.

South West Africa

I need not enlarge on the difficult situation pertaining to South West Africa. It was customary in the past to make good the annual shortfall on the South West Africa Account from the State Revenue Fund surplus. Although the South West Africa Account will be closed down with effect from 1 April 1980, I propose that the new Central Revenue Fund of South West Africa continue to receive a contribution from the exchequer surplus in order to enable the Administrator-General uninterruptedly to continue existing services taken over from South African Government departments, and to tackle essential new projects. I would like to make available an amount of R40 million to the Administrator-General for this purpose.

That leaves a favourable balance of R96 million, which will be carried forward to the new financial year. Before turning to the printed Estimates of the 1980-'81 financial year, I should like to make proposals for the application of this surplus to funds and projects which to my mind should receive a high priority. These expenditure proposals will appear in the Supplementary Estimates for 1980-'81.

Black Urban Areas

Although the general standard of living in South Africa is higher than that of any other African country and of several other parts of the world as well, it is nevertheless the desire of the Government to improve the quality of life of all South Africa's peoples as far as our financial and other means permit.

Due to the backlogs in housing and other basic infrastructural services which have emerged with the steady increase in population, Black urban residential areas in many instances do not possess adequate taxable community services to cause them to become self sufficient. I wish to propose that an amount of R12 million be set aside in the form of low interest rate loans for development purposes. There is also a growing pressure on hospital facilities, and I propose to make available an amount of R4 million for the renovation of an existing complex to ease the position.

Consolidation of Black States

The Commission for Co-operation and Development is hard at work drafting proposals for the further consolidation of the Black states. An amount of R74 million has been provided for this purpose in the printed Estimates and I wish to propose that a further amount of R15 million be transferred from this year's exchequer surplus for this purpose. This will result in an increased provision of more than 41% over that of the current year.

Loan Fund for Economic Co-operation

I wish to propose that an additional amount of R10 million be added to the Loan Fund for Economic Co-operation administered by the Department of Foreign Affairs. This Fund finances projects in independent states.

Project Fund for Co-operation and Development

To familiarize dependent Black states more quickly with project financing I wish to set aside a further R15 million for this purpose.

Local Authorities

The Committee of Inquiry into the Finances of Local Authorities has virtually completed its comprehensive report, which is in three volumes. It will receive the serious attention of the Government but, in the meantime and without anticipating the decisions the authorities may take, I wish at this point to set aside an amount of R12 million for future commitments in this respect.

Small Business Enterprises

A further specific matter which I consider justifies an allocation from this year's surplus funds, concerns the promotion of small business enterprises.

As was emphasized during the Hon. the Prime Minister's meeting with leading businessmen on 22 November 1979 in Johannesburg, these undertakings provide, directly and indirectly, more employment per unit of capital invested than do larger concerns. In large industrial countries and also in the smaller and more recent industrial countries of the Far East small business enterprises form the backbone of the economy. They serve as a stabilizing factor and help in redressing the imbalance between geographical areas and economic groups as well as in arresting the depopulation of rural areas.

Much is already being done in this area but the Government will welcome proposals as to how to promote, in close co-operation with the private sector, the organizational and financial interests of the small business to best advantage. An amount of R10 million is provisionally being set aside for this purpose.

Food Contingency Provision

Of the estimated net surplus of R96 million this year, a total of R78 million has already been allocated. This leaves a balance of R18 million. In my proposals for additional expenditures I intend to suggest soon a number of increased subsidies for various food products, but as a precautionary measure I consider it desirable that the R18 million balance be earmarked at this early stage for use later during the year should further relief as food price increases become necessary.

I now wish to turn to a discussion of the 1980-'81 financial year.

The Financial Year 1980-'81

The printed Estimates of Expenditure which I shall table this afternoon, make provision for an aggregate of R12 823 million. My budget proposals which I shall come to presently, entail further expenditure of R164 million which, in addition to the amount of R96 million just allocated from the current surplus, means a total additional amount of R260 million. As a result I estimate total expenditure for the new financial year at R13 083 million, that is R1 609 million, or 14%, higher than the revised estimated expenditure for the current financial year. It is interesting to note that total expenditure in 1911-'12 represents only 0,3% of the 1980-'81 total!

Considering the general increase in costs, including salaries and wages, it should immediately be clear that the Government in no way intends to abandon its now well-known stance on financial discipline merely because the situation has eased in respect of revenues and finance in general. Despite Chesterton's caution, that "there are some statements that no one ever thinks of believing, however often they are made", I am determined on grounds of sound finance not to budge on this issue. As usual, full particulars of the Estimates of Expenditure will be tabled today. However, a few expenditure votes deserve special mention.

Defence

An amount of R1 890 million has been included in the printed Estimates of Expenditure in respect of Defence, compared with R1 612,4 million in the current financial year. If account is taken of further amounts expected to be available from the Special Defence Account, Defence will have available no less than R2 074,5 million in cash—including the special R160 million from the 1979-'80 exchequer surplus. I should also like to draw the attention of the House to the fact that the Defence Force has been authorized, if necessary, to incur commitments up to an amount of R2 346 million, compared with R2 074 million this year. Our enemies

should take note that the Government is in earnest in pursuing its declared policy of ensuring the safety of the State and of all its inhabitants. Circumstances and threats change continuously and we must ensure that our preparedness remains razor sharp.

In this respect I would like to express my thanks and appreciation to investors in Bonus Bonds and National Defence Bonds for their generous support thusfar. It facilitated to a large extent the task of financing our high defence expenditures. In spite of the fact that—now also in respect of National Defence Bonds—only natural persons may invest in these bonds, I expect to be able to borrow R200 million from these sources during the next financial year.

Improved Conditions of Service

On behalf of the Government it is my privilege to announce that significant improvements in salaries and other conditions of service will now be granted to all personnel in the public service, provincial administrations, statutory bodies, Black states and incumbents of statutory posts. The total amount involved amounts to R480,5 million—by far the largest amount ever asked for this purpose—but I expect departments and subsidized bodies to absorb a part of this amount from savings. Provision for R434 million has been made in the printed Estimates.

In keeping with the policy previously announced by the hon. the Prime Minister, improvements in respect of all personnel will be implemented from a common date, 1 April 1980. The improvement of conditions of service is a planned process which receives continuous attention. The expenditure involved must be within the financial capacity of the country and improvements are progressively made in accordance with this fundamental criterion.

The proposed improvements entail mainly the following:

(i) The substitution of the existing vacation bonus by a service bonus which will be equal to a full month's salary, less 7%, which deduction, together with a threefold contribution by the State, will be deposited in a stabilization account for the purpose of augmenting the pensions of retired employees as and when necessary. Everyone will receive the service bonus in the month of birth, but officials who have already had their birthdays this year will receive their bonuses in the month in which the salary increases are paid.

(ii) A general salary improvement, basically consisting of a notch-for-notch adjustment on an improved key scale, with further increases for personnel who qualify for them in terms of the principle of vocational differentiation.

(iii) Nursing personnel will also receive the above-mentioned improvements, with further improvements in the grade of sister and for lecturing staff.

(iv) Teachers will, apart from the service bonus, receive salary improvements on a notch-for-notch basis in the grade and on an improved key scale. These salary improvements stem from proposals submitted by the Department of National Education on the basis of recommendations made by a representative education committee which considered how the improvements should be made within the limit imposed by the availability of funds for the purpose. I believe that the improvements confirm the Government's point of view that education is a distinctive profession and should therefore receive and develop a structure in its own right.

(v) Non-White personnel will receive salary improvements in accordance with the pattern for Whites. In the light of existing salary relationships, relatively larger improvements have been granted to them. Last year the Hon. the Prime Minister announced a programme whereby parity of salaries, and a further narrowing of the salary gap between Whites and non-Whites from the top posts downwards, would be brought about. Phases 1 and 2 of this programme were implemented during the 1979-'80 financial year. Phase 3 will now be put into effect from 1 April 1980.

Particulars of all improvements will shortly be made available by the Public Service Commission to departments and other bodies.

As far as conditions of service in general are concerned, the Government and the Public Service Commission are under constant pressure from all sides for the improvement of salaries of one or other specific group of employees The media join in merrily in this process. However, these representations cannot be acceded to in a haphazard and unco-ordinated manner. With the acceptance of the principle that specific amounts will be budgeted for in order to improve conditions of service, the opportunity now exists to bring about such improvements in a more planned and orderly manner. I would, therefore, wish to appeal to all involved to formulate their representations in future in accordance with the procedures laid down by the Public Service Commission in consultation with the Treasury.

I shall fail in my duty if I do not adjure employees in the private and public sectors to moderate their expectations of salary adjustments with realism. Absolute discipline regarding salary improvements must be applied by all sectors if we are serious in their endeavours to combat inflation.

It is essential that conditions of service in the public and private sectors be seen in the and with due regard to the incidence of taxation. The influence that tax-relief measures can have on the "take-home" pay of individuals, should not be underestimated. In the prevailing inflationary circumstances, realistic salary adjustments in the private and public sectors, coupled with tax relief, are from an economic and cost-restraining point of view, far more preferable than excessive salary adjustments without tax relief.

The following representative examples, selected for obvious reasons from the teaching profession, illustrate the point. I must emphasize that I am referring to the take-home pay position, after the deduction of pension contributions and taxes from salaries and service bonuses. The tax reductions involved here will become clear when I deal presently with my taxation proposals for the new financial year.

	Approximate improved take-home pay position
A beginner (unmarried)	R1 148 per annum or some R95 per month
A teacher in the middle group (married with two children)	R1 792 per annum or nearly R150 per month
A senior teacher (married with two children)	R2 530 per annum or more than R210 per month
A top post in education (married with two children)	R5 426 per annum or more than R450 per month.

I am reluctant to furnish these particulars since I regard salaries as a private matter which should preferably not be dealt with in public and because I know that all sorts of comparisons and conclusions, which will not necessarily be complete and relevant, will be drawn. The controversy over teachers' salaries and the general concern of parents in this regard, however, have led me to provide this limited information.

After thorough investigation and lengthy discussions with the Public Service Commission, the Treasury, the education departments, and other interested parties and individuals, I am satisfied—

(a) that the improved conditions of service announced today represent a realistic, fair and favourable dispensation for the Civil Service as a whole and for its different constituent branches and groups: and

(b) that the amount provided for this purpose—by far the largest so far in our history—is the maximum which a well-disposed and responsible Government can provide under present circumstances.

As Minister of Finance I accept full responsibility for this.

Now I should like to turn to proposals for further expenditures to be financed from next year's revenue. First of all, it is my privilege to attend to the interests of our senior citizens. How true Richter's words ring: "Nothing is more beautiful than cheerfulness in an old face."

Social Pensions

I am glad that I am able once again to announce meaningful concessions to pensioners and other social beneficiaries.

Full particulars of the proposed concessions are set out in a document which I shall lay upon the Table this afternoon. The concessions include an increase in social pensions of R12 per month in the case of Whites, which means that the maximum pension will increase to R109 per month. The increase for Coloureds and Indians amounts to R8 per month, and for Blacks to R5,50 per month.

The means test will also be further adjusted by increasing the free assets limit to R10 200 and by raising the means limit for earnings from R984 to R1 392 per year. All these concessions and adjustments take effect on 1 October, 1980.

Initially I indicated last year that the existing differences between consolidated and other pensions payable in terms of the Military Pensions Act, 1976, would gradually be phased out. It is, however, now possible to implement the remaining two phases simultaneously with effect from 1 April 1980. This concession may in certain cases of 100% disability mean an increase of as much as R116 per month.

The total cost of all these concessions will amount to R55 million for 1980-'81 and R110 million for a full financial year. The necessary provision will be included in the Supplementary Estimates.

Last September the Government was in the fortunate position that the Exchequer could afford to grant a special bonus to persons receiving social pensions and allowances. In view of the expected greater buoyancy in revenues in the coming year, it will to my mind be only fair to repeat this exercise now, even though a mere six months have elapsed since the previous bonuses were paid out. I am therefore thankful to be able to announce that the same special bonus benefits as last year, namely R30 for Whites, R24 for Coloureds and Indians, and R18 for Blacks, will be paid out during May 1980 to all persons receiving social pensions and allowances.

The expenditure involved will be approximately R22 million and will, as is customary, be provided for in the Supplementary Estimates.

Civil Pensions

The Government is well aware of the problems experienced by former employees of the State, now retired, who are hard pressed by the cost of living. It has accordingly been decided to grant an increase of 20% to former officials and other civil pensioners who retired prior to 1 April 1969. Those who have retired from 1 April 1969 but prior to or on 30 June 1973, will receive a 15% increase, and those who retired after 30 June 1973 will receive a 10% increase. As was the case last year, a minimum increase will be granted, this time of R30 per month for Whites, R20 per month for Coloureds and Indians, and R17 per month for Blacks.

The expenditure involved in these increases will amount to approximately R40 million and will be borne by the Pensions Stabilization Account, except for an amount of approximately R2 million, which will be financed from the Exchequer in cases where civil pensioners receive their pensions directly from the Exchequer. Provision for the R2 million will be made in the Supplementary Estimates.

Housing

Provision has been made in the printed Estimates to supplement the capital of the National Housing Fund by R215,2 million. Because of the considerable scale on which capital has to be redeemed by the Fund to banks and building and financial concerns, as well as the fact that the special R250 million scheme instituted in November 1977 to stimulate the building industry is coming to an end, it must be accepted that the exceptional pace at which housing has recently been provided, cannot easily be maintained. However, housing still enjoys one of the highest priorities and I should like to propose that a further R10 million be included in the Supplementary Estimates for this purpose. This will raise the total provision for the Housing Fund to R225,2 million, which represents an increase of 20,2% on the appropriation for the current financial year.

I would also like to mention that the Department of Community Development is at present investigating methods by which a part of the mortgage burden of the Housing Fund could be transferred to the Building Society movement in order to enhance the return flow of capital to the Fund itself. I am convinced that it is in the national interest for the Building Society movement to support fully this initiative in order to channel a portion of their available housing funds in this way to the lower income groups.

Agriculture

The Government is particularly aware of certain acute financial problems that exist in the agricultural sector and does much to seek solutions to these problems as they arise.

The appointment of the Jacobs Committee which advises my colleague the Minister of Agriculture and myself on financial matters in the field of agriculture, contributed substantially to the continuous and earlier consideration of these problems and their solutions.

A serious problem is currently developing in the tobacco industry. It relates to the financing of exceptionally large stocks and the inability of the industry itself to bear this burden in full. I have referred this matter urgently to the Jacobs Committee and as soon as we receive the recommendations from the Committee, my colleague the Minister of Agriculture and I will decide how this problem can best be resolved.

Food Subsidies

The subsidy on maize provided for in the printed Estimates was initially reduced from R50 million to R40 million. Due to the detrimental effect that this might have on consumer prices, I propose that an amount of R10 million should be added to the existing R40 million to place the total available subsidy back again at R50 million.

For the same reason it appears to be justifiable to provide an additional subsidy of R1,5 million for dairy products.

In view of the fact that the Republic's wheat surplus is currently being exported at a considerable loss, ways and means had to be found to supplement the Wheat Board's stabilization funds. The Government has agreed to the imposition of a levy ... millers equal to the total value of their ... sales. This will mean that the price ... wheaten meal and flour will have to increase accordingly, but to prevent the consumer having to pay a higher price for the final product, I wish to provide an additional R2,3 million subsidy to neutralize the price effect of the bran levy.

As far as bread subsidies are concerned, an amount of R90 million has been provided for in the printed Estimates. To benefit the consumer, a portion of this, namely R3,6 million, will be used to subsidize the price of brown bread and whole-wheat meal. Brown bread is at present being subsidized by as much as 14 cents and white bread by 9 cents per loaf. Notwithstanding increases in the price of wheat and in bakers' and millers' margins, we have, with the aid of subsidies, succeeded in keeping the bread price constant since January 1978.

Should we wish to keep the price fixed for a further 12 months, a total subsidy of as much as R220 million will be required for bread alone. Not only would this amount be disproportionate, but it would make any necessary adjustments subsequently so much the more drastic. The Government has therefore decided, regrettable as it may be, that an increase in the price of bread from 1 April 1980 is inevitable.

I feel, however, that consumers of bread and especially those to whom it is a staple foodstuff, should continue to share in the country's increased Exchequer revenue and I wish to recommend, accordingly, that an additional amount of R51 million be provided to keep the necessary increases as low as possible.

The price of a brown loaf will then be increased from 1 April 1980 by only 4 cents and that of a white loaf by 5 cents.

Together with the contingent amount of R18 million provided for out of the current surplus, total food subsidies will rise to R221 million in 1980-'81 compared with R172 million this year, an increase of about 28% in one year. As Chesterton puts it, "If a thing is worth doing, it is badly worth doing."

Labour and Training

Benjamin Franklin had occasion to remark: "When a man empties his purse into his head, no man can take it from him."

I have already pointed out that with the ... of the economy, skilled manpower will undoubtedly become one of our major bottlenecks. Aware of this challenge, the Government has for some time now been providing funds for the promotion of industrial training, both direct and indirect.

The Department of Education and Training, which plays a key role in the training of Blacks outside the Black states, reflects an increased expenditure, in excess of 32%, to an amount of R240,4 million in the printed Estimates. To this amount I should like to add an additional R4 million for the creation of urgently needed school accommodation on the East Rand, an amount which will be included in the Supplementary Estimates.

It is interesting to note that the total direct expenditure on education for all the peoples by the Central Government alone will increase to R944 million in 1980-'81 compared with a level of R432 million only five years ago. These totals do not include expenditures by the provincial authorities or the Black states, nor any extra tax expenditures allowed as deductions from taxable incomes. If the provinces are included in these calculations, approximately R1 720 million will be spent on education in 1980-'81 as compared to R964 million five years ago.

There exists in the Departments of Manpower Utilization and of Education and Training a number of industrial and other training schemes supported and financed by the authorities and, in addition, tax incentives are granted to industrialists for the in-service training of labour.

Attention is presently also being given to representations to extend the present tax concessions on donations to training colleges and certain secondary educational institutions which do not currently qualify for such concessions. Furthermore, there may also be merit in looking in future to the establishment of a central training fund to ensure that the financing of all training functions is co-ordinated. It is my intention soon to take up this matter with my colleague, the Minister of Manpower Utilization, and other interested parties.

After taking into account these further concessions and additional expenditures I estimate that aggregate expected expenditure to be financed from 1980-'81 revenue sources will amount to R13 083 million.

Revenue 1980-'81

On the basis of the existing taxation, total revenue for the 1980-'81 financial year is expected to amount to R11 765 million, representing an increase of R1 968 million or 20% on the revised estimates for 1979-'80.

Customs and excise duties are expected to show a nominal increase of R29 million to R1 330 million, but inland revenue, by contrast, will increase substantially.

Hon. members will understand that in view of the fluctuations in the price of gold it is particularly difficult to estimate the State's gold-mining tax and lease revenues for the coming year. However, as I have already emphasized, I am basing my estimates on conservative assumptions. I am no prophet, but even if I were, it would be prudent to listen to Halifax, who said, "The best qualification of a prophet is to have a good memory." Hence my conservatism. Even so, total revenue from gold mining is expected to amount to no less than R2 485 million, which is R1 630 million in excess of my estimate for the main Budget for the current year.

Due to the upswing in the economy, useful increases in revenue are also expected from a number of other tax sources. Details of these revenue estimates will, as usual, be tabled today.

With total expected expenditure estimated at R13 083 million and total expected revenue on the existing basis of taxation estimated at R11 765 million, I am left at this stage with a deficit before borrowing of R1 318 million.

Before proceeding with my taxation proposals, I wish briefly to touch on two subjects.

Subscription Shares

Firstly, the interest on subscription shares of building societies is currently tax-free on a maximum share investment of R150 000 per person. This concession is out of line when compared with the far more modest amounts which may be invested tax-free in the Post Office, the Treasury and also in the form of tax-free indefinite period building society shares.

I have, therefore, after consultation with the Building Society movement, decided to restrict the concession to a maximum tax-free subscription share investment of R50 000 per taxpayer. To minimize any inconvenience which this measure may cause, this restriction will be phased in in equal amounts over a period of three years.

Fiscal Incentive Measures

Secondly, as I announced in December 1977, the existing initial and investment allowances, which are two of our principal incentive devices, would be extended for a further period of 3 years till 30 June 1982.

These allowances today fulfil a dual function: firstly, they reduce the effective rate of taxation payable by companies and, secondly, they bring relief in cases where depreciation and the write-off of assets is based on historical costs. The view is held in some quarters that these allowances, by encouraging investments, tend to increase industrial capacity, a development which should normally not be curbed, but that it may in certain circumstances be advantageous to pay these allowances in cash especially in decentralized areas because of the more difficult location problems experienced there.

Others, again, express concern about the large amounts foregone in revenue, especially when the allowances are not limited to their original purpose, and feel that it would be better to provide the desired incentive in the form of an appropriation of expenditure.

It is also argued that the possible encouragement of capital-intensive industries in this way is not conducive to the provision of adequate employment opportunities and that a better balance should be sought between incentives for capital and labour-intensive enterprises, also in the mining and agricultural sectors.

The matter has many facets and I feel that we should be cautious before changing the *status quo*. "Opinions have vested interests just as men have," said Samuel Butler, and he could be right. I have thus deemed it fit to direct the Standing Commission on Taxation Policy to investigate this whole issue and to submit recommendations to me.

I now turn to my taxation proposals, and would first like to deal with the surcharge on imports.

Surcharge on Imports

This tax was introduced at a level of 15% in 1977 as a temporary measure to provide additional revenue to the Exchequer. After a year it was scaled down to 12,5% and then, last year, to 7,5%. The time is now ripe for us to eliminate this duty entirely. Its abolition is in fact the specific cost-reducing tax proposal to which I referred earlier when I set out the steps against inflation. The net cost to the Exchequer will amount to as much as R230 million in 1980-'81.

Government notices to give effect to the decision will appear tomorrow and will be applicable to all the goods concerned which have not been entered for home consumption before tomorrow. The Government firmly expects that this reduction in effective costs will be passed on without delay by importers and other trade channels to the consumer in the form of reduced prices.

Provision of Housing by Employers

Apart from direct State assistance in the provision of housing, the Government also wishes to encourage participation by employers in the provision of housing for their employees.

I propose, therefore, that the presently existing ceiling on the deduction, for tax purposes, of the building costs of any one dwelling for a farmer's employee be increased from R4 000 to R5 000. For other employers, it is proposed that the existing allowance of 25% of the expenditure incurred be increased to 50%, with a maximum of R4 000 instead of the present R3 000. The revised allowances will apply to the cost of buildings, the erection of which commences on or after 1 April 1980.

The expected sacrifice of tax revenue will amount to R4 million for a full year and to R2 million for the 1980-'81 financial year.

Transfer Duty

While on the subject of housing, I have considered it advisable further to encourage home ownership by raising the present exemption from liability for transfer duty from the existing limit of R20 000 to R30 000 in respect of a property with a dwelling on it, or a flat under sectional title, and from R8 000 to R12 000 in respect of unimproved land acquired for the purpose of erecting a dwelling. This exemption is restricted to properties acquired by natural persons.

The rates of transfer duty for more expensive properties acquired by natural persons will be adjusted accordingly to 1% on so much of the value as does not exceed R30 000 and 3% on the excess over R30 000. These reductions will apply in respect of all transactions concluded on or after 1 April 1980.

The estimated sacrifice of transfer duty will amount to R21,5 million in a full year and R14,6 million for the 1980-'81 financial year.

Estate Duty

Although I announced last year relief with regard to estate duty, I am of the opinion that further relief is justified due to the increase in the monetary value of assets.

I, therefore, propose that the primary abatements and abatements applicable to children and the surviving spouse of a deceased person be increased to R37 500 each; that the maximum allowable deduction from the total value of an estate in respect of the proceeds of insurance policies, stock and Land Bank investments be increased from R80 000 to R100 000; and that the rate of estate duty be adjusted so that the maximum rate of 35% will henceforth be reached at R400 000 instead of the present R300 000.

These proposals relate to estates of persons who die on or after 1 April 1980. The cost of these concessions is expected to be R8 million in a full year, and R3,2 million for the 1980-'81 financial year.

The Taxation of Black Persons

During my Budget Speech last year I pointed out that the equalization of the tax liability of Whites, Coloureds and Indians, on the one hand, and Blacks on the other, would extend over a period of three years. The first adjustment was made during this financial year and the process will be continued in the new year. As in the case of the other population groups, it is necessary also to grant relief in respect of Black taxpayers. I therefore propose that the threshold of liability for tax be increased from R1 200 to R1 800 per taxpayer and that the tax rate thereafter be reduced by 20%. As was the case last year, the governments of the Black states have been consulted in regard to these measures and have consented to them.

The loss of tax for the 1980-'81 financial year is estimated at R55 million.

Lump Sum Distributions

I wish to propose that the maximum tax-free lump sum benefit paid out of a pension, provident or retirement annuity fund on or after 1 March 1980, be increased from R45 000 to R60 000. A number of other allied adjustments are also being effected as will be evident in more detail from the supplementary memorandum that will be tabled this afternoon.

The tax sacrifice for a full year is estimated at R4 million and for the 1980-'81 financial year at R2 million.

Deduction for Physically Disabled Persons

I wish, furthermore, to propose that the maximum deduction for tax purposes, in respect of expenses incurred by the physically disabled be increased from R600 to R1 200 and that all other income limitations be removed. The loss of income in this case is calculated to amount to R0,4 million in a full year and R0,2 million in 1980-'81.

Married Working Women

I now wish to move another step closer to the pocket of the ordinary taxpayer.

During the past year representations for the separate taxation of working wives have once again been received. I hope I may be forgiven for recalling in a friendly spirit the words here of La Bruyère, when he said, "There are people who so eagerly and insistently desire some one thing that, for fear of missing it, they omit doing nothing that will spoil their chances."

I have once again considered these representations seriously, but still do not see my way clear, both for reasons advanced by the Standing Commission on Taxation Policy and for practical and logistical considerations, to change over now to a system of separate assessments. I concede that rising costs prejudice the net income of the two-breadwinner family as against the single-breadwinner family and I have deemed it right once more to increase the tax-free portion of married women's incomes, this time from R900 to R1 200.

The sacrifice of tax revenue is estimated at R31 million for a full year, and R28 million for the 1980-'81 financial year.

Fringe Benefits

Before I take my hand further out of the taxpayer's pocket, I must first, for a moment, proverbially put it in deeper. George Bernard Shaw once said, "A Government which robs

Peter to pay Paul can invariably rely on the support of Paul." I want to say that we already have the support of Paul and my proposals by no means involve robbing Peter! On no account do I envisage fringe benefits as a new source of revenue, but simply as the correction of an indefensible position which has developed over the years.

A while ago the Standing Commission on Taxation Policy thoroughly investigated the taxation of fringe benefits and submitted their recommendations to me. Thereafter on 27 July 1979, the Commission published a report for comment. From the comments received I was pleasantly surprised that there was a fairly general consensus that income in kind should be liable to tax as cash income is. Obviously certain fringe benefits have always been subject to tax and differences of opinion concerned mainly the method of taxation and the date the tax should be instituted. I wish to express my appreciation to those who took the trouble to furnish the Commission with well-considered comments. The Commission has submitted its revised recommendations which have been accepted by the Government in principle.

The somewhat emotional public debate on a matter which clearly calls for reform calls to mind the remark of Gissing, that "Principles always become a matter of vehement discussion when practice is at an ebb".

Revised draft proposals as to the taxation of fringe benefits have been made available for comment to organized commerce, industry, agriculture and mining with a view to the drafting of legislation before the end of the session. All interested organizations and individuals will once again be afforded the opportunity to make their ideas known to the Department.

I am convinced that the principles laid down by the Standing Commission, including the elimination of discrimination between the private and public sectors, and the concessions with which I shall deal presently, will effectively remove the main objections, namely, that the proposed tax will induce an inflationary round of salary increases and will tend to have a disincentive effect on the entrepreneur and the professional man. Employers and employees will be afforded sufficient time to determine the effect of my proposals on their take-home earnings, and to adapt to the new approach. To this end I propose that the measure apply from 1 ... 1981. Let us in this context recall the ... of Valéry: "Our most important ... are those which contradict our emotions."

Financing Requirement

The deficit before borrowing was estimated at R1 318 million. I have now proposed concessions totalling R365 million which increase this deficit to R1 683 million. To this must be added R1 430 million in the form of loan redemptions, which raises the ... financing requirement to R3 113 million.

I propose that this amount be financed as follows:

	R million
Public Debt Commissioners	1 650
Re-investment of loan redemptions	850
New Government stock issues	600
Non-marketable debt	400
Foreign loans	100
Surplus carried forward from 1979-'80	96
	R3 696

I wish to point out that "non-marketable debt" includes Bonus Bonds, Defence Bonds and Treasury Bonds. This will leave me at this stage with a surplus of R583 million, but with two important differences compared with the current year:

Firstly, it is necessary at this stage to budget for only a moderate R100 million from foreign sources.

South Africa's creditworthiness abroad is excellent and continues to improve. Much larger loan funds are available, but for reasons of excess domestic liquidity it is preferable rather to borrow in the internal market. Disraeli said, "Next to knowing when to seize an opportunity, the most important thing in life is to know when to forgo an advantage."

Secondly, and this will affect hon. members more directly, it will be possible to meet our financing requirement without resorting to loan levies as such. There is no reason for the continuation of compulsory loans to the State if these funds can be substituted for on a voluntary basis in the form of Government stock issues in the domestic market I therefore wish to propose that all loan levies on ... and companies be abolished as ... 1 April 1980.

... amount which the State will forgo in ... of loan levies amounts to R651 ... This amount, as set out above, will ... be replaced by the issue of Government Stock to the extent of an estimated ... million.

... Reform

I have already pointed out that, as part of ... continuing policy of growth from ... we wish to underpin the present ... in private consumption and investment by raising the real disposable incomes of individuals. Given our policy of maintaining a realistic restraint on State spending, this ... that the key contribution of fiscal policy this year should be sought in tax changes.

Apart from these short-term policy issues, it remains my objective to continue purposefully with the longer term process of tax reform which I started in 1976. We have in effect today a "golden" opportunity to make meaningful progress in this field.

I want now to enter the promised land, income tax.

Income Tax

Structural changes and relief measures

To begin with, let us heed Halifax's warning: "Men should do with their hopes as they do with their tame fowl: cut their wings that they may not fly over the wall."

As to structural changes I wish, first of all, to propose the introduction of a single basic income tax rate for both married and unmarried persons, and secondly, a return to a system of tax rebates as was in force prior to 1972, in contrast to the system of income abatements applicable at present. The differentiation between unmarried and married will be achieved, firstly, by allowing a smaller rebate to unmarried persons and, secondly, by increasing their tax by means of a 20% surcharge. This will contribute greatly to the simplification of the system.

More details on the change-over as well as the rebates are set out in the supplementary memorandum which I shall lay on the Table today.

I do not wish to elaborate further on this subject except to say that the existing combined abatement for medical expenses and insurance premiums will be separated. Insurance premiums will continue to qualify for rebate purposes, but as far as medical expenses are concerned, I propose that from the 1980-'81 tax year actual medical expenses up to a maximum amount of R1 000 qualify as a deduction.

Mindful of our senior citizens, many of whom are dependent upon limited fixed incomes, I wish to propose further that, in addition to the augmented tax rebates and other concessions for which they qualify, the maximum deductible amount in respect of their medical expenses be increased to R2 000. Hippocrates said, "Wherever a doctor cannot do good, he must be kept from doing harm."

The effect of the tax rebates will be that a person will only become liable to tax if this taxable income, after deduction of actual medical expenses, exceeds the following thresholds:

Persons over the age of 60 years

Unmarried	R3 000
Married	R4 000

Persons under the age of 60 years

Unmarried	R1 500
Married	R2 500
Married with 1 child	R3 750
Married with 2 children	R5 000
Married with 3 children	R6 200
Married with 4 children	R7 166

As a further structural change and relief measure I should like to propose that the progression of the basic marginal rates of normal income tax be adjusted so that the maximum rate in respect of married persons is only reached at R40 000, and in respect of single persons, inclusive of the surcharge, at R28 000; and that, in addition, the maximum basic marginal rate be decreased from the present 55% to 50%.

Due to technical problems the PAYE tables will, as in the past, reflect these substantial concessions with effect from 1 July. They will, however, be adjusted in such a manner that the taxpayer will, in fact, receive the full benefit of the concessions in the course of the tax year.

A number of examples of how these concessions, including the abolition of the loan levy, will affect the taxpayer, are:

Marital Status	Taxable income (R)	Tax Payable: Present (R)	Tax Payable: Proposed (R)	Reduction
Unmarried	1 500	50	—	[illegible]
	3 000	231	144	[illegible]
	10 000	1 638	1 056	[illegible]
Married with 2 children	5 000	194	—	[illegible]
	8 000	574	300	[illegible]
	12 000	1 375	980	[illegible]
	20 000	4 203	3 220	[illegible]

The tax sacrificed as a result of these reforms, including the increased medical deductions, will amount to R600 million in a full year and to R544 million for 1980-'81.

The magnitude of these and other concessions is such that only a small surplus of R39 million remains, an amount I propose to deposit in the Stabilization Account. We must be prepared for contingencies and any eventualities and this modest augmentation of our reserve funds makes good sense to me.

Summary

As is customary, a summary of the Government's accounts is subjoined in the printed version of the Budget Speech.

COMPARATIVE STATEMENT OF THE STATE REVENUE ACCOUNT

		Revised figure 1979-'80	Budget figure 1980-'81	Percentage change
	Rm	Rm	Rm	%
Expenditure:				
Printed Estimate (R.P.2—'80; First print)			12 823	
Plus: Supplementary appropriations to be financed from 1979-'80 surplus:				
Black Urban Areas	12			
plus Black hospital	4			
Consolidation of Black states	15			
Loan Fund for Economic Co-operation	10			
Project Fund for Co-operation and Development	15			
Local Authorities	12			
Small Business Enterprises	10			
Food. Contingency Provision	18		96	
Plus: Supplementary appropriations to be financed from 1980-'81 revenues:				
Social pensions	55			
Pension Bonuses	22			
Civil pensions (statutory posts)	2			
Housing	10			
Food subsidies	70			
East Rand schools	4		164	
Total expenditure		11 480	13 083	14,0

		Revised figure 1979-'80	Budget figure 1980-'81	Percentage change
Revenue: Printed for 1980-'81 Customs and Excise and Inland Revenue at existing rates (excluding loan levies)			11 765	
Less: Taxation proposals i.r.o.				
Customs and Excise:				
Surcharge on import duty	260,0			
Inland Revenue:				
Provision of Housing by	2,0			
Employers	14,6			
Transfer Duty	3,2			
Estate Duty	55,0			
Taxation of Black Persons	2,0			
Lump Sum Distributions	0,2			
Physically Disabled Persons	28,0			
Married Working Women				
Income Tax on Individuals (including deductions for medical costs)	544,0		909	
Total Revenue		9 797	10 856	10,8
Deficit (before borrowing):		1 683	2 227	32,3
Loan Redemptions:				
Domestic Loans		937	1 094	
Stock			226	
Bonds			100	
Foreign loans		168		
IMF credits		154	10	
Loan levies		141		
		1 400	1 430	2.1
Financing Requirement:		3 083	3 657	18,6
Financing:				
Domestic Loans:		1 405	1 650	
Public Debt Commissioners			850	
Re-investment of Loan Redemptions		1 040	600	
New Government Stock Issues			400	
Non-marketable Debt:	50			
National Defence Bonds	150			
Bonus Bonds	200			
Treasury Bonds		277	100	
Foreign Loans		510		
Loan Levies		147	96	
Surplus (carried forward from previous year)		3 379	3 696	
Total Financing:		296	39	
Balance:		160		
Disposal of 1979-'80 balance:		40		
Transfer to Special Defence Account				
S.W.A. Account		96	39	
Surplus:				

Conclusion

It has been my privilege today to present a budget which, with all its limitations, will, I believe, be judged by many to have been an historic one.

Basically the budget is designed to promote more rapid growth in the private sector and therefore in the economy as a whole. To this end, the increase in government spending is limited to only 14%, which at the present rate of inflation once again implies virtually no increase in real terms. As Gladstone put it, "The first rule of finance is that the Chancellor of the Exchequer shall boldly uphold economy in detail; and it is the mark, gentlemen, of . . . a chicken-hearted Chancellor of the Exchequer when he shrinks from upholding economy in detail . . . No Chancellor of the Exchequer is worth his salt who is not ready to save what are meant by candle-ends and cheese-parings in the cause of his country."

Building on this foundation of spending restraint, the budget provides not only for the abolition of loan levies which would have yielded R651 million, but also for tax concessions of R909 million—a total of R1 560 million. The net effect of the proposed expenditure and revenue changes is an increase in the "deficit before borrowing" of about 32%, namely from R1 683 million, or about 3,5% of the 1979 gross domestic product, to R2 227 million, or about 3,8% of the estimated 1980 gross domestic product. If realized, this increase will represent an addition to the direct income generated by the Government's fiscal operations and should have expansionary effects on private consumer and investment spending, and therefore on the rate of economic growth.

In assessing the impact of the budget on the economy, it is important to note that the tax concessions to a large extent represent adjustments needed to prevent the combination of inflation and a progressive tax system—the so-called "fiscal drag"—from increasing the real tax burden on the community and thereby actually retarding economic growth. The budget therefore promotes growth not through artificial "stimulation" but by freeing the economy from the chains of fiscal drag and thereby providing the scope and incentive for the expansion of output and employment.

The budget combines the encouragement of growth with the maintenance of financial discipline. This discipline is evident not only from the restraint on government spending but also from the provision made for financing the "deficit before borrowing" without any resort to money creation. Moreover, the budget contains strong elements of "built-in" or automatic stability. Thus, if either the average gold price or the growth rate or the rate of inflation should turn out to be higher than estimated, tax receipts would probably be higher and the "deficit before borrowing" lower than the estimate given in the budget. This, together with a deliberate policy of borrowing in excess of the Treasury's requirements and transferring the proceeds to the Stabilization Account, would then place the authorities in a position to offset the expansionary monetary impact of other items to the extent demanded by the new set of circumstances.

While promoting growth, the budget also contributes to the fight against inflation. It does so not only by maintaining financial discipline and a strong currency, but also by abolishing the import surcharge, providing additional funds for improved training and education, and through increased subsidies on food, transport and housing.

Apart from these elements of short-term economic policy, the budget once again contains important elements of structural tax reform. These include the lowering of and adjustments to income tax scales, the substitution of a new and comprehensive system of rebates for one of abatements, and the further adjustment of income taxes paid by Black persons as a second step in the three-year programme of equalizing taxes on income paid by Blacks and others.

Taking the budget package as a whole, I believe it is fair to say that virtually all groups in the community will derive benefit from it. This applies not only to all income tax and loan levy payers, including married women, but also to pensioners and other social beneficiaries, the aged—many of whom benefit not only from higher pensions but also from significant further tax concessions—employees in the Public Service and statutory bodies, home-owners, farmers, small businesses and, indeed, all consumers. In addition, there are special benefits for Blacks in the form of improved training,

and housing facilities, improvement of the quality of life in Black urban areas and the acceleration of development and consolidation.

South Africa is a country confronted by its own unique set of social and political problems. Nobody would deny that. But if this budget does one thing, it demonstrates to friend and foe alike the inherent strength of South Africa's economy and the exhilarating prospects it offers of rising standards of living for all sections of its population.

My last word is for my staff, all of whom have distinguished themselves by their competence, dedication to the task at hand, and loyalty. I particularly congratulate Dr. J. H. de Loor, Secretary for Finance, who in a few days from now assumes the important new post of Director-General of Finance. He is admirably equipped for this position.

My warm congratulations and gratitude go also to Mr. S. J. P. du Plessis, Secretary to the Treasury, who on the same date becomes Director-General of Mines and Energy. I shall content myself to say that Mines and Energy have succeeded in taking one of our very best men from the Treasury, if not from the Public Service as a whole. We shall miss him.

Mr Speaker, I now lay upon the Table—

(1) Estimate of Expenditure to be defrayed from State Revenue Account during the financial year ending 31 March 1981 [R.P. 2—'80];

(2) Estimate of Revenue for the financial year ending 31 March 1981 [R.P. 3—'80];

(3) Statistical/Economic Review [W.P. B.—'80];

(4) Comparative figures of Revenue for 1979-'80 and 1980-'81;

(5) Taxation proposals [A. 1—'80];

(6) Supplementary memorandum on taxation measures—Budget 1980-'81;

(7) Proposals for improved social pensions, military pensions and civil pensions;

(8) Supplementary memorandum on the relaxation of exchange control—Budget 1980-'81.

REVENUE 1979-'80

Head of Revenue	Printed Estimate 1979-'80	Revised Estimate 1979-'80	Increase	Decrease
	R	R	R	R
Inland Revenue:				
Tax on income:				
Normal tax:				
Gold mines	646 000 000	1 167 300 000	521 300 000	
Diamond mines	128 000 000	132 800 000	4 800 000	
Other mines	100 000 000	144 340 000	44 340 000	
Individuals	1 800 000 000	1 971 800 000	171 800 000	
Companies (other than mining)	1 616 000 000	1 873 700 000	257 700 000	
Interest on overdue tax	7 000 000	7 000 000		
	4 297 000 000	5 296 940 000	999 940 000	
Loan levy	406 000 000	510 000 000	104 000 000	
Other taxes and receipts:				
Gold mining leases	209 000 000	334 200 000	125 200 000	
Other mining leases	10 000 000	15 200 000	5 200 000	
State ownership revenue on diamond mines	42 000 000	44 000 000	2 000 000	
Export duty on diamonds	17 500 000	31 000 000	13 500 000	
Non-resident shareholders' tax	110 000 000	158 400 000	48 400 000	
Non-residents' tax on interest	13 000 000	16 000 000	3 000 000	
Undistributed profits tax	4 000 000	5 000 000	1 000 000	
Donations tax	2 000 000	1 500 000		500 000

Head of Revenue	Printed Estimate 1979-'80	Revised Estimate 1979-'80	Increase	Decrease
	R	R	R	R
Stamp duties and fees	95 000 000	120 000 000	25 000 000	
Transfer duties	52 000 000	85 000 000	33 000 000	
Estate duty	44 500 000	52 000 000	7 500 000	
Tax on purchase of marketable securities	11 000 000	18 000 000	7 000 000	
Licences	2 000 000	2 500 000	500 000	
Cinematograph films tax	1 000 000	1 000 000		
Other	1 063 000	1 400 300	337 300	
	614 063 000	885 200 300	271 637 300	500 000
Departmental and miscellaneous receipts:				
S.A. Reserve Bank	19 500 000	19 154 300		345 700
S.A. Mint	24 962 000	10 667 000		14 295 000
State diamond diggings	30 000 000	33 000 000	3 000 000	
Forest revenue	22 000 000	27 500 000	5 500 000	
Water revenue	34 000 000	42 000 000	8 000 000	
Fines and forfeitures	12 000 000	12 000 000		
Recoveries of advances	1 375 000	2 688 000	1 313 000	
Sale of state land	3 200 000	2 000 000		1 200 000
Rentals of state property	12 608 000	13 050 000	442 000	
General	120 000 000	144 400 000	24 400 000	
	279 645 000	306 459 300	42 655 000	15 840 700
Interest and dividends:				
Interest on state loans and investment of cash balances:				
Border area development	1 200 000	1 392 600	192 600	
Commerce and Consumer Affairs	3 680 000	3 880 000	200 000	
Housing loans	110 000 000	117 000 000	7 000 000	
Universities and colleges	4 700 000	5 600 000	900 000	
South African Broadcasting Corporation	1 248 000	1 290 000	42 000	
South African Coal, Oil and Gas Corporation	1 708 000	1 707 800		200
Shipbuilding industry	2 311 000	2 311 000		
Advances: Agricultural Credit Board	6 400 000	6 200 000		200 000
State Land Settlements, etc.	265 000	250 000		15 000
Cash balances	2 500 000	2 500 000		
S.A. Railways and Harbours	541 000 000	463 300 000		77 700 000
Posts and Telecommunications	28 815 000	28 815 000		
Land and Agricultural Bank	13 180 000	13 755 000	575 000	
Local Loans Fund	8 000 000	8 000 000		
Other	10 988 000	11 670 000	682 000	
Dividends:				
South African Broadcasting Corporation	2 483 000	2 483 000		
	738 478 000	670 154 400	9 591 600	77 915 200

Head of Revenue	Printed Estimate 1979-'80	Revised Estimate 1979-'80	Increase	Decrease
	R	R	R	R
Repayment of loans:				
Commerce and Consumer Affairs		1 700 000	1 700 000	
Advances: Agricultural Credit Board	12 500 000	13 000 000	500 000	
State land settlements, etc.	400 000	450 000	50 000	
Shipbuilding industry	4 504 000	4 504 000		
Posts and Telecommunications	9 069 000	9 069 000		
Building societies	1 589 000	1 589 000		
Redemption Fund Contribution	17 000 000	8 964 000		8 036 000
Miscellaneous	10 183 000	41 324 000	31 141 000	
Restitution of gold (I.M.F.)		26 200 000	26 200 000	
	55 245 000	106 800 000	59 591 000	8 036 000
General sales tax	1 150 000 000	1 230 300 000	80 300 000	
Total for Inland Revenue	7 540 431 000	9 005 854 000	1 567 714 900	102 291 900
Customs and Excise:				
Customs duty	445 700 000	458 000 000	12 300 000	
Surcharge	235 500 000	258 000 000	22 500 000	
Sales duty	1 000 000	1 300 000	300 000	
Excise duty	1 009 427 000	1 007 200 000		2 227 000
Miscellaneous	14 000 000	23 000 000	9 000 000	
Gross total for Customs and Excise	1 705 627 000	1 747 500 000	44 100 000	2 227 000
Less:				
Amount to the credit of the Central Revenue Fund (section 22(1)(d) of Act 25 of 1969)	43 493 000	44 100 000	607 000	
Payments in terms of Customs Union Agreements (section 51(2) of Act 91 of 1964)	380 000 000	402 459 000	22 459 000	
Total for Customs and Excise	1 282 134 000	1 300 941 000	21 034 000	2 227 000
Grand Total	8 822 565 000	10 306 795 000	1 588 748 900	104 518 900
			Net increase:	1 484 230 000

REVENUE 1980-'81
(On existing basis of taxation)

Head of Revenue	Printed Estimate 1980-'81	Revised Estimate 1979-'80	Increase	Decrease
	R	R	R	R
Inland Revenue:				
Tax on income:				
Normal tax:				
Gold mines	1 850 000 000	1 167 300 000	682 700 000	
Diamond mines	80 000 000	132 800 000		52 800 000
Other mines	160 000 000	144 340 000	15 660 000	
Individuals	2 380 000 000	1 971 800 000	408 200 000	
Companies (other than mining)	2 090 000 000	1 873 700 000	216 300 000	
Interest on overdue tax	7 000 000	7 000 000		
	6 567 000 000	5 296 940 000	1 322 860 000	52 800 000
Loan levy	651 000 000	510 000 000	141 000 000	
Other taxes and receipts:				
Gold mining leases	635 000 000	334 200 000	300 800 000	
Other mining leases	16 000 000	15 200 000	800 000	
State ownership revenue on diamond mines	44 000 000	44 000 000		
Export duty on diamonds	31 000 000	31 000 000		
Non-resident shareholders' tax	200 000 000	158 400 000	41 600 000	
Non-residents' tax on interest	16 000 000	16 000 000		
Undistributed profits tax	5 000 000	5 000 000		
Donations tax	1 500 000	1 500 000		
Stamp duties and fees	150 000 000	120 000 000	30 000 000	
Transfer duties	110 000 000	85 000 000	25 000 000	
Estate duty	52 000 000	52 000 000		
Tax on purchase of marketable securities	20 000 000	18 000 000	2 000 000	
Licences	3 000 000	2 500 000	500 000	
Cinematograph films tax	1 000 000	1 000 000		
Other	1 400 500	1 400 300	200	
	1 285 900 500	885 200 300	400 700 200	
Departmental and miscellaneous receipts:				
S A Reserve Bank	19 154 300	19 154 300		
S A Mint	11 868 500	10 667 000	1 201 500	
State diamond diggings	13 585 000	33 000 000		19 415 000
Forest revenue	28 000 000	27 500 000	500 000	
Water revenue	44 000 000	42 000 000	2 000 000	
Fines and forfeitures	12 000 000	12 000 000		
Recoveries of advances	2 787 000	2 688 000	99 000	
Sale of state land	2 500 000	2 000 000	500 000	
Rentals of state property	13 469 000	13 050 000	419 000	
General	160 000 000	144 400 000	15 600 000	
	307 363 800	306 459 300	20 319 500	19 415 000

Head of Revenue	Printed Estimate 1980-'81	Revised Estimate 1979-'80	Increase	Decrease
	R	R	R	R
Interest and dividends:				
Interest on state loans and investment of cash balances:				
Border area development	1 403 000	1 392 600	10 400	
Commerce and Consumer Affairs	3 600 000	3 880 000		280 000
Housing loans	132 000 000	117 000 000	15 000 000	
Universities and colleges	6 200 000	5 600 000	600 000	
South African Broadcasting Corporation	906 200	1 290 000		383 800
South African Coal, Oil and Gas Corporation	1 707 800	1 707 800		
Shipbuilding industry	2 000 000	2 311 000		311 000
Advances: Agricultural Credit Board	6 400 000	6 200 000	200 000	
State Land Settlements, etc.	245 000	250 000		5 000
Cash balances	2 500 000	2 500 000		
S.A. Railways and Harbours	450 000 000	463 300 000		13 300 000
Posts and Telecommunications	28 063 400	28 815 000		751 600
Land and Agricultural Bank	13 856 000	13 755 000	101 000	
Local Loans Fund	8 235 000	8 000 000	235 000	
Other	11 203 000	11 670 000		467 000
Dividends:				
South African Broadcasting Corporation	2 276 300	2 483 000		206 700
	670 595 700	670 154 400	16 146 400	15 705 100
Repayment of loans:				
Commerce and Consumer Affairs		1 700 000		1 700 000
Advances: Agricultural Credit Board	14 000 000	13 000 000	1 000 000	
State land settlements, etc.	400 000	450 000		50 000
Shipbuilding industry	4 152 000	4 504 000		352 000
Posts and Telecommunications	9 820 500	9 069 000	751 500	
Building societies		1 589 000		1 589 000
Redemption Fund Contribution	20 000 000	8 964 000	11 036 000	
Miscellaneous	5 985 000	41 324 000		35 339 000
Restitution of gold (I.M.F.)		26 200 000		26 200 000
	54 357 500	106 800 000	12 787 500	65 230 000
General sales tax	1 550 000 000	1 230 300 000	319 700 000	
Total for Inland Revenue	11 086 217 500	9 005 854 000	2 233 513 600	153 150 100
Customs and Excise:				
Customs duty	480 000 000	458 000 000	22 000 000	
Surcharge	280 000 000	258 000 000	22 000 000	
Sales duty	500 000	1 300 000		800 000
Excise duty	1 111 026 000	1 007 200 000	103 826 000	
Miscellaneous	19 000 000	23 000 000		4 000 000

Head of Revenue	Printed Estimate 1980-'81	Revised Estimate 1979-'80	Increase
	R	R	R
Gross total for Customs and Excise .	1 890 526 000	1 747 500 000	147 826 000
Less			
Amount to the credit of the Central Revenue Fund (section 22(1)(d) of Act 25 of 1969)	45 300 000	44 100 000	1 200 000
Payments in terms of Customs Union Agreements (section 51(2) of Act 91 of 1964) . .	515 000 000	402 459 000	112 541 000
Total for Customs and Excise .	1 330 226 000	1 300 941 000	34 085 000
Grand Total	12 416 443 500	10 306 795 000	2 267 598 600

Net increase, 2 [illegible]

Mr. H. H. SCHWARZ: Mr. Speaker, may I first congratulate the hon. the Minister of Finance on the budget he has presented. I am quite sure there must be very many people in South Africa who now, at four o'clock, are a little bit richer than they were at 2.15 p.m. Therefore I want to convey to him our congratulations on this budget.

I want to say at the outset that perhaps the most striking characteristic of this budget is that it demonstrates the tremendous strength of the South African economy. I think it also demonstrates in no uncertain manner the benefit our economy has had from exports and, of course, from the increase in the price of gold. It appears to be fairly clear that, as far as those factors are concerned, they have contributed in the main to the ability to make what are very substantial concessions in regard to income tax and the savings levy.

There are of course two major things which are required in the present state of our economy, viz. firstly, the encouragement towards greater growth, and by this I mean not merely greater growth in a general sense, but also in the correct sectors of the economy. There is little doubt that with the injection of further cash into the hands of the consumers, of the taxpayers, there should be a high degree of stimulus given which will enable the growth to take place, certainly if it is orientated from the kind of consumer demand that is likely to be stimulated by these concessions. In that regard the hon. the Minister certainly appears to have taken the correct steps in so far as the stimulation of growth is concerned within the [illegible] own policy of seeking to do it with[illegible] enterprise as such. The second major [illegible] is the question of inflation, and in this [illegible] except for the abolition of the sur[illegible] imports, one must express some [illegible] whether the steps taken in the [illegible] adequate in order to fight inflation [illegible] reduce it to manageable levels [illegible] economy. We will have more to [illegible] inflation as the debate proceeds.

It is easy to make concessions [illegible] pockets are bulging with money, [illegible] fore we are not ungracious about [illegible] taken place. Many people will [illegible] something from this budget, but [illegible] some people who have been left [illegible] are some people who have got [illegible] others. There are two particular [illegible] immediately want to draw [illegible] Firstly, I want to express my [illegible] about the increases in the price of white bread. I believe this could [illegible] avoided. [Interjections.] Bread is [illegible] food of a nation and this increase [illegible] have taken place. There is another [illegible] one finds strange in the budget [illegible] why, for example, in a whole [illegible] sions did the hon. the Minister [illegible] is going to tackle the savers by [illegible] tax-free benefits in regard to [illegible] shares in building societies and [illegible] building society movement is [illegible] present a person may invest [illegible] tween husband and wife to [illegible]

[illegible] 123 000. That is now being reduced [illegible] 000 between husband and wife. It [illegible] be a strange thing to do in a budget [illegible] so many concessions are given.

[illegible] is one last question that I want to [illegible] We have to examine the budget, [illegible] in respect of the concessions it is [illegible] the pleasure that we get as tax- [illegible] we have to examine it in regard to [illegible] as to what it is going to do to [illegible] the long-term future and prosperity of [illegible] That is the test of it. The [illegible] is how will it help to create jobs and [illegible] how will it help to improve the [illegible] life. That is the real test by which [illegible] has to be judged. There is one [illegible] that immediately needs to be said [illegible] is that it seems on the face of the [illegible] that not enough is being done in order [illegible] the creation of skills, because if [illegible] going to have a great stimulation in [illegible] demand, the very bottlenecks that [illegible] the Minister of Finance was talking [illegible] will be created. Therefore, despite [illegible] that our initial reaction to this budget [illegible] is one which will obviously be [illegible] by many quarters, it has also to be [illegible] in the context of what it holds for [illegible] of South Africa and we propose to [illegible] the budget in that light in the debate [illegible] to follow.

[illegible], at this stage I move—

[illegible] the debate be now adjourned.

Hansard 8 Col 3591 26/3/80

Tellers: B. R. Bamford and A. L. Boraine.

Question affirmed and amendment dropped.

Bill read a Second Time.

FINANCIAL RELATIONS AMENDMENT BILL

(Second Reading)

The DEPUTY MINISTER OF THE INTERIOR: Mr. Speaker, I move—

That the Bill be now read a Second Time.

Schedule 2 of the Financial Relations Act, 1976, contains those matters in respect of which the provinces may adopt legislation if the matter concerned has been transferred by the State President to a province.

Owing to developments elsewhere in Africa, the demand from abroad for hunting facilities in the Republic has, especially during the last two years, increased drastically. As a result of this, the trophy hunting trade has developed rapidly. The majority of hunters from abroad are influential persons, and a healthy trade will contribute much to better foreign relations with the Republic. Because the fees for this type of hunting are high, many people without the necessary expertise enter this profession and pose as professional hunters or hunting guides, solely to enrich themselves. This type of action leads to large-scale exploitation of the visitors.

At present no legislation exists to protect hunters from such unethical conduct, and owing to the conduct of the so-called hunting guides, not only the image of the trade is being harmed but also that of the country. Legislation to control and place the trade on a sound basis has now become imperative.

The Provincial Administrations, who are at present responsible for the protection of game in their respective provinces, are regarded as the authorities best suited to control the trade. In order to control the hunting trade and thereby prevent the malpractices, it is proposed in clause 1 of the Bill that a new paragraph 2A be inserted in Schedule 2 of the Act.

Mr. R. J. LORIMER: As the hon. the Deputy Minister quite rightly says, in terms of Schedule 2 of the Financial Relations Act the provinces have up to now been responsible for the preservation of flora and fauna. They interpreted that fairly widely. All the provinces have set down hunting seasons and issued licences for hunting. I think most of us were probably under the impression that the provinces already had the powers the hon. the Deputy Minister is giving them now.

The hon. the Deputy Minister is quite correct when he sticks to the interpretation of what is included in the schedule, which would make it necessary to include this provision. This Bill has our support. We, in these benches, have been appalled by what has been going on as far as hunting is concerned. Various people have set up hunting farms where caged lion are released for the sake of visiting hunters, if they can be called that, because all they are are murderers. They pick out a lion from a cage, select their lion at random. That lion is then released, shot, stuffed and sent back to the USA or wherever it may be. I see the hon. the Deputy Minister has a newspaper clipping explaining just that very situation. Obviously this has to be stopped.

South Africa, which at one time had a very proud reputation for conservation has been losing that as the result of the despicable conduct of people of this kind.

Mr. B. W. B. PAGE: What do they say there about rhino bulls?

Mr. R. J. LORIMER: I am very glad indeed that the hon. the Deputy Minister has introduced this measure. It will give more strength to the provinces to regulate hunting. I hope that this sort of thing is going to be rooted out. I hope it is going to be made totally illegal. I also hope the provinces will act quickly as a result of this change in the law and issue regulations at a very early date.

We support the Second Reading of the Bill.

*Mr. G. C. DU PLESSIS: Mr. Speaker, at the outset I wish to thank the hon. the Deputy Minister for the fact that he has come forward with this essential legislation. I am also grateful to know that the official Opposition is prepared to support this measure. I say

this, because it will now enable the [illegible] to exercise proper control over the [illegible] industry and prevent malpractices. [illegible] legislation meets a need which has [illegible] for many years. I pleaded for this in [illegible] House two years ago. That is why I am [illegible] very pleased today that we have reached [illegible] stage.

Under existing circumstances, there are [illegible] malpractices which the so-called professional hunters perpetrate. Unfortunately [illegible] professional hunters accompanying overseas trophy hunters to this country are not always honest and reliable. The dishonest [illegible] of such people not only harm the [illegible] as such, but also the good name of South Africa. South Africa's animal life, its game reserves, flora, scenic beauty and sun[illegible] are very important assets. It is these [illegible] which we have to sell to overseas [illegible] and visitors. The principal hunting grounds of Africa are, to a great extent, closed to hunters as a result of Government [illegible] and owing to the instability prevailing in certain countries. The high risks attached to visits to those places have led to many hunters coming to South Africa to [illegible] their sport here. South Africa is virtually the only country in Africa where [illegible] order and stability prevail, so that [illegible] can practise their sport unhindered. Consequently a large number of companies have been established here. Those companies [illegible] out overseas hunters and they are then accompanied on hunting safaris. However, there are professional hunters for whom the [illegible] motive is the most important consideration. Consequently many irregularities take place as I have already mentioned, and this [illegible] harm to our good name. Overseas trophy hunters are normally rich, important and influential people in society. According to [illegible] information, these trophy hunters spend [illegible] sums of money to practise their sport [illegible]. It has been calculated that the amount is in the region of R10 million per annum. I have heard that as much as R2 000 is paid to [illegible] a single lion. In a report in *Rapport* of 9 September 1979, it was stated that a game [illegible] had bought a rhinoceros from the Natal Parks Board for an amount of R1 000. The animal was then drugged, captured, and [illegible] under sedation on the long journey to the [illegible]. When the animal was off-loaded [illegible] it was still drugged. A hunter was brought to the spot and he shot the rhinoceros that was still in a drugged state. This netted the owner the handsome amount of R7 000. In the same report it was stated that R220 was paid for the shooting of an impala. In one of the advertising pamphlets it was stated that cheetahs could be shot at R2 000 each. To shoot a lion, a rhinoceros or a leopard, one has to reserve accommodation two weeks in advance at safari camps, at R200 a day. In other words, after one has paid for the two weeks' accommodation and has shot the lion, the transaction costs R4 800. Transport and accommodation for hunters could cost as much as R350 a day. Incidentally, I just wish to emphasize that trophy hunters are not people who exterminate game or who simply shoot game indiscriminately. That is why it is so essential that professional hunters should be honest and reliable.

I have already pointed out several of these malpractices on a previous occasion. For example, I pointed out that people made use of tape-recordings and loudspeakers to entice lions from the game reserve and shoot them. There was also the case of the old lion that was drugged and shot during the early hours of the morning on the outskirts of Johannesburg. The accommodation and food offered by the safari guides are sometimes shocking, particularly if one takes into account that it could cost a trophy hunter as much as R10 000 to go on such a "safari". I wish to express the hope that the provincial authorities will co-operate very closely in exercising the necessary control. I also wish to express the hope that the existing professional hunters' association will, in due course, obtain the necessary recognition and that the professional hunters will be required to become members of this association, submit to its discipline, and be properly licenced so that they could be properly punished and suspended if they were to contravene the rules and regulations.

Tourism has become a major industry in our country. The value of tourism to our country already amounts to something in the region of R300 million to R400 million a year. It is a great earner of foreign currency for us. Overseas trophy hunters are, as I have already stated, mostly millionaires and influential people. If the trophy hunter has been treated fairly, he will come again, and if he does not return, his friends will. The publicity which a satisfied trophy hunter gives us, costs us nothing. But if he is disappointed, he will proclaim his disappointment to his friends in no uncertain terms

This Bill affords the provinces an opportunity of controlling the hunting industry and eliminating any malpractices. For the sake of hunting, for the sake of the industry, and for the sake of South Africa's good name, I welcome this Bill.

Mr. N. B. WOOD: Mr. Speaker, the NRP will be supporting the Second Reading of this Bill before us today. We shall do so with acclamation. I believe it is fitting that we should acknowledge a possible reason for the fact that we have this legislation before us. I think that almost beyond doubt we have to thank a certain reporter by the name of Ferreira, who ran a campaign in *The Star* last year, highlighting these problems and insisting that something be done about them It is not always the case that newspapers come in for praise, but I believe that in this case they have highlighted the situation that existed and the fact that there was an anomaly in the way game, particularly lion, cheetah and leopard, could be hunted in the Transvaal with apparently very few restrictions placed on that hunting. This was being exploited very, very seriously, and the hon. member for Kempton Park has referred to this in his speech. I believe that any newspaper which fulfils that function has made a very important contribution and has met the requirement of being in the public interest.

There has been referred to the farcical way in which some animals are shot. Some are shot in a drugged condition and others are specially reared to be hunted. I do not think that by any stretch of the imagination that could be referred to, as the hon. the Minister may unwittingly have done, as exploitation of hunters. It is exploitation of our priceless natural heritage. It is not an exploitation of a hunter from overseas who has more money than sense: It is an exploitation of a heritage this country has and which no amount of money can buy. If we eradicate, or allow to be eradicated, any of the magnificent animals, no amount of money can ever buy them back for the future generations in this country. I think we should approach this measure with a mind to seeing that, let alone the exploitation of hunters, it is the game as such that must not be exploited. I think it is right to indicate in this debate that we feel very strongly about this, because South Africa is known for its wild animals and for its generally very sensible and very practical method of conserving those animals and preserving them in their natural environment. I think it is important that we state this at a time like this. We should not allow the impression to be created that we are protecting the rights of hunters who come from overseas and wipe out the game, whatever price they may be prepared to pay.

There are some people who think that a hunt is a manly exploit or pastime, but I would say that that may have been the case in the days of bows and arrows when man found himself almost on equal terms with the animals. However, today when fast vehicles, loudspeaker effects, artificial lures, high-powered rifles and other methods are used, I think that the expression used by a previous speaker that this is nothing more or less than murder is far more realistic term than hunting, sport, pleasure or anything else it may be referred to. With these words I want to say that we support this legislation and will vote in favour of the Second Reading.

The DEPUTY MINISTER OF THE INTERIOR: Mr. Speaker, I fully associate myself with the sentiments expressed by the hon. member for Berea. I agree that it is in effect exploiting our national heritage and I am very glad that he supports this measure. I want to tell the hon. member for Orange Grove that last year at the annual conference of Administrators they specifically asked the Minister for this enabling legislation. Now that we are placing it on the Statute Book, I think they will act immediately. I was really perturbed and shocked when I read in the newspaper the article to which the hon. member referred.

*I wish to thank the hon. member for Kempton Park sincerely for the excellent way in which he has pledged his support for this legislation. It deals of course a matter which he has felt strongly about for a long time, and I know that he has also spoken about it on previous occasions. I am pleased that his ideal is being realized today. I share his joy that we are caring for our heritage and that it is being utilized to the benefit of South

We are not going to allow unscrupulous individuals to exploit this heritage.

Question agreed to.

Bill read a Second Time.

Bill not committed.

Bill read a Third Time.

Hansard 8 Col 3326

24/3/80

FINANCE BILL

(Second Reading)

*The DEPUTY MINISTER OF FINANCE: Mr. Speaker, I move—

That the Bill be now read a Second Time.

As you know, Sir, the Finance Bill is a measure which is usually introduced at the end of a Parliamentary session. However, the rationalization of the Public Service and the Republic's financial relationship with the outside world, in so far as financial guarantees by the Government is concerned, resulted in a number of matters cropping up which require urgent attention. For that reason it is now considered necessary for a Finance Bill to be introduced at this early stage of the session.

Since the various clauses are explained in the explanatory memorandum which hon. members have before them, I consider it unnecessary to explain all the clauses in detail.

However, I should like to give the House a more detailed explanation in respect of those clauses dealing with the furnishing of financial guarantees by the Government.

†From a perusal of the schedule to the Bill before the House it is evident that some 40 sections in 29 Acts contain provisions empowering some or other Minister to issue guarantees on behalf of the Government. Not only does this state of affairs give rise to administrative inefficiencies; I also doubt whether it is sound in principle to incorporate authority of this nature in such enactments rather than in the Exchequer and Audit Act, which regulates the financial commitments of the State.

In reviewing the whole question of Government guarantees, it has been decided that the time is ripe to rationalize and simplify the legislation empowering the Minister of Finance and his colleagues to issue guarantees on behalf of the State. I therefore propose to scrap or amend the numerous existing provisions and to replace them with a general authority in the Exchequer and Audit Act. This proposal of necessity involves a few consequential amendments in the Exchequer and Audit Act and I will explain these in due course.

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Hansard 2 Col 253 10/3/80.

MONDAY, 10 MARCH 1980

Prayers—14h30.

ADDITIONAL APPROPRIATION BILL

(Second Reading)

*The MINISTER OF FINANCE: Mr. President, I move—

That the Bill be now read a Second Time.

In my main budget for the current financial year I provided for an amount of R11 219 million. The additional amount now required amounts to R352,2 million, that is, an increase of 3,1%. It must however be remembered that savings and under-spending which might amount to as much as R100 million, will be available on other votes from which this additional expenditure can partly be financed. The total anticipated actual expenditure for the current financial year can therefore not be estimated merely by adding together the authorized expenditure of the Main Estimates and the Additional Estimates.

Furthermore, I should like immediately to single out three components of the Additional Estimates which are responsible for the exceptional increase in the amount asked for this year, namely, the provision of R60 million for Defence, the provision of R50 million on the Agricultural Economics and Marketing Vote for food subsidies and emergency assistance, and the provision of R80 million as a contribution to the running costs of the Railways and the Post Office. I do not want to go into the reasons now for the inclusion of these three amounts because it is customary for the Ministers concerned to give the necessary explanations during the Committee Stage of the Bill. But if these three amounts are left out of the reckoning, the requirements on all the other votes amount to only R162 million, which is a small increase, particularly when regard is had to the fact that an extraordinary item like the special pension bonus also had to be financed. Under the circumstances I feel therefore that I can say that our objective of financial discipline will be carried through successfully in the current financial year as well.

†Mr. President, as usual I will review the Government's Accounts for the present financial year more fully in my Budget Speech. I will, therefore, not pursue the matter further at this stage apart from assuring the House that the financing of the additional expenditure will raise no problems. We can discuss this Additional Appropriation Bill more fully in the Committee Stage.

Senator A. BOZAS: Mr. President, I have listened with great interest to the hon. the Minister, and I would like at the outset to ask, through you, whether this Bill is going to be committed. Normally in terms of our rules an appropriation measure is not committed unless the House decides otherwise. The reply to this question will decide whether I continue for a long time now, or not.

The MINISTER OF FINANCE: It will be committed.

Senator A. BOZAS: In that case, Sir, I think the hon. the Minister is correct when he says that one need not say too much at the Second Reading because this is essentially a matter for Committee Stage discussion. At this stage I would just like to say that it seems to me that the financial discipline which the hon. the Minister has imposed during the past year has been effective. Whilst in the majority of cases the expenses have been minimal, there are some cases in which there have been some rather surprisingly big increases. The hon. the Minister referred to a few of them in his speech, but at this stage I should just like to say that we on these benches welcome the financial discipline that has been applied, and we trust that having learned the lessons of the past, the Government will continue to apply these financial disciplines and will see to it that the money is well spent, that there is no wastage and that abortive expenditure will be eliminated wherever possible.

The MINISTER OF FINANCE: Mr. President, I should like to thank the hon. Senator Bozas for his constructive remarks, which I appreciate. I agree with him that the rest of the discussion should be left to the Committee Stage.

Question agreed to.

Bill read a Second Time.

municipalities submit certain details to one and then adjustments have to be made. We have to react to a situation in which we simply find ourselves. I hope that will satisfy the hon. Senator.

Vote 40.—"Education and Training":

Senator C. C HENDERSON: Mr. Chairman, I am sorry the hon. the Minister of Co-operation and Development has left the House, but perhaps the hon. the Minister of Finance will be able to help us in this regard. I notice that there is an increase of only R100 for the Department of Education and Training. Of all the divisions in this book, this is the lowest additional amount being asked for. Is this indicative of the order of priorities of the Government in so far as Education and Training is concerned?

The MINISTER OF FINANCE: Mr. Chairman, I said earlier that if the hon. Senator would ask me easy questions I should do my best to reply.

Senator C. C. HENDERSON: This is one you could reply to.

The MINISTER: This is quite a simple question for me to answer because the position is this: This was a high priority, a very high priority in the last budget. It was one of those we singled out.

Senator C. C. HENDERSON: I remember you increased it. After all that you now only want R100.

The MINISTER: It was found that that amount was a very substantial amount and the result is that only a nominal amount extra has been asked for. Obviously, I cannot disclose my coming budget details and I think the hon. Senator should perhaps just wait until he sees the figures for the new budget as well. I think it is plainly—and it has been for some time—one of our top priorities. I would like to give him that assurance.

Senator W. T. WEBBER: Mr. Chairman, there is an aspect of this which concerns me and perhaps the hon. the Minister of Finance can answer it, because it does concern him and budgeting. The fact here is that this is not an increase on an amount budgeted for. It would appear to be a new item which is being introduced for the first time. As such we have the situation where it is being introduced for a nominal amount. I am certain that R100 is not the full amount which is to be utilized during this financial year for the redemption of loans made by Administration Boards for the erection of community schools. The hon. the Minister knows that we have crossed swords over this type of budgeting before, when nominal amounts only are placed on the estimates, and where Parliament is unaware of the full amount which is to be expended under that division. Savings from other divisions may be used for this, and there might also be some other Vote which is being used for this particular division. As such, I wonder if the hon. the Minister can tell me whether I am correct in my assumption. Will more money be spent? If so, is it possible to tell us how much more money and where it will come from?

The MINISTER OF FINANCE: Mr. Chairman, sometimes the amount is R50, as the hon. member knows. In fact, it seems to be quite an old provision to provide for only R50. Perhaps the position is in some cases that one feels one can find the money somewhere; on the other hand one cannot always be sure that one knows exactly what the financial implications are going to be, but nevertheless that service has to be provided. Provision has to be made, so that amount is put on the books, as it were, or into the budget.

Senator W. T. WEBBER: Just to get it on the record?

The MINISTER: Right, and it is done for those reasons.

I have just received this note, which I should like to read, as it has a bearing on this matter. As the hon. Senator has said, this is the only item of R100. The heading is: "Supporting and associated services: Redemption of loans made by administration boards for the erection of community schools." The note is not all that long, and I should like to read it—

Die onderskeie administrasierade was tot 31 Maart 1979 verantwoordelik vir die oprigting en instandhouding van gemeenskapskole in stedelike Swart woonbuurtes. Die finansiering van hierdie skoolgeboue is verkry deur middel van lenings van die Departement van Gemeenskapsbou en waar die Departement van Gemeenskapsbou nie oor voldoende fondse beskik het nie, is eksterne en interne lenings met die goedkeuring van die Minister van Samewerking en Ontwikkeling aangegaan. Die kapitaal en rente op bostaande lenings is gedelg uit 'n inkomste verkry uit 'n onderwysheffing wat deur die inwoners betaal is. Na aanleiding van Kabinetsmemorandum en Kabinetsbesluit van 4 Desember 1978 het die Departement op 1 April 1979 volle verantwoordelikheid vir die finansiering en oprigting van gemeenskapskole aanvaar.

So the Department assumed full responsibility for the construction of those schools—

Die inkomste verkry uit die onderwysheffing word na hierdie datum aangewend vir die betaling van dienste en sport- en ontspanningsgeriewe. Die memorandum het egter geen uitsluitsel verleen met betrekking tot interne en eksterne lenings ten bedrae van R2 549 318 plus deur die rade aangegaan nie. Die Tesourie het onder verwysing so en so van 5 Februarie 1980 goedgekeur dat hierdie Departement alle interne en eksterne lenings eenmalig kan aflos. Besparings sal op die Begrotingspos as geheel gevind word om die uitgawe te dek.

So it is correct that the outlay will be met from savings.

Senator W. T. WEBBER: So it is a one-time item only?

The MINISTER: Yes.

Schedule considered.

House Resumed:

Bill reported without amendment.

Bill read a Third Time.

PART APPROPRIATION BILL

(Second Reading)

The MINISTER OF FINANCE: Mr. President, I move—

That the Bill be now read a Second Time.

As hon. Senators know, the Appropriation Act for the 1980-'81 financial year will only be passed by Parliament at the end of the present session. The 1980-'81 financial year, however, commences on 1 April 1980. In the Part Appropriation Bill now before the House, the customary authority is therefore sought to spend an amount of up to R3 640 million, as an advance on the main estimates which will be presented to Parliament in due course, to carry on with the services of the Government while the main estimates are under consideration by Parliament during the first four months of the financial year.

In accordance with the provisions of section 4(2) of the Exchequer and Audit Act, 1975, the moneys appropriated in the Part Appropriation Act will only be utilized for existing services, i.e. services in respect of which expenditure was authorized by the Appropriation Act for the 1979-'80 financial year or in respect of which some other authorization by Act of Parliament exists.

May I note a caveat here in relation to the amount for which approval is requested. Hon. Senators should not try to draw any conclusions from the precise amount requested in this Bill. It is not directly indicative of the expenditure to be budgeted for in the coming financial year but merely the upper limit of the estimated cash flow required for the first four months of the new financial year. Hence percentage increase comparisons would be a futile exercise.

Mr. President, I intend giving the usual overview of our economic situation in the Other Place when I present the budget there on March 26. However, there are some aspects which I would like to comment on at this stage which may interest hon. Senators. In accordance with the powers conferred on the South African Reserve Bank in terms of the South African Reserve Bank Act, 1979, the Bank may issue its own interest-bearing securities or debentures for purposes of doubt that the Land Bank will subsequently make more offices available as and when the interests of the farmers so dictate.

†Mr. President I just want to address a few words to the hon. Senator Henderson. The hon. Senator spoke with a good deal of indignation I thought about the way in which the Government has failed to finance Black education in particular. I think if the hon. Senator looks at the figures for the past few years, he will see that there has been a very big improvement.

Senator C. C. HENDERSON: I emphasized the improvements.

The MINISTER: I think the hon. Senator tackled me too. I do not think, however, that since 1975 when I took over this portfolio that I can be criticized on that score—perhaps I can be criticized on many others—because I have tried particularly to make non-White education one of our priorities. You must bear in mind, Mr. President, that in the past few years we have introduced compulsory school education for the Indian community. Compulsory education is a costly thing; we have introduced compulsory schooling for the Coloured community affecting more than two million people; and, at this moment, Sir, we are heavily involved in the investigation of the implications of introducing compulsory school education for the Blacks. Again, that will be a very costly exercise indeed. However, we are pushing ahead because we feel that this is the right sort of investment for the future. I can assure the hon. Senator that the facts will prove that we have in fact been spending very substantial amounts over the past few years particularly, not only on the education of Blacks at all levels, but on the education of the Indians and Coloureds as well as that of the Whites. Education is increasingly a priority of this Government, education for all national groups at virtually every level. I hope that the figures that we will be looking at again fairly soon will convince the hon. Senator that that is indeed what we are trying to achieve.

I have already dealt with the hon. Senator's remark that experts have said that we must reach a real growth rate of 8% before we can handle the unemployment problem, but I think that is far too high a figure. I can assure the hon. Senator that if we can get back to the post-war average of about 5% or just over 5%, and if we can maintain that for a few years, we are going to make a very big impact on unemployment. But unemployment is not serious today among the Whites, the Coloureds or the Indians. There is unemployment; I am not saying that there is not; and unemployment is something that one deplores because if a man is out of work, particularly if he has a family, it causes hardships. But I do not think there is a country in the world where there is no unemployment. In this respect, taking the long view, and taking it simply from the last war in order not to go back too far, I think we have been one of the countries in the world that has been singularly blessed in this respect as we have had a condition of over-full employment rather than of unemployment. It does not, however, mean that we do not say it is important. If there is unemployment among the Blacks that can be resolved, we must resolve it, but we have to take economic conditions into account.

I also want to refer to the hon. Senator Bozas who explained that he could not be present today. Rather characteristic of the hon. Senator, he lets loose a veritable barrage of questions and suggestions, especially when he talks just before the budget is to be announced, and he was certainly true to form yesterday. I started writing down some of the suggestions he made but after filling three pages I gave up. But, Sir, he has made some good suggestions, if I may say so, and I would like to assure him through my hon. colleagues on the other side that these matters will receive attention. It is very difficult to give any final answers, especially when the matters raised relate to taxation and so forth, but they will certainly enjoy our very careful attention. Where it is necessary for us to go into some of the matters before we can give an answer, I will let him have those answers as soon as I can.

There is one point I would like to raise. He was rather critical of the form of the import permits that are made available. He felt that these were unnecessarily comprehensive and, I think, clumsy. These import permits are, of course, issued by the Director of Imports and Exports. That is the Department of Commerce and Consumer Affairs, and the format of the application form is prescribed by that department and not by the Department of

Customs and Excise. I think the hon. Senator was under the impression that the Department of Customs and Excise was responsible for this. I cannot therefore at this point reply to the hon. Senator's request that the form should be revised and simplified. It is a matter that falls to be dealt with by my colleague, the hon. the Minister of Industries and of Commerce and Consumer Affairs, but I shall certainly see that these remarks are brought to his attention.

Mr. President, I hope I have referred to at least some of the interesting suggestions and arguments that have been raised in the course of this debate that I have enjoyed listening to. There are other matters that deserve mention but which I have not mentioned for reasons of time. But in conclusion I would like to say that I do believe we in this country have a great deal to be grateful and thankful for. Some of it perhaps is due to good management, some of it is due to the underlying strength of our economy; some of it is due to the good sense and the effective management of their affairs by people, and some of it is due to good fortune. And some of it is also due to the generosity of a kindly Providence.

Mr. President, when one combines all those things, I say we have much to be thankful for today. We live in a world where growth rates are falling continuously. In fact, we have recently seen the latest assessments of the International Monetary Fund for a number of countries. We have also seen the estimates of the O.E.C.D., the Paris-based organization, for the growth rates of the 24 most important industrial countries, and they are adjusting these rates downwards the whole time. In fact, the average growth rate for the 24 most important industrial countries, as estimated by the O.E.C.D., is not much better than zero. In contrast to these circumstances, our growth rate is fortunately rising. Our currency, the rand, is strong. Our unemployment situation has improved considerably and I am sure it will improve consistently as the growth rate rises. Our credit standing abroad is of the highest order and, all in all, Mr. President, I think it is up to us to try to make the very best use of these very convincing assets that we have to our advantage today. I think we must keep a sense of perspective. Where we have also had substantial benefits from the gold price, both in the way of further income which raises the surplus in the balance of payments and strengthens the balance of payments, and where it also strengthens the revenues of the State through gold-mining taxation, I think what we must do is try to see where we can distribute these benefits, that they are distributed in a way which reaches as many elements of our population as possible. On the other hand, we should not imagine that the thing to do is to blow all this largesse overnight. We must realize that we live in a dangerous, unpredictable world. At the moment things are economically in our favour but who knows what the future holds? I would therefore like to suggest that we must be practical and sensible; we must try to allow the advantages of this good fortune to reach our people but on the other hand also keep a proper balance so that when the difficult years do come, we will find that we still have some strong resources that we have husbanded for that day, again to the advantage of all our people.

On that note, Mr. President, I thank hon. Senators for their attention.

Question agreed to.

Bill read a Second Time.

[redacted]

Hansard 5 Col 1875 →
from part approp Bill

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Vote 27.—"Interior and Immigration":

Mr. D. J. DALLING: Mr Chairman, I want to refer, firstly, to the amount of R311 000, which is shown as a decrease against Immigration. As we all know, immigration has slowed down over the past two years as far as South Africa is concerned. I should like to know precisely how this saving was achieved. Have we actually closed offices? Have we pulled staff back? Are we in the position that, should there be a greater interest shown in years to come, we can re-establish immigration offices, or have we in fact closed down the various immigration offices permanently in various capitals?

The second question I should like to ask relates to the increase of R2 077 000 shown against item 3—"Services to citizens." I would be grateful if the hon. the Deputy Minister would explain that item to us.

*The DEPUTY MINISTER OF THE INTERIOR: Mr. Chairman, as far as the saving in respect of immigration is concerned I can say that an inspection of the staff in each department is regularly carried out every few years in the Public Service. Such an inspec-

tion took place last year in the Department of the Interior and in all branches of the Department, savings on staff were recommended. This applies to the Immigration Section in particular, where there was a drop in activities. A considerable saving in staff was achieved. Increasing use is being made of the staff of the Department of Foreign Affairs who do the work for us at the various missions instead of our keeping our own staff there who are often not permanently employed. We are also finding that growing numbers of industrialists are recruiting their people abroad themselves instead of our having to do the work for them. As a result of that we save staff. However, we are capable of handling a larger influx of immigrants if necessary. That disposes of the first saving in respect of staff. In addition, we also placed fewer advertisements, since there was no need to do so last year and also because we are forbidden to do so in some countries. Then, of course, we also had a windfall due to the rand/dollar exchange rate abroad. That also entailed a considerable saving.

Furthermore I want to refer to the increase of R2 077 000 under item 3. This principally concerned the general registration of voters.

Business interrupted in accordance with Standing Order No. 74.

Vote agreed to.

Remaining Votes agreed to.

Schedule accordingly agreed to.

House Resumed:

Bill reported without amendment.

Bill read a Third Time.

Vote 16 — "Inland Revenue":

Mr H H SCHWARZ: Mr Chairman, I should like an explanation from the hon the Minister about the increases, particularly in three items. The first one is item C, "Stores and livestock." I find this "livestock" of the Receiver of Revenue very intriguing.

An HON. MEMBER: He is a fat cat!

Mr. H H. SCHWARZ: Are the fat cats being kept in storage? R441 000 is quite a substantial increase when the original budget was for only R1,142 million. It is a very substantial increase in relation to the amount. Secondly, I refer to item D, Equipment, where there is an increase of R1,85 million. What is the explanation for that? I would assume that some new computerised equipment must have been installed.

My guess is that the increase in expenditure of R400 000 was due to the fact that the Secretary lost his case and had to pay the increase as a result of the Appellate Division case against the Trust Bank. However, I am just assuming that and would like to hear an explanation from the hon. the Minister.

As far as the division "Professional and special services" is concerned, I should just like to say that I have always been afraid of special services, so could the hon. the Minister tell us why there has been an increase in respect of that division?

The MINISTER OF FINANCE: Mr Chairman, perhaps I could start at the bottom and refer to that amount of R400 000. Obviously, there are, from time to time, cases in which the Receiver is involved, and if he loses, amounts have to be paid back, they have to be paid back with interest, and this is what is involved.

As far as the main division C "Stores and livestock" is concerned, I want to say that since everybody else seems to have livestock we thought we ought to be in the picture as well. [Interjections.] As far as Stores are concerned, I should like to say first of all that orders have had to be placed for the printing of larger quantities of forms, for which provision had not been made in the main estimates, and as a result of the increase in printing costs and the price of paper, and the increase in expenditure over and above what was been expected. Provision is also made for the printing of sales tax manuals. All that adds up to R374 000. It also appears that the provision in respect of stationery and other consumable stores has been underestimated as a result of the introduction of sales tax and the escalation of costs involved. Additional provision must also be made for carbon paper and IRP-5 certificates. Again there has been somewhat of an underestimation in this respect, the amount being R67 000. These amounts of R374 000 and R67 000 add up to a total of R441 000. It is difficult to be absolutely accurate a year in advance, especially for a department which is operating each year on a substantially bigger scale than the year before. Of course one also has to contend with cost escalation. It is true that it is a fairly big amount, but I am afraid that it is unavoidable.

I now want to refer to main division D "Equipment." The hon. member is correct in that regard. Owing to the increase in the volume of work which is caused by the annual growth of the register, the introduction of the general sales tax, as well as the expansion of the on-line inquiry system to offices of Receivers of Revenue, it has become necessary to enlarge the existing computer system to a multi-processor, by upgrading the existing central processing unit and the acquisition of a second processing unit that has a two megabyte memory. I am not quite sure what that is. After careful consideration it has been decided to purchase the required computer equipment as it would be of more advantage to the State to purchase it rather than to hire it. The Treasury has, under cover of its minute No. 81/3 of 15 August 1979, approved of the purchase of the system at a cost of R2 965 178. Because the Nashua—now hon. members know where the Nashua Grand Prix has its origin—bookkeeping machine had to be replaced by new machines, the rental basis of which has changed, additional provision of R30 000 has been made. The two come to R2 995 178. But having purchased this, there is a very considerable saving in rental. In fact, the saving on computer rental is R1 141 178. If one deducts that from the upper figure it leaves R1 854 000. It is a big amount, but compared with the rental one pays per annum it brings about a saving in a matter of about three years. I think it was the right thing to do.

The explanation of "Professional and special services" is: Switchboards in various offices of Receivers of Revenue are manned by operators supplied by the Post Office. As a result of the improvement in the conditions of service with effect from 1 April 1979, additional funds are required for this purpose, and also the number of operators have increased and the total required is an extra R15 000. As a result of the purchase of new computer equipment it is necessary to make provision for the maintenance of that new equipment, which requires R19 000. In the third place, owing to the rise in maintenance cost of what they call "Mohawk" and "Control Data" by 9,3% with effect from 1 June 1979, and 12% with effect from 1 October 1979, further additional funds to the extent of R4 800 are required. All this gives a total of R38 800. There is a deduction from that as a result of the purchase of the computer equipment. The saving is effected in respect of certain computer programmes to the extent of R9 500. That leaves a net increase of R29 300. I trust that explains these items.

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Vote 14 —"Treasury":

Mr H. H. SCHWARZ: Mr. Chairman, the main the Vote contains transfer payme... except for an amount of R9 000 in respect of Administrators' allowances. I should, however, like to put a question to the hon. the Minister in connection with the transfer payments. Provincial subsidies are, of course, as he has indicated in previous years, based upon a formula that has been worked out, as I understand it, and as he has told us before, there is a meeting that takes place in January of each particular year. Then there is another meeting that takes place in December. Does that actually mean that every year there has to be something in the estimates in regard to Provincial subsidies? Is it not possible to actually work out the thing in such a way that it is fairly accurately done in the first place? What is it actually that causes this hang-up necessitating an adjustment in December of each year? Then, if he has the figures available, I think we would like to know what each particular province actually received and what the reason for it was. In other words, is it an increase in the unit cost of education, or is it something to do with hospitals? What is it that causes this situation?

Then I come to the amount in connection with the Railways and Harbours Fund. I assume that the hon. the Minister would give the same answer as has been given by the hon. the Minister of Transport Affairs, but if he has anything else to add to this, I should like to hear it.

Then I come to the item in connection with Posts and Telecommunications. There I also think we would like to have an explanation from him to indicate why this amount of R2... million now appears in the estimates when, in fact, in the original estimates there was merely the nominal amount of R1 000. Then there is the aspect of Administrators' salaries. I take it that we are actually going to have legislation to deal with this whole matter.

The MINISTER OF FINANCE: Which is that?

Mr. H. H. SCHWARZ: I am referring to legislation about the salaries of Provincial Administrators. Are we likely to have new legislation in regard to that that would avoid our having to put it into the estimates in this fashion?

The MINISTER OF FINANCE: Mr Chairman, the hon member is correct. The item of R43 691 000 relates to the subsidies of the provinces. It is actually in the nature of what we call an "agterskot". In fact, according to the formula this is how it is done, and the amount is in fact bigger, strictly in terms of the formula. By agreement with the provinces however, we have asked them to reduce the amount that each receives and they have been able to agree on certain figures. So in that sense there is a certain saving. The figure could, in fact, have been higher strictly in terms of the formula. The subsidies are based, as the hon. member correctly says, on a formula, and that formula is based on certain statistical data.

It is also, of course, based on a certain estimate of costs. The total amount, or subsidy, made available to all the provinces is very large. It is in the neighbourhood of R2 000 million. It is very difficult to prepare the main budget so accurately in advance that one does not need to adjust it later in the year. It is true that we see the Administrators regularly. We see them if not in December, then in January, or even in the beginning of February, and it is on the basis of that discussion that we decide on the final amounts. We are in the process of revising the subsidy formula, as we do from time to time, in the light of new factors, arguments, approaches, sophistication and refining. The point made is something I shall bear in mind, but I must say that my experience is that it would be very difficult in the nature of the formula to avoid having to come to Parliament at this point with an additional requirement. We naturally try to keep the amount as moderate as we can and we do have the full co-operation of the provinces.

Mr H. H. SCHWARZ: Do you have a breakdown of the figure?

The MINISTER: Yes, I shall give the hon member the breakdown. I shall give him the original amounts budgeted. They are as follows: Cape Province, R642,3 million; Transvaal, R799,4 million; the Orange Free State, R203,1 million and Natal, R279 million. The amounts that make up the total of R43 691 000 are the following: Cape Province, R16,332 million; Transvaal, R16,056 million; the Orange Free State, R7,095 million and Natal, R4,208 million. That gives a revised total for the year of R1 967 520 000. That is very close to R2 000 million.

Mr H. H. SCHWARZ: So the increases are not proportional to the original amount?

The MINISTER: No. What happens is that in the first instance the formula is applied. Then some of the provinces have what we call extraordinary items which crop up. We have to take those into account. One may for instance find that in a particular province it becomes essential to build a particular road which could not have been foreseen. That happened the other day in respect of a bridge. Another possibility is, for instance, that it becomes necessary to expedite the building of a particular hospital. One then tries to meet that by giving a special amount, a special dispensation. We cannot make a formula so inflexible that one would not be able to fit in some of these extraordinary items. That is what would account for this kind of thing. I hope that satisfies the hon. member. As I say, we are revising this subsidy. We are trying to bring it up to date and to refine it in the light of experience. We can perhaps talk a little more about that at an appropriate opportunity.

Then I want to refer to the amount of R9 000. Our Constitution actually provides that the Administrators' salaries must be determined by Parliament. Therefore we bring this to Parliament each year. This amount is to provide for the increases as from 1 April 1979.

I now turn to the other item. As my colleague the hon. the Minister of Transport Affairs said, we have been conducting an extensive inquiry into certain aspects of, in the first instance, Railway financing. We have a joint committee under the chairmanship of Prof. Franzsen at work on this at present, particularly to assist us with requests the Treasury gets from the Railways for financial assistance in certain forms. There are the subsidies on bus fares and railway fares. There is also the question of transport facilities in the resettlement areas. So, there are several of these items, and we decided that it was time to have a thorough look at them. It has, in fact, been quite an extensive inquiry and in the course of this it became quite apparent that, unless something more was done, particularly with a view to the very big increase in fuel costs and the other escalations, where there is an overall inflation rate of about 14%—the running costs have been rising very substantially, and of course both the Railways and the Post Office pay the general sales tax—we would have to face the position that tariffs would have had to be raised at some point during this financial year in order to allow the Railways and the Post Office to come within their budgeted figures. So, it was decided that, if the Exchequer could afford it, we should make an extra dispensation here to postpone the evil day of tariff increases. We did it in this way.

There is no doubt that, if they did not pay general sales tax, they would, of course, be in a much stronger position. That is a very substantial factor in the whole position. We cannot, and do not intend to, exempt them from general sales tax. There is, in any event, no provision for this in the Act. However, whether one says that it is due to very substantial fuel costs or other escalations such as the general sales tax, the fact is that, if we had not done something of this nature, we would certainly have found that there would have been a need to raise tariffs at an earlier point. I cannot anticipate my hon. colleague. I am not saying that he is going to raise tariffs or that he is not going to raise tariffs. I am saying that, if we did not assist, then this would have been a stark reality, in terms of the Franzsen inquiry as well.

The Post Office is very much in the same boat on a smaller scale and it was felt that if we did it for the one, we ought to try and do it for the other for the same reason. I want to say that the inquiry by Prof. Franzsen is proceeding. It is a joint committee of the Treasury and the Railways, and the Post Office is also, I believe, very interested. We have not completed this exercise by any means and we will have to give more information to the House in good time. This is, one might say, an interim measure which we have taken at this point to provide relief.

Mr. R. J. LORIMER: Mr. Chairman, I listened with interest to the reply of the hon. the Minister concerning the Franzsen report and the Railways. I presume that this is covering the whole year in question. I do not know whether there was a starting date or whether the hon. the Minister indicated that it was for the whole year. However, the Franzsen Commission is looking into the question of socio-economic services rendered by the Railways. I find it very difficult to understand how the same thing can apply to the Post Office. What particular socio-economic services does the Post Office render and why should they be entitled to this big amount of R22 million?

The MINISTER OF FINANCE: Mr. Chairman, as far as I am concerned, in making these amounts available this is not really a question of socio-economic services; this is looking at the position as a whole. It is not limited only to the Franzsen Commission's inquiry, though it is very substantially based on that as far as the Railways are concerned. As far as the Post Office is concerned, which also pays the general sales tax, we have had representations as a result of cost escalations through the year and, because we felt we could afford this, we made this amount available during the year, over and above anything that might have been provided in the budget. So, we have to get authority for it now, but I can assure the hon. member that there would have been tariff increases earlier had we not done this.

Mr H. H. SCHWARZ: Mr. Chairman, I have some problems with the answers which the hon. the Minister has just given and I should like to put them to him. Firstly, I have some difficulty in appreciating why the R58 million is contained in the Treasury Vote whereas the R22 200 000 is contained in the Transport Vote.

The MINISTER OF FINANCE: No, that is something else. The R22 million in the Transport Vote is the usual bus fares subsidy.

Mr. H. H. SCHWARZ: That is correct, but here he is also subsidizing the R58 million. As I understand it from what the hon. the Minister has said, this relates, in a substantial measure, to the socio-economic services which are being subsidized by the Railways because in this respect the Railways is not running on a normal business footing and charging normal fares for this service. If that is so, then the difference between whether it comes out of Treasury Vote or the Transport Vote escapes me, unless there is a formula whereby one arrives at the figure of R58 million. In other words, if one says that the R58 million relates to a refund of sales tax or to some similar matter, then I can understand it, but if it is just on a broad basis then it seems to me to be more logical that if it is not a loan—and this is not a loan; this is purely a contribution to operating expenditure—it should then be in the Transport Vote. It should not be in the Treasury Vote at all.

Then, in relation to Post Office, I should like to ask what actually motivates the hon. the Minister of Finance in making the amount R22 million. Why not R20 million, R30 million or R10 million? Is there a formula? Is there some basis for this? In other words, before the Post Office budget was prepared, was the hon. the Minister of Finance consulted as to what provision would be necessary so that there would not be certain tariff increases? What is the basis on which this is being approached?

The last point I wish to raise is whether it is now accepted by the Treasury that the responsibility for the subsidization of the Railways, in respect of services where there are socio-economic problems, is a State responsibility and not a Railways responsibility, or is that question still open and still to be decided in the final analysis when the Franzsen Commission finally reports.

The MINISTER OF FINANCE. Mr. Chairman, to take the last point first. No, there is no finality on that. That is a matter which is still being discussed. There are also certain aspects of the matter still being investigated by the Franzsen Commission. So I think the answer is quite clear. There is no finality there yet.

As far as the R22 million is concerned, which is shown in the Transport Vote, that is quite an old item. That is something which was agreed upon some time ago between Treasury, the SAR and the Government. The amount refers to subsidies on bus fares. That is something which has continued for quite a few years and, of course, the amount has increased quite a lot. As I say, however, as a result of various inquiries that have taken place in the last year, or just less than a year, and which are still continuing, there are other aspects now which are very much under consideration. The one relates to the whole question of passenger services. The Railways have put it to us that they would like exemption from interest payable on capital invested in passenger services. That is part of that socio-economic idea.

Mr. H. H. SCHWARZ: Or all passenger services or only on the selected ones?

The MINISTER: No, it is more particularly with reference to the resettlement areas. The amounts, of course, are quite large. The fact of the matter is that one can do that sort of thing, but one cannot simply keep on adding on and adding on. We are therefore working on the basis that if we can do that, then maybe we can include some or all of the bus subsidies and the other rail subsidies for the lower income groups. Maybe we can arrive at a formula where that is then included, and this other amount will then subsume them, as it were, because it is a bigger amount, but all that is still being thrashed out. Before we could arrive at finality it was drawn to my attention that if we did not do something in the course of the year the chances were considerable that Railway tariffs might have had to be raised somewhere around October last year. It was felt that we should try to avoid that. Part of the Railways' problem is, of course, that they are also paying this new tax. That is certainly a factor, but we cannot exempt the Railways, and we do not intend exempting them, because this is laid down by the Act. For various reasons, however, we have had to give the Railways a further dispensation, and it ties up with the drawn-out and continuing inquiry of the Franzsen Commission and with our own discussions with the Railways. It is on that basis that we have in fact done this, and because we do not have any finality on it and we are not at all sure what the future will hold, we have put it under the Treasury Vote this year. It is possibly a once-and-for-all item in the Vote, but I am not sure. We are, however, feeling our way forward. I do not know whether I can really take it further than that.

Mr. H. H. SCHWARZ. And the Post Office?

The MINISTER: Well, we did it for the one, and then the Post Office was also in the position of having to face these escalating costs and being faced with an earlier revision of tariffs. Therefore, calculations were made to try to put off the evil day until a certain date, and one finally comes to a certain figure That is just about the sum total of the whole matter We shall, however, obviously have to discuss this in the future, because it is not really satisfactory to me, as the Minister of Finance as it is at the moment There is a great deal of interim arrangement here, giving relief now but I do think that, perhaps with little bit of luck and good judgment, we may, arrive at a very much better basis as we proceed We shall then of course, do things in the usual way, and these figures will be included under the proper Votes

Mr. A B WIDMAN. Mr. Chairman, I should like to revert to the amount to be voted for the Post Office. I want to ask the hon. the Minister whether it is the idea to establish a new principle or a new formula. I just have difficulty in understanding the argument I know what the hon. the Minister is saying, but I have difficulty in understanding the argument in relation to the substantial increases in the Post Office which were announced last year, but which became effective on 1 February this year. If this is a sort of hedge against an increase in tariffs, how does one relate that argument to the very increases that came into effect on 1 February, and which were fairly substantial?

The MINISTER OF FINANCE. Mr. Chairman, the point is that if we had not given this kind of relief. tariff increases would have had to come into effect earlier in the financial year. It was in order to put off the evil day, that we did that We are in the position where we could afford this this year. as the hon. member knows I cannot guarantee that we shall be able to afford it next year, but I am sure that, at least, we shall by then have placed it on a more systematic footing.

Mr. H. H. SCHWARZ. Mr. Chairman, it is lovely to be a Minister of Finance with money to hand out I appreciate the explanations that he has given I actually find this quite fascinating, because, with the Railways oppressed by general sales tax and the Post Office oppressed by general sales tax, may I make a plea for other people who are oppressed by general sales tax?

The MINISTER OF FINANCE: Mr. Chairman, I thought the hon. member might well mention that I called him "Santa Claus" the other day, but he must be a little careful Even we, with the gold price as high as it is have limits on our income at the moment.

Vote agreed to

Vote 9—"Agricultural Credit and Land Tenure"

*Mr F. A. MYBURGH: Mr Chairman, there are two amounts to which I should like to refer and in regard to which I hope the hon. the Minister will furnish a reply. Provision is made under item H for an amount of R9 000 for potential claims against the State. I should like the hon. the Minister to explain what the potential claims involve, in which areas the claims may be instituted, etc. Secondly, I should like to refer to main division No. 2—"Agricultural Financing"—where provision is being made for an amount of R6 550 000. I shall be pleased if the hon. the Minister would give a further explanation of this amount too.

*The DEPUTY MINISTER OF AGRICULTURE: Mr Chairman, the R9 000 to which the hon. member for Wynberg is referring, concerns an accident in which a Government vehicle was involved. It is a third party claim.

As far as the increase of R6 550 000 in expenditure is concerned, the hon. member will know that in its recommendations the Jacobs Committee proposed that the Government should consider increasing the crop production loans from R20 000 to R40 000. The hon. member will also know that only people who have had a proven crop failure

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during the previous production season may apply for loans in terms of this scheme. It so happened that practically the entire winter rainfall area, as well as a very large section of the summer rainfall area, was subjected to drought and consequently to crop failures. Consequently, practically all the farmers qualified for the increased aid. An amount of R1,5 million was set aside for this purpose, and this amount was included in the R6 550 000. As far as the other R5 million is concerned, the hon. member is aware of the fact that the stock feed loan scheme was approved on 28 November 1978 for scheduled drought-stricken areas, chiefly Namakwaland, Bushmanland and the North-Western Cape. The Cabinet approved this scheme in 1978 and an amount of approximately R300 000 had already been spent during that particular financial year. However, there was also a transfer of just over R700 000 which was spent during that period, but which was transferred to 1 April of the present financial year. But since the normal rainfall period for this area is from February to March, the Department did not think fit to budget for a further amount. However, as the hon. member knows, the rain did not fall and an additional amount was required for stock feed loans in that area.

Vote agreed to

Vote 10.—"Agricultural Economics and Marketing":

*Mr. P. A. MYBURGH: Mr. Chairman, as the hon. the Minister knows, this party is very much in favour of subsidizing certain types of foodstuffs. We note that an additional amount of R47 000 000 has been set aside under item 4 for a bread subsidy. I should like the hon. the Minister to explain to the House exactly how this will be applied, viz. on what quantity of bread, and I should also like the hon. the Minister's opinion as to why the amount has increased so much from the original amount of R70 million.

Secondly, would the hon. the Minister please explain why an additional amount of R11 145 000 is being budgeted for relief of distress—which I assume will be used in the drought-stricken areas—whilst a few days ago we were speaking of an amount of R17½ million, an amount which in my opinion would fall under that category?

*The MINISTER OF AGRICULTURE: Mr. Chairman, the hon. member will remember that we had R70 million as a bread subsidy last year. In September we increased the wheat price by 36%. The bakers and millers had their cost increases due to diesel and electricity, and all those cost increases were made good with a subsidy of R4[illegible] million to keep the price of bread at 16 cents for a brown loaf and 25 cents for a white loaf. This is an additional R45 million, plus R[illegible] million to subsidize bread flour. Small packages of 1 kg, 2½ kg and 5 kg are subsidized by R125 per ton, for people who want to bake bread at home. So much for the bread subsidy.

As far as the amount of R11 145 000 is concerned, the hon. the Minister of Finance announced last week that he is going to make an additional R17½ million available for those areas that are now crippled by drought. No one can foresee how long the drought is going to last and so we have allowed a subsidy of R1 per sheep to a maximum of 1 000 sheep, plus a loan of R1 at 5%. These are the two items that constitute the total of R11 145 000 which has had to be budgeted in addition so far, apart from the R17½ million that we received recently and which does not appear in this additional expenditure, but which will be explained next year.

Mr. H. H. SCHWARZ: Mr. Chairman, when I see small print I get suspicious. Would the hon. the Minister kindly explain the significance of the note "Minister of Finance's authority No. 9 obtained: R20 million", because he will see that against the same item where the R47 million is reflected, the original amount voted was R70 million, whereas if he looks at 10.13 of the original budget he will see that the original amount there was R50 million. Could the hon. the Minister please explain the arithmetic? I am sure that as a farmer he will be able to do that very well.

The MINISTER OF AGRICULTURE: Mr. Chairman, in September the hon. the Minister of Finance announced that another R20 million would be appropriated for food subsidies. That was an additional amount, and

approximately R750 000 was used to subsidize powdered milk to counteract kwashiorkor, and some of it was used for the subsidy on bread. We cannot predict what the subsidy would actually be if we increased the wheat price. In order to keep the price at the present 16 cents for brown bread and 25 cents for white bread, we had to have an additional amount of R20 million. That is the reason why it is printed there. I do not know what the reason is for it to be in small print. This is perhaps a typographical error. However, it is all still part of the bread subsidy.

Mr H. H. SCHWARZ: Mr. Chairman, what worries me is that this item is shown under bread subsidies, and now we are told that some of it has actually been used for subsidizing powdered milk. I do not understand that, because the amount of R47 million surely relates solely to bread subsidies, and if the hon. the Minister would look at pages 10-13 of his original estimates for this year, he would see that an amount of R50 million is specified. Is that amount of R20 million included in the amount of R47 million, or is it additional to the amount of R50 million to increase it to R70 million?

The MINISTER OF AGRICULTURE: It is additional.

Mr. H. H. SCHWARZ: That means that since the original estimates, the amount that now has to be voted should actually be R47 million plus R20 million, which would bring it to R67 million for additional expenditure, and not R47 million.

The MINISTER OF AGRICULTURE: Mr. Chairman, the hon. member for Yeoville is perfectly right. The amount comes to R67 million when one adds the additional amount of R20 million to the R47 million. However, he now asks how it was applied. I replied to the question of the hon. member for Wynberg by saying that some of it was used for various subsidies, but the only subsidies we can apply on food are those on powdered milk and bread, apart from the subsidy on maize, which is additional. The hon. member is perfectly right in his assumption.

Vote agreed to.

Vote 12.—"Health":

*Mr. H. E. J. VAN RENSBURG: Mr. Chairman, could the hon. the Minister please list the reasons why there are a number of considerable increases in the amounts voted? I should just like to bring to his attention that there is an increase of 10% in respect of administration, an increase of approximately 5% in respect of medical care and an increase of approximately 20% in respect of bursaries. The increase is R20 270 and this is an amount obtained under authorization No. 4 of the hon. the Minister of Finance. Could the hon. the Minister please give us an explanation in this regard? There is an increase of more than 200% in respect of Laboratory and Medico-legal Services to State departments, Administrations and Organizations. The amount voted initially was R1 258 000. The revised amount is R4 971 000. This means an increase of R3 713 000. The following item is publicity services, in respect of which there is an increase of more than 150%. There was an increase of approximately 25% in respect of the Health Year. I do not want to detract from the excellent programme of the Health Year, but I do feel that the hon. the Minister should give an explanation for this considerable increase.

*The MINISTER OF HEALTH: Mr. Chairman, the hon. member for Bryanston has omitted little. He wants all the figures to be explained and I shall do my best to do so. Under the main division—"Administration"—there is an increase of R486 000. An amount of R308 000 was spent, *inter alia*, on advertising for the Health Year. People have really become very health conscious and consequently a tremendous demand for informative literature has arisen, to such an extent that it has led to overtime being worked and additional posts being created. Under the main division—"Administration"—provision has also been made for an amount of R150 000 because it has become essential to establish a regional office in Kimberley. Provision is being made for the activating of certain administrative posts in the current financial year, as well as for administrative expenditure to be able to open that office. Provision has also been made for an amount of R28 000, which brings the total to R486 000. The implementation of salary increases as from 1 April 1979, as well as the take-over of dental and oral hospitals at the Universities of the Witwatersrand and the Western Cape and dental laboratory services of the provinces has meant that additional posts have had to be created in order to handle an increased workload. These three amounts together bring the total to R486 000 under the main division—"Administration".

The following main division to which the hon. member referred was main division No. 4.—"Medical Care". I want to explain how the sum of R2 593 000 is made up. The first part of it was spent on district surgeon services. The basis on which the remuneration of part-time district surgeons is calculated was increased by 20% as from 1 January 1980. This adjustment was approved by the Public Service Commission, while the expenditure involved was also approved by the Treasury. Apart from this, the costs of medicine and transport have risen to such an extent that the additional appropriation of R490 000 is essential. Provision has also been made for an amount of R1 318 000 for separate out-patient services of local authorities. As a result of a major rise in the costs of medicine in particular, provision has to be made for an additional sum under this main division. The increased demand for free medical services, because more persons qualify for free medical treatment, is also a factor contributing to this increased expenditure. An amount of R210 000 is required for dental services. This amount is required for the rendering of dental services to White schools that have been taken over from the Orange Free State Provincial Administration. An amount of R276 000 is needed in respect of artificial aids. Adequate provision was not made under this main division for expenditure in this regard. In spite of the fact that strict selection is applied to the provision of artificial aids and that, for example, only 20% of the applications for spectacles are approved, expenditure up to this stage indicates that the estimate will be exceeded by a considerable amount. Cost increases have played a considerable part in the increase in this expenditure. If one adds to this a final amount of R300 000 one gets a total of R2 593 000. Under this main division additional funds are needed for the transportation of needy persons as a result of higher fuel prices and the increase in the tariffs of the Government garage as well as contract transporters. Those, then, were the amounts under main division No. 4.—"Medical Care".

The hon. member also asked a question in connection with the fifth main division—"Health Protection". The amount of R20 270 appears under this main division. There is really a saving under this main division. The specific amount of R20 270 was voted for bursaries with a view to the training of health inspectors. This amount must be appropriated since the amount was really shifted from the activity "departmental" to the activity "bursaries". The excess under this element is as a result of the fact that a technikon grants bursaries for a larger amount than was provided. The bursaries are provided by the technikon itself and the excess amounts to R20 700.

I think the hon. member also referred to the R3 713 000 under "Laboratory Services". Since the programme consists of a reasonably wide spectrum of divergent sub-programmes, the differences are explained under the respective sub-programmes. Here one finds that there is a saving on the one hand and an increase on the other. I shall briefly give the hon. member the few explanations. Under the saving there was an amount of R15 000 under the Medical and Dental Board. The Board's tariff provisions have to be paid for, but they required R15 000 less. The increase in expenditure on the laboratory services amounted to R3 713 000. I think this is really what the hon. member was referring to. In order to establish a national laboratory service the laboratories of the Cape and Natal Provincial Administrations were taken over as from 1 April 1979. A free service has since been rendered to the provinces, and set off by way of internal levies against the above sub-programme. Internal levies are increased by a corresponding amount, and consequently, broadly speaking, additional funds are not required. That disposes of the item "Laboratory Services".

The second item here is "Publicity Services"—R759 000. The publicity campaign comprizing part of the Health Year caused the public in general to become more health-conscious, as I indicated in the case of an earlier item which I also dealt with with the hon. members. This lead to a tremendous increase in telephonic inquiries and cor-

respondence, as well as an increased demand for the existing health literature. In order to meet these demands it was essential to create additional posts. Further editions of information literature had to be printed in order to provide for the needs created by the public. The additional expenditure is debited to other programmes by means of internal levies and consequently only a small additional amount is required for the division as a whole. Internal levies are being increased by almost an equal amount.

The item "Laboratory Services"—I have just referred to it—shows a saving of R906 000. The trend of expenditure up to the present stage indicates that a considerable saving will be effected under this sub-programme. The saving may be partially ascribed to the fact that equipment provided for in the current year cannot be delivered before 31 March 1980. Therefore this is really an amount which is not being spent now, but which will certainly have to be shown next year.

Under the item "Health Year"—this was the last point raised by the hon. member for Bryanston—amounts of R800 000 and R500 000 are shown. These amounts were appropriated for the 1978-'79 and the 1979-'80 financial year respectively. Since the Government Printer was unable to deliver the order for stationery before 31 March 1979 owing to other priorities, and certain technical equipment could not be delivered in time either, only R375 000 of the anticipated amount of R800 000 could be used. However, commitments were entered into, and a portion of the amount which was not utilized during the 1978-'79 financial year is required in the 1979-'80 financial year. I think that this is a comprehensive reply to the questions asked by the hon. member for Bryanston. I hope this is to his satisfaction.

Mr. N. B. WOOD: Mr. Chairman, I should like to put two questions to the hon. the Minister. In connection with item No. 2, "Infectious, Communicable and Preventable Diseases", an additional amount of R200 000 is to be voted. I should like to know whether any of that expenditure is in connection with the sending to a State to the north of us of medical practitioners to investigate the outbreak of Green Monkey Fever. Secondly, with reference to item No. 3, the additional amount of R570 000 is requested in respect of "Mental Health". I wonder if the hon. the Minister could give us a breakdown on that amount of the extra amount to be voted in connection with drugs as opposed to the amount to be voted in connection with psychiatric treatment *per se*.

The MINISTER OF HEALTH: Mr. Chairman, the amount referred to by the hon. member in respect of item No. 2 is required for the treatment of tuberculosis. The problem here is the ever-increasing costs of medicines. That is why an additional amount is necessary under this particular item. The total amount is asked for to cover the rise in the price of medicine.

*The hon. member also asked a question in connection with Head No. 3, "Mental Health". Perhaps I should furnish him with all three heads. The very first one is an amount of R144 000. This forms part of the total of R570 000. A crisis situation has arisen in psychiatric hospitals as a result of a shortage of staff. Proper supervision could not be maintained and there have even been cases of assault and other incidents.

Mr. B. R. BAMFORD: Could you speak a little louder, please? We cannot hear you. [Interjections.]

The MINISTER: I shall try my best. I have actually been talking to the hon. member for Berea. I shall try to speak loud enough so that the hon. member for Groote Schuur can also hear me. Will the hon. member perhaps like me to come a little closer? [Interjections.] I shall try my best to speak a bit louder. I think there is some kind of a vacuum here, because sometimes I cannot hear myself speak. [Interjections.]

At one stage there were about 800 staff vacancies.

*As a result of the shortage of nursing staff, only some of the vacant posts could be filled. Limited provision is being made accordingly. It is because there is a major shortage of nurses for this type of hospital that the amount mentioned is required.

The second head is that of treatment in hospitals, excluding rehabilitation homes and licensed homes. In this instance the amount is R150 000. Apart from the increase in social pensions and allowances announced by the hon. the Minister of Finance in October last year, permission was granted by the Treasury on behalf of the Minister that a single cash sum which is regarded as a bonus, could be paid to people in single care and in licensed homes. This bonus amounts to R30, R24 and R18 with regard to Whites, Coloureds and Blacks respectively, who received an allowance before December 1979. Thus the amount of R150 000 will be made available for this purpose in the additional appropriation as part of the amount of R570 000.

The third amount, the last of the R570 000, is for hospital treatment in private hospitals. The Treasury has approved an increase of 12% in the day tariffs paid to the undertaking Smith, Mitchell and Co. to hospitalize patients on behalf of the department. Adequate provision was not made for this adjustment in the draft budget, since its extent was not known. The rising prices of medicine and foodstuffs has necessitated this high adjustment. This is possibly the reply to part of the question.

"The answer to part of the hon. member's question is that the increase of 12% was mainly due to the increase in the price of medicines for the ordinary needs of the patients. I think that is a full reply to the hon. member for Berea.

Mr. N. B. WOOD: Mr. Chairman, I should just like to come back to the first part of the question I put to the hon. the Minister in order to seek a further point of clarification. As I understood his reply,—perhaps he could correct me if I am wrong—the added amount of R200 000 was for the drug treatment of tuberculosis. My specific question was—and I wonder if the hon. the Minister could reply to this—about whether South Africa incurred any costs in sending, to a country to the north of us, two doctors to investigate Green Monkey disease. That was my specific question. Do I take it that the answer to that is negative, or did we incur costs in that regard?

The MINISTER OF HEALTH: Mr. Chairman, actually that does not fall under this Vote at all, so I cannot actually reply to that question.

Vote agreed to.

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Vote 7.—"Mines":

*Mr. H. E. J. VAN RENSBURG: Mr. Chairman, could the hon the Minister please give us the reason why there is an increase in the assistance to the gold mining industry? Under the present circumstances, and against the background of the tremendous increase in the price of gold, one would have expected the gold mining industry to be in a position to look after its own interests and problems and that there should rather have been an item along the lines of "Assistance to the Government on the part of the gold mining industry" in this additional appropriation.

With regard to item 0—"Strategic Minerals"—could the hon. the Minister tell us whether that increase was caused by price rises or the fact that we are purchasing a greater quantity of the various strategic minerals?

*The MINISTER OF MINERAL AND ENERGY AFFAIRS: Mr. Chairman, with regard to the question put, I want to say that on the face of it, it seems strange that there should be an increase in assistance to gold mines while the gold price is rising to such an extent. In actual fact the increase amounted to much more than even the amount of R262 000. An amount of R11 million was originally allowed under main division K for "Assistance to needy mines". R6 500 000 was allowed for the cost of pumping water, which brought the original budget to R17 500 000. Therefore, in real terms, the assistance to mines amounted to R15 million instead of R11 million, i.e. R4 million more. That R4 million was defrayed from savings, as is evident from the additional appropriation. Firstly there was a saving of R1 414 000 and, secondly, a saving on the cost of pumping water—which forms part of this main division—of R2 324 000. This leaves a deficit of R262 000. Why was there an increase of R4 million? When the department made its original estimates, there would have had to be an allowance of R28,5 million in the budget for assistance to gold mines, based on a gold price of $190 per fine ounce. At that stage, however, when the budget was in the process of being drafted, it was anticipated that there would be a rise in the price of gold. In the nature of the matter it is very difficult to anticipate such a rise precisely and therefore R11 million was allowed for. However, the rise clearly did not begin to make itself felt so rapidly, with the result that during the first six months of the financial year the expenditure did indeed amount to R13 million. In the second six months it dropped to R2 million. This indicates that the rise in the price of gold is beginning to have its full effect. This is why this is not really so strange, and we can have positive expectations for the future.

As far as the second aspect is concerned, virtually the whole item refers to activities of Soekor. To be able to understand this correctly, the Committee must be informed how the original amount of R37 800 000 was constituted. It comprised an allocation of R36 753 000 to Soekor for expenditure with regard to the search for oil. R1 047 000 was budgeted for the defrayment of expenditure by the Geological Survey Division in connection with the search for strategic minerals. However, a shortage arose and I should like to give the Committee a brief explanation.

Soekor had planned to have only one sea-drill, the Sedco 708 deep-sea drill, in operation after March 1980. At that stage it was decided to limit the level of supplies to a minimum. This decision was taken in view of the fact that the number of drills would be reduced to only one by the end of the financial year. Because of results achieved and subsequent urgent discussions, it was, however, decided to go ahead with the commissioning of Sedco K 1980 and also to obtain a third sea-drill, as announced in the State President's speech at the opening of Parliament this year. Initially it was planned for April 1980, but I am not quite sure yet when the third drill will come into operation. These decisions have meant that Soekor has had to supplement its supplies in order to ensure that from April 1980 it will be in a position to keep not only one drill in operation, as was initially intended, but three drills.

The summarized analysis of the increase is: Fuel and oil, R3 million; equipment, R960 000; seismic surveys, R590 000, stores, R5,2 million; staff and related matters, R673 000; and sample analysis, R35 000. This gives a total of R10 458 000, but against that we could credit an anticipated revenue of R750 000 from the salvaging of the *Venpet* in which Soekor was involved, and a surplus of R347 000 on the provision made for the

Part Approp. Appropriation Bill

Geological Survey Division, to which I have referred.

Vote agreed to.

Financial Mail

2/5/80

Fm (49)

BLACK CAPITALISM

Loosen the shackles

Over the past four years, government has taken some significant steps towards reducing its role in the economy and releasing resources to the private sector. But it is unlikely, indeed, that these reforms have won many adherents to free enterprise from among black communities.

There is even reason to believe that this progress — circumscribed though it may be — could have had precisely the opposite effect. For it emphasises the near-complete statutory exclusion of blacks from the market economy, except as manual workers.

It also emphasises the price they have to pay for this statutory deprivation. Broadly speaking, this is reflected in stunted economic growth for our society as a whole as resources are wasted. More immediately, it is manifest in continuous price rises, especially of food.

That is not to suggest that the free market reforms so far were neither beneficial nor significant. As the Free Market Foundation's Leon Louw is fond of asserting, they represent a far greater advance towards the revival of a freer market economy than has been undertaken in any other Western country.

But as they apply predominantly to only one factor of production — capital — they fall far short of what is required to return SA to the status of a free enterprise economy.

Over four successive years, government has released resources to the private sector by holding back in real terms its own spending, by reducing taxes, by encouraging a foreign exchange market with an investment currency attractive to foreigners, and by reducing exchange controls, especially on non-residents.

However, the tight statutory controls that restrict the free exploitation by all population groups of land and, to only a slightly lesser degree, labour resources remain firmly in force.

Direct official intervention in the marketing and pricing of agricultural production — especially of basic foods — has also introduced distortions so severe that blacks are subsidising the collective export losses of white farmers.

About one quarter of all statutes, ordinances, by-laws and regulations under them, restrict — both directly and indirectly — free enterprise in SA. In the case of statutes alone, more than 1 000 of 4 000 Acts of Parliament, ordinances and by-laws since 1910 serve this self-same purpose.

These laws and regulations impinge on almost every aspect of economic activity,

be it of blacks or whites. They have arisen predominantly as a result of racial discrimination, but also in the often mistaken and outdated belief that higher standards and efficient marketing can be achieved most effectively through government regulation.

The result is that there are eight separate Acts directly imposing discrimination, of which the Group Areas Act and Environment and Planning Act are the most restrictive to free enterprise and black freedom and dignity.

There are five Acts directly restricting education, training and manpower utilisation; 10 governing the informal sector (which is where backward communities usually gain footholds in free market economies); six governing land tenure; nine competition; five agriculture; and seven housing.

No wonder, therefore, that some argue that the extreme legal restraints on blacks, who constitute the majority of the population, disqualify SA as a free enterprise society.

A few examples from Premier Milling's Dr Bill Lombard's doctoral dissertation on SA labour policy illustrate this:

- "A black may not work outside the prescribed area in which he resides for longer than 30 days without the permission of the Township Superintendent.
- "A black may not accept employment which is not authorised by the Labour Bureau.
- "A black may not start a business or participate in a business as a principal in a Bantu township without permission of the Township superintendent, (or) in any area not zoned for him.
- "A black may not perform any work which he is prohibited from doing in terms of (five separate Acts)."

Blacks are also prevented from training and working as artisans in white urban areas, where most jobs are available, although in practice there are exceptions.

They are also effectively prohibited from private land ownership even in the homelands where tribal ownership predominates. In fact, the closest they come to owning land is in white areas under the 99-year leasehold system, which has not yet been widely implemented.

They are severely restricted from entering the small business or "informal" sector, which is the term used to describe cottage or backyard industries that supply basic needs.

This is one of the few sectors that enables the quick creation of jobs with little capital or skills, and it is one of the cheapest and most effective ways for

P. T. O

GROUP AREAS ACT

Unfree trade

FM 2/5/80 86 47

Government has declared its faith in free enterprise. But there is a serious gulf between what is purported and what is practised. Take the question of free trade areas, which, Community Development Minister Marais Steyn announced recently, is to receive "urgent attention" after the end of the current parliamentary session.

The law as it stands excludes blacks from trading in areas defined "white" under the Group Areas Act. Thus, black businessmen cannot operate in the CBD's, which draw the bulk of black spending power.

Until two years ago, after the shock of the 1976 riots ushered in calls for more free enterprise as a means to defuse black anger, the law forbade blacks to set up anything larger than the corner shop in their townships.

The granting of 99-year leasehold rights to urban blacks, however, saw the wholly black-owned Blackchain put up Soweto's first supermarket in Diepkloof, with a second mooted for Jabulani, once layout plans are finalised.

Steyn's announcement that the Group Areas and Community Development Acts would get urgent attention with a view to the proclamation of further trading areas in terms of section 19 of the GAA in cities and larger towns," follows the Riekert Commission's recommendations on free trade areas.

Riekert proposed that "the Group Areas Act 1966, be amended so that the restrictive provisions on acquisition, ownership or occupation by disqualified persons in specific demarcated areas in the central business centres of cities and towns not be applicable to buildings, land and premises in such areas which are used exclusively for trading, commercial or professional purposes."

The proviso Riekert attached was that the Minister concerned "shall not refuse the institution of such areas."

The condition Steyn appends to the investigation of the issue by Community Development and the Group Areas Board is that it is not done "to the detriment of existing traders in such areas."

And cynics express the view that the new measure is being considered merely because it will enable certain black enterprises to prop up decaying CBDs.

Nafcoc chairman Sam Motsuenyane welcomes the move to open CBDs to black businessmen and says the GAA should be scrapped altogether. "There will always be resentment," says Motsuenyane, "while white financial institutions are allowed to operate in the townships but blacks are excluded from the CBDs."

In any case, he adds, it would be too soon to expect an upsurge of interest from blacks, since they simply weren't geared to compete with whites.

For this reason too, Motsuenyane is opposed to allowing the white business giants to compete with blacks in the townships. "I insist they open the white areas first as an indication of their bona fides," he says.

Argus 8/05/80 (4B)

Cape budget tops R908-m

Mr Gene Louw

Provincial Reporter

A RECORD Cape budget of R908 750 000 will be introduced by the Administrator, Mr Gene Louw, on May 21, when he will announce whether increases in provincial fees or tariffs are proposed to meet rising costs.

Mr Louw has already made it clear that with a possible shortfall between expected revenue and expenditure in 1980-81, he may be faced with either cutting essential services or raising provincial taxation.

One of the major factors in his budget will be whether the treasury has been able to provide the Administrator with special additional grants which he requested.

His announcement on this will be made when he makes his budget speech in the Cape Provincial Council at 2.30 pm on Wednesday, May 21.

On May 20 he will formally ask the Cape Provincial Council to approve a record budget of R908 753 000 for 1980-81 — the first time the Cape budget has exceeded R900-million. This is 12,7 percent higher than the 1979-80 budget.

In February, Mr Louw announced that the revised budget for 1979-80 would be R850 590 000, which represented an expenditure of R44-million more than anticipated in the year.

Mr Louw said then: 'Although we have succeeded in containing our proposed expenditure for 1979-80 within the appointed limits, without increasing those taxes and tariffs over which we still excercise control, I can give no firm undertaking

(Continued on Page 8, col 6)

Argus 8/05/80

Budget

(4A)

(Continued from Page 1).

that this position will continue to obtain.'

He added that however 'painful' it might be, he would have no option but to consider tax increases in 1980-81 if this became necessary.

Faced with special problems in balancing the budget for 1980-81, the prospect of increases in motor licence fees, hospital and hostel fees and hunting fees cannot be ruled out.

Among legislation to come before the Provincial Council is a draft ordinance which would allow motorists to pay their licence renewals at any post office within the Cape Province from January 1, 1981.

AD 5/5/80 (49)

Top executives worse off

The euphoria most top executives felt as a result of the Budget has begun to pale as they realise that not only will they have to pay a "perks tax" next year, but that they are also being called on to shoulder an ever-increasing share of the country's total tax burden.

An international compensation specialist, Bill Glasgow, who was in South Africa to assist clients of the FSA group, the largest survey company in the country, has pulled out some interesting statistics which reveal that fewer than 25 000 taxpayers, or about 1,5 per cent of the total, who earn in excess of R25 000 annually, last year paid no less than 18 per cent of the total personal tax bill of about R2 000 million — or some R360 million.

The March Budget, while admittedly providing absolute "relief" to top taxpayers, compounds the problem in relation to taxes. Mr Glasgow estimates that the 1,5 per cent of top taxpayers will now have to pay 21 per cent of the total personal tax bill of about R1 400 million — or R300 million.

In short, while Sen Horwood may have reduced personal taxes by some R600 million, the top taxpayers stand to benefit only to the extent of R60 million, or 10 per cent of the total.

"And if the fringe benefits tax is brought in next year, top salary earners can expect their proportion of the total personal tax bill to rise still further to between 25 per cent and 30 per cent," says Mr Glasgow.

Further support for his argument comes from the new tax tables.

A married person, with two children, earning R12 500 a year and with "normal" insurances, pensions, medical expenses etc, has had his tax reduced from R1 037 to R800 — a reduction of just on 23 per cent. At the other end of the scale, a top executive earning R50 000 has had his tax slashed from R18 530 to R15 350, but the percentage reduction is only 17 per cent.

"If this situation continues, we will never be able to attract the top executives this country so desperately needs," says Mr Glasgow. "What is more, the pressures on top executives are increasing all the time, their quality of life is being eroded and, in absolute terms, they are no better off than they were in 1972."

Quoting figures produced by FSA, he shows that, in fact, allowing for inflation and despite the "relief" in this year's

FROF DUFFY (See 'Old Selbornian).

Budget, the top executive is worse off.

"In 1972, an executive earning R18 000 a year would have taken home R14 380," explained Mr Glasgow. "In the current fiscal year, an executive earning R47 270 will take home R35 900 but, in terms of 1972 rands, he only receives the equivalent of R13 960 so that, in real terms, he is worse off than before."

Mr Glasgow maintains that imposing a fringe benefits tax will not only be "iniquitous", but almost impossible to implement.

"On a salary of R20 000 it would only need perks of R1 500 to be taxed to set an executive right back to where he was last year," he said.

Executives earning R30 000 and R40 000 would only have to be taxed on fringe benefits of R3 750 and R5 200 respectively to set them back to "square one".

Mr Glasgow's parting shot to Sen Horwood : "Think again before you tax the entrepreneural skills of South Africa into oblivion."

Property market

The executive committee of the Border branch of the Institute of Estate Agents has been having a look at the local property market. This is their report...

There has been a continued increase in the number of residential property sales, many at greatly increased prices. That applies to well presented houses, while there are still considerable numbers of houses unsold which do not represent good value at inflated prices.

The shortage of rented properties in East London has become acute and in King William's Town there is a marked shortage of residential stock.

The property market in Stutterheim has improved and the Queenstown housing scene shows a slight improvement.

Commercial properties are still in the doldrums in East London. That is attributable to the low return on the quoted prices and also to the exorbitant municipal rates levied on business property.

But commercial properties in King William's Town are selling well.

Industrial properties have been selling well, but without any noticeable increase in price.

There is a continuing steady flow of inquiries for light industrial space to let which is in short supply.

Farms have been changing hands satisfactorily in the East London and Komga districts in all but the highest price categories.

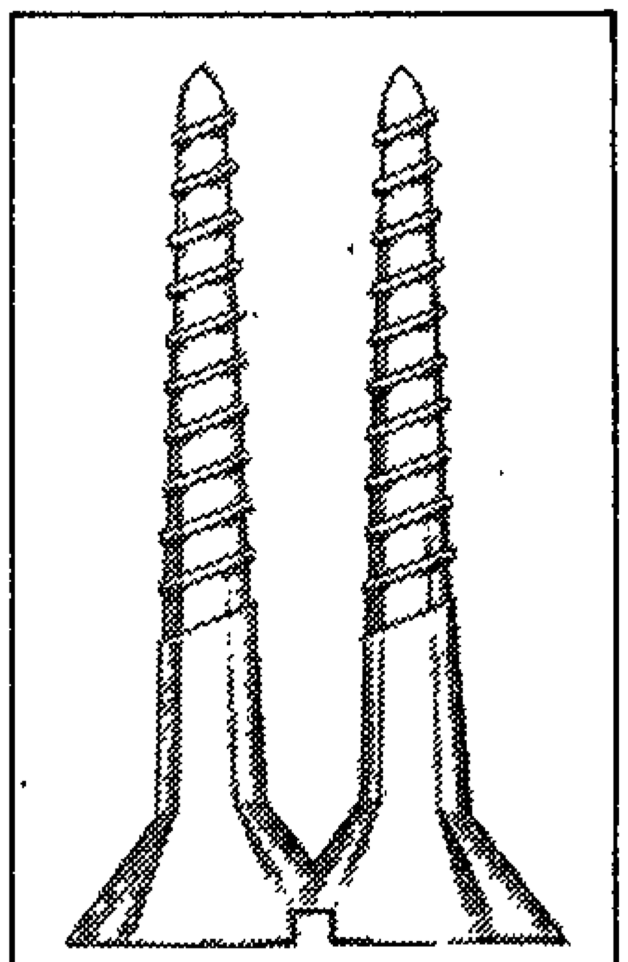
Old Selbornian

The level of turbulence in the business environment has been growing with significant effects on the management systems of organisations in the private and public sectors.

That was one of the main points made by Prof Neil Duffy of the School of Business Leadership at the University of South Africa in his recent inaugural lecture at Unisa.

Prof Duffy, 43, has strong ties with East London. He was born here and matriculated at Selborne College. He holds a doctorate and master's degree in business leadership from Unisa and obtained his B Com at UCT.

He is Professor of Information Management at Unisa's School of Business Leadership and deputy director, information. His teaching, research, writing and consulting has primarily been in the field of management information systems and computers.



The double screw (See 'Screwed up')

Before joining the SBL in 1971 he worked for a number of business organisations, including IBM and Ford.

Prof Duffy is a Fellow and past president of the Computer Society of South Africa and an active member of the CSSA's executive council.

His book, 'Information Management: An Executive Approach', written jointly with his SBL colleague, Mr Mike Assad, is due to be published within a month or two.

Screwed up

I was tickled pink with an article on product design in the latest issue of Brief, the monthly publication of the Design Institute attached to the SABS, and particularly one of the illustrations accompanying the article.

The illustration is of a double screw with a single "cut" where a screwdriver is inserted. (I have reproduced the illustration here for clarity).

What tickled me were the comments of the various departments of a hypothetical company on the new product...

DESIGN: "I think we've come up with something different."

ENGINEERING: "You certainly have — we will need to retool completely."

PERSONNEL: "500 extra skilled men? Where from?"

MARKETING: "This will really screw up our sales figures."

LEGAL: "Would certainly infringe no existing patents."

QUALITY CONTROL: "100 per cent sampling needed and we still won't find one that works."

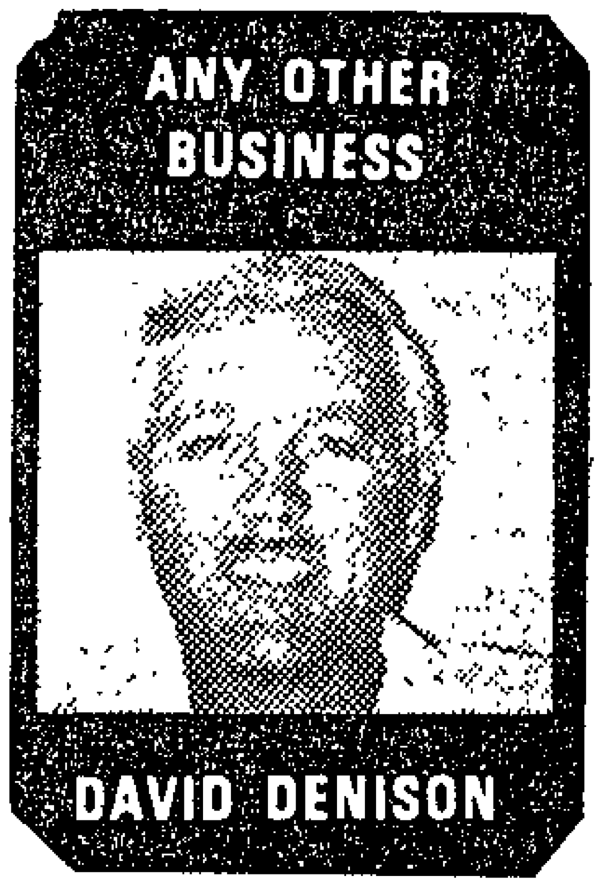
MANUFACTURING: "We will be lucky if we make 10 a week."

FINANCE: "Is this supposed to make us money?"

EL on the map!

Like the actress who said, "I don't care what you say about me so long as you spell my name right" I suppose East London needs to be grateful for an advertising mention, even if in a rather back-handed way.

The latest issues of the



numerous Thomson Publications publications which circulate in South Africa all included a travel supplement.

Spotted this ad in the supplement for Varig Airlines, the Brazilian airline:

"Brasil (their spelling, using an 's' rather than a 'z') is for the birds. Varig flies you there faster than you can drive to East London from Johannesburg....If you love life come to Brasil. We'll take you there. In less than 10 hours..."

Well, at least we weren't called a suburb of Durban this time round as has happened in the past.

MBA director

Another business personality formerly from this neck of the woods in the news is Mr Peter Gordon who is now with UCT's Graduate School of Business.

Director of MBA Admissions and Placement — MBA is the school's Master of Business Administration programme — Mr Gordon was a career magistrate in Transkei for many years before moving into personnel management with, among others, the O'Okiep Copper Company and Reckitt and Colman.

He holds a BA from Pretoria University and was admitted as an attorney in 1950.

Epigram

And no one shall work for money
And no one shall work for fame,
But each for the joy of working
— RUDYARD KIPLING

Background

West Cape picks up steam

8/10/80 ARGUS

ABOUT this time last year, although business was picking up, commentators were being cautious about the future. The recovery was frail and there was a fear that it would run out of steam.

One year later there seems to be a great deal of steam. Business is much better and production is rising in response to a buoyant market.

Latest official statistics put the physical volume of manufacturing production for the country as a whole at nearly 12 percent higher now than a year ago, and that's considerable.

Much has been said about the poor performance of the Western Cape in relation to other regions. Fortunately, there is increasing evidence of official recognition of our problems and a willingness to do something about them. The 20 percent reduction in the tariff on railway container traffic between Cape Town and Johannesburg is a token of this recognition. But there is still much to be done to relieve the inhibiting effect of tadare costs. The earlier decision to locate the diesel engine manufacturing plant at Atlantis is another positive development.

The Minister of Industries, Dr S W van der Merwe, while warning against excessive expectations, recently mentioned in an address to the Cape Chamber of Industries that he still hoped it would be possible to go ahead at some time in the future with a steel semis plant at Saldanha.

This type of development is of particular importance to us. Like the diesel engine plant, the production of semis has the potential for attracting satellite industries as well as other forms of economic activity. In both cases their value to the Western Cape economy extends far beyond the undertakings themselves.

It is important in our long-term interests that the growth in manufacturing industry's production levels in the Western Cape should be translated into physical expansion and new investment. There are indications that this is beginning to take place and encouraging reports have recently been received about the establishment of some new factories, increased activity at Atlantis, firms moving to bigger premises, and taking on more staff. It is necessary, however, to ensure that the Cape attracts its fair share of the boom conditions which are developing in other parts of the country.

> **THE president of the Cape Chamber of Industries, MR A G BRAMWELL, says business is 'picking up a great deal of steam'. His article relates to Western Cape industry and today's conference organised by The Argus and the National Development and Management Foundation.**
>
> **A 10-page supplement appears in The Argus today.**

Our large diversified clothing industry, with about 315 firms, has increased its workforce significantly since March and now employs more than 50 000 people.

Prospects in the building industry are brighter than they have been for a very long time.

The local fishing industry is confident that it will not be affected by the reported depletion of marine resources off the South West African coast.

The civil engineering sector unfortunately continues to lag behind.

Particularly gratifying has been the expansion of exports from the Western Cape, notably by clothing companies and the furniture industry. Success in export markets is genuine evidence of economic efficiency. The canning industry has been particularly successful in this field. From this area alone its exports amount to R100-million a year.

Giving cause for concern is the scarcity of people with the necessary skill and experience. Not long ago Mr A J M de Vries of the Bureau for Economic Research, Stellenbosch, said that of 2 500 manufacturers questioned on the subject, 70 percent had reported trouble in acquiring the labour they needed. On the other hand, our fast-growing population demands an acceleration in the creation of jobs, the main source of which will have to be industrial expansion at a faster rate than we are at present experiencing.

It is thus not difficult to understand the current emphasis on training. With labour being our most valuable resource it is essential that training should be a major priority in planning for the future.

The steps at present being taken to market the Western Cape as an area for investment and economic development should receive the active support of all who live here. In this connection, the initiative being taken by the Cape Town City Council and other local authorities is to be welcomed.

I am sure that a dynamic marketing effort and joint action by local authorities and the private sector could go a long way towards reversing adverse trends and increasing our share of the Republic's economic growth.

RDM 9/5/80 (49)

Spending boom forecast for '81

STELLENBOSCH. — A consumer spending boom later this year was forecast yesterday by the Bureau for Economic Research at the University of Stellenbosch. But it warned it could result in greater inflationary pressures.

The bureau says the economy would begin to feel the effects of last year's higher gold price only by the middle of this year.

This is when the economy will begin to show the effects of the higher salaries and wages as well as the tax cuts announced in the last Budget.

The bureau estimated the salary and wage bill this year could be 21% higher than last year. It also expected farmers' incomes to rise by about 20%.

Altogether, after taking account of tax cuts, personal disposable income is expected to rise by about 22% this year.

This will form a sound basis for a further acceleration in consumer spending, the bureau says.

It expects spending on durable goods to increase by 8,6% this year after rising by 6,4% last year; spending on semi-durables to rise by 6,7% from 1,2%; spending on non-durables to rise by 3,9% after 2,4% last year, and spending on services to rise by 4,3% after three per cent last year.

This should lead to an acceleration in private fixed capital investment.

However, the bureau warned, the increase in consumer demand later this year could lead to increased importations of high priced goods, which could give the inflation rate another boost.

Moreover, apart from the danger of inflation caused by consumer demand, the higher salaries and wages will also be inflationary unless productivity increases by the same percentage — which seems unlikely.

The higher demand for goods will be transformed into a higher demand for skilled workers and because they are in short supply, their wages are bound to increase.

The inflation rate will be difficult to control and is unlikely to be lower than last year, the bureau said. — Sapa.

Stellenbosch forecasts 6% growth

RDM 9/5/80

(49)

By HAROLD FRIDJHON

BUOYANT business conditions for the remainder of this year with real gross domestic product growth up to 6% are forecast by Dr O D J Stuart in the opinion survey report compiled by Stellenbosch University's Bureau for Economic Research.

But among the avalanche of good news there are two serious notes of warning:

- The shortage of skilled workers could have a retarding effect on the economy.
- Inflation could seriously impair economic growth, particularly as demand-pull inflation might be added to the cost-push variety towards the end of the year.

It is evident that the momentum of the economic upturn is receiving its biggest thrust from greatly increased consumer purchasing power. Dr Stuart expects a 22% rise in personal disposable incomes. This will flow from a total salaries and wages bill which could be 21% above the 1979 figures, a 20% increase in "income from property by householders" (mostly farm income), and the proposed tax cuts.

Dr Stuart says that according to BER estimates, the remuneration of white workers in real terms will increase for the first time since 1975.

Real private consumption is expected to go up by 5,1% in 1980 compared with 2,8% last year. This, coupled with the prevailing high levels of consumer confidence, should be beneficial to spending on durables and semi-durables.

In turn, this should lead to an acceleration in the rate of private fixed investment. An increase of 5,5% in real gross domestic fixed investment is forecast, with the private sector's fixed investment showing a positive growth for the first time in five years. A new inventory-building cycle is also expected to meet the higher demand.

Consumer buying power will increase substantially towards the middle of 1980 and in all probability the use of productive capacity, which was about 84,6% in February 1979 and 87,1% in November 1979, will exceed 90% later this year.

Because of the time lag between taking and implementing an investment decision, the possibility exists that South African sources will not be able to satisfy consumer demand. This implies a greater call for imported consumer goods, but imports will not relieve inflation because prices of imported goods are rising at a rate of about 29% against the 15% for South African goods.

Dr Stuart warns that any swing towards imported consumer goods will eventually be partly reflected in the consumer price index.

If the projections for a new investment and inventory cycle are correct, the demand for funds should show a considerable increase this year. If the authorities are successful in their attempt to keep the growth rate in the money supply below that of the inflation rate, "the odds favour rises in both the long-term and the short-term interest rates".

But Dr Stuart says it is unlikely that interest rates will rise before the third quarter of 1980.

Dr Stuart forcasts a current account surplus of R2 000-million against last year's record R3 107-million, using $400 as an average price for gold. Imports, specially of machinery, should rise by 28%.

The interest rate differential between South Africa and the rest of the world makes it logical to assume a continued outflow of capital. Net reserves will not increase in line with the current account surplus although the reserves will be buoyant in the first half of the year.

It would be easier to allow the rand to float up against the dollar, but as the dollar will probably harden against most other currencies, the authorities will be inclined to contain the upward drift against the dollar.

It is forecast that the rand-dollar rate will go up by 5%, but the rand could harden by more than 10% against some other currencies.

Concluding on a sour note, Dr Stuart says that in the longer run inflationary pressures and bottlenecks, particularly shortages of skilled labour, may choke the economic upswing prematurely.

ECONOMIC OUTLOOK

FM 9/5/80

(49)

The worm turns

A cross-section of economic forecasts by banks and universities reveal a surprising degree of unanimity, not only in forecasting trends, but also in specifying percentage changes in key economic indicators.

All forecast growth rates unseen since the mid-seventies. The consensus on real gross domestic product is an increase of at least 5%, compared to a real growth rate for 1979 of 3,7%. This will be fuelled by an even greater percentage increase in gross domestic expenditure, or real aggregate demand, the true "engine of growth" according to Ari Uliel of Wits Business School.

The increase in GDE will itself be caused mainly by growth in real private consumption expenditure and fixed investment, with government spending expected to rise only marginally. Added to improved consumer confidence, the main factors behind the projected rise in private consumption expenditure include tax concessions, a tighter labour market with resulting upward salary adjustments, and large company profits in 1979, all generating increases in personal disposable income.

An added factor, says Uliel, is that fiscal concessions contained in the 1980 Budget have improved the transmission mechanism that allows funds to move from the financial sector to productive industrial use. Inventory investment will also increase after negative growth rates in the past few years.

Depending on gold price assumptions, all forecast a surplus on the current account of the balance of payments for 1980. The size of the surplus varies according to assumptions made about the level of internal demand (and thus imports), and the exchange rate of the rand. Predictions on the capital account differ from small inflows to substantial outflows.

Inflation is generally assumed to show a slight decrease, or at least no significant increase, in 1980.

Interest rate forecasts, made on the basis of projected demand for loanable funds and changes in liquidity (measured by net changes in gold and foreign reserves), predict a gentle upward pressure on both short and long-term rates from as early as the second quarter of the year.

The switch-over from a falling to a rising rate trend has been historically at the point at which the surplus liquid assets of the banking system fall to below 2% of its total liabilities to the public. For the commercial banks, the largest component of the banking system, this ratio fell point in February to 1,7%, its lowest pr nearly two years.

ECONOMIC FORECASTS FOR 1980

	Ari Uliel Wits Business School	Senbank	Stellenbosch University Bureau for Economic Research	Sanlam	1979
GDP %	5,5	5,6	6	5,5-6	3,7
GDE %	7,5-8	7,1	7,5	7	2,5
Private consumption expenditure %	6-6,5	5,6	5,1	5,5	2,8
Fixed investment %	7,5-8	4,9	5,5	5	2
Average gold price US$	500	425	400	450	308
BOP Current account	+ R4 200m	+ R2 700m	+ R2 000m	+ R3 500m	+ R3 100m
Capital account	– R3 250m	—	– R466m	Substantial net outflow	– R3 000m
Interest rates	Gentle upward pressure from second quarter	Rise in second half of year	Soften in near term, rise towards year -end	Upward tendency from third quarter of 1980	Overall decline — sharper in short-term rates
Average inflation %	12	—	12,5	14	13,1

10/05/80 ARGUS

W Cape recovering fastest — economist

(49)

By DEREK TOMMEY, Financial Editor

THE Western Cape is not stagnating yet, nor is it likely to do so. This was the view of speakers at a conference arranged by The Argus and the NDMF in Cape Town this week to discuss the future of the area.

But they warned there was a danger that living standards in the area could fall relative to those in the rest of the country and unemployment could increase if new industries were not established and the wealth-producing potential of the coloured people were neglected.

Mr A J M de Vries, deputy director of the Bureau for Economic Research at the University of Stellenbosch, told the conference the Western Cape, far from stagnating, was starting to recover from the recession faster than the rest of the country.

He attributed this to the manufacturing sector in the area being mainly engaged in the production of consumer goods.

Although the absence of mining or heavy engineering in the Western Cape increased its vulnerability to an economic downturn, it made for a stronger recovery in the upturn.

Nonetheless, the Western Cape overall had been losing out compared with the rest of the country.

The region's share of the country's wealth had declined from 14 percent in 1955 to 13 percent in 1975.

Moreover, recent industrial census figures showed that employment in the area had increased at only 95 percent of the rate in the rest of the country and that salaries and wages were rising at only 90 percent of the national rate.

Speakers said one of the major factors inhibiting the area's development was its great distance from its major market, the Reef.

TOP businessmen packed the ballroom of a city hotel this week for the Argus-NDMF conference on the economy of the Western Cape.

Between 70 and 80 percent of the clothes, textiles, food and furniture produced in the area were sold on the Reef.

The economy of the Western Cape, therefore, was susceptible to increases in railway tariffs.

Other disadvantages were the lack of minerals and the high price of electricity.

But speakers were not pessimistic about the future. The clothing industry was enjoying boom conditions, the conference was told.

Tourism in the area had shown great strides in recent years, and other makers of consumer goods were also experiencing improved conditions.

As for the future, there were plans afoot to develop the area between Cape Town and Saldanha and especially at Atlantis.

It was felt that the region's biggest attribute would be its coloured people. They had already proved themselves to be as good workers as to be found anywhere else.

Mr Hugh Mathew, managing director of Foschini, said the quality of output and productivity of coloured blue collar workers compared favourably with their counterparts in the rest of the Western world.

Mr H R Meyerson described how he had built up his company Xactics to be one of the biggest plastic bottle makers in the world with coloured workers.

However, the Western Cape could now start looking forward to better-educated and better-trained coloured people entering the market, the conference was told, which in a country short of skills would be a most valuable development.

Given increased entrepreneurship among the coloured people, the Western Cape could have a promising future.

SUNDAY TIMES, Business Times, May 11, 1980 (49)

Royal D Shell is bigger than SA

Rank	Country or Company	1978 GNP or Sales ($-billion)	Rank	Country or Company	1978 GNP or Sales ($-billion)
1.	US	2 106,9	53.	Thailand	20,6
2.	Soviet Union	1 046,6	54.	General Electric	19,8
3.	Japan	727,9	55.	Algeria	19,5
4.	Germany (Fed Rep)	513,1	56.	Unilever	18,9
5.	France	411,3	57.	Libya	18,8
6.	China	324,0	58.	Colombia	18,4
7.	UK	254,2	59	Gulf Oil	18,1
8.	Italy	210,7	60.	Chile	16,8
9.	Canada	198,6	61.	Pakistan	16,6
10.	Brazil	148,9	62.	Peru	16,4
11.	Poland	108,3	63.	Chrysler	16,3
12.	India	105,1	64.	Egypt	16,1
13.	Australia	96,7	65.	New Zealand	16,0
14.	Spain	95,0	66.	Portugal	15,4
15.	Netherlands	88,1	67.	ITT	15,3
16.	Germany (Dem Rep)	81,0	68.	Kuwait	15,2
17.	Iran	79,1	69.	Philips (MNV)	15,1
18.	Mexico	76,2	70.	Standard Oil (Ind)	14,9
19.	Sweden	73,7	71.	Israel	14,8
20.	Czechoslovakia	70,7	72.	Malaysia	13,9
21.	Belgium	69,7	73.	Siemens	13,9
22.	Romania	67,4	74.	Hong Kong	13,6
23.	General Motors	63,2	75.	Volkswagen	13,3
24.	Exxon	60,3	76.	Toyota	12,8
25.	Yugoslavia	56,6	77.	Renault	12,7
26	Switzerland	54,6	78.	Eni (Italy)	12,6
27.	Saudi Arabia	54,5	79.	Cie. Francaise Des & E T Petroles	12,5
28.	Argentina	49,7	80.	Korea (Dem People's Rep)	12,4
29.	Indonesia	48,2	81.	Atlantic Richfield	12,3
30.	Royal Dutch/Shell	44,0	82.	Daimler-Benz	12,1
31.	Ford	42,8	83.	Hoechst	12,1
32.	Austria	41,3	84.	Cuba	11,4
33.	Venezuela	41,2	85.	Bayer	11.4
34.	Nigeria	40,1	86.	Shell Oil	11,1
35.	Denmark	38,9	87.	US Steel	11,0
36.	South Africa	37,7	88.	Nestle	11,0
37.	Korea (Rep of)	35,4	89.	Puerto Rico	10,8
38.	Mobil	34,7	90.	BASF (Germany)	10,7
39.	Turkey	33,4	91.	Peugeot-Citroen	10,6
40.	Hungary	32,1	92.	Dupont	10,6
41.	Norway	31,9	93.	Morocco	10,4
42.	Texaco	28,6	94.	Ireland	10,3
43.	British Petroleum	27,4	95.	Matsushita Electric	10.0
44.	Bulgaria	24,8	96.	Nissan Motor	9,8
45.	Greece	24,2	97.	Nippon Steel	9,5
46.	Finland	23,8	98.	Western Electric	9,5
47.	Standard Oil (Calif)	23,2	99.	Continental Oil	9,5
48.	Taiwan	22,8	100	Mitsubishi Heavy Industries	9,2
49.	National Iranian Oil	22,8			
50.	Philippines	21,9			
51.	Iraq	21,4			
52.	IBM	21,1			

WHICH has the larger economy, South Africa or Royal Dutch Shell Ltd?

By JIM SRODES
New York

Believe it or not, the answer is Royal Dutch Shell, with total gross sales of $44-billion in 1978 that topped SA's gross national product of $37,7 billion.

That was enough to win the multinational oil giant the number 30 spot in the list of the "top 100 economic units in the world".

South Africa was placed 36th, ahead of South Korea, Hungary, Greece, Finland, Mobil Oil and Caltex's parents Texaco and Standard Oil of California.

The ratings were published this week by the Conference Board's prestigious business data centre which used 1978 as the most recent complete data year to determine which companies and countries produce the greatest economic value in a year.

The survey revealed that the world's 100 largest economic units include 61 countries and 39 industrial corporations with 18 of them in the United States and 21 others in other countries

The United States, not surprisingly, is number one on the list with a 1978 GNP of $2,106-billion while General Motors with its $63,2-billion sales heads the corporate list in overall 23rd place.

The full list appears on the left

John Hein, the Conference Board's international economist and the study's author points out: "When final results for 1979 arrive, the rankings are, of course, bound to change, especially for the international oil companies.

"With 1979 sales of $84,4-billion, Exxon already has emerged as the world's largest corporation and would move into 16th overall place, surpassing East Germany and Iran."

12.08.80 ARGUS

49

'No discrimination' in economic strategy

Parliamentary Staff

THERE would be no discrimination in South Africa's total economic strategy now being developed, the Minister of Industries, Commerce and Consumer Affairs, Dr Schalk van der Merwe, told the Assembly yesterday.

He said this in reply to a question from Mr John Malcomess (PFP, East London North) during the debate on the Minister's budget Vote.

Mr Malcomess had asked whether there would be a single policy for all the independent black homelands, or whether some of the homelands would receive greater advantages than others.

Dr van der Merwe said that in developing the total economic strategy such factors as historic development and the economically retarded conditions of some regions had to be taken into account.

But there would be no discrimination, and development would continue in an evolutionary way.

Dr van der Merwe said draft guidelines for South Africa's economic strategy had been laid down by the Economic Advisory Council and the work in this regard was continuing.

The proposed establishment of a development bank for Southern Africa, to which the Minister of Finance had referred, was one of the matters flowing from this work.

The Minister said he admitted that the Government was not satisfied with the progress of its decentralisation policy, and, because of this, the situation was being reviewed.

A panel of experts was virtually ready to submit proposals to the Government. This panel, comprising members of the public and private sectors, would also review the objectives of decentralisation.

This was a matter related to such questions as a new constitutional dispensation for South Africa and the consolidation of the national states.

London broker gushes over SA

(49) RDM 13/5/80.

By NEIL BEHRMANN

LONDON. — **A British stockbroking firm, Fielding Newson Smith, has produced a glowing report on prospects for the South African economy and industrial shares.**

The firm predicts a high growth rate, a strong foreign exchange position and declining inflation and believes that South Africa is in the midst of "an economic revolution".

A partner, Mr James Picton, who visited South Africa recently, says a major structural change has occurred in the South African economy and its full extent remains unappreciated.

"For most of the 1960s, growth in GDP was strong, varying from 3,4% in 1961 to 8,7% in 1963. This growth was based on strong economies in the US, Europe and Japan which boosted demand for raw materials. It was not in any way based on a high price of gold, as this was fixed at $35 an oz and brought in well under R1 000-million a year.

"A new level for the gold price — be it $400 or $2 600 — is a whole new level for South Africa."

GDP growth in 1980 will amount to nearly 6%, predicts Mr Picton, and "real growth in conjunction with substantial balance of payments surpluses, is an enviable reality in South Africa".

"At $450, gold income is about R9 000-million a year. This is equivalent to 16% of gross domestic product compared with 6% in 1974 and 3% in 1970.

"Another way of considering gold's importance is to look at the way gold-mining taxation has grown to the point where personal taxation could be abolished in theory.

"At $450, gold tax would generate 32% more than the 1979-80 budgeted amount for gold mines and personal tax combined.

The second major factor in the economy's structural change arises from coal and Sasol.

In 1978 Sasol accounted for 7% of South Africa's petroleum needs. In 1984 this will rise to 50%. Steam coal exports have increased to such an extent that South Africa will be "a net exporter of energy by the end of 1980".

South African coal production was 90-million tons in 1979 and will be 110-million tons in 1980 with excellent export potential. Even in 1978, South Africa imported less "energy" than any other significant economy and by 1984 it will be no more dependent on oil than is the UK.

"Most important, by 1990 there is a chance that Sasol will produce 100% of South Africa's oil needs.

"These factors — gold, coal and Sasol — have taken the South African economy to a new level. Although much discussed, the substance of the change has not yet been appreciated."

Parliament

13/05/80 ARGUS ~~39~~ 49

Escom 'robbing' farmer

Cut electricity giant's profits, says Malcomess

MR JOHN Malcomess, left: Escom charging 18 percent interest a year on the capital costs of powerline extensions to farms.

Parliamentary Staff

THE Government should take immediate steps to reduce the profitability of Escom in the interests of the South African economy, Mr John Malcomess (PFP, East London North) said in the Assembly yesterday.

Speaking during the budget debate on the Commerce, Industries and Consumer Affairs Vote, Mr Malcomess said that Escom was robbing the South African farmer by charging 18 percent interest a year on the capital costs of powerline extensions to farms.

'This is usury and continues forever,' he said.

For a job which Escom quoted R300 000, a private contractor was prepared to do for R180 000.

It was clear that all was not well with Escom and immediate steps were needed to rectify the situation.

These included:

- A reduction in the 19 percent charge,
- Municipalities should supply farmers for at least 20 km beyond their present area,
- Farmers should be allowed to install their own lines and transformers subject to Escom inspection,
- Farmers should be allowed to form electrical co-ops to buy in bulk and distribute amongst themselves,
- In certain areas, the Government should subsidise the farmer with cheap loans and subsidised charges to enable him to electrify.

Electricity cost in certain undertakings were higher than in most Western countries and it was clear that the whole system was in need of an overhaul.

Mr Malcomess said there should be a move towards equalising tariffs throughout South Africa and that power should be delivered to each undertaking at the same basic rate regardless of the distance from the point of supply.

He said Escom should limit itself to running, repair work and maintenance and should not embark on construction of any kind.

'They should not build power stations, erect power lines and erect transformer stations.

'Private enterprise on tender will do it faster, better and cheaper,' Mr Malcomess said.

The Minister of Industries, Commerce and Consumer Affairs, Dr Schalk van der Merwe, said Escom had to cover its costs otherwise it would have problems.

In recent years, there had been extraordinary increases in Escom's tariffs. This had come about because tariffs had been kept down previously.

A stage had been reached where Escom's tariff increases were now within the framework of the rate of inflation.

Referring to complaints about 'exorbitant' tariffs for farmers, the Minister said this was a problem which farmers themselves would have to try to solve. Certain possibilities were being investigated by leaders in agriculture.

(49) RDM 13/5/80

2.

Buyers will have an extra R2 000m

Pretoria Bureau

PRETORIA. — Consumer spending power will be increased by R2 000-million from July, giving powerful new impetus to an already high inflation rate, according to leading economists.

The big Budget tax concessions will come into operation in July with significant reductions in Paye deductions and the R480-million set aside in the Budget for salary increases in the public sector will have found its way into the pocket of more than half a million Government workers.

The Secretary for Finance, Dr Joep de Loor, said yesterday the concessions amounted to R909-million. When the loan levy concession was taken into account, the real benefit to taxpayers amounted to R1 560-million.

Economists disagreed with the Minister of Finance, Senator Owen Horwood, and his chief adviser, Dr Gerard de Kock, that the budget concessions would not seriously intensify inflation.

The chief economist of Barclays Bank, Dr Johan Cloete, said against a background of tax relief and higher earnings in the private and public sectors, inflation pressures were bound to intensify.

In April the Consumer Price Index dropped below 14%, but it would be starry-eyed to even hope that the level would not rise sharply during the next six months.

Not reflected in last month's index was the steep rise in the prices of maize products and sugar.

Ripples from the maize price rise would raise the prices of meat, pork and poultry products and the Minister of Agriculture, Mr Schoeman, had warned of a rise in the prices of dairy products, including fresh milk, later this month.

Dr Cloete said there was only one factor working against a higher inflation rate — possible lower unit costs because of a bigger demand.

"All others point in only one direction — up. There could be temporary slowdowns, but when all basic factors are taken into account, the inflation rate must accelerate," Dr Cloete said.

The chief economist of Volkskas, Mr A S Engelbrecht, agreed that the budget was overstimulatory.

Stimulation was needed, but it was questionable whether it was needed to the extent of more than R1 500-million.

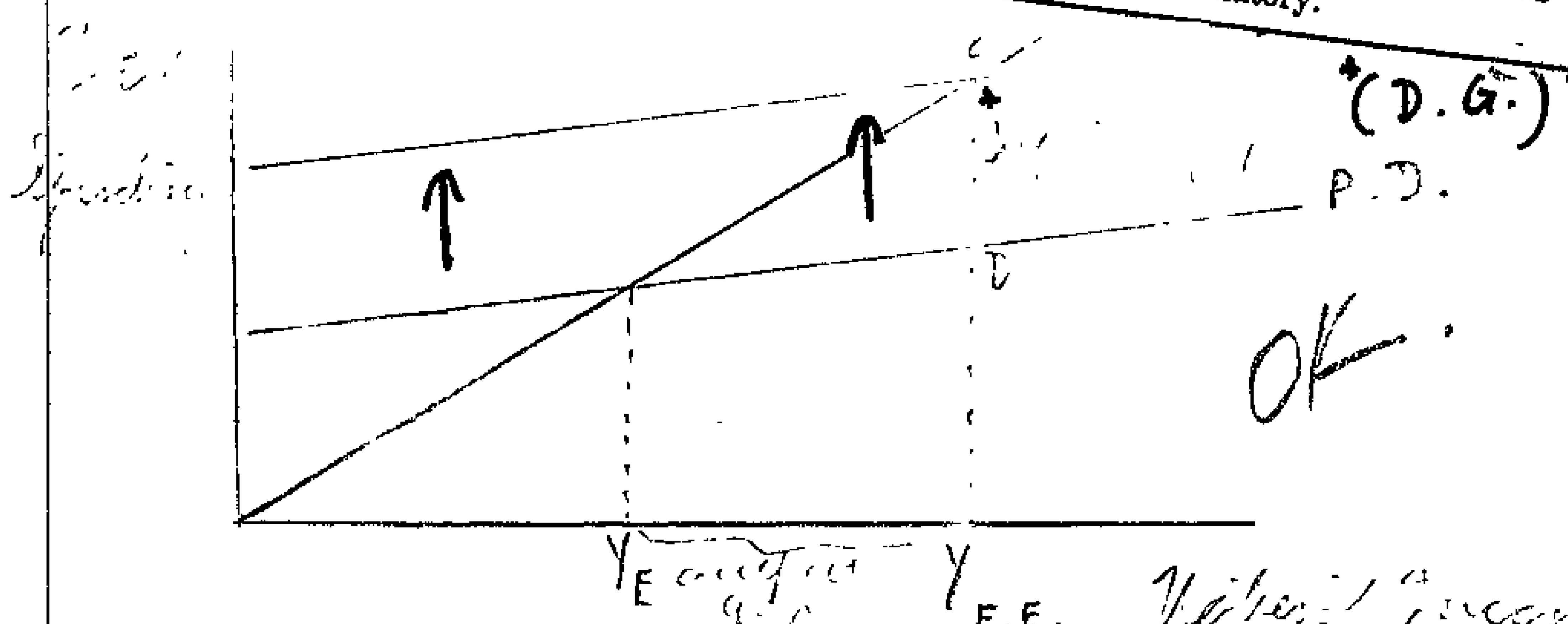
"With so much buying power being pumped into the economy, there can only be one result — an acceleration of the inflation rate."

Mr Engelbrecht said in previous years, when budget concessions were made the reduced Paye deductions were made over a period of from 12 to 15 months.

This year, however, the concessions would be condensed into a nine-month period.

Another inflationary factor over the next six or nine months was the wage and salary increases which would be granted during the rest of the year in the private sector.

(i)



OK

A deflationary gap is the amount of income that is to be generated to bring A.D. = A.S. at the full employment level

To close a D.G, there are two methods a government can use as fiscal policy. The govt. can either increase G by the amount of the D.G. or decrease Taxes by ~~a bit~~ more than the amount of the D.G. more than?

? why

Supposing we start off with a multiplier of 2. (K=2.) If we increase government expenditure (G) by R1 million and multiply by K, we would have generated expenditure of R2 million.

But it is a different story if we want to use the tax policy.

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has

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(3)

Cloete of Barclays sees 5,5% growth in 1980

Economy surges into overdrive

(49)

RDM 13/5/80

By HAROLD FRIDJHON

THE current economic upswing has already reached a considerably more advanced stage of maturity than is probably generally appreciated, writes Dr Johan Cloete, chief economist of Barclays National Bank, in the bank's latest Business Brief. He forecasts a GDP growth of 5,5% to 6% this year.

Dr Cloete bases his argument on the 4,9% real growth in the GDP during the second half of last year and on sharp increases in important 'coinciding' indicators such as retail sales, manufacturing production, imports and commercial bank credit.

'Retail sales, he points out, are increasing at a rate which, by December 1980, should put them 19% up on their level at the end of last year. The physical volume of manufacturing production could be 10% higher at the year's end, while imports could rise by 33% with commercial bank credit increasing by 18% at the end of 1980.

Dr Cloete points out that the last time that increases of these magnitudes were reported was during the peak years of 1974 and 1975.

The main initiator of a general upswing in the SA economy is normally an increase in exports triggered off by upturns in the economies of the US and the countries which are our main trading partners.

This was the case in 1973/74 and the current upswing which started in 1978 came from substantial increases in real export earnings (including gold) of 5,6% in 1976 and 10,7% in 1977

An economic upswing can also be initiated by "autonomous" increases by Government consumption and investment expenditure, as well as in the investment expenditure of the public corporations. Tax reductions can also be an autonomous booster to the economy.

Autonomous economic boosters generate a general economic upswing by creating new employment and, therefore, new incomes that are initially spent largely on consumner goods.

This increase in private consumption expenditure leads, in turn, at a later stage to increased investment in stocks and in fixed assets in the private sector — and so the upswing gathers momentum.

Similarly, increased exports push up consumption expenditure after a lag, generating, in turn, new employment, new incomes, further consumption spending and, in time, new investment.

But just as exports and the autonomous boosters generate an upswing, they are also instrumental in helping to produce the downturn which inevitably follows.

There are also other factors; Dr Cloete points out that the "lumpiness" of investment spending and the pressure on prices and costs which inevitably develops as supplies of labour and capital become fully used also play an important part in producing the downswing.

In the past, these pressures inevitably resulted in the inflation rate being driven up to an excessive level which resulted in the authorities putting the autonomous boosters into reverse. This happened in the downswing from 1976.

That there will be a downswing is inevitable, says Dr Cloete; the question is when will the turning point occur and how deep and protracted will the downswing be?

He sees exports falling in real terms during this year under the impact of an American recession but the full weight will not be felt until 1981 and then possibly only in the second half of next year.

Off-setting this, the new phase of private investment expenditure in SA is only just beginning.

Provided there are no untoward political developments, this phase could last for another two years which could stretch out the current upswing at least to the second half of 1981.

But the usual pressure on resources, human and material, will develop and price increases will start to accelerate which could lead to a reversal of the autonomous boosters.

The speed at which costs and prices will rise and the timing and severity of Government anti-inflationary action will play a decisive role in determining when the present upswing will end.

Dr Cloete forecasts that the upswing will last into the second half of next year but he says that it seems unlikely that the next downswing will see growth rates plunging to the same depths as was recorded during the protracted downswing of 1975 to 1977.

NOTE CAREFULLY

1. Enter at the top of each page and in colu[mn] ... of the block on this cover the number [of the] question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.
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unless candidates are so instructed.

2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

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FM 16/5/80

DEVELOPMENT — 2

New measures

The decision in March to scrap Section 3 of the Environment Planning Act — which limits the number of Africans in factories in urban areas, on an African-white ratio basis — raised hopes of a concerted effort by government to resuscitate its decentralisation programme this year. New control measures were expected to be announced soon after Parliament's Easter recess. Once these are implemented Section 3 will fall away.

However, the panel for economic cooperation and strategy, which has formulated alternatives to Section 3, hasn't yet handed its proposals to government. Dr Simon Brand, the PM's economic adviser and the panel chairman, says the alternatives will be submitted along with recommendations on incentives and on rationalisation of development corporations, which are still incomplete. He says: "The whole package must be applied for a new programme to be effective."

Proposals by the panel on incentives and rationalisation are expected soon. Even so, there is not much chance of the proposals being implemented soon. As Brand puts it: "The time is getting short for legislative changes this year. Aspects not requiring adjustments to legislation may be dealt with."

Rumour has it that an amalgamation of the development corporations within so-called white SA is anticipated, while each homeland will maintain its own development corporation. On this Brand says: "We are trying to see whether it would make sense to bring the coloured, Indian and Industrial development corporations and the Corporation for Economic Development together."

Brand says the panel has no intention of suggesting a rationalisation of the homeland corporations. But, he adds: "If the others are rationalised, there will have to be a rethink on the relationship between them and the homeland corporations."

In addition, the panel is looking at the possibility of stimulating development in African townships in urban areas. But a separate corporation is unlikely.

On incentives to attract business to the rural areas, Brand says: "We have a clear idea of what we would like to propose. But we still have to consult the private sector."

49 16/5/80

BER SURVEY

FM 16/5/80. 49

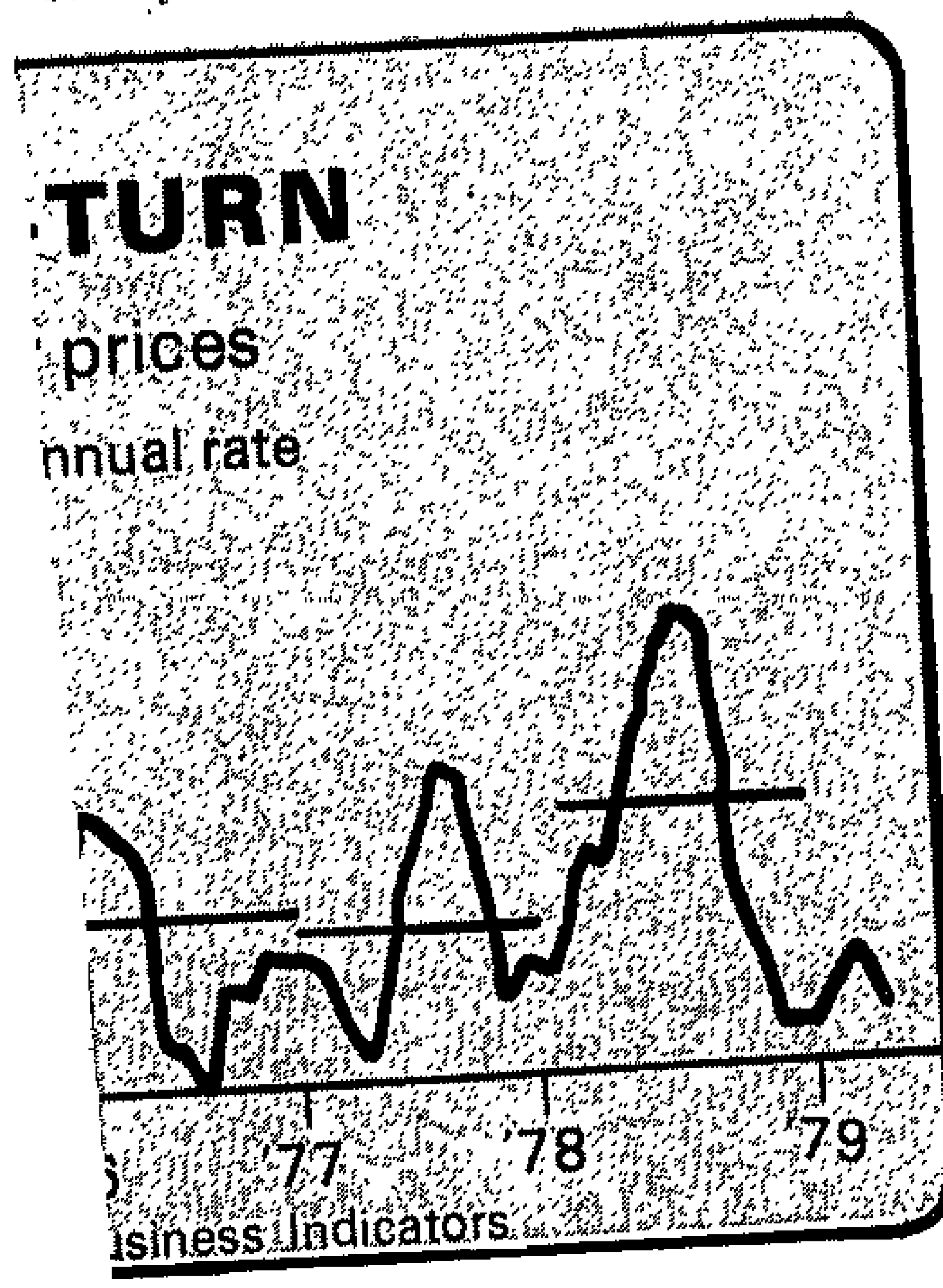
Soaring confidence

Business confidence has reached high levels and is reflected in virtually all sectors of the economy. This is the message which comes through loud and clear in the latest opinion survey of Stellenbosch's Bureau for Economic Research, which forecasts a growth rate of 6% in real GDP for 1980.

About 80% of respondents in the manufacturing sector, says BER, reported better trading conditions in the first quarter of 1980 compared with the same period last year. And, encouragingly, 80% expect a further improvement in business in the second quarter.

Wholesalers and retailers also reported an upswing in turnover with a massive 94% satisfied with their business performance.

BER's chief economist, Ockie Stuart, says the rate of fixed investment has begun to rise. The number of firms reporting new investment plans has risen constantly over the previous 12 months. And with manufacturing use at about 90% of capacity, the historical level has been reached at which a fixed investment cycle begins.



But not all is good news. The BER notes that 79% of respondents have reported shortages of skilled labour. With 40% of respondents in the survey still regarding demand as insufficient, the BER is worried about the effect of a highly constrictive labour bottleneck as output grows.

Overtime, improved productivity and more training for workers could go some way to easing labour shortages. But the pressure on wages could prove inflationary, with rises of around 21% anticipated during the current year.

The survey also states that, according to data received, all economic sectors show increasing cost structures. This runs contrary to earlier boom periods when unit costs diminished. With the pressure on unit costs, higher wages and salaries, the spate of administered price increases and the possibility of demand-pull inflation later this year as supply bottlenecks develop, there is little likelihood of inflation abating.

The BER believes that inflationary pressures may lead to a higher rise in this year's CPI than last year's. Its fear is that inflation could choke economic activity prematurely. Stuart tells the *FM*: "I feel quite uncomfortable about the prospects for inflation."

Meanwhile, in the latest issue of the Barclays Bank business brief, chief economist Johan Cloete writes that the current economic upswing has reached a more advanced stage of maturity than is generally realised. Retail sales, he says, are increasing at a rate which would place them 19% above their level at end-1979. Manufacturing production will be up 10% at the end of the year. The last time such increases were recorded was in the peak years of 1974 and 1975.

Although the rate of increase in exports has begun to slacken, Cloete believes the upswing could continue into the second half of next year. His optimistic view is based on the grounds that there is still high demand for SA minerals in the present state of international uncertainty and the general belief that the US recession will not deepen significantly, while at home the new phase of current investment expenditure will continue to fuel economic growth in the next 12 months.

When the downturn comes it may be protracted but Cloete does not see the economy descending to the same depths as in 1975-77, mainly because of the "quantum" jump in exports, significant additions to SA's oil supply, and the sounder economic policies of recent years.

AHI CONGRESS FM 16/5/8

Train more blacks

Afrikaner businessmen agreed last week that blacks should be given a greater stake in SA's economic system

Meeting at the annual congress of the Afrikaanse Handelsinstituut (AHI) in Port Elizabeth, businessmen called for more labour-intensive industry and the training of black entrepreneurs to make this possible.

Pointing out that more than 1 000 new work opportunities for blacks needed to be created daily, Francis le Riche, deputy chairman of Sentrachem, said there was a need for manpower development to be part of an overall plan

Yet while there was a shortage of certain types of unskilled workers, there was a surplus of workers with general university qualifications for which there was no specific demand.

"There is a lack of co-ordination and efficient information," Le Riche told the congress. "Existing training systems do not accord with reality."

He appealed to members of the AHI to use their influence in the rural areas to remove the black-white bottlenecks and to co-operate in seeing that there were more labour opportunities for SA blacks.

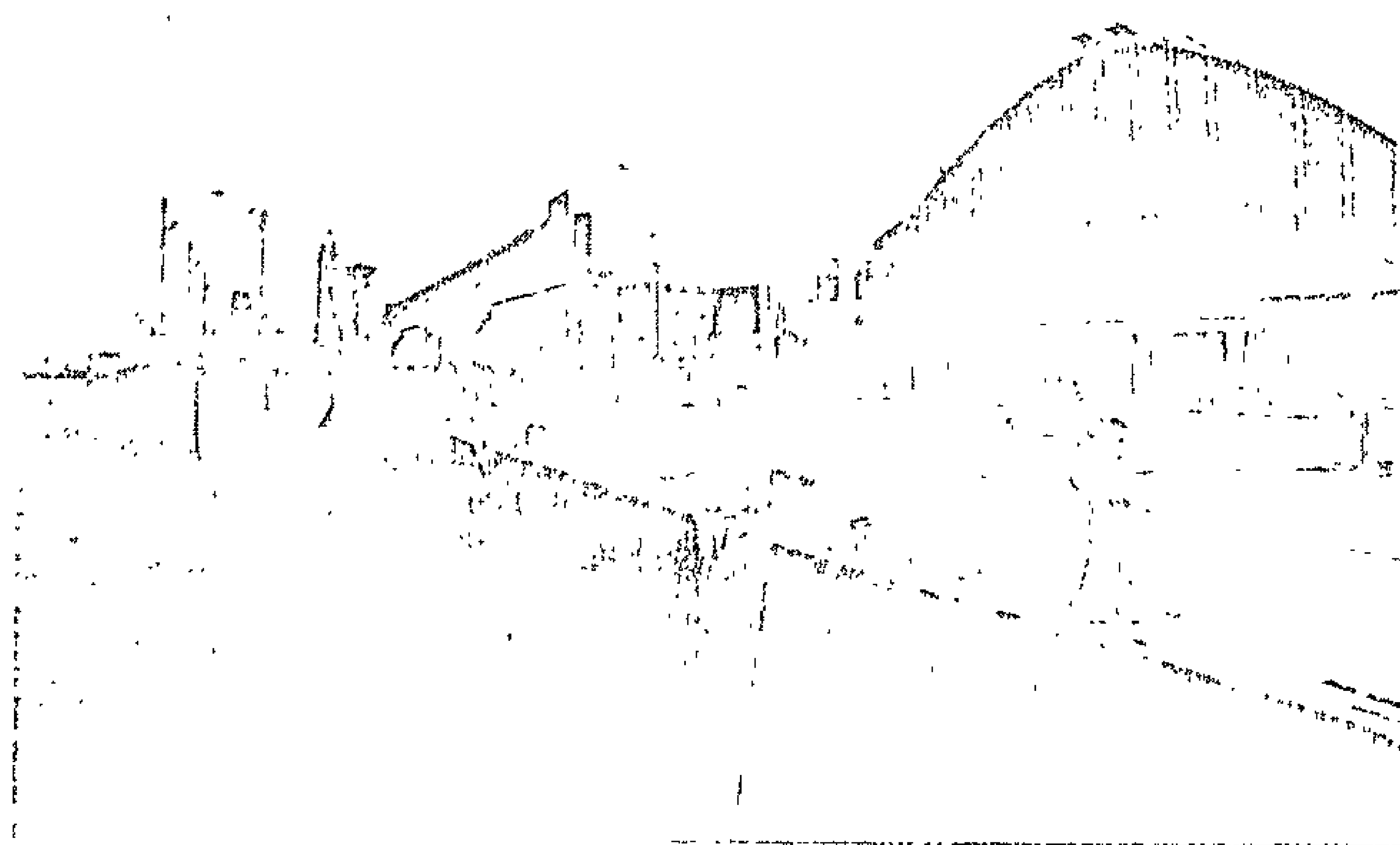
The theme was echoed by Hannes Human, professor of Financial Management at Potchefstroom University. He called for a move of emphasis away from capital-intensive investment to those sectors with low capital needs per rand and greater labour intensity.

He recommended that a study should be made of those investment possibilities in the industrial sector that would be labour intensive, yet have higher production per rand, competitive profit margins and would produce high quality products. Concessions should be reviewed by the authorities with a view to encouraging labour-intensive investment.

Outgoing president of the AHI, Dr Martin van den Berg of Interbank called for blacks to have a greater share in SA's economic welfare. This should be done through improved training, removing stumbling blocks for black advancement (without endangering whites) and training black entrepreneurs.

Blacks should be enabled to reap the fruits of the free-market system to a greater extent than had been the case in the past, Van den Berg asserted.

The congress also called for an improvement in human relations between the various race groups so that future prosperity would be ensured. Not surprisingly, there was some disagreement on exactly how this could be attained.



Sugar terminal . . . floating on a five-year high

Stellenbosch on the public mood (49)

Paradox of the wary consumers

RDM 16/5/80.

By HAROLD FRIDJHON

CONSUMER confidence is still high, but the disturbing feature is that in the light of the tax and other concessions in the March Budget, the public mood has not shown any real improvement between January and April. This is revealed in the consumer survey report produced by the Stellenbosch University's Bureau for Economic Research (BER).

Dr O D J Stuart finds this disturbing, but an analysis of the indices of consumer confidence suggests a possible solution to this anomaly. While the index reflecting the opinion of people in the high-income group has gone up from 138,7 in January to to 141,5 in April, that for the middle-income group improved from 129,5 to 130,5, the index for the low-income group dropped from 120,9 to 119,7

This surely is a reflection of what Senator Horwood's Budget was all about. The tax relief, including the abolition of the loan levy, favoured those in the upper-income brackets more than those whose earnings were on the lower scales. This means that those enjoying big incomes feel that their net disposable incomes were more comfortable and that their propensity to save and invest was greater.

If this premise is correct, many paradoxes in the opinion survey can be explained. For example, consumers as a whole were more confident of the year-ahead development of the South African economy last January than they were in April And the same easing of confidence is reflected in the five-year-ahead view.

Most people in the lower-income groups are not really qualified to express a macro-economic view. Their opinions are always very subjective and are more likely than not based on their immediate financial circumstances They will be influenced more by the the inexorable rise in consumer prices than the bull pointers for the economy as a whole.

For example, they note a deterioration in their financial position between January and April and they consider that their situation will be worse in a year's time, in January they were more optimistic.

On the other hand, there has been a marked upward trend in their assessment that now is the time to buy consumer durables, although their opinion on saving at present has not changed at all.

But more people believe that in three months' time they will be better able to save. The logic of this is that in July tax cuts will become effective — and many salary increases too.

The survey reveals that the public strongly believes that the rate of price increases will accelerate in the next 12 months, with fewer people holding the opinion that prices will go up at the same rate as last year.

Dr Stuart observes that although the findings of the consumer poll are disappointing, he sees no reason why consumer spending should not be buoyant during the months to come. He says it is possible that consumers will be more optimistic towards the middle of the year when they will be on the receiving end of "all the good things which were announced on Budget day".

But if consumers were restrained in their views, business confidence remains high During the weeks after the Budget, BER polled 2 000 businessmen.

- **Motor traders** were very optimistic, but reported that stocks of vehicles were low
- **Retailers** experienced a further improvement in business in the second quarter. They increased their stocks which were too low and they reported a strong swing towards cash sales
- **Wholesalers** although not as optimistic as retailers say that business is better than it was a year ago.
- **Manufacturers** report that the upswing has gathered momentum and their optimism is at record levels. But they reiterate the warnings that are increasingly being given: labour bottlenecks are coming to the fore

Dr Stuart says: "In view of our rather small core of highly skilled workers this should be cause for concern."

Section B.

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Horwood's new call for gold-$ link

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RDM 16/5/80

Financial Reporter

THE TIME has come to move forward to a new gold-based international monetary system forming part of a broader strategy to deal with the world's present deep-rooted economic problems, according to Senator Owen Horwood, the Minister of Finance.

He made this appeal yesterday at the Schultz International Monetary Seminar at Freemantle in the Bahamas.

Senator Horwood said his plea for a reappraisal of gold's monetary role could no longer be dismissed as simply a ruse to give gold producers a higher price.

At present market prices gold constituted about 60% of the total official reserves of free world countries.

"What is at stake here is nothing less than monetary and political stability in the Western world and the survival of the free enterprise system," Senator Horwood said

"Let us begin by burying the gold hatchet. The kind of debate which was fashionable 10 or 15 years ago is no longer relevant

"Let us forget the gold debate of the past and move forward together to a new dispensation for gold.

"I suggest that immediate attention be given by the leading industrial countries to finding the most appropriate way of giving gold an agreed and well-defined monetary role, not only as an official reserve asset but also as an international means of payment and the numeraire of the new system.

"While gold performs an important monetary role as matters stand now, there is still an urgent need to clarify and normalise this role.

"This is necessary to remove uncertainty and to improve confidence in international monetary arrangements.

"Time is running out. We should now concentrate on practical and realistic monetary arrangements with which the world is familiar, which it can understand and which will be credible."

Senator Horwood said· "By itself, of course, the institution of a new gold-based system will not solve the world's present economic problems.

"I believe the world's present economic ills stem basically from a combination of·

- Excessive government spending and intervention in the economy.
- Undue money creation.
- Unrealistic interest and exchange rates.
- Excessive use of mandatory price and wage controls.
- Unjustified protectionism, undue reliance on exchange and import controls.
- The inordinate use of subsidies and a general lack of national and international financial discipline

Senator Horwood said: "Any attempt to adopt a new gold-based system without simultaneously tackling these basic causes would be doomed to failure."

The free world needed both the United States and the dollar.

"The sooner American officials rid themselves of the notion that gold is an enemy of the dollar the better.

"The time has now come for the United States to lead the world towards a reformed international system which like the original Bretton Woods system will be workable, credible and conducive to growth and stability.

"There is no alternative to basing such a reformed system on the twin pillars of gold and dollars.

"But the dollar must be made as good as gold by restoring its convertibility.

"It is my sincere conviction that the recognition, clarification and normalisation of gold's monetary role will contribute greatly to the adoption and maintenance of appropriate policies of sound monetary and financial discipline

"The harnessing of gold in a new monetary role would capture the imagination of the world and significantly assist monetary authorities in restoring and maintaining financial discipline "

Increasing attention was being given in academic discussions to the possibility of instituting a new link between the dollar and gold

"It is highly significant that it has suddenly become respectable again to analyse and discuss the possible advantages of a new gold-based system of one kind or another.

"Needless to say I welcome this new 'respectability' of monetary gold. Hopefully this will mean that the virtual prohibition on formal discussions of gold's monetary role in such official bodies as the IMF Interim Committee and the Group of Ten will now be lifted.

"Moving to a new gold-based system will not be easy. There are many pitfalls along this road which will have to be avoided.

"Clearly the subject requires a thorough investigation by experts and the relative merits of the different methods of moving to a gold-based system will have to be carefully considered. This study will have to commence without delay

"The US still owns the largest amount of gold (8 200 tons) followed by the International Monetary Fund (3 200 tons), West Germany (3 000 tons), Switzerland (2 600 tons) and France (2 500 tons)."

% of income

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% of population.

[...] the more the the Gini coef = 1.

If the income is perfectly distributed then the Gini coefficient = 0.

Black job solution no nearer—prof

STAR 27/5/80

(49)

176

Pretoria Bureau

Nearly 40 percent of South Africa's skilled workforce will consist of blacks by 1984, compared to only 7,5 percent at present, according to a new survey in the Pretoria - Witwatersrand - Vereeniging complex.

Professor Martin Nasser, of the School of Business Leadership at the University of South Africa, announced this today at a seminar on black advancement in South Africa.

Prof Nasser said the survey, conducted in more than 2 000 industries in the area, showed that an extra six-million black workers would be needed in the next three-and-a-half years.

"Maybe an entirely new form of capitalism for Africa is needed. Maybe the standard form is not enough," he said.

The private sector had done a good job of training but had not succeeded in finding new methods.

Mr Andrew Templer, also of the business school, said there was limited managerial understanding of the black employee as a result of South Africa's emphasis on race separation.

He said black employees, on their part, had little commitment to business organisations, which they saw as "white institutions."

Mr Templer said there was evidence that black workers identified far less than white employees with the traditional work ethic.

"This means that black employees are unable to perform as well as their white colleagues, or to respond to challenging jobs."

He suggested that blacks were most likely to find that their best means of attaining success in the organisation was to use the support of fellow blacks.

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Assocom backs growth for jobs

(49)

RDM 22/5/80

By HAROLD FRIDJHON

THE PRESENT policy of growth should continue as there is no immediate danger of overheating the economy. This is the view of the executive council of the Association of Chambers of Commerce which concluded its half-yearly meeting in Johannesburg yesterday.

Growth is essential, says Assocom, if any impact is to be made on the high rate of unemployment among blacks, and the authorities should guard against introducing any measure to take care of inflation that might restrict growth. But Assocom accepts that the present rate of inflation is unacceptably high and that, in an effort to combat it without inhibiting growth, the authorities are urged to:

- Continue to exercise stringent financial discipline on State spending.
- Monitor closely the budgets of State corporations that are not required to table their budgets in Parliament.
- Review the pricing policies of certain agricultural control boards.
- Keep the rate of growth of money supply under control by absorbing excess liquidity by means of technical adjustments to monetary policy.
- Ensure that excessive tariff protection is not imposed.
- Allow the rand to continue to appreciate upward against other currencies, taking into account the impact on both imports and exports.
- Avoid delaying administered price increases when these are really justified.
- Get the Competition Board to investigate legislation which might have an adverse impact on competition.

Mr Raymond Parsons, the executive director of Assocom, said at a Press conference that the association was happy with the Budget which was regarded as not being either too stimulatory or too inflationary. If anything, he said, it might be too conservative.

He recalled that last year's Budget had been less expansionary than had been planned and that the authorities had to give the economy a mid-year booster.

There was no doubt that the Budget would serve to strengthen the economy and it was feasible that the considerable boost to private consumption expenditure would push the economy irrevocably into the investment phase. But it was unlikely that the full impact would be felt until the latter part of this year.

Assocom believes that the ball is now in the private sector's court. The private sector should capitalise on the Budget by investment in needed capacity. Failure to do so could result in less restraint being exercised on government spending in the future.

However, to make it possible for the private sector to accept the challenge which is being offered to it, Assocom recommends that the authorities should give careful consideration to implementing those Riekert and Wiehahn proposals on which there is agreement, but after full consultation with the private sector.

Assocom also believes that the move towards a more market-related exchange rate leading to the ultimate lifting of exchange control should be con-

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The unemployment problem is one of concern. Although employment among all race groups is expected to decline this year, Assocom says it will continue to remain at an unacceptably high level for blacks. It is difficult for capital-intensive industries to do much to alleviate this problem, but the distributive sector, which is more labour intensive, is better placed to play an important part.

It is, however, difficult to envisage the current level dropping to more acceptable levels unless the economy expands at higher rates than those forecast in the Economic Development Programme.

The shortage of skills is of more immediate concern. Mr Parsons said that in the recent severe recession labour elasticity was severely damaged by people leaving key industries and professions. The only short-term solution was to import skills from abroad. But in the longer term the private sector could take steps to prevent future bottlenecks by:

- Making maximum use of tax concessions on donations to training colleges and other educational institutions.
- By encouraging employees to undergo training (and for employers to provide the necessary training).
- Being prepared to allow employees of all races to fill positions for which they are trained.

23/5/80

(49)

FM 23/5/80 ~~107~~ (49)

CAPITAL MARKET

What's in a name?

The Corporation for Economic Development, a phoenix that developed from the ashes of the Bantu Investment Corporation, has come to the market for R12m, amidst some acrimony.

The rate, 9,96% for 15 years, has shocked the market, says one expert. It's considered to be excessive in view of Escom's 9,64% for 25 years, and can only add to the current psychology of anticipating higher interest rates and withholding funds indefinitely. And Escom itself appears to be rumbling with discontent about the effect of the rate on its primary marketing strategy.

However, the CED is obviously a different class of borrower to Escom. It's a relative newcomer and its paper is not readily marketable. As an organisation whose sole function is to assist with the economic development of the homelands, it may suffer from a degree of political suspicion. And although its total issued share capital of just over R200m is owned by the government, it does not have the kind of state guarantee enjoyed by Armscor and UCOR. This does not necessarily imply a security risk since the CED has the theoretical borrowing status of the parastatals and municipalities; its paper is therefore semi-gilt edged.

There's also an historical factor. The CED made its debut last year with a R10m loan issue, and raised the money only after three separate attempts.

But the banks handling the issue, Standard Merchant and Finansbank, insist that it isn't simply a case of taking no chances with an unproven borrower in a difficult market. On the face of it, they argue, a 30-point spread above Escom's 9,64% may seem over-generous. But the Escom loan should be seen in terms of the R85m issue they originally submitted and then withdrew, not the R50m for which they eventually came in. On a straight linear projection based on 9,64% for R50m, the rate for R85m would have been closer to 10%. And the time differential between the CED's 15-year loan and Escom's 25 years has minimal relevance in terms of the yield curve — they're both long-term loans.

Most important, perhaps, there are suggestions that Escom had to call on its risk underwriters, the last line of defence, to make up its loan shortfall, so the 9,64% was still too fine.

Clearly CED's issuing houses are determined to see *this* loan succeed. As they put it: the art of the climbing market is to be bold enough to pitch at a rate where demand and supply actually meet.

FM 23/5/80 (49)

STATE ACCOUNTS

Golden flood

The Treasury's preliminary statement of revenue collected during the fiscal year to March 31 1980 shows the striking effect of the gold boom on anticipated collections. The 1979 budget furnished an estimate of R9 230m for collections on State Revenue Account (including South-West Africa Account), while actual collections totalled R10 570m, an increment of R1 340m or nearly 15%.

The unpredictably high gold price is, of course, the principal cause, with revenue from income tax paid by the gold mines the main contributor to the increment of R937m in income tax receipts, referred to the 1979 estimates. Gold mining lease payments surged from an estimated R209m to an actual R334m.

But spin-off from the gold boom influenced other revenue items too. For example, tax on marketable securities more than doubled, from an estimated R11m to R23,7m, a consequence of hectic stock exchange activities. And, with dividend payments to foreign holders of gold shares sharply up, non-resident shareholders' tax receipts rose to R161m from the estimate of R110m.

Export duty on diamonds was up, from an estimated R17,5m to R31m. The generally increased level of economic activity was reflected in a rise in stamp duties and fees from an estimated R95m to an actual R123m and in transfer duties from R52m to R89m. General sales tax yielded R1 247m against an estimate of R1 150m. Loan repayments were R125m, against the estimate of R55m.

On the other hand, interest and dividends were down from an estimated R738m to an actual R657m.

One prediction about the revenue position a year hence can safely be made: once again, gold will exercise the biggest single influence on official revenues, and predictions about the level of those revenues can only be as good as the judgements of the gold price on which they are based.

Industry close to full tilt

49 RDM 28/5/80

By HAROLD FRIDJHON

REFLECTING the acceleration of the economic upturn, the productive capacity of industry appears rapidly to be reaching the point when new investment will be needed to keep up with demand.

Figures from the Department of Statistics show that in the year to February the use of overall capacity of all industries increased from 84,6% to 87,3% with some industries — textiles, clothing, footwear, furniture, paper, and iron and steel — being used at more than 90% of capacity. And from a practical point of view, anything over 90% virtually means full utilisation.

It is interesting to note that, with the exception of iron and steel, demand has been strongest in the direct consumption industries which have benefited the most from the increased buying power which has been given to the public, either by salary increases or by easy credit.

That credit might be the important stimulator is confirmed by the fact that the food industry, which is largely a cash trade at the retail end, is still languishing with 87,4% of its manufacturing capacity being used. And the main reason given for this state of affairs is sluggish demand, although a shortage of raw materials is responsible for 3,7% of capacity not being used.

Perhaps the food industries will show an upturn when overall increased demand leads to a reduction in black unemployment.

A probable reason for the big increase in plant utilisation in the basic iron and steel industry — from 87,5% in February 1979 to 93% in February this year — is the demand from the mining industry's expansion, the upturn in the construction industry, the higher level of motor-car sales, and possibly the demand from defence industries.

On the other hand, even though the industrial users of iron and steel are still operating below the 90% mark, the indices for these industries are also reflecting a quickening of productive activity and accumulatively this has increased the basic industries' workload.

Perhaps the sharpest indicator that overall demand in the economy is taking off is the fact that in 1978 13,7% of total capacity in South Africa was not being used because of insufficient demand. By last February this percentage had dropped to 9,5%.

So far the skilled labour bottleneck has not seriously inhibited the full use of productive capacity. For industry as a whole, the shortage of white labour affected only 0,9% of capacity and the shortage of black labour 0,5%. But in some specialised industries the skills' shortage appears to be serious; as in metal products, machinery, iron and steel and in printing and publishing.

Shortage of raw materials is affecting, apart from food industries, the footwear industry, and the production of industrial chemicals.

may 30 1980

Financial Mail

THE ECONOMY 49 FM 30/5/80

Will we meet our boom?

Some months ago, the business community was advised by no less than Dr Gerhard de Kock "Prepare to meet thy boom."

The advice may, at that stage, have seemed somewhat optimistic; but now its prophetic power cannot be denied, at least not on present indications.

In recent months, economists have been almost unanimous in predicting a recovery for the economy's ailing heart. Forecasts of growth rates, unseen since the last major upturn in the mid-seventies, have been made. The consensus on real gross domestic product is an increase of up to 6% for 1980, compared to a real growth rate of 3,7% for 1979. This will be fuelled by a gross domestic expenditure that is predicted to be nearly 8% higher than it was last year, when it rose by a sclerotic 2,5%. And the level of demand represented by this increase in expenditure is forecast to spark off an investment boom comparable to, and perhaps greater than, that of the early Seventies. Some economists are talking of a fixed investment increase of up to 8%, compared to 2% in 1979.

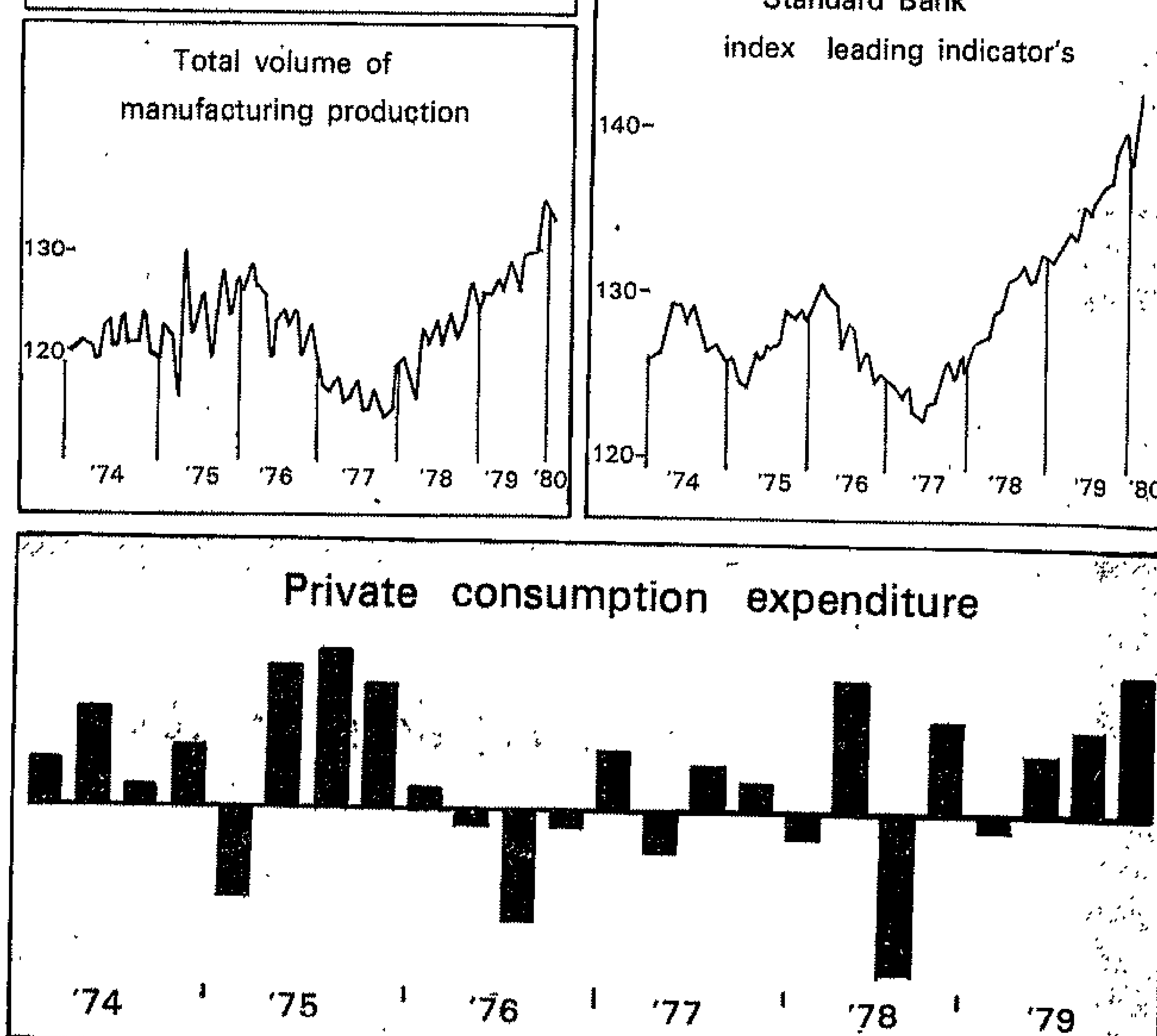
For some, the best message of all is that most of the impetus for growth will come from the private sector. Both the letter and spirit of the De Kock Commission have created a confidence that free market forces will be used with greater subtlety to allocate resources in the financial and monetary sectors. In the same vein, the tax and loan levy cuts introduced by Finance Minister Owen Horwood in the 1980 budget are reckoned to represent a shift of resources from the public to the private sector of around R1 500m.

According to conservative estimates, this will raise real disposable income by over R800m, an increase of 3%. Allowing for savings, fiscal concessions alone will push up private consumption expenditure by about 2,8%, which was the total increase achieved last year. The full effect of these concessions, and the delayed impact of high export earnings stemming from the surge in the gold-price late in 1979, are predicted to filter through into the consumer sector around the middle of this year. So, notwithstanding the fact thag gdp rose by nearly 5% in the second half of last year, indicating that the current upswing is more mature than was orginally thought, there appears to be plenty of demand still in the pipeline.

And when investment demand picks up, there should be no shortage of funds. The current account of the balance of payments is scheduled to show an even greater surplus than it did last year — some economists put it at over R4 000m for 1980 as a whole. But the major, and imponderable factor is still the gold price, with its positive effects on economic growth reckoned to be long-run, and not fully understood, according to Ari Uliel of Wits Business School. "If the gold price stabilises at $500," he argues, "and SA sells 700 tonnes a year, annual earnings from gold alone will be nearly $11 000m. The country could thrive for a decade. SA would be like an OPEC country." (While Uliel's comparison may be apt, SA has the added advantage of becoming able to absorb and use large amounts of capital.)

Nor will credit demand be hampered — at least in the foreseeable future —

SIGNS OF THE TIMES



Source: Standard Bank Business Indicators Seasonally adjusted sharp increases in interest rates. Liquidity, as indicated by changes in net gold and foreign reserves, is high. Treasury's financing requirements through the sale of government stock are estimated by many analysts to be broadly in equilibrium with the investment needs of their main institutional customers — the building societies, insurers and pension funds. And the Reserve Bank now has at its disposal a more impressive (and more flexible) range of instruments to control money supply and short-term capital outflows. So most economists agree the prime variable in interest rate patterns will be the actions of the monetary authorities, who are committed to a policy of gradualism.

The prognosis is favourable indeed, but is it borne out by the current state of the patient?

There does appear to have been, from the second half of last year, a dramatic upswing in the level of consumer demand. Most retailers report rises in the level of unfilled orders, and indicate present inventory levels to be 'just sufficient.' The slight easing in demand noticed in the first quarter of the year, which no doubt had an effect on the lower rate of inflation during those months, is assumed to have been mainly a pre-Budgetary hesitation in anticipation of tax cuts. Further support comes from the level of demand for bank credit, most of it in the form of hire-purchase and overdraft facilities, and in credit cards, lending on which, by one large bank, has doubled in the last nine months.

Wholesalers report a similar situation — much of the demand being for non-consumer goods — which suggests the beginnings of an investment build-up. After already predicting a record year, car dealers are now revising their forecasts upwards, with 250 000 unit sales considered to be within reach, 17% up on last year.

All sectors in industrial manufacturing, according to the Bureau for Economic Research at Stellenbosch University, are at historic peak levels of production. Capacity use is widely reported as being close to 90%, the point at which new investment is undertaken.

The building industry is being sustained mainly by demand from the public sector (largely public corporation development and economic housing) and by renewed investment activity in mining, since private sector demand is still relatively small. And agriculture is maintaining high production levels.

As the BER puts it: "The upward slope of the business cycle compares well with the rate of recovery during the investment boom of the early Seventies, and is a marked improvement on the tempo of acceleration during the expansion phase of the latter half of the Sixties."

In the external sectors, mineral exports slowed in 1979 and could drop substantially in 1980, as SA's main trading partners move into recession. Like this one, previous upswings have been export-led, through surpluses on the current account of the balance of payments leading in turn to a resurgence of domestic expenditure. Some economists believe that this time round, the fall-off in export demand will be delayed by renewed international interest in strategic, energy and hedge minerals (eg increased US military spending). But the surplus could vanish as quickly as it came, in which case the strength and duration of the current upswing would be largely determined by the compensating domestic factor of private sector investment demand. Traditionally arriving too late to catch the peak of consumption expenditure, private investment demand could nonetheless stretch the upswing into mid-1981.

Bright as it is, the outlook is, however, clouded by at least two very distinct shadows, portents perhaps of arterial decay. One of them is the effect of inflation on private consumption expenditure, identified earlier as a vital element in the current upswing.

The year opened with a spate of administered price hikes (rail and air transport, fertiliser, and food staples) and increases in other prices (coal, sugar and building supplies). Increases still to come include electricity, steel and municipal rates. Oil price rises, though probably overweighted in the indices, are still a factor. The full impact of these increases have not yet been felt. In addition, demand for skilled labour and a chain reaction from the R700m in public sector wage and salary increases, is pushing up remuneration rates in the private sector.

Imported inflation is a factor that cannot be overruled. South Africans have a high marginal propensity to import — up to 50% of growth in income in past prosperity phases. This takes some of the comfort from the cushion provided by the BOP current account surplus, the strong rand and the abolition of the import surcharge. In fact in April the trade surplus dropped substantially as exports fell and imports rose.

Another inflationary danger lurks in the money supply. Low money growth figures for the first two months of this year ignore the weight of potential purchasing power locked up in long-term deposits and money market paper, both of which historically bulge back into spending when interest rates harden. This can be positive for expenditure, but negative for inflation. According to Barclays Bank economists, the rate at which prices and costs rise, and the severity of consequent government anti-inflationary action, "might well play the most important and decisive role as to when the next economic upswing terminates."

Another shadow is that of black unemployment. Though registered unemployment (which understates the real situation) has decreased recently, its patterns are leading demographers to the conclusion that unemployment is a deeply-based structural problem, rather than a temporary or cyclic one. The political implications of this are well-known.

Although ultimately generated by international economic conditions over which we do not have control, SA's BOP surplus is perhaps the crucial element in its current growth pattern. Its disappearance need not be a bad thing if it implies internal capital expansion and repayment of international loans. So its management is vitally important. The De Kock commission recommendations, generating a new cohesion in the monetary sector and a recognition of the need to orchestrate all the elements of monetary policy, including interest and exchange rate approaches, may well assist in smoothing the excessive fluctuations of the past.

SA second only to Japan in growth

(49)

RDM 30/5/80

By HOWARD PREECE
Financial Editor

SOUTH Africa is expected to show the fastest real economic growth rate of any Western industrialised country except Japan for both 1980 and 1981.

This is shown in an authoritative survey by the National Institute of Economic and Social Research of Britain.

The NIESR report shows a sweeping turnaround from the position a few years ago when South Africa was in the third division of the international economic growth league for 1975-77.

According to the NIESR, South Africa is expected to show a real growth rate of 5,5% this year and a rate of 4% in 1981.

That 4% could, of course, be quite an underestimate.

South Africa is ranked as a "smaller developed country" — and heads that list as far as growth prospects for 1980-81 are concerened.

Other countries in this category include Australia (2,5% forecast for this year and 3,5% in 1981), Austria (2,5% and 2,2%), Belgium (1,5% and 1,5%), Denmark (-1,0% and 0,5%), Finland (5% and 2%), Ireland (2% and 3%), Holland (1,5% and 1,5%), New Zealand (-0,5% and 0,5%), Norway (3,5% and 2%), Spain (1,2% and 2%), Sweden (2,2% and 0,5%) and Switzerland (1,2% and 1%).

For the whole group of smaller developed countries, the average growth forecast is 1,8% for both 1980 and 1981.

Japan comes out top of both the major industrial countries and of the wider Western grouping with a growth prediction by the NIESR of 7% this year and 6% in 1981.

For the other leading members of the Organisation of Economic Co-operation and Development the forecasts are United States (-1% and 2,5%), West Germany (2,5% and 1%), Britain (-1,2% and 2,5%), France (1,7% and 0,5%), Canada (1% and 2,5%) and Italy (4% and 0%).

The key conclusion of the NIESR is that the world recession will be "neither protracted nor severe".

It is relatively optimistic about the growth of world trade in spite of the forecast recession and some signs of rising protectionism internationally.

Two main reservations have to be made about the bullish growth position of South Africa.

This country faces a faster population growth than any other of the Western industrial countries and our outlook for overall rising living standards has to be tempered by that.

When growth a head is taken into account, South Africa will certainly slip a few places from the second position behind Japan in the ordinary growth rate stakes.

The other particular economic cause for caution is inflation.

The NIESR predicts an inflation rate for South Africa of 14% this year, in line with the official assumption made by Senator Horwood, the Minister of Finance, in the Budget.

While that is below the 15,3% average for the smaller developed countries — with Turkey looking at 80% and Iceland 50% it is much worse than, for example, Austria at 5,5%, Holland at 6,5% and — inevitably — Switzerland at 3,7%.

For the big countries the inflation estimates are US (14% this year and 10% in 1981), Germany (5% and 4%), UK (18,5% and 15,5%), Japan (8,5% and 5,5%), Canada (10% and 9%), France (12,8% and 10%) and Italy (20% and 17,5%).

It is a little impertinent for the South African authorities to offer lectures, as they sometimes do, to the rest of world on the evils of inflation and of the necessity for tough action.

The NIESR figures for South Africa are obviously based on the same date available to economists in this country.

So far as the 5,5% growth estimate for this year and the inflation forecast of 14% for 1980 are concerned, the NIESR is talking very much the same language.

The 4% growth forecast for 1981 is lower than the level generally predicted within South Africa and it may be that the NIESR expects the international recession will be felt slightly more here than is domestically assumed.

However, while the growth and inflation estimates for South Africa may turn out differently in practice, it is unlikely that our relative position with other countries will be critically different from the NIESR forecast.

That means, as far as overseas investors are concerned, that South Africa has plenty of economic attractions.

RDM 31/5/80

49

Tax cuts: spending surge ahead

By GERALD REILLY
Pretoria Bureau

BUSINESS leaders expect a powerful new surge of consumer spending following the introduction of the reduced PAYE tax scales from July.

The new scales reflect the R909-million in income tax concessions announced in this year's Budget. And, when the loan levy concession is taken into account, the real benefit to taxpayers will amount to a huge R1 560-million.

The new PAYE tables reflect, at some income levels, a more than 50% reduction compared with last year.

For example, a married man with two children who earns R601 a month will now have R7,71 deducted from his pay — compared with R38,78 last year.

Other examples in the same category are: At an income level of R801, monthly PAYE deduction will be R33,54, compared with R70,89 last year; at R1201, R109,88, compared with R172,88; at R1501, R184,87, compared with R284,97 and at R2001, R321,58, compared with R529,51.

The new tables take into account the fact that PAYE deductions have been paid on the old, higher scale for the first three months of the new financial year.

Other factors strengthening consumer spending from July are the R480-million in pay increases granted to more than 800 000 public sector workers and the higher wages and salaries negotiated by trade unions for tens of thousands of private sector workers.

However, economists warned that increased consumer demand would cause unavoidable inflationary pressures.

The Progressive Federal Party's financial spokesman, Mr Harry Schwarz, MP, said at least some of the effects of the expected spending spree had already been discounted:

- Consumers had already spent more in anticipation of tax relief and increased earnings;
- The continued high inflation rate would reduce the effective purchasing power of the concessions, and
- Some of the extra funds would be used for liquidating accumulated debts.

Mr Schwarz warned that a shortage of certain commodities was already developing as factories took up the production slack of the years of recession. He said this could lead to a dangerous inflationary period.

The resultant increase in demand for imported goods would also aggravate inflation — because the high inflation rate in most of the countries involved would be built into the prices.

Mr Schwarz added that there was no indication of a decline in the inflation rate — all signals pointed upwards.

The Johannesburg Chamber of Commerce's chief economist, Mr E W Verburg, agreed that the volume of spending had already increased because of the expectation of the concessions.

But he expected an upsurge in consumer spending after July.

Mr Verburg said another factor contributing to the predicted spending surge was the 20% reduction in income tax for hundreds of thousands of blacks, which also comes into effect from July.

The Afrikaanse Handelsinstituut's economist, Dr P J D Viljoen, said many factories had already reached their maximum production levels and shortages of certain goods were beginning to appear.

He said this would aggravate the already high inflation rate. Like other leading economists, Dr Viljoen expects the average inflation rate for 1980 to be at least 15%.

The head of Pick 'n Pay, Mr Raymond Ackerman, said his organisation expected a big upsurge in consumer spending and plans had been made to meet the demand.

"We have geared ourselves to meet the new level of demand. Not only will it stimulate the retail trade, but the consequent, predictably quicker pace in industry will also help relieve the still very serious unemployment problem," he said.

BUSINESS MAIL

SA living standards stand still

49

RDM 7/6/80

By HOWARD PREECE
Financial Editor

AVERAGE living standards in South Africa are barely higher than they were 10 years ago — and well below those of 1974 — according to Dr Johan Cloete, chief economist of Barclays National Bank.

He says the combined effects of recession and inflation and population growth during 1975-77 "inflicted hammer blows on the standard of living".

But consumers have cushioned some of the impact by saving less and/or by using extended credit.

Dr Cloete claims that real net income per head "plunged sharply" because of the 1975-77 slump and the high birth rate from R983 in 1974 to R819 in 1977.

Since 1977, however, living standards have been rising again.

Dr Cloete argues: "The fact that the standard of living is now back to where it was 10 years ago . . . shows how important it is in a country such as South Africa where population growth is rapid to avoid severe and prolonged recessions."

It shows particularly "how ill-advised it is in such a country to combat that other enemy of the standard of living, inflation, by policies that cause recession and through this downward pressure on prices".

"The deliberate creation of recession to fight inflation in such a situation is, in fact, tantamount to applying a cure that is worse than the disease.

"The unfortunate slump in the standard of living also shows up the urgent need to push the economy on to its full employment growth path as soon as possible while, at the same time, taking care that the usual stop-go situation is avoided."

Dr Cloete says West Germany and France showed high rates of growth of income a head between 1970 and 1979.

There was a slight decline in the United States while Britain, in spite of a static population, fared as poorly as South Africa.

Australia came out better than South Africa, although the absolute growth rate was much the same.

Dr Cloete points out: "The difference which the lower population growth rate in Australia made to the advance in the standard of living shows how much easier it would be to push up the standard of living in South Africa if the growth of population could be significantly reduced.

"Failing this, the only alternative is to raise the productivity and so the purchasing power in the market of the domestic population which, of course, also requires that undue fluctuations in the level of employment from one year to the next are avoided.

"The very slow advance in the standard of living in this country in the 1970s, both in terms of growth in per capita income and in per capita consumption, is particularly alarming if it is borne in mind that living standards generally in South Africa are still at a relatively low level.

"Failure to raise them at a relatively rapid rate could well have unfortunate socio-political consequences."

COMMENT: Dr Cloete has calculated that in terms of constant 1975 prices income a head dropped from R983 in 1974 to R819 in 1977, but rose to R857 in 1979.

It was R866 in 1970. These calculations may not be fully representative — they use the wholesale price index as a deflator — but the message is clear: a heavy burden has fallen on blacks.

Few whites would find themselves worse off than in 1970 in real terms.

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Five-year housing plan

By VERA BELJAKOVA

A TOTAL of R760-million is to be invested in urban housing by the Government in the next five years.

Some R393-million has been earmarked for 60 000 houses for coloureds. Another R106-million will be spent on 17 500 houses for Asians and R69-million on 41 000 houses for blacks.

To help solve the housing shortage for whites, the Government has allocated a further R192-million.

SA trade with Hong Kong at $50-million

8161.80 SUN TIM (49) 6.1

By VERA BELJAKOVA

HONG Kong's bilateral trade with South Africa now exceeds $50-million a year and is growing, says Kenneth Leung, leader of Hong Kong's and Macau's first ever trade mission to this country.

Mr Leung, manager of the Kowloon Central branch of Barclay's Bank International, says his 14 mission members have opened up useful lines of communication with local businessmen in the past few days.

The British crown colony is particularly interested in importing South African vitamin-rich and nutritious shark fins, used as ingredients for Eastern chicken soups.

Hong Kong is also interested in buying cut diamonds from South Africa to supplement gemstones bought from Tel Aviv and New York. The diamond trade is worth some $100 000-million to Hong Kong, which acts as clearing house for many Far Eastern countries.

Hong Kong, too, acts as a buyer of SA platinum for the Far East. SA stainless steel and silver are required for Hong Kong's manufacturing industries.

In turn, Hong Kong expects to sell South Africa photographic equipment, electronic goods, toys and clothing.

With the shattering of the Bamboo Curtain, Red China is now Hong Kong's foremost trading partner, with business worth more than $50 000-million a year.

Inflation the price of 6% growth

(49) ~~153~~ RDM 9/6/80

By HOWARD PREECE
Financial Editor

A REAL economic growth rate of 6% for 1980 now looks likely, but there is little hope that inflationary pressures will ease.

This is the overall assessment of the June economic review from Standard Bank.

Among the conclusions of the review are:

- "Neither the presence of some internal social disturbances, political pressures and visible difficulties in coping with inflation nor the sudden weakness of the US economy with its potential negative effect on mining exports appear to have dampened short-term expectations

"The overall trends that have emerged in the first months of this year suggest that despite a temporary slowdown of some segments, the economy will grow at more than twice the rate of population increase"

- "The increasingly rapid growth of the real sector of the economy has been accompanied by comparatively high rates of increase in the money supply.

"This has done little to reduce concern about inflation."

- Building intentions have reached unprecedented levels and activity in the sector is now increasing over a broad front.

"Earlier on in the recovery, conditions had improved noticeably only in the residential sector — mainly the housing segment.

"It is significant that this revival has now spread to commercial and factory buildings, signalling the take-off in fixed investment and a conversion of the substantial liquidity in the financial sector into an even more broadly based revival of economic activity.

- "The stage is now reached where not only a serious shortage of skilled industrial workers and managers has emerged but also a growing need exists to enlarge the work force across the board.

"Further enhanced by the growth in investment demand that is now arising from the need to expand industrial capacity, this should soon create a large increase in the number of jobs for previously unemployed blacks.

"The tightening of the labour market will also improve the bargaining power of skilled workers.

- "A number of indicators which have become available as the economy approaches mid-year suggest that the recovery, which had broadened vigorously during the second half of last year, was unable to maintain the same rapid pace throughout the first quarter of 1980.

"However, the growth rate appears to have accelerated again in the second quarter of the year to an extent which makes it unlikely that this very temporary easing in the growth trend will prevent the achievement of a remarkable growth trend for the year as a whole.

- "The significant surge in retail sales, which have been rising at annual rates of nearly 10% in real terms, has resulted in commercial and industrial inventories falling to inadequate levels.

"This has contributed to wholesale sales moving out of the doldrums and to a sizeable rise in the level of unfilled orders in manufacturing industry.

"The volume of industrial production has been increasing at annual rates in excess of 10% during the last few months for which statistics are available."

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered); leave columns (2) and (3) blank.

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Amal Retail to open 70 new shops

9/6/80 ARGUS

(49)

SEVENTY new shops are to be opened this year by Amalgamated Retail, the group with 12 chains of furniture and footwear stores.

The group's financial structure can finance this growth but longer-term loans are being raised, says the chairman, Mr R J Goss.

A partnership is being negotiated with the Coloured Development Corporation to facilitate store openings in selected areas for both furniture and shoe shops.

Twenty new furniture shops are to be opened and five other resited.

Many Cuthberts shoe stores are being 'weeded out' and replaced with more suitable shops.

Thirty-seven new shops are to be opened by the Selecta self-service shoe chain serving lower-income groups, with major emphasis in the Western Cape.

About 20 shops are planned for Multiserv, rapidly expanding heel-bar business.

Mr Goss says group turnover should be at least in line with the upswing.

Amrel's turnover soared 65 percent to R126,6-million in the year to March. Furniture sales were 27 percent higher at R97-million and shoe sales rose 20 percent to R29-million.

Furniture profits jumped 81 percent to R12,3-million before tax where shoe division profits were R2,4-million, up 60 percent.

Earnings a share rose by 76 percent to 124,2c and dividends paid out 41,5c a share, a jump of 77 percent.

● BMW is to spend R52-million expanding its plant near Pretoria, providing work for 800 more people.

The expansion is to meet rising demand for its vehicles, says the company. South African sales grew by 30 percent last year.

● Taxed profit of Volkskas Group rose by R7,6-million or 33 percent to R30,3-million for the year to March.

Earnings are up from 102,6c to 134,3c a share.

● Quincor had a pretax profit of R78 000 for the eight months to February after R11 000 for the 12 months to June 1979. The year end has been changed [illegible] February 28 in line [illegible] holding company, [illegible]

NOTE

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3. Names must be printed on ea... (e.g. graph paper) where sh... examination book (s) are used.

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No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.

Candidates are not to communicate with other candidates or with any person except the invigilator.

No part of an answer book is to be torn out.

All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

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All answer books must be numbered

Section A.

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ARGUS (49) 10/6/80

SA faces big economy decision

Argus Correspondent

JOHANNESBURG. — While the gold price continues to hold up, South Africa is faced with an important policy decision how to remove the excessive liquidity building up in the economy and so a serious threat of further rises in the inflation rate.

Dr Johan Cloete of Barclays has come forward with a suggestion how to deal with the situation in the bank's latest issue of Business Brief.

Weighing up two possibilities for economic policy, he suggests that a mixture of both might provide the answer.

He outlines both, pointing out their disadvantages.

The first is to allow domestic interest rates to find their own levels. With the current account of the balance of payments showing a large surplus, the rates should fall low enough to generate sufficient outflows through the capital account of the balance of payments. Low interest rates will draw investors to other markets.

But the problem would be that if capital funds were suddenly allowed to move freely out of the country, these might be so large that it could put a considerable strain on the country's foreign reserves.

In fact, this was precisely what happened in recent weeks, Dr Cloete points out. But the decision by the authorities to increase the dollar premium and rand discount on forward exchange transactions has now effectively blocked the operation of the capital account.

The second solution is to allow the exchange rate to appreciate while the Reserve Bank mops up the excess of money through open market operations.

But because the rand rises in value against other currencies under pressure from the current account surplus, South African exporters will have to suffer the consequences. Their products will be less competitive on the internationsl markets.

COMPETITION

At the same time, the domestic manufacturing industry will be faced with competition from cheaper imports.

This might well prevent the current economic upswing from reaching full maturity, he says.

A mixture of both policies, however, would not lead to such a sharp rise in the exchange rate when South Africa loses some of its foreign exchange reserves through its capital account.

ABSORBED

This will allow domestic interest rates to move to a higher level, which will bring them closer in line with the domestic inflation rate.

It is merely a question of allowing the large current account surpluses to be gradually absorbed into the economy and to be transformed into higher economic putput, while using the capital account and foreign reserves to avoid as far as possible rising inflation and an interruption in economic growth.

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.
4. Do not write in the left hand margin.

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50% surge in State spending

49

RDM 12/6/80

By HAROLD FRIDJHON

GOVERNMENT spending surged by a huge 50% from R817-million to R1 232-million in April, the first month of the current fiscal year. And it is bigger than the planned-for growth in expenditure to keep pace with inflation.

The largest increase was in the Defence Vote which was R231-million against R50-million in April 1979. The expenditure on Community Development rose from R11-million to R40-million, Mineral and Energy Affairs outlays were almost double at R63-million and spending on the Police vote was doubled, rising from R15-million to R30-million.

The combined Foreign Affairs votes, divided into foreign affairs and information and "statutory amount" has been reduced from R29-million to R16-million. It would seem that the big cutback was in the information area.

Public Works spent R32-million in April 1980 compared with R17 600 000 in April last year.

Gross revenue for the month was R703-million compared with R605-million in April 1979. After payments in terms of Customs Union agreements — with Swaziland, Lesotho, Transkei and other territories — totalling R118-million, and a small transfer to the central revenue fund, net income was R581-million against R509-million.

The means that the deficit for the month was about R650-million which was comfortably financed from the Exchequer balance brought forward of R249-million, internal Treasury bills and Government loans raised.

The loans brought in R670-million and redemptions added up to R337-million. Most of the loans raised was taken up by the Reserve Bank because the public response to the issue was disappointing.

It would seem from published figures that the central bank subscribed to more than R400-million of the issue and it is now using this paper in open-market operations to mop up the excess liquidity which is clogging up the banking system.

Opec-style surplus as SA booms

44

RDM 13/6/80

By HOWARD PREECE
Financial Editor

SOUTH Africa achieved a record Opec-style surplus of R1 970-million on the current account of the balance of payments in the first quarter of this year.

This was disclosed by Senator Horwood, the Minister of Finance, when he introduced the third-reading debate of the Budget in the House of Assembly yesterday.

The January to March surplus is equivalent to an annual R7 780-million — about 13% of the gross domestic product.

That is a current account surplus that would be unmatched anywhere except by some of the Opec countries.

South Africa's previous highest quarterly surplus was R1 133-million in the first three months of 1979.

The surplus in the first quarter of this year is way above any previous annual surplus (or deficit) apart from the R3 107-million reached last year.

Of course, there was also a heavy capital outflow in the first quarter of this year — although Senator Horwood did not go into that in any detail yesterday.

Senbank has estimated that the outflow for January to March may have been as much as R1 500-million.

That would be in line with the overall balance of payments view as reflected in the gold and foreign exchange reserves

Most of that outflow, however, arose from the switching of trade finance from overseas to South Africa because of the comparatively low interest rates in this country.

That should have been largely checked in the second quarter of this year by the hefty increase in the forward dollar discount — a move which effectively subsidises overseas borrowing by South African traders.

Senator Horwood said that 1980 would probably be the best growth year for the South African economy since 1974.

Information that had become available since his Budget was announced in April indicated that the economy would fare even better than he predicted then

The value of exports, thanks to an improvement in the domestic economy, continued to show an upward trend.

The rand, due to the strong balance of payments position, had appreciated considerably — by 11% against the dollar since January 1979.

The financial rand had strengthened, Senator Horwood said, to the extent that it was discounting at a rate of 27% against the appreciated commercial rand compared with 45% when it was introduced in January last yea

(The finrand has, of course, fallen sharply in the past few months. Early this year the discount narrowed briefly to 10% before gold fell from its peak and before the latest political disturbances and the Sasol sabotage).

Senator Horwood said that the Reserve Bank had so far approved applications for the use of financial rands totalling R600-million and the major portion of those non-resident investments were precisely what was needed — in manufacturing and mining, which promoted economic growth and employment.

"Given this underlying balance of payments position it is not surprising that South Africa's overseas credit rating has improved still further in recent months," he said

The South African economy had remained in a cyclical upswing throughout the first five months of 1980 Conditions in most sectors of the economy were distinctly buoyant.

Senator Horwood said: "Although real fixed investment in new plant, equipment and construction has not yet risen adequately, it shows every sign of moving ahead rapidly in the period ahead.

"Such an increase in fixed investment is, of course, highly desirable, as it will not only generate additional income and employment in the short term but also expand productive capacity for future long-term growth.

"In these circumstances, I believe that 1980 will turn out to be the best growth year for the South African economy since 1974 and that the present upswing will continue some time thereafter.

"If a serious world economic recession were to develop in the period ahead, it would only be realistic to assume that the South African economy will, after the usual time lag of anything between six months and two years, also be adversely affected to some extent.

"Certainly the present cyclical upswing in the economy will not last forever, but should in the normal course of events be followed by some stage of normal cyclical downturn, however mild this might be."

Die ekonomie: dit gaan nou beter as ooit

DIT het nog nooit so goed met die Suid-Afrikaanse ekonomie as nou gegaan nie, en hoewel die resessie in Amerika en ander nywerheidslande Suid-Afrika moontlik later kan raak, sal die uitwerking daarvan nie naastenby so groot wees soos met die vorige resessie nie.

Dit is die mening van die spesiale ekonomiese raadgewer van die Minister van Finansies en senior vise-president van die Suid-Afrikaanse Reserwebank, dr. Gerhard de Kock.

Dr. De Kock is deur Sake-RAPPORT genader ná vandeesweek se aankondiging van die Minister van Finansies, sen. Owen Horwood, in die Parlement dat Suid-Afrika se oorskot op sy lopende rekening in die eerste kwartaal van vanjaar die rekordsyfer van R1 970 milj. getoon het. Op 'n jaargrondslag is dit gelykstaande aan R7 780 miljoen, wat sowat 13 persent van die land se bruto binnelandse produk is.

Syfers wat deur die Minister bekend gemaak is, toon ook dat daar in die eerste kwartaal van vanjaar 'n netto uitvloei van kapitaal (langtermyn sowel as korttermyn) van R1 715 miljoen was. Dit is aansienlik meer as die R1 500 miljoen wat vroeër deur Senbank in die vooruitsig gestel is.

Dr. De Kock sê danksy die verhoging in die diskonto van die aankoop van termyndollars, wat op 18 April verhoog is van 2 persent tot 12 persent, gaan hierdie uitvloei in die tweede kwartaal van vanjaar aansienlik kleiner wees. Hierdie diskonto, wat van dag tot dag aangepas word, het weens die sterk daling in Amerikaanse rentekoerse reeds tot 3,6 persent gedaal.

Daar kan met sekerheid aanvaar word dat daar in die tweede kwartaal nog 'n netto uitvloei van kapitaal sal wees, maar dit sal aansienlik minder wees as die syfer van R1 715 miljoen in die eerste kwartaal. As kapitaal nie die land verlaat nie en die oorskot op die lopende rekening behou sy huidige vlakke, sal aansienlike likiditeit in die land begin ophoop, wat op sigself nie 'n goeie ding sal wees nie.

Suid-Afrika maak nou ook van die geleentheid gebruik om sy skuld in die buiteland te vereffen en om bates in die buiteland op te bou.

'n Uitvloei van kapitaal beteken nie noodwendig dat die land geld verloor nie, maar is eerder 'n herstrukturering van buitelandse bates en laste.

Dr. De Kock sê hoewel dit nou besonder goed met die ekonomie gaan — hy verwag dat die groeikoers vanjaar aansienlik hoër kan wees as wat aanvanklik in die vooruitsig gestel is — is daar nog een probleem wat 'n mate van kommer wek, naamlik inflasie.

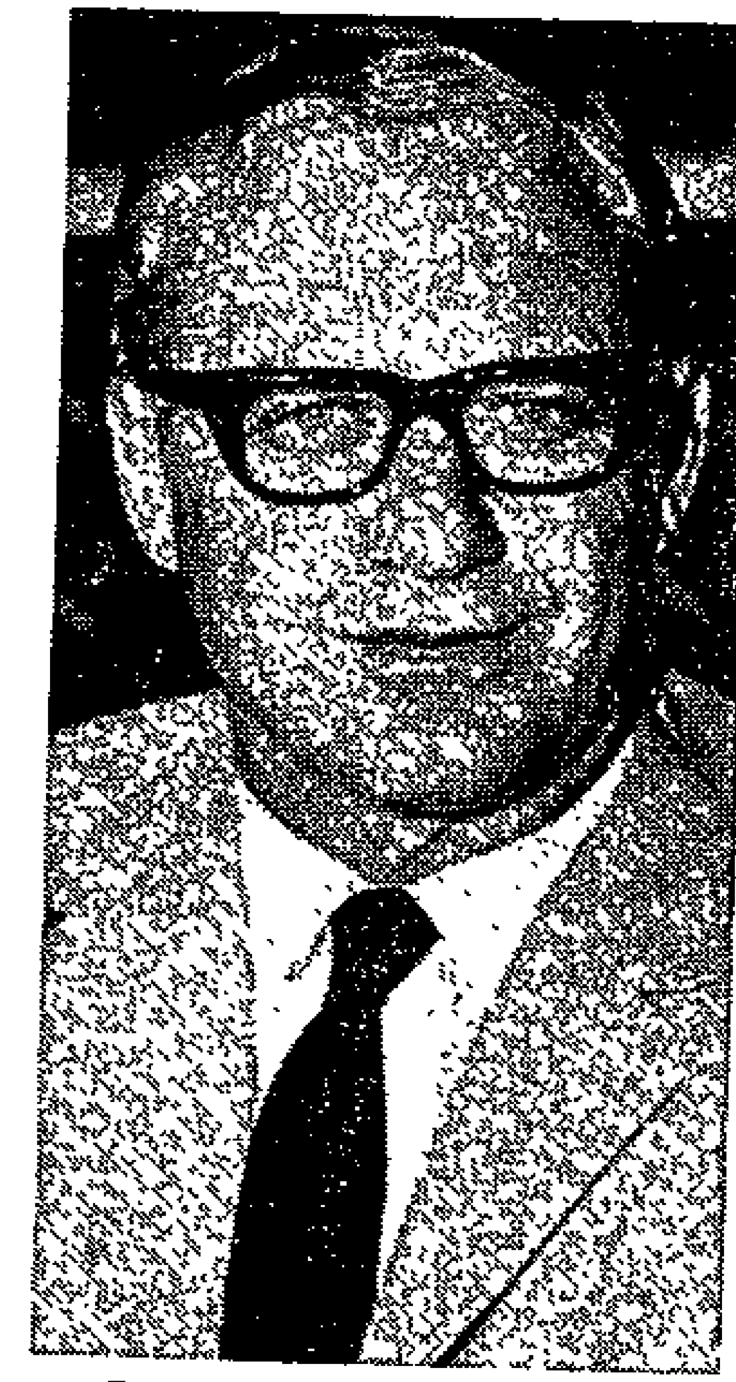
Hoewel die koers besonder hoog is, moet dit egter in perspektief gesien word. Suid-Afrika se inflasiekoers het relatief min verander sedert die olieprysverhogings. In lande soos Duitsland, wat altyd as 'n voorbeeld van 'n land met 'n lae inflasiekoers gebruik word, het die inflasiekoers die afgelope jaar byna verdubbel.

Suid-Afrika is tans baie gelukkig in die opsig dat nie net sy lopende oorskot op rekordsyfers staan nie, maar dat dit ook met binnelandse groei gepaard gaan.

Gewoonlik val 'n sterk styging in die oorskot van die lopende rekening saam met 'n binnelandse ekonomie wat te traag is, maar nou is dit nie die geval nie, want die binnelandse groeikoers is steeds besig om momentum te kry.

In hierdie stadium is daar nie ooreenstemmigheid oor watter graad die resessie in Amerika kan aanneem nie. Indien die nadelige gevolge van die resessie Suid-Afrika ook tref, sal die ekonomie dit nou baie beter kan weerstaan as in 1970. In 1970 het Suid-Afrika nie net te doen gehad met oorbesteding nie, maar was die geldvoorraad ook besonder hoog en toe die goudprys daal, het probleme opgeduik.

Hy sê afgesien van die normale konjunktuursiklus, behoort Suid-Afrika as geheel hierdie dekade besonder goed te vaar.



Dr. Gerhard de Kock

Daadwerklike aandag word nou aan die arbeidsprobleem gegee en nyweraars begin ook op 'n baie groter skaal van die Regering se toegewings vir die opleiding van werkers gebruik maak. Daarby versterk die waarde van die rand voortdurend teenoor die meeste geldeenhede wat natuurlik soveel meer stukrag aan die Eerste Minister se konstellasie van state gee.

Sanlam chairman accuses Minister of 'ultra-socialism'

49

Sun Times 15/6/80

DR WASSENAAR
- Exodus warning

By BEVIS FAIRBROTHER

DR ANDREAS Wassenaar, chairman of Sanlam, has slammed the Minister of Health's recent Bill to control medical fees and has warned that it will "undoubtedly" cause another exodus of South African doctors.

Dr Wassenaar has referred to the Bill as "ultra-socialistic" in a leading article he wrote in the SA Director, journal of the Institute of Directors.

In an interview with the Sunday Times last week, he predicted that the Bill would have a serious effect on the number of doctors in South Africa within 10 years.

In his article he said the Bill suggested that, on the heels of the Prime Minister's recent economic initiative, the "Minister in question" — Dr Lapa Munnik — was not aware of the ultra socialistic nature of his Bill.

It also suggested that if the Prime Minister's initiative was to succeed, he would need a Cabinet consisting of Ministers who were able to discriminate between free enterprise on the one hand and socialism on the other.

He praised the Prime Minister's initiative "to foreshadow a new and brighter future for a free economy in the RSA".

But he questioned whether the Prime Minister had a Cabinet which could follow him and who were able to mobilise the entire bureaucratic machine behind them.

"There are already signs that he is experiencing problems in this field."

He referred to the recent Medical, Dental and Supplementary Health Services Professions Amendment Bill in which the Minister of Health must approve of any tariff of fees before they become effective.

"In looking at the trend of this Bill one must remember a good, old basic economic law.

"If, in a free economy, price control is imposed, and if the controlled price determined under the law for any product is lower than the price which would have prevailed in a free market, a shortage for that product is bound to arise."

Dr Wassenaar gave an example where the price of crude oil in the United States was kept low for many years by price control.

This acted as a restraint on oil prospecting and the United States had to import refined oil products from the Arab States and elsewhere.

"As a result of this the US is now in the middle of an unprecedented energy crisis.

"By the rule stated, a shortage in medical services is bound to result if the fees determined by the Minister should be lower than the fees which would be dictated by the interactions of all the factors in a free economy.

"And the fees determined by the Minister will be lower since the purpose of the entire exercise is to prevent fees from rising to levels unacceptable to the Minister.

"The result of such a free-fixing practice will undoubtedly be that more medical practitioners will leave the country to settle in the United States or elsewhere.

"It will also act as a discouragement to students who might have been inclined to make medicine their profession.

"Any influx of doctors, if there was any influx, would probably be from the highly socialised countries. This might prove to become a political problem.

"The determination of medical fees by the Minister is a socialistic move that does not by any stretch of imagination fit into the Prime Minister's plan for a more effective free economy."

RAND DAILY MAIL, Monday, June 16, 1980

(49)

RDM 16/6/80.

Ladofca destroys an illusion

Harold Fridjhon on Monday

By HAROLD FRIDJHON

BEFORE Ladofca, the business community was slowly being disillusioned about Mr P W Botha's shimmering vision of South Africe doing a Houdini act and slipping out of the coils of controls into the freedom of the market place in which private enterprise could flourish for the benefit of the community as a whole.

After Ladofca, there must be few people in business who honestly and sincerely believe that that vision has any substance, that it is not another political illusion — now you see it, now you don't.

Ladofca?

No, this is not a black-haired, dark-eyed, sinuous sexy Russian spy in spite of the fact that the advent of Ladofca has brought new socialist-type controls to a society which cherished and nurtured an illusion about free enterprise for nearly three-quarters of a year.

Ladofca, to give this chimera its full title, is the Limitation and Disclosure of Finance Charges Act which with its twin, the Credit Agreement Act, is applying new controls where controls are not needed.

Most free marketeers will agree that one of the duties of government — and a duty which our governments have assumed with such relish and unction — is to protect the "little man" not necessarily from the machinations of unscrupulous businessmen but more particularly from himself and his own stupidity.

In a so-called democratic society if too many "little men" get ripped off, or rip themslves off because they can't think for themselves, the tally can be reflected at the polls. And no government likes no-votes; they bruise the political ego.

The old Ladofca — and no mean hag was she — and the CAA were something which the business world had learned to live with, although all reputable people in business — and this applies to most people in business — would have acted in accordance with a code of practice. Indeed the general banks had subscribed to a code of practice which had been operating successfully.

The "little man" was protected from obvious loan predators, but the businessman was left to fend for himself. The controls on business hire purchase worked well. Leasing was not the prerogative of "little men" and as for mortgages and other transactions which involved the lending of money there were enough statutes on the book to cushion and cosset the most simple minded.

Some years ago there was a bank whose principles and practices were, to say the least, questionable and if it had not been "saved" by an omnibus deal which included this bank, it would surely have gone the way of most businesses which buck the rules, not of the Registrar, but of the market place. And the market place is a tougher authority than the Registrar because free competition ultimately blows the whistle on dirty play.

That bank has gone and its inheritor is one of the pillars of the banking establishment so that soiled linen has been washed clean and except for those who had been hurt in the Bad Old Days the past would have been forgotten in the bleach. But not by the authorities.

For those in power have a long memory, and after agonising and agonising and consultation they decided that there must be greater protection. And once the "little man" is being protected, what about the not-so-little man? And if the not-so-little man is to be given a shield what about the not-so-big man? And so the knight in shining armour concept grew just like Topsy and Ladofca emerged — to control all money-lending transaction under R100 000

Now hire-purchase transactions,, leasing transactions, mortgage transactions, indeed every money-lending transaction of the magnitude of R100 000 is not peanuts. If you have any doubts about this ask your bank manager for R100 000 without giving what he regards as adequate collateral.

But the R100 000 ceiling is nonsense if looking after the "little man" or the not-so-little man is the meritorious intentions of our legislators. A socialist Government, imbued with welfare ideals in Britain, considered that a ceiling of £5 000 was high enough in its Ladofca-type legislation.

But here we must be bigger and better; our national ego demands it So up we go to R100 000 and we gratuitously extend the protection not only to people but to companies

Looking after people who can't look after themslves one accepts is a responsibility of government in modern societies. These people are cajoled, soothed, seduced, led astray by the hidden persuaders. They get so bamboozled that they fall to all sort of nonsense and they sign on the dotted line. As for credit-card transactions, no bank gives a cardholder unlimited credit with which to get into trouble. Banks aren't in business to lose money. They set limits after researching each case.

Most consumer credit is carefully monitored Of course, people get credit — but not for R100 000 Any businessman who attempts a swindle like that on people without money goes one way. . . down the drain which is the penalty market forces imposes on those who try to buck the rules.

Any money-lending transaction — except for a house mortgage — that is over R10 000 is a business transaction and in a free enterprise society a businessman should not be protected by cottonwool legislation. He either knows what he is doing, in which case he will remain in business. Or he doesn't know what he is doing, in which case he will end up in the insolvency court.

Protecting the incompetent does not strengthen either the private enterprise system or the market which is an integral part of the system. It actually weakens it because instead of endorsing the principle of the survival of the fittest it keeps alive elements which cannot compete.

If a businessman does not know how much he can afford to pay on a leasing, hire-purchase, or any other money-lending transaction, he is a dolt, an idiot, an incompetent who should not be in business. He is a desperate man on his way out — and the Government wants to protect him!

In point of fact, Ladofca is insulting to those in business. It assumes that those in business are incapable of assessing risks, that they would extend unlimited credit to those who can't afford it As a matter of fact, if protection is the purpose of the legislation, hopefully next year we will get the Daughter of Ladofca — to protect the institutions against those who are over-protected by the Government's smother love.

Produce more to avert disaster

(49) RDM 17/6/80.

By SIMON WILLSON
Industrial Reporter

SOUTH AFRICA'S industries must improve their productivity if a major socio-economic disaster is to be avoided, Dr Jan Visser, executive director of the National Productivity Institute says.

Speaking at a briefing on productivity in industry in Johannesburg, Dr Visser said that, as the black population's standard of living expectations rose, productivity had to rise because people could not consume more unless they produced more.

"Unless something drastic is done about our levels of productivity we are facing a major problem. After all, we can only consume what we produce and our level of production is directly related to our level of productivity," Dr Visser said

He said South Africa's productivity was "nothing to shout about". He consulted figures which showed South Africa's effective productivity to be below Australia's and only just above Zambia's and Kenya's.

Measured in gross domestic product per head in rands in 1978 at constant 1975 prices. Dr Visser produced the following productivity scale for selected countries·

Switzerland — 7 831
United States — 7 080
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Kenya — 218

"We are above Tanzania and Kenya but we are significantly below Australia, which is a comparable country.

"I attended a conference in the United States three weeks ago at which speakers were even asking what could be done about the US's low productivity rate." Dr Visser said.

Turning to how South Africa's productivity could be increased to cater for the rising standard of living expectations of the population, Dr Visser said the conventional remedies for low productivity did not necessarily apply to the Republic.

"The usual method of increasing productivity is to increase the labour/capital ratio — to invest more in machinery per unit of labour."

But Dr Visser warned that this remedy was not always applicable to industries in South Africa.

"We need employment opportunities in South Africa so we must not over-invest in capital. We must be more discreet in the technology we buy to improve our profitability.

"What works to increase productivity in the United States will not necessarily do the same here," Dr Visser said.

"We must be much more critical in what we purchase. We must evaluate alternative means of increasing productivity."

He said South Africa stood to gain more in the productivity field by investing in people rather than machines

"The problem is that the programmes for education and training in this country are abysmally bad and, until they are improved, investing in people will be a difficult process."

Dr Visser said available figures had conclusively shown one thing

"Statistics indicate that an increase in capital formation has not increased the productivity of labour or the capital/labour productivity level.

"In fact, labour productivity has fallen as capital has increased," he said.

Monetarists look upon the 'i' as a non potent tool [illegible]
Keynesians
The monetarists

Deflation – Gap = Aggregate Supply of G+S outstrips the demand for G+S.

RDM 17/6/80

More tax cuts are seen by the EDP

45

Financial Reporter

FURTHER tax cuts as part of a continuing policy are anticipated in the revised Economic Development Programme for 1978-87.

It says: "One of the fundamental policy assumptions in the EDP is that the country's economic growth rate over the long term can be increased only if the share of the public sector in the economy is reduced.

"An important part of this strategy is that the tax burden of individuals and companies will also have to be reduced.

"Obviously this policy will stimulate private consumer demand and more specifically its durable and semi-durable consumer goods component."

The EDP says it would be very dangerous at this stage to project the long-term impact of the gold and oil price hikes on South Africa's growth prospects.

Unknown factors such as the duration and extent of the recession currently being experienced in industrialised western countries and naturally also political developments could be of crucial importance in this regard, it says.

The EDP says: "There are nevertheless indications that even if the gold price merely maintains the average level of the past year or so over the rest of the programming period, this will undoubtedly have a further positive effect on South Africa's long-term growth expectations which could not have been foreseen a year or two ago.

"This matter will, however, require thorough consideration before the EDP can be revised.

"The knowledge and insight of persons and bodies in the [illegible]

period, because of the normal expansion in the domestic market for certain imported goods.

An important further reason for this view is the expected inhibiting effect that several big economic-strategic projects will, in any case have on the rate of increase in imports.

Especially important in this connection is the substantial effect that Sasol 2 and 3 will have on imports as crude oil and several other chemical raw materials which are based on crude oil and which will now be produced locally for example certain plastic raw materials.

The EDP says: "The putting into operation of phase 5 of the local content programme for cars and light commercial vehicles, linked to the Atlantis project for diesel engines, will certainly exert an important direct and indirect influence on the growth of the production and imports in certain sectors."

It is expected, for example, that imports of motor components in volume terms will decrease by an average of 1.4% a year during the 1980s while the production of components will increase by 10.7% a year.

South Africa is in the process of diversifying its weapons industry considerably, the EDP says, and the effect of this on the production of the engineering industry is already noticeable and will continue over the programming period.

At the same time, it is also assumed that the "existing trend regarding the narrowing of the income gap" (between whites and blacks) will continue, which is expected to stimulate the consumer demand for non-durable (foodstuffs, beverages, tobacco, fuel etc.) and semi-durable products (clothing, leather, medications, toiletries etc.).

Frasers International announces the transfer of the head office of its Freight Forwarding division to Johannesburg. The division, headed by managing director, Mr Bruce Furness, above, was formerly based in Durban.

ii) The Paradox of Thrift basically states that:

The ~~more~~ more people are willing to spend the greater will be the increase in national income

The more people scrimp and save the worse off will be and the smaller ...

This is an obvious parad... the worst thing to do ... save. However the reverse ... and buy the better off the economy will be.

True.

ticular value ...
exercise.

"Sector advisory committee meetings are therefore planned for the second half of 1980 at which short and long-term economic prospects will come up for discussion."

The reports says that if it becomes clear at that time that the growth potential projected for South Africa in the EDP is too low, the matter will be referred to the Prime Minister's Economic Advisory Council which will decide on further steps

The further stimulation of exports by the authorities combined with the expected utilisation of South Africa's natural comparative cost advantages vis-a-vis other countries will undoubtedly enhance the export performance of some sectors.

This is especially true of the coal mining industry where exports of between 35-million and 44-million tons a year are expected by 1987. Exports of raw materials in unprocessed or partly processed form will also clearly benefit,' according to the EDP.

It says no further stimulation of import replacement will be necessary beyond that which will in any case result from the current level of effective protection over the programming

The most ~~obvious~~ obvious case of empirical evidence is that of the Great Depression of the 1930's and for that matter all ~~any~~ other depressions or slumps in history. After the Wall Street Crash ~~and~~ the confidence of the people grew less and less and indeed it was ~~this~~ a sudden lack of confidence that led to the Crash. People began to hoard their money and this resulted in bank ~~[illegible]~~ runs. The people panicked and began to spend less and less. Roosevelt stepped in to try to restore the peoples 'buying confidence.' Without the support of the private expenditure sector an economy could never grow. Roosevelt's action could not at first prevent the economy from sliding to all time lows but they did eventually pull America out of the trouble and put it back on the road to success

6 1/2

GNP = C + I + G   - If C falls GNP must fall

12

Similarly if withdrawals out of the economic system are ~~continually~~ continually made - in the form of savings ~~the~~ the GNP will be affected.

49

17/6/80

13

Produce more to avert disaster

RDM 17/6/80.

By SIMON WILLSON
Industrial Reporter

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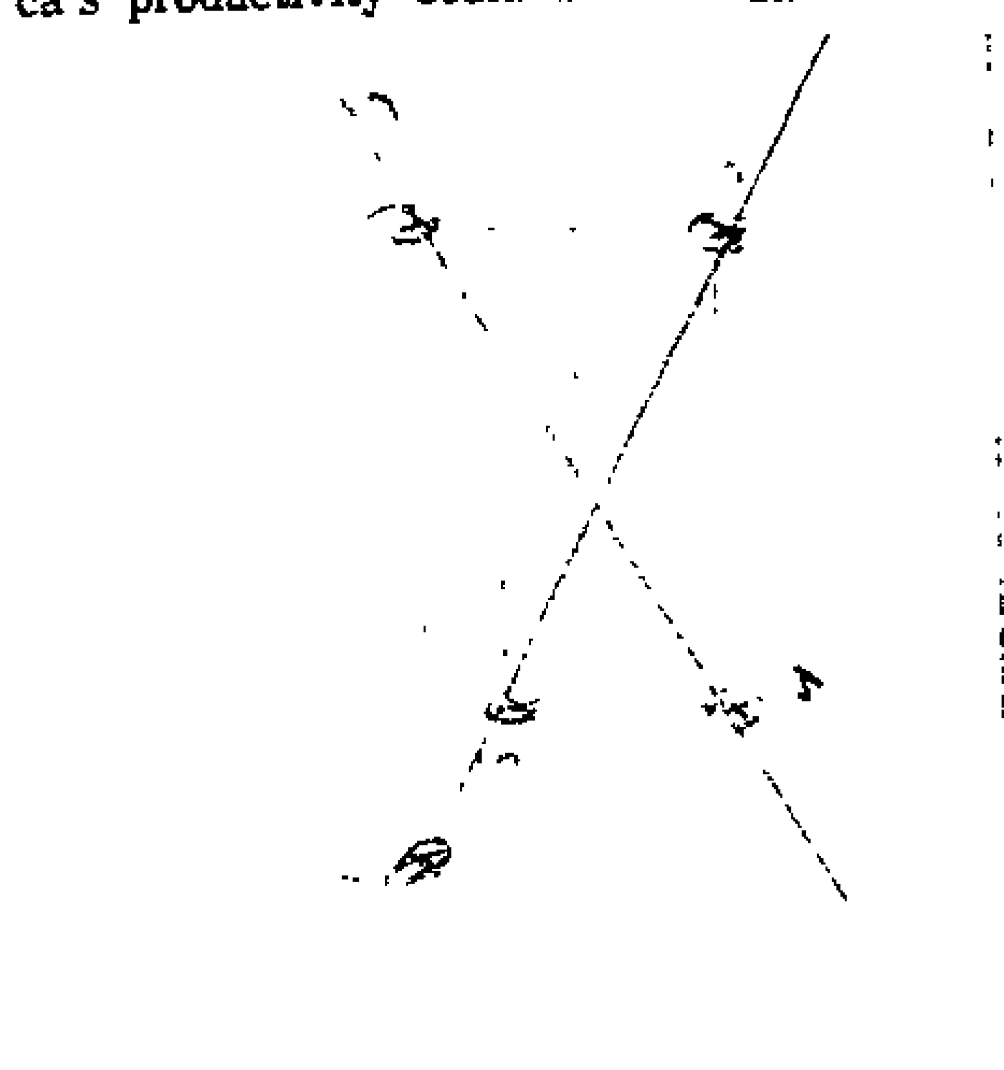
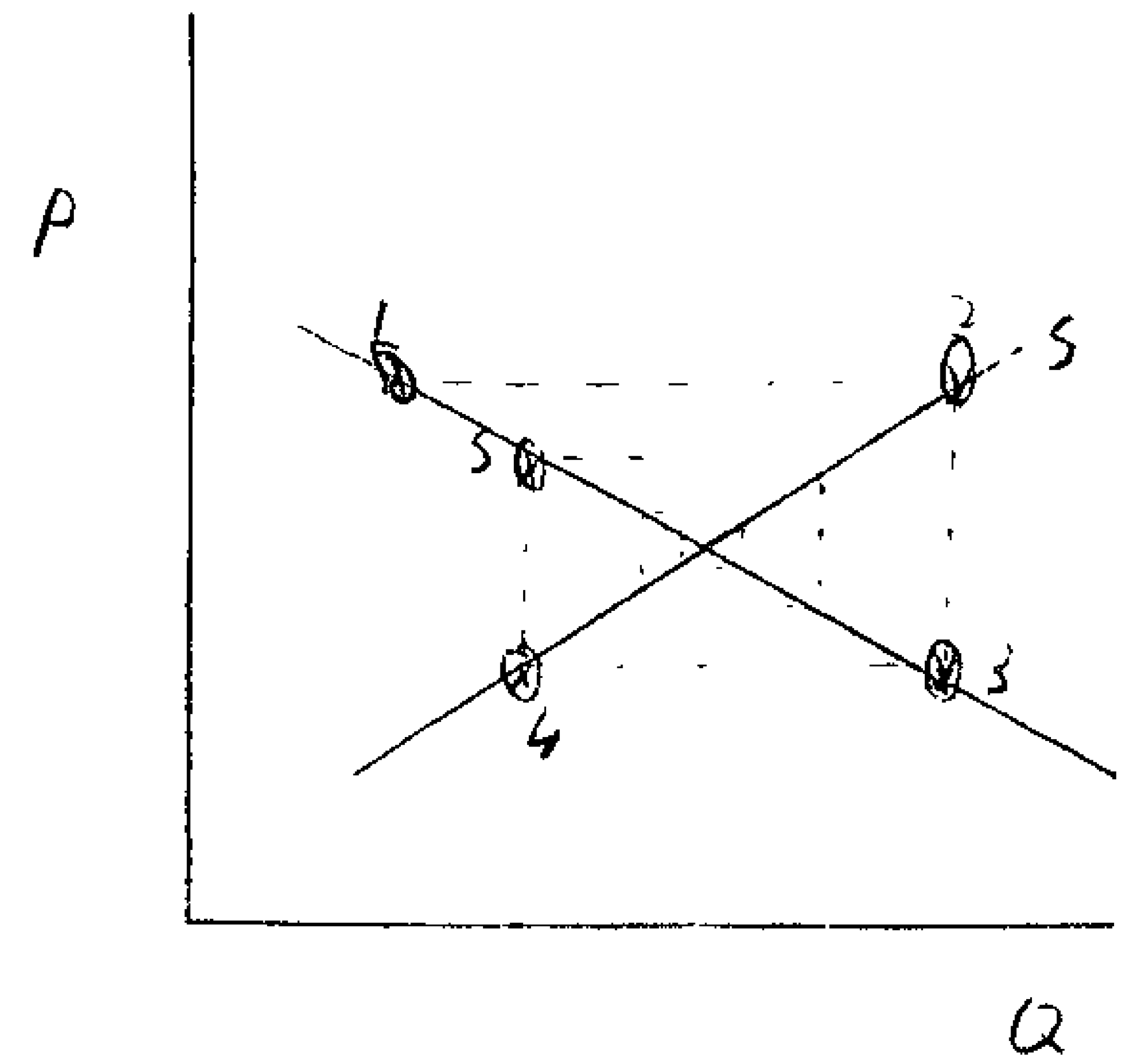


13

6i There are two main consequences if the farmers base there planned output on the pri[...] in the previous year.
To follow these we have to assume [...] were poor one year (or very good) but that planned output equalled ~~[illegible]~~ actual output.

If the demand curve [...] unlikely as food is usually a [...] series of diminishing occilat[...] quantities.

eg i



Assuming that there is a c[...] high ①, next year the farm[...] drops to ③, .. year after[...] rize to ⑤.
As can be seen this diminishing occilations [...] balance itself, the reason that it does manage is that there is little price change with each change in quantity and this has a dampening effect. If on the other hand, when the demand curve is inelastic, there are large

49 RDM 17/6/80

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SOUTH AFRICA'S industries must improve their productivity if a major socio-economic disaster is to be avoided, Dr Jan Visser, executive director of the National Productivity Institute says.

Speaking at a briefing on productivity in industry in Johannesburg, Dr Visser said that, as the black population's standard of living expectations rose, productivity had to rise because people could not consume more unless they produced more.

"Unless something drastic is done about our levels of productivity we are facing a major problem. After all, we can only consume what we produce and our level of production is directly related to our level of productivity," Dr Visser said.

He said South Africa's productivity was "nothing to shout about". He consulted figures which showed South Africa's effective productivity to be below Australia's and only just above Zambia's and Kenya's.

Measured in gross domestic product per head in rands in 1978 at constant 1975 prices, Dr Visser produced the following productivity scale for selected countries:

Switzerland — 7 831
United States — 7 080
Canada — 6 715
Australia — 5 486
South Africa — 1 065
Taiwan — 1 032
Zambia — 401
Kenya — 218

"We are above Tanzania and Kenya but we are significantly below Australia, which is a comparable country.

"I attended a conference in the United States three weeks ago at which speakers were even asking what could be done about the US's low productivity rate," Dr Visser said.

Turning to how South Africa's productivity could be increased to cater for the rising standard of living expectations of the population, Dr Visser said the conventional remedies for low productivity did not necessarily apply to the Republic.

"The usual method of increasing productivity is to increase the labour/capital ratio — to invest more in machinery per unit of labour."

But Dr Visser warned that this remedy was not always applicable to industries in South Africa.

"We need employment opportunities in South Africa so we must not over-invest in capital. We must be more discreet in the technology we buy to improve our profitability.

"What works to increase productivity in the United States will not necessarily do the same here," Dr Visser said.

"We must be much more critical in what we purchase. We must evaluate alternative means of increasing productivity."

He said South Africa stood to gain more in the productivity field by investing in people rather than machines.

"The problem is that the programmes for education and training in this country are abysmally bad and, until they are improved, investing in people will be a difficult process."

Dr Visser said available figures had conclusively shown one thing.

"Statistics indicate that an increase in capital formation has not increased the productivity of labour or the capital/labour productivity level.

"In fact, labour productivity has fallen as capital has increased," he said.

SECTION C

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered); leave columns (2) and (3) blank.

R1 670m first-quarter capital outflow

(49) RDM 18/6/80

Financial Reporter

THERE was a huge capital outflow of around R1 670-million in the first quarter of this year, according to the June quarterly bulletin from the Reserve Bank.

But this was more than covered by the whacking R1 970-million surplus on the current account of the balance of payments.

The outflow should also have been drastically reduced by the change in the Reserve Bank's forward cover policy.

The bulletin says the economic upturn has created many more jobs — but there is still a high level of unemployment, particularly among unskilled workers.

It also reports a big improvement in private fixed investment, which is encouraging both for general growth and employment prospects.

The bank says the further economic growth in the first quarter of 1980 was based mostly on a sustained increase in real private consumption expenditure.

Of the other components of real gross domestic expenditure, only fixed investment showed a small rise.

Government consumption expenditure decreased and inventories declined by a larger amount than in the preceding quarter.

The volume of exports increased slightly in the first quarter, making only a limited contribution to real economic growth during this peri0od.

The bulletin says that although total real fixed investment increased only marginallyy in the first quarter, a strong rise occurred in real private fixed investment.

It would appear that surplus production capacity was taken up in certain industries and that higher consumer demand increased the scope for new fixed investment.

The bulletin says higher levels of real economic activity were attained in all major sectors of the economy, with the exception of agriculture and gold in the first quarter.

The higher rate of growth in the real gross domestic product of the non-agricultural sectors of the economy in the second half of 1979 continued during the first quarter of 1980.

Sharp fluctuations in the real output of the agricultural sector, however, caused the aggregate real gross domestic product to increase at a lower rate in the first quarter of 1980 than in the preceding quarter.

(Senator Horwood, the Minister of Finance, has said that it picked up again in the second quarter).

The bulletin says the rate of inflation decelerated somewhat in the first quarter of 1980 and consumer as well as wholesale prices showed lower rates of increase.

Curbing the high rate of inflation remains one of the major objectives of economic policy in 1980.

	Internal	External
1)	(2)	(3)
2b	3 -	
a	3 1/2	CB.
b	4	CB.
b	[illegible]	
...ami-...ers' ...itials		

Paper No. ....
(to be copied from the heading on the Examination Paper)

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book (s) are used.

WARNING

1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.
2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

BOOMING TAX REVENUES BEAT FORECAST

19/6/80 ARGUS

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~~220~~

Financial Editor

HELPED by a strong gold price and a rapidly expanding economy the Government's tax revenues are booming, a Treasury statement shows.

MR CONRAD NAGLE has been appointed group insurance and risk controller for the Greatermans group.

Tax collections in the two months ended May totalled R1 646,5-million. This is R395,7-million more than the Treasury received in the same two months last year.

Representing an increase of 31,7 percent, it is almost three times the 10,8 percent increase in tax revenues this year forecast in the March Budget.

Collection on inland revenue account in the two months soared 39,4 percent from R1 094-million to R1 524-million, up R430,4-million.

But this increase was partly offset by a drop in customs and excise receipts from R156,8-million last year to R122,1-million this year, mainly as a result of the abolition of the import surcharge.

RATES REDUCED

The big increase in tax revenues is unlikely to be fully maintained in July when the 'pay-as-you-earn' income tax rates are substantially reduced.

Nonetheless, if the economy continues on its present path, as there is every indication that it will, it seems that tax revenues this year should still be substantially higher than the Government expected.

CUT AGAIN

One happy consequence of this situation is that South Africans might find taxes cut again in next year's Budget.

Another probable consequence is that Government borrowing this year is likely to be well below the Budget forecast.

In his Budget speech, the Minister of Finance, Senator O P F Horwood, estimated this year's borrowing requirement at around R700-million.

NEW ROOMS

But with tax revenues running ahead of Budget requirements by around R135-million a month — or by about R1 620-million a year — the need for the Government to raise new loans has been greatly reduced.

This is good news for other borrowers as, with the Government likely to be out of the market, medium and long-term interest rates are less likely to rise in the immediate future.

The cost of raising loans therefore, is likely to remain comparatively low for at least this year.

Growth gathers pace

49

RDM 19/6/80

By HAROLD FRIDJHON

THERE are encouraging signs that private fixed investment, the key to economic expansion, has started to roll.

According to preliminary estimates by the SA Reserve Bank, private fixed investment in the first quarter of 1980 was R2 367-million compared with R1 901-million in the first quarter of last year and R1 600-million in the first quarter of 1978.

After making adjustments for inflation, by looking at these figures in constant 1970 prices expenditure on fixed assets by the business sector in the first quarter of this year amounted to R535-million against R460-million and R433-million in the first quarters of the previous two years.

This is a 16% increase — this year on last — in real asset terms and suggests that as capacity is increasingly being used to the full, a start is at last being made to provide the means to cater for future needs.

At current prices, the outlay by manufacturing industry reached R657-million in the first three months of this year. This is nearly 37% more that in the comparable period of last year and it continues a trend which was discernible in the closing three months of 1979.

What is particularly encouraging is that the private sector seems to have taken the bit because, although expenditure by the public corporations has also increased, private enterprise has, in both percentage and real terms, recorded bigger growth.

The public sector spent R457-million in the first quarter compared with R421-million a year ago and R373-million in the previous year. When these figures are adjusted for inflation it is apparent that public sector real spending has declined.

This is as it should be. Real growth can only be generated by the private sector. If the pace of investment which is estimated for the first quarter can be maintained, an overall real growth rate of 6% for the year appears to be feasible.

Another set of Reserve Bank preliminary figures which present an encouraging growth rate are those for private consumption expenditure. At current prices, private consumption expenditure in the first quarter of this year is estimated at R6 844-million against R5 680-million in the first three months of last year and R4 962-million in the same quarter of 1978.

On an annualised basis, public consumption expenditure for the first quarter, is at an all-time peak of R28 799-million, which is 13% above the total for last year. Bearing in mind that fourth-quarter spending is always considerably higher than that for the other three quarters, the 1980 first-quarter numbers are encouraging.

And they don't lose their glister when they are brought back to 1970 constant prices. On this basis, 1980 first-quarter expenditure is 8% higher than the comparable figure for last year and nearly 10% above the corresponding figure for 1978.

The biggest increase in the public's spending has been in the durable good field which in real terms has increased by 17% this year. In both semi-durables and non-durables — largely food — the real growth has been 10%.

Economy escapes unrest damage — for the present

(497) 1974 RDT 19/6/80.

By GERALD REILLY
Pretoria Bureau

ECONOMISTS say the civil unrest has had no noticeable impact so far on business prospects. They warn, however, that if political solutions to South Africa's problems are not found, economic difficulties could arise.

This is the view of some economists and Opposition politicians spoken to yesterday.

However, they stressed that the troubles were unlikely to have any marked effect on the internal economic pace, or on overseas investment in South Africa.

But London newspaper commentators have warned of a heightened concern among investors and industrialists because of growing urban violence.

The PFP's financial spokesman, Mr Harry Schwarz, said spending and investment in South Africa had hardly been affected by the unrest.

"This is an indication of the strength of the economy. Against a different background, the economic consequences could have been serious. The economy has taken the troubles in its stride."

Referring to the effect on overseas investment in South Africa, Mr Schwarz said the world had become accustomed to disorder. Urban violence and disorder was not a new problem to Western democracies, and he did not think that overseas investment in SA would be affected.

However, if the political problems confronting South Africa were not dealt with speedily, and violence increased, economic problems would also grow.

The Secretary for Finance, Dr Joep de Loor, said the fact that South Africa raised a R120-million loan in West Germany on favourable terms after the Sasol incident — and after the start of the school boycotts — was an indication that the unrest would have little, if any, effect on South Africa's economic advance.

However, if the unrest dragged on and intensified, there would be reason for concern, said Dr De Loor.

Barclays Bank's chief economist, Dr Johan Cloete, said the unrest and the manner in which the authorities dealt with it could affect the pace of the economy.

Disturbances of the kind South Africa was now experiencing always had harmful economic effects.

However, economic conditions were so favourable that the adverse effect of the disturbances were being counterbalanced.

But if the unrest continued, business and consumer confidence would be adversely affected as they were after the Soweto troubles in 1976. The 1977 slump was caused mainly by the Soweto disturbances.

Another risk, Dr Cloete said, was that unless the unrest ended and the correct remedial action was taken by the authorities, South Africa's export trade could be affected.

Overseas buyers might lose confidence in South Africa's ability to maintain regular supplies, trade boycotts could be applied; and, as had happened before, trade unions might "black" South African cargoes.

Mr G J J Snyman, an economist with the Bureau for Economic Research at the University of Stellenbosh, believed the effects of the instability in South Africa would have only a minimal effect on overseas investors' confidence.

"You only have to look at the stability of the Johannesburg Stock Exchange to realise that investors have accepted the risk of political instability."

Mr Snyman said there were so many plus factors in the economy that the effect of the disturbances could be discounted.

Economically, the unrest could not be compared with the Soweto riots of 1976. At that time, South Africa was in a recession and the climate was in any case unfavourable for investment.

The director of the Federated Chamber of Industries, Dr Johan van Zyl, said South Africa was in a transitional period in its constitutional development — "which is normally not a stable time".

"However, the happenings in this country recently must be seen in perspective and against this background. Problems and difficulties will arise along the way, but we must keep cool heads."

20/6/80

expenditure that increased, and then marginally. A substantial rise in the capital outlays of the private sector as surplus production capacity was taken up was offset by a decline in public sector investment. Government consumption expenditure decreased, exports rose slightly, and inventory levels declined.

- Inflation decelerated in the first quarter but rose again in April as the annual round of administered price rises came into effect. Curbing inflation should remain one of the major policy objectives in 1980.
- Unemployment showed a distinct decrease, but mainly in skilled labour, with unskilled unemployment levels remaining at a high level.
- The balance of payments provided much of the scope for more rapid economic expansion during 1980. The current account showed a record surplus in the first quarter of nearly R2 000m. This was caused mainly by a sharp rise in the gold price, which rose over $200 on average valuation procedures compared with the last quarter of 1979. Imports and exports, in both value and volume terms, increased only marginally.

The massive outflow on the capital account increased in the first quarter to R1 665m from R1 017 in the last 1979 quarter. Most of it (R1 042m) was short-term capital which left the country as trade financing was increasingly switched to domestic sources. The Reserve Bank used the outflow as a means of reducing internal liquidity until mid-April, when the drain had become so extensive that "substantial foreign reserve losses and a severe tightening of the money market was experienced," at which point the forward dollar discount was raised and the outflow effectively ceased.

The rand continued to appreciate on a trade-weighted basis against the major trading currencies in the first quarter. Although it maintained its rise against the dollar, it declined from April against the other currencies in line with the dollar's decline.

- The broadly defined money supply (M2) rose a moderate 14% in the first quarter of 1980 after its 27% increase in the last quarter of 1979, and actually declined in April. However M1 (coins, notes in circulation and demand deposits) rose an annual 37%, about 10% slower than the rise in the last quarter of last year, largely as a result of demand for bank credit for local use and foreign trade financing. Between April 1979 and April 1980, M2 rose 15%. But the inclusion of short- and medium-term "buy-back" agreements between the banks and large companies and institutions, whereby the banks sell money market assets on the understanding that they will be repurchased when cash is needed, brings the annual increase to nearly 30%.

So, apart from the erratic behaviour of the money supply and the excess liquidity in the financial sector, the economy seems to be set for growth. The strength of private sector consumption expenditure and investment relative to the public sector is a happy vindication of current fiscal policy.

FOREX

The Reserve Bank spot rate opened on Wednesday at $1,2920-40, up 30 points on the week. The rand, therefore, continues its appreciation against the dollar, but at a reduced annualised rate — 12,1% compared with the previous week's 31,4%.

The financial rand had an unhappy week, against the backdrop of urban unrest. The effective rate at midday on Wednesday was 88,75c (US), a notable drop of 3,0% from the previous week's 91,50c.

The forward discount pattern reflected erratic movements, with the rates as follows, compared with the previous week: up to 121 days, 3,75% (3,625%), 121-243 days, 3,25% (3,375%); and 243-365 days, 2,75% (2,875%).

RESERVE BANK

FM 20/6/80

All aboard!

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Wafted by the warm currents of the business cycle, and steered by the helmsmen in Pretoria, the economy appears to be soundly on course towards the crest of the upswing. According to the latest quarterly bulletin published by the Reserve Bank:

- Gross domestic product maintained the higher growth pattern established in the second half of 1979, rising at an annualised rate of 5% in the first quarter of 1980. All the major sectors of the economy except agriculture and mining achieved higher levels of real economic activity. Favorable terms of trade (mainly the high gold price) caused an even higher growth rate in gross national product.
- Private consumption expenditure, which was about 10% higher at an annual rate in the first quarter of this year over the last quarter of 1979, was the main engine of growth. Most of the spending was in the consumer sector.
- Fixed investment expenditure was the only other component of total domestic

june 20 1980

Financial Mail

FM

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MONETARY POLICY

Coping with the swings

Ironing out the short-term fluctuations in the nation's money stock has never been an easy task. And judging by the erratic fluctuations in the monetary aggregates during the first four months of the year, the authorities are no closer to controlling monetary growth now than they were 10 years ago.

The narrowly defined money supply — MI, which is coins and notes in circulation and demand deposits — once adjusted for seasonal variations and annualised, grew by a respectable 12,7% in January, fell back to only 3% in February, soared by just over 70% in March and then shrank by 10% in April. MI growth during the first quarter of the year compared to the same quarter a year earlier averaged slightly more than 20% — which is still uncomfortably high relative to the targeted 13% or 14% for 1980 as a whole.

But growth in the broadly defined money supply — M2, which includes MI plus short- and medium-term deposits — has been substantially lower and less erratic than was the case with MI. For instance M2, seasonally adjusted and annualised, grew by 19,8% during March while M2 growth during the first quarter averaged just below 15% compared to the first three months of 1979.

Now, the renewed surge in the bullion price has once again emphasised the need for effective monetary management. Some experts warn that the Reserve Bank's present range of policy instruments is not adequate to cope with the higher than anticipated liquidity inflows that must materialise if gold holds around $600. New longer term policy initiatives must be sought preferably ahead of the De Kock Commission's next report, expected early in 1981.

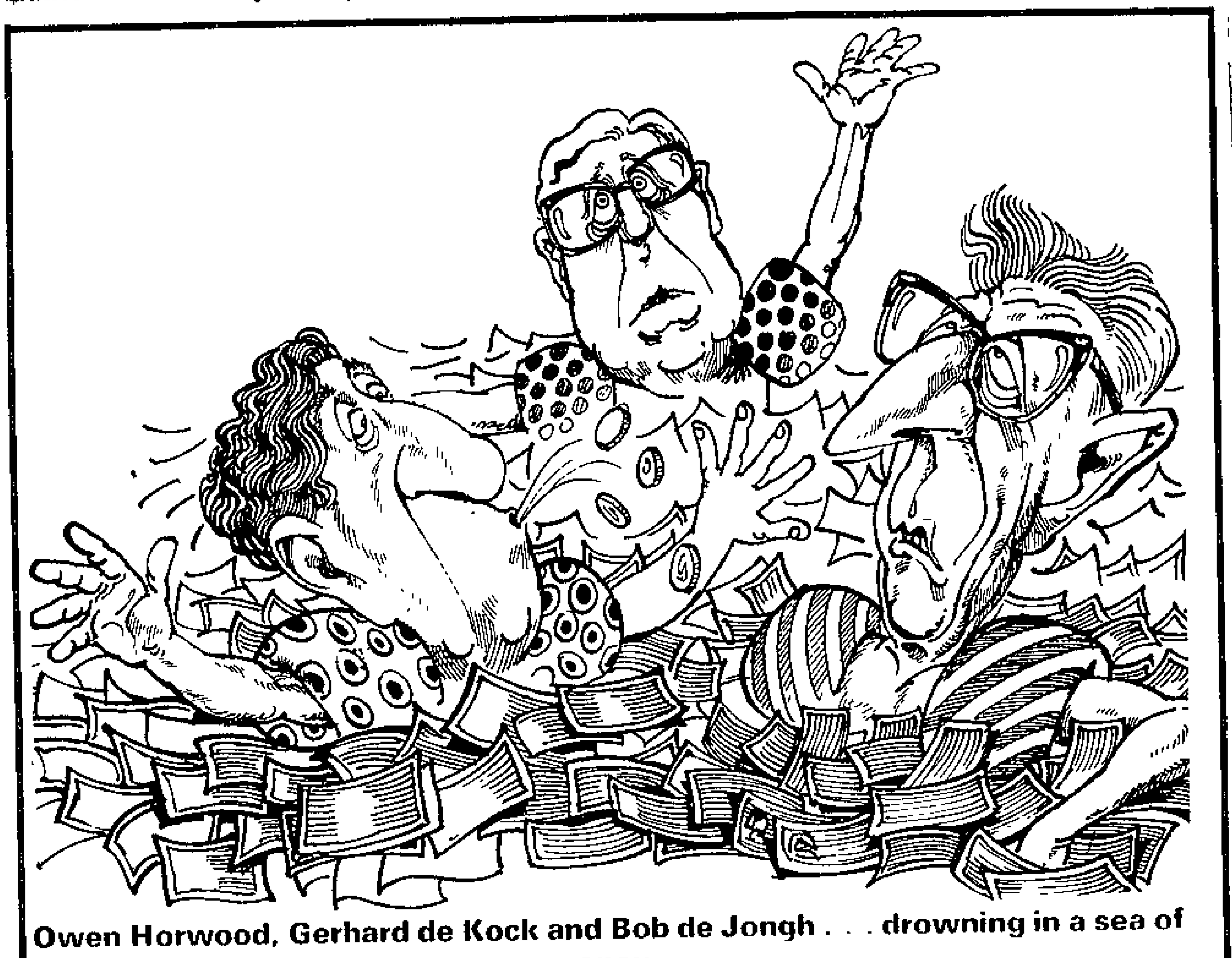
Two fundamental questions arise from these latest monetary statistics. First, how important is it for the monetary authorities to smooth out sharp, short-term fluctuations in the money supply? And second, if it is important, how can this best be achieved?

There is a school of thought which believes that steady monetary growth is vital if the economy is to realise its maximum potential. Excessive, sharp increases in MI have *real* effects in the economy. They raise the level of aggregate demand, force up prices and, particularly important, fuel *expectations* of further inflation.

Ad hoc measures by the Reserve Bank — such as manipulating the spot exchange rate and the forward margin in attempts to neutralise liquidity build-ups — are not only unsatisfactory in their results but are highly disruptive. Moreover, those who rely on open market operations "to do the trick" are expecting too much from this particular instrument of monetary policy.

One of the most ardent proponents of this school, UCT's Brian Kantor, insists the authorities will not achieve effective control if they continue manipulating both the exchange rate and the money supply. "You can't have it both ways," says Kantor. "Either you try to control the rate of monetary growth and let the balance of payments look after itself through the mechanism of a freely floating exchange rate and market determined forward margin, or you pursue an exchange rate policy and let money supply find its appropriate level."

Obviously, points out Kantor, SA must set monetary targets, stick to them and, in so doing, break the dependence of money supply on the balance of payments. Under that condition and faced with the potential of sustained large surpluses on current account (as long as the gold price holds), the rand must appreciate strongly, thereby encouraging a higher level of imports. Banks must be allowed to speculate freely in foreign exchange and be permitted to hold higher balances abroad; the Reserve Bank's own cash holdings of foreign reserves should not be a constraint, since banks can always open up substantial credit lines with overseas



Owen Horwood, Gerhard de Kock and Bob de Jongh . . . drowning in a sea of money

FM 20/6/80

X

GOVERNMENT EXPENDITURE

A solid start

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Central government expenditure in April, the first month of the new fiscal year, was 50% higher than it was in April 1979

New revenue raised by taxation and customs charges over the month amounted to about R703m, but after accounting for transfers from the various central funds, and amounts in transit, the Treasury had in hand total revenue of about R767m A portion of this went immediately into customs union payments and the central revenue fund, which left around R616m in the Exchequer account

Total expenditure, including debt servicing and repayment, departmental expenditures and transfers into funds (the largest being R23m to the state oil fund) amounted to R2 365m The overall deficit was thus in the region of R1 719m which was financed by borrowings of R1 470m and a R249m balance carried over from the previous month.

Expenditure by government departments alone was R1 232m, compared with R817m in April 1979, an increase of 50%. This compares unfavourably with Finance Minister Owen Horwood's budgeted intention to keep the increase in overall government spending in 1980 to about 14%, roughly in line with the rate of inflation, and therefore a zero rate of real growth

Treasury sources maintain that departmental expenditure fluctuates considerably from month to month, and that no seasonal trends are really discernible apart from the tendency for spending to increase towards the end of the fiscal year as departments hasten to consume the unused portions of their annual budgets To compare expenditure on a monthly basis, they add, is invalid, to project trends on the same basis produces nothing but distortion

There are at least three possible reasons why expenditure in the first month of the new fiscal year was so high First the civil service is undergoing a rationalisation process, with 42 departments being telescoped into 31 The cost of reorganisation is undoubtedly high, and with the new chains of command being increasingly centralised in the Prime Minister's office, spending by his department was six times as high in April 1980 as it was in April last year The annual budget for the PM's office contains, for instance, a vote of R100 000 allocated to 'political planning', a category that did not exist as such in 1979; the allocation for 'security planning' for 1980 is nearly R500 000 compared to R45 000 last year.

Chickens roosting

Second, the new civil service salary scales and service bonuses came into effect in April The bonuses are being spread out over the year by being paid on employees' birthdays, but all those whose birthdays fell between January and March were paid out in April.

Third the chickens hatched during the pre budget spending spree may have come to roost in April Departmental expenditure is tabulated as payments are made, and not when contracts are arranged Requisitions made in February and March could well have been presented for payment in April.

So there are a number of possible and specific reasons for the spending surge The figures also illustrate how incremental increases by individual departments can combine to produce a disturbing whole According to a Treasury source, the departments present additional budgetary estimates in October and February. "Depending on the specific circumstances, they sometimes get augmentations. If hostilities escalate in an unforeseen way, for instance, Defence will get more But we try to keep the augmentations to between R2m and R3m."

An additional R3m for each of the civil service's 30 departments would raise total central government expenditure for 1980 81 by about R100m It would have a small but visible effect on Horwood's carefully laid plans for fiscal moderation.

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NEW LEGISLATION

Passing the usury buck

Others may wonder, but the *FM* has no doubts why such important legislation as the usury and other aspects of control over money lending and credit was rushed through Parliament last week and indeed, handled by the relatively junior Deputy Finance Minister, Pietie du Plessis.

For a Finance Minister so overtly monetarist as Owen Horwood to have stood up in the House and introduced a Bill based on such socialist principles could have provoked a withering — and telling — drubbing from the Opposition.

It would have taken the gilt off what has been for Horwood an otherwise very successful — maybe even triumphant — session. Let's face it, the very nature of these measures, contrasted against his policies of recent years, indicate that he passed the buck.

Instead, the inadequacy of time available to discuss the obvious complexity of the measures spear-headed the Opposition's attack. The real point at issue was lost.

This was not the unseemly haste of the legislators. After all, aspects of the Bill have been under discussion with bankers since 1976 — maybe even longer.

Nor is it that too much and inappropriate protection is given to small borrowers to avoid their being persuaded into their own folly — although this comes closer to it.

The real point is that if monetarist policies are going to be applied successfully in this country, there are going to be times when interest rates, even for the small man, must be allowed to rise significantly. After all, on an after-tax, inflation-adjusted basis, money can today be borrowed in SA at a negative rate of interest.

Misallocation

Moreover, if this is not allowed to happen, the cost (in terms of misallocation of resources) of protecting the small man could well outweigh the general public good and amount to an unfair tax on the diligent.

Of course, some will argue that the heights to which interest rates in the US and Britain were allowed to climb will not be necessary here as our money supply growth is under control.

But it should also be remembered that SA is at a different stage in its business cycle. And with our trade balance heading for another record year, the spectre of demand inflation will eventually need to be warded off.

In any event, our turn for high interest rates is going to come eventually — economic policymaking being an imprecise science — although with luck the consequences might not be quite as severe as those in the US and Britain.

Even then, however, it might well be necessary, as the money supply is squeezed, for prime overdraft rate to exceed its old usury ceiling of 14% and for hire purchase rates to be well over 18%.

Nor is it sufficient to argue that, in this event, the authorities will simply raise the usury ceiling accordingly. For the plain fact is that when a similar situation arose in 1974, they did not do so.

At that time, the Reserve Bank tried simultaneously to protect the small borrower by keeping usury ceilings low while imposing a credit squeeze to curb the worst excesses of Dr Diederich's profligacy.

The result was that the effective cost of banks' deposits grew even faster than their lending rates. Their requests to have the usury ceiling raised from 12% to 15% were brushed aside.

This led to an increase in non-bank lending via all sorts of fancy — sometimes illegal — raising fees. Ultimately, it made control of the money supply much more difficult and placed considerable financial strains on the banks, especially the small ones.

Lifeboat loan

Within two years the Reserve Bank was organising a "lifeboat" loan to help preserve the financial stability of some small banks. The seeds of their problems were not — as with the larger banks — in the collapse of property values, but in the disintermediation resulting initially from usury limits that were held too low for too long and which should not ever have been in existence in any event.

Having experienced the harm that can be brought about by even the well-intentioned through undue usury restraints, the question that should be

to those wanting to spend. Almost without exception economic activity has been increasing in nearly all sectors of the economy — particularly mining and farming, and appropriate government action will enhance this upswing; the increase in the current account has enabled foreign loans to be reduced and foreign reserves to increase; the revenue from gold alone is expected to be R8 300 million (assuming the gold price remains at approximately the same level) and this is sufficient to pay for all imports, including oil and armaments — thus no balance of payment difficulties. These are all 'plusses' to the strength of the economy, and what needs to be done now is to increase consumer spending.

THE ECONOMY

Off at a cracking pace

Fm 20/6/80 49

The economy got off to such a flying start in the first few months of this year, that in the *FM's* view the growth rate over the whole year could substantially exceed the 5,5% forecast in March. It could even be closer to 6,5%.

This week the Reserve Bank reports that gross domestic product increased at an annual rate of about 5% in the three months to March.

This was fuelled by a substantial rise in private consumption and, to a lesser extent, a sharp increase in private fixed investment as manufacturing capacity continued to shrink.

The sharp rise in the gold price at the start of the year provided the scope for this more rapid rate of economic growth, despite the substantial short-term capital outflow.

If these factors had such an impact on the growth rate in the first quarter, it stands to reason that, after the March budget tax reductions add further impetus to the trend, the pace of business activity in the second quarter will certainly be a cracking one.

Substantially higher

In addition, while the gold price has declined from the peaks it reached earlier in the year, it has remained for six months now substantially higher than what was considered necessary in March to sustain a 5,5% annual rate of growth.

The trade surplus is, in consequence, already at record levels and, as we have indicated elsewhere, it could this year even be double last year's record.

The more buoyant economy also had considerable impact on black unemployment. The ratio of unemployed blacks to the economically active black population declined from 9,4% in February 1979 to 8,8% this February.

The inflation rate is also responding to continued monetary discipline and the CPI is down from an annual rate of increase in the fourth quarter of last year of 11,3% to 8,6% in the first quarter of this year.

If the trend in wholesale prices and the official spending targets of the March budget are any indication, prices could this year rise at a much lower pace than that of last year.

Nevertheless, as the growth rate this year is patently now assured, the time is most likely ripe for a slight change in emphasis in government policymaking, with more specific measures being aimed at inflation.

Minister Horwood . . . gone about as far as he can

Of particular importance should be measures to ensure adequate official control over the money supply in the short-term. Although the year-on-year growth has been kept tight, the wide monthly fluctuations in monetary aggregates are a cause of concern.

In this respect, the final report of the De Kock Commission into the Monetary System and Monetary Policy will be awaited with growing urgency.

With the record trade surplus feeding large amounts of liquidity into the financial system, constraints on output could quickly fan once more demand inflationary pressures, especially now that the Reserve Bank's forward discount policy is restraining the short-term capital outflow.

It is also essential, therefore, that the rand's international value continues to rise so that cheaper imports can support any shortfalls in domestic manufacturing capacity.

But the most important policy measures to contain wages and thus reduce inflating labour costs, are not within the bounds of monetary and fiscal measures.

Restrictions on the mobility of black and coloured workers must be removed and action to remedy the inadequacies of their education and training rapidly be embarked upon.

The Minister of Finance, Owen Horwood, has gone about as far as he can to provide an adequate rate of economic growth this year. Indeed he has achieved more than many thought possible.

Now it is up to his Cabinet colleagues. If they do not provide the necessary political and social backup, the advantages of a more rapid economic growth rate will be whittled away by inflation.

Sun Times 22/06/80

Sweeping plans for free enterprise

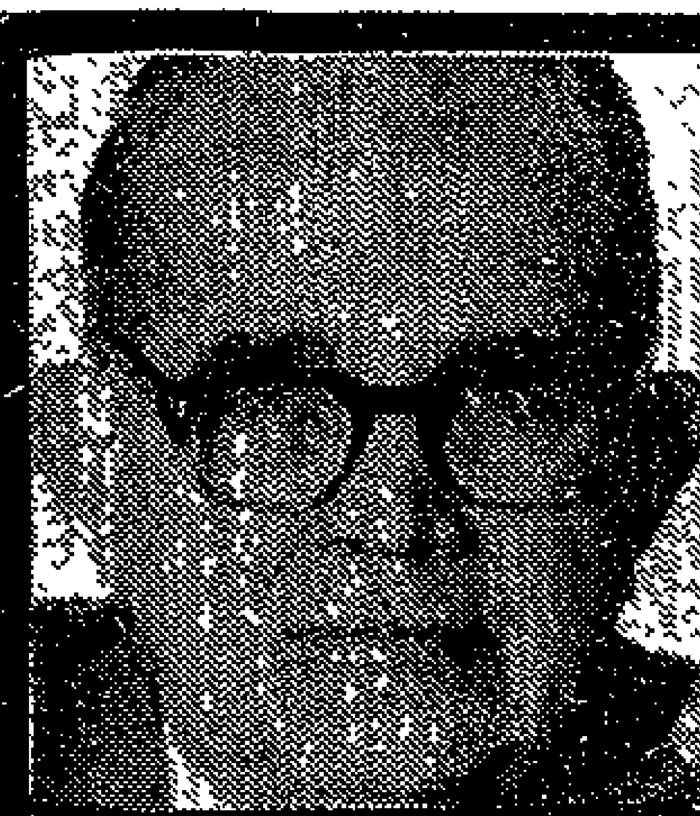
By STEPHEN ORPEN

IT WILL cost South Africa a mind-boggling R166 000-million to create enough jobs to keep unemployment in check in the next 20 years.

Plans are being forged to launch a supreme council of private sector leaders to work with the Government and the blacks on the future strategic development of a free market system which will benefit all South Africans.


GAVIN RELLY


OWEN HORWOOD


WIM DE VILLIERS

In the period to the turn of the century, there are likely to be 7,342-million new job seekers, of which 5,342-million will be blacks — almost equal to the entire black workforce in the country at present.

Moreover, the shortage of skilled labour could exceed 2-million by the year 2 000.

Also, to narrow the wage gap to the point where blacks earn 50% of what whites earn, the country's total wage bill will need to rocket to R139 000-million.

This will require a growth in the gross domestic product (GDP) of nearly 500% to R214 000-million.

This implies a sustained national growth rate of at least 8% every year for the next 20 years.

Remembering that a real growth rate above 6% has never been sustained for more than a year or two in the past, the 8% option is clearly unrealistic.

Based on conservative current trends and thinking, such formidable figures are revealed in a comprehensive new report, revealed to Business Times today (and foreshadowed on April 6).

The report has been produced by the research organisation, Syncom, following the historic meeting of the Prime Minister with some 250 private sector leaders on November 22 last year and a major conference on free enterprise staged by the 1820 Settlers Monument Foundation in the same week.

The report, on "Free Enterprise and the Individual", (generally available from Syncom this week), demonstrates clearly that there will have to be drastic changes in the whole approach to development in South Africa if the country is to avert a gathering crisis.

As a result, top level discussions are already underway to examine means to constitute a private sector organisation — under the leadership of men like Harry Oppenheimer, Anton Rupert, Dick Goss of SA Breweries, Mike Rosholt of Barlows and a dozen others — to serve as an ongoing council, representing the private sector, in response to the Prime Minister's approach last year.

Current thinking is that this organisation could be based on the existing Free Market Foundation, but with hugely increased stature and muscle.

The new organisation would differ from the Prime Minister's Economic Advisory Council in dealing with strategic developmental questions rather than narrower short and medium-term economic matters,

● To Back Page

22/6/80 SUN TIM

Blacks battle for holiday jobs

By KERRY SPENCE

THE SOUTH African economy is on the upswing, yet black students who are forced to pay for their own education are struggling to find holiday jobs.

Mrs Ina Perlman, general secretary of the SA Institute of Race Relations which is attempting to place black students in employment, says few firms have responded to their appeals.

"Many black students," she said, "depend on holiday employment to pay their way through school and university."

Mrs Perlman says it is far easier for a white student to get a job, although young black people have a much greater need.

Young black girls find it particularly tough to find jobs because emloyers prefer either whites or older black women.

Mr John Lewis, managing director of Thaba, a Johannesburg black placement agency, said temporary jobs did not often come the way of blacks.

But he stressed that the lack of holiday jobs was not a sign of a white political backlash.

Mr Bhecki Sibecko, of the Race Relations Youth Department, appealed to firms to relieve the "desperate" situation.

The majority of black student drop-outs, he said, were from poverty-stricken families.

"Jobs prune them for the future and teach them to stand up for themselves," said Mr Sibecko.

he private

tive pattern of re-investment.

A case could be argued that with the exception of foreign affairs, defence, maintaining law and order and a stable currency and providing equal basic education, there is not a single function which could not, in principle, be better performed by private enterprise and private institutions.

The Friedmans, in "Free to Choose", have put a clear argument that the replacement of market failures by government failures provides no solution at all.

The private sector will have to analyse the reasons for these market failures and provide the remedies.

Also the transformation of the vast subsistence sector of our economy into a modern, viable — not necessarily industrialised — economic force can surely be best achieved with the least of government interference and maximum free enterprise effort.

Soup kitchen

All centrally planned efforts to combat poverty have failed because they have applied the principle of the soup kitchen instead of that of wealth creation.

Such a shift of public functions to the market will require a fundamental rethink of corporate and transcorporate responsibilities and functions.

It will require the creation of new types of task force, new forms of project management and joint ventures and possibly new forms of financing.

Corporate involvement in the broader issues of society is a growth sector and the time may have come to move this involvement from the periphery to the centre of our attention, since a business community can only survive in a stable society.

This will require a switch-over in thinking as part of a new "economics of anticipation".

Time for truth

As Time put it: "For new corporations, a prime challenge of the 80s will be to find means of restoring the verve of the entrepreneurs, while preserving the best of modern management techniques."

The delegation of this responsibility, and ever more of its functions to the State, has, in fact, created the avalanche of bureaucratic penetration so ably described by William Simon in his "A Time for Truth" — a book repeatedly quoted in the Syncom report.

It is the nature of a bureaucracy that its cures are often worse than the disease, that its institutions outlive the cause which called them into being.

Bureaucracies are without competition and it is competition which breeds excellence.

Salient points from the Syncom Report

- BASED on figures from various conservative research projects, housing will cost South Africa at least R130 000-million in the next 20 years — and possibly R200 000-million on present trends.
- It will cost at least R200 000-million to build and maintain the 40-odd new cities required by the country in the next 20 years.
- As many as 40% (that is, 20-million) of the black population in the year 2000 is likely to be of school-going age.
- Some 75% of the black population could be urbanised by 2000, which will create enormous stresses on the economy.
- In 1967-77, South Africa managed a productivity increase of less than 1%, compared with 6,8% for Japan; 5,3% for West Germany and 2,3% for the US.
- Three policy directions are suggested to reduce SA's "fatal" dependence on an overly centralised direction of economic performance:

  1. A more equal distribution of population.
  2. Massive job creation in the so-called "informal" small industry and small farming sectors, which would feed and house themselves.
  3. The highest possible levels of output through automation, mechanisation and high-technology production.
- A private sector strategy towards small business and the informal sector will have to cover the whole spectrum from the "lowest learning by doing" operations, involving virtually no costs, via the small, low-cost enterprise (R1 000-R5 000) to middle-sized ones (R5 000-R30 000).

Is there a valid reason why the creation of infrastructure, the provision of mobility, energy and scientific know-how, the rendering of health services and the provision of education and training, could not be better provided by the free market?

In those cases where there is, the private sector could involve the public sector on an exception rather than rule basis.

All these functions, which we have come to consider the natural responsibility of the State, cost money and the only way to make them function better and to make them more cost-effective is to submit them to the discipline of the market and the scrutiny of the consumer.

In the year 2 000, our population will be about 50-million, of which perhaps more than 20-million will be outside the market economy, particularly if the total urbanisation scenario is not reversed.

Swift

Only the swift and effective incorporation of this marginal group can provide depth and continuation to a growth strategy.

An example of such a switch-over in thinking is the change in our perception of the global hunger problem.

It has now become the accepted view, after decades of failures, that hunger is not a consequence of our inability to produce food, but of the inability of the poor to pay for it.

Why should not the same principle apply to education, health, mobility?

Procreation is a survival mechanism for the poor and, therefore, an exploding population may be a consequence of poverty, not its cause.

At the same time, prosperity is the best contraceptive.

"What we are saying is that one of the backbones of free enterprise, the free market mechanism, is more universal than we think, and that interference in it is, therefore, even more serious than we think," says the report.

The case for a private enterprise involvement is very strong indeed, and should be far more fully debated.

Public sector

Turning to the role of the public sector, one can distinguish five key roles:

- **As a protector:** The oldest and most legitimate function: Defence, Foreign Affairs, Law and Order. The boundaries are not fixed, particularly if the system is under assault.
- **As a provider:** In its final shape, the Welfare State, opening the door for a host of legislation. The main question here is: provisions at what price?
- **As as economic controller:** e.g. gold, uranium, export promotion, import surcharges, control boards. Possibly the function with the largest package of interfering mechanisms.
- **As an arbiter:** Wage boards, arbitration courts, industrial conciliation. Main objective is to keep the economy moving.

Three functions: 1. Maintaining balance between individual groups. 2. Protecting the freedom of association. 3. Safeguarding the interests of the State.

SUNDAY TIMES, Business Times, June 22, 1980

SUN TIM B.T 22/6/80

What IS the role of t[he private] and public sectors?

(49

By STEPHEN ORPEN

IT IS the job of the private sector, and not the Government, to keep South African society "viable".

In dealing with the "role of the private sector", this is the central message in Syncom's new free enterprise report (see page one).

The report also produces incontrovertible evidence to show that, unless there are dramatic changes in South Africa's development policies, chaos will result.

The report notes that the job of keeping our society viable falls on the academia (by augmenting and transmitting knowledge); the professions (by maintaining the highest possible standards, but without a "closed-shop" approach); and on business (by making a profit, adding value and creating wealth).

The private sector is not just big business. More important in many ways, it is also small business, consumers, professional people and (often) academics.

Anglo American chief, Gavin Relly, notes: "It is sometimes suggested that it is immoral to make profits, but actually it is making losses which is immoral, for those who make losses are destroying wealth."

To communicate this fundamental obligation of man to add value, not to squander scarce resources and not to bury his talent, is the duty of private enterprise as the legitimate wealth creator.

Crucial message

This crucial message would be ineffective if we could not, at the same time, create the mechanisms for equality in opportunity and free the channels for wealth creation from legal and bureaucratic rubble.

Failure to do this will destroy the 'bastion of hope' prospect and set the system toward what John Diebold calls a "centralised, bureaucratised, government-controlled authoritarian future in which our freedoms disappear one by one".

In South Africa we have to come to grips with the additional accusation that capitalism, or free enterprise, is identified by the majority of our peoples with oppressive exploitation, racial discrimination and sectoral privileges.

This accusation cannot be brushed aside if we wish to be heard. The confusion in the hearts and minds of the antagonists of free enterprise cannot be resolved by rational argument or purist theory alone.

It will require rational creative action by private enterprise, a highly visible **demonstration** that the combined effort of free people to pursue their legitimate self-interests will serve society best.

Failure to demonstrate the strength of free enterprise will leave its enemies no choice but to fall for a vague, conceptual and emotional mixture of socialism, marxism, even pseudo-Christianity, which will not fulfill what it promises.

The Prime Minister's call on the private sector to provide the economic muscle for a new, stable and viable order in southern Africa is without precedence and has created a new situation, says the Syncom report.

Fragmented

This call seems to acknowledge that the Government does not want — and is possibly unable — to go it alone.

So far, a response by the private sector, which would measure up to this challenge, has not materialised.

By nature and tradition, the private sector is fragmented, divided in its interests and committed mainly to the profit motive.

In a political sense, it follows limited objectives. For these reasons, it is unable to develop a total strategy of its own and it is unrealistic to expect it to speak with one voice.

Also, the private sector is basically antagonistic to government interference, and distrusts its motives.

The fact that it seeks intervention if a sectional interest is at stake, does not contradict the basic attitude.

It resents the government as an entrepreneur, but expects it to undertake non-profitable or high-risk ventures.

If threatened as a whole, the private sector will commit itself, within limits, to acts of social responsibility, which must, however, not be interpreted as philanthropy, but rather be seen as enlightened self-interest.

Its first responsibility remains to safeguard the continued existence of the business.

In the present situation, these strengths of the free enterprise system also constitute its weaknesses.

How can this weakness be overcome?

Senator Horwood has stated that it is declared government policy to channel more resources to the private sector.

Marginal people

This, of course, can be done in many ways, as the tax policies of the last Budget have shown.

For the time being, it concerns only those who pay tax and leaves the marginal people who exist outside the cash economy unaffected, except from a ripple or trickle-down effect.

However, to leave more of the profits where the risks are taken, leads undoubtedly to a more produc-

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Ladofca's as ugly as ever — despite the knight's call

RDM 23/6/80

Harold Fridjhon On Monday

IN spite of her being given beatific status by Parliament, Ladofca (not a Russian spy but the Limitations and Disclosure of Financial Charges Act) is still very much the subject of discussion in Johannesburg — and in Pretoria.

After my criticism last week of Ladofca in which I said that the R100 000 ceiling on leasing and hire-purchase transactions was far too high and that the inclusion of companies was unnecessary if the intent and purpose of the legislation was to protect the "little man" I was telephoned from Pretoria.

It was much a more-in-sorrow-than-in-anger call from an influential Authority. I was told that I did not understand the intent and purpose of the updated law.

"Ask the banks," I was told,"why they registered such strong protests about the R100 000 ceiling when the banks said during the negotiating stages before the amending Act was drafted that big borrowers never had to pay top rates of interest. The limitation of charges was designed to protect the little man."

I suggested to the Authority that there were mighty few "little men" who looked for R100 000 worth of leasing or hire purchase.

"Well," it was put to me, "there are also the farmers."

Apparently R100 000 doesn't go far these days when a farmer needs a new thresher (about R60 000) and a new tractor and a few other bits and pieces around the farm. And that farmer needs protecting. He isn't a match for the financiers who might take him for a ride.

Frankly, I don't wear that one. Farmers in a big way of business, those who need agricultural equipment worth a couple of hundred thousands, aren't the simpletons it is alleged they are.

They mightn't be shrewd businessmen — although many of them are — but they are shrewd enough to consult their bank managers, and their lawyers, and their accountants before they put pen to paper.

There is still an outdated tendency to treat farmers as if they were babes. If they were, they wouldn't be able to survive. But be that as it may.

I asked the banks what about that R100 000 ceiling in view of the Authority's comments. They agree that big borrowers who don't need the protection of Pretoria know how to negotiate rates of interest on leasing and hire-purchase deals. And by the time they have screwed the banks, the rates are usually well below statutory levels.

But, said the banks, why have controls at all?

In a free and, open market place, market forces, competition and the eagerness of everyone to do business will always ensure that rates are keen. All a buyer has to do is to shop the market.

Sure, there is validity in that argument, but how many private citizens know how to shop around the market for the keenest rate? On the other hand, how many private citizens want R100 000 worth of credit? And how many banks would extend that amount of credit to any Tom, Dick and Harry? After all, no banker wants bad debts.

Pretoria has a point if it is seeking to protect people, but the bankers also have a case. They don't want controls, particularly since the Association of General Banks has drawn up a code — which has had an official nod — that has introduced ethics into an industry which did run a little wild in the past. Perhaps that's just the trouble: Ladofca is closing the stable door after the dark horses have bolted.

But to come back to the other point: why include companies if the purpose of Ladofca is protection of the little man, and it was at this juncture that the voice of Authority was most vibrant?

I was told that there are countless small businessmen, newcomers to commerce and industry, whites black and browns, who registered companies and that these companies and their inexperienced shareholders need protection and all the help they can get.

There certainly is compassion in that argument. Newcomers, and particularly the blacks and the browns, who are taking their first faltering steps in the rough-and-tumble of the business world need all the help they can get. The more multiracial the private enterprise system becomes the more hope of its enduring in this country. This point was made in the Theron Commission report.

But there is a wide margin between giving help and cosseting and swaddling the newcomers. If they are not taught how to run business and how to take part in a competitive society they will never acquire the experience which they need if they are to stand up and compete. In any case, most banks today have a positive attitude towards teaching the unlettered and helping them get on.

I'm not suggesting for one moment that all the bankers in the business wear haloes instead of black hats and that they are more interested in handing out crutches instead of debit notes. They're nothing of the kind; they are as hard-hearted and as tough as they have ever been. They've got to be if they are to survive. But they are practical businessmen who take only the calculated risk, which means that they need more than a 51% chance before they put out their money.

But by the same token I do believe that, with the best motives in the world, the authorities in Pretoria are inclined to be overprotective and that in the long run this attitude does more harm than good for the free enterprise system. One must ask, as attractive as she might appear in the eyes of the authorities, do we really need Ladofca?

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De Kock warns of growth problems

(49) RDM 24/6/80.

BY GERALD REILLY
Pretoria Bureau

THE Deputy Governor of the Reserve Bank, Dr Gerhard de Kock, warned last night that the shortage of skilled and semi-skilled manpower would worsen if the economy grew at the desired tempo.

And he said this bottleneck exerted an upwards pressure on labour and other costs and represented a serious inflationary danger.

Since 1974 South Africa had to contend with double-digit inflation. The annual rate of increase in the Consumer Price Index had fluctuated from quarter to quarter, sometimes higher than 20%, and sometimes as low as 10%.

Among the basic causes were Government administrative price rises, the introduction of General Sales Tax, and the big oil price jump last year.

Fighting inflation in South Africa was like walking through an economic minefield, Dr De Kock said, and it would be easy to use the wrong counter-measures unless the causes and symptoms were clearly understood.

Private consumption was rising much more rapidly now than during the past few years, and the long-awaited upturn in fixed investment in the private sector had begun.

Manufacturing production and retail and wholesale sales had risen substantially in recent months, and surplus capacity and unemployment had declined.

There was still adequate scope for a continued upswing and a higher rate of economic growth, "and the official policy remains one of growth from strength".

However, there were certain structural or underlying factors which gave the economy an inherent inflationary bias, Dr De Kock said.

These included the shortage of skilled and semi-skilled workers, the inadequate utilisation of manpower and the establishment of "uneconomic" industries for strategic reasons.

Dr De Kock rejected price and weight controls as a solution to the inflation problem. He said these would be counter-productive and harmful to the economy.

He also rejected criticism that this year's Budget was excessively expansionary and would result in demand inflation.

He described the Budget as a model of financial discipline, and said it was certainly not inflationary, in spite of the R1 560-million in tax reductions and other concessions.

No attempt had been made to stimulate the economy with either an increase in real Government spending or the creation of new money — options open to the Minister of Finance, which he had rejected.

Other points Dr De Kock made were:

- The rand should be allowed to float further upwards against other currencies;
- Consideration should be given to the further relaxation of exchange control, to mop up excessive domestic liquidity;
- Imports should, as far as possible, be permitted to rise, as an escape valve for excessive demand; and
- Unnecessary restraint on the business acitivities of the various population groups should be progressively abolished.

Wassenaar hits at price control

Cape Times 26/6/80 (47)

Own Correspondent

EAST LONDON. – A leading Afrikaans businessman, Dr A D Wassenaar, yesterday attacked government interference in the economy through marketing control boards and minimum wage determinations.

"Economic necessity should not under any circumstances be subordinated to political expediency," Dr Wassenaar told the Ciskeian conference on education. "The greater and the more persistent intervention in the economy is, the more artificial the economic pattern becomes and hence the more difficult a return to normality."

"A basic economic law is that if the price of any product is controlled at a level which is lower than the price which a free economy would determine, the inevitable result is that the production of that product is discouraged and that a shortage in that product is therefore bound to arise.

"This is the elementary law which is violated every time when a control board is created to determine the price of a product, simply because the product of price control is always to keep the price as low as possible.

"A low controlled price thus immediately creates the conditions which must eventually lead to a shortage in that product."

But when a shortage did arise, the state had been reached where a discontinuation of controls would lead to a price rise.

"Price control consequently creates the very circumstances which the protagonists of control boards claim to avoid."

Dr Wassenaar, chairman of the giant Sanlam group, said that once price control had been embarked upon it could not easily be removed without causing temporary maladjustment, which would certainly lead to an inordinate increase of prices.

"In my opinion, this fact is one of the main reasons why it is so difficult to counteract inflation."

Wassenaar slams govt intervention in the economy

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DD 26/6/80

DR WASSENAAR

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"A low controlled price thus immediately creates the conditions which must eventually lead to a shortage in that product," he said.

But when a shortage did arise, the stage had been reached where a discontinuation of price control would lead to a price rise.

"Price control consequently creates the very circumstances which the protagonists of control boards claim to avoid."

Dr Wassenaar, who is chairman of the giant Sanlam group, said that could not easily be removed without causing temporary maladjustment which would certainly lead to an inordinate increase of prices.

"In my opinion this fact is one of the main reasons why it is so difficult to counteract inflation."

Turning to labour, Dr Wassenaar said that it was a commodity which would in the absence of intervention be subject to the economic laws of the supply and the demand for labour.

"The interplay of supply and demand would determine the wage levels.

"But wages, that is the price of labour, are to the contrary determined by several agencies, namely the government and the employer groups in conjunction with or should one say in their struggle against the trade unions."

However, while the normal object of price controls was to keep prices as low as possible, the object of wage controls or wage determinations was to lay down minimum wages, which was aimed to keep wages at a figure as high as possible.

"This, of course, pleases the wage-earner who has a job, as well as the government who thereby hopes to find favour with the electorate.

"It may even soothe the conscience of certain employer groups while they are riding the crest of prosperity, like the gold mining group in South Africa.

"The determination of minimum wages is, at the present moment however, a factor which threatens national stability and compromises the security of labour everywhere and also in Southern Africa.

"It stands to reason that the determination of minimum wages faces the employer of labour with an option to overpay their labourers at the lower competence levels, or to dispense with their services.

"The result must be that the employer is thereby encouraged to mechanise or to curtail his work force in other ways.

"Unemployment particularly in the ranks of the lower quality of unskilled labour, is therefore created," Dr Wassenaar said.

FOREX MARKET

FM 27/6/80 69

Wind in their sales

You can't please all of the people all of the time, but you may be able to please most of them. That's the result of a test of opinion on the Reserve Bank's current foreign exchange policy.

Most economists sounded out by the *FM* concurred that fighting inflation was a very high priority, while an appreciating rand was really the only shot left in the locker in this struggle. And the experience of countries with strong currencies in recent years has often supported the view that a lowered internal inflation rate attributable to an appreciating currency unit has maintained, at least partially, the competitiveness of exporters.

A look at the actual numbers is instructive — keeping in mind that the dollar itself has become an unstable measuring rod. So, for many purposes, a trade-weighted value of the rand is more significant than an unadjusted rand-dollar rate. Here, it's only fair to note that the construction of a trade-weighted index is partly an arbitrary exercise.

If we take a six months' view of JCI's trade-weighted index for the value of the rand, we find a significant rise of 5,2% (from 84,48 on January 2 to 88,88 on June 24 — October 31, 1967 taken as 100). Over the same period, the rand has risen against the dollar by 7,1%.

It is important to understand that much of this rise has taken place since the Reserve Bank shut the wide-open aperture through which a significant proportion of SA's high gold earnings was draining away. This, of course, was the previously inadequate forward dollar discount of 2.5%, which encouraged the repayment of foreign trade credits as interest rates abroad rose.

When, therefore, the Reserve Bank introduced in April a structure of discounts for different periods of forward cover designed to reduce the cost of foreign finance and bridge the interest rate gap, the impact on the reserves and, consequently (even under a managed float) on the exchange rate, was immediate.

But SA should avoid being mesmerised by the rand-dollar rate in the light of the diminished role of the dollar already mentioned. Against a reference point of 100 on October 31, 1967 for the JCI trade-weighted index, the rand is, notwithstanding its recent strength, still showing a depreciation of over 11%.

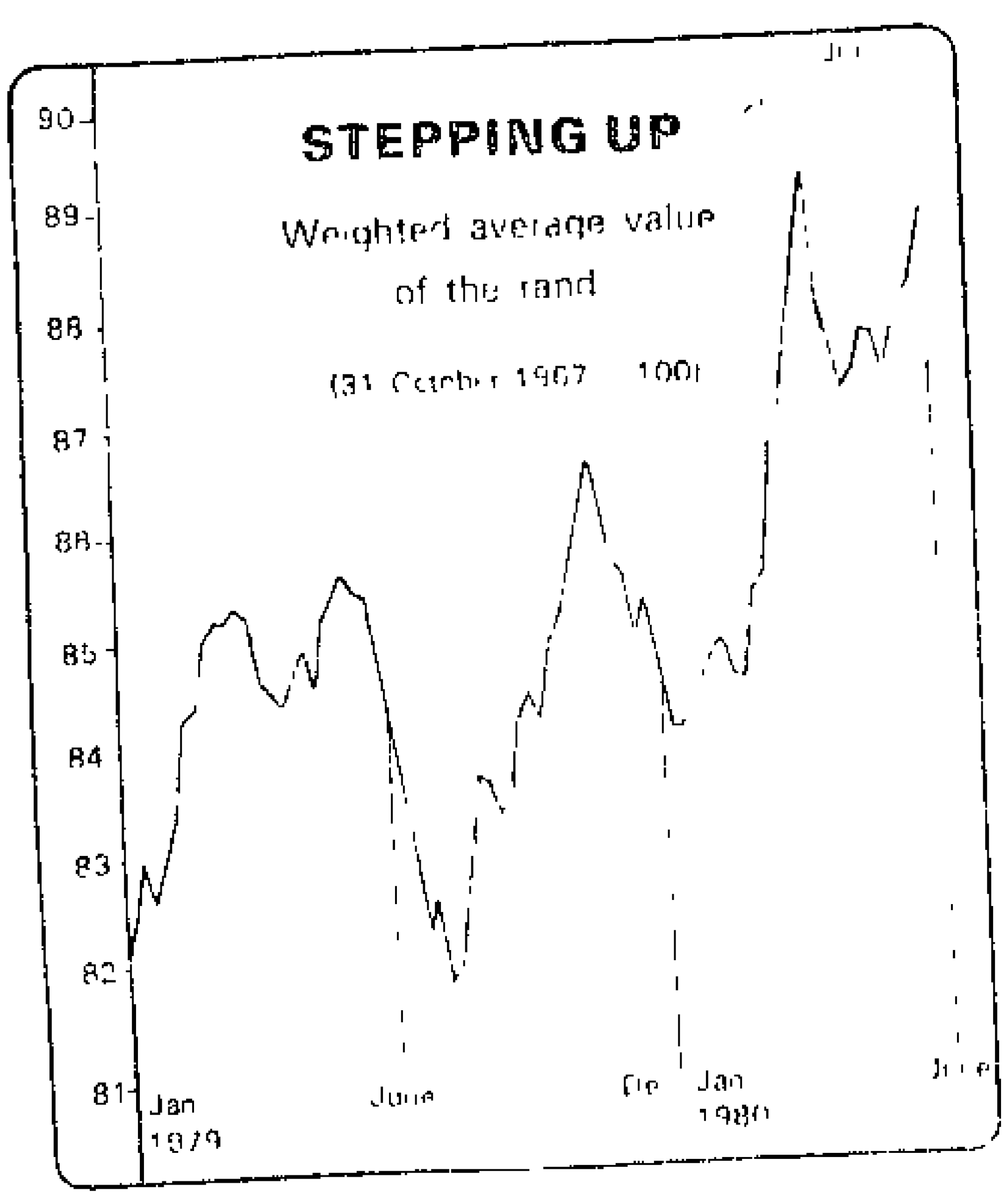
Although economists hesitated to predict positively that the rand would go to, say, $1,40 by the end of the year, their carefully hedged comments indicated that they would not really be surprised if this level were obtained, subject always to the overriding precondition of a continued high gold price.

JCI Economist Ronnie Bethlehem for example, stands squarely behind those advocating use of a rising exchange rate to reduce inflation, believing that any adverse impact on exporter would be more than compensated by the benefits to the SA economy as a whole

Chamber of Mines Economist Tom Main endorsed basically the same viewpoint. He noted that too much should not be made of the adverse effect of a strong rand on exporters provided that the process of appreciation was not so rapid as to allow insufficient time for adjustments to be made. And some base mineral exporters, notably the coal mines, could find partial compensation in the lowered rand costs of imported capital equipment like draglines.

Although FCI Chief Economist Arthur Hammond-Tooke conceded that the position of exporters was not necessarily decisive, he argued that the high gold price could be regarded as "fortuitous". Industrial and agricultural exporters are now finding the going in international markets much tougher than previously, although he acknowledges that it is impossible to dissect out the effects of a weaker world economy from those of a stronger rand.

On the other hand, Assocom's Chief Executive Raymond Parsons says exporters "must learn to take the rough with the smooth developing new business skills and policies."



But exporters' difficulties must be seen in perspective. Hammond-Tooke conceded, for example, that the SA engineering industry stood to gain much from a buoyant gold mining industry.

Generally, we should recognise that a strong balance of payments (which has an appreciating rand as one consequence) enables the country to divert a greater proportion of gross national product to internal consumption and investment. To the extent that this trend reflects pressures for a movement of resources from export industries to those serving the internal market this is, for the economy as a whole, a matter for rejoicing.

The specific sectors suffering harm in their export markets will just have to adjust, Hammond-Tooke points out, though that the carefully-devised new system of export incentives (designed to take effect in the 1981/82 tax year) should in the longer term, provide some relief.

Boom beset by critical inflation

(49) RDM 27/6/80

Financial Reporter

THE economy continues to reflect boom conditions — but the inflation threat remains critical. This is the overall conclusion of the Bureau for Economic Research at Stellenbosch University in its June survey of the building industry.

It says that the economic outlook for the rest of the year is favourable, but rising inflation could put an early stop to the economic upswing.

The bureau reports that builders are now even more optimistic about prospects in the industry than they were three months ago.

This buoyant mood is slightly weighted by reports of severe skilled labour shortages and actue shortages of bricks in certain regions

Brick stocks are expected to improve in the next few months as more and more brickfields, "mothballed during the recession", come into operation

It is not expected that the bottleneck posed by skilled labour shortages will ease in the immediate future in spite of the lifting of certain restrictions on black building artisans working in white areas and the substantial funds set aside in the Budget for education and training.

"No immediate benefits can be expected owing to the time involved in training and the protracted negotiations with white trade unions," says the bureau.

But it is generally expected that the indirect effects of the Budget will favourably influence the course of the building cycle for the rest of the year.

Positive markers in the current economic climate are:

- The number of registered unemployed people has declined substantially.
- Interest rates are still relatively low and are expected to remain so in the immediate future.
- Consumer spending has increased significantly and is expected to show a further improvement once the increased salaries granted to public servants and the tax reductions announced in the Budget have run their course through the economy.

"The proverbial fly in the ointment — inflation — cannot, however, be ignored," says the bureau.

"The already high inflation rate of 13,4% in April 1980 — as measured by the consumer-price index — could show signs of worsening in the months ahead, if the expected shortage of skilled labour leads to supply bottlenecks in industry and commerce."

It would appear that the current inflation rate stems from administered and other price increases and is of the cost-push variety.

"But the possibility of additional demand-pull pressures late in 1980 or the beginning of 1981 cannot be excluded at this stage.

"There can be no doubt that the country is entering a period of accelerating economic growth, but there can as surely be little doubt that inflationary pressures pose a serious threat to the duration of the economic upswing." — Sapa.

Growth of 6 pc forecast

BD 28/6/80

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EAST LONDON. — The Government was doing a sound job economically, but not politically, the chairman of Syfrets Trust and one of South Africa's leading financiers, Mr Len Abrahamse, said yesterday.

Giving an impromptu talk at a luncheon in East London, he said three months ago people were talking gingerly of a five per cent growth.

Now there was every reason to believe it could be at least six per cent.

There were a number of reasons for that, including a strong balance of payments position; a strong rand; the strong stimulus given to domestic consumer expenditure by the last two budgets, the fact that production capacity was running at 90 to 91 per cent utilisation, and the favourable trade terms the country was enjoying.

But South Africa was also faced with three major problems — inflation; high levels of unemployment and the other side of that coin, low levels of available skilled labour; and liquidity.

On inflation he added: "I don't believe inflation is as serious as it is generally thought to be and we could live with higher inflation if we had to, providided there was greater mobility of our resources."

He said it was a pity that up to now the Government had only done something about the negative aspects of the Riekert and Wiehahn reports and had not acted more quickly in implementing the more positive aspects of the two reports.

He said the Government's colour restraints in the field of labour were aborting South Africa's chances of reachings its full potential.

— BUSINESS EDITOR

Cape Times. 30/6/80

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Govt 'committed to free enterprise'

JOHANNESBURG. — The Minister of Finance, Senator Owen Horwood, has given the assurance that the government will continue to look at its encroachment on the private sector and take steps where necessary to reduce this.

In an interview with the SABC on economic policy on the eve of Free Enterprise Day on Tuesday, Senator Horwood again emphasized that the government was committed to a free enterprise economy and wanted to strengthen the private sector.

He held out the prospect of continued discipline on government spending, further tax reforms, more improvements in exchange controls, greater efforts at training, and his opposition to subsidies as a lasting solution.

The government was embarked on a deliberate programme of tax reform, which would cause greater vigour in the economy.

Government expenditure had remained static in the past four years, in spite of an improvement in economic growth, and it was a challenge not to spend more at a time when State income was rising. The past had also shown that the government would not be tempted to create artificial prosperity in a time of recession.

Had this policy not been followed in 1975 and 1976, inflation and the balance of payments would have been far worse.

As far as Exchange Control relaxation was concerned, Senator Horwood said the government would like to go further.

On government encroachment on the private sector, the minister said budgetary policy was deliberately aimed at reducing government involvement in the economy. There was also a Department of Industries committee to hear private sector representations in this respect, while the recently-formed Competition Board was aimed at maintaining and ensuring competition.

Senator Horwood said he did not believe subsidies offered a solution in the long run. But it was difficult to ignore public pressure for subsidies at a time when the government had additional revenue. Subsidies could not be maintained indefinitely.

The challenge in South Africa was to try to bring down the rate of inflation. More and more people would have to be given the opportunity to acquire skills and the government was straining every nerve in that direction.

But where it was spending more on training and education, it was worrying that there was no full committment by all in the private sector. The government industrial training centres were not fully-used, and this required urgent attention. It was a field where the government and private sector would have to work much more closely and effectively together in future. — Sapa members of the organization, even if one deals only with the management and workers.

In most industrial organizations nowadays, people from the fields of business administration, industrial and management engineering and operations research have replaced their colleagues from the field of organization. New quantitative techniques have been developed to serve these experts in order that they could not only describe the performed actions, but also *measure* them.

The purpose of studying the actions within the framework of the study of the organizational structure is to establish the effectiveness of each member of the organization and all of them together, that is to say the economic effectiveness of the organization as a whole. For this purpose, one establishes standards for measuring the effectiveness of individual members of the organization and/or of the organization as a whole. The actions and the results of the actions of members of the organization are compared with these standards and on the basis ...

by way of different names. The relationships necessary for the execution of the organizational targets or for the maintenance of a functional decision-making process are called *formal relationships*. The relationships actually existing among people whether they are congruent with the formal relationships or not, are called *informal relationships*. Thus we distinguish between the *formal structure*, which is the functionally *desired* structure, and the *informal structure*, which is the *existing* structure.

We can now repeat and state that there exist those *formal relationships* which are congruent with formal relationships, and there are other *informal relationships* which are incongruent with the formal relationships; or, in other words, the informal structure covers only partially the formal structure and not all of the formal structure is covered by the informal structure.

The formal structure is *hierarchical*, meaning that it consists of a ladder or scale of hie...

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Spending power will surge, says Rousseau

RDM 1/7/80

THE CHAIRMAN of Federale Volksbeleggings, Dr P E Rousseau, says in his annual review that he expects the present economic upsurge to continue for the best part of the current financial year.

He expects consumer spending to grow even further, particularly during the second half of 1980, largely as a result of the "considerable tax concessions".

"These factors can only have a favourable effect on profits." Consequently, Dr Rousseau again anticipates a sound growth in the company's results, but "probably at a lower rate than in the past year".

Dr Rousseau takes a look at the eighties for South Africa and says he is convinced that "on the economic side we are relatively better equipped for the future than we were 10 years ago.

"We are also better equipped than many other countries, and I make this latter observation in the light of the pessimistic undertones which can be found in the chairman's reviews which I have received from other parts of the world."

Dr Rousseau deals with what he describes as critical areas.

Inflation: "The higher growth rates which are now expected will certainly cause a sharp increase in the demand for trained labour in particular, with the danger of large wage and salary increases.

"If the remuneration of labour increases at a faster rate than productivity during the next few years, the battle against inflation will receive a serious setback."

Shortages in energy: "It is a source of considerable concern that the world's largest consumer of oil, the US, has still not taken any visible steps either to exploit alternative sources of energy on the scale required, or to reduce its appetite for imported energy. A painful process of adaptation awaits that country."

Productivity: "It seems that in South Africa we are faced with a real unemployment problem which is based on the productivity of the unskilled workers in particular.

"What is of importance here is that there is a reserve pool of labour available which, with training and the acquisition of skills, can make a far larger contribution towards the country and their own prosperity.

"Large-scale training, including on-the-job training, has already been identified as a critical area that is being given particular attention in South Africa's overall economic strategy development programme."

The role of the US: "Because it is the economic giant of the West, the fortunes of the American economy are of great importance to South Africa. Yet, events of the recent past have proved that when there is distrust in the stability of the American currency, a flight into gold develops.

"In future, South Africa will have to take cognisance of the overt hostility against our country which exists in certain official American circles, and adapt our economic strategy accordingly.

"Trade links between the two countries have, therefore, not been as good as they could have been, to the detriment of both parties.

"I would also expect that the diversification of South Africa's trading patterns will continue during the eighties and that closer ties will develop with medium-sized countries with relatively high growth rates."
— Sapa.

Growth is on the high trail

(49) RDM 1/7/80.

THE chairman of the Volkskas group, Dr J A Hurter says in his annual review that "the prospects for economic growth and employment are excellent".

"It is expected that in 1980, an exceptionally high real growth rate in Gross Domestic Product will be recorded and that the momentum of business activity will probably feed the upswing of the economy until deep into next year."

Dr Hurter, however, uttered a warning about inflation. He said: "The most disappointing aspect of the South African economy is that inflation remains a serious problem."

He mentioned that the demand for certain categories of labour had begun to exceed supply and that the rate of increase in the labour productivity in manufacturing industry was falling back.

These factors were pushing up labour costs in manufacturing.

"It must be regarded as of the highest priority to keep cost increases in all areas in check in the interests of healthy economic growth.

"For this, discipline is necessary throughout the entire economy," Dr Hurter said.

Dr Hurter announced that the Registrar of Banks had approved registration of a new savings bank in the Volkskas group. It will trade under the name of Volkskas Savings Bank, and will start business during the present financial year with an authorised capital of R5-million. — Sapa.

Sanlam sees vigorous growth until mid-1981

RDM 4/7/80

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By HAROLD FRIDJHON

VIGOROUS growth of the South African economy until at least the middle of 1981 in spite of the "drastic deceleration" in the growth rate of the world economy is predicted in Sanlam's economic survey for June.

The insurance group's survey says that if this prediction eventuates it will be the most prolonged upswing in the South African economy since the second world war.

Noting the considerable expansion in the economy since the middle of last year, Sanlam attributes this to the sharp improvement in consumer and business confidence resulting mainly from

- the higher gold price,
- tax reductions,
- large wage and salary increases and
- expectations that these favourable conditions will continue for a considerable time.

The Sanlam review has taken a bold line by stating definitively that "the capacity utilisation in private manufacturing has increased to such an extent that considerable capacity expansions may be expected in the coming 12 months. This anticipated increase in capital spending will give extra momentum to the revival in the economy."

It is encouraging to find Sanlam taking such a firm line. The economy has been awaiting news of new capital investment programmes because these should generate the additional employment which South Africa anxiously needs.

If the Sanlam prediction is right, it means that some of the excess capital awaiting investment will be drawn into these expansion plans and it might lead to a hardening of rates. And this view is confirmed in the insurance group's review.

"We expect that although the domestic liquidity situation will remain comparatively easy in the latter half of 1980, short-term rates will nevertheless tend upwards owing to an increased demand for funds in conjunction with the rapid rate of expansion in economic activity currently being experienced. Action by the authorities in the money market undoubtedly remains an important factor.

"With regard to long-term interest rates, events of the past month have confirmed that rates are in a rising phase at present. The extent to which large investors decide to withhold funds in the expectation that rates are going to be yet higher later in the year may have an important effect on the course of long-term interest rates in the next few months."

This Sanlam comment is interesting because it emphasises the dichotomy of views in the capital market, with the institutions holding back in the expectation of higher rates and the authorities giving generous support to lower rates.

FM

Friday, July 4, 1980

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FREE ENTERPRISE DAY?

Every day people who have found jobs are refused permission to work in them because they are not "qualified" to be in town. They are South Africans who have come from rural areas to look for work. They are ideal citizens for a free enterprise system because they are independent people contributing to the growth of the economy. They are not asking for charity. They merely want to work in the jobs offered them. But they are "endorsed out."

Is this free enterprise?

Every day employers are refused permission to employ the people whom they wish to employ. The State threatens to fine them R500 for employing the "wrong" person. Hundreds of manhours are wasted while bureaucrats decide who may or may not employ whom.

Is this free enterprise?

Every day people who have been operating in the informal sector for many years are also "endorsed out." They make things and sell them. They are self-taught backyard mechanics and repairmen. They are salesmen of soft goods, clothing, insurance, and food. They are artists, sculptors, musicians. They are char-women, shebeen queens, plumbers, painters, gardeners, odd-job men. They have been contributing to the economy. They are not permitted to go on doing so.

Is this free enterprise?

If you value free enterprise, it is essential that you do something urgently to demonstrate what it means. You have influence with those who wield political power and it is essential that you use this influence now to demand that everyone who has a job should be allowed to keep it.

This is the first and absolutely basic step. This is one way in which you can demonstrate that you mean what you say when you claim that free enterprise is in the interests of all the people.

Black people are now identifying what white people call "free enterprise" with an oppressive political system. They have limited freedom to sell their labour or to use their initiative to earn food for their families, and they therefore perceive free enterprise to be that which denies them all the benefits of participation in a common economy.

Unlike some who have been in the public eye recently, we have nothing to hide. We have no hesitation in saying that this advertisement was prepared by the Black Sash, Khotso House, 42 De Villiers Street, Johannesburg. Please telephone us at 37-2435/6 if you want to discuss these urgent aspects of our national life in greater detail.

Financial Mail

FM 4/7/80

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THE ECONOMY

Spreading the largesse

A pensioner stood up at a building society annual meeting last week and made an impassioned plea for help. He pointed out that the interest on his savings was insufficient for him to cope with the rate at which prices were rising. The boom, he felt, was passing him by.

Of course, there was nothing the building society could do. It has to finance housing by competing for funds at the going rate of interest.

The root of the pensioners' problem is the rate of inflation and an inappropriate exchange rate and interest rate policy. The result is that we have the low interest rates of the Swiss and the high inflation rate of the Americans.

In these circumstances, it pays to borrow and is ruinous to lend. Ten years ago, the mortgage rate was, in real terms (ie corrected for inflation), costing borrowers 5% pa. Today, on the same basis, it is equivalent to minus 2%; no wonder housing prices are spiralling.

Lenders 10 years ago were receiving a positive 2%-3% return on their capital. Today it is nearer minus 7%.

The irony is that, over the past three years, the government has sliced a substantial R1 billion off the money supply, which should have set interest rates on a firm upward track.

Instead, because we are bottling liquidity up in the financial system through exchange controls and a too-cheap rand, domestic interest rates are almost rockbottom.

In view of this, the frustration of the pensioner — and many other wage and salary earners who have not yet felt the advantages of the March tax cuts — is understandable. Every day they read how prosperous the country is becoming, yet ostensibly they appear to be no better off.

But, of course, that is not quite true. Those savers who bought shares a year ago — or invested in equities indirectly via insurance or retirement annuity policies — have about doubled the value of their savings.

While private consumption expenditure increased between 1978 and last year by only about 3% in real terms — which is roughly equivalent to the rate of population growth — it actually fell between 1976 and 1977.

This year, with the rate of economic growth expected to be about 6% — double last year's figure — and with more significant tax cuts only now about to be implemented, the effect of the boom on the man-in-the-street must become much more real.

It takes three months to adjust the PAYE system to the lower levels of tax. But at the end of this month those adjustments will be made. The monthly tax deductions from salaries and wages will be adjusted over the remaining eight months of the fiscal year.

In all cases, tax deductions will in percentage terms be very much lower than they were at the end of June, some quite dramatically so. For instance, a married man with one child earning R400 a month, paid R19,31 in tax in June. In July it will fall to R1.22 — down 94%.

March tax cuts have neutralised one year's fiscal drag

If he is earning R850 a month, his tax deduction will fall from R89,46 to R48,13, and at R1 500 a month it will fall from R302,66 to R186,73. In both these cases the declines are roughly 40%.

There have been sharp increases over the past year in the price of sugar (12%), butter (15%), bread (19%), and eggs (13%), and the general level of prices is rising at an annual rate of about 14% a year. But they will have to accelerate quite a bit faster to over-ride those tax deductions, disregarding any additional wage or salary increases this year.

The gain to tax payers, most of whom are white, will be substantial and should be particularly noticeable after the decline in real terms of white incomes over the past five years. For over that period, wage and salary increases after tax deductions did not quite equal the rate of inflation.

Moreover, by reducing the progressive rate of income tax, the March tax cuts have neutralised at least one year's fiscal drag.

Consequently, as the months go by, taxpayers should increasingly begin to feel the effects of the boom, especially as rising demand for increased skills begins to boost wages.

Another irony of the present situation is that while some salary and wage earners feel the boom has passed them by, there are also businessmen who see rising wages as a major inflationary threat and have, as a result, sought government support for a freeze on wage rises that exceed productivity increases.

Ideally, of course, wage increases should be backed by productivity gains. But long experience has taught that a wage freeze would not succeed in bringing that about. In a free enterprise economy, as rising profits create additional demands from workers, they must be able to share in those profits by selling their labour competitively.

A wages freeze would, therefore, not only bottle up inflationary pressures — which inevitably break out eventually with heightened fury — but they would also result in workers receiving a reduced relative share of national income. During boom times that would be politically untenable and would, most likely, undermine confidence in democratic capitalism.

The bargaining process between employers and unions may be weighted on the side of the latter because of artificial restraints on labour availability — such as lack of adequate training and restricted mobility. But the solution lies in trying to remove these constraints, not in bottling up their consequences.

Any attempt to reduce wage inflation by interfering with the market mechanism will, in addition to misallocating resources, undermine public confidence in free enterprise, especially among those who feel unfairly treated.

A good example of this is the attitude at present of teachers, who will not now

PTO

Call for churches to use charter

CAPE TIMES 5/7/80

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Own Correspondent

JOHANNESBURG. — A leading economist has called on South Africa's churches to use the Freedom Charter — a controversial document calling for equal rights and redistribution of land — as a guideline for working out a more just future for the country.

The call was in the form of a discussion paper, drawn up for the South African Council of Churches, by Mr Michael de Klerk of the University of Cape Town's School of Economics.

He said the proposals of the Freedom Charter, drafted 25 years ago in Kliptown by the "congress of the people," and later adopted by numerous organizations, including the banned African National Congress, could be "a starting point", although they needed a lot of developing, he said.

'Important to look at alternative systems'

"Crucially though, they represent the wishes of a very large number of people rather than just a small elite."

Beyond this, he said, it was important to look at alternative systems in other countries and, equally important, at strategies for reaching such alternatives since "the means are likely to have an important bearing on the end achieved."

"In short, the challenge confronting the church is to help build a new South Africa in which both racial discrimination and economic exploitation have no place," Mr De Klerk said.

His paper mainly dealt with the economic implications of the government's "total strategy" policy which, he said, would lead to an even more unequal distribution of income in South Africa.

The economic intention of this policy was the "deracialising" of the economy as far as possible, "at least on the surface", in order to make the country more acceptable "in western eyes".

On this interpretation, one could predict:

- The disappearance or reduced enforcement of those aspects of apartheid not having a fundamental bearing on the economy's structure such as the immorality, mixed marriages and group areas acts.
- A redefinition of those aspects of apartheid which were basic to the economy's structure on less overtly racial lines such as citizenship of the "independent homelands".
- Changes in the enforcement of influx control in terms of the availability of jobs and housing, nominally on a non-racial basis.
- The partial dismantling of job reservation based on race and, subject to strict control and conditions, the recognition of black workers' right to organise.

The creation of a black middle class

"Total strategy will have no objection to — and, in fact, aims consciously to — pass on some of the material benefits of the economy to more blacks in order to create a black middle class," Mr De Klerk said.

South Africa had a particularly severe structural or permanent unemployment problem, with high and growing levels of unemployment persisting even in times of rapid economic growth.

At present, the economy needed to grow on average at about five and a half percent a year to keep the rate of unemployment constant and at about six and a half percent to keep the level constant.

"It has never reached even the five and a half percent rate over a long period, even in times of rapid growth such as the sixties," he said.

Its ability, therefore, to do so in a much less favourable international climate was highly questionable, especially since South Africa depended so heavily on exports for growth.

Boom enters second phase

(49)

RDM 5/7/80.

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By HAROLD FRIDJHON

SHIFTING into the second phase of the upturn, the South African economy is producing a rapid broadening of the growth base with a visible acceleration in the generation of employment, a take-off in private fixed investment and a further quickening in private consumption expenditure, according to the Standard Bank economic review.

The bank says that stock levels are now considered to be too low relative to demand and inventory building is likely to begin soon which will add further to demand.

Figure 2.3 :

Because this broadening of the recovery is taking place against a background of plentiful liquidity, internally and externally, there is a good chance that rapid growth will continue next year in spite of the world economic slowdown and possible threats to future expansion from inflation, labour bottlenecks and political factors.

The economy is still firmly on course towards achieving one of the highest growth rates on record. The GDP grew at 5% in the first quarter of the year in real terms — and at a faster rate when the distorting factor of agricultural production is excluded.

The driving force behind this rapid expansion was private consumption expenditure by consumers and firms. Much of the increase in consumer spending continued to be financed by a running down of savings and an increased use of credit.

In 1979 salary increases did not play an expansionary role. After adjustment for inflation, average non-agricultural salaries dropped by 0,9% compared with the previous year. Real white incomes went down by more than this amount; those of black workers rose by only 0,4%.

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Figure 2.4 :

In recent months the picture has been changing and consumer spending has been more soundly underpinned. The rate of job creation appears to have accelerated this year and shortages of skilled labour are in some areas accompanied by significant wage rises.

The Standard Bank says increases in overall employment, generally rising wages and impending tax cuts make for a continued expansion of spending power in spite of comparatively high inflation levels.

A "surprising facet" of this year's further acceleration in overall economic activity is the continuing drop in real inventories during the first quarter. According to official sources, this decline took place in commercial and industrial inventories as a result of higher sales.

The continuing acceleration of economic growth has been made easier by the unprecedented surpluses on the current account of the balance of payments which were almost entirely the result of a gold price that averaged $630 an ounce in the first quarter. After allowing for seasonal factors, gold earnings alone would have been sufficient to pay for the entire first quarter's import bill.

axial loading.

Non-gold export growth has been slowing in response to deteriorating world demand.

The bank review forecasts that the second quarter is likely to produce a continued substantial, although smaller, current surplus. Gold earnings will be lower partly because of a lower average gold price of $552 with other exports showing only modest further rises. This at a time when oil and other imports appear to have grown significantly.

Concern is expressed about the rate of increase in the supply of both money (M^1) and near money (M^2) which have been accelerating with large quarterly fluctuations. X

The bank says the recent rapid expansion in the money supply is similar in extent to that which preceded and accompanied the boom of 1974 and the surge of inflation at that time.

The major force behind the rapid money-supply expansion was the growth of both credit to the private sector and leasing finance. The balance of payments also made a significant contribution.

The Standard Bank considers that the economy should be able to continue to expand rapidly next year because, in spite of bottlenecks and some overheating in the production sectors, there will be an absence of the pressures which can arise from a deteriorating balance of payments and a tightening of financial markets.

Reynders outlines economic formula

49

RDM 11/7/80

Staff Reporter

THE ideals of economic growth, stability and equity for the benefit of all in South Africa could best be furthered by the free enterprise system, the chairman of the National Manpower Commission told a symposium in Johannesburg yesterday.

Dr H J J Reynders was speaking at the official opening of the 2nd South African International Training and Educational Exhibition and Symposia at the Rand Afrikaans University.

Dr Reynders told the meeting that all people interested in the continued growth of the economy in South Africa wished to see three ideals being furthered: those of economic growth, stability and equity.

"Growth means the continued and optimal increase in the production of the country, thereby opening up more and more employment opportunities and increasing the wealth of the nation," he said.

An important aspect of stability in the economy that was important for any country was the maintenance of labour

DR H J J REYNDERS ... 'three important ideals'

peace, Dr Reynders said. "Instability in this field has a most deleterious influence on a country's production and must therefore be avoided with all available means," he said.

Equity embraced the concept of equal opportunity for all and advancement on merit, he told the gathering.

"The question is now: what sort of economic order will promote these ideals? In the history of modern times it has been irrefutably proved that the economic system that comes nearest to fulfilling (these ideals) is the so-called free enterprise system."

Dr Reynders warned that there was a tendency to talk too much and do too little about achieving one of the basic requirements of the free-enterprise system, "namely equal opportunity for all regardless of race, colour or creed.

"Much more work has to be done in this area by Government as well as citizens of the land," he said.

He stressed the importance of optimum development, utilisation and conservation of manpower resources.

"It is well-known that South Africa is plagued by the twin problems of a simultaneous excess and shortage of manpower: an excess of unskilled and semi-skilled workers and a shortage of high level manpower and skilled workers. This shortage is expected to increase if timeous steps are not taken to meet the situation," he said.

Boom, boom, boom, says Barclays

RDM 11/7/80

49

Financial Reporter

OPTIMISM continues to be the general business mood in South africa, says the quarterly survey of Barclays National Bank.

The main reasons are:

•Rising salaries and wages, combined with tax reductions from July.

•Increasing consumer confidence.

•Increased spending in the public sector and increased fixed investment in the private sector.

•Full order books and increased use of production capacity.

•A boom in the building industry.

Barclays reports that of all trading customers interviewed in the second quarter, 48% reported slightly better sales, compared with the first quarter and 36% said sales had improved significantly.

No fewer than 79% of manufacturers said that production and sales volumes in the second quarter were higher than in the first quarter — a result which suggests that the upswing in manufacturing production is continuing unabated, although it has been going for more than two years.

Most firms still report that they have no plans for new fixed investment in the short run, although all indications are that most must be operating close to full-capacity ceilings.

This suggests that new investment in the economy is still being largely carried froward by the mining industry and by the public sector and that, as in previous upswings, new fixed investment generally will once again be undertaken too late to prevent the current upswing from running into the usual capacity ceiling prematurely, if indeed it does not falter even sooner in the face of the usual skilled labour bottlenecks.

Stocks appear to be adequate.

On profit prospects, most firms reported that unit costs were rising. On the other hand, no fewer than 58% also said that their profit margins were increasing, suggesting that prices must be rising as well.

Some 71% all firms expected total profits this year would show an improvement on those for 1979.

Barclays says most customers are happy with their cash flows and that debtors are paying their accounts on time.

"The rising demand for bank credit is a reflection of the general acceleration of the rate of economic activity and of import activity in particular," it comments.

Respondents to the survey have revised their expectations of both wages and unit costs significantly upwards.

"The sharp acceleration is, of course, indicative of an economy that is fast approaching its full employment and capacity ceilings," warns Barclays.

The inflation rate is also likely to peak at a significantly higher level during this upswing than in the 1973-74 upswing, when it peaked at 15,1% in January 1975 on a year-on-year basis.

As the inflation rate normally lags behind the general business cycle, however, and as the current upswing is likely to reach its peak only next year, it must also be expected that the inflation rate will reach its peak sometime next year and possibly only by the second half of 1981.

SHARE MARKET

The experts stay bullish

FM 11/7/80 49

It is less than a month since the simmering schools boycott erupted into naked violence, claiming some 30 lives. The spectre of 1976 was raised, overseas confidence was again shaken — and, one might have expected the JSE, especially so far as industrial shares were concerned, to stumble, if not fall back.

But nothing happened. In the two weeks spanning the worst of the violence, and with confusion compounded by the muzzling of press reporting, the industrial share market, as measured by the *RDM* 100 index, merely halted its advance; it was 525,6 on June 9 and 525,8 on June 20. Since then, and behaving as if nothing was wrong, indeed as if everything was right, it has put on steam — and another 30 points.

Basically, this would seem to reflect two things; first, the very genuine strength of the boom that the economy is enjoying, and which is being reflected in bumper corporate profits and dividends — and the confident expectation that these will be repeated, if not exceeded, in the current fiscal year.

Secondly, and more importantly, the high and rising price of gold. This is not only insulating SA from the chill of the Western world's recession — to which we are fast becoming even less vulnerable than the Opec countries that we increasingly resemble — but it is creating a degree of internal liquidity which, with no other home to go to, must force equity prices higher.

The relationship between the gold price and equity prices is evident from the graph, but a few figures serve to underline it. From the beginning of May to mid-June, the *RDM* 100 put on 7,6%; gold rose 15,2% in the same period: from May to now, the *RDM* is up 14,8%, gold 33,9%; from mid-June to now, *RDM* up 6,7%, gold up 16,2%. On the evidence of these arbitrarily chosen dates, it seems that, give or take a percentage point or two, the *RDM* index rises in direct proportion to the bullion price, but only half as fast.

But can the rise go on, or is an inevitable reaction lurking round the corner? That is the question in every investor's mind and, in an effort to find the answer, the *FM* this week asked a few leading lights of the investment world for their opinions. The biggest surprise lies in the broad level of agreement in their diagnosis — and prognosis.

The JSE's president, Richard Lurie:

"Firstly, the market's strength is possibly a reflection of relief that the riots were not worse — relief that they didn't develop on the 1976 scale.

"Then there is the very strong economy, which is making itself felt in company results, dividends and — most importantly — forecasts. And there's the strong and seemingly stable gold price.

"Add to all this the plusses on the political front — that there seems to be hope of settlement in Namibia; that Zimbabwe, despite the noises, doesn't look as if it is going to be an enemy; that Mozambique, at the very least, is co-operating; and that the world has problems other than SA. Of course, there is considerable disappointment thet P W Botha has not moved faster along the path he seemed to be taking last November, but there is the feeling that he will move, when he can.

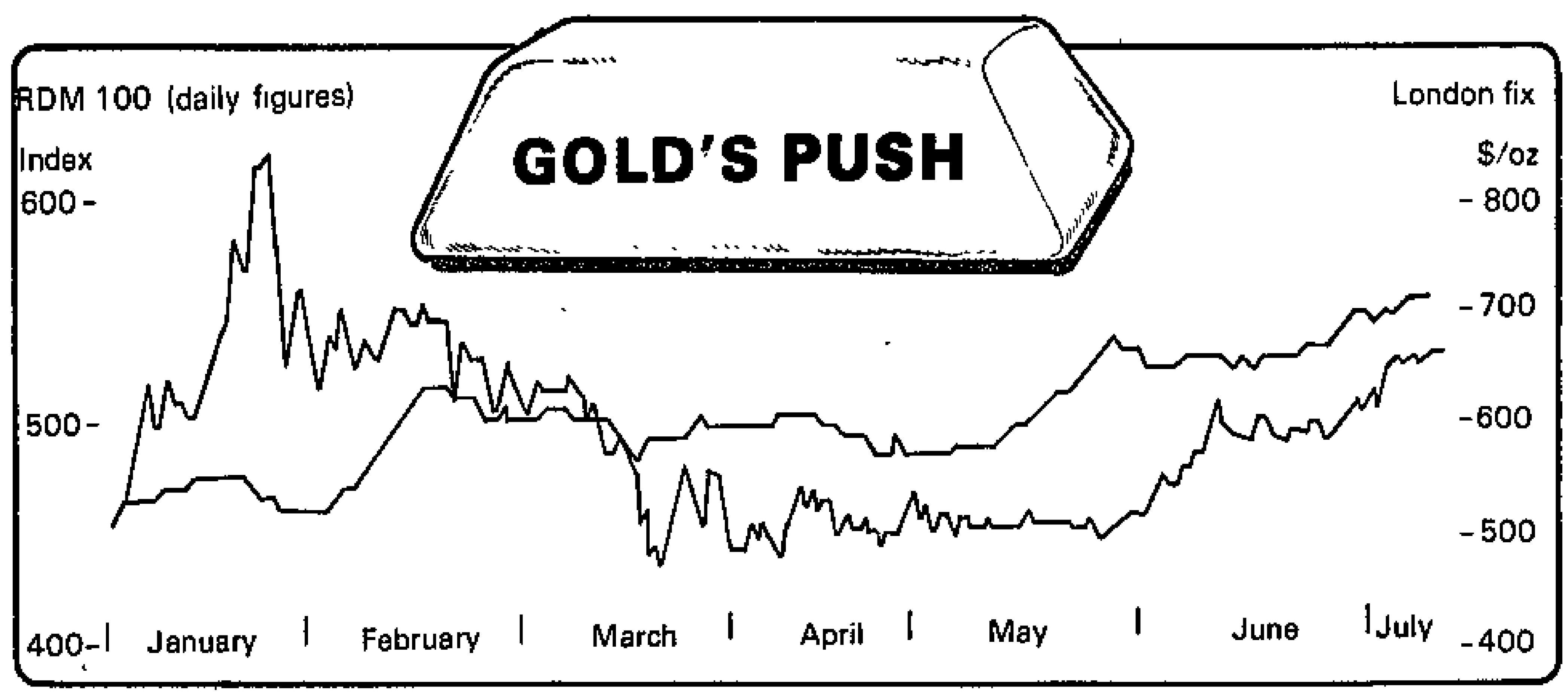
"All in all, things are looking good. There is confidence, and no signs of 1969-type speculation. This is an orderly market, and it looks like going on rising, so long as the gold price doesn't take a serious knock."

Next to be polled was Arnold Witkin, general manager, investments, of Legal & General Volkskas:

"As I see it, the equity market is basically being spurred by four things:

- The phenomenal liquidity in the economy;
- The fantastic company profits that are being reported;
- The gold price (which, of course, has impact on my first point): and
- The fact that quite a few institutions appear to have been out of the market for months, and now they're piling back in.

"Generally, companies now are very soundly based — they used the lean years



to get their balance sheets right. From now, equities will tend to follow the gold price, and gold looks to me unlikely to fall far. The inflation rate is worrying, but, even so, the market is very sound."

Then on to Old Mutual's Peter Bieber, who began by almost echoing Lurie:

"The unrest was 'lighter' than generally feared, and it was to some extent a matter of the criminal element riding on the bandwagon, rather than being purely political.

"Otherwise, the most significant factor (apart from the gold price) is the very high degree of liquidity — and the fact that there is very little in the way of investment opportunity apart from the share market. Then dividend growth has been exceptionally good — and looks like being even better — so that the market doesn't look overpriced to any real extent.

"Dividend yields are still highish at an average of 4,5% so the situation is completely different from 1969 and I expect the market to rise quite a bit further. With the economy really booming as it is, I don't see any significant downturn — and don't forget the added impetus that will come this month from the substantial PAYE boost to pay-packets."

Finally, over to Liberty Life's Donald Gordon, who also stressed the strength of the economy and the degree of liquidity.

"Basically, the performance of SA equities has not been all that exceptional in terms of the phenomenal profits and growth reported. The market may be a little over-valued after its sharp rise, but not all that much. We've hardly sold any stocks at all and, with the enormous build-up of liquidity in the economy, it looks as though the boom could go on for some time yet — after all, what else is there to invest in?

"So long as gold holds up, equities must go on rising. And gold should hold up; in basic terms, the world economy is in a bigger mess than ever, and that is good for gold.

"Inflation is a negative factor, and it isn't being helped by all this liquidity, which is going through the roof. But unless the authorities act to take some of the liquidity out of the system — by easing exchange controls, or by buying financial rands (which in effect is buying your own money at a 30% discount), either or both of which would boost political confidence as a sort of bonus — then that liquidity itself will keep pushing share prices upwards."

So there it is. The experts see share markets going higher. Their only major hedge lies in the gold price, but this they expect to stay firm.

For the average investor, one should perhaps add this *caveat* — the time to beware is when experts *do* agree. But one should also point out that they seem to have logic on their side at this particular time — and investment is supposedly a logical science.

Nedbank doubts more Budget hand-outs

RDM 11/7/80

By HAROLD FRIDJHON

TIGHTER control of liquidity by the authorities in 1981 — even to the extent of not including further big tax cuts in the next Budget — is forecast in Nedbank Economic Round-Up.

At present the economy is buoyant. Real personal disposable income recorded last year its biggest growth for a decade. Personal savings were almost doubled, and private spending on fixed investment has begun to increase.

The present strength of consumer spending seems to be solidly based on an improvement in the real financial position of consumers which will receive a further substantial boost this month when the R900-million tax and loan concessions start to take effect.

Consumer spending could rise quite sharply in the rest of the year without personal resources being stretched as they were in 1974; indeed the rapid growth of consumer spending could last well into 1981.

But in the course of next year cyclical forces could slow down this demand and perhaps late this year and early next year, consumers will rely more heavily on credit. This increase use of personal credit is likely to coincide with heavy increased demands from the private business sector for both working and investment capital.

These forces are likely to exert an upward pressure on interest rates.

Increased spending on imports and slower growth in export earnings are likely to produce smaller surpluses on the current account of the balance of payments ("or perhaps even deficits") in 1981.

At the same time, the danger of demand inflation could become greater and the Reserve Bank can be expected to touch the monetary brakes. The Government is likely not to add to rapidly rising domestic demand with further big tax cuts in the Budget of March 1981.

But, says the Nedbank Round-up, the slowdown in the pace of the economy which will follow the tapering off of consumer spending will be relatively mild and short-lived.

One reason for this view is that fiscal policy will not have to be swung around as harshly as in 1976. The Government's financial discipline of the past four years of low State spending and healthy financing will mean that there will be few excesses to correct. In other words, the need for swings in tax and spending policies has been greatly diminished.

Another reason why the next slowdown will be milder than in the past is the soundness of the balance of payments. Exports are on a higher plateau and the gold price is in a higher range.

Further, Sasol II will come on stream in 1981 and import replacement may have reduced South Africa's propensity to import. Another factor is that the large net repayment of foreign loans has left South Africa more creditworthy should there be the need to borrow.

The chances are that the slowdown in 1981 will be short and shallow, a dip in the growth path. But this will depend on the international recession not proving to be too severe and on the acceleration of the domestic money supply being checked. Recent money-supply movements do not portend well for inflation in 1981, says Nedbank.

On the other hand, the bank appears to take the view that the authorities are acting wisely. The Reserve Bank is "intent on a more active control over the liquidity in the economy", using a battery of policy instruments. It could narrow the forward cover discount rate to check growth of the money supply and it could raise the banks' cash reserve requirements, although Dr Chis Stals, the Deputy Governor, has indicated that this would not be used for "fine tuning".

Dr Stals has enumerated five instruments for controlling a build-up in liquidity. These are:

- Selling Government stock on a tap basis.
- Selling Reserve Bank debentures.
- Increasing Treasury bills on offer at the weekly tender.
- Issuing tax tap bills.
- Negotiating swop transactions in long-term Government stock with large investors who want to keep their options open for funds which are destined for long-term investment.

Nedbank Round-up says: "If the central Government is successful in its net use of 'bank credit' while the gold and foreign exchange reserves rise (as they can be expected to do for the rest of this year) and if the Reserve Bank acts successfully in controlling the build-up of liquidity, South Africa should be able to avoid a repetition of its earlier boom-bust cycles."

18/7/80 FM

49

TRAINING

Getting it right

In his chairman's report this week, Anglo American chairman Harry Oppenheimer made a disturbing disclosure: that while blacks made up 64% of all pupils receiving primary and secondary education, only 9% received technical training at secondary level, and an almost negligible 1,7% of technical students — 400 out of 24 000 — at a tertiary level.

Yet it is precisely in this sphere that the country needs trained people. And, as the economy continues to expand, the need can only get greater. A galloping inflation rate is already partly reflecting the increased price everyone is paying for the shortage of skilled people. Bidding for the available skills is pushing up the cost of employing those who have them.

What must be done? How can more people be trained more effectively and more quickly to equip them with the technical skills that are the engine room of a modern industrial society?

For one thing, vocational guidance officers directing blacks must make them aware that the way to the corridors of power in industry does not lie through the clerical offices. It lies on the factory floor, in the workshops and in the laboratories.

As Errol Drummond, director of Steel and Industries Engineering Federation (Seifsa) says: "A vacuum is developing in the artisan areas of employment as many blacks are attracted to white-collar jobs. The primary problem is that people are not correctly directed."

This view is supported by Lou Davis, executive director of the Building Industries Federation of South Africa (Bifsa). "Blacks don't want to gravitate to the building industry. They appear to prefer white-collar jobs," he says.

But the truth is that the real wealth lies in getting equipped to perform a trade, not in working as a clerk.

There are other problems. One is the blocking mechanism of white trade unions who perceive black advancement as a threat. The time has come for this myth to be exploded, for the threat is only in the minds of the trade unionists. They cannot be allowed to hold SA back.

Figures show the enormity of the problem. Stellenbosch University Professor Jan Sadie estimates an oversupply of 1,1m unskilled and semi-skilled people by next year rising to 1,6m by 1990 and a simultaneous shortage of 7m and 1,3m in the higher skilled categories.

According to Stanley Mogadime of Wits Graduate Business School: "If large-scale unemployment is to be avoided, a total of 370 000 jobs a year, or 31 000 a month will need to be created." And most of them will need technical training.

As early as 1974, the Van Wyck de Vries commission stated: "Too many people who are not university material are admitted to universities." Says Theo Shippey, director of the Cape technikon: "At least 10-15% of those entering university would probably be better off in a technikon." According to Prof Bozzoli, retired principal of Wits: "The technician is the person most demanded in industry today. His training is less costly than that of an engineer and takes less time." A 1976 survey showed an immediate need for 2 000 black engineering technicians.

The need is there. A lot of the facilities are there. Now let's get the message across. Everyone will benefit.

SUNDAY POST

S Post 20/7/80

(49)

Speaking freely

FREE enterprise and racial discrimination cannot co-exist. So said Anglo boss Harry Oppenheimer this week.

We are sure this view will be supported by a great many people. It has been stated over and over again whenever the question of free enterprise is discussed.

However, we would like to go even further. There can be no stability and security as long as racial discrimination exists in this country.

The view of free enterprise gained by a person who suffers under a maze of laws which restrict him in every possible way — which dictate what kind of education he can receive, what salary he can earn, where he can sell his labour, where he can live, who he can speak to, who he can associate with, what church he can go to — must necessarily be a negative one.

Blacks cannot be blamed for feeling the free enterprise system is, to a large extent, responsible for the situation. For, they argue, the system survives on cheap labour made possible by influx control regulations, an education system that has been designed to provide this flow of labour, and regulations which bar one race group from operating in an area set aside for another race group.

They cannot see anything "free" in the system as it is practised in South Africa.

It is significant, therefore, that people like Mr Oppenheimer make the point we have been making all the time. Not that we expect the Government to suddenly rush into caucus and decide to do anything about it. No. We have come to know that anything that comes from anybody who is not in Government is looked on as a ploy, and therefore shunned, even though it is constructive and could be to the good of the country.

As we have said, this country will continue living through periods of unrest as long as the Government decrees that whites are superior to blacks.

The Soweto '76s will continue popping up, getting worse at every turn. It is a tragedy that we have to go through this kind of protest before the Government realises the root of the problem lies not in agitation and communist plots but in the genuine desire by concerned people to create a better world for all.

Mr Oppenheimer's statement comes soon after a decision by some Afrikaner students that their organisation had become irrelevent in the present political situation.

The Afrikaanse Studentebond faced a split this week over its right-wing position. The decision by those students who resolved to break away — even though they are in a minority — must be seen as an indication that the youth of today is no longer prepared to be led to disaster without question.

The tragedy, however, is that this realisation seems to have come a bit too late. There are still people who believe in negotiation to sort out the mess the Government has put this country in, but they are certainly becoming fewer and fewer.

What this country needs is an aggressive exercise aimed at making all the people of the land a happy and contented lot. This cannot be achieved within the present political infrastructure. It means, therefore, that blacks must be seen to be taking their rightful place in the determination of the future of this country. Only then will we be on the way to the peace and stability sought by everyone.

SA boom? — just ask the tax man

RDM 22/7/80

(49)

By GERALD REILLY

THE tempo of South Africa's economic boom as reflected in the General Sales Tax collections is escalating.

The Secretary for Inland Revenue, Mr Mickey van der Walt, said there was no better indicator of the health and vigour of the economy than the rising collection figures.

To attain this financial year's target of R1 550 000, monthly collections will have to average R129-million. This, according to Mr Van der Walt, is infinitely possible.

Some economists believe that total collections for the financial year could come close to equalling the estimated revenue from individual income tax, which is R1 805 000.

Although expenditure patterns were difficult to forecast, Mr Van der Walt said, spending during the second half of the year, which would include the Christmas spree, and consumer spending would be swollen by the R900-million in tax concessions, which started from the beginning of this month.

The target figure of R1 550 000 is 26% higher than last year's actual collections of R1 250 000.

Mr Van der Walt said the increased spending tempo was reflected from July last year when monthly collections began consistently to exceed R100-million. Another statistic pointing to the economy's escalating momentum is the huge R61-million increase in GST collections during April and May.

During the two months, the Treasury reaped R240-million from the taxpayer - 34% more than collections for the same two months in 1979.

Barclays Bank's chief economist, Dr Johan Cloete, said retail sales in money terms had increased by about 22%.

He warned, however, that spending could not continue to increase indefinitely. The big returns from GST indicated the larger volume of spending, and the escalating prices of goods.

Many consumers were spending money fast in an effort to beat inflation. However, a point would be reached when supply difficulties would be encountered, "and it is then that inflation could get out of hand."

Dr Cloete sees this as "a distinct possibility" in the first quarter of next year.

Constellation will foster private enterprise

Star 24/7/80

By Tom Duff,
Political Reporter

The Governments of South Africa and the three independent homelands have agreed that the future of all their peoples can best be safeguarded by their joint efforts.

South Africa, Venda, Transkei and Bophuthatswana have taken the first step towards creating a constellation of southern African States with an agreement to promote free enterprise and regional co-operation on several levels.

The leaders of these countries agreed at a summit meeting in Pretoria yesterday to several measures to promote private investment. Among them is a pledge to subscribe "to the rule of law which prevents the emergence of arbitrary government."

They also agreed to establish, on a multilateral basis, a development bank for southern Africa as a vehicle for mobilising resources for development and for development co-operation.

At yesterday's summit at the old Observatory in Pretoria were the Prime Minister, Mr P W Botha; the President of Bophuthatswana, Chief Lucas Mangope; the President of Venda, Paramount Chief Patrick Mphephu; and the Transkei Prime Minister, Chief George Matanzima.

They considered the establishment of regional co-operation in the fields of economic activity, social affairs, inter-state relations and security matters.

Among matters agreed at the talks were:

- Proposals which are to be considered in structuring economic development and co-operation.
- A declaration to promote private enterprise.
- The establishment of a special committee to consider the training of manpower and tertiary education.
- A joint approach to the planning of a transportation system, starting with a roads network.
- The formulation of a joint forestry development strategy.

The government leaders also resolved to encourage private investment by:

STABILITY

- Promoting peace and political stability.
- Providing monetary stability.
- Restricting the public sector's direct role in the economy mainly to the provision of collective and strategic goods and services and the co-ordination of regional development.
- Ensuring the maximum movement of labour, capital technology and entrepreneurship which can be reconciled with official, social and other non-economic policies.
- Assuring private businesses that they will not be nationalised and that their ability to make profits and repatriate dividends will not be arbitrarily restricted.

A joint statement issued after the meeting said "We trust that this joint declaration will serve its intended purpose of encouraging increased private sector participation in the development of our respective economies.

"All interested entrepreneurs are invited to discuss their problems, initiatives and plans with our Governments with a view to removing possible obstacles."

Page 33 — Briefing.

SA seals homelands agreement

CAPE TIMES 24/7/80 (49) (NOVA)

Political Staff

JOHANNESBURG. — A pledge to uphold the rule of law and ensure the maximum mobility of labour are the key aspects of a "declaration to promote private investment" released jointly last night by the leaders of South Africa, Bophuthatswana, Transkei and Venda.

The declaration was issued after a full day's meeting at the Old Radcliffe Observatory, near Pretoria, and marks the first step towards the establishment of a constellation of states through economic co-operation.

The declaration, which also pledges minimum state intervention in the economy and guarantees against nationalization, was issued with a view to encouraging increased private-sector investment in the independent homelands.

During yesterday's meeting, the three homeland leaders and the South African Government agreed to:

- Consider proposals to structure economic development and co-operation.
- Establish, on a multilateral basis, a development bank for Southern Africa to mobilize development resources and co-operation. The functioning of the bank would allow maximum participation of the private sector and the bank's membership would be open to all Southern African countries wishing to participate on the basis of equal status.
- Adopt a comprehensive declaration to promote private investment.
- Establish a special committee to consider manpower training and tertiary education.
- Consider the creation of a single customs union between all independent countries in Southern Africa.
- Work for a joint approach to transport planning and forestry development.

The three-page declaration to promote private investment includes the following major provisions:

- Promotion of political stability.
- Adherence to the rule of law reconciled with the official social and other non-economic policies.
- Agreement against arbitrary restriction of ability to make profit and to repatriate dividends.
- Minimizing the use of direct controls of a socialistic nature.
- Provision of a framework in which the forces of free enterprise and the market mechanism can make the maximum contribution to the economic welfare of all.

The declaration acknowledged that certain deficiencies operating to the detriment of private enterprise would have to receive urgent attention.

To eradicate these, attention would have to be given to rapid training of workers and prospective enterpreneurs. It would also be necessary to have a clearly defined policy on industrial decentralization and rural development and provide the necessary infrastructure such as roads, railways, harbours, electricity, water and housing.

It was also desirable that restrictions on the mobility of goods and services between the different areas should not be imposed without joint agreement.

- Mr Harry Schwarz, chief opposition spokesman on finance, said last night that the statement reflected the first realization that free enterprise could not exist without other freedoms.

The declaration would be meaningless unless all laws infringing on these freedoms were removed from the statute book.

This would mean that laws providing for detention without trial, banning and arbitrary restriction would have to go.

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2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

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Star 24/7/80 149

The boom has long way to go

By Jean Moon

The present economic upswing still has a long way to go and the ensuing downswing should be fairly mild and in no way comparable to the recession of 1974-1977.

The University of Stellenbosch's Bureau for Economic Research Opinion Survey Report found respondents firmly of the opinion that the present high level of real activity will continue during the third quarter.

Even a considerable drop in the gold price will not pose any problems to growth in the near future.

Tax cuts will increase consumer demand at an even sharper rate than before, and the only problem areas posing any real threat to growth in the near future are the shortage of skilled workers and the high inflation rate.

Long-term interest rates should start to harden in the third quarter.

In the second quarter, the non-agricultural sectors continued to perform at a very high level and economic activity, in real terms, accelerated even further.

There was a 17,8 percent increase in the physical volume of manufacturing production in April compared with a year ago and an approximate 12 percent increase in April and May in the value of wholesale sales at constant prices and a near 11 percent increase in the volume of retail turnover.

The biggest gains reported in the manufacturing industry came from the sectors producing intermediate and especially investment goods, thus indicating the start of a new investment cycle.

Respondents in the manufacturing sector were confident of a continuation of buoyant conditions in the third quarter, but a more conservative attitude was taken by the wholesale sector.

The retail sector expects a further improvement in the third quarter but most optimistic of all is the motor trade stemming from the further sharp improvement in new car sales.

Dr Schalk van der Merwe . . . productivity left to lag.

No choice but inflation, Van der Merwe warns

Pretoria Bureau

The economy has had no choice but to become inflationary, the Minister of Industry, Trade and Consumer Affairs, Dr Schalk van der Merwe, said last night.

Speaking at the National Productivity Award ceremony in Johannesburg, he said: "The tendency for South Africa to become more capital intensive without commensurate benefits, is an alarming one."

Between 1969 and 1977, real fixed capital stock in the manufacturing sector increased by an average of 7,4 percent yearly.

But real output grew by only 2,3 percent yearly during the same period.

"We have also allowed wages to increase at an alarming rate without managing to reduce the impact of the increase.

"From 1965 to 1979 wages increased by 270 percent, while output per worker increased only by 24 percent."

Dr van der Merwe said it was clear "that we have not learned how to manage for productivity."

He added: "We are too inclined to follow blindly what other countries have done without critically looking at what we should do, given our unique resource combination of capital, labour, raw materials, energy and technology."

Dr van der Merwe said the figures he quoted showed that the economy had no choice but to become inflationary.

"We cannot continue to waste resources and rely on economic windfalls such as an increase in gold price to carry the day for us," he said.

The National Productivity Awards for 1979 went to Iscor, The Department of Forestry, Motor Assemblies in Durban and Malcomess Toyota in East London.

Malcomess won the award for a 136 percent increase in productivity in its motor repair workshop.

The Department of Forestry won its award for a computerised system of forest management.

Motor Assemblies won its award for on-going productivity improvements coupled with increased profitability and improved quality.

Iscor won its award for its productivity intensification programme which encourages staff to come forward with suggestions.

SECTION B

Industry sees grave flaw in 'constellation'

NDM 49 NDM 25/7/80

Pretoria Bureau

INDUSTRIALISTS say it will be a serious flaw in any development programme for Southern Africa if the homelands are excluded — and the flaw should be given urgent attention.

After the summit meeting in Pretoria earlier this week between South Africa, Transkei, BophuthaTswana and Venda, a joint declaration was issued announcing the creation of a "development bank" — which would be open to all Southern African "countries".

Organised commerce and industry said that despite the "flaw", it welcomed the declaration as an important step in the right direction.

The executive director of the Federated Chamber of Industries, Dr Johan van Zyl, said the FCI was enthusiastic about the declaration of intent.

It was particularly important that the development bank envisaged was to have a multilateral base — that it would be open to all countries in Southern Africa with equal status for the partners.

However, the one serious shortcoming was:

"Where does this leave the black self-governing homelands like KwaZulu? If the principle is to regard the whole of South Africa as an economic unit, then the homelands should all be involved in planning the location of industry," said Dr Van Zyl.

At present, it appeared that only South Africa, BophuthaTswana, Venda and Transkei were participants. However, the important principle of a regional approach to economic development had been established.

The FCI also welcomed the fact that the private sector would be given the greatest possible role in the programme.

Another vital part of the announcement was that the four countries subscribed to the Rule of Law. This was an important safeguard if private capital and initiative was to play its full part.

"This we see as a breakthrough. It eliminates political and other risks which might otherwise frighten off the private sector," Dr Van Zyl said.

The executive director of the Association of Chambers of Commerce, Mr Raymond Parsons, said progress towards the ideal of a constellation of Southern African states was in the interest of all people in the region.

Bold and positive action was needed, however, to attain the objective, and the announcement of a co-ordinated action programme was an important step in the right direction.

Few of the problems of food, inflation, population, transport and other economic questions had a purely national solution, he said.

FOOTNOTE: Banking sources said yesterday that in 1973-74 the big commercial banks proposed the establishment of a development bank for Southern Africa. With Government approval they went ahead with planning, which had reached an advanced stage when it "was sat on" and abandoned.

Lawyer group calls for Rule of Law

NDM 25/7/80

By AMEEN AKHALWAYA
Political Reporter

IF SOUTH Africa and the "independent" homelands are to adhere to the Rule of Law, their first step should be to scrap the entire homelands concept in which millions of South Africans had no say.

That is the view of the Democratic Lawyers' Association (DLA), whose chairman, Mr Hassim Seedat, said yesterday his organisation found it "extremely illogical" for homelands leaders to talk about the Rule of Law.

He was reacting to the declaration issued by heads of South Africa, Transkei, BophuthaTswana and Venda after their meeting near Pretoria on Wednesday.

Mr Seedat, whose organisation is affiliated to the International Commission of Jurists, said: "The very creation of homelands is an arbitrary decision taken without the involvement of the majority of the people of South Africa.

"No referendum was held and with the stroke of a pen millions of South Africans lost their South African citizenship."

The meaning of the Rule of Law to each person was dictated by his experience or that of the State, he said.

"In South Africa, there has been an erosion of the Rule of Law and the country stands condemned by all civilised nations. The DLA has noted with extreme alarm the autocratic rule which seems to be carried out in some homelands, and we view with even greater alarm that nepotism also takes place."

The DLA therefore found most distressing "the mouthing of the sacred principle of the Rule of Law".

"If there is to be Rule of Law, the first thing would be to scrap the homelands, call for a national convention and create a democratic South Africa with rights for all in their motherland," Mr Seedat added.

Professor John Dugard, an authority on South African security legislation, said he welcomed the commitment to the Rule of Law.

He added: "Like many South Africans, I view it with surprise and suspicion in the light of the fact that with the exception of BophuthaTswana, none of the States present at the meeting has a good commitment to the Rule of Law."

Prof Dugard, director of the Centre for Applied Legal Studies at the University of Witwatersrand, said that if Transkei and Venda were seriously concerned about the Rule of Law, it was a pity they did not include a Bill of Rights in their independence constitutions.

"There is little evidence to suggest that the Government understands the meaning of the term Rule of Law as, for over three decades, it has embarked on a course of arbitrary government."

He said the two most fundamental provisions of the Rule of Law were that no one should be deprived of his liberty without the due process of law — without a fair trial — and that there should be equality before the law.

"The Terrorism Act and the Internal Security Act undermine the first principle, while the laws of apartheid violate the second principle."

Only BophuthaTswana has a Bill of Rights.

Paper No ......8......

(to be copied from the heading on the Examination Paper)

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FASTER GROWTH (49)

Investment rising

FM 25/7/80

The July Opinion Survey Report of the Stellenbosch Bureau of Economic Research reports a "further acceleration of the upswing in the general economy," with business confidence at historically high levels and the vast majority of respondents in the survey reporting increased production, sales and employment. The survey also finds there are signs of an upswing in investment.

While consumer goods output is "levelling off somewhat," according to the survey, production gains in the investment goods sectors are rising. Output of metal products has risen in the second quarter over the first quarter by 17%, machinery by 13% and metals by 11%. For the same period, metal product sales are up by 26% and metal sales by 21%. In the transport sector, production spurted ahead by 78% and sales by 57%.

The survey considers this the beginning of the long awaited investment surge, which is to be expected at about this stage of the business cycle. Although 55% of the respondents in the survey consider that they can boost production (by an average 27%) without additional investment, the BER's Attie de Vries tells the *FM* he does not feel this negates investment revival prospects.

The important thing is to note the mix in the various sectors, he says. Capacity utilisation in transport has been low and higher, therefore, in other sectors such as capital goods. Commenting on the July Barclays Bank *Brief* report of a decline in the last quarter in the number of its manufacturing clients with new fixed investment plans over the next six months, De Vries suggests the poll was taken at the height of the unrest when uncertainty was high. "But with the gaining of momentum they will have to take an investment decision," he stresses.

The BER survey is further optimistic about immediate economic prospects. "It would appear," it writes, "even after more than 30 months, that the present upswing has a long time to go. With consumer demand getting a new impetus from tax cuts, inventories at low levels and a new investment cycle just starting, domestic demand should remain very strong for at least the next twelve months."

But rising prices, political unrest and the shortage of skilled manpower could all seriously hinder the revival. A net 80% of manufacturing respondents now report skilled labour shortages and 56% semi-skilled shortages. And inflation, while likely to slacken in July when the statistical effects of the 1979 petrol price rises are eliminated from the index, gives particular cause for concern.

The underlying inflationary trend remains strongly upward as suggested by the 84% of manufacturing respondents who report unit cost increases in the past year. In the wholesale sector, the survey reports selling prices rising in the second quarter by an average of 12%, although average purchase prices per unit rose by only 10%, largely due to the abolition of the 7% import surcharge.

With demand-pull inflation looming, the survey suggests that counteractive government measures may be desirable. They might, by damping the very high growth rate in the short-term, prolong the upswing considerably. De Vries envisages such measures as letting interest rates rise (the survey expects long-term rates to firm while short-term rates will be depressed if the gold price keeps rising), keeping the money supply under control, preventing an over-extension of credit and not adopting more stimulatory measures.

However, the immediate future remains rosy. Orders received in the second quarter were up on the first by 5% in manufacturing and 4% in retailing, all three sectors report substantial declines in stocks and business confidence for the future is good with 75% of manufacturers, 89% of retailers and 85% of motor dealers expecting conditions to improve in the third quarter.

Hot economy may need inflation curb

(49) RDM 26/7/80

Pretoria Bureau

SOUTH Africa's booming economy is in grave danger of becoming overheated, and leading bankers and industrialists say action to curb inflation may have to be taken next month.

They say the economy is bloated with consumer liquidity — supplemented this month by fatter pay cheques now that lower tax deductions have been put into effect.

The first pressure on the inflation brake may be applied at the annual meeting of the South African Reserve Bank next month.

The director-general (finance), Dr Joep de Loor, said:

"We are getting closer to a position where there is an excess of demand. We are keeping a close watch on the amber lights."

Consumer demand is increasing; so are imports — "but this, after all, is what we wanted".

However, the indicators were under constant scrutiny, and as soon as the amber lights began to flash, the necessary counter action would be taken, said Dr De Loor.

Industrialist and economist Dr M D Marais said South Africa was in the grip of an unprecedented spending spree — made more frantic by inflation.

"People are saying, logically, that it is far better to buy today than next year when prices will be 15 to 20% higher."

He agreed that the economy was becoming overheated, that the inflation rate was gaining momentum, and that it would become increasingly difficult to maintain a satisfactory growth rate.

"And without a satisfactory growth rate, our serious unemployment problem will worsen — and with it other associated dangers that most South Africans are aware of."

Dr Marais said he was not optimistic that the Government would be able to stop the escalation in inflation. The only effective counter-measure was a wages and prices freeze — "and this cannot be applied in a democratic society".

Dr Marais said he had told fellow directors at five board meetings earlier this week that an inflation rate of 17% was likely by the end of the year.

A leading banker and economist, Dr Fred du Plessis, said the economy faced the imminent danger of overheating.

There was a strong probability that the new tax relief, and other additional income from pay rises, would be spent and not saved. If this happened, the inflation spiral would be given a powerful twist and an overheated situation might be unavoidable.

Without corrective action, an inflation rate of 20% was a threat in the second half of 1981.

However, Dr Du Plessis said it was possible the first pressure on the brake would be applied by the Governor of the SA Reserve Bank, Dr T W de Jongh.

"If the current spending spree continues, and intensifies because of bigger pay packets resulting from the tax concessions, then corrective action will be necessary."

If it became apparent that the spending tempo during August had increased, then it would be psychologically right for the bank to take the first step towards cooling the economy.

If consumer spending continued to increase, and the economy was allowed to freewheel, then a 17% inflation rate in December was possible, Dr Du Plessis said.

Subject ECONOMICS II
(to be copied from the heading on the Examination Paper)

Paper No. II
(to be copied from the heading on the Examination Paper)

Examiners' Initials		

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.
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Discussing a point yesterday after the annual meeting of the LTA Ciskei Construction Company are Mr Brian Hackney, chairman of the company, Mrs Fezela Matiyase, a shareholder, and Dr Zac de Beer, chairman of LTA Limited.

DD 20/8/80

De Beer defends free enterprise

49

EAST LONDON — Discrimination, and not free enterprise, was hurtful to people in South Africa, Dr Zac de Beer, chairman of LTA Construction, said at Mdantsane yesterday.

Dr De Beer, former PFP MP for Parktown, was opening the annual meeting of LTA Construction (Ciskei), which, together with LTA Construction and the Ciskei National Development Corporation, is a three-party company in the Ciskei.

He said he was aware quite a number of South Africans, particularly the country's young people "and the less privileged" were critical of free enterprise.

He said: "They see it as part of the system under which they themselves are at a disadvantage."

Dr De Beer said, however, the criticism was based on "confusion" because it was not free enterprise which hurt the people but discrimination.

"While it is important that we should get rid of discrimination, it is equally important that we should retain free enterprise because one can see by looking around the world that it is the best and quickest method for the development of young countries."

Dr De Beer said his company was contributing towards the establishment in the Ciskei of the free enterprise system, which he said would be of great benefit to the future of the Ciskei.

Mr B E Hackney, chairman of LTA (Ciskei) said the three-party concept was relatively new in the national states industrial scene.

The arrangement, he said, involved holding of shares by a white entrepreneur and the CNDC which "gradually sells its shares to Ciskeians thereby encouraging their participation in big business."

The company, which he said was also involved in the development and training of Ciskeians in the construction industry, had trained six people for management and had registered nine apprentices.

He said 170 semi-skilled operators had also been launched in various trades, ranging from bricklaying to setting out and draughting.

Speaking at the same function, the general manager of the CNDC, Mr F S Meisenholl said the CNDC wold immediately make another 6 000 of its shares available to Ciskeians.

He said the first offer to Ciskeians was extremely well received "and the time is now opportune to open up further participation in big business to interested Ciskeians." — DDR

30/7/80 ARC448 (49)

Labour output lags as capital input soars

THE DIRE need for South African industry to improve the productivity of its work force has again been emphasised by Dr S W van der Merwe, Minister of Industries and of Commerce and Consumer Affairs.

FINANCE

Between 1970 and 1979 the labour productivity had risen by a mere 10 percent, he told the 1979 National Productivity Award winners in Johannesburg.

He said this was in spite of an 82 percent increase in capital inputs as measured by the fixed capital stock.

In this period the overall productivity of capital and labour combined declined by 9 percent.

ALARMING

The tendency for South Africa to become more capital intensive without commensurate benefits was alarming. Between 1969 and 1977 the real fixed capital stock in the manufacturing sector increased at an average rate of 7,4 percent while real output grew at only 2,3 percent a year.

Wages had also grown at an alarming rate without any commensurate improvement in productivity. Between 1965 and 1979 wages increased by 270 percent, but output per worker increased only by 24 percent.

WASTE RESOURCES

In the light of these figures there was no way South Africa could evade inflation.

'We cannot continue to waste resources and rely on economic windfalls such as the increase in the gold price to carry the day for us.'

Dr van der Merwe's remarks come at a time when the Japanese have just reported that labour productivity in the country's manufacturing industries rose by 12,1 percent last year.

This brought the average annual increase in productivity since 1972 to 7 percent.

However, the increase in productivity has been achieved mainly by maintaining or increasing output with a smaller work force.

In the past seven years the labour input in man-days has dropped almost 20 percent while physical output has risen 30 percent, reports the Fuji Bank in its latest newsletter.

It is hoped that the reduction in employment in this sector will be offset by increased employment in the tertiary sector.

AWARD WINNERS

One of the winners of the productivity awards was Malcomess Toyota, at East London, which increased the productivity of its motor repair workshop by 136 percent. This resulted in a 238 percent rise in its profits.

The number of mechanics employed has dropped from seven to five while the average turnover for each mechanic has risen from R1 147 a month to R2 500 a month.

Another award winner was Dr N Hurter of the Fruit and Fruit Technology Research Institute at Stellenbosch for his new plum cultivars which give three to four times more fruit a hectare than the original strains with a gross income of up to eight times as much.

State spending up, but on Budget path

(49) RDM 5/8/80

By HAROLD FRIDJHON

GOVERNMENT spending in the first quarter of the current fiscal year is running at a rate 27% above the level for the same period last year. But the Exchequer's outgoings are closely following the pattern of the Budget.

In the first three months of the fiscal year, the Exchequer paid out R3 345-million compared with R2 628-million in the first quarter of the 1979/80 fiscal year. The bigger department spenders — with the previous year's figures in brackets — are:

- Defence, R538-million (R301-million);
- Agriculture and Fisheries, R118-million (R65-million);
- Commerce and Consumer Affairs, R41-million (R24-million);
- Finance, R707-million (R548-million);
- Community Development, R98-million (R63-million);
- Indian Affairs, R39-million (R27-million);
- Foreign Affairs and Information, including the statutory amount, R63-million (R50-million);
- Mineral and Energy Affairs, R104-million (R87-million);
- Police, R85-million (R50-million);
- National Education, R140-million (R108-million);
- Education and Training, R61-million (R38-million); and
- Health Welfare and Pensions, R217-million (R155-million.

Collections in the first quarter of the fiscal year from Customs and Excise and Inland Revenue amounted to R2 430-million compared with R1 962-million last year

This left a deficit of R915-million that was financed from "other receipts" which, before the present method of Government financing was introduced, was known as loan account.

"Other receipts" produced R676-million, leaving a shortfall of R239-million that was met from R249-million cash-in-hand.

But "other receipts" also included a loan from the stabilisation account amounting to R91-million — which was an unwelcome addition to money supply — and R367-million raised by new loan stock after repaying R421-million on old loans which matured

Defence Bonus Bonds drew in R19-million in June and R60-million over the three months. Outgoings on Bonus Bonds was R2 500 000 in June and R7 600 000 for the first quarter.

Once tax on the gold revenue begins to flow in together with provisional tax payments at the end of August, the Exchequer should have no difficulty in financing its commitments until the big tax rake-off at the end of February.

(49)
RDM
4/8/80

What lies behind the free enterprise strategy?

During the past two weeks, more has happened than at any other time since Mr P W Botha became Prime Minister to reveal the long-term strategy behind the Government's verbal commitment to free enterprise.

What is this strategy and has it any chance of working?

Political Correspondent HELEN ZILLE assesses the situation.

THE National Party Government has always regarded free enterprise as something to be avoided — not encouraged.

When Mr P W Botha became Prime Minister, he brought a major change in rhetoric. No longer was capitalism regarded as the materialistic "Brits-Joods Hoggenheimer" syndrome that would destroy Afrikaner values, culture and identity.

The term "free enterprise" suddenly became an almost magical cure-all, not only for South Africa's economic problems such as unemployment, but for the political problems as well.

So far, the commitment to free enterprise has been confined to words. All the laws that inhibit the free working of market forces are still on the statute book, including such provisions as the Physical Planning Act (which limits the number of black workers who may be employed in urban areas) and the racially discriminatory pass laws.

Even the acceptance of black trade union rights has been undermined by repeated refusals to recognise the trade unions that have the majority support of black workers, in favour of negotiation with unions of which the Government approves.

So, more and more people are asking three basic questions:

- What did Mr Botha hope to achieve by his commitment to free enterprise?
- Does his strategy stand any chance of being implemented?
- If so, does it have any chance of succeeding?

It is futile to look to Mr Botha's actions and statements to understand what the strategy is all about. One must look instead to the Government's key advisers and conceptual thinkers to understand the political significance of the commitment to free enterprise.

These think-tankers are essentially trying to turn economic forces into irresistible channels of reform — because they believe it is impossible to do this through existing political institutions.

They have seen verligte political initiatives thwarted again and again by hardline apartheid ideologues. So these academics are now leading the move to replace political persuasion through the National party caucus and Parliament, with economic reasoning outside political institutions. This, they believe, will have a far greater chance of success.

They can argue that discriminatory laws must go because of the need to lift restraints on the free enterprise economy in order to ensure growth, curb unemployment and build a black middle class.

While the academics advance their case on economic principles, the verligte Nationalists who support them, can keep a low profile and hold on to their tenuous positions, allowing "experts" who have no electoral base to act as the "fall guys".

But the Rightwing politicians still hold the trump card because, through their weight in the National Party, they have the final power to block change and opt for apartheid rather than free enterprise.

Getting round this barrier is the major problem the planners and their verligte political allies now face — and the battle promises to be a long and tough one.

It began in earnest this week when outraged rightwing Nationalists raised a howl of protest at the Lombard proposals to turn Natal into a highly autonomous, multiracial region, probably under Chief Gatsha Buthelezi.

This was a proposal worked out by economists on the basis of economic principles at the request of business leaders, ostensibly because the apartheid policy of land partition and consolidation would spell economic disaster for Natal.

But the proposals were not confined to recommendations for an integrated economy for the province. They also contain the clear recognition that an integrated economy necessitates a shared political system as well.

The leading academic advisers to the Government hope that the Natal proposals will be implemented, turning the province into a "political laboratory" producing a successful experiment that can be extended to South Africa as a whole.

They believe that through the Natal proposals they can begin to dismantle the Verwoerdian concept of independent homelands in favour of a confederation of eight highly autonomous units based on geographic — not ethnic — divisions throughout the country.

They are using economic arguments as the prime justification for these proposals, saying that ethnic partition is a recipe for economic disaster which will lead to stagnation, massive unemployment and ultimately a revolution.

They argue that the country's economy cannot be fragmented and that blacks and whites must all share in it on an equal basis. And if white and black share one economic system, they must inevitably share the political system that ultimately determines how the economic fruits are distributed in the society.

They are hoping that this can be implemented through a system of massive decentralisation of government to multiracial regional authorities. And they are again using economic arguments to get round white fears of political domination by blacks.

The argument has been spelt out on numerous occasions recently by key Government planners, including Professor Jan Lombard, one of the leading brains behind the economic initiative.

He foresees a system of multiracial regional governments run on the basis of "market principles" where private enterprise will take over many key Government functions, while others will be financed by local taxation. The multiracial governing authority would oversee the whole, in much the same way as a board of directors governs a large company with a wide diversity of interests.

Most Government functions — including community development, schools, health care, manpower and influx control — would be conducted by the regional government on the basis of the free enterprise market principles of supply and demand.

Prof Lombard and his colleagues believe this system could effect a meaningful redistribution of wealth — not through coercion by a distant central government, but on the principle that local government run on market principles by a nonracial authority encourages the channeling of resources to satisfy the most urgent needs of the community — to the benefit of all.

In such a system, Prof Lombard believes the rich would voluntarily satisfy the needs (such as housing, education and transport) of the disadvantaged — either through private enterprise or through local taxes.

This is the ideal of the free enterprise planners. But can it work?

For the past 32 years of Nationalist rule, whites have been told their identity and survival depends on exclusive control of a highly centralised political system.

Now the Government's own planners are trying to tell them the exact opposite and, as the past week has shown, the political resistance is bound to be immense.

Once again, the architects of the plan are using economic rationalisation in an attempt to allay political fears.

The argument was summarised recently in a paper Prof Lombard read at the Federasie van Afrikaanse Kultuurverenigings congress in Johannesburg.

The crux of it is as follows: Afrikaners, and whites in general, can no longer regard South Africa as a white man's country in which the main task of the political and economic system is the protection of their interests.

They will have to learn to survive as a "minority among minorities" without any laws protecting them because of their skin colour.

The only way they can do this is as individuals operating in a free enterprise system that will ensure the survival of those with initiative and productivity.

Socialism, not race, is the big enemy of white, and more specifically, Afrikaner, identity because, says Dr Lombard, it is the system that will undermine individual endeavour, condemning the Afrikaner to disappear in a "sea of uniformity".

This argument can only succeed if Rightwingers are prepared to accept the permanence of blacks — politically and economically — outside the homelands. And the idea is still totally rejected by most Nationalists, particularly by the powerful Transvaal bloc that is still bogged down in a rearguard action against mixed sport.

If they regard mixed rugby as a threat to their identity and survival, it speaks for itself what chances the background planners have of convincing them that their future will be safeguarded, not endangered, by sharing political power.

A second major problem is South Africa's massive, highly centralised, bureaucracy, which is already acting as a strong brake on the Government's limited attempts at reform.

The proposed decentralisation of Government would imply the virtual destruction of the present bureaucracy and its replacement by a small local administration with severely limited scope.

One cannot underestimate the problems that such a switch would cause — not only administratively, but also politically. A drastic shake-up of this nature would inevitably arouse massive opposition from the present public service, the backbone of the Government's support.

In addition, Professor Sampie Terreblanche, a Stellenbosch economist and a strong opponent of the "free enterprise" school of political reform, has pointed out that throughout the world the tendency is for bureaucracies to grow, not diminish, both in scope and influence.

In sophisticated modern societies major services (such as education, housing and welfare) have to be taken over by public, not private, interests, simply because private enterprise cannot fulfil the demand and make a profit at the same time.

Therefore, the budget and staff of the government sector is bound to increase — not decrease — in the long term. According to Prof Terreblanche, the hope of introducing limited government on free market principles, is based on a fallacious premise that has no chance of working.

Another major problem is whether the Prime Minister, Mr P W Botha, has the political will — and power — to initiate the proposals of his verligte advisers.

Of late, Mr Botha has kept a distinctly low profile, leaving everybody guessing as to where he stands.

According to people close to him, this is a deliberate tactic. They believe the Prime Minister supports most of the proposals, and that he will move ahead to implement them.

Mr Botha himself has given the clearest indication during the past year of how he intends to do so. He appears to be moving rapidly towards a "verligte dictatorship", entrenching power in his hands, while diminishing the strength of Parliament, the National Party caucus and the congresses.

Several verligte academics have supported this trend recently, insisting it is merely a transition mechanism to pave the way for a "wider democracy" in South Africa.

The basic flaw in this argument is that the verligte dictatorship option will raise so much opposition both from the left and right, that the the dictator would only be able to stay in power by concentrating more power in his hands. This would obviously lead to more opposition — and further concentration of power in an ever increasing spiral, leaving no place for the reform for which the dictatorship was instituted in the first place.

But the free enterprise plan also faces tremendous opposition from the left, particularly from blacks, who believe the only system capable of overcoming historic inequalities and discrimination is some form of socialism.

In the face of opposition from the left, the biggest challenge facing Mr Botha's planners will be to prove that free enterprise can be more effective than socialism in bringing about a redistribution of wealth and opportunities.

These are the most immediate problems which will have to be resolved before the "free enterprise" initiatives can get off the ground.

Even if this happens, it will take many years before the system can be implemented and the people traditionally disadvantaged by the political-economy of apartheid begin to feel the benefits.

With racial polarisation increasing, the most serious long term problem the strategy faces is time. And no one is more aware of this than the planners themselves.

Senbank sees a spending spree

88
49
RDM 4/8/80

By HAROLD FRIDJHON

A SHARP increase in real private consumption expenditure this year, with spending on private transport equipment the strongest growth point, is predicted by Senbank in its Economic Opinion which is devoted to an analysis and forecast of expenditure patterns.

The Senbank study forecasts that private consumption expenditure (PCE) will grow at a rate of 6,5% in real terms — which means at constant 1970 prices — compared with a growth rate of 2,8% in 1979, 1,4% in 1978 and a negative growth rate of 1,1% in 1977.

The figures are better than they look because real expenditure on goods, that is PCE less spending on services, is projected to increase by 7,2%.

The high growth rate for consumption is the result of the considerable increase projected for expenditure on durable and semi-durable goods. Non-durable consumption, which consists mainly of spending on food and beverages, accounts for more than 70% of all non-durable goods bought in South Africa and by its nature is highly non-elastic.

And of the durables, real expenditure on private transport equipment will grow by 17,5%, the strongest growth projected of all the main categories of private consumption.

The Senbank analysis says that the high growth rate stems from an analysis of three main sets of determinants: the ability, the need, and the willingness of individuals to spend.

The ability of the consumer to spend is the most important of these three factors and this is determined by current personal disposable income, personal savings and the availability and cost of consumer credit.

The consumer's financial position is favourable at present in spite of the high inflation rate. Total personal disposable income of salary and wage earners is estimated to rise this year by 21,5% in money terms and 7% in real terms.

After the battering which the consumer took between 1975 and 1978, he rebuilt savings last year. This should have a favourable influence in 1980.

As for the availability of credit, Senbank says that the situation favours the consumer.

On the question of the need to spend, because of unfavourable conditions in 1975 to mid-1979 there is now a pent-up demand for durables and semi-durables, such as furniture and household equipment.

The willingness of consumers to spend is determined by the state of consumer confidence and this is at its highest level in five years. There is another factor and that is the inflationary expectation which induces him to spend now rather than later when prices might be higher.

'No free enterprise in a restricted society'

49 RDM 6/8/86

RUSTENBURG. — Free enterprise was not practicable in a system that was not free, Mr Harry Schwarz, Progressive Federal Party MP, told the National Federated Chambers of Commerce (Nafcoc) conference at Sun City yesterday.

Mr Schwarz said oligarchal capitalism could flourish in a restricted society, but true free enterprise could not.

If the Prime Minister, Mr P W Botha, had — at the Carlton conference last year — committed the Government to free enterprise, then, if his words were to have meaning, "our society needs to move rapidly in the direction of freedom — not only in business rights, but in human rights — for the two to clearly go together," he said.

"If you may choose where to trade, there must also be freedom of choice where to live. If you are to have freedom to produce where you choose, you must have freedom to move as you desire.

"If there is to be no limit on the size and scope of the enterprise you may build, you must have access to expertise, experience and capital," he said.

Mr Schwarz said it was not only laws that needed revision. It was custom and convention "because many of the actions which inhibit black business are not enshrined in law but

MR SCHWARZ
. . . gave guidelines

are historical practices which remain in operation because of inherent prejudice.

"These prejudices are not exclusive to the white community. They are also to be found among other races.

"A major problem is the need to instil the confidence of people in their own institutions. This is not a problem unique to South Africa. In the USA black business suffered for years from a lack of black support," Mr Schwarz said.

Black-controlled banks did not receive their share of money from their own people as they had more confidence in other longer-established financial institutions.

"Price-wise shoppers felt they got a better deal in the white-controlled stores. Perhaps in some cases the black entrepreneurs were to blame for this lack of confidence.

"It must not be suggested that business should become racial. The consumer should rather look at business objectively. Quality, price and service are the issues, not the skin colour of the owner."

Mr Schwarz put forward the following suggestions to remove constraints on black business:

- Review all laws which affect trade and industry and eliminate those practices which restrict, restrain or discriminate on the grounds of colour.
- Campaign to remove conventions, practices and prejudices which inhibit trade and industry on grounds of race.
- Encourage confidence in black business enterprise.
- Improve facilities for business training and to remove the historical disadvantages pertaining to experience and business background.
- Provide more ready access to finance for new and smaller enterprises.

"History, however, shows that, despite the attractions of overthrowing an economic system as a short cut to a solution, very few short cuts have succeeded.

"Africa has many such examples, where massive nationalisation of means of production and re-allocations of land were believed to be the panacea for the ills of colonialism. Yet, despite the disappearance of colonialism, the real incomes of people have not improved in a meaningful fashion."

Mr Schwarz said that after almost 20 years of independence, Tanzania's socialist system had produced a bankrupt country having to import food, when its major activity was agriculture — this despite being the biggest recepient of foreign aid in Africa in 1979.

The story was the same in most socialist-orientated states of Africa.

The economic solution for SA did not lie in the direction of Tanzania, Mr Schwarz said.

The economic solution for SA was not to be found in destroying the free enterprise system but rather in taking over and becoming part of and reforming the system.

SA had a powerful economy, it was worth keeping, he said. No-one should wish to destroy it. — Sapa

Importing white labour 'no solution'

LP

Star 6/8/80

With the present demand for jobs in South Africa, the economy should be averaging a growth rate of five-and-a-half percent and be generating more than 1 000 new jobs every day.

This was said yesterday by Mr Sam Motsuenyane at the sixteenth annual conference of the National African Federated Chambers of Commerce (Nafcoc), held at Sun City.

In his eleventh presidential address he said the South African economy continued to experience an "unacceptably high inflation and unemployment rate, and a skilled manpower shortage."

Thousands of unskilled and semi-skilled blacks roamed the streets in search of work while there were no qualified people for many jobs, he said.

CHALLENGE

"The exercise of importing skilled white labour from overseas is a mere palliative and not a solution at all.

"Our country is today short of 100 000 skilled people," he said.

He suggested the country's challenge and opportunity lay in the introduction of free and compulsory education for all, with a greater emphasis on technical and vocational training.

"Long term economic and political prospects in South and southern Africa continue to remain uncertain and unpredictable," he said.

"The Government initiative, under the leadership of Mr P W Botha, to form a constellation of states was taken without it first putting its own house in order," he warned.

GENERAL NEWS

7/8/80 STAR

Racial laws blamed for holding back development

By Mike Overmeyer

SUN CITY — Racial laws blocked full realisation of economic potential, particularly that of blacks. This theme has been reiterated by businessmen adddressing the 16th annual conference of the National Federated Chambers of Commerce (Nafcoc) at Sun City this week.

Professor J H G de Villiers, dean of the Faculty of Agriculture at Fort Hare University told delegates that the migratory system, for example, was a constraint which adversely affected agriculture. Other laws, including that on land tenure, were also counter-productive.

A solution could be to shift industry from urban to rural areas or to diversify rural production into labour-intensive non-agricultural activities.

Dr Zac de Beer, Anglo American executive, attacked the Group Areas Act, the separate Amenities Act, licensing regulations and migrant labour regulations which "stood squarely in the path of the black man wishing to set up in business."

Segregated and inferior education and prejudice against blacks among lending institutions were also obstacles to advancement.

Dr de Beer called on whites to encourage their black counterparts to develop skills and accumulate capital. He also criticised the free enterprise initiative of the Prime Minister, Mr P W Botha.

Mr Sam Motsuenyane, president of Nafcoc said. "The proposed constellation of states is an unattainable ideal at present as far too many differences exist between South Africa and her neighbouring states."

Mr Harry Schwarz, (PFP, Yeoville), said: "The reality is that free enterprise is not practicable in a system which is not free."

CAREERS

Nafcoc announced a five-year plan to support and consolidate projects developed over the past year, which include:

- The formation of the Nafcoc Industrial Development Corporation and the Nafcoc National Trust;
- The businessman of the year competition;
- A Nafcoc advisory and consultancy service;
- A careers development project; and
- A plan for a building society based in black areas.

Said Mr Motsuenyane: "Much of the future stability of South Africa will depend on the direction taken and the speed at which desirable changes were brought about." The country, he said, could not achieve prosperity and greatness in isolation.

(49) RDM 7/8/80

The hangover starts with the ball barely under way

Simon Willson

Down to business

THE EXTRA riches that the March Budget added to July pay packets have been handed over, and you can be quite sure they are being spent hand over fist.

But now that the deed has been done, it is perhaps a good time to consider the implications of it, and whether any corrective action will be necessary to control consumer spending almost as soon as the extra cash has been handed over.

Of course, the handouts in the Budget were welcomed by consumers and entrepreneurs, notwithstanding the political questions of the equity of their distribution. After the recession years of 1976, 1977 and 1978 the tax concessions were, at last, an indication of South Africa's re-emergence into comparative economic prosperity.

However, four months afterwards, the measures can be reviewed in a deeper context aided by hindsight, and things don't look quite so rosy.

When the Budget measures were drawn up in the early months of this year, the take-off into the classical economic boom conditions which have prevailed ever since was not apparent and was not even considered imminent.

But since the Budget, the boom has exceeded in pace and intensity anything foreseen earlier by manufacturers or consumers.

This has had two effects: one at production level and one at consumption level.

At production level manufacturers have been caught with their forecasts down as demand has outstripped their ability to supply, and they have been left at a critical stage of undercapacity as the boom has overtaken them.

On the consumption side, more and more money has come the way of the consumer and the economy has, to all intents and purposes, been reflated.

The increasingly important question as we move into the spending period directly affected by the Budget giveaways is whether the economy has been over-reflated.

Inflation is the main danger in the aftermath of Budget handouts. And the view one takes of the inflationary prospects for the rest of this year and next year is conditioned by the definition of inflation one accepts.

The difference between inflation definitions seems to be a vital factor in deciding what the upturn in consumer spending is going to do to the economy.

The most popular definition of inflation among the general public is "rising prices". As a definition, this is factually incorrect. It is describing the principal symptom of inflation, not what it is.

The actual definition of inflation is "an increase in the quantity of money", and it is in this respect that we must assess the likely ramifications of the tax concessions.

The Budget abolished loan levies worth R651-million to the Exchequer and handed back to the consumer taxes worth R909-million. This was an effective injection of R1 560-million into the economy, a cash tide which began to wash over the retail outlets a week ago.

In itself, it was a simple stimulatory measure. But now consider the monetary context in which the giveaway was performed.

In the second half of last year the broadly based measure of money supply, the M3 equivalent which includes notes, coin, current and deposit accounts and national savings, rose at an annual rate of 30% which, in any conventional Western economic terms, is too high.

Senator Horwood has admitted the 30% increase was excessive and in conflict with overall financial policy, but he said the increase was largely a temporary aberration and not an indication of a longer-term trend.

The increase in the money supply "required further attention", Senator Horwood said.

But within three months of the announcement of the figure, R1 560-million was pumped into the economy. In the period between the announcement of the policy initiative at the end of March and the execution of it at the end of July the economy was showing all the signs of metaphorically bursting at the seams.

Two of the most obvious signs of the straining seams have been the freight logjams on the railways and the capacity shortfalls on the car assembly lines. Freight cargoes and car sales are fundamental economic indicators and the way they have been affected recently does not indicate controlled expansion.

The money supply has dropped back to about 13% since last year's "aberration" figure, but 13% is still high when compared with contemporary European money supply floor targets of between 6% and 8%.

Which brings us back to how you define inflation. As The Individualist business magazine said, if you define inflation as prices going up then the logical way to stop inflation is to find the raiser of the prices and prevent the process.

This usually means a ruinous price freeze on big business which wrecks profits and prevents capital investment.

But if you define inflation as an increasing money supply, the culprit is unavoidably the Government, which prints and issues the stuff.

In this context the R1 560-million handout last March might not have been as propitious as many are making out. The measure may turn out to have jumped the gun and anticipated the boom.

The brakes could well have to be reapplied before we are seized by demand-pull inflation worse than the current 14% annual rate.

The usual brakes for governments to use in these circumstances are a credit squeeze, an interest rate increase, and the measure known in European economic circles as "the corset" — raising the cash reserve and liquidity requirements of the commercial banks.

There is an ominous familiarity between our economic position and that of several west European countries in the early 1970s which reflated around the commodity boom at the time and then had to deflate with consequent social problems when their economies overheated.

Deflation is an unpleasant business when an economy has a proportionately large low-income group, as ours has.

But if the gluttonous boom has been overfed this year, we could be staring deflation right in the face.

Hurter signs off with inflation warning

(49) RD 17 (BRA) 9/8/80

By HAROLD FRIDJHON

THE danger of a demand-inflation in South Africa was real, Dr J A Hurter warned in his valedictory address as chairman of Volkskas Group at yesterday's annual meeting in Pretoria.

While Dr Hurter was in agreement with the Government strategy to strenghten domestic demand and particularly private consumption expenditure, he believed the tax concessions in the last Budget were "somewhat on the large side".

"At that stage it was clear that the natural economic expansionary forces of increasing employment, higher wages and salaries and the effects of good agricultural harvets on personal income were all factors suggesting that there was not much wrong with the economic revival."

He saw real personal consumption spending increasing strongly this year, supported to a large extent by the granting of credit. He urged the greatest restraint in the granting of credit to consumers, pointing to the big increase in civil judgments for debt. The amount involved was R119-million — a big burden on the establishments concerned and on the economy.

He considered that the present term of repayments on hire-purchase credit was too long and not in the interests of the economy and the individual

The emphasis on credit granting should be for productive purposes.

Production capacity threatened to become a bottleneck. Delivery times were getting longer and the number of unfilled orders was increasing. South Africa faced the challenge of maintaining a reasonable balance between demand and supply.

In spite of an important part of domestic demand being shifted to foreign countries through imports, the danger of demand-inflation was real at a time when there was little hope of excessively high inflation moving to lower levels.

Dr Hurter said that this year the economy would record one of its best growth rates, perhaps as high as 7%. But with an inflation rate possibly more than double this fiugure, the red light was shining brightly.

"There is nothing as dampening to growth as inflation. Hard work lies ahead to break the back of inflation," he said.

Financial discipline in the broadest sense was needed as well as the raising of productivity, managerial ingenuity, a well-trained works corps and a sound relationship between labour performance and remuneration.

Crucial economic moves expected

(49)

RDM 11/8/80.

By GERALD REILLY
Pretoria Bureau

CRUCIAL moves to drain the economy of excessive liquidity are expected to be announced at the annual general meeting of the Reserve Bank on August 26 or soon after it.

As a background to the meeting and the decisions which will be taken, the governor of the Reserve Bank, Dr T W de Jongh, has just completed a series of meetings with private sector business leaders to get their views on the state of the economy, their problems and how these can be resolved.

He has had discussions with the Association of Chambers of Commerce, the Afrikaanse Handelsinstituut, the Federated Chamber of Industries, commercial banks and other private sector organisations.

A major issue at the discussions was the current powerful inflation surge and the threat, as seen by some economists, of a 20% inflation rate next year unless the economy is cooled with gentle restrictive measures.

They claim that liquidity was "sloshing around" the economy, and if left could trigger off demand pull inflation.

The PFP's financial spokesman, Mr Harry Schwarz, agreed that action was urgently necessary to counter inflation and to bleed off excessive liquidity.

Measures could well be announced by Dr De Jongh at the bank's AGM.

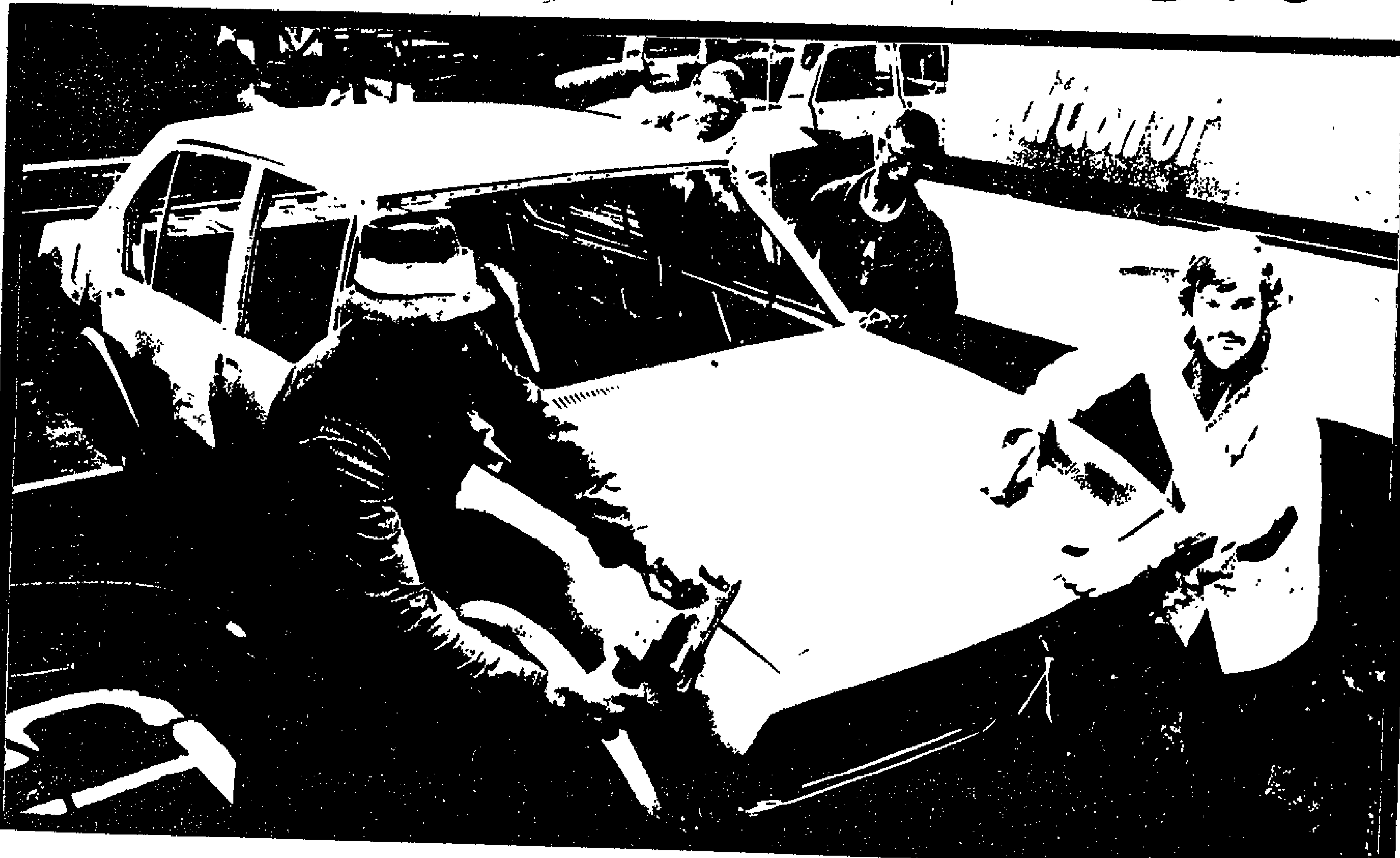
The greatest care, however would have to be taken to ensure that the economic tempo was not slowed down to a point where momentum was lost and the current upsurge hobbled.

It was important, he said, that the unacceptably high level of inflation be dealt with without affecting the ability of the economy to create work and to continue to expand.

"Crucial and delicate decisions confront the bank and the Treasury. An over-reaction to the claims that the economy is over-heated could be dangerous."

Excess liquidity he did not see as a major problem. This could be dealt with effectively by adjustments to the exchange control regulations.

CARRY•ON BOOMING!



SIGNS OF BOOM . . . the growing car industry

49 19/8/80 Sun Tim.

The risks are substantial but the stakes are high

ECONOMIC policymaking is at the best of times a risky business. Modern economies have become so complex that one can never be sure that the policy prescriptions, derived from the more or less simplified analytical framework that is the stock in trade of the professional economist, will really work out as envisaged.

This is not, of course, to decry the profession but merely to face up to reality.

AS the South African economy swings into high gear, the spectre of inflation is frightening many a faint heart into appeals to the Government to lower the boom. Dr Van Zyl, executive director of the Federated Chamber of Industries and a leading economist, takes issue with those who believe that the time has come for the green light on growth to switch to amber.

By Dr

JOHAN VAN ZYL

The question of risk in policy decisions is particularly relevant in South Africa at the present time. We have waited a long time for the current strong upsurge in overall economic activity, yet already voices are going up to suggest that perhaps things are getting out of hand.

Should the authorities therefore, in classical fashion, begin to lean against the prevailing economic winds or should they let things ride until, say, some time next year?

It might seem that to postpone a decision to start flashing an amber light for six months or a year is hardly likely to make much difference to the overall performance of the South African economy in the years ahead. Yet the decision is crucial.

Discipline

To decide at the present time on a policy of no change in the official stance — promoting growth from a platform of monetary and fiscal discipline — carries with it a much larger than usual degree of risk.

The main reason is that we are not dealing with a "normal", relatively uncomplicated upswing in economic activity.

We are certainly in the expansion phase of the business cycle but at the same time we are also in the process of bringing about major structural changes in the South African economy.

It is this unusual combination of cyclical and structural elements that renders policymaking so risky and also so important at the present time.

The main driving force behind the present upswing is increased spending. Both consumption and investment are expanding at a healthy rate.

This is a quite natural process which, in time, if the cycle proceeds in normal fashion, would run into supply constraints as the economy no longer produces or allows the importation of sufficient goods to satisfy the rapidly increasing demand.

Demand inflation would set in as there is then "too much money chasing too few goods".

But how does the present upswing differ from this orthodox picture?

A number of factors spring to mind but perhaps the most crucial is South Africa's shortage of skilled labour.

Much has been said about this undoubtedly serious bottleneck to sustained economic growth. But the real question is, of course, how it can be overcome.

Incentives

It is a fact of life that industrialists do not usually embark on intensive training programmes for skilled workers unless they are subjected to strong economic pressures.

Periods of little or slow growth produce no such pressures.

If it is further accepted that, for whatever reason, a serious lag has developed in the supply of skilled black workers of the artisan class, the need for maintaining strong and sustained incentives for industrialists to eliminate this structural bottleneck becomes even more apparent.

There is no more effective incentive than an extended period of rapid growth.

Essentially this approach involves using market forces to bring about the fundamental changes required to eliminate longer-term constraints on the supply side, whether these be additional manufacturing capacity or skilled labour.

For the present the skilled labour constraint is probably the more serious and the more difficult problem is to solve it. It follows that any signals indicating official intent to start slowing down the growth impetus are likely to have the obvious effects.

Backlog

But two important caveats are in order.

Firstly, it must be realised that artisan-class labour is not produced overnight. To eliminate a backlog an essential gestation period is involved.

This implies that in the meantime relatively free access to immigrant skilled labour is a must if the economy is not to bump against supply constraints at too early a stage in its expansion path.

This is clearly a temporary measure and it is vitally important that it must be regarded as such by industrialists and policymakers alike.

An officially announced time limit might be an effective way of bringing this fact home to everybody.

A second important caveat concerns the demand side of the current upswing. Can it really be said that curbing the boom right now would be premature?

Supplies

It must be realised that there is really no sensible way of squeezing a high growth rate out of the economy in the short term if supplies from whatever source simply cannot keep up with expanding demand.

The result would inevitably be rapidly escalating inflation. On top of the high rate of inflation experienced at present, the results would be highly disruptive, to say the least.

On this issue opinions clearly differ. Most of the protagonists would probably agree that the utilisation of present production capacity in many sectors is approaching upper limits.

They might also agree that while new investment is certainly raising the capacity of the economy to produce larger volumes, this is not occurring fast enough to allow much scope for further rapid demand expansion.

Payments

Where they differ most seems to be in their respective views of the balance of payments situation.

One viewpoint tends to emphasise the large deficit on the capital account of the balance of payments, suggesting by and large that this situation will not easily be improved.

Hence a substantial surplus on the current account is a necessity, otherwise the reserve position and especially its cash portion will come under pressure.

Thus a high rate of growth leading to rapidly increasing imports cannot be tolerated for long.

By the same token mopping up surplus domestic liquidity by encouraging an outflow of short-term capital must be regarded as inappropriate.

The alternative view, supported by the Federated Chamber of Industries in a Press statement this week, puts the emphasis firmly on the strong current account position.

Deficit

In the past the later stages of a boom were normally accompanied by a substantial current deficit.

There is thus still considerable leeway in supplying the domestic market with imported consumer and capital goods before the current account becomes a constraining factor.

As long as the import safety valve is open, the risk of running into domestic demand inflation is much diminished.

But is the capital account not the real constraint? The chamber does not believe so.

South Africa is becoming very attractive to overseas lending institutions while the boom itself is attracting much interest from overseas investors.

On the short-term side there is also considerable scope for switching international trade financing to traditional sources abroad which will generate a short-term inflow of capital.

04

a) Elasticity of demand is the proportion of the ~~percentage~~ change in quantity demand to ~~the~~ a percentage change in price. In other words, it is the change in quantity demanded, resulting from a change in price.

Algebraicly $E_D = \frac{\% \Delta \text{ in } Q_D}{\% \Delta \text{ in } P} = \frac{\Delta Q/Q}{\Delta P/P} = \frac{P}{Q} \cdot \frac{\Delta Q}{\Delta P}$.

Similarly, elasticity of supply is the resultant change in quantity supplied as a result of ~~£~~ a change in price.

So $E_S =$ … so on.

Pressure

To summarise, it is essential that official policy allows the present upswing to continue for as long as possible to generate maximum pressure and so eliminate the structural supply bottlenecks in the economy.

There is, however, no certainty that such an approach will fully achieve the aims envisaged and consequently the risks are high.

If skilled labour shortages, in particular, are eliminated only tardily, the inflation rate may well come under pressure.

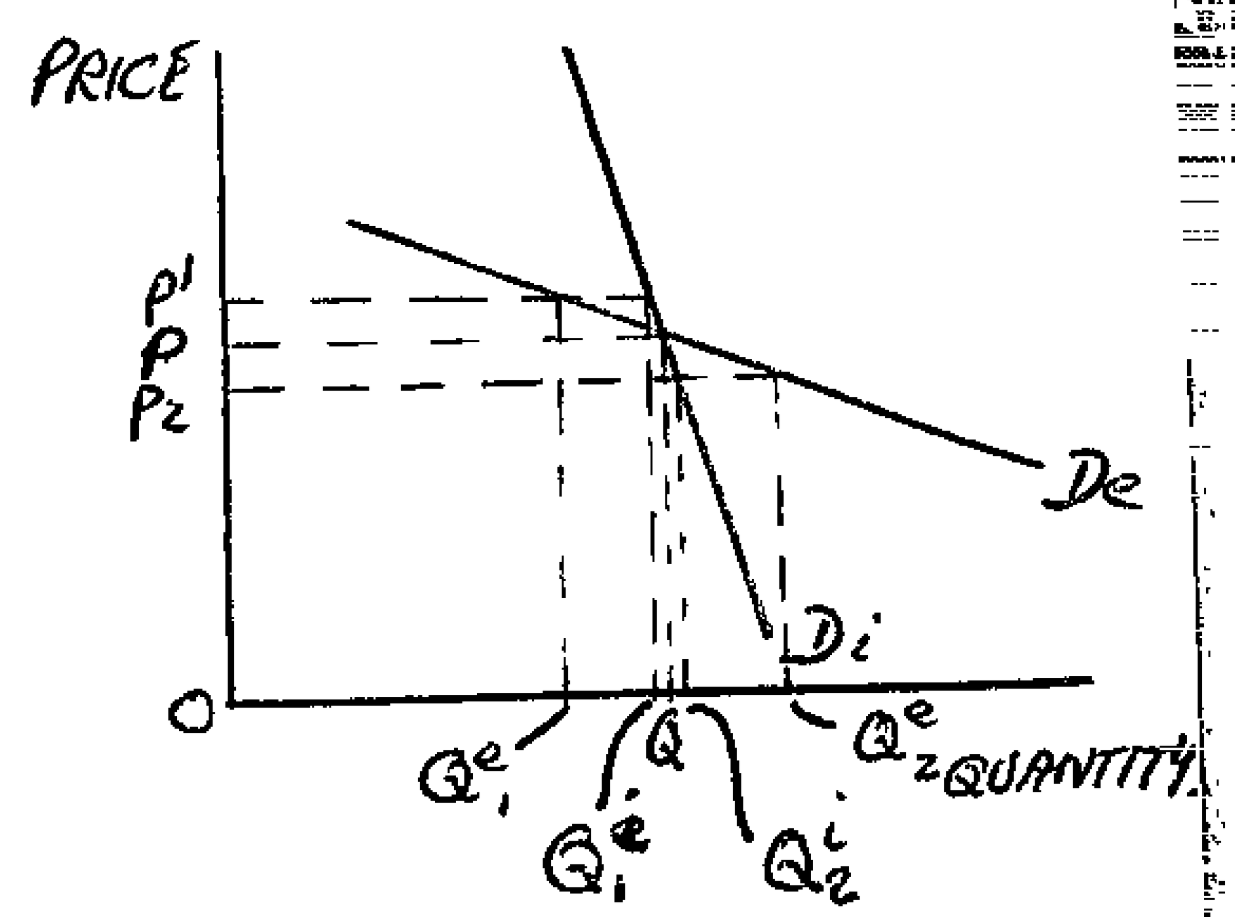
But nothing ventured nothing gained. If we are to achieve the high rates of sustained growth needed to defuse the unemployment minefield in the Eighties, the authorities will have to be prepared to take substantial risks.

The stakes are certainly high enough.

b.) The nature of ag… …modities is such that they are necessities. … …d to survive. As a result the demand for the… …($E < 1$). Manufactured goods include luxuries a… …they are more elastic.

In the figure: Di … inelastic demand c… …ral commodities, and De is … demand curve for m… …ds.

It can be seen … intersect at OP a…



If the price is raised slightly to P_1;
The effect on the inelastic agricultural goods is a very small drop in output, whereas on the more elastic good, there is a quite substantial drop in output.

If the price is lowered slightly to P_2; the effect on the inelastic product is too increase output very slightly, whereas there is a quite substantial increase in the elastic good.

Thus it can be seen why there are large price fluctuations. A very ~~la~~ small change in output

(49) (15) CDM 13/8/80

Beard criticises policy of 'growth at any cost'

DURBAN. — With South Africa running into the real danger of a 20% inflation rate by the year-end, Durban businessman, Mr Fred Beard has criticised the policies of the Minister of Finance, Senator Owen Horwood.

Speaking at a Rotary lunch here, Mr Beard accused the Minister of having sacrificed the country "on the altar of growth at any cost."

Mr Beard, chairman of the Protea Holdings group, said the debasement of its money was South Africa's most pressing and alarming problem.

Administered price increase - mostly on agricultural prducts - had surged right through the economy with a devastating effect on the lower income group.

Most of these increases were directly attributable to the plethora of control boards which had been set up in defiance of the rules of free enterprise.

These price increases merely subsidised the inefficinet farmer who would have no place in a free uncontrolled market, and made the efficient farmer even more profitable.

Yet, he said, the Minister had been reported recently as saying administered price increases were "inevitable" and inflation a "necessary evil" which had to be accepted if economic growth were not to suffer.

Mr Beard said he had been "staggered" to read in the local Press a few days ago that Senator Horwood believed South Africa had cost-inflation and not demand-inflation.

In fact, demand-inflation had already arrived and would get worse. Reserve Bank chief, Dr Gerhard De Kock, had stated imports would be allowed to supplement shortages of locally-made products and goods.

The healthy balance of payments position made this possible. Mr Beard said this raised two points: "The balance of payments surplus was largely due to the country's gold. The country could, therefore, count its blessings and not boast of financial discipline.

"If it had real discipline, it would be able substantially to reduce galloping inflation."

The Minister, he said, should have enabled local industry to produce the necessary goods by having increased allowances on new plant machinery and factories (including additions) to 100%. — Sapa

SECTION C

STAR 13/8/80

49

JCC leader urges free enterprise for everyone

Mr Sydney Matus who was elected the 77th president of the Johannesburg Chamber of Commerce last night, has called for all whites and blacks to take an active part in the free enterprise system.

The business community would have a momentous task in drawing blacks closer to the system of free enterprise, he said

Mr Matus told the chamber not to leave black advancement to others but to take an active role in the realisation of this ideal.

He said he would like closer ties between the chamber and Nafcoc, the black chamber of commerce.

He also said the chamber was in favour of opening the Johannesburg central business district to all races.

Expectations of reform ran high last year but progress had been delayed because of government hesitancy, Mr Matus said.

Mr Matus has been a member of the chamber's council for several years and is currently chairman of the merchandising committee.

MR S MATUS

At the same meeting Mr Martin Keyser was elected first vice-president and Mr Douglas Stewart, second vice-president.

The chamber's outgoing president, Mr W S Yeowart, urged Johannesburg businessmen to help find solutions to the socio-economic problems of the community.

If they did not, they would be failing in their duty and "fiddling while the city burnt," he said.

"While there is no question that the South African economy is indicating a strength that it has never before attained, there remain unsolved problems of inflation and unemployment which, economically and socially, contain immense destructive power unless they are solved," Mr Yeowart said.

Other areas in which businessmen should involve themselves included:

- Open trading for all races in the Johannesburg CBD.
- Improvements in the standard of life in the black areas.
- The financial situation of Greater Soweto.
- Industrial relations.

He suggested that the chamber establish committees to deal with education, housing, social matters and labour and business relations.

"We will harness the most experienced whites and blacks in these matters to help us and provide advice to our members and liaison with the concerned authorities, local and central," Mr Yeowart said.

CANDIDATE MUST enter in ...) the number of each question ...d (in the order in which it has ...swered); leave columns (2) and

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NOTE CAREFULLY

1. Enter at the top of each page and in colum... of the block on this cover the number o... question you are answering.
2. Blue or black ink must be used for w... answers. The use of a ball point pen is ac... able. Red or green ink may be used on... underlining, emphasis or for diagrams... which pencil may also be used.
3. Names must be printed on each separate... (e.g. graph paper) where sheets additio... examination book(s) are used.
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Any dishonesty will render the candidate l... ...nd to possible exclusion from the

(49) RDM 14/8/80

Slabbert's plea on growth

On Tuesday this week, the Leader of the Opposition, Dr Fredrik van Zyl Slabbert, delivered a major speech on economic policy to the Johannesburg Chamber of Commerce. Here is the text of his address.

I THINK one can say with a reasonable degree of confidence that it would be difficult if not impossible to get together a more representative embodiment of the spirit of free enterprise in the Republic of South Africa than we have here at this meeting.

This is a formidable gathering of the captains of industry and as a politician I know I must choose my words carefully because as the editor of the Financial Mail said recently you are people "who like to get things done", whereas politicians generally delight in talking about what should be done — preferably by others.

I think it is also fair to say that over the last 18 months politicians have given a great deal of advice to businessmen on what they can and should do in order to get our country out of its present difficulties. We desparately need economic growth, it is said.

This growth must come about through the market mechanism where the private sector purses profit to the best of its ability. Consequently businessmen have been asked, begged and encouraged to co-operate in increasing the growth rate of our economy. I am not a businessman, but I must confess I find such an appeal puzzling to say the least. For me to plead with the private sector to assist with improving the growth rate of the economy is tantamount to asking a businessman to be a businessman. Surely he needs no encouragement to pursue profit, that is what he is in the business for.

Is this plea perhaps not misdirected? Instead of pleading for the co-operation of businessmen in this way, is it perhaps not more profitable to pose the question differently, namely to ask: What obstacles are there which make the maximum pursuit of growth difficult?

To ask this question directs attention to problem areas that have to be solved before we can have an institutional framework in which growth can be pursued to its maximum degree. In the Financial Mail of 25 July 1980, Prof Joel M Stern, president of Chase Manhatten Bank, New York, and visiting professor at Cape Town University's Graduate Business School, claims that South Africa should have an annual growth rate of 12% and says the reason why this is not so can be ascribed to four factors: monetary policy, fiscal policy, international trade policy, and employment policy. The operative word here of course is policy.

Where does policy come from? What considerations other than economic ones go into the formulation of policy? I believe that answers to these questions will reveal a simple paradox in the appeal of politicians to the private sector to assist with growth.

It is self-defeating for politicians to urge businessmen to promote economic growth if politicians persist with policies that inhibit or prevent growth. It is the old and simple story: You cannot have your cake and eat it. Politicans will have to decide what their priorities are and then in terms of them find out whether business can flourish in terms of them or not.

This is the first major problem I have with the intense political concern with economic growth. Another problem that I have in this respect is that politicians sometimes seem to misunderstand what economic growth can bring about and what it cannot bring about. This can be very dangerous because when expectations are raised as to what growth can achieve and this is then not realised one can end up with an even more discontented society. For this reason I believe that just as important as it is to encourage economic growth it is equally important to make people aware of the limits of growth.

What are the limits of growth in a country such as ours? It is generally accepted by most countries in the world today that economic growth based on the principle of free enterprise is the surest and best way to create wealth in society.

However, wealth creation is but one part of the economic problem in South Africa. The distribution of wealth is an equally important and vital part of the problem. By wealth distribution I refer specifically to how the State uses the benefits of growth to improve the life chances and quality of life of its subjects. Wealth creation is primarily a businessman's problem; wealth distribution is primarily the problem of those who govern, i.e. the politician. If the economic entrepreneur, who creates wealth, and the political entrepreneur, who distributes it, do not work closely together, or even worse, do not properly understand each other's role in society, a great deal of misery can be the result.

That is why it is important for politicians to be aware of the limits of growth, particularly in South Africa.

Thus, economic growth does not inevitably, or of necessity solve the problem of unemployment. If unemployment is the result of an oversupply of unskilled labour, particularly in the rural areas, then the kind of economic growth that is necessary is labour intensive. But if your growth areas are basically metropolitan based and capital intensive, which is predominantly the case in South Africa, then unemployment can actually increase during an upswing in the economy.

Secondly, and related to the first point, economic growth does not inevitably close the inequality gap between rich and poor, or as it is in South Africa, between whites and black. In fact, growth can increase the gap. If this does happen the sense of relative deprivation between white and black increases and the benefits of the boom are seen to be enjoyed by whites whilst blacks experience an increase in suffering. This is then a major political problem not just an economic one.

Thirdly, economic growth does not inevitably solve the problem of rural impoverishment, hunger and agricultural regression. Two Sundays ago we read in the same newspaper about the upswing in the economy as well as about famine and unemployment in Zululand.

These problems are not simply going to disappear if politicians simply repeat the word free enterprise three times. In fact, if politicians do not use the benefits of growth in an expert and systematic manner, these problems can be aggravated to such an extent that they will pose a threat to the very system of free enterprise itself.

When I talk about politicians, or those who govern, using the benefits of growth to solve ... I have in mind? For example:

- There is a desperate need to restore a proper relationship between population and land in the rural areas. The rate of desertification and deforestation is increasing and alarming. What should be land used for agricultural purposes is being used for population relocation. In the long run the many relocated in this manner will return to the cities with a vengeance.
- Labour intensive economic development in the rural areas is an absolute necessity. You cannot make your metropolitan areas havens of free enterprise and growth and let the rural areas become pockets of misery and poverty, and not expect those people to migrate to the lights of the cities. No matter how tight a legislative curtain is drawn around the cities, people will still come through it.
- Life must be made livable in the real sense of the word in the rural areas if we are to avoid problems of over-urbanisation and population concentration in our cities. It is pointless to build schools, clinics and houses in urban communities if the same rate of building does not take place in the rural areas. Pointless in the sense of preventing urban migration. The more attractive the cities become, the less attractive the rural areas, the greater the pull to migrate to the city.
- Fourthly, the economy of South Africa suffers from a typical Third World disease: A shortage of labour and at the same time an oversupply of it. There is a shortage of skill and oversupply of unskilled bour. This shortage in the sh term can be overcome t extent by importing skill bour but this in the lo

[redacted]

simply swells the ranks of our unskilled labour force. It is vitally important that an educational infrastructure be created geared to increasing the productive capacity of our total labour force. This is an investment in the interest of all of us, particularly for the system of free enterprise.

- We often hear that population growth is a major problem in South Africa, and so it is. But research world-wide has shown that the only effective method of birth control is economic mobility and improvement in the quality of life of people. In South Africa this means improving and upgrading the quality of life of our urban black communities. This is going to be a major task. However, it is going to be impossible to achieve if the land allocated to these communities is based on the ridiculous assumption that the population groups with the highest birth rate should be confined to the smallest metropolitan land areas.
- These are some of the things that can be done in the area of wealth distribution. They illustrate how close the relationship between the wealth creator/businessman and the wealth distributor/politician should be. In other words what I have been saying is that the economic problem of South Africa is not the responsibility of one group to solve, it is the responsibility of all of us. And if one group does not recognise or take up its responsibility, it makes it so much more difficult for the other group to do the job.

14/8/80

GERHARD DE KOCK (49) FM 15/8/80

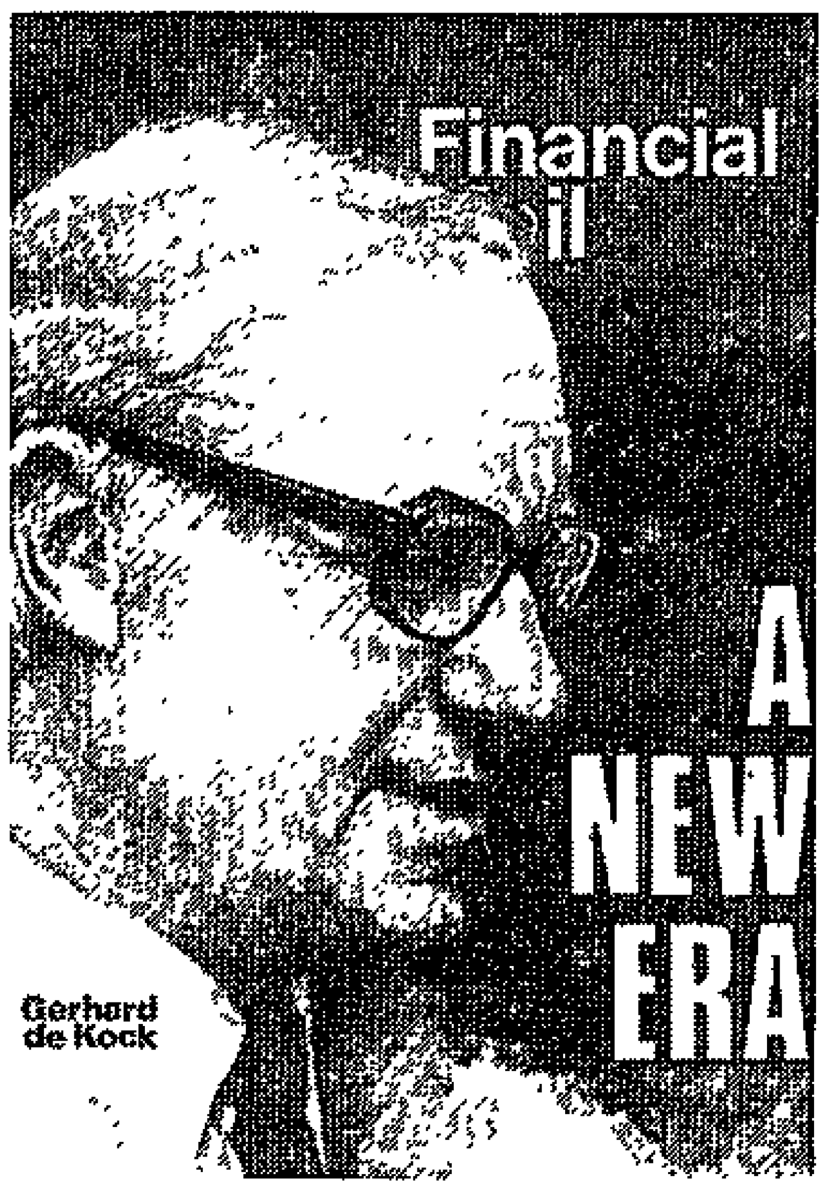
Beyond Church Square

When Gerhard de Kock moves on January 1 from the Union Buildings back to Church Square, he will already be carrying far more responsibility for this country's future economic well-being than probably any holder of similar public office has done before.

His most immediate and pressing task when he takes over as Governor of the Reserve Bank will be to bring the money supply back under control. It is being dangerously swollen now by the central bank's open market policy. This policy is based on the sale of short-term paper (up to three years maturity) to the banking system, instead of the sale of long-term stocks to savings institutions, to contain surplus liquidity.

Short-term stocks in the hands of banks broadens the base on which they lend money, thus inflating the money supply. The sale of long-term stocks contracts it.

Abnormally high gold revenues have been the principal reason for excess money in the economy. This liquidity is being bottled up by exchange controls and limited domestic investment opportunities.



Gerhard de Kock

In fact, the only check on monetary growth at present lies in the Treasury's refusal to succumb to the demands of other government departments to spend the heavy inflow from tax revenues.

But the task should not be unduly difficult. By the time he takes office De Kock's commission into monetary affairs will have formulated the substance of its final report and sent its recommendations to government.

If the commission's interim report is anything to go by, reflecting as it does De Kock's known confidence in the efficient allocation of resources by market forces and the importance he places on relative prices, policy changes could be swift, decisive and consistent.

The *FM* guesses that they will include exchange control, relaxations and a more rigorous exchange rate policy. In addition, a clear enunciation of monetary objectives aimed at selling large amounts of long-term gilts can be expected.

If that be so, interest rates should begin to reflect these expectations and firm strongly in the first half of next year.

Over the much longer term, however, De Kock has a far more arduous responsibility: he will spearhead the Prime Minister's free enterprise and regional development policies through his chairmanship of the committee negotiating economic aspects of a constellation of southern African states.

De Kock's role in P W Botha's economic game plan has implications going far beyond what has previously been the province of the Reserve Bank's Governor.

What De Kock has to do is convince black leaders of self-governing states, the homelands and former Protectorates that economic growth is an objective worth pursuing immediately on a regional basis that cuts across political boundaries.

He must convince them that the material benefits likely to flow from regional economies of scale outweigh what they perceive to be the prior need of agreements with Pretoria on political and constitutional matters.

He will no doubt argue that an inevitable consequence of any thrust towards non-political regional growth in SA is that laws which place artificial barriers on production factors will have to be suspended. The Group Areas Act and Environment and Planning Act will, therefore, have to go.

But while that may be clear to sophisticated economists, it will not easily find popular black support while racial discrimination remains and government's promises have yet to be translated into actions.

Nor are Nationalist diehards likely to be blind to what they could see as backdoor liberalism.

If De Kock is to achieve anything that is material and lasting — and not have the constellation idea go the way of homeland development and border industries — then both blacks and whites must be able to see precisely what government is trying to achieve and what legislative change it will entail.

For that, Prime Minister Botha must lead from the front. He must get the process of legislative reform moving or he will be cutting the ground from under the constellation idea before it even gets started.

Last year De Kock, somewhat dispairingly, likened the task of his monetary commission to seeking an optimal arrangement for the deck chairs on the Titantic.

Now he has a chance of saving the ship itself — but not while his admiral has the glass to his blind eye.

INTEREST RATES: RISING SLOWLY

FM 15/8/80

(49)

Since the *FM* last prepared a table of tax-free and partially taxable investments, share prices have more than doubled and the annual rate of inflation has risen to almost twice the yields available on these investments.

There have been substantial reductions, too, in tax rates in the past two national budgets.

In these circumstances, any fixed-interest investments, let alone those that hold out tax advantages, have hardly been the centre of investment attraction, except to those in special circumstances, or for death-duty reasons.

About the best that can be said for tax-free investments is that they offer high tax payers more competitive returns after tax than do some taxable fixed-interest stocks.

For the R10 000 income earner paying marginal tax at 18%, a 7% tax-free return is equivalent to a taxed investment of 8,53%, a return which none of the banks match.

And, for example, a top marginal taxpayer who pays 50% on 10,5% interest from an Escom stock would only retain 5,25% after tax, compared with 7% tax-free investment shares.

But as long-term interest rates are beginning to show signs of firming, the types of investment in these tables will become of increasing interest as yields improve.

So the *FM* sets out here in some detail what is available, without making recommendations as to the best investments.

PARTIALLY TAXABLE INVESTMENTS

Type of investment	Dividend/ interest rate per annum	Dividend/ interest frequency	Liquidity/ period	Min/max investment per investor	Comments
Building society indefinite period paid-up shares	8%	Half-yearly in arrear	After 15 months on 3 months notice	Minimum varies No maximum	Up to 100% of dividend tax-free depending on tax-payers income
Building society fixed period paid-up shares	9%	Half-yearly in arrear	Can be transferred but not surrendered before maturity	Minimum normally R100 Maximum none	Interest rates fixed. Normally duration is 5 yrs
Unit trusts	Varies	Half-yearly or quarterly	On demand	Minimum varies No maximum	Dividends are partially taxable. Capital growth is normally tax-free
Life insurance company annuities	Determined by investors' age, sex & other factors	By arrangement	Varies — usually for life or for fixed period. Capital is not paid back	Minimum R1 No maximum	Income is partially tax-free, percentage of which depends on age and sex of investor
Quoted ordinary and preference shares	Varies	Half-yearly in arrear	Can be sold on stock market	—	Capital value fluctuates. At least one-third of dividend is tax-free

TAX FREE INVESTMENTS

Type of investment	Dividend/ interest rate per annum	Dividend/ interest frequency	Liquidity/ period	Min/max investment per investor	Comments
Post Office savings account	5% on daily balance	Yearly in arrear	R200 on demand every fourth day	Minimum R1 Maximum R10 000 per year	Interest tax-free up to R200 per investor
Post Office savings bank certificates	7% on daily balance	Half-yearly in arrear	Can be redeemed after 6 months at 24 hours notice	Minimum R100 Maximum R20 000	Interest tax-free up to R700 per investor
Post Office national savings certificates	1st year 7% 2nd year 7,5% 3rd year 8%	Interest paid at maturity	Matures after 3 years but can be redeemed after 2 years	Minimum R50 Maximum R15 000 per series	All interest tax-free. New series can be held in addition to old
Defence bonus bonds	5% simple interest	Interest paid on redemption	Indefinite duration, redeemable after 1 year	Minimum R5 Maximum none	All interest tax-free. Holders can win tax-free cash prizes
Treasury bonds	7%	Half-yearly in arrear	Matures after 5 years but can be redeemed after 18 months	Minimum R500 Maximum R40 000 per taxpayer provided no 8% Treasury bonds are held	All interest tax-free
Building society special tax-free shares	7%	Half-yearly in arrear	After 15 months can give 3-months notice	Minimum R10 Maximum R10 000 per taxpayer	Tax-free indefinitely
Building society "snowball" plan	7%	Dividend compounded annually and paid on maturity. Can receive monthly income	After 15 months on 3-months notice	Minimum varies Maximum R50 000 including dividends per taxpayer	Dividends tax-free and loans usually available on deposits
Building society subscription shares	7%	Dividends compounded annually and paid on maturity	After 15 months on 3-months notice	R50 000 including dividends per taxpayer	Monthly saving plan
Endowment insurance policies	Bonuses and growth tax-free on standard policies	Interest and capital paid out on termination or maturity of policy	On demand	—	Savings are insured and can be inflation proofed
State-aided home ownership savings scheme	8% on daily bal. + 2% a year paid by State when money used for home ownership	Capitalised annually to account	Must be used for home ownership within one year of sum reaching R10 000	R10 000 for married couple	Interest tax-free but taxable in full if money withdrawn for other purposes

FULLY TAXABLE INVESTMENTS

Type of investment	Rate per annum	Interest frequency	Liquidity/ period	Min/max investment per investor	Comments
Participation mortgage bonds	9%	Quarterly	5 years	Minimum usually R1 000	Not transferable except in case of death
Building society fixed deposits	7,5%-9% depending on length of investment	Varies	On maturity. Varies between 12-60 months	Maximum R6m provided R250 000 only matures in any one month	Lower interest rate if redeemed before maturity term
National defence bonds	8%	Half-yearly	Can be cashed in after 1 year	Minimum R50 Maximum none	R80 000 is allowable for estate duty relief
Savings account	3,5% on daily or monthly balance	Yearly	On demand	Maximum R25 000 (combined max with special savings account)	—
Special savings account	5%-5½% on daily balance over year	Yearly	Usually restrictions on number of withdrawals each month	Maximum R25 000 (combined max with ordinary savings account)	Minimum amount normally specified
Bank notice deposits	4% to 7,5% depending on length of investment	Varies — usually quarterly	On maturity. Varies between 31 and 143 days	Minimum R1 000 Maximum R250 000	—
Bank fixed deposits	6% to 9% depending on length of investment	Varies	On maturity. Varies between 6 months and 5 years	Minimum R1 000 Maximum R250 000	—

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STAR 18/8/80

49

'Conserve SA's resources now'

A British town planner today urged the Government to take a new look at the way South Africa's resources were being used.

Professor R H Kantorowich of the University of Manchester said forces of social, economic, political and technical change would have to be reconciled with a more pressing need for conservation in the future.

He was delivering the keynote address at the start of the Interbou 80 conference in Johannesburg.

Professor Kantorowich said population growth projections into the next century for South Africa were "nothing less than alarming, both in absolute numbers expected and in their uneven distribution amongst the separately categorised ethnic groups.

"A country one has always thought of as wide and open, infinitely rich in natural resources, and virtually self-sufficient, could become grossly overcrowded early in the next century, its citizens struggling to achieve bare subsistence, unless soon, somehow, present trends are arrested and redirected," he said.

He had the impression that the country's natural resources "have been and are still being over-vigorously and somewhat carelessly exploited. The imperative drives behind economic enterprises have brushed aside considerations of resource depletion, whether this be of minerals, good soil, scarce water, natural fauna and flora or the fish in the sea."

The conference was opened by Dr Koornhof, Minister of Co-operation and Development, who said private enterprise had to make a greater contribution towards black housing.

He added: "It would be irresponsible to assume that one has no further duty than to provide work and the barest facilities."

DD 20/8/80

Teach blacks capitalism call

KING WILLIAM'S TOWN — Blacks in South Africa were not part of the free enterprise system, and they should be encouraged to become part of it, Mr Bob Harvey, chairman of a major supermarket retailing chain, said here.

Speaking at a Jaycees meeting he said blacks tended to regard themselves as "socialists".

"Blacks so far this century in South Africa have never had free enterprise."

They had restrictions on freedom of movement and home ownership which whites took for granted in a free enterprise system.

"Blacks tend to describe themselves among others as socialists," he said.

"The most difficult thing is to convince blacks that there will be no exploitation — a big risk — but one that we have proved wrong in partnership with them," Mr Harvey said.

At another Jaycees meeting in Johannesburg yesterday, labour experts warned about inroads which the skilled labour shortage was making into South Africa's economic boom.

The shortage was reaching crisis proportions, said Prof Gideon Jacobs, director of the Graduate School of Business Administration at Witwatersrand University.

It was limiting the benefit derived from the economic boom, generating high inflation and aggravating unemployment

Mr Ronnie Webb, vice-president of the Trade Union Council of South Africa told the meeting that the country lacked the skilled workers to maintain the momentum of the economic upsurge.

The government would have to "urgently review training statues and ancillary programmes" he said.

"We must set out to train people, irrespective of race, to fill jobs," Prof Jacobs said.

"We must allow all existing training facilities, whether universities, teacher training colleges, technikons or technical colleges, to be filled to the full extent of their capacity with students on the basis of merit, not race."

He pointed out that Bantu education had left a legacy which would take many years to overcome. — DDR-SAPA.

Horwood hits back

(49) FM 22/8/80

Owen Horwood, the Minister of Finance, this week very firmly nailed his colours to the monetarist flagpole.

If he has his way, SA will continue along the path of a reduced role for the State, greater reliance on free markets rather than civil service controls, lower taxes and firm control of the money supply.

Opening the Natal congress of the National Party in Durban on Wednesday the Minister also nailed critics who have been sniping at his policies from premises which, in the view of the *FM*, are both ignorant and confused.

Horwood, arguably the most successful of SA's finance ministers, attacked from a position of strength against opponents whose grasp of the fundamentals he showed quite clearly to be inadequate.

The *FM* shares with the Minister his difficulty in understanding critics of his policies and their effects as they flow from the Budget.

On the one hand, as he said on Wednesday night, demand inflation is cited as SA's central problem. And this, allege some critics, has arisen from excessive tax concessions. They blame the Budget, citing sharp gains in consumption spending, particularly on cars and other durables, and excessive wage and salary increases. These critics call for constraint and restriction, finally revealing the intellectual bankruptcy of their positions by advocating direct price and wage controls.

"Other commentators," said the Minister, "have taken precisely the opposite line." These critics claim Horwood has been too timid. The man in the street, they assert, has missed the boom. Government must now step in with sharp increases in spending, subsidies and more cuts in taxation, both direct and indirect.

It is enough to boggle the mind, and we sympathise with Horwood's exasperation. His Budgets have successfully aimed at reducing government's share of the nation's resources. Private sector vitality has been revived with the result that SA will grow in 1980 at a real rate of up to 7%. The developed countries will be lucky to hit 2%.

SA's taxpayers have been provided with at least some protection against the pernicious effects of fiscal drag. Our lower marginal rates plus the higher thresholds at which they are attracted put more real rands in the pockets of wage and salary earners. Horwood's policies have simultaneously boosted growth and eased the burden which inflation, combined with a progressive tax system, places on taxpayers.

And, as the Minister pointed out, "SA must be one of the few countries in the world in which there has been virtually no increase, in real terms, in government spending during the past four years, and in which there has consequently been a *decline in the relative share of the country's real resources absorbed by the central government.*" (Horwood's emphasis in the printed version of his speech.)

In addition to the stimulation of healthy and sustainable growth, the 1980 Budget also provided for financial discipline. The Minister recalled these remarks in his March speech. "The Budget contains strong elements of 'built-in' or 'automatic stability.'

"Thus, if either the average gold price or the growth rate or the rate of inflation should turn out to be higher than estimated, tax receipts would presumably be higher and the 'deficit before borrowings' lower than the estimate given in the Budget.

"This, together with a deliberate policy of borrowing in excess of the Treasury's requirements and transferring the proceeds to the Stabilisation Account, would then place the authorities in a position to offset the expansionary monetary impact to the extent demanded by the new set of circumstances."

As gold soared and the economy revived, this is precisely what happened. Horwood is now set to freeze what he calls "substantial amounts" in the Stabilisation Account. Treasury will be "destroying" money in the months ahead, a process which must curb inflation.

Much of SA's inflation has political roots. The sheer cost of apartheid, in particular its wasteful effects on the proper use and training of labour, must be the single largest influence on our rate of inflation.

There are other inflation generators, such as exchange control, which have political overtones. But insofar as he is able, the *FM*'s perception is that Horwood aims to eliminate them. In this, and in his overall approach, he deserves support. (See also page 853 in *Economics.)*

HORWOOD — 2

Captivating cash

(49) FM 22/8/80

Finance Minister Owen Horwood this week firmly put an end to speculation that government was about to slash prescribed asset requirements for long-term insurers and pension funds.

In his address to the Natal National Party congress, Horwood said that such expectations were "totally unfounded," but confirmed that the matter "is one of the many issues being investigated by the De Kock Commission," the final report of which is expected early next year.

Currently, pension funds are required to invest 53% of total assets in what are classified as gilt and semi-gilt edged securities. Life insurers have a prescribed requirement amounting to 33% of total liabilities.

Recent speculation over prescribed assets has led to considerable uncertainty in capital markets, with many of the institutional investors reluctant to support new issues in anticipation of lower requirements.

The fact remains, moreover, that these forced savings at low rates of interest amount to a subsidy savers are paying to the Treasury at a time when it has more than enough in its coffers. They remain in stark contradiction to other policy measures.

The prescribed asset system is most prejudicial to savers during periods of rising interest rates, when the "captive market" generally enables public sector borrowers to raise capital more cheaply than would otherwise be the case.

When rates are falling, differentials narrow considerably and the prescribed status enjoyed by these borrowers tends to make very little difference.

The consensus in the market is that the De Kock Commission will recommend a phased reduction in prescribed assets, rather than simply abolish them outright.

If the reductions are significant, say investors, they should lead to a considerable narrowing in the differentials between various categories of fixed-interest stocks. For instance, Treasury and the larger public corporations will probably be forced to borrow at a rate closer to that at which some of the triple A debenture issues are marketed.

Of course, there is bound to be strong resistance to any cuts from a number of borrowers whose debt has prescribed status.

The Land Bank — perhaps the most politically sensitive of such institutions — can be expected to fight for the status quo.

However, Reserve Bank governor-designate Gerhard de Kock has shown himself to be a man not easily swayed from the paths of free enterprise towards hidden subsidies.

MONETARY POLICY

(49) FM 22/8/80

Horwood's renewed pledge

Finance Minister Owen Horwood will not be diverted from his policy of strong economic growth. And he will retain a strong commitment to monetary discipline. Nevertheless, current policy will also aim squarely at containing inflation and excess demand.

Opening the Natal National Party congress in Durban on Wednesday, Horwood pointed out that the conditions necessary to activate the Budget's "built-in" stabilisers were, in fact, occurring.

A consistently high gold price, and a rate of inflation in excess of that estimated in March, meant that 1980/81 tax receipts would probably be higher, and the deficit before borrowing lower than the Budget provided for.

This is something of a ministerial understatement. Tax revenue is already running at levels well in excess of those budgeted for. On August 29, when mining house tax payments fall due, a record R2 000m will move from the private sector to the government (although a portion of this is already in Tax Anticipation bills).

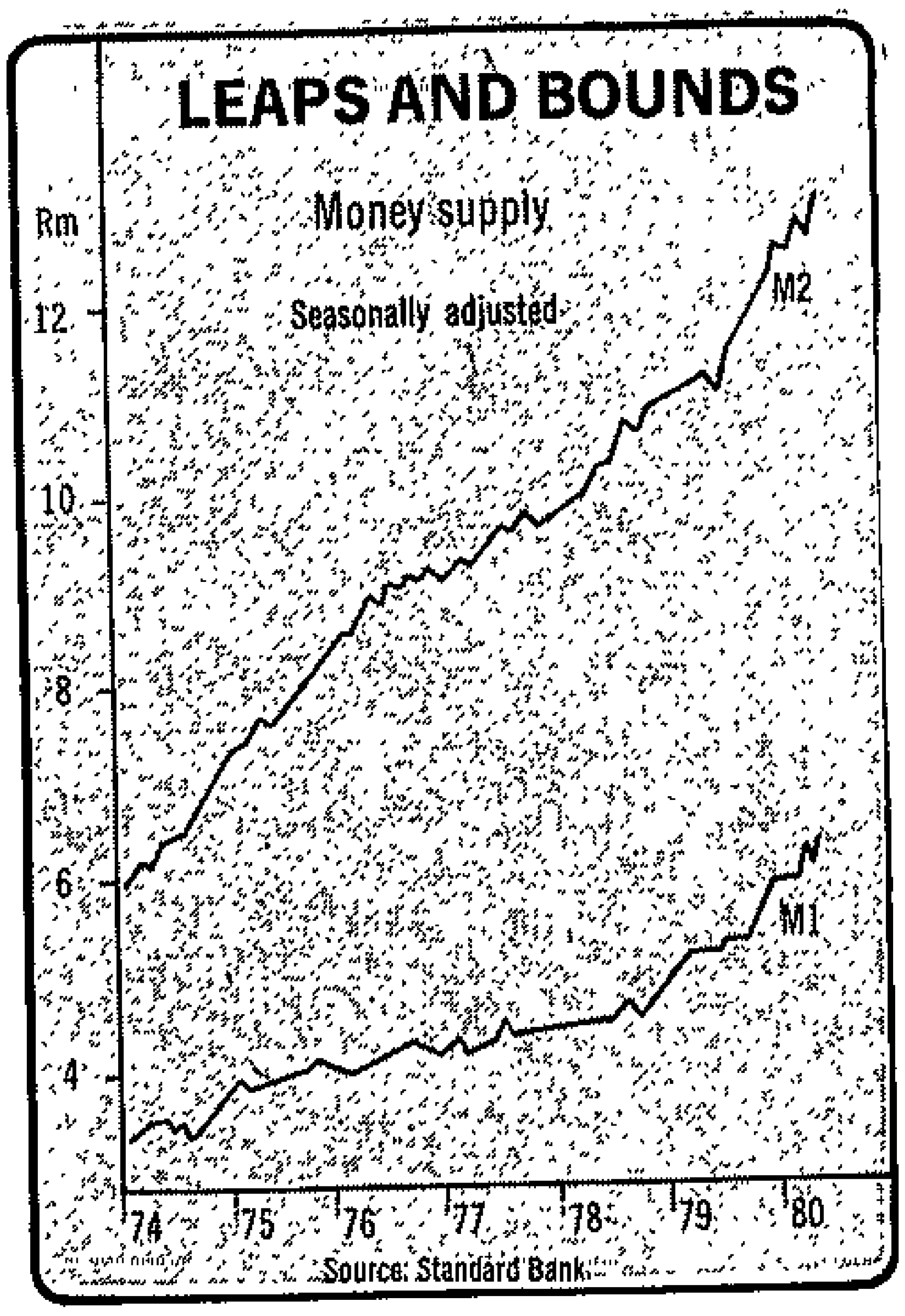
This means, says Barclays Bank, that nearly 70% of the year's planned-for gold mining revenue will have been received by the first half of the fiscal year. With GST collections running about 34% higher than last year, the bank estimates total tax revenue for the whole year will be at least R1 000m above the budgetary figures.

The 1980/81 government borrowing requirement calls for nearly R1 500m in reinvestments and new loans. Given this borrowing programme, and the Treasury's reduced needs as a result of higher revenues, Horwood intends to transfer "substantial amounts" to the Stabilisation Account, where it will be frozen, and effectively removed from circulation.

This move, he adds, will offset the expansionary effect on the money supply of both the BOP surplus, whereby increases in net gold and foreign reserves extend the "high-powered" monetary base, and the sharp increase in bank lending to the private sector. The net claims of the banks on the private sector, for instance, expanded at an annual rate of about 30% in the first quarter of 1980, according to the Reserve Bank quarterly bulletin.

Horwood also took the unprecendented step of setting a quantified money supply target rate of increase for 1980 of between 10% and 12%. With the broadly-defined money supply at the end of June 20% higher than it was a year ago, he has strong grounds for concern. Clearly, the Treasury is committed to playing what role it can to mitigate inflation and contract money supply.

But the prime short-term responsibility lies with the Reserve Bank, and the strength of its commitment is less clear. Much of the blame for what Horwood calls "the undue fluctuations in the broad money supply" is due to the bottling-up of the huge pool of liquidity caused by BOP inflows.



The Reserve Bank bemoans its lack of control over short-term swings, but at the same time locks the money into the domestic financial sector with exchange controls and trade finance policy. There is obviously some contradiction here, the elimination of which is known to be a priority of Gerhard de Kock when he begins his term at Church Square.

Horwood adds that he has made a specific request to the De Kock Commission to investigate ways and means of improving control over the money supply. Bankers agree that the ad hoc measures being implemented currently (and indeed for the past 20 years!) can have, at best, a limited effect.

What is required is not only a complete overhaul of both exchange rate and interest rate policy (including, by necessity, prescribed investment ratios, credit ceilings and the liquid asset reserve system), but also the courage to implement reform. This is the only way to close the present gaps in the control mechanisms, like gold and foreign reserve balances, off-balance sheet lending, and the inability to market long-term government stock effectively.

The completion of the commission's report in 1981, and De Kock's governorship of the Reserve Bank, will hopefully herald the "quiet revolution" in financial management that South Africa sorely needs.

Meantime, Horwood has given a clearer direction to monetary policy and government intentions than has existed for a long time. This should prove invaluable to investors in the fixed-interest securities markets.

RDM 26/8/80

South Africa's GDP has grown by 8%

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By HAROLD FRIDJHON

DURING the second half of the fiscal year to June, South Africa's real Gross Domestic Product grew by as much as 8% compared with the corresponding period in 1979. For the 1979/1980 fiscal year, the growth rate was 6½%.

This unexpectedly high rate of growth is revealed in the South African Reserve Bank's annual economic report, released ahead of the address by the Governor, Dr T W de Jongh, today.

The sharp upswing during the year derived its momentum mainly from a strong increase in domestic demand, which reflected more consumer confidence; increase in real personal disposable income; favourable investment climate; and ample availability of money.

With the growth rate acceleration, there were signs that the economy was beginning to approach capacity limits in certain sectors.

There were shortages of skilled labour, demands for higher pay, certain goods were running into short supply, and wholesale and consumer prices showed renewed acceleration.

But the Reserve Bank said that of these, the rapid rise in prices could be singled out as a cause for concern. In June, wholesale prices were 15,9% higher and consumer prices 14,6% higher than in June 1979. During 1979/1980 as a whole, the increased rates in these prices were only marginally below the peaks of 1974/1975.

● See Page 16

3 warnings as De Jongh bows out

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Comm 27/8/80

By HAROLD FRIDJHON

THREE warnings are implicit in Dr T W de Jongh's valedictory address as Governor of the Reserve Bank given yesterday:

- The current growth rate of the economy may be difficult to sustain;
- Government spending must be stringently controlled;
- The inflation danger requires strong financial discipline.

Making his contribution to more financial discipline, Dr De Jongh tightened the banks' ability to lend by imposing increased cash reserve and liquid asset requirements but at the same time he abolished the ceiling method of credit control.

Dr De Jongh reiterated remarks he made last year when he warned against growth-at-all-cost and said a high inflation rate was not conducive to growth — and might even impede it.

These remarks, he said, implied that to prevent the stimulation of inflation it would be better to aim for a more gradual upswing of the economy so that the country could experience a longer period of expansion.

This would allow more time for structural adjustments such as the training of labour.

To avoid inhibiting the upswing, bank credit to the private sector should be allowed to rise but a concommitant rise in bank credit to the government sector could not be justified.

At the time of the last Budget, the Reserve Bank held that there should be mild stimulus to to the conomy by fiscal measures but that this should not be overdone. The reasons for this view were:

- The upswing was gaining momentum;
- Skilled labour was becoming a bottleneck exerting pressure on wages; and
- Receipts from the high gold price were already stimulating the economy.

The Bank felt that while there was scope for tax concessions, a large part of Government revenue should be sterilised in the stabilisation account.

Budget concessions stimulated consumer purchasing power and consumption expenditure. This could put further pressure on the factors of production and on general demand inflation. It could also have an adverse effect on economic growth. The true impact of these tax concessions would only become apparent in the second half of this year but "the latest data indicate a growth rate which would be difficult to sustain".

Dr De Jongh said that the new inflation danger made financial discipline more necessary than ever by control of the money supply and the mopping up of excess liquidity.

Bearing in mind possible further deterioration in the balance of payments because of the rise in imports and the decline in exports, it was not desirable to allow money to flow out of the country to mop up liquidity.

"If these tendencies should continue we could once again find ourselves in the situation of 1974 when we depended too much on a high gold price."

The governor said that the value of the rand in terms of other currencies helped to counter inflation to some extent but it would not be advisable to let the rand appreciate unduly because of the effects it would have on exports in the longer term.

The Reserve Bank was depending largely on open market operations to mop up excess liquidity but because of expectations that the De Kock Commission would abolish prescribed investments, the Bank had experienced difficulty in selling more than small amounts of long-term Government stock.

Neither the Reserve Bank nor the Treasury could do anything to limit the private consumers' increased purchasing power, but the Treasury could prevent Government financing making an added contribution to inflationary pressure.

This means that the R1 000-million increase in Government borrowing from the banking sector in the second quarter of this year will have to be cancelled out during the remainder of the fiscal year.

Tax collections from the end of August would channel very large amounts of money to the Government. Dr De Jongh suggested that part of these funds should be deposited in the stabilisation account. The Treasury should also make further domestic loan issues to provide the Reserve Bank with paper for open-market operations.

Announcing the new curbs on the banks — reported elsewhere on this page — Dr De Jongh urged that banks give credit for production and exports and not for consumption.

He said that interest rates could be expected to be "appreciably influenced" at the end of August by the flow of funds to the Government sector.

Further influences would be changes in the liquidity situation and this would depend on the balance of payments and the authorities' efforts to control liquidity. He added that "negative interest rates are decidedly not appropriate under current conditions" — a clear hint that the governor would like to see interest rates go up.

BER forecasts greater growth, more jobless

Star Business 27/3/80 49

By Pieter de Vos

The South African economy is entering a new phase of much greater growth and development than in the past, the Bureau for Economic Research at the University of Stellenbosch predicts.

But, the Bureau warns, black scholars and students of today will have greater difficulty in finding jobs in coming years, and the problem of chronic unemployment will revolve increasingly around the black section of the population.

According to Trends, the Bureau's regular statistical analysis of economic trends, the outlook for the current cyclical upswing is far more positive than that which has been popularly accepted up to now.

South Africa has now entered a high growth rate phase.

The Bureau quotes Professor Joel Stern, President of Chase (Manhattan) Financial Planning, who supports a free float of the rand and no capital controls.

Though a freer float will initially cost the country 1 percentage point in growth, it will virtually ensure that there will be no recession even in 1982. It may be staved off till 1985 or 1986.

The atmosphere of national and international despondency has resulted in sharper focus on the negative features in the economy, according to the Bureau.

But notable structural changes since 1977 has not been given proper recognition as forces that expanded the economic system and provided built-in stability that set the South African economy apart from all other economies.

Some of these changes were:

- South Africa is becoming increasingly important as source of international energy resources and the country is becoming less dependent on overseas sources of supply.
- Higher tax revenue from the rising gold price and the growth in liquidity encouraged greater consumer spending. Greater State revenue from general sales tax will give even further fiscal relief, leading to further growth in consumption, savings and investment.
- It appears that the large investments in port and rail facilities in the middle seventies have placed the country in a very strong competitive position in the international mineral trade.
- The population numbers that will rise to the ranks of the middle income group "will lead to something resembling a minor explosion of the consumer credit society" — primarily because of a lessening credit risk that will result from home ownership for all groups, the Bureau says.

It is hoped that the inflation rate will peak soon, following the wholesale and retail price indices.

But the Bureau notes

27/8/80 Kom

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SOUTH AFRICAN RESERVE BANK

CHAIRMAN'S ADDRESS

Address by Dr. T. W. de Jongh, Governor of the South African Reserve Bank at the Annual General Meeting of Stockholders of the Bank on 26th August, 1980.

I have pleasure in formally presenting to you an Annual Accounts of the Bank, and the Reports of the Board and the Auditors, for the year ended 31 March 1980.

I also submit to you the Bank's **Annual Economic Report**, which should be regarded as furnishing a background to my remarks today.

Economic developments during the year 1979/80

The economic upswing, which was already perceptible from the end of 1977, developed considerable momentum during the year ended June 1980. The real gross domestic product increased by 6½ per cent, compared with a rise of 2½ per cent in 1978/79. From the second half of 1979 the basis of the upswing broadened considerably and economic activity in sectors such as construction and trade, which had remained sluggish during the first part of the revival, also expanded. Thus, for example, the real product of the trade sector increased by 3½ per cent in the year under review after a decline of 3½ per cent in 1978/79, while the real product of the construction sector, which showed a slight decrease in 1978/79, rose by 8 per cent in 1979/80. The increase in the real product of manufacturing accelerated from 8 to 12 per cent over the same period. Furthermore, export prices (including the price of gold) rose more rapidly than import prices during the year under review, resulting in an improvement in the terms of trade, so that the real national product increased by as much as 8 per cent.

The strong revival in economic activity in 1979/80 emanated from a sharp increase in real domestic expenditure which took over the role of exports as the most important stimulant. The real gross domestic expenditure increased by 8 per cent in 1979/80 compared with only 1½ per cent in 1978/79, and the increase was largely the result of considerable rises in real private consumption expenditure and real fixed investment. Real government consumption expenditure and real inventories, on the other hand, increased only slightly during 1979/80. Real private consumption expenditure rose, for example, by 6 per cent, compared with an increase of only ¼ per cent in the preceding year. The real expenditure on durable consumer goods showed a rise of 20 per cent in the year under review, compared with a

If repayments of R346 million on short-term loans which were negotiated to supplement the reserves, are taken into account, the net gold and other foreign reserves rose by R156 million as a result of balance of payments transactions. However, the gross gold and other foreign reserves declined by R190 million as a result of balance of payments transactions. If all valuation adjustments and the allocation of Special Drawing Rights are taken into account, the gross reserves rose by R3 milliard during 1979/80 and reached a level of R5,8 milliard on 30 June 1980.

The weighted average value of the rand in terms of the currencies of South Africa's most important trading partners increased throughout 1979/80 and was 7,1 per cent higher in June 1980 than in June 1979. Against individual currencies, the rand showed the following appreciations: Japanese yen 11,0 per cent, U.S.A. dollar 10,0 per cent, Swiss franc 7,9 per cent, French franc 5,3 per cent, German mark 5,1 per cent and British pound 1,4 per cent.

Regarding the liquidity of both the private non-banking sector and the banking sector itself, substantial changes took place during the year under review. The quantity of money and near-money increased by 21 per cent in 1979/80, compared with an average annual increase of 7 per cent during the preceding three years. Appreciable increases in domestic credit extension to the private sector and the government sector were the main causes of the increase in the quantity of money and near-money. The increase in the net gold and other foreign reserves and in the long-term deposits of the private sector with the banking sector in the year under review amounted to R384 million and R207 million respectively, which were both considerably less than in the previous year. Bank credit to the government sector rose by R431 million in 1979/80, compared with a decrease of R324 million in the preceding year. Bank credit to the private sector increased by 17 per cent during the review year and accretions occurred especially in hire-purchase credit and lease financing.

The liquidity of the banks was higher in 1979/80 and money market conditions easier than in the previous year. The average excess liquid assets in relation to ...

the fiscal year if it is to be held to the 14 per cent increase anticipated in the 1980/81 Budget.

The real gross fixed investment of the private sector, which declined during 1978/79, increased at a seasonally adjusted annual rate of 13,6 per cent during the second half of 1979, and at a rate of 24 per cent during the first half of 1980. The utilisation of production capacity in manufacturing rose substantially and was so high in certain sections that new capacity had to be created. The increase in investment, however, caused shortages of certain products such as bricks.

The higher growth rate resulted in an increase in employment and a slight decline in unemployment but, as already indicated, shortages of certain types of skilled labour developed. Substantial wage and salary adjustments were made which, together with the reduction in income tax rates, increased real personal disposal income.

At a seasonally adjusted annual rate, the surplus on the current account of the balance of payments increased to a peak of R7,2 milliard in the first quarter of 1980, before dropping drastically to R0,8 milliard in the second quarter. In the latter quarter imports rose sharply and exports declined while the average gold price was lower than in the first quarter.

The total net outflow of capital was particularly large during the last quarter of 1979 and the first quarter of 1980. In the latter quarter the total net outflow of capital was as much as R1,7 milliard, which was mainly the result of a shift in the financing of foreign trade from foreign to domestic sources due to the substantial difference between domestic and foreign interest rates. This shift helped to reduce the excess liquidity in the money market, but towards the end of March and early in April 1980 it tightened the money market considerably and began to exercise pressure on the cash portion of the foreign reserves. The Reserve Bank subsequently raised the discount on forward exchange cover from 2½ to 12 per cent and thus effectively countered the shift from foreign to domestic financing. The net capital outflow accordingly decreased again and amounted to R547 million during the second quarter of 1980.

If the allocation of Special Drawing Rights and Valuation adjustments are excluded, the gross gold and foreign ...

first half of 1980 than the last half of 1979, considerable liquidity still prevails in the banking sector and in the private non-banking sector, and interest rates are relatively low in general. At the same time, the inflation rate still remains at a high level.

Short-term prospects and policy

Regarding efforts of the authorities to attain a higher economic growth rate in order to counter unemployment, I referred to certain facts in my Annual Address last year which will have to be kept under consideration, especially the fact that a high and increasing inflation rate is definitely not conducive to growth, and may even impede it seriously. In this regard, I furthermore stated that I would be neglecting my duty if, in the light of the threatening danger of inflation, I did not warn against the idea of growth-at-all-costs and that the dictum of growth with financial discipline therefore does not imply idle talk.

This view naturally implied that, in order to prevent the stimulation of inflation, it would be better to aim for a more gradual upswing in the economy so that the country could experience a longer period of expansion which would also allow more time for much needed structural adjustments such as the training of skilled labour. Furthermore, the idea amongst others was that, in order to avoid undue inhibition of the upswing, bank credit to the private sector should be permitted to rise but that, in view of the positive influence which the balance of payments was exercising on the quantity of money, a concomitant increase in the net claims of the banking sector on the government sector would not be justified. These claims against the government sector have, however, increased considerably during the past year and have thus contributed to the rise in the quantity of money.

At the time of the last Budget the Reserve Bank was of the opinion that, although there was still scope for further mild stimulation of the economy by fiscal measures, it should not be overdone. First, there were clear signs that the upswing was rapidly gaining momentum. Secondly, there were indications that the shortage of ...

be advisable to let the rand appreciate unduly.

Regarding the domestic mopping up of liquidity, the Reserve Bank can do little regarding the private consumer's increased purchasing power resulting from the Budget concessions and higher salaries and wages. The Bank will, however, continue with its open market operations to mop up excess liquidity of the banking sector and also of private non-banking institutions. Due to uncertainty regarding long-term interest rates and also because of speculation that the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa is considering a proposal that the requirements for financial institutions regarding prescribed investments be abolished, the Bank has not of late, notwithstanding serious efforts, been able to dispose of more than small amounts of long-term government securities in the market. Even when financial institutions were invited to indicate rates which would be acceptable to them in this regard, they refused to commit themselves.

The Treasury can also do little at this juncture to eliminate the mentioned increased purchasing power of consumers. What it can do, however, is to prevent government finance from making an added contribution to inflationary pressure. Therefore it has now become of the utmost importance to ensure that the prospect held out in the Budget, namely that the Government would not finance its expenditure in an inflationary manner in the current fiscal year, be strictly observed. This means that the increase of more than R1 milliard which took place in the net claims of the banking sector against the government sector in the first quarter of the fiscal year, that is the second quarter of 1980, will have to be cancelled out during the remainder of the fiscal year. In this connection it is anticipated that tax collections will cause the channelling of very large amounts of funds to the Government at the end of August and on certain dates subsequently, which may make it advisable to deposit a part of these funds in the stabilisation account. The Treasury ...

The abolition of the credit ceilings should not be regarded as a step towards permitting the free extension of credit to the private sector. The liquid asset and particularly the cash reserve requirements, together with supporting open market operations and fiscal policy, will have to be employed to ensure that bank credit does not increase excessively, and the requirements will have to be adjusted from time to time as may be necessary. However, what has also become of the utmost importance, is that bank credit to the private sector should be directed towards production and export activities and not towards consumption, because, as mentioned previously, the consumers' purchasing power is already being stimulated by the tax and other concessions and the higher salaries and wages. In this regard, the Reserve Bank can only make a serious appeal to the banks to comply with this requirement. The Bank is of the opinion, however, that attention may be paid to the current favourable hire-purchase conditions.

The consumer will also have to make his contribution, and an appeal is made to him to apply his increased purchasing power with discretion and to avoid extravagant expenditure which would merely add to the inflationary pressure. Notwithstanding the inflation, saving still remains a virtue. Let it be remembered, and this obviously does not apply to the private individual only, but also to companies as well as the Government, that whereas we can use the printing press to print money, we cannot print capital. Basically capital has its origin in saving.

Regarding interest rates, it must be expected that by the end of August they will be appreciably influenced by the tightening effect on the money market of the anticipated large flow of funds to the government sector. Thereafter they will be influenced by further changes in the liquidity situation, which will largely depend on developments in the balance of payments and the success of the authorities' efforts to control liquidity. It would, however, be well to take note of the fact that negative real interest rates are decidedly not appropriate under current conditions ...

expenditure on other types of consumer goods and services also accelerated, but not to the same extent as that on durable consumer goods.

After real fixed investment had shown a decline for three consecutive years, it increased by 7½ per cent in 1979/80. This turnaround may be ascribed mainly to an increase in real fixed investment of the private sector (13 per cent), to which mining (34 per cent), manufacturing (27 per cent), the financial sector (15 per cent) and also housing construction (12 per cent) made the largest contributions. The increase in investment was encouraged by the higher domestic expenditure, and unused production capacity in manufacturing declined from 15,1 per cent in February 1979 to 11,6 per cent in May 1980.

On the labour front the accelerated economic activity has resulted in a decline in unemployment, but shortages of skilled labour are increasingly experienced and there are signs of substantial upward pressure on wages and salaries. Although wages and salaries per worker in the non-agricultural sectors of the economy was only 13,6 per cent higher during the nine months to March 1980 than during the same period of the previous year, a substantial rise in the rate of increase may be expected from the second quarter of 1980. Real wages and salaries per worker declined in the past three years, but the reduction in personal income tax rates in both the last two budget years contributed to an increase in real personal disposable income in 1978/79 of 6,8 per cent and in 1979/80 of a further 3,6 per cent.

The problem of inflation against which I warned in my address last year, became more serious during the past year. The rate of increase in the average consumer price index namely accelerated from 11,8 per cent in 1978/79 to 13,8 per cent in 1979/80. From June 1979 to June 1980 consumer prices rose by 14,6 per cent. The raising of a number of administered prices, and especially the sharp rise in the price of petroleum products in July 1979, were mainly responsible for this acceleration in the rate of increase in consumer prices. The rate of increase in wholesale prices also accelerated from 11,0 per cent in 1978/79 to 18,1 per cent in 1979/80. The prices of goods produced in South Africa increased by 15,1 per cent over the preceding year. Notwithstanding the appreciation of the rand and the abolition of the surcharge on imports, the prices of imported goods rose by 26,4 per cent.

Regarding the balance of payments, the surplus on the current account rose further during 1979/80 notwithstanding the acceleration in domestic economic activity and the resultant increase in imports. The surplus increased namely from R2,3 milliard in 1978/79 to R3,6 milliard in 1979/80. The latter represents approximately 6½ per cent of the gross domestic product.

The capital outflow increased from R2,1 milliard in 1978/79 to R3,8 milliard in 1979/80. In contrast with 1978/79, a large outflow of long-term capital, especially from the private sector, also occurred in 1979/80. This represented the repayment of long-term loans and an increase in foreign assets. The outflow of short-term capital, which approximated R2,2 milliard, also reflected the repayment of foreign debt, but was caused mainly by a shift from foreign to domestic financing of trade.

1978/79 to 3,5 per cent in 1979/80.

Due inter alia to the rise in the net gold and other foreign assets of the Reserve Bank, money market conditions generally remained easy, apart from seasonal tightening when large tax payments were made. During 1979/80 the average amount of call money with the discount houses came to R1 032 million, compared with R807 million in the preceding year, and the free balances of the banks with the National Finance Corporation amounted to an average of R173 million in 1979/80 compared with only R55 million in 1978/79.

During the year under review, the Reserve Bank actively conducted open market operations to ensure that adjustments in interest rates took place in an orderly fashion, and to prevent rates, which generally tended downwards, from falling too sharply. For this purpose, the Reserve Bank used several techniques and supplied the money market with investment instruments amounting to as much as R2,3 milliard. These investment instruments included, apart from government stock and Treasury bills, also special Treasury bills which mature on important tax payment dates, repurchase agreements with banks and debentures issued by the Reserve Bank itself.

The build-up of liquidity in the economy gave rise to an increase in activity in the capital market during the year under review. Transactions in the secondary market for fixed interest securities increased appreciably and the stock exchange was very active. The property market experienced a strong upsurge and large amounts were advanced on mortgage. Inter company loans outside the banking sector also increased substantially. Yields in the capital market declined during the first eight months of the review year, but began to rise slightly from the end of March 1980 when expectations of a rise in long-term rates became clearly evident.

Current economic conditions

The above survey refers mainly to the economic developments which took place in the year ended 30 June 1980 as a whole compared with the previous year. In order to obtain a better perspective of current conditions, it is important to take note of developments as they evolved during the course of the year. In this regard, the latest trends are set out briefly below.

The rate of increase in total economic activity accelerated considerably during the course of the year under review, and real gross domestic product increased from a seasonally adjusted annual rate of 7,4 per cent (excluding agriculture, 6,3 per cent) during the second half of 1979 to 10,1 per cent (excluding agriculture, 8,9 per cent) during the first half of 1980. The evidence indicates that the growth rate of the real gross domestic product will amount to more than 7 per cent for the calendar year 1980 compared with 4 per cent for 1979.

Real private consumption expenditure, which had shown almost no increase in 1978/79, expanded at a seasonally adjusted annual rate of 6,3 per cent during the second half of 1979, and then increased at an annual rate of as much as 8,6 per cent during the first half of 1980.

Consumption expenditure by general government increased considerably during the second quarter of 1980, and will have to rise much more slowly during the remainder of the last half of 1979, rose by R312 million during the first quarter of 1980 and then declined again by R387 million during the second quarter of 1980. During July the Reserve Bank's gross gold and other foreign reserves excluding the gold valuation adjustment rose by R361 million.

The quantity of money and near-money increased at the very high seasonally adjusted annual rate of 27 per cent during the second half of 1979, and then rose at an annual rate of 15 per cent during the first half of 1980. Substantial quarterly fluctuations occurred in the net claims of the banking sector on the government sector as a result of the irregular flow of tax revenue to, and expenditure of, the government sector. In the first quarter of 1980, for example, there was a decline of about R900 million in the seasonally adjusted net claims of the banking sector on the government sector, whereas an increase of about R770 million occurred in the second quarter. Before seasonal adjustment, the net claims of the banking sector on the government sector rose by R1 180 million in the latter quarter. The banking sector's credit extension to the private sector increased more evenly and on a seasonally adjusted basis rose by R957 million during the second half of 1979 and by R1 034 million during the first half of 1980.

Due to the easy money market conditions which generally prevailed, the downward tendency in short-term interest rates, which had already started in the second quarter of 1976, continued into December 1979, and then moved slightly upwards until the end of April 1980, before dropping again in the ensuing three months. The rate on three-months bankers' acceptances, for example, declined from 5,70 per cent at the end of June 1979 to 4,75 per cent on 15 August 1980. The yield on long-term government stock decreased from 9,49 per cent in July 1979 to 9,24 per cent in January 1980, and then rose again to 9,85 per cent in July 1980.

In the course of the past year the inflation rate accelerated. The average of the consumer price index increased at a seasonally adjusted annual rate of 8,6 per cent in the first quarter of 1980 over the fourth quarter of 1979, and of 13,3 per cent in the second quarter of 1980 over the first quarter. The average of the wholesale price index increased on the same basis by 12,0 per cent in the first quarter of 1980 and by 14,3 per cent in the second quarter. Notwithstanding a significant appreciation of the rand and the abolition of the surcharge on imports, which should normally make imports cheaper, the prices of imported goods in total rose sharply in 1979/80, as indicated previously. During the second quarter of 1980, however, wholesale prices of imported goods increased at a considerably slower rate, whereas wholesale prices of locally manufactured goods rose more rapidly.

Regarding the current economic situation, the above condensed survey of the most important developments in the course of the year indicates that the rate of economic expansion is accelerating and has already reached an exceptionally high level. Domestic expenditure, and especially private consumption expenditure and fixed investment by the private sector, are increasing rapidly and creating bottlenecks such as shortages of skilled labour and certain products. As may be expected in these circumstances, imports are rising sharply and the surplus on the current account of the balance of payments is decreasing, but up to this stage has not yet exercised pressure on the gold and foreign exchange reserves. Although the quantity of money and near-money increased at a much slower rate during the

[illegible] that strong pressure could thus be expected on salaries and wages, that is, over and above the fact that salaries and wages would have to rise on account of the high inflation rate. Thirdly, cognisance would have to be taken of the fact that the higher monetary income from gold arising from the considerable increase in the gold price, was already stimulating the economy further. The Bank therefore felt that, although further concessions could be made in taxation etc., there was scope for sterilising temporarily a large part of the Government's anticipated higher revenue in the stabilisation account with a view to the country's long-term needs, for example higher expenditure on defence, education and training, homeland development, aid to neighbouring states, etc.

In the 1980/81 Budget the Minister of Finance succeeded in keeping government expenditure to a moderate rise but made considerable concessions on the revenue side. These concessions, in addition to the increase in salaries and wages, are leading to a substantial increase in consumer purchasing power which may stimulate consumption expenditure further. The resultant increase in expenditure may lead to further pressure on the factors of production and to general demand inflation, which could have an adverse effect on economic growth. The true impact of the fiscal concessions and higher salaries and wages will naturally become evident only during the second half of the year, but the latest data indicate a growth rate which would be difficult to sustain.

In the light of the new inflation danger it has now become more necessary to exercise strong financial discipline, and this applies particularly to the control of the money supply and the mopping up of excess liquidity. In this regard, it would be undesirable at the present stage to implement the mopping up by means of special concessions to allow money to flow out of the country, bearing in mind the possible further deterioration in the current account of the balance of payments arising from the possibility of a continuation of the upward tendency in imports and the latest downward tendency in merchandise exports. If these tendencies should continue, we could once again find ourselves in the situation of 1974 when we depended too much on a high gold price. The mopping up of liquidity by encouraging an outflow of funds to other countries should rather be considered if the gold price should show a further strong rise.

Although the Bank encouraged the outflow of short-term funds during the first few months of 1980 by the relatively low discount quoted for forward exchange transactions, it has relied more on open market operations since April 1980 to mop up excess liquidity in the domestic market. The rate for forward exchange transactions is currently determined in such a way that it is approximately equal to the difference between local and foreign interest rates and marginally favours the domestic financing of foreign trade.

The appreciation in the value of the rand vis-a-vis other currencies helped to counter imported inflation to some extent during the past year. In view of the unfavourable effect which the appreciation of the currency can have on South Africa's exports over the longer term, it would not

[illegible] issues or to provide the Reserve Bank with the necessary paper for the purpose of conducting open market operations. If it should turn out that the balance of payments continues to feed liquidity, the Treasury will even have to ensure that the net claims of the banking sector against the government sector show a decline over the fiscal year, if bank credit to the private sector is not to be strongly curbed. As this view is shared by the Treasury, the Reserve Bank has decided to effect certain adjustments to its credit control measures, as explained below.

In my Annual Address last year I mentioned that the Reserve Bank was of the opinion that the ceiling method of credit control should be abolished as soon as possible, but that it should be replaced by an indirect method which would yield better results than those achieved in the past by directives relating to liquid assets. In pursuance of this line of thought, the Reserve Bank announced certain steps in March of this year which were aimed at placing more emphasis on cash reserve requirements and supporting open market operations as instruments of credit control, with a view to abolishing in due course the direct method of control whereby quantitative limits are placed on banking institutions' credit extension to the private sector. Certain changes were effected to the liquid asset requirements while stricter requirements were introduced on cash reserves. At the same time the credit ceilings were raised.

As a further step, the Bank has now decided to abolish the credit ceilings as from 1 September 1980 and, as from the date of certification of the banking institutions' monthly statements (B.A. Form No. 7) for 31 August 1980, to effect the following adjustments to the cash reserve and liquid asset requirements:

(1) The minimum supplementary cash reserve which big banks (that is, banking institutions of which the total assets amount to more than R800 million) must hold against their short-term liabilities with the Reserve Bank, is increased from 7 to 10 per cent. The total liquid asset requirement against the short-term liabilities of the big banks is simultaneously raised from 55 to 58 per cent.

(2) The minimum supplementary cash reserve which the big banks must hold against their medium-term liabilities with the National Finance Corporation of South Africa, is reduced from 5 to 2 per cent, but these banks must now hold a supplementary cash reserve equal to 3 per cent of their medium-term liabilities with the Reserve Bank. The total liquid asset requirement against medium-term liabilities for the big banks therefore remains unchanged at 35 per cent.

(3) The banking institutions of which the total assets amount to R800 million or less, must henceforth also hold a supplementary cash reserve equal to 3 per cent of their medium-term liabilities with the Reserve Bank. The total liquid asset requirement against medium-term liabilities of these other banks is increased from 27 to 30 per cent.

International Settlements recently expressed himself as follows in his Annual Address with reference to the past year: "Some countries with relatively moderate inflation rates have had rather high real interest rates — which is certainly a matter for concern. But equally it had become a matter of concern earlier that in many countries real interest rates were clearly negative, a sure sign that inflation was out of control".

Concluding remarks

In this Annual Address, my fourteenth and last, I wish to avail myself of the opportunity to express my thanks and appreciation towards the Bank's Board of Directors for the co-operation, advice and moral support which I have received from them over the years. Also, I wish to profess my appreciation towards the shareholders who have consistently attended the annual general meetings; the various associations of banking institutions for their constructive contributions in discussions which I conducted with them from time to time, and for their readiness to co-operate with the Reserve Bank, often under difficult circumstances; the various national organisations which represent the country's mining, trade and industry, for the useful exchange of views which could be conducted with them; and last but not least, my colleagues and personnel for their loyal support, for their readiness to make sacrifices for the Bank, and for the efficient and responsible way in which they fulfilled their duty to ensure that a high standard was consistently maintained in the activities of the Bank.

My term as Governor of the Reserve Bank was one of interesting developments in the economic field, including years of crisis when difficult decisions had to be taken by the authorities. It started with a devaluation of the British pound in 1967 which was not followed by South Africa, and thereafter, in early 1968, a serious crisis occurred in the international financial field. From this the establishment of the two-tier price system for gold evolved, accompanied by an understanding between the Western central banks not to continue with the purchasing of gold from gold producers. This posed a difficult problem for our country, but I still believe that South Africa in reality won the battle for gold in 1968 and 1969 already.

Ever present during the past thirteen years was the problem of inflation. No wonder that central bankers over the world, who are usually conservative in view of the responsibility which they bear for safeguarding the value of the currency and the country's assets administered by them, and in view of their duty to approach financial policy from an economic view-point, were inclined perhaps to act more conservatively because they justifiably regard the phenomenon of inflation as an unacceptable evil.

In conclusion I wish to state that it was a pleasure for me to stand at the helm of one of the few central banks of the world which is still a private bank and not a state bank. This image of the Reserve Bank, namely that it stands outside the political arena, and can freely express its views on financial matters, has always been of great value to the country, especially in times of economic crisis when foreign financial assistance was needed. It is an image which should not be harmed.

CREDIT CEILINGS (49)

A final token FM 29/8/86

In his final annual address to Reserve Bank shareholders on Tuesday, Governor Bob de Jongh abolished credit ceilings and simultaneously raised the banking system's short and medium-term cash reserve requirements.

As De Jongh himself points out, the move is a step along the road towards using market forces rather than fiat to control the country's financial system.

Bankers interpret it as an invitation to respond to selective credit demand from the private sector, but not without restraint.

The abolition of the ceilings, according to bankers, will make little material difference to bank lending by conventional means. A far more crucial variable, says Standard GM Arthur Daymond, will be the level of imports over the next few months and the overdraft demand that springs from that.

Overdrafts, which are the major form of conventional credit, have shown little increase over the past few years, mainly because Bank rate, to which overdraft votes are linked, was kept artificially high. The cost of borrowing by utilising short-term paper like banker's acceptances, promissory notes and foreign bills has been much lower. So it is in this twilight area of contingent liabilities, which escape most credit controls, that bank lending in recent months has shown the most dramatic increase.

As it is, most banks are consistently over their ceilings, and consistently pay the obligatory fines. So the immediate impact of the ceiling abolition, according to Daymond, will be that the banks will no longer have to pay these penalties.

However it is the increase in cash reserves that holds longer term implications. "Given the size of our liabilities," says Daymond, "the effect of holding even a slightly greater percentage of this on interest-free deposit with the Reserve Bank represents a considerable real cost."

The real annual cost to the whole banking sector is estimated at about R8m, which represents the loss of interest on about R200m which would have been placed at call with the NFC, and which will now go to the Reserve Bank. This cost will obviously have an impact on profit margins.

Barclay's Group Financial Controller Stan McDonald suggests the direct effect on margins, though not cataclysmic, will be substantial enough eventually to alter the structure of banks' lending books.

The increased requirements will raise the cost of short and medium-term lending, and possibly necessitate a reduction in the banks' short-term deposit rates. This would widen the differential between borrowing and lending costs, which is the "grey area" in which disintermediation takes place. It could mean, adds McDonald, an added emphasis on lending off the balance sheet, and increasing liabilities contingently. That is hardly desirable when it comes to monetary policy implementation.

The consequent stimulus for the market in short-term paper could also be exacerbated, it is pointed out, by the fact that the banks will now be able to hold acceptances and promissory notes in their own portfolios. This may increase overall demand for liquid assets, which has downward implications for short-term rates. However this will be offset by the fact that the increased cash reserve requirements will also draw liquidity out of the system.

"Whatever the consequences," says Daymond, "it is nonetheless a step in the right direction, and essential for a freely competitive market. Every distortion in the market has been due to artificial controls like prescribed rates and direct credit ceilings. This move gets rid of yet another one."

There is one other aspect of a general increase in liquidity requirements. It heightens the temptation for banks to seek more risky but higher-yielding investments. With this in mind, it should not be forgotten that liquid asset ratios are now at about the levels prevailing when some of the smaller banks ran into financial difficulties several years ago.

RESERVE BANK (49)

Strong revival

FM 29/8/80

The Reserve Bank expects an economic growth rate of more than 7% in 1980 compared with 4% in 1979 and after an 8% rise in the first six months of the year. However, Governor Bob de Jongh doubts that such a high growth rate can be sustained, which suggests the current growth cycle has peaked.

The upswing has broadened considerably, the Governor said in his annual report this week, with economic activity in construction and trade now expanding after sluggish growth in the first part of the revival and manufacturing output up by 8% to 12% in real terms in the year ended June 1980.

Real private consumption expenditure, he notes, has supplanted export demand as the impetus for growth. Whereas private expenditure increased by a mere 0,25% in 1978-79, it expanded at an annual rate of 6,3% in the second half of 1979 and 8,6% in the first half of 1980. Spending on consumer durables, which rose 20% in 1979-80 after a decline of 3,5% the previous year, accounted for the lion's share of this increase.

Private sector real fixed investment rose by 13% in 1979-80, reflecting greater consumer demand. But in his valedictory address to the Reserve Bank's shareholders, De Jongh warned that expanding output would foster labour bottlenecks in production.

In what can be interpreted as implied criticism of the Budget, De Jongh suggests its substantial tax concessions and the resulting increases in consumer purchasing power may exacerbate general demand inflation and adversely affect economic growth.

But, as Finance Minister Owen Horwood pointed out last week, these tax concessions are not adding to the money supply. They represent a switch of resources from the public to the private sector and are, therefore, if anything, anti-inflationary.

Governor De Jongh . . . points to peak

However, SA does have the advantage that in this boom the current account has remained in surplus up to a much more advanced stage than in previous cycles, which gives more leeway for growth.

The latest trade figures for January-July 1980 show a favourable balance of R3 786m, up from R3 003m in the same period last year. But if unclassified goods, which cover mainly gold exports and oil imports, are excluded from the reckoning, then this year's trade surplus is just R644m as against last year's unusually high R1 228m.

Imports have grown more than twice as fast as exports in 1980. The rate of increase in the value of imports in the first seven months of this year, compared with the same time last year, has been 37% as against the 17% rise in export values.

This trend is normal at the current stage of the business cycle and, as is usual, has been accompanied by an improvement on the capital account of the balance of payments.

The outflow of private sector short-term capital has been reduced from R1 088m in the first quarter of 1980 to R381m in the second. Over the same period, the long-term capital outflow has decreased from R623m to R162m.

Gross reserves have soared by R3 019m in 1979-80 to a total R5 826m at the end of June 1980, with the foreign exchange component increasing very strongly by R161m to R898m.

Mining house sources calculate that about 1.7 Mt of total gold production, worth R800m, was withheld from the market in the first seven months of the year. With the swap transactions of a few years ago, this suggests that the country's potential access to foreign liquidity is far stronger than indicated by official figures.

SOUTH AFRICAN RESERVE BANK

(49) FM 29/8/80

CHAIRMAN'S ADDRESS

Address by Dr. T. W. de Jongh, Governor of the South African Reserve Bank, at the Annual General Meeting of stockholders of the Bank on 26 August 1980

I have pleasure in formally presenting to you the Annual Accounts of the Bank, and the Reports of the Board and the Auditors, for the year ended 31 March 1980.

I also submit to you the Bank's **Annual Economic Report,** which should be regarded as furnishing a background to my remarks today.

Economic developments during the year 1979/80

The economic upswing, which was already perceptible from the end of 1977, developed considerable momentum during the year ended June 1980. The real gross domestic product increased by 6½ per cent, compared with a rise of 2½ per cent in 1978/79. From the second half of 1979 the basis of the upswing broadened considerably and economic activity in sectors such as construction and trade, which had remained sluggish during the first part of the revival, also expanded. Thus, for example, the real product of the trade sector increased by 3½ per cent in the year under review after a decline of 3½ per cent in 1978/79, while the real product of the construction sector, which showed a slight decrease in 1978/79, rose by 8 per cent in 1979/80. The increase in the real product of manufacturing accelerated from 8 to 12 per cent over the same period. Furthermore, export prices (including the price of gold) rose more rapidly than import prices during the year under review, resulting in an improvement in the terms of trade, so that the real national product increased by as much as 8 per cent.

The strong revival in economic activity in 1979/80 emanated from a sharp increase in real domestic expenditure which took over the role of exports as the most important stimulant. The real gross domestic expenditure increased by 8 per cent in 1979/80 compared with only 1½ per cent in 1978/79, and the increase was largely the result of considerable rises in real private consumption expenditure and real fixed investment. Real government consumption expenditure and real inventories, on the other hand, increased only slightly during 1979/80. Real private consumption expenditure rose, for example, by 6 per cent, compared with an increase of only ¼ per cent in the preceding year. The real expenditure on durable consumer goods showed a rise of 20 per cent in the year under review, compared with a decline of 3½ per cent in 1978/79. The expenditure on other types of consumer goods and services also accelerated, but not to the same extent as that on durable consumer goods.

After real fixed investment had shown a decline for three consecutive years, it increased by 7½ per cent in 1979/80. This turnaround may be ascribed mainly to an increase in real fixed investment of the private sector (13 per cent), to which mining (34 per cent), manufacturing (27 per cent), the financial sector (15 per cent) and also housing construction (12 per cent) made the largest contributions. The increase in investment was encouraged by the higher domestic expenditure, and unused production capacity in manufacturing declined from 15,1 per cent in February 1979 to 11,6 per cent in May 1980.

On the labour front the accelerated economic activity has resulted in a decline in unemployment, but shortages of skilled labour are increasingly experienced and there are signs of substantial upward pressure on wages and salaries. Although wages and salaries per worker in the non-agricultural sectors of the economy was only 13,6 per cent higher during the nine months to March 1980 than during the same period of the previous year, a

(Continued on next page)

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which had shown almost no increase in 1978/79, expanded at a seasonally adjusted annual rate of 6,3 per cent during the second half of 1979, and then increased at an annual rate of as much as 8,6 per cent during the first half of 1980.

Consumption expenditure by general government increased considerably during the second quarter of 1980, and will have to rise much more slowly during the remainder of the fiscal year it if is to be held to the 14 per cent increase anticipated in the 1980/81-Budget.

The real gross fixed investment of the private sector, which declined during 1978/79, increased at a seasonally adjusted annual rate of 13,6 per cent during the second half of 1979, and at a rate of 24 per cent during the first half of 1980. The utilisation of production capacity in manufacturing rose substantially and was so high in certain sections that new capacity had to be created. The increase in investment, however, caused shortages of certain products such as bricks.

The higher growth rate resulted in an increase in employment and a slight decline in unemployment but, as already indicated, shortages of certain types of skilled labour developed. Substantial wage and salary adjustments were made which, together with the reduction in income tax rates, increased real personal disposable income.

At a seasonally adjusted annual rate, the surplus on the current account of the balance of payments increased to a peak of R7,2 milliard in the first quarter of 1980, before dropping drastically to R0,8 milliard in the second quarter. In the latter quarter imports rose sharply and exports declined while the average gold price was lower than in the first quarter.

The total net outflow of capital was particularly large during the last quarter of 1979 and the first quarter of 1980. In the latter quarter the total net outflow of capital was as much as R1,7 milliard, which was mainly the result of a shift in the financing of foreign trade from foreign to domestic sources due to the substantial difference between domestic and foreign interest rates. This shift helped to reduce the excess liquidity in the money market, but towards the end of March and early in April 1980 it tightened the money market considerably and began to exercise pressure on the cash portion of the foreign reserves. The Reserve Bank subsequently raised the discount on forward exchange cover from 2½ to 12 per cent and thus effectively countered the shift from foreign to domestic financing. The net capital outflow accordingly decreased again and amounted to R547 million during the second quarter of 1980.

If the allocation of Special Drawing Rights and valuation adjustments are excluded, the gross gold and foreign exchange reserves descreased by R115 million during the last half of 1979, rose by R312 million during the first quarter of 1980 and then declined again by R387 million during the second quarter of 1980. During July the Reserve Bank's gross gold and other foreign reserves excluding the gold valuation adjustment rose by R361 million.

The quantity of money and near-money increased at the very high seasonally adjusted annual rate of 27 per cent during the second half of 1979, and then rose at an annual rate of 15 per cent during the first half of 1980. Substantial quarterly fluctuations occurred in the net claims of the banking sector on the government sector as a result of the irregular flow of tax revenue to, and expenditure of, the government sector. In the first quarter of 1980, for example, there was a decline of about R900 million in the seasonally adjusted net claims of the banking sector on the government sector, whereas an increase of about R770 million occurred in the second quarter. Before seasonal adjustment, the net claims of the banking sector on the government sector rose by R1 180 million in the latter quarter. The banking sector's credit extension to the private sector increased more evenly and on a seasonally adjusted basis rose by R957 million during the second half of 1979 and by R1 034 million during the first half of 1980.

Due to the easy money market conditions which generally prevailed, the downward tendency in short-term interest rates, which had already started in the second quarter of 1976, continued into December 1979, and then moved slightly upwards until the end of April 1980, before dropping again in the ensuing three months. The rate on three-months bankers' acceptances, for example, declined from 5,70 per cent at the end of June 1979 to 4,75 per cent on 15 August 1980. The yield on long-term government stock decreased from 9,49 per cent in July 1979 to 9,24 per cent in January 1980, and then rose again to 9,85 per cent in July 1980.

In the course of the past year the inflation rate accelerated. The average of the consumer price index increased at a seasonally adjusted annual rate of 8,6 per cent in the first quarter of 1980 over the fourth quarter of 1979, and of 13,3 per cent in the second quarter of 1980 over the first quarter. The average of the wholesale price index increased on the same basis by 12,0 per cent in the first quarter of 1980 and by 14,3 per cent in the second quarter. Notwithstanding a significant appreciation of the rand and the abolition of the surcharge on imports, which should normally make imports cheaper, the prices of imported goods in total rose sharply in 1979/80, as indicated previously. During the second quarter of 1980, however, wholesale prices of imported goods increased at a considerably slower rate, whereas wholesale prices of locally manufactured goods rose more rapidly.

Regarding the current economic situation, the above condensed survey of the most important developments in the course of the year indicates that the rate of economic expansion is accelerating and has already reached an exceptionally high level. Domestic expenditure, and especially private consumption expenditure and fixed investment by the private sector, are increasing rapidly and creating bottlenecks such as shortages of skilled labour and certain products. As may be expected in these circumstances, imports are rising sharply and the surplus on the current account of the balance of payments is decreasing, but up to this stage has not yet exercised pressure on the gold and foreign exchange reserves. Although the quantity of money and near-money increased at a much slower rate during the first half of 1980 than the last half of 1979, considerable liquidity still prevails in the banking sector and in the private non-banking sector, and interest rates are relatively low in general. At the same time, the inflation rate still remains at a high level.

Short-term prospects and policy

Regarding efforts of the authorities to attain a higher economic growth rate in order to counter unemployment, I referred to certain facts in my Annual Address last year which will have to be kept under consideration, especially the fact that a high and increasing inflation rate is definitely not conducive to growth, and may even impede it seriously. In this regard, I furthermore stated that I would be neglecting my duty if, in the light of the threatening danger of inflation, I did not warn against the idea of growth-at-all costs and that the dictum of growth with financial discipline therefore does not imply idle talk.

This view naturally implied that, in order to prevent the stimulation of infla-

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Reserve Bank announced certain steps in March of this year which were aimed at placing more emphasis on cash reserve requirements and supporting open market operations as instruments of credit control, with a view to abolishing in due course the direct method of control whereby quantitative limits are placed on banking institutions' credit extension to the private sector. Certain changes were effected to the liquid asset requirements while stricter requirements were introduced on cash reserves. At the same time the credit ceilings were raised.

As a further step, the Bank has now decided to abolish the credit ceilings as from 1 September 1980 and, as from the date of certification of the banking institutions' monthly statements (B.A. Form No. 7) for 31 August 1980, to effect the following adjustments to the cash reserve and liquid asset requirements:

(1) The minimum supplementary cash reserve which big banks (that is, banking institutions of which the total assets amount to more than R800 million) must hold against their short-term liabilities with the Reserve Bank, is increased from 7 to 10 per cent. The total liquid asset requirement against the short-term liabilities of the big banks is simultaneously raised from 55 to 58 per cent.

(2) The minimum supplementary cash reserve which the big banks must hold against their medium-term liabilities with the National Finance Corporation of South Africa, is reduced from 5 to 2 per cent, but these banks must now hold a supplementary cash reserve equal to 3 per cent of their medium-term liabilities with the Reserve Bank The total liquid asset requirements against medium-term liabilities for the big banks' therefore remains unchanged at 35 per cent.

(3) The banking institutions of which the total assets amount to R800 million or less, must henceforth also hold a supplementary cash reserve equal to 3 per cent of their medium-term liabilities with the Reserve Bank. The total liquid asset requirement against medium-term liabilities of these other banks is increased from 27 to 30 per cent.

The abolition of the credit ceilings should not be regarded as a step towards permitting the free extension of credit to the private sector. The liquid asset and particularly the cash reserve requirements, together with supporting open market operations and fiscal policy, will have to be employed to ensure that bank credit does not increase excessively, and the requirements will have to be adjusted from time to time as may be necessary However, what has also become of the utmost importance, is that bank credit to the private sector should be directed towards production and export activities and not towards consumption, because, as mentioned previously, the consumers' purchasing power is already being stimulated by the tax and other concessions and the higher salaries and wages. In this regard, the Reserve Bank can only make a serious appeal to the banks to comply with this requirement. The Bank is of the opinion, however, that attention may be paid to the current favourable hire-purchase conditions.

The consumer will also have to make his contribution, and an appeal is made to him to apply his increased purchasing power with discretion and to avoid extravagant expenditure which would merely add to the inflationary pressure. Notwithstanding the inflation, saving still remains a virtue. Let it be remembered, and this obviously does not apply to the private individual only, but also to companies as well as the Government, that whereas we can use the printing press to print money, we cannot print capital. Basically capital has its origin in saving

Regarding interest rates, it must be expected that by the end of August they will be appreciably influenced by the tightening effect on the money market of the anticipated large flow of funds to the government sector. Thereafter they will be influenced by further changes in the liquidity situation, which will largely depend on developments in the balance of payments and the success of the authorities' efforts to control liquidity. It would, however, be well to take note of the fact that negative real interest rates are decidedly not appropriate under current conditions. In this regard, the President of the Bank for International Settlements recently expressed himself as follows in his Annual Address with reference to the past year: "Some countries with relatively moderate inflation rates have had rather high real interest rates — which is certainly a matter for concern. But equally it had become a matter of concern earlier that in many countries real interest rates were clearly negative, a sure sign that inflation was out of control"

Concluding remarks

In this Annual Address, my fourteenth and last, I wish to avail myself of the opportunity to express my thanks and appreciation towards the Bank's Board of Directors for the co-operation, advice and moral support which I have received from them over the years. Also, I wish to profess my appreciation towards the shareholders who have consistently attended the annual general meetings, the various associations of banking institutions for their constructive contributions in discussions which I conducted with them from time to time, and for their readiness to co-operate with the Reserve Bank, often under difficult circumstances; the various national organisations which represent the country's mining, trade and industry, for the useful exchange of views which could be conducted with them; and last but not least, my colleagues and personnel for their loyal support, for their readiness to make sacrifices for the Bank, and for the efficient and responsible way in which they fulfilled their duty to ensure that a high standard was consistently maintained in the activities of the Bank.

My term as Governor of the Reserve Bank was one of interesting developments in the economic field, including years of crisis when difficult decisions had to be taken by the authorities. It started with a devaluation of the British pound in 1967 which was not followed by South Africa, and thereafter, in early 1968, a serious crisis occurred in the international financial field. From this the establishment of the two-tier price system for gold evolved, accompanied by an understanding between the Western central banks not to continue with the purchasing of gold from gold producers. This posed a difficult problem for our country, but I still believe that South Africa in reality won the battle for gold in 1968 and 1969 already.

Ever present during the past thirteen years was the problem of inflation No wonder that central bankers over the world, who are usually conservative in view of the responsibility which they bear for safeguarding the value of the currency and the country's assets administered by them, and in view of their duty to approach financial policy from an economic viewpoint, were inclined perhaps to act more conservatively because they justifiably regard the phenomenon of inflation as an unacceptable evil.

In conclusion I wish to state that it was a pleasure for me to stand at the helm of one of the few central banks of the world which is still a private bank and not a state bank. This image of the Reserve Bank, namely that it stands outside the political arena, and can freely express its views on financial matters, has always been of great value to the country, especially in times of economic crisis when foreign financial assistance was needed. It is an image which should not be harmed.

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CHAIRMAN'S ADDRESS

Address by Dr T. W. de Jongh, Governor of the South African Reserve Bank, at the Annual General Meeting of Stockholders of the Bank on August 26 1980

I have pleasure in formally presenting to you the Annual Accounts of the Bank, and the Reports of the Board and the Auditors, for the year ended March 31 1980.

I also submit to you the Bank's Annual Economic Report, which should be regarded as furnishing a background to my remarks today.

ECONOMIC DEVELOPMENTS DURING THE YEAR 1979/80

The economic upswing, which was already perceptible from the end of 1977, developed considerable momentum during the year ended June 1980. The real gross domestic product increased by 6½ percent, compared with a rise of 2¼ percent in 1978/79. From the second half of 1979 the basis of the upswing broadened considerably and economic activity in sectors such as construction and trade, which had remained sluggish during the first part of the revival, also expanded. Thus, for example, the real product of the trade sector increased by 3½ percent in the year under review after a decline of 3½ percent in 1978/79, while the real product of the construction sector, which showed a slight decrease in 1978/79, rose by 8 percent in 1979/80. The increase in the real product of manufacturing accelerated from 8 to 12 percent over the same period. Furthermore, export prices (including the price of gold) rose more rapidly than import prices during the year under review, resulting in an improvement in the terms of trade, so that the real national product increased by as much as 8 percent.

The strong revival in economic activity in 1979/80 emanated from a sharp increase in real domestic expenditure which took last two budget years contributed to an increase in real personal disposable income in 1978/79 of 6,8 percent and in 1979/80 of a further 3,6 percent.

The problem of inflation against which I warned in my address last year, became more serious during the past year. The rate of increase in the average consumer price index namely accelerated from 11,8 percent in 1978/79 to 13,8 percent in 1979/80. From June 1979 to June 1980 consumer prices rose by 14,6 percent. The raising of a number of administered prices, and especially the sharp rise in the price of petroleum products in July 1979, were mainly responsible for this acceleration in the rate of increase in consumer prices. The rate of increase in wholesale prices also accelerated from 11,0 percent in 1978/79 to 18,1 percent in 1979/80. The prices of goods produced in South Africa increased by 15,1 percent over the preceding year. Notwithstanding the appreciation of the rand and the abolition of the surcharge on imports, the prices of imported goods rose by 26,4 percent.

Regarding the balance of payments, the surplus on the current account rose further during 1979/80 notwithstanding the acceleration in domestic economic activity and the resultant increase in imports. The surplus increased namely from R2,3-milliard in 1978/79 to R3,6 milliard in 1979/80. The latter represents approximately 6¾ percent of the gross domestic product.

The capital outflow increased from R2,1-milliard in 1978/79 to R3,8-milliard in 1979/80. In contrast with 1978/79, a large inflow of long-term capital, especially from the private sector, also occurred in 1979/80. This represented the repayment ... lion in 1979/80, compared with a decrease of R324-million in the preceding year. Bank credit to the private sector increased by 17 percent during the review year and accretions occurred especially in hire-purchase credit and lease financing.

The liquidity of the banks was higher in 1979/80 and money market conditions easier than in the previous year. The average excess liquid assets in relation to liabilities to the public rose from 2,9 percent in 1978/79 to 3,5 percent in 1979/80.

Due inter alia to the rise in the net gold and other foreign assets of the Reserve Bank, money market conditions generally remained easy, apart from seasonal tightening when large tax payments were made. During 1979/80 the average amount of call money with the discount houses came to R1 032-million, compared with R807-million in the preceding year, and the free balances of the banks with the National Finance Corporation amounted to an average of R173-million in 1979/80 compared with only R55-million in 1978/79.

During the year under review, the Reserve Bank actively conducted open market operations to ensure that adjustments in interest rates took place in an orderly fashion, and to prevent rates, which generally tended downwards from falling too sharply. For this purpose, the Reserve Bank used several techniques and supplied the money market with investment instruments amounting to as much as R2 3-milliard. These investment instruments included, apart from Government stock and Treasury bills, also special Treasury bills which mature on important tax-payment dates, re... ably during the second quarter of 1980, and will have to rise much more slowly during the remainder of the fiscal year if it is to be held to the 14 percent increase anticipated in the 1980/81-Budget.

The real gross fixed investment of the private sector, which declined during 1978/79, increased at a seasonally adjusted annual rate of 13,6 percent during the second half of 1979, and at a rate of 24 percent during the first half of 1980. The utilisation of production capacity in manufacturing rose substantially and was so high in certain sections that new capacity had to be created. The increase in investment, however, caused shortages of certain products such as bricks.

The higher growth rate resulted in an increase in employment and a slight decline in unemployment but, as already indicated, shortages of certain types of skilled labour developed. Substantial wage and salary adjustments were made which, together with the reduction in income tax rates, increased real personal disposable income.

At a seasonally adjusted annual rate, the surplus on the current account of the balance of payments increased to a peak of R7,2-milliard in the first quarter of 1980, before dropping drastically to R0,8-milliard in the second quarter. In the latter quarter imports rose sharply and exports declined while the average gold price was lower than in the first quarter.

The total net outflow of capital was particularly large during the last quarter of 1979 and the first quarter of 1980. In the latter quarter the total net outflow of capital was as much as R1,7-milliard, which was mainly the re... the second half of 1979 and by R1 034-million during the first half of 1980.

Due to the easy money market conditions which generally prevailed, the downward tendency in short-term interest rates, which had already started in the second quarter of 1976, continued into December 1979, and then moved slightly upwards until the end of April 1980, before dropping again in the ensuing three months. The rate on three months bankers' acceptances, for example, declined from 5,0 percent at the end of June 1979 to 4,75 percent on 15 August 1980. The yield on long-term Government stock declined from 9,49 persent in July 1979 to 9,24 percent in January 1980, and then rose again to 9,85 percent in July 1980.

In the course of the past year the inflation rate accelerated. The average of the consumer price index increased at a seasonally adjusted annual rate of 8,6 percent in the first quarter of 1980 over the fourth quarter of 1979, and of 13,3 percent in the second quarter of 1980 over the first quarter. The average of the wholesale price index increased on the same basis by 12,0 percent in the first quarter of 1980 and by 14,3 percent in the second quarter. Notwithstanding a significant appreciation of the rand and the abolition of the surcharge on imports which should normally make imports cheaper, the prices of imported goods in total rose sharply in 1979/80, as indicated previously. During the second quarter of 1980, however, wholesale prices of imported goods increased at a considerably slower rate, whereas wholesale prices of locally manufactured goods rose more rapidly.

more, the idea among others was that, in order to avoid undue inhibition of the upswing, bank credit to the private sector should be permitted to rise but that, in view of the positive influence which the balance of payments was exercising on the quantity of money, a concomitant increase in the net claims of the banking sector on the Government sector would not be justified.

These claims against the Government sector have, however, increased considerably during the past year and have thus contributed to the rise in the quantity of money.

At the time of the last Budget the Reserve Bank was of the opinion that, although there was still scope for further mild stimulation of the economy by fiscal measures, it should not be overdone. First, there were clear signs that the upswing was rapidly gaining momentum. Secondly, there were indications that the shortage of skilled labour was becoming a bottleneck in the upswing and that strong pressure could thus be expected on salaries and wages, that is, over and above the fact that salaries and wages would have to rise on account of the high inflation rate. Thirdly, cognisance would have to be made in taxation, etc. able increase in the gold price, was already stimulating the economy further. The Bank therefore felt that, although further concessions could be made in taxation etc., there was scope for sterilising temporarily a large part of the Government's anticipated higher revenue in the stabilisation account with a view to the country's long-term needs, for example higher expenditure on defence, education and training, homeland development, aid to neighbouring ...

exchange transactions is currently determined in such a way that it is approximately equal to the difference between local and foreign interest rates and marginally favours the domestic financing of foreign trade.

The appreciation in the value of the rand vis-a-vis other currencies helped to counter imported inflation to some extent during the past year. In view of the unfavourable effect which the appreciation of the currency can have on South Africa's exports over the longer term, it would not be advisable to let the rand appreciate unduly.

Regarding the domestic mopping up of liquidity, the Reserve Bank can do little regarding the private consumer's increased purchasing power resulting from the Budget concessions and higher salaries and wages. The Bank will, however, continue with its open market operations to mop up excess liquidity of the banking sector and also of private non-banking institutions. Due to uncertainty regarding long-term interest rates and also because of speculation that the Commission of Inquiry into the Monetary Sytem and Monetary Policy in South Africa is considering a proposal that the requirements for financial institutions regarding prescribed investments be abolished, the Bank has not of late, notwithstanding serious efforts, been able to dispose of more than small amounts of long-term Government securities in the market. Even when financial institutions were invited to indicate rates which would be acceptable to them in this regard, they refused to commit themselves.

The Treasury can also do little at this juncture to eliminate the mentioned increased purchas... cons...

cash reserve requirements and supporting open market operations as instruments of credit control, with a view to abolishing in due course the direct method of control whereby quantitative limits are placed on banking institutions' credit extension to the private sector. Certain changes were effected to the liquid asset requirements while stricter requirements were introduced on cash reserves. At the same time the credit ceilings were raised.

As a further step, the to abolish the credit ceilings as from September 1 1980 and, as from the date of certification of the banking institutions' monthly statements (B.A. Form No 7) for August 31 1980, to effect the following adjustments to the cash reserve and liquid asset requirements:

(1) The minimum supplementary cash reserve which big banks (that is, banking institutions of which the total assets amount to more than R800-million) must hold against their short-term liabilities with the Reserve Bank, is increased from 7 to 10 percent. The total liquid asset requirement against the short-term liabilities of the big banks is simultaneously raised from 55 to 58 percent.

(2) The minimum supplementary cash reserve which the big banks must hold against their medium-term liabilities with the National Finance Corporation of South Africa, is reduced from 5 to 2 percent, but these banks must now hold a supplementary cash reserve equal to 3 percent of their medium-term liabilities with the Reserve Bank. The total liquid assets amount to R800-medium-term liabilities for the big banks therefore remains unchanged at 35 percent.

(3) The banking institu...

large flow of funds to the Government sector. Thereafter they will be influenced by further changes in the liquidity situation, which will largely depend on developments in the balance of payments and the success of the authorities' efforts to control liquidity. It would, however, be well to take note of the fact that negative real interest rates are decidedly not appropriate under current conditions. In this regard, the president of the Bank for International Settlements recently expressed himself as follows in his Annual Address with reference to the past year: "Some countries with relatively moderate inflation rates have had rather high real interest rates — which is certainly a matter for concern. But equally it had become a matter of concern earlier that in many countries real interest rates were clearly negative, a sure sign that inflation was out of control."

Concluding remarks.

In this Annual Address, my fourteenth and last, I wish to avail myself of the opportunity to express my thanks and appreciation towards the Bank's Board of Directors for the co-operation, advice and moral support which I have received from them over the years. Also, I wish to profess my appreciation towards the shareholders who have consistently attended the annual general meetings; the various associations of banking institutions for their constructive contributions in discussions which I conducted with them from time to time, and for their readiness to co-operate with the Reserve Bank, often under difficult circumstances; the various national organisations which represent the country's mining, trade and industry, for the useful exchange of views which ...

the most important stimulant. The real gross domestic expenditure increased by 8 percent in 1979/80 compared with only 1½ percent in 1978/79, and the increase was largely the result of considerable rises in real private consumption expenditure and real fixed investment. Real government consumption expenditure and real inventories, on the other hand, increased only slightly during 1979/80. Real private consumption expenditure rose, for example, by 6 percent, compared with an increase of only ½ percent in the preceding year. The real expenditure on durable consumer goods showed a rise of 20 percent in the year under review, compared with a decline of 3½ percent in 1978/79. The expenditure on other types of consumer goods and services also accelerated, but not to the same extent as that on durable consumer goods.

After real fixed investment had shown a decline for three consecutive years, it increased by 7½ percent in 1979/80. This turnaround may be ascribed mainly to an increase in real fixed investment of the private sector (13 percent), to which mining (34 percent), manufacturing (27 percent), the financial sector (15 percent) and also housing construction (12 percent) made the largest contributions. The increase in investment was encouraged by the higher domestic expenditure, and unused production capacity in manufacturing declined from 15,1 percent in February 1979 to 11,6 percent in May 1980.

On the labour front the accelerated economic activity has resulted in a decline in unemployment, but shortages of skilled labour are increasingly experienced and there are signs of substantial upward pressure on wages and salaries. Although wages and salaries per worker in the non-agricultural sectors of the economy was only 13,6 percent higher during the nine months to March 1980 than during the same period of the previous year, a substantial rise in the rate of increase may be expected from the second quarter of 1980. Real wages and salaries per worker declined in the past three years, but the reduction in personal income tax rates in both the increase in foreign assets. The outflow of short-term capital, which approximated R2,2-milliard, also reflected the repayment of foreign debt, but was caused mainly by a shift from foreign to domestic financing of trade.

If repayments of R346-million on short-term loans which were negotiated to supplement the reserves, are taken into account, the net gold and other foreign reserves rose by R156-million as a result of balance of payment transactions. However the gross gold and other foreign reserves declined by R190-million as a result of balance of payments transactioss. If all valuation adjustments and the allocation of special Drawing Rights are taken into account, the gross reserves rose by R3-milliard during 1979/80 and reached a level of R5,8-milliard on 30 June 1980.

The weighted average value of the rand in terms of the currencies of South Africa's most important trading partners increased throughout 1979/80 and was 7,1 percent higher in June 1980 than in June 1979. Against individual currencies, the rand showed the following appreciations: Japanese yen 11,0 percent, USA dollar 10,0 percent, Swiss franc 7,9 percent, French franc 5,3 percent, German mark 5,1 percent and British pound 1,4 percent.

Regarding the liquidity of both the private non-banking sector and the banking sector itself, substantial changes took place during the year under review. The quantity of money and near-money increased by 21 percent in 1979/80, compared with an average annual increase of 7 percent during the preceding three years. Appreciable increases in domestic credit extension to the private sector and the Government sector were the main causes of the increase in the quantity of money and near-money. The increases in the net gold and other foreign reserves and in the long-term deposits of the private sector with the banking sector in the year under review amounted to R384-million and R207-million respectively, which were both considerably less than in the previous year. Bank credit to the Government sector rose by R431-million ... sued by the Reserve Bank itself.

The build-up of liquidity in the economy gave rise to an increase in activity in the capital market during the year under review. Transactions in the secondary market for fixed-interest securities increased appreciably and the stock exchange was very active. The property market experienced a strong upsurge and large amounts were advanced on mortgage. Inter-company loans outside the banking sector also increased substantially. Yields in the capital market declined during the first eight months of the review year, but began to rise slightly from the end of March 1980 when expectations of a rise in long-term rates became clearly evident.

CURRENT ECONOMIC CONDITIONS

The above survey refers mainly to the economic developments which took place in the year ended June 30 1980 as a whole compared with the previous year. In order to obtain a better perspective of current conditions, it is important to take note of developments as they evolved during the course of the year. In this regard, the latest trends are set out briefly below.

The rate of increase in total economic activity accelerated considerably during the course of the year under review, and real gross domestic product increased from a seasonally adjusted annual rate of 7,4 percent (excluding agriculture, 6,3 percent) during the second half of 1979 to 10,1 percent (excluding agriculture, 8,9 percent) during the first half of 1980. The evidence indicates that the growth rate of the real gross domestic product will amount to more than 7 percent for the calendar year 1980 compared with 4 percent for 1979.

Real private consumption expenditure, which had shown almost no increase in 1978/79, expanded at a seasonally adjusted annual rate of 6,3 percent during the second half of 1979, and then increased at an annual rate of as much as 8,6 percent during the first half of 1980.

Consumption expenditure by general government increased consider- ... foreign to domestic sources due to the substantial difference between domestic and foreign interest rates. This shift helped to reduce the excess liquidity in the money market, but towards the end of March and early in April 1980 it tightened the money market considerably and began to exercise pressure on the cash portion of the foreign reserves. The Reserve Bank subsequently raised the discount on forward exchange cover from 2¼ to 12 percent and thus effectively countered the shift from foreign to domestic financing. The net capital outflow accordingly decreased again and amounted to R547-million during the second quarter of 1980.

If the allocation of Special Drawing Rights and valuation adjustments are excluded, the gross gold and foreign exchange reserves decreased by R115-million durin gthe last half of 1979, rose by R312-million during the first quarter of 1980 and then declined again by R387-million during the last half quarter of 1980. During July the Reserve Bank's gross gold and other foreign reserves excluding the gold valuation adjustment rose by R361-million.

The quantity of money and near-money increased at the very high seasonally adjusted annual rate of 27 percent during the second half of 1979, and then rose at an annual rate of 15 percent during the first half of 1980. Substantial quaterly fluctuations occurred in the net claims of the banking sector on the Government sector as a result of the irregular flow of tax revenue to, and expenditure of, the Government sector. In the first quarter of 1980, for example, there was a decline of about R900-million in the seasonally adjusted net claims of the banking sector on the Government sector, whereas an increase of about R770-million occurred in the second quarter. Before seasonal adjustment, the net claims of the banking sector on the Government sector rose by R1 180-million in the latter quarter. The banking sector's credit extension to the private sector increased more evenly and on a seasonally adjusted basis rose by R957-million during ... above condensed survey of the most important developments in the course of the year indicates that the rate of economic expansion is accelerating and has already reached an exceptionally high level. Domestic expenditure, and especially private consumption expenditure and fixed investment by the private sector, are increasing rapidly and creating bottlenecks such as shortages of skilled labour and certain products. As may be expected in these circumstances, imports are rising sharply and the surplus on the current account of the balance of payments is decreasing, but up to this stage has not yet exercised pressure on the gold and foreign exchange reserves. Although the quantity of money and near-money increased at a much slower rate during the first half of 1980 than the last half of 1979, considerable liquidity still prevails in the banking sector and in the private non-banking sector, and interest rates are relatively low in general. At the same time, the inflation rate still remains at a high level.

Short-term prospects and policy:

Regarding efforts of the authorities to attain a higher economic growth rate in order to counter unemployment, I referred to certain facts in my Annual Address last year which will have to be kept under consideration, specially the fact that a high and increasing inflation rate is definitely not conducive to growth, and may even impede it seriously. In this regard, I furthermore stated that I would be neglecting my duty if, in the light of the threatening danger of inflation, I did not warn against the idea of growth at all costs and that the dictum of growth with financial discipline therefore does not imply idle talk.

This view naturally implied that, in order to prevent the stimulation of inflation, it would be better to aim for a more gradual upswing in the economy so that the country could experience a longer period of expansion which would also allow more time for much needed structural adjustments such as the training of skilled labour. Further- ... the Minister of Finance succeeded in keeping Government expenditure to a moderate rise but made considerable concessions on the revenue side. These concessions, in addition to the increase in salaries and wages, are leading to a substantial increase in consumer purchasing power which may stimulate consumption expenditure further. The resultant increase in expenditure may lead to further pressure on the factors of production and to general demand inflation, which could have an adverse effect on economic growth. The true impact of the fiscal concessions and higher salaries and wages will naturally become evident only during the second half of the year, but the latest data indicate a growth rate which would be difficult to sustain.

In the light of the new inflation danger it has now become more necessary to exercise strong financial discipline, and this applies particularly to the control of the money supply and the mopping up of excess liquidity. In this regard, it would be undesirable at the present stage to implement the mopping up by means of special concessions to allow money to flow out of the country, bearing in mind the possible further deterioration in the current account of the balance of payments arising from the possibility of a continuation of the upward tendency in imports and the latest downward tendency in merchandise exports. If these tendencies should continue, we could once again find ourselves in the situation of 1974 when we depended too much on a high gold price. The mopping up of liquidity by encouraging an outflow of funds to other countries should rather be considered if the gold price should show a further strong rise.

Although the Bank encouraged the outflow of short-term funds during the first few months of 1980 by the relatively low discount quoted for forward exchange transactions, it has relied more on open market operations since April 1980 to mop up excess liquidity in the domestic market. The rate for forward ... is to prevent Government finance from making an added contribution to inflationary pressure. Therefore it has now become of the utmost importance to ensure that the prospect held out in the Budget, namely that the Government would not finance its expenditure in an inflationary manner in the current fiscal year, be strictly observed. This means that the increase of more than R1-milliard which took place in the net claims of the banking sector against the Government Sector in the first quarter of the fiscal year, that is the second quarter of 1980, will have to be cancelled out during the remainder of the fiscal year. In this connection it is anticipated that tax collections will cause the channelling of very large amounts of funds to the Government at the end of August and on certain dates subsequently, which may make it advisable to deposit a part of these funds in the stabilisation account. The Treasury should also be willing, if necessary, to make further domestic loan issues or to provide the Reserve Bank with the necessary paper for the purpose of conducting open market operations. If it should turn out that the balance of payments continues to feed liquidity, the Treasury will even have to ensure that the net claims of the banking sector against the Government sector show a decline over the fiscal year, if bank credit to the private sector is not to be strongly curbed. As this view is shared by the Treasury, the Reserve Bank has decided to effect certain adjustments to its credit control measures, as explained below.

In my Annual Address last year I mentioned that the Reserve Bank was of the opinion that the ceiling method of credit control should be abolished as soon as possible, but that it should be replaced by an indirect method which would yeild better results than those achieved in the past by directives relating to liquid assets. In pursuance of this line of thought, the Reserve Bank announced certain steps in March of this year which were aimed at placing more emphasis on ... million or less, must henceforth also hold a supplementary cash reserve equal to 3 percent of their medium-term liabilities with the Reserve Bank. The total liquid asset requirement against medium-term liabilities of these other banks is increased from 27 to 30 percent.

The abolition of the credit ceilings should not be regarded as a step towards permitting the free extension of credit to the private sector. The liquid asset and particularly the cash reserve requirements, together with supporting open market operations and fiscal policy, will have to be employed to ensure that bank credit does not increase excessively, and the requirements will have to be adjusted from time to time as may be necessary. However, what has also become of the utmost importance, is that bank credit to the private sector should be directed towards production and export activities and not towards consumption, because, as mentioned previously, the consumers' purchasing power is already being stimulated by the tax and other concessions and the higher salaries and wages. In this regard, the Reserve Bank can only make a serious appeal to the banks to comply with this requirement. The Bank is of the opinion, however, that attention may be paid to the current favourable hire-purchase conditions.

The consumer will also have to make his contribution, and an appeal is made to him to apply his increased purchasing power with discretion and to avoid extravagant expenditure which would merely add to the inflationary pressure. Notwithstanding the inflation, saving still remains a virtue. Let it be remembered, and this obviously does not apply to the private individual only, but also to companies as well as the Government, that whereas we can use the printing press to print money, we cannot print capital. Basically capital has its origin in saving.

Regarding interest rates, it must be expected that by the end of August they will be appreciably influenced by the tightening effect on the money market of the anticipated ... not least, my colleagues and personnel for their loyal support, for their readiness to make sacrifices for the Bank, and for the efficient and responsible way in which they fulfilled their duty to ensure that a high standard was consistently maintained in the activities of the Bank.

My term as Governor of the Reserve Bank was one of interesting developments in the economic field, including years of crisis when difficult decisions had to be taken by the authorities. It started with a devaluation of the British pound in 1967 which was not followed by South Africa, and thereafter, in early 1968, a serious crisis occurred in the international financial field. From this the establishment of the two-tier price system for gold evolved, accompanied by an understanding between the Western central banks not to continue with the purchasing of gold producers. This posed a difficult problem for our country, but I still believe that South Africa in reality won the battle for gold in 1968 and 1969 already.

Ever present during the past thirteen years was the problem of inflation. No wonder that central bankers over the world, who are usually conservative in view of the responsibility which they bear for safeguarding the value of the currency and the country's assets administered by them, and in view of their duty to approach financial policy from an economic viewpoint, were inclined perhaps to act more conservatively because they justifiably regard the phenomenon of inflation as an unacceptable evil.

In conclusion I wish to state that it was a pleasure for me to stand at the helm of one of the few central banks of the world which is still a private bank and not a state bank. This image of the Reserve Bank, namely that it stands outside the political arena, and can freely express its views on financial matters, has always been of great value to the country, especially in times of economic crisis when foreign financial assistance was needed. It is an image which should not be harmed.

Argus 27/8/80 49

SA economic miracle possible, says Rupert

WELL-INFORMED visitors believed that South Africa had the potential to work economic miracles, Dr Anton Rupert, chairman of the Rembrandt group, told shareholders at the annual meeting in Stellenbosch yesterday.

South Africa had a high rate of savings, he said. If these were used productively everyone could within 20 years enjoy a standard of living equal to that in England today.

He emphasised however, that this would not be achieved unless the country helped its less fortunate neighbours.

'We cannot trade with paupers. There is no longer any doubt that economic separation does not present a real solution for the developing communities of Southern Africa.

'Economies cannot be divided. We shall have to find the answer in one or another form of an economic community of states.'

South Africa had to play the role of catalyst and help lead its fellow Africans along the road to economic self-sufficiency.

Dr Rupert said the answer to permanent development was to be found in the policy of partnership — a policy based on trust, co-operation and self-determination.

Such a policy had led to the development of the Rembrandt group.

Democracy and free enterprise could not grow other than through a true partnership between the industrially developed and undeveloped lands.

Dr Rupert said that South Africa was one of only seven countries in the world which was a net exporter of food.

He called for greater private land ownership as one of the ways of boosting development in the sub-continent.

This was one of the foundation stones of the free enterprise system.

'Personally, I believe that if new land is to be given to the national states, it should be subject to the condition that it be sold back to black inhabitants.

'The proceeds thereof could then be used for the further development of those states.'

Multi-racialism should be seen as a source of strength rather than an obstacle. 'Laminated wood is stronger than a single beam,' Dr Rupert said.

GROWTH (1A)

The straitjacket

FM 29|8|80

Could SA's exuberant boom be stopped in its tracks by structural limitations like skilled labour shortages? This alarming possibility emerges from some of Dr Bob de Jongh's remarks in his annual chairman's address.

He notes that real fixed investment increased by 7,5% in 1979/80, after a decline for three consecutive years. Concurrently, unused capacity in manufacturing declined from 15,1% in February 1979 to 11,6% in May 1980.

But, "on the labour front the accelerated economic activity has resulted in a decline in unemployment," while "shortages of skilled labour are increasingly experienced and there are signs of substantial upward pressure on wages and salaries." This is a depressing state of affairs when the upswing has only recently gained momentum.

Anyone involved with the building industry, for example, whether as a producer or a consumer, will confirm the reality of these problems.

A good case can be made for the view that it will be these structural limitations (rather than balance of payments problems, as so often in the past) which could shackle the economy. In fact, these potential limitations were there all the time, as a host of critics of official labour policy have pointed out for years.

But while a chronically weak balance of payments operated as the limiting factor on economic growth, this important truth was often obscured. Now there is nowhere to hide.

The tragedy of the situation is that a long-term problem of this sort cannot be solved overnight. Encapsulated in the skilled labour shortages are all the policy shortcomings related to black (and white) education, black housing and black urban social policy at large.

COMMENT: By STEPHEN ORPEN

Heads in the sand versus heads in the clouds

31/8/80

S. Times (Bus)

49

"Labour is going to be the challenge of the Eighties ... The faint-hearted can perhaps be forgiven if they feel that recent Government and other initiatives on the labour front have opened a Pandora's box that produces ever more fearsome monsters as the lid is lifted higher ...."

Professor Roux van der Merwe of the University of Port Elizabeth speaking in Johannesburg this week

"I would like to say that the (South African) economic process now has the potential of creating wealth at a faster pace than during the 1970s. . ."

Rudolf Gouws, senior economist of the Nedbank Group, at the same conference

NO right-minded South African would accuse Professor Van der Merwe or Dr Gouws of either euphoria or blinkered vision. Yet they have re-affirmed attention on the growing rift between the "SA Miracle" corps and the "SA Darkness" brigade.

In crude terms, the miracle men believe South Africa has entered the most prolonged and exciting period of strong and soundly-based economic growth in the country's history.

By contrast, the disciples of darkness foresee escalating labour and socio-political confrontation. They envisage a clash of ethnic objectives which will eventually become cataclysmic and lead to a "shoot-out" for power at the centre between blacks and whites — with disastrous consequences for the economy.

Needless to say, both poles are seductive yet dangerously skewed. On these grounds, it is all too easy to dismiss them as unworthy of further attention.

That, unfortunately, would be equally misguided. There is much to be learnt from closer inspection of what they can teach us — and do to us.

On the bright side, we have seen both the corporate sector and the country's financial and economic managers laying the foundations for a (hopefully) sustainable rapid national growth rate.

Balance sheets and the balance of payments are healthy. The gold price bonanza and coal-based energy and chemicals investment have provided protection from a money squeeze and the oil crisis.

Not least, the free market and monetarist philosophies have combined with planning for new labour arrangements to defuse explosive problems in this crucial area.

Now to the heads in the sand — and the men of darkness — who are by no means one and the same. Needless to say, the former are generally on the "Far Right" (FR), the latter on the "Far Left" of the political spectrum.

The FRs seem, ostrich-like, to prefer not to recognise that unless there are far-reaching changes in industrial relations, let alone power-sharing at the centre, then there can only be a war which, in the long run, they cannot win and which, in the meantime, can only scupper sound economic growth.

If these extremists are hypnotised by Professor van der Merwe's "fearsome monsters," the Leftists, by contrast, are hypnotised by the still more fearsome monster they read into Pretoria's apparent tardiness in implementing reform and — as they see it — deliberate dishonesty in re-arranging matters rather than moving four-square away from neo-colonial white power.

They thus foresee a head-on collision in a struggle for supremacy which, again, will turn the best plans of the country's corporate and economic managers upside-down.

All this is naturally clear to the Prime Minister — hence his Cabinet reshuffle this week and stream of new special committees designed to open the way for overdue changes.

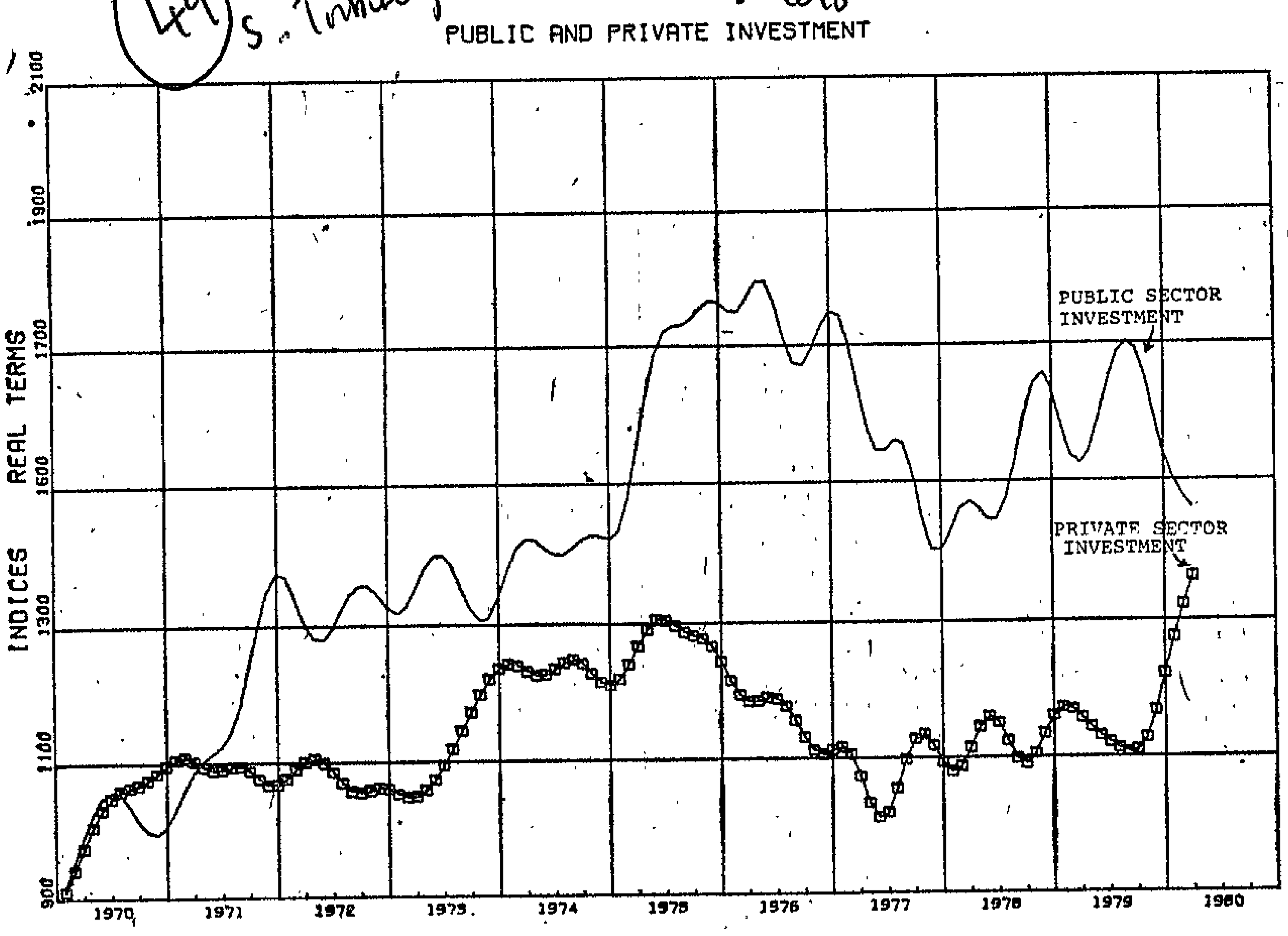
So far, so good. But unless and until there are black men in executive positions in Pretoria, as well as in organised labour and the corporate sector at large, the challenge of the Eighties will not have been met.

That being the case, all discussion of economic light and darkness must be peripheral, at best.

SUNDAY TRIBUNE, AUGUST 31, 1980

The eighties will have a silver lining, says Gouws

49 S. Tribune 31/8/80



The graph shows the dropping rate of public spending and the rapidly increasing rate of private expenditure

By TONY HUDSON
Finance Editor

WHILE the eighties will not be a golden decade, it will certainly have a heavy touch of silver, says Rudolf Gouws, senior economist with the Ned bank group.

Gouws says that now that major Government infrastructural spending of the seventies has been completed, the economy could enter a phase similar to the sixties.

And while Gouws feels that growth will not be the same as the heady period during the sixties, he estimates the annual growth rate will average between five and 5,5 percent, in real terms, during the next 10 years. Total consumer spending should rise by just less than this but durable consumer expenditure is expected to rise by more than seven percent a year.

In addition, Gouws is very bullish about inflation and says that if Government sticks to its policies of financial discipline, the rate should average out at between eight and 10 percent a year for the decade.

Key to the rosy glow of the next 10 years is the fact that Government spending has dropped to very low levels despite Sasol III and the expansion of Escom's generating grid. And, says Gouws, the indications are that real fixed investment by public authorities and public corporations should rise by less than seven percent for the period 1977 to 1987.

While this could be on the low side, says Gouws, it contrasts sharply with the forecast of 7,6 percent growth in private fixed investment for the same period.

Says Gouws: "Considering only this one factor, there would be much reason for optimism about the generation of employment, real personal disposal income and consumer spending during the eighties."

Three other bullish points are:

- The new approach to the management of the economy, which is placing the emphasis on the freeing of markets and the use of fewer direct controls;
- The changes in the field of labour legislation, which have increased both the potential for vertical and horizontal or geographical mobility of labour; and
- South Africa should become a net energy exporter by 1984, which puts the country at a distinct advantage in relation to almost all its trading partners.

Stellenbosch University's Bureau for Economic Research also sees a rosy future and says that South Africa is entering a high growth rate phase.

However, it warns that black scholars and students of today will

Reserve Bank Governor warns of another 'Year of '74...'

NO WONDER Reserve Bank Governor Bob de Jongh warned last Tuesday that if the balance of payments continues deteriorating, "we could once again find ourselves in the situation of 1974 when we depended too much on a high gold price."

The latest evidence points to an unexpectedly rapid narrowing of the trade surplus, mainly as a result of booming imports. The Reserve Bank revealed in its annual report that the trade balance (including gold) plunged from an annualised seasonally adjusted surplus of R7,2 billion in the first quarter to less than R0,8 million in the second.

One reason was a sharp rise in oil imports. These have probably stabilised in recent months, and economists are confident that the July-September surplus will be into the billions again.

The underlying trend is still down, however.

The Department of Customs disclosed last week that imports totalled a record R1,5 billion in July, up from R1,1 billion in June. Imports for the first seven months of 1980, valued at R7,2 billion, were no less than 57 percent higher than the same period last year.

Exports are still rising, reaching R1,9 billion in July, compared to R1,5 billion in May and June. But the rate of growth is slackening. Steel and ferro-alloy producers, as well as most exporters of manufactured goods, report a significant downturn in demand in their overseas markets.

Nedbank economist Rudolf Gouws reckons the current account of the balance of payments could swing into deficit before the middle of next year. If the gold price collapses, it could be even sooner.

One factor contributing to the narrower surplus has been the strong rand, which has risen by around 11 percent against the yen and 10 percent against the US dollar in the past year. Several exporters have grumbled that the rand's appreciation has dented their competitiveness abroad. It has also encouraged imports.

A major reason for the continuing high rate of imported inflation is the reluctance of merchants and manufacturers to pass on lower costs to their customers.

'Crisis of sudden growth'

STAR 2/9/80 (49)

Political Staff

South Africa was caught in a crisis of sudden economic growth making impossible demands on human resources, the Minister of Manpower Utilisation, Mr Fanie Botha, said yesterday.

"We are trying to do what no other country has tried or achieved," he said. "With only 16 percent of the population, we are trying to do all the work for the whole population.

"We are trying to get all our leadership from this 16 percent, and because of this we do not have a hope of competing with other countries."

Swift economic growth had caught South Africa with a human resources problem.

Productivity was of paramount importance, but one of the problems was that 38 percent of the industrial labour force had received no scholastic education and could therefore not be trained.

South Africa's productivity was a third of Britain's, a fifth of Canada's and a fifth of Australia's, and compared even less favourably with eastern countries.

People should be taught about productivity when they were trained, he said.

MINISTER BOTHA

SA growth rate may be highest in world

(49)
STAR
4/9/82

BLOEMFONTEIN — South Africa's current real economic growth rate amounted to 6,5 percent and indications were that the Republic could close the financial year with the highest economic growth in the world, the Minister of Finance, Senator Owen Horwood, said in Bloemfontein yesterday.

He was speaking at the Free State congress of the National Party to a resolution dealing with problems encountered by people living solely on income derived from interest on capital investment.

Senator Horwood said while it was true that interest rates had dropped in recent months, the economic upswing coupled with government measures to reduce excessive liquidity would lead to increased demand for loan capital and higher rates of interest.

He stressed the need for high economic growth to fight unemployment. — Sapa.

Three crucial issues for EAC

5/9/80 RDM

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By HAROLD FRIDJHON

THREE major inter-related issues are being discussed by the Prime Minister's Economic Advisory Council which will conclude its two-day meeting in Pretoria today. These issues are:

- Inflation.
- The rate of the rand.
- The skilled, labour shortage.

And to none of these problems which could affect the course of the present boom is there a snap solution. Inflation is being fuelled by a double input — a steady, inexorable rise in costs and a demand which is growing by leaps and bounds.

If there were a plentiful supply of skilled labour waiting on the sidelines, production could be stepped up and the supply element might match up with demand in the supply-demand equation.

By the same token if the rand were allowed to appreciate up to, say, $1,37 imports would be cheaper and the supply of cheaper goods from abroad might introduce a competitive force which could bring prices down and take the sting out of inflation.

In reality, however, the solution is not as simple as this.

Let's start with the rand-dollar rate.

While a stronger rand can have a salutary effect on the economy and can make a reasonable contribution to keeping inflation in check by slowing down the increase in money supply and helping to bring in recession-distressed goods from abroad, it could hit exporters for a six.

Quite apart from mineral exports, many other merchandise lines are quoted in dollars. With a strong rand in terms of the dollar this would mean that exporters would get fewer rands for their goods. Which is no good for profits.

And if they were to raise their rand prices to meet the increase in costs, in dollar terms the goods would lose their competitive edge.

With the rand-dollar rate in the low thirties exporters are complaining about being edged out of markets which they have assiduously been cultivating for some years. A more expensive rand could be disaster for many.

Some economists argue that a higher rand would do more good than harm for the economy, but you can't tell that to a man who has been investing heavily in an export market which he now sees slipping through his fingers.

The export lobby is quite influential and will put its case strongly to the EAC. Everyone agrees that exporters should be given help — but not at the expense of the economy as a whole.

And it's no good talking of cheaper rail tariffs; in this neo-Horwood age subsidies are out. But there is more that one way of skinning a cat.

What the EAC is doubtlessly discussing — and using its influence to have the discussions implemented into something tangible — is getting export incentive schemes off the ground and out of the red tape tangle.

For the skilled labour problem there is only one short-term solution and that is immigration. But this time around — we have been through these boom-labour shortage problems many times before — included among the importees must be teachers, trained technical teachers who can crash-course the unskilled of all races to a standard which will enable them to take part productively in the economy.

This also means implementing Wiehahn and Riekert. And here the private sector spokeman must speak up and demand that heel-dragging stops. It's a closed door session and people must speak their minds.

Settle the rand/dollar rate and get in more imported goods. And import more skilled labour — this is imediate action which can curb inflation.

And particularly those imported goods.

I was told last week that wholesale price margins and retail price margins have been widening — a sure sign that too much money is chasing too few goods. So let's have more competition. After all this is supposed to be a free enterprise society. I hope that *all* members of the Economic Advisory Council remember this.

TRADE FINANCE (49)

Letting off steam?

FM 5/9/80

The forward discount mechanism used by the Reserve Bank to swing trade finance between foreign and local sources may not be as flexible an instrument of monetary policy as is generally believed.

The forward discount was increased sharply in April, when rising interest rates abroad and falling domestic rates made it cheaper to finance locally. This had created an extensive outflow of short-term capital, and brought pressure on the country's foreign exchange reserves, as well as intensifying the trade in foreign bills in the SA money market. The Reserve Bank acted to eliminate the sharp interest rate differential, and has since operated a flexible forward discount pattern, altering it to take account of interest rate movements here and abroad.

There is no single criterion by which to measure the relative advantages of financing trade locally or abroad, since rates depend on the size of the transaction, the borrowing facilities utilised and the status of the client. Foreign borrowings are made both on the New York acceptance market and through Eurodollar facilities. The acceptance market is open only for transactions of $50 000 or more, and for shipments financed within 30 days of the bill of lading. The Eurodollar market is for smaller amounts and is more expensive.

Similarly, the local acceptance market deals only in transactions above a certain amount. The alternative is to finance by overdraft, which is significantly more expensive.

According to UAL's Tony Ross, if the Reserve Bank manipulates the forward discount merely to neutralise the interest rate differential, as it originally appeared to be doing, then the relative advantages of foreign and local financing become a function of the kind of margins offered by banks to specific clients. "In which case", he adds, "we recommend foreign borrowing, which is cheaper in real terms because it avoids the opportunity costs incurred by local banks, like the capital and reserve assets that must be held against deposits."

However interest rates in the US have risen recently, says Ross, and the Reserve Bank has been lagging the discount adjustment, so there is currently a margin in favour of local financing. This is borne out by one large SA bank, which claims an 85 point advantage in borrowing locally, and which reports a "tremendous increase in demand for local rand financing".

The Reserve Bank, says a spokesman, adjusts the forward discount on the basis of the cost of New York acceptances against local acceptances. Its current policy, he adds, is marginally in favour of local financing — "marginally" in order to create an escape valve for the pressure of internal liquidity, without encouraging the kind of wholesale outflow that would endanger its foreign exchange reserve position.

Other banks maintain that it is still cheaper to borrow abroad, but that the margins are so small, and local liquidity so high, that the incentives to shift offshore are minimal.

"Another factor," says Ivan de Jongh, manager of Senbank's international department, "is that with the rand strong and likely to appreciate further, many importers are not bothering to cover forward. We advise them, in fact, to leave short-term positions uncovered. Beyond about 60 days or so, positions should be looked at more closely. The interest rate differential is likely to narrow, the discount will be reduced, and the upward potential of the rand may lessen." It appears, he adds, as if the Reserve Bank is merely attempting to close the gap between interest rate differentials, as opposed to encouraging one mode of finance against another.

Under current conditions of high domestic liquidity, low rates and an appreciating rand, the forward discount will have to be manipulated with greater boldness if it is to be an effective instrument of monetary policy. The gap between the Reserve Bank's perceptions of its own actions, and the market's perceptions, suggests that wielding the sword too subtly may be equivalent to not wielding it at all.

Industry: these included Contractors, Consulting Engineers, Architects, Management Consultants and Independent organizations of Project Managers.

BANKING SECTOR

Branching out

(49) FM 5/9/80

"Let us be happy and live within our means, even if we have to borrow the money to do it with." — **Artemus Ward 1834-1867.**

Rising demand for consumer credit has spearheaded the current banking upswing and it is the specialist divisions within the banking groups that are growing at higher rates than the main commercial body. So customers hearing today's bankers speak of "leasing packages", "range of products" and "needs of the consumer" may not be too far wrong in concluding that banks are not quite what they used to be.

The image which the major banks now present to the public is different not only in terms of lending facilities, which reflects their adaptation to economic forces. There have been more fundamental changes, and their marketing campaigns, as well as recruitment and training policies, are going a long way towards laying the "grim, grey banker" to rest.

Half-year earnings growth announced by Barclays (66,5%), Nedbank (34,7%) and Stanbic (36%), as well as the 81% achieved by Volkskas for the year to end-June 1980, indicate that the changes are paying off. But what factors have channelled the banks in this somewhat different direction?

The move away from traditional overdraft borrowing, noticeable in both March and June quarterly bank figures, is largely the result of the current interest rate spread. Ostensibly, short-term rates around 2,5% and a 7% bank rate pegged by the Reserve Bank promised the commercial banks the largest interest turn for years, borrowing short and lending at a 9% overdraft rate. But because the 9% is too high in relation to other money market assets, it looks highly unattractive to corporate borrowers, who are seeking alternative sources of finance.

Barclays' Johan Cloete . . . rates may rise

Acceptance credits and endorsed commercial paper became the favoured alternatives. Neither of these is as profitable to the banks, despite the volume achieved, as interest charges fall far short of 9%. But because acceptances are marketable, they provide a way for banks to lend off-balance sheet without taking in extra funds as reserves. In normal bank lending such deposits are required as fractions of loans made.

But although the overdraft has become temporarily unattractive, the banks' specialist divisions offer sophisticated and cost-effective means of finance to both consumer and company.

Competition has also increased among leasing and hire purchase divisions as major capital investment is expected during the next 12 months. Many of the conservative banks looked askance when Trust Bank pioneered the American concept of open, one-stop banking a few years back. But in the current battle for business, all of them have adopted the concept to a greater or lesser degree.

The major swing towards this type of funding has come, on the consumer side, because of the higher cost of furniture, cars, houses, etc. Companies favour leasing not only because it is off-balance sheet, but because at current interest rates, the suspensive sale agreement is the cheapest. The Receiver of Revenue capitalises the financing costs with the cost of the equipment, and allows the banks depreciation calculated on the full amount. The banks thus pay minimal tax, and the borrower benefits from a lower rate.

But the development of the specialist divisions could not have been achieved had

Surveyors, Geologists and Environmental Planning experts would also be employed. The diversity of sub-contractors with highly specialised skills are too many to note here, but these functions all have to be controlled and co-ordinated to meld together in an organized, systematic fashion to construct and deliver the final product - a huge, vastly complex chemical processing works. For the Engineer or Contractor to cope with the planning, co-ordination and control of this whole project and still be responsible for design or construction would be expecting the impossible. A specialist management team is a vital necessity.

P.T.O.

Schwartz backs economy plan

(49)

By GERALD REILLY
Pretoria Bureau

THE Prime Minister, Mr P W Botha, deserved support for his common economy plan involving the homelands and South Africa, the chairman of the Progressive Federal Party's economic commission, Mr Harry Schwarz, said yesterday

It was obvious, he said, that South Africa is one economic entity and that it would be virtually impossible to make the fragmented homelands economically independent.

This had apparently been acknowledged by Mr Botha and was to be welcomed as a realistic approach.

Mr Schwarz said most of the homelands were vast reservoirs of labour and unless regional economic development within reach of this labour was encouraged, workless blacks would spill over into the urban areas, creating housing and other social problems.

This was already happening to an increasing extent

Mr Schwarz warned, however that history had repeatedly shown that integrated economies eventually led to political interdependence.

Only a confederal or federal system of government could accommodate all the problems involved in South Africa's complex society.

Mr Schwarz said economic realities had exploded the apartheid dream of total separation and it appeared Mr Botha was prepared to face the realities.

The old policy of creating jobs in the homelands at enormous cost because of political idiologies had been "ineffective".

Under the new economic integration plan job creation would cost the country far less.

STAR 11/9/80

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'Business should push for change'

By Tom Duff
Political Reporter

If South Africa one day burned because blacks had been denied political and economic rights, businessmen would be as responsible for this as the Government they supported, kwaZulu leader, Chief Gatsha Buthelezi, warned today.

Now that the Prime Minister, Mr P W Botha, had enlisted the aid of the private sector, it could dictate terms for its involvement, he said in an address to the Harvard Business School Club.

"Nothing would be more despicable in black eyes than to see the private sector allowing themselves to be used as willing pawns in our continued dispossession, and in the wicked scheme of stripping us of our citizenship rights as South Africans," he said.

He believed the private sector could use its economic muscle to push the Govennment towards allowing blacks to enter the free enterprise system.

16/9/80

Boom swings Budget up to a surplus

ROM

49

By GERALD REILLY
Pretoria Bureau

REVENUE is pouring into the State coffers from all sources as the economic upsurge quickens — and Budget income estimates are expected to be exceeded by a comfortable margin, according to Government sources in Pretoria.

Income tax collections for the first four months of the financial year — to the end of July — totalled R1 848-million. In his Budget, the Minister of Finance, Senator Owen Horwood, estimated tax revenue for the entire year would be R5 990-million

General Sales Tax revenue for the first four months was R508-million, with an estimate for the 12 months of R1 550-million.

It was pointed out, however, that until July, income tax payers were still paying at the old higher rate. This means that from July, there will be a dip in tax collection revenue, the sources say.

Even so, the expectation is that with fuller employment and increased wages and salaries, the income tax revenue estimate will be comfortably overtaken.

And although GST revenue is marginally below the estimate for the four months, the big spending months — November, December and January — are ahead, and the total GST take would exceed R1 700-million, the sources forecast.

Tax from the gold mining industry is also confidently expected to exceed estimates.

The Progressive Federal Party's financial spokesman, Mr Harry Schwarz, said he expected a substantial surplus in next year's Budget.

"The question is: What will the Government decide to do with the money? A first priority should be to spend more money on removing discrimination in various areas like education, hospital services and housing," he added.

"However, with a general election virtually certain next year, it could be used to soften up the electorate with further tax concessions."

The need to spend funds on education facilities for black, coloured and Indian communities was obvious.

Another vital area demanding funds was white housing, a serious and growing problem.

SA COULD BE 'MIRACLE' — AECI CHIEF

Argus 18/9/80

VIEWED against the backdrop of the world situation, South Africa could be the 'miracle country' of the eighties, says Mr D N Marvin, managing director of the giant chemical company, AECI.

'If the gold price is maintained at current levels and reflects world inflation rates, the economic fundamentals here are very favourable,' he said in an interview.

Mr Marvin was in Cape Town to open the new premises of AECI Paints Cape in Bellville South.

He said: 'South Africa should be independent of imported energy by the end of the decade or the end of the century. We are currently nett energy exporters, with our vast mineral reserves.

'We have what many other countries, especially Western nations, do not have — a population whose consumer demands have still to be satisfied.

'One of the problems in the West is that they can depend only on replacement to generate demand. With oil price rises and inflation, there has been a lowering of demand in the West and rising unemployment. Our scenario is different.

'We still have unsatisfied consumer demand. We now need to provide jobs for all South Africans so that people can have money in their pockets.

IMPORT POLICY

'We need to use our balance of payments surplus beneficially. We also have to have an enlightened import policy in order not to fritter away the surplus.

'And we must also not import unemployment by giving work to Taiwanese or people in other countries.'

Mr Marvin said that the new premises — which would provide employment for nearly 200 people — and other AECI ventures were a vote of confidence in the Western Cape.

'In today's environment of rising oil prices and high transportation costs, if you are away from the major area of consumption the type of products made should have a high added value.

'Lower value products will not bear the high cost of freight so that the Western Cape has to be selective in the industries it sets up. Textiles would be a good industry to expand further in this area.

'One has to identify those industries which lend themselves to the Western Cape, bearing in mind that the major consumer centres are in the *Transvaal*.'

INDUSTRIAL SHARES

No signs of vertigo

(49) FM 19|9|80

For 42 months, since March 1977, the JSE industrial market has been in a strong bull trend — a record in SA. Undeniably, the industrial market is now expensive with few 'bargains' left and little chance for paper millions to be made in the next six months.

Where is the market headed? There are enough differences from previous bull markets, which burnt many fingers possibly still smarting, to suggest today's market still has some steam left. Close to the top we may be, but there is unanimous consensus among professional analysts and fund managers that there is small chance of a severe crash such as those of May 1969 or April 1974.

Of course, professional investors are currently far more cautious and choosy than they were say two years ago and the novice, again making his presence felt, would do well to remember that the behaviour of fund managers is a recognisable caricature of the behaviour of the guinea fowl. As a rule, guinea fowl prefer to browse undisturbed, picking up what they like. If alerted, however, guinea fowl fly simultaneously in the same direction.

Just how fast the market can fall away is seen in the JSE actuaries industrial index which dropped from a monthly average of 390,8 in May 1969 to 339,9 in June and by December that year was 100 points lower at 280,5. Then, in March 1974, the market was again at a peak with the JSE industrial average at 265; by September it had dropped 37% to 167,7.

So, while today's market may look expensive after the 262% gain in the industrial index over the past 42 months to last Friday's 641,9, the market in terms of current earnings multiples, dividend yields and prospective yields remains rationally priced.

Ruling dividend and earnings yield averages are 4,4% and 11,2%. This compares with 2,5% and 5% in 1969 and 4,1% and 8,3% in 1973, the crash coming early in 1974. Inflation, running at about 13%, means, at first glance, that the current market is expensive.

Economic growth capacity

But the big difference between today's market and previous peaks is the country's capacity for further economic growth. Apart from the anticipated bottleneck problems the economy still has everything going for it. While gold plays the major part in this, there have also been fundamental structural changes in the economy which point to an entirely new industrial growth base: import replacement has spawned new industries; export markets have been established and remain viable; labour attitude changes have, admittedly sometimes cosmetically, eased potential manpower bottlenecks; per capita purchasing power has increased over the past decade and is now based on a wider racial spread.

A sign from the floor . . . but is it right?

Though industrialists are in the investment phase of the business cycle, money remains relatively cheap, retentions have been built up and financial policy has become more sophisticated in taking into account the real cost of asset replacement. Dividend growth is thus likely to continue, with many analysts looking for an average 25% increase over the next year. This makes the market worth staying in, given a 13%-14% inflation rate.

Undoubtedly the best profit increases have already been seen. Investors have possibly come to expect over 50% profit increases as the norm but the more experienced analysts and managers remain quite content with profit growth of 25%.

Solid support for the market can be found, analysts say, in the high gold price, concomitant liquidity and balance of payments surpluses, sound economic management by government, excess capacity in industry which only now is looking fully utilised in some sectors, and, finally, the continuing prohibition on investment outside SA.

Much, of course, still depends on the gold price. An average in 1981 of anything above $700 an ounce and the market will be given a new lease on life. Resulting liquidity would keep rates down, despite money-growth control, and the balance of payments would remain strong enough to pay for the importation of the equipment needed to start a whole new round of economic growth.

Second-liners now

Institutions have been fully invested for the run of the bull market and blue chip stocks are considered fully priced. What is now attracting fund money is the "special situation": second-line companies with the potential to become the blue-chips of the future.

And the strength of institutional buying in the past three years was strong enough to absorb much of the overseas selling of industrials. Apart from old favourites such as Barlows, SA Breweries, AECI, Sentrachem and, more recently Sasol, foreign investment is currently concentrated in mining, particularly golds. As a result, the financial rand (FR) discount thus offers no indication of foreign attitudes to investment in industrials. In any case, yields on golds, combined with the FR discount, give a return no industrial can hope to match.

One development which could impact on industrials in the next decade is the increasing acceptance by traditionally staid and low-risk seeking institutional funds, of investment in gold shares. Performance in this sector has been such that no self-respecting fund manager can continue to ignore it. On top of this, gold's sustained rise has impressed even the non-believers and it takes considerable skill to talk gold down below $500.

Institutional cash flow remains strong and is projected to increase in the next year. Reasons are increased employment, higher salaries and pending legislation which would prevent the withdrawal before retirement of pension money. Expectations are that rates, at the long-end, will not move up more than another 2 percentage points, although an anomaly exists in expectations on the short-end, where rates could rise faster. The very reason for this is the expectation of a rise in long-term rates. Fund cash flows will thus continue to go into industrials where the yield

Lower standards and increase jobs — prof

(49) ROM 19/9/80

By CHRIS FREIMOND
Southern Africa Bureau

DURBAN. — A system of dual standards in law providing for lower requirements in certain areas could increase opportunities and provide more employment in the small-scale and informal business sectors.

That was said yesterday by Professor Gavin Maasdorp, associate professor of the Economic Research Unit at Natal University.

Speaking at the "Work For The Future" conference in Durban, he said one of the ways Government could increase the welfare of the population was to expand the range of choices open to individuals and allow a wider range of standards to co-exist alongside one another.

"We cannot afford to be overly fastidious in a complex society with wide differences in cultural traditions, social mores and incomes," he said.

Examples of areas where lower standards could apply were in public transport operations, where few black entrepeneurs at present could afford buses which met stringent Government standards, housing, health and the retailing of foodstuffs.

Another speaker, Professor Wallace van Zyl of the Department of Urban and Regional Planning at the Univerity of the Free State, said it was difficult in South Africa to comply with the standards of the Slums Act yet build low-cost housing within people's means.

"Standard building plans and regulations on a national basis can hinder the informal housing effort since no consideration is given to local labour, climate and materials. Thus a greater variety and choice of housing types and building methods may be lost," he said.

The fact that so many "squatters" and owner-builders did so much better for themselves than even "well-intentioned" Government agencies or private organisations could do, was the most pursuasive argument for increased autonomy in housing.

A low-cost housing programme should include the allocation of sites on a freehold basis with title issued to individual home owners.

This system would act as an incentive for the families to make home improvements and extensions in the future, Prof Van Zyl said.

The KwaZulu Minister of Agriculture, Chief L G Dlamini, told the conference that he had come to the conclusion that small-scale agriculture could be a means of not only creating meaningful employment for black South Africans, but also the stimulus for the establishment of many other industries and the creation of further employment, provided that far more was invested in all the aspects of agriculture, "from the soil to the market."

He emphasized the need for training and capital expenditure to develop small-scale farming in KwaZulu and called for greater assistance from both the government and private enterprise.

In a paper on employment in agriculture, two of the country's top farmers, Mr A J Ardington, chairman of the South African Cane Growers Association, and Mr Anthony Rhys-Evans, a Free State maize farmer, called for greater incentives for farmers to supply housing, medical and social services for farm workers.

They also called for a review of the agricultural taxation structure to prevent the growth of farms to uneconomical sizes.

Horwood warns on wage demands

(49) Rom 19/9/80

By GERALD REILLY
Pretoria Bureau

THE Minister of Finance, Senator Horwood, warned in Pretoria last night that excessive wage increases would seriously aggrvate inflation, and undermine the economy's growth and health.

He said at the annual dinner of the Pretoria branch of the Economic Society of South Africa that the high growth rate was desirable, and he had no intention of curbing it.

The main policy emphasis, however, would now fall on preventing the development of excessive demand inflation.

There was evidence that the "growth from strength" policy had attained its major objectives.

"The economy is freed from the chains of 'taxation through inflation' and a swifter continued increase in economic activity is assured."

The limitation in State spending with the rise in the gold price and other favourable economic developments had led to the present extraordinarily strong position of the South African economy.

Senator Horwood said tax receipts for the current financial year would almost certainly be higher and the "deficit before borrowing" lower than estimated in the Budget.

The net effect of the Treasury's financial operations on the money supply would, therefore, be strongly negative.

Far from creating money, the Treasury would be "destroying" money, partially offsetting the likely expansionary effects on the money supply of rising bank credit to the private sector, and further increases in the net gold and other foreign reserves.

Therefore, he was determined to keep a tight rein on Government spending to assist in curbing the rate of increase of the broad money supply.

Present financial policy could not be judged to be inflationary or overexpansionary. On the contrary, the built-in stabilising factors in the Budget were having a restrictive effect on economic activity, moderating the expansionary effects of rising investment and consumptionsin the private sector.

"The criticism, therefore, that the Government is placing too much emphasis on growth, and not enough on inflation, is totally without foundation."

He was entirely satisfied with all aspects of economic policy.

However, the increase of about 21% in the money supply in the year to the end of June — against an annual inflation rate of 14% — was excessive and had to be reduced substantially.

South Africa had to contend with "bottleneck inflation" caused by a shortage of skilled labour and management skills. This had led to abnormally big inflationary increases in certain wages and salaries.

It was the Government's view that the real remedy for this sort of inflation did not lie in engineering a recession, but in removing the bottlenecks through training and immigration.

He warned of the inflationary effects of excessive wage and salary increases. It was of the utmost importance that balance and perspective should be maintained when pay rises were considered in the public and private sectors.

From December 1970 to December 1979 the consumer-price index rose by an average of 10,8%. In this time the price of petrol rose by 34% in 1974 and by 65% in 1979.

In the same period the average earnings a worker of all race groups increased by 13,4% a year against the 10,8% a year increase in the consumer-price index.

Earnings of black workers rose by a relatively fast rate of 16,4% a year compared with 10,3% for whites, he said.

Upturn trims jobless numbers

49

RDM 21/9/80

By HAROLD FRIDJHON

THE economic upturn is making a small, but positive, dent in the phalanx of the unemployed and a big contribution to overall demand by increases in wages considerably in excess of the rate of inflation.

According to the latest official figures available, those to the end of May 1980, employment in industry, transport and communications rose in 12 months by 6,5% to a total of 2 934 526 and the monthly wage bill has increased by 25,6% to R994-million.

The employment of whites was 6,6% higher at 617 470, that of coloureds showed a positive upward move of 9,5% to 347 075. Asians recorded the largest percentage increase jumping by 20,9% to 100 465 but African employment increased sluggishly: it rose by only 5,2% — 93 171 — to 1 869 516.

The rate of increase in black employment is still unacceptably slow but it would seem that at this stage of the economic upturn, the rate of increase in black employment is dictated by the availability of skilled manpower.

Most black workers fall into the semi-skilled or unskilled categories and work for these people can only be found if there is skilled leadership available to supervise and train them.

The overall wages pattern is encouraging.

The mean white wage increased from R747 a month to R864 a month, a rise of about 16%. This means that white workers are keeping a step ahead of inflation which is running at a rate of about 14%.

The coloureds did well during the year to May.

Their wages rose from an average R201,80 a month to R247,50, an increase of 22,6% which is a marginal narrowing of the wage gap but not to any significant extent.

Indian wages were 16,4% higher, rising from R257,50 a monmth to R299,70 which still indicates considerable discrimination in employment practices.

Black wages improved by 20% over the year from a R153,70 average to R185,50.

Statistically this was a nudge forward towards closing the white/black gap but in real terms it leaves a wide area still to be bridged.

The average wage reveals the merest shadow of reality. Some blacks are earning wages far in excess of the average with many thousands still struggling at or below the breadline.

The biggest employers of black workers are in manufacturing industry and any meaningful reduction of black unemployment must come from this sector which is only now moving into a real expansionary phase.

Employment of blacks in industry rose from 707 200 at the end of May 1979 to 765 600 at the end of May 1980, an increase of 8,2%.

The mining industry took on an additional 24 293 blacks during the year, bringing total labour forces in mines and quarrying to 634 108, an increase of 3,9%.

By last May the construction industry had not yet got into its full stride. Its black labour force grew by only 1,9% to a total of 294 100.

But wage increases in the construction industry showed the best percentage improvement of the three industrial groups.

Average pay went up by 21,9% to R167,90 a month, compared with 19,4% in mining to R158,50 a month and 18,5% in industry to R210,30 a month.

Govt achieves economic aims, says Horwood

(497) RDM 21/9/80

DURBAN. — The Government's official economic policy was one of sustaining a high rate of real economic growth while at the same time preventing the development of demand inflation, the Minister of Finance, Senator Owen Horwood said yesterday.

Speaking at the congress of the National Party in Natal, of which he is the leader, Sen Horwood said the main objectives of the previous two phases of economic policy followed by the Government, had been achieved.

During the first phase, since 1975, the Government had applied restrictive fiscal and monetary policies to eliminate excess demand and to improve the balance of payments.

The success of these policies together with other favourable developments, had enabled the Government towards the latter part of 1977 to move into phase II, "in which we applied a policy of so-called growth with financial discipline.

"Phase III began with the budget of March 1979, when I announced that more emphasis would be placed on economic growth, but still with the retention of financial discipline.

"This new policy of 'growth from strength,' as it came to be known, was continued in the Budget in March this year. At the same time, I made it clear that this continued support for growth would be accompanied by the maintenance of strict financial discipline, as I saw no conflict between more rapid growth and continued financial discipline in the circumstances prevailing at that time.

"The key to the understanding of our policy in phases II and III lies in the recognition of the fact that the stretegy has consistently aimed at promoting more rapid economic growth in the private sector and that, to this end, a tight rein has been kept on Government spending.

"Indeed, South Africa must be one of the few countries in the world where there has been virtually no increase, in real terms, in Government spending during the past four years, and where there has consequently been a decline in the relative share of the country's real resources absorbed by the central Government," Sen Horwood said.

The essential point was that the Government had not attempted to stimulate the economy through increased Government spending, financed wholly or partially by bank credit.

It had promoted sound growth by encouraging private sector investment and consumption through tax and loan levy reductions, specifically designed to reduce the impact of so-called "fiscal drag," — the increase in the real tax burden on the community produced by the combination of inflation and a progressive tax system.

He added that the fiscal and monetary policies in phase III had not remained static but had been adjusted to the changing economic circumstances.

In his March Budget, he had foreseen that both the average gold price and growth rate would be higher than estimated for the purpose of that Budget. For the fiscal year 1980/81, tax receipts would therefore probably be higher and the "deficit before borrowing" lower than estimated in the Budget.

"In these circumstances I intend to proceed as planned by transferring substantial amounts to the stabilisation account," Sen Horwood said.

Referring to interest rates and prescribed investments, Senator Horwood said since the Governor of the Reserve Bank was due to present his annual address to the stockholders next week, it would not be desirable to comment at this stage on these matters.

"In passing I would point out that the expectation which apparently exists in certain circles that the prescribed investment requirements for insurance companies, pension funds and other financial institutions are to be abolished soon, is totally unfounded."

Sen Horwood was unanimously re-elected leader of the Natal National Party.

Members of the executive who were also re-elected are: Mr Pierre Cronje, MP for Port Natal (chairman); Mr Val Volker, MP for Klip River (deputy chairman); and Mrs E J Klopper (deputy chairman). — Sapa.

Stable forecast for SA in 1981

3/10/80

49

CAPE TOWN. — The Bureau for Economic Research at Stellenbosch University discussed "Prospects for 1981" yesterday, and concluded South Africa would continue to be involved in international tensions but that no major upheaval would occur.

The Bureau said this assumption implied the demand for precious metals would remain strong but would not increase from present levels.

Other global problems would continue to detract attention from South Africa, it said, with the result that no concerted international action against the country would occur.

It said these predictions did not mean that the existing pressure on SA would ease.

Rather, the status quo would be maintained or the situation only deteriorate so slightly that the country's economy would not be seriously harmed.

"The domestic situation will remain uncertain and strikes, boycotts and other incidents will, as during the first half of 1980, be part of our life.

"The Government will remain in control and, as at present, law and order will be maintained," the Bureau said.

It said the Government would move ahead in the fields of constitutional and labour relations but that this would not change present uncertainties and tensions during the forecast period. — Sapa

POST

Telephone 27 6081

6/10/80

Exploitation of black labour

THE way labour is used or rather abused in a capitalist economy such as ours, gives credence to parts of Marxist ideology about the system inevitably destroying itself.

We are of course not Marxist even in orientation, but we find it difficult to fathom the workings of a system which is so obviously riding the crest of a boom, treating its workers in such a scandalous fashion.

We have had occasion to do exposes in slave wages in some big business operations. It seems from reports filtering in that small businessmen are becoming just as mean as the big boys. Blacks, who form the majority of wage labourers, are exploited in a manner reminiscent only of the Industrial revolution in Britain.

Most of our pay scales are abysmally low, and the working conditions even worse. People have to work themselves to a standstill for miserable wages. Sometimes companies move workers from one plant to the other without the slightest bother the transport difficulties they are faced with even under normal conditions.

All the alienating features Marx spoke so eloquently about are in the system. Not only are you exploited by being over-worked and underpaid, but you are a piece of the machinery that does not have the slightest idea about the final product. You are also pushed around by some foreman or supervisor; you are sexually harassed if you are a woman; you have all the humiliation piled onto your head for somebody's eventual profiteering.

Capitalism also fuels racism. So the picture of labour conditions are grim in a country that is having an unprecedented economic boom.

These are some of the factors that explain the proliferation of work strikes and boycotts despite new labour regulations, which it is alleged, will be streamlining black labour conditions.

In the end these factors are economically counter-productive, and one wonders at the short-sightedness of South African businessmen.

HIDDEN RESERVES (49)

Formidable backup

FM 10|10|80

SA's total gold and foreign exchange reserves rose from R2 700m at August 31 1979 to R5 000m at the end of last month, with the gold content of those gross reserves climbing from R2 300m to R5 100m over the period, largely reflecting a rising gold price. But, besides this strength, the country also has a second line of potential reserves on which it could if necessary fall back.

SA could benefit, depending on future interest rate differentials, by a switching of trade finance back to foreign markets. For a considerable period, tailing off about six months ago, traders had switched their financing requirements from foreign to local sources as interest rates here dropped and the cost of finance abroad rocketed.

As this switching took place, and until the Reserve Bank widened the forward discounts to minimise the interest rates differentials, this foreign debt was repaid out of scarce foreign liquidity resources.

Some economists believe that almost all the short-term capital outflow at that time was attributable to this switching. According to the Reserve Bank's latest *Quarterly Bulletin*, for instance, net short-term capital outflows for the three months ended June 30 this year were R385m against R1 058m in the March quarter and R400m in the last quarter of 1979.

The amount which, it is believed, flowed out of the country during the period of this switching is generally estimated at between R2 000m and R3 000m.

If and when interest rate patterns change, to reflect a higher cost of capital in this country than overseas, it is possible that this sort of money could be expected to flow back.

Further hidden reserves exist in the balance of bullion still owing from earlier gold swaps. Estimates of the amount of gold still outstanding vary widely, but it seems likely that up to 4m ounces could stand to SA's credit when loans are repaid.

Hidden reserves

This gold, it seems, was used as collateral for loans in late 1977 and early 1978, when the average gold price was under $200 an ounce. The difference between that swap price and the current $700 an ounce regions could well be classified as a hidden reserve, and would total somewhere in excess of R1 500m.

Another aspect which should be considered is SA's current level of oil stockpiles, estimated variously at between 200m and 400m barrels. With oil prices currently running at over $30 a barrel on world markets, and without taking into account the premium which SA has long been paying on its oil purchases, this reserve could represent as much as R12 000m, which will not have to be taken out of foreign reserves in order to buy up fuel supplies in the future (see *FM* October 3).

A smaller backstop to be added in is SA's International Monetary Fund reserves. The first tranche of these reserves may be taken up almost automatically from the IMF and in SA's case amounts to 80m SDRs or around R75m. Further tranches totalling 340m SDRs or about R300m may be taken up under increasingly severe restrictions as balance of payments difficulties arise.

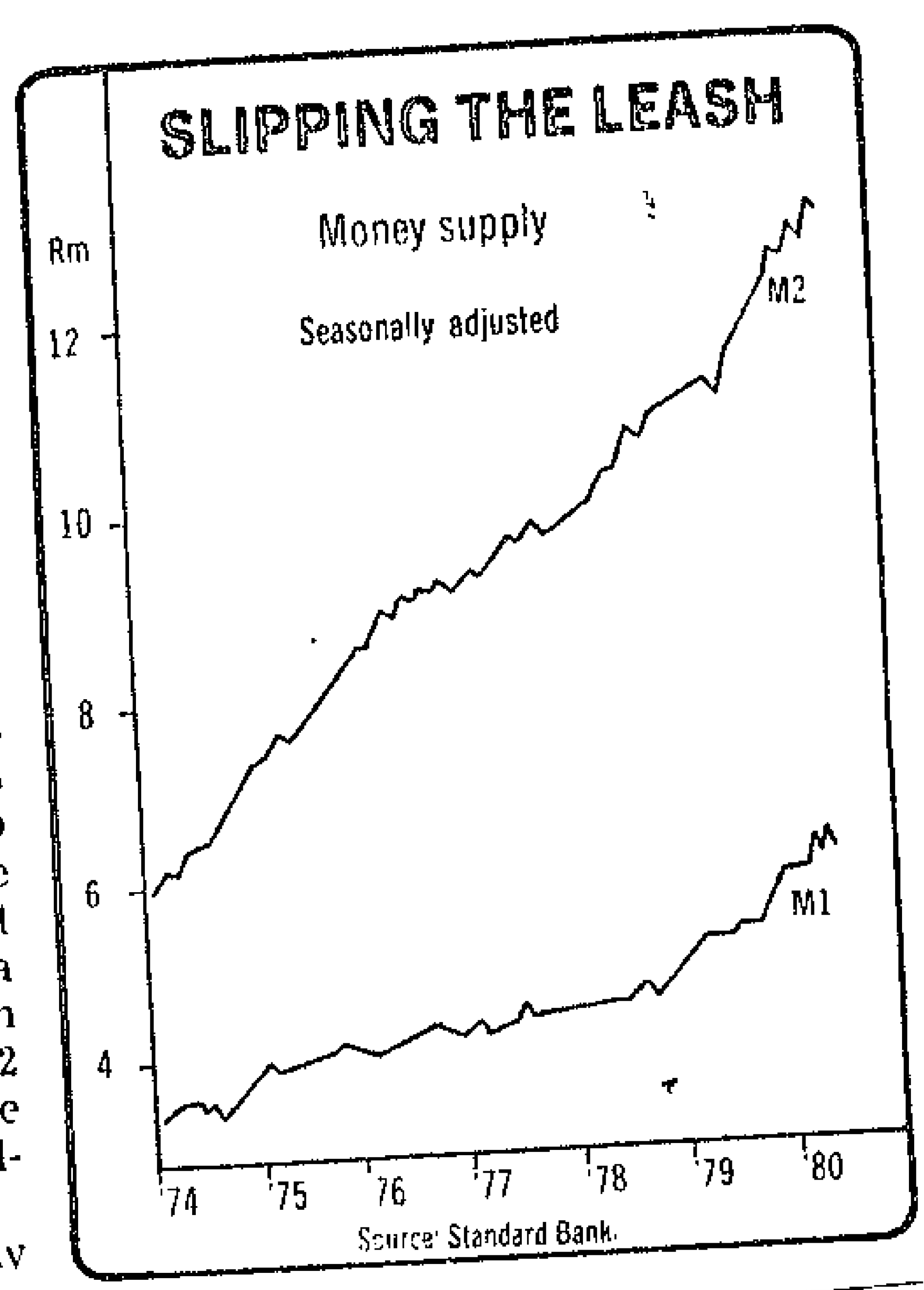
On top of these various estimates of back-up reserves, there is a further contingency, or, as one economist put it "potential liability," which could also be placed under the heading of hidden reserves. This lies in SA's enormous capacity to take up additional overseas finance. At the end of March this year, the central government's total foreign indebtedness was comfortably under R1 000m, while government-guaranteed long-term foreign debt ran at about 14% of gross domestic product. In terms of international finance, this proportion is particularly low and recent moves to increase the level of overseas debt hardly scratch the surface of the country's marketability.

MONEY SUPPLY FM 10/10/80

Bulging in the middle

The seasonal surge in government spending that characterises the opening months of each new fiscal year was the prime cause of an acceleration in the broadly-defined money supply (M2) in the second quarter. But this appears to be more a matter of coincidence than the desire to inflate monetary aggregates.

According to the latest Reserve Bank Quarterly Bulletin, the banking sector's net claims on the government increased by R700m during the three months to June, reversing the R900m decline in the first quarter. Together with a modest increase in private sector claims, and a movement of money out of long-term deposits (which are not included in the M2 aggregate), the broad money supply rose 17% in the second quarter, a slight acceleration on the first quarter.



Equally, the fact that M1 rose by only 16% in the second quarter, after a staggering 42% increase in the preceding six months, appears also to be more coincidence than design.

Short and medium-term repurchase agreements between the banks and non-banks, which are close substitutes for money, create yet another area where official control begins to take on a nominal status, at least in the short-term. Although these agreements play a convenience role that suits both parties, certain types are regarded by the authorities as devices enabling a bank to reduce its declarable liabilities at the month-end by selling assets on the understanding that they will be bought back on a certain date.

This had obvious advantages under the credit ceiling system, when the banks paid penalties for allowing their liabilities to exceed a stated level. They still enable banks to manipulate liabilities to minimise reserve requirements.

The inclusion of these buy-backs in the monetary aggregates generally increases them by about 10%. A directive issued in August by the Registrar of Financial Institutions, Wynand Louw, to ban the offending repurchase agreements is reported to have had little success and it is indicated that "stronger measures" might be considered.

Short and medium-term buy-backs (those longer than 24 hours) showed little increase at the end of the June quarter, and made no difference at all to the M2 aggregate. But this, according to the Reserve Bank, was due less to the banks' self-discipline than to the fact that companies probably wanted to keep them off their books at the end of the July-to-June financial year.

The reduced rate of growth in the private sector's contribution to the increase in money supply was also largely attributable to a statistical factor, rather than to a lower demand for credit. The restructuring of a lending portfolio within a certain banking group resulted in the substantial transfer of hire-purchase and leasing assets to a subsidiary not included in the defined banking system.

"When allowance is made for this development," adds the Reserve Bank, "sharply upward trends in the extension of hire-purchase credit and leasing finance by monetary banking institutions continued to be in evidence."

The movement out of long-term deposits reflects the increasing trend of investors to hold money in short-dated assets in expectation of a rise in long-term interest rates. This phenomenon has caused a virtual stagnation in the long-term capital market this year.

At the end of July, the excess liquidity ratio of the whole banking system was 6.8%, well above the historical average of between 2% and 4%. So the banks, limited only by the demand for credit, are well placed to continue lending. As this occurs, even the nominal control exercised by the authorities over money supply is likely to be subject to even greater pressures.

BALANCE OF PAYMENTS FM 10/10/80 (49)

Facing up to a deficit

Perhaps there is a natural tendency to assume that the present boom could be short-lived. After all, since the prolonged prosperity of the Sixties, the country has been through two recessions.

That, of itself, probably accounts for the delayed momentum of rising business activity during the present upswing. It had been in progress for two years before consumption began to gather pace.

Moreover, a trade deficit is increasingly being forecast next year by bank and university economists. And emphasis is being placed on how essential high gold earnings are to keeping the national accounts on the right side of the line.

The tacit assumption being made is that not only is an end to the boom in sight, but a recession could be in prospect. Indeed, one not so taciturn commentator has actually posed the question: "Remember the crash of '75, when the gold price halved?"

Implicit in that view is that what has been observed over the past 10 or so years — specifically two fairly short boom cycles — is being projected into the future.

But as Federal Reserve chief Paul Volcker said in 1978: "As we act on those assumptions and expectations — and as the memories of our earlier generation fade — we change the play of the game . . . new forces and conditions arise that sooner or later invalidate (our) assumptions . . ."

The underlying economic situation of SA is by no means identical to 1974. In fact, even if the price of gold halved tomorrow, it would still not be identical.

Rising consumption and investment is being fuelled now by private sector spending. State spending is in real terms almost negative, while the inflow of funds to the Exchequer is so great that large transfers to stabilisation account are taking place.

In 1974/75 state spending was budgeted to rise at more than 20%, there was very little private sector investment, tax receipts were nothing like they are now and gross gold and other foreign reserves were R908m (against more than R6 256m at present) plus substantial hidden or potential reserves (see *The Economy*).

If the gold price should fall dramatically over the next year or so, there is no heavy spending compulsion, as there was in 1974/75, for a government desperate for money to pump up the money supply.

Nor are there any of the tell-tale signs in the private sector that a significant downturn in the business cycle is evident. Usually just ahead of a recession there is evidence of growing confidence generated over a period of prosperity and, in consequence, increased risk exposure.

But at present, companies are not unduly reliant on debt, their liquidity ratios are not squeezed and capital ratios have not declined. There has been no excessive build-up of inventories as there was in 1974.

In fact, there has been remarkable restraint and conservatism during the two-and-a-half years of the present upswing in the business cycle. The time it took for private sector investment to rise over this period is an example.

There are, of course, some problem areas in the economy. One of the most important is the shortage of skilled labour.

Another general indicator that the current business cycle is not about to dip into oblivion comes from Professor Jan Lombard's Bureau for Economic Policy Analysis at Pretoria University.

In a special study for Mercabank in March this year, it identified a cycle of gold mining expansion in relation to expansion in the rest of the economy. In short, it found that a high contribution by gold mining to the GDP coincided with general expansion about 10 years later. If this cycle continues, a long period of general economic growth could be indicated for the Eighties.

Nor should the sharp rise in imports in recent months give rise to concern. It means that the proceeds of the boom are being transformed into more productive assets. Demand inflationary pressures are also, thereby, being avoided.

But equally important is the fact that as the trade surplus has deteriorated, so the capital account of the balance of payments has improved. There is still a net outflow of capital, but it is nothing like the record amounts of the early months of this year.

In short, there is little to suggest that the boom is about to disintegrate; that with a trade deficit could come an inexorable process towards recession beyond the control of policymakers.

In fact, what current trends indicate is that, having rediscovered the business cycle, Finance Minister Owen Horwood's policies have been adapted to it with consummate skill. When the downturn does eventually come, there is nothing in government financing arrangements that should exaggerate or prolong it.

Some regions lose out in the boom

RDM 13/10/80

(49)

ALTHOUGH improved demand conditions in the South African economy are sectorally well distributed, this does not apply regionally, according to Volkskas' Economic Spotlight.

"We are of the opinion that the relatively favourable agricultural harvests in the summer grain areas make matters look even better than they are in reality. Building plans of factory buildings in particular suggest furthermore that the regional imbalance that already exists can only increase unless the necessary steps are taken to change the situation to some extent.

"We therefore look forward to the expected improved stimulatory measures to promote economic activity in certain areas."

Official circles are holding out the prospect of a real growth rate of as high as 8% this year against the 7% foreseen in the April Spotlight.

"It also confirms our view, as set out in April this year, that the Budget stimulus was too extensive. However that may be, it cannot be denied that the economy is beginning to grow considerably above its present capacity, or that the inflationary consequences of this will harm healthy growth in the longer term seriously unless the tempo at which private consumption spending in particular is increasing becomes more moderate.

"In the meantime, the pressure on labour is increasing strongly and wages and salaries are rising at a pace that spells problems ahead for the economy."

Manufacturing industry has shown particularly strong growth. In the first six months of 1980 the increase in total volume of factory production was 10.1% up compared with the corresponding period last year.

The construction industry, particularly building, is experiencing favourable business conditions.

General trading conditions are favourable. In the retail trade, the value of sales in the first nine months of this year increased by about 22.8%.

The motor trade is doing exceptionally well, says Volkskas — Sapa

SA's BOOM HAS LONG WAY TO GO

(79) 16/10/80 Press

Financial Editor

TWO statements in the past 24 hours show that South Africa's lusty economic boom still has a long life ahead of it and may still be some way from its peak.

The first statement was by the Minister of Finance, Senator O P F Horwood, who took to task those economists who have been forecasting balance of payments problems next year.

Most businessmen accept that the only factor likely to force the authorities to take serious measures to curb the boom would be a balance of payments deficit.

Therefore economists who forecast a deficit in the first quarter of next year are in effect also forecasting at least a slow down and possibly even an end to the boom.

However, Senator Horwood said that at this stage he was still expecting the current account of the balance of payments to end next year in surplus.

Though imports would continue to rise next year the tempo of increase should slacken.

In addition he expected the gold price to continue to strengthen in the long-term.

From these remarks it seems that the Government is expecting no balance of payments problems for at least the next 12 months and therefore it will not be necessary to curb economic activity for this reason.

Senator Horwood could have added that the current balance of payments figures have been inflated by Sasol 2 and Sasol 3 imports. But imports for these projects should start dropping next year and, with Sasol 2 coming on stream, so should imports of oil.

INCREASE STOCKS

The second statement comes from Barclays National Bank. It reports in its latest business opinion survey that most businesses are planning to increase stocks in the next six months.

Almost all retailers said their stocks were adequate but 67 percent nevertheless plan to increase them, the bank found.

Similarly, 80 percent of wholesalers and 57 percent of manufacturers also said they were planning to increase inventories.

South Africa's factories are already hard-pressed to meet current demand. With their customers seeking even more goods from them the boom is still far from its peak.

van bedryfsvryheid te bevorder, verwelkom, bring dit
tog ook 'n bepaalde verantwoordelikheid mee in die
sin dat dit dissipline verg. Net soos u tereg van
die Regering verwag om dissipline toe te pas in sy
finansiële beleid, moet u in die private sektor ook
dissipline toepas indien ons die inflasie wat so be-
perkend inwerk op die ekonomiese prestasie, die hoof
wil bied.

en hierby sluit ek die owerhede in, dra daar
om die inflasie in stand te hou. Almal is w
waar nie primêr vir die probleem verantwoord
nie, maar deur die wyse waarop ons op prys-
testygings reageer en dit op andere probeer
dra ons daartoe by om die proses aan die gang

Ten tweede is daar skynbaar in sommige kringe
gevoel dat die owerhede òf niks daar aan
te bekamp nie òf ni
is ook nie waar nie
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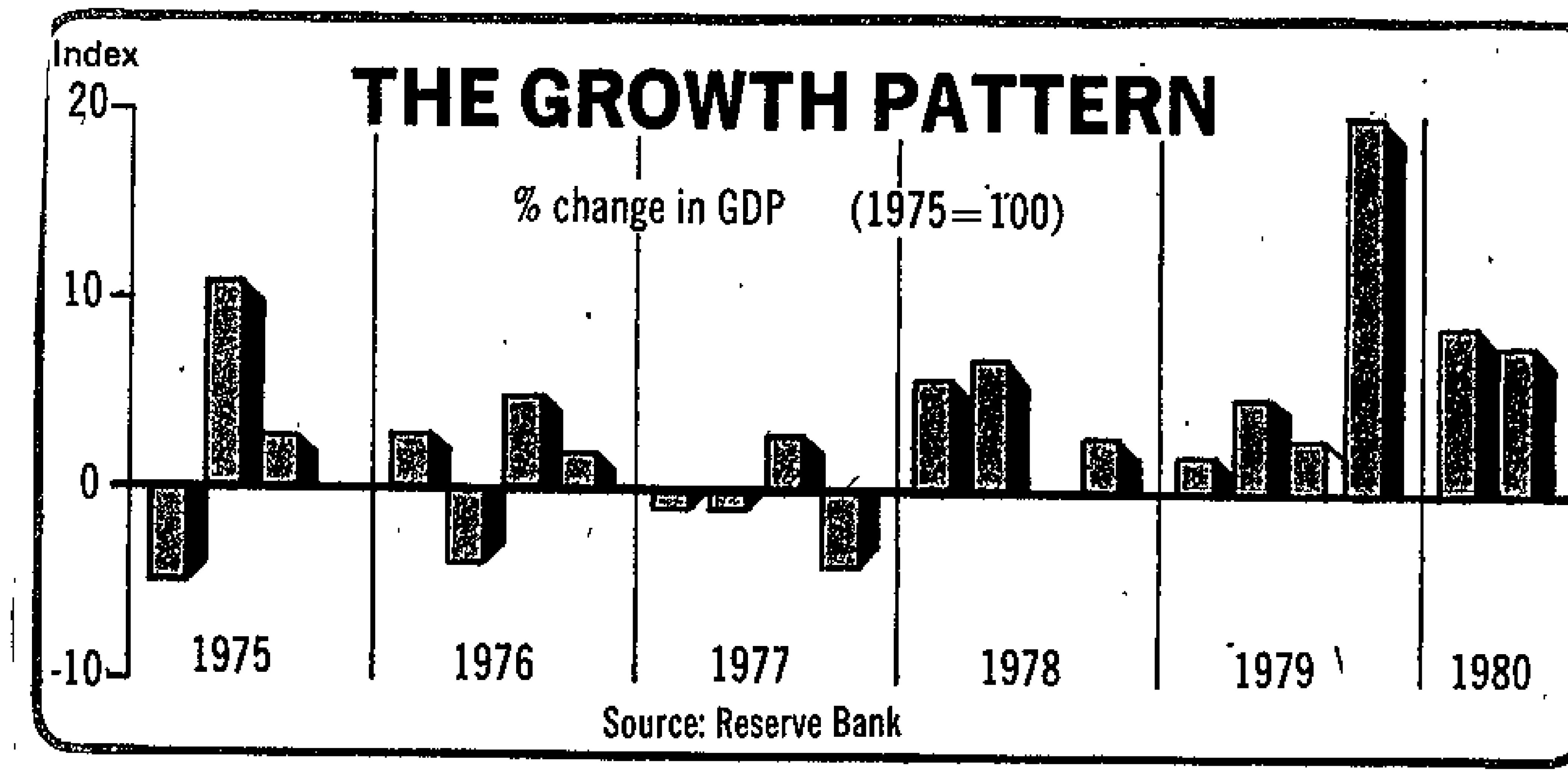
verklaring wat verl
Minister uitgereik
vergadering van die Ekonomiese Adviesraad, het hy
'n opsomming gegee van die vernaamste verwikkelinge
op hierdie terrein gedurende die afgelope tyd.

Intussen is dit belangrik dat elkeen hom sover
moontlik probeer vergewis van die moontlike uitwer-
king van sy dag tot dag besluit op die inflasie,



GDP 49

Spending spree

FM 17/10/80

The domestic economy is now growing at a sparkling annual rate of 8,2%, owing to acceleration in the second quarter, according to figures released by the Department of Statistics.

GDP increased 2% in the period April to June. This was partly due to a sharp improvement in the gross value added by the agricultural sector, which on second quarter performance shows an annualised growth rate of close to 20%. These figures are highly seasonal, however. According to Senbank economist Peet Strydom, they reflect crop maturities in the second quarter and probably include part of the winter harvest figures.

With the figures annualised and seasonally adjusted, agriculture is nevertheless showing a 23% real increase over last year. Other strong real growth sectors are commerce at an annual 19% and manufacturing at 12%.

Mining sector growth, however, dropped in the second quarter by nearly 2,5%. This is probably due, says Strydom, to the fact that the high gold price has resulted in the mining of lower grade ore and a consequent decline in the tonnage of gold output.

Real private consumption expenditure, seasonally adjusted, increased sharply in the second quarter to give an annual rate of nearly 11%. The largest rise was in semi-durable goods at 6%. Expenditure on durable goods, usually the most unstable factor in consumption levels, picked up after falling in the first quarter. This factor, which depends heavily on expectations and credit availability, forged ahead after the fiscal stimulation in the second half of 1979. The drop in the first quarter of 1980 is largely explicable in terms of pre-budgetary hesitation. It could have been encouraged also by a drop in disposable income arising from high financial commitment in the opening months of the year.

The second quarter figures mean that real expenditure on durable goods is now 22% higher than it was in June 1979. On the other hand, expenditure on non-durable goods (mainly food) is more closely related to permanent real income levels. At an annual 7% it is, therefore, nearer the overall growth rate.

According to the Department of Statistics: "The figures for the second quarter indicate a considerable real expansion in the expenditure on fixed capital assets." The overall second quarter increase was over 15%, with private sector investment growing by nearly 17% after a 6% decline in the first quarter. Public sector (mainly public corporation) investment expenditure rose by 14%.

The most impressive capital expenditure performance was in manufacturing which shows a growth rate of about 50% on last year, deflated from current prices. Government expenditure, on the other hand, declined by 10% over the same period.

A vital new look for SA's economy

CLEAR evidence of fundamental structural changes in the South African economy in recent years is seen by a study of the component parts of the current account of the balance of payments.

Among these changes are the facts that:

- The current account has moved to a far stronger underlying position than has been the historical norm.
- Given the difficulties in raising money overseas (except when the current account strength makes it partly redundant) that is probably a necessary condition for any sustainable economic upswing in South Africa.
- South Africa is now bound up even more with the general world economy than the traditional high involvement.
- Non-gold merchandise exports seem to have moved to a permanently higher base.
- Soaring oil costs have given a built-in upward twist to imports.
- Gold's volatility makes it difficult to say what its contribution will be from year to year, but it has certainly established a higher long-term contribution than seemed probable 10 years ago.

Howard Preece

Economic Spotlight

RDM 17/10/80

All figures are % of gross domestic product

	Exports (A)	Gold (B)	A+B	Imports (C)	Invisibles (D)	C+D
1967	13,9	8,1	22,0	20,4	3,5	23,9
1968	14,8	7,5	22,3	18,4	3,2	21,6
1969	12,9	7,4	20,3	18,7	3,7	22,4
1970	11,5	6,7	18,2	20,6	4,2	24,8
1971	11,2	6,6	17,8	21,1	3,9	25,0
1972	13,8	7,2	21,0	17,6	3,9	21,5
1973	12,6	8,9	21,5	17,8	3,8	21,6
1974	12,9	10,5	23,4	23,6	3,9	27,5
1975	13,3	9,3	22,6	24,6	4,6	29,2
1976	15,7	7,5	23,2	23,9	4,7	28,6
1977	18,0	8,0	26,0	19,7	5,1	24,8
1978	18,5	9,6	28,1	20,0	4,9	24,9
1979	18,4	12,5	30,9	20,2	4,5	24,7
1980*	17,2	17,2	34,6	24,1	4,6	28,9

* Estimates

In the accompanying table I have calculated the items making up the current account of the balance of payments as a percentage of gross domestic product.

These are merchandise exports (A) and gold sales (B) on the one hand and imports (C) and the net deficit on "invisibles" (D) — dividends, shipping, insurance etc — on the other.

For 1967-79 the figures are based on Reserve Bank quarterly bulletins. For 1980 they are my estimates.

In a major address this week, Dr Gerhard de Kock, the Governor-elect of the Reserve Bank, argued that major changes were now implicit in South Africa's business cycle.

The critical point was that there had been a major shift in the role of the current account of the BoP.

Dr De Kock said: "As a result not only of the higher plateau around which the gold price currently fluctuates but also of the stronger demand for many of South Africa's other exports, the (cyclical economic) upswing can now proceed further in time or intensity before the accompanying rise in imports brings about an actual deficit in the current account of the balance of payments.

"Formerly, from 1946 to 1976, the current account on average showed an annual deficit equal to about 3% of gross domestic product and surpluses were attained only rarely and then only in severe recessions.

"Now the pattern seems to be that the current account tends on average to show a moderate surplus which becomes larger in domestic recessions and is transformed into an actual deficit only fairly late in the upswing — that is, around the upper turning point of the business cycle."

Dr De Kock said: "In other words, provided certain supply conditions are fulfilled, the South African economy can now afford stronger upswings and higher growth rates before deficits on the current account become large enough to bring about either a significant downward float of the rand or a marked decline in the gold and other foreign reserves."

The table brings out the argument. From 1967 to 1975 non-gold exports averaged around 13% of GDP.

In the past five years the average has been over 17,6%.

Imports have been boosted by oil — around 24% of GDP in peak periods after the 1973 take-off in oil prices against a previously usual 20%-21% peak.

This means overall, however, that unless there is a dramatic slump in the gold price along 1975-76 lines, a completely new strength has been given to the current account.

But when one sees that all the current account items are equivalent nowadays to a minimum 50% of GDP and maybe over 60% in exceptional years against 42% to 45% for 1967-73 the South African dependence on external financial relations and events is evident.

There is also one critical factor that Dr De Kock did not touch on.

This is, surely, that South Africa is in fact obliged to operate a very different current account strategy than used to be the case — that is, when there was an average deficit equal to 3% of GDP.

We can no longer count on being able to finance such deficits with capital inflows.

The structural change in our current position is, therefore, necessary.

We will have to depend heavily on export-led impetus for our economic growth.

Any curbing of total exports, gold and all, as in 1975 will certainly put a damper on growth.

Meanwhile, however, South Africa will normally be aiming for a current surplus.

But I doubt that the authorities will then opt for long-term capital exporting.

They will rather allow immediate escape valves — such as letting banks hold larger short-term positions overseas — to ease liquidity pressures within the domestic economy while ensuring that funds can readily be repatriated whenever the current account requires it.

BANK RATE

The end of the road?

(49) FM 17|10|80

Bankers were left in no doubt this week that when the new Governor of the Reserve Bank, Dr Gerhard de Kock, takes over in January, one of his first policy measures is likely to be the abolition of Bank rate (BR) and its replacement with a more market related minimum lending rate (MLR).

The relaxation of exchange controls, which are bottling up excessive liquidity in the economy, is also likely, but could be politically more difficult.

This was the clear message, they believe, from De Kock's address this week to the Economic Society in which he analysed the changing characteristics of the SA business cycle.

He made the point that unless appropriate new monetary policies were applied, these new characteristics could greatly increase the threat of inflation.

Governor De Kock . . . tackling enormous disintermediation

Among the policy changes he spelled out was the need to "allow all interest rates to be market-related at all times."

"All measures or practices which directly or indirectly serve to keep interest rates below their natural market-related levels, or which militate against the development of proper financial markets, will therefore have to be substantially modified if not abolished altogether," he said.

He stressed that as "part and parcel of such a more market-orientated strategy, serious consideration will have to be given to further relaxations of exchange control and to steps to accelerate the development of active and competitive markets for spot and forward exchange in which the rand can find realistic levels . . ."

Among the new characteristics of the business cycle which he outlined as containing a dangerous inflation threat were:

1. Excess liquidity in the banking sector and rate of increase of the money supply as a result of the trade surplus.
2. The consequent decline in domestic interest rates.
3. Related distortions in the domestic interest rate structure, including an abnormally wide margin between BR and prime overdraft rate, on the one hand, and other money market rates on the other. This had led to excessive lending and borrowing outside the banking system — known as disintermediation.

BR used to be the rate at which the central bank gave last resort assistance to the banks. But it has long since ceased to fulfil that function. This was because of the Reserve Bank's reluctance to adjust it either to a high domestic interest rate pattern or to a low one.

This meant that when interest rates were high — and BR artificially low — the penalty for last resort assistance had to be at a margin above Bank rate. Similarly, with BR too high in relation to other money market rates, this type of assistance has had to take other forms — such as buyback deals on Treasury bills with the discount houses.

The only function of BR in recent years has been an agreement among commercial banks that they would link their overdraft lending rates to it. The authorities' failure to adjust BR in recent years to low interest market rates has meant that banks could borrow very cheaply and lend at much higher rates.

Had it not been for excessively high liquid asset requirements, the banks would have theoretically been in a position to make huge profits from such a wide margin. But such wide margins also encouraged disintermediation which, in turn, reduced demand for traditional bank facilities such as overdrafts.

There is no rational explanation for the Reserve Bank's reluctance to adjust BR over the years to market trends. It was simply part of the philosophy of direct controls — such as a quantitative bank lending ceiling and exchange controls — which have a dismal record of only very partial success.

A minimum lending rate (MLR), which is what the banks would be charged for last resort assistance if it be introduced, is usually linked automatically to a key money market rate, such as the Treasury bill rate averaged over a three month period or so.

Dr De Kock made the point, too, that in the months ahead liquid asset ratios and cash reserve requirements would not be sufficient to counter an inflationary potential. This was because the money supply in the hands of the public sector would, by that stage, already be large and that disintermediation would have an abnormally large impact on the velocity of circulation.

Government financing, and in particular the neutralisation of Exchequer balances in the stabilisation account, would therefore be a prerequisite for a successful anti-inflationary policy.

There is a clear implication in this that sales of long-term official securities will also have to become an important method of containing the money supply and this, in turn, suggests that long-term interest rates will most likely have to rise — to at least equal the rate of inflation.

PM gives boost to freeing of jobs

STAR 17/10/80

By Sieg Hannig
Labour Editor

Hopes for repeal of the Environment Planning Act's racial restrictions have received a boost from the Prime Minister's office.

The opinion that such a repeal "should not be put off any longer" was expressed at the latest meeting of the Prime Minister's Economic Advisory Council.

This was disclosed by the Prime Minister, Mr Botha, in a statement issued in Pretoria yesterday.

Mr Botha said the council was agreed that everything possible should be done to ease or eliminate physical limitations on economic growth.

The call for the repeal of Section 3 of the Environment Planning Act was made "particularly in view of the high utilisation of existing production capacity and the necessity for the private sector to increase production capacity."

"This step (the repeal) could also help to ease the continuing high unemployment figure in the cities," the Prime Minister said.

But he added that the council took note of "certain preconditions which have to be met before the section can be repealed."

On the immigration controversy, the Prime Minister pointed out that immigration could still help to ease bottlenecks resulting from the shortages of trained workers.

The Prime Minister also disclosed that the council singled out areas such as education and training, housing and community development as directions of preference in the event of increased Government expenditure.

Gerhard de Kock's prescription

49

What not to worry about

RDM 18/10/80

By HOWARD PREECE

A CHECK list of what NOT to worry about over the South African economy has been compiled by Dr Gerhard de Kock, Governor-designate of the Reserve Bank.

He says there should be genuine concern about the lack of skilled and semi-skilled manpower and about "inadequate control" over money supply, interest rates and aggregate demand.

But Dr De Kock says there are many other aspects of the economy — on stream now or in the pipeline — which might seem worrying to some analysts, but which are either welcome or inevitable or both.

These are:

●**The present high rate of growth in the economy, expected to be 7% in real terms this year.**

There are those, says Dr De Kock, who fear this is too high and has dangerous implications for inflation and the balance of payments.

Not at all, he says. "The present rate of real growth is cause for sober satisfaction and not for concern."

It is growth from strength, based on the private sector.

●**The high rate of growth of private consumption expenditure, perhaps 7% to 8% in real terms in 1980.**

Some say this is "dangerously high". No, says Dr De Kock. It should be viewed as a "welcome and essential part of the process of economic growth", a normal feature of the cyclical business upswing.

●**Big increases have taken place, and are taking place, in wages and salaries in most sectors of the labour market.**

Some commentators have "thrown up their hands in horror" and predicted 30% inflation rates.

"That is an unduly pessimistic view," says Dr De Kock.

"Of course, rising wages and salaries form part of the inflationary process and remuneration restraint is, therefore, a necessary part of any effective anti-inflationary action.

"But in an economy in which gross domestic product is rising at over 7% in real terms and well over 20% in money terms it would be both unreasonable and unrealistic to expect wage and salary rates to rise by no more than productivity.

"This would imply an enormous decline in the real remuneration of most people and in the relative share of wages and salaries in the total national income — and that in a year in which the economy as a whole is undoubtedly prosperous."

●**The exceptionally sharp rise in imports and the accompanying reduction in the current account surplus of the balance of payments.**

Yes, says Dr De Kock, imports will rise by possibly more than 40% this year and will keep racing ahead next year.

The surplus on the current account "is on a declining path and might well be transformed into a temporary deficit at some future stage".

But this, says Dr De Kock, is natural and desirable and not a cause for alarm.

What might appear to be a "deterioration" of the current account over 1980-81 "will, in fact, be a symptom of rapid real growth, prosperity and underlying economic strength in South Africa".

●**The large net outflow of capital shown in the balance of payments statistics.**

This does not mean, says Dr De Kock, that a current account surplus has to be maintained at all costs (even with lower growth and higher unemployment) as a permanent feature of the South African balance of payments.

The outflow comes from debt repayment and from trade finance switching which would naturally be reversed by any future tightening of South Africa's financial situation.

A major turnaround in the current account situation would automatically be compensated by a change on capital account through rising interest rates in South Africa.

(COMMENT: I think there has been a change in South Africa's capital account fortunes for political reasons that do make it hazardous to run large, sustained current account deficits of a type that would otherwise be perfectly reasonable for a rich, developing economy like ours. Trade finance, credits and short-term borrowings for reserves purposes are one thing. Long-term investment capital is another.)

●**Possible fluctuations in the commercial rand rate of exchange.**

The view has been expressed, says Dr De Kock, that the rand would first appreciate too much and then fall sharply and that this would somehow damage the economy.

He says: "I see no need for concern. Under the present system of managed floating it would be entirely normal for the commercial rand to appreciate in certain circumstances, as it has been doing, and then in a different stage of the business cycle to show a temporary downward tendency before resuming an upward course again."

●**A decline in the rate of real growth in 1981.**

Of course, it will be lower next year, says Dr De Kock. But the point is that "the economy will continue to expand and the general standard of living will rise to record new levels".

●**The inevitable cyclical downswing which must in due course follow the present upswing.**

Yes, says Dr De Kock, the business cycle will continue — and there is no cause for worry. It is how the system works.

"The next downswing in the economy should, according to all present indications, be relatively mild and of short duration.

"In all probability it will then be followed by a new cyclical upswing which will take the economy to new heights and result in a relatively high rate of growth of gross domestic product once again."

●**A general tightening of the domestic financial situation accompanied by higher interest rates.**

It will happen, says Dr De Kock, but the gold and export boom may mean that in future it comes later in the economic upswing than used to be the case.

"When this does happen it should be accepted as a normal and desirable phenomenon and not as an unexpected setback or cause for concern."

●**A downward tendency in share prices and real estate values.**

Dr De Kock says: "Because of the changed circumstances it is possible that the downturn in share prices will in future occur at a later stage of the (economic) cycle.

"But it can be assumed that at some stage there must inevitably be a downward adjustment on the stock exchange and in real estate values.

"When this happens it should be recognised for what it is, namely a normal cyclical phenomenen which will no doubt be followed in due course by the next strong upward movement.

"That is simply the way the system works."

BER's restrained view of economy

RDM 24/10/80

By HAROLD FRIDJHON

A NEUTRAL Budget next year with a more cautious approach by the authorities is forecast in the Opinion Survey Report issued by the Stellenbosch University's Bureau for Economic Research.

The reason given by Dr O D J Stuart, who compiled the report, for this restrained view is that some sectors of the economy are showing signs of overheating which will probably accelerate in 1981.

Bottlenecks will be more serious, especially in the secondary sector which is suffering from labour problems, with a shortage of raw materials and inadequate productive capacity.

Because of these bottlenecks, Dr Stuart considers that next year's growth is unlikely to match this year's, but he forecasts a growth rate of about 5% for 1981.

The survey results show there has been a deterioration in the business mood in the manufacturing sector, but retailers are expecting a buoyant fourth quarter.

Dr Stuart says the slight deterioration in business mood apparently developed because of a slight drop in the volume of sales and production during the third quarter. Respondents to the survey expect that a downturn is likely to contiunue for the rest of the year.

Compared with the last survey, fewer respondents reported increases in the value of orders received and fewer expected the value of orders to be bigger in the fourth quarter.

This apparent levelling off in activity has led to a slight accumulation of stocks of raw materials as well as finished goods.

It is possible, says Dr Stuart, that the signs of activity in the manufacturing sector becoming less vigorous result from labour shortages.

In the wholesale trade the opinion is that business is levelling off after a reasonable third quarter.

Conditions in the retail trade were satisfactory in the third quarter, but some retailers have doubts about a continuation of this trend in the fourth quarter.

Reasons for the decline in optimism about prospect are difficult to trace, says Dr Stuart. The stocks/demand ratio is too high in spite of the view that demand will remain keen. Another factor could be the increase in costs, and higher average selling prices a unit could be detrimental to profits.

Motor traders are very optimistic because of low stocks and keen demand.

"As result of the buoyant conditions in the motor industry, traders have employed more people. This has pushed up their costs. Dealers have also had to pay more for new vehicles, used vehicles and spares.

"It would thus appear as if selling prices in this sector are bound to increase fairly sharply because it is expected that most will pass on their costs to the consumer," writes Dr Stuart.

ECONOMIC POLICY 49

Battle lines FM 24/10/80

Velocity — the speed at which money circulates through the economy — has become the basis of a dispute between *FM* readers which attempts to rest ideological conclusions on economic assumptions, and thereby calls into question the claim of economics to be a "value-free" science.

The given stock of money in the economy, measured in terms of notes, coins and short-term bank deposits, passes through a number of hands in the course of a single year. The speed at which it moves is a function of several determinants. A monetary policy that restricts the rate of increase in the stock will usually result in a rising velocity, as people attempt to maintain the same volume of transactions with less money. Rising interest rates are a likely consequence of both a falling supply of money and an incentive to circulate it faster, since keeping cash in hand when you could be lending it at a high interest rate incurs an opportunity cost.

In the last ten years in SA, each rand has run around the economy between three and four times every year. More accurately, each rand has passed that number of times through the measuring device that eventually yields the figure called "nominal gdp", or alternatively, "the level of total expenditures." This speed of circulation, the velocity figure, is derived from dividing the nominal gdp by the quantity of money. It is based on Irving Fisher's famous quantity equation of money — MV equals PT — where PT is the nominal gdp, or the average price level multiplied by the volume of transactions.

There is no argument about this. The dispute has settled instead on the relative contributions of increases in the money stock, and in velocity, to the yearly increases in gdp.

Barclays' chief economist Johan Cloete argues that the percentage change in gdp in any year eventually reduces to the simple sum of the percentage change in the money stock added to the percentage change in velocity. So the contribution of velocity can be measured by subtracting the change in the money stock from the change in gdp. On this basis, Cloete concludes (*FM* 12 September) that velocity changes have contributed on average 74% to annual changes in gdp since 1971. The role played by changes in the money stock, he adds, is relatively small.

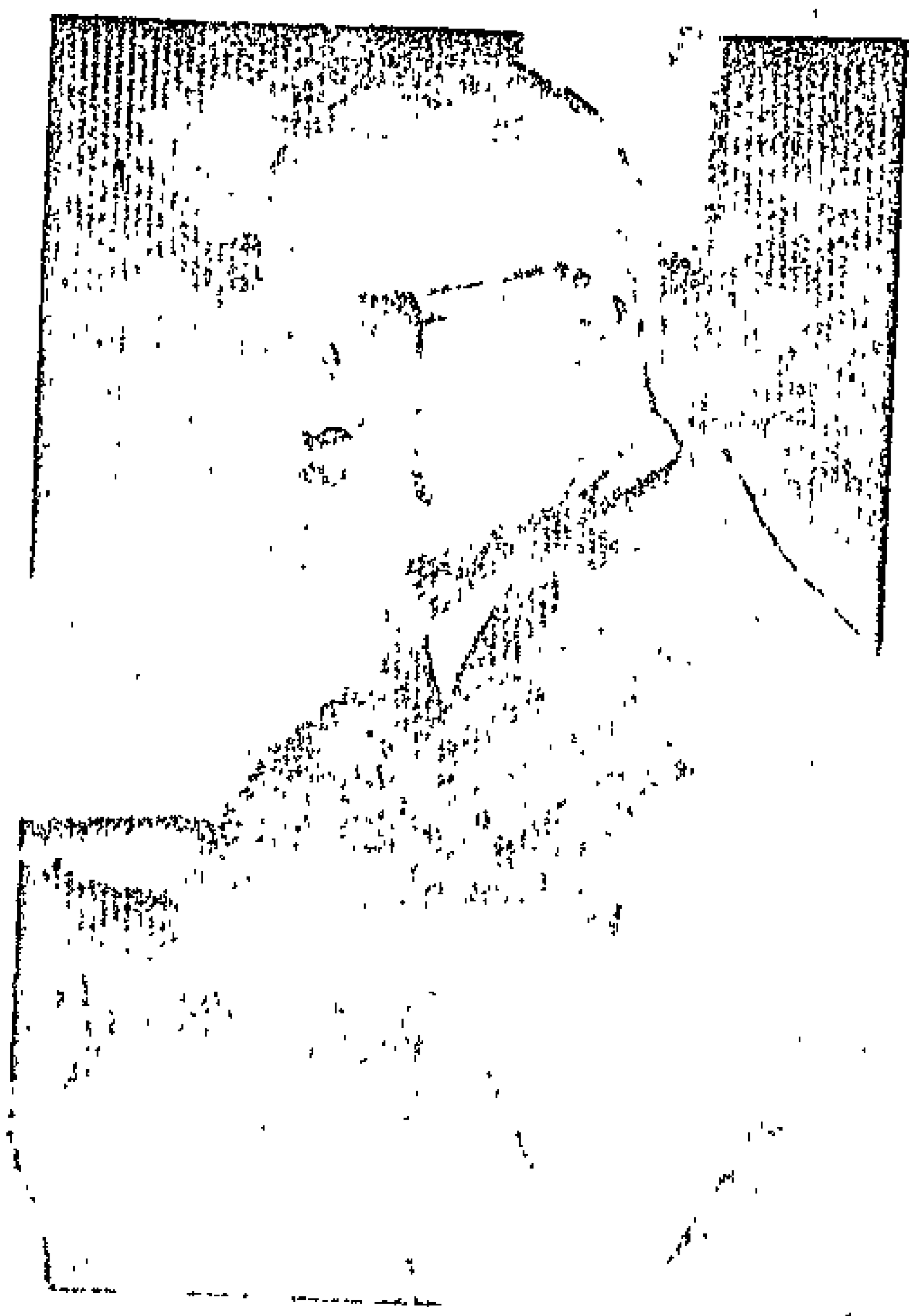
This theoretical preamble lays the basis for conclusions about monetary and fiscal policy. Cloete argues that velocity changes, the major contribution to changes in the level of total expenditures, which (importantly) incorporates the price level, are the collective results of individual expenditure decisions made by businessmen and consumers on a day-today basis. As such, they are not readily susceptible to a monetary policy that seeks to control the supply of money alone. A tight money policy can be subverted by a rise in velocity. Business activity will proceed as before, people will continue to spend, aggregate demand will increase and prices will continue to rise.

Cloete maintains, therefore, that a more direct control over total expenditures, the PT side of the quantity equation and the side in which changes in V usually have their origin, can be achieved by fiscal policy. Fiscal policy will determine the extent to which government contributes to total expenditure. Through taxation, it will influence the spending patterns of people by affecting their disposable income.

Monetary policy, on the other hand, "must look mainly to the impact which interest rates exercise on economic activity generally or on prices." In drawing these conclusions, Cloete displays his Keynesian colours.

Enter at this point Jim Harris, a self-confessed amateur economist, who takes exception both to Cloete's arithmetic and to his policy conclusions. Isolating the contribution of money stock changes to changes in nominal gdp, argues Harris, is not merely a matter of subtracting the former from the latter. Or, more specifically, an extra rand created by enlarging M must be multiplied by the current average velocity to determine its probable effect on gdp. If the velocity is four, the extra rand actually enlarges the controllable money stock by R4. Bearing this in mind, that part of a change in gdp not accounted for by the change in M (R1x4) is attributable to velocity. And it will, of course, be a smaller entity — closer to 50%.

Barclays' Cloete . . . flying the Keynesian flag



Jim Harris . . . placing the blame on government

Cloete's approach, argues Harris, leads to the conclusion that "we put up the prices by charging more and asking for bigger wages, and we raise velocity by saving less, and we raise money supply by using more credit." This means, he continues, that government is absolved from blame, and raises the spectre of wage/price policies to control people sadly lacking in economic discipline.

The argument obviously extends to questions about the essential economic validity of the free market ideal, and the loosely-labelled monetarist/Keynesian argument about monetary versus fiscal policy. Other economists suggest that the question: "Who is to blame?" (primarily for inflation) is not a fruitful one, and that the boundary between government and the people is too blurred to serve as a useful point of distinction. But, insofar as it has bearing upon the future course of economic policy in this country, which affects all of us, it is a question that must be considered. Like all questions, however, that emanate from a science that is not entirely "value-free", it is one that will never be fully resolved.

EDP (49) FM 24/10/80

Greater prosperity

Many of the assumptions underlying the 1978-87 economic development programme's "most optimistic" scenario, predicting an average annual 5% growth rate over the 10-year period, appear to have been fulfilled by the events of the last three years.

The Prime Minster's economic adviser, Simon Brand, noted at the annual conference of the Institute for Credit Management last week that the 1978 EDP sketched out three scenarios, yielding growth rates that ranged from 3,6% to 5%.

The assumptions underlying all three included: an average annual growth rate of 4% and a wholesale inflation rate of 7% in the economies of SA's main trading partners; an annual 7% increase in the gold price from its 1978 level of $193; crude oil price increases adding an annual 0,5% to SA's import price index offset by domestic production of coal-based hydrocarbons; a 2,6% growth rate in the economically active population, including immigration; the same historical rate of improvement in manpower utilisation that prevailed in 1978; an average annual 3,5% growth in current government expenditure, and 1,5% in public capital expenditure; a money supply expansion just adequate to finance real GDP growth; no net capital inflow or outflow; and the assumption that market forces would determine the prices of goods and production factors.

The 5% growth scenario, said Brand, added to these basic assumptions others that included a flexible exchange rate, an export incentive policy that would raise the annual average growth rate of non-gold exports to 5,8%, public sector financial discipline allied with fiscal reforms, and a conservative monetary policy. It also projected an average inflation rate of nearly 8%.

Considering that this "best case" scenario is the only one that yields an unemployment rate below 17%, it is clearly the one to be aimed at. But, added Brand, many of its assumptions are turning out to be well-founded, and there are compensating factors for those that are not.

The 1980/81 Budget presented a package of tax reforms and the healthy flow of Exchequer revenue, backed up by public expenditure control, suggests that this is unlikely to be reversed next year. Exchange rate policy is more flexible than it was in 1978, and could become more so when the Reserve Bank governorship changes hands. A new export incentive programme has been announced, and money supply expansion, although erratic in the short-term, is considered to be "not completely out of line with the EDP assumptions".

Export projections

Against this, the recent economic performance of SA's main trading partners casts some doubt on the overall export projections, and crude oil price increases will probably add more than 0,5% to the average increase in the import price index.

On the other hand, the gold price has risen faster than the EDP assumed, and SA may well experience a net capital inflow in the next few years. As Brand pointed out, OPEC will probably pour about $120 000m in surplus funds into the international financial system in 1980, and SA is one of the few less developed countries in the world that still enjoys a high credit rating.

Added to this is the belief that the implementation of the recommendations of the Wiehahn and Riekert commissions will accelerate labour reform, reduce labour bottlenecks, and help bring the inflation rate closer to the 8% envisaged by the EDP.

With all this in mind, concluded Brand, a 5% average annual growth rate is still feasible.

Should all the assumptions hold, there may be reason to believe this. But the current crisis in basic education in SA suggests that the Wiehahn and Riekert reforms can have only short-term validity. And SA's excessive exposure to the international economy makes its growth projections peculiarly vulnerable to changes in assumptions regarding its trading partners. Finally, in an era of increasing political and monetary instability, the gold price represents a platform generally too slippery to support the average crystal ball.

Restrictions on blacks 'must go'

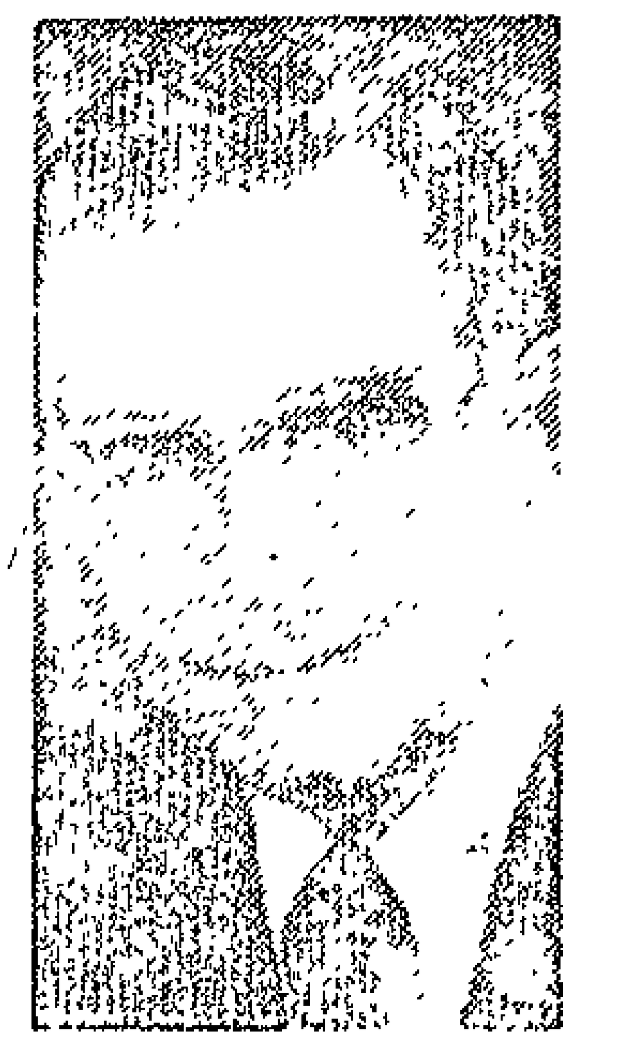
STAR 28/10/80 (216) (49)

Property Editor

DURBAN — The Government might be poised to take meaningful steps to end race discrimination. This was the message Mr Dennis Etheredge, former president of the Chamber of Mines, took to the congress of the Building Industries Federation (Bifsa) in Durban yesterday.

Mr Etheredge also challenged the private sector and the building industry in particular to strive for the ideal free market for whites and blacks.

"Leaders in business and elsewhere, tell us plainly that we are heading for disaster. It is time we listened and acted," he said.



MR DENNIS ETHEREDGE

SIGNIFICANT

Mr Etheredge called for an end to restrictions and controls which prevent blacks from participating equally with whites in the market.

"While there have been significant developments from the white point of view, blacks will tell you they cannot discern any advance from the position a few years ago.

UNDERSTAND

"I believe, however, there are now very hopeful signs that this government has almost prepared its plans and is ready to act," he said.

Mr Etheredge urged building leaders to examine wages and conditions of service. "Do not let us expect a black man who gets R200 a month in a semi-skilled job after 20 years' service and experience to understand why a white youngster straight from school is paid twice this amount in his first job."

There was also a need to take a new look at the capitalist philosophy which lay down that his first responsibility was to his customers and his shareholders.

NO WAY

"There is no way in which the free enterprise system can survive in southern Africa if the proprietors and managers of business adopt this purist approach," said Mr Etheredge.

"The face of capitalism is ugly enough in South Africa with its restrictive legislative framework and its white monopoly without making it more ugly by not using some shareholders' funds to contribute to educational, health and welfare needs.

Powerful sections of white labour wanted it, asked for it and welcomed it.

"Now, however, black workers have full access to the system, and I don't think it needs much in the way of common sense to realise that their newly attained power is going to be used, and used increasingly effectively."

The union leader had no doubt that black workers would use their new position to achieve not only better conditions of employment and wages but also new status.

"We must face the fact that massive and sectionalised unemployment is a major destabilising factor in any society," said Mr Beech.

To put it in a nutshell: let us bring everybody up, and properly up, not half way or three-quarter way up, and certainly no one down."

Risk of hardship for flat-dwellers

DURBAN — The Government had no intention of changing its policy aimed at final removal of rent control — even at the risk of hardship for some flat-dwellers.

This was underlined by the Deputy Minister of Finance, Mr Danie Steyn, in his opening address for the Bifsa congress yesterday.

NEW DEVELOPMENT

He left building industry leaders in no doubt that only a complete end to controlled rents could be the spark to new development in the private sector.

The State had in some instances provided rental accommodation, but this could not be a permanent solution.

The real solution lay in the phasing out of rent control so as to make it possible again for private investors in accommodation to obtain a realistic return on their investment.

This would entail a rise in flat rents in many instances which would lead to inconvenience and in some cases even hardship.

It was, however, a necessary price which would have to be paid if the role of the private sector in providing this kind of accommodation were to be revived.

"The purpose of this whole approach would be defeated if the State should on an increasing scale, put up accommodation for rent to people in certain income groups since this cannot but again discourage the sorely needed private investment in this field."

The Deputy Minister emphasised that any measures which would have the effect of inhibiting private investment in middle income accommodation, whether for rent or otherwise, must be avoided as far as possible.

The Deputy Minister also said plans were far advanced for the building societies to take over some of the outstanding investments of the National Housing Fund in black housing.

BLACK FINANCE

This, he said would set the relevant portion of the funds capital free for the financing of new low cost housing for blacks without increasing the over all pressure on the capacity of the building industry.

Alternative ways of meeting the enormous housing need, such as self-building and other self-help schemes, would also have to be explored intensively.

Estimates of the future demand for housing were truly staggering. One semi-official estimate puts it at some 170 000 dwelling units per year for urban blacks alone up to the year 2 000.

Mr Steyn also said [illegible] were necessary to dev[illegible] some of the re[illegible] the boom in private bu[illegible]ing activity, which w[illegible] going to an excessive extent into the more expensive types of housing, into lower cost housing.

INTEREST RATES

49

A slow ascent?

FM 31/10/80

The discount houses went into the bank for about R100m at the end of last week and short-term rates hardened on a combination of factors.

The weaker gold price, Reserve Bank open-market operations, domestic financing of international trade and large seasonal dividend payments to foreign shareholders all contributed to an outflow of liquidity from the market.

The tightening was formalised by an eight point rise in the Treasury bill rate at last Friday's tender, and a hardening in the official rate on prime 90-day acceptances to 4,95% from 4,85%. Longer rates, like those on six month NCDs, in some cases rose by more than 25 points.

Money market sources say there is no evidence of a real reluctance to purchase paper, but, that the crucial element of investor expectations is becoming apparent in the short-term market. Expectations of a rise in rates, fuelled by macro-economic conditions and top-level announcements, have steadily pushed up rates in the long-term market over the last few months. Now short-term investors, many of them potential long-term investors keeping their pots boiling, are apparently beginning to form harder expectations of a rise in money market rates.

The current tightening, exacerbated by the discount houses expecting to go about R300m short over the month-end, could signal the beginning of a sustained upward movement in short-term rates.

Long-term secondary capital market rates appear to be holding the levels they reached two weeks ago. On the primary market, the IDC is handling a R10m issue, which includes a 21-year tranche at 11,70% and a 10-year leg at 10,90%. The rate on the long-dated paper is regarded as extremely fine in view of the level of Escoms on the secondary market, and bearing in mind the recent Middelburg long-term stock which went at 12%. But the IDC has resurrected what used to be a fairly common practice. It is offering a further bundle of 21-year stock, issued in 1976 at 11,40%, but to be sold now at a discount to give an effective yield of 11,70%. Enabling as it does, a purchaser to realise a capital profit on his investment, this offer of discount stock could add an extra fillip to the issue.

The next major loan is Armscor's R50m issue, which comes to the market early next month, handled by UAL and Volkskas Merchant Bank.

The *FM* mistakenly reported last week that Senbank was handling a two-tranche loan for the Rand Water Board. In fact, Senbank and UAL successfully placed R8m for the Umgeni Water Board. The loan is for eight years and carries a rate of 10%.

R65-m shock for ratepayers in 1981

31/10/80 ARGUS (49)

Municipal Reporter

CAPE TOWN'S ratepayers must dig deep into their pockets next year to find about R65-million to keep the city going.

The rates, which have risen 300 percent in the last decade, will probably rise about 15 percent again next year — the 12th straight year that rates have gone up.

This year's total rates bill was R57-million and it is expected that next year's will be at least R65-million to balance the city's soaring budget.

The 20 percent rates rebate granted to householders at the expense of industrial and commercial ratepayers will probably disappear to absorb the expected rates increase.

On top of a rates increase water and electricity consumers must also pay 12,5 percent more for electricity and 8,5 percent more for water.

But, an R11-million contribution from the electricity account will prevent an even higher rates increase nest year.

According to the City Council's 1981 budget R13,5-million in rates will be absorbed by road building and maintenance and R12-million will be used just to keep the city clean.

Sewerage will take up about R9-million, looking after and developing the parks and forests another R9-million and the city's halls and civic buildings and property a further R9-million.

CONTROVERSIAL

Some of the council's most controversial expenses come under this heading with the Good Hope Centre costing R1,7-million and with an income of R130 000. The security for the building alone costs R137 000.

The giant Civic Centre complex will cost R4,2-million next year against expected income from the hire of some of its facilities of R11 150.

According to the budget. to look after the city's finances will take R6,1-million out of rates.

Apart from what citizens of Cape Town must pay in rates, they are also going to pay an estimated R2,2-million in traffic fines and will put R500 000 into parking metres. The Traffic Department will also absorb R3,2-million from rates.

the presentation, logic and selection of the type of fact of the writer.

In /...

There is a further point/...

EMBARGO: 20h00 on 6 November 1980
VRYSTELLING: 20h00 op 6 November 1980

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ADDRESS DELIVERED BY SENATOR THE HONOURABLE OWEN HORWOOD, MINISTER OF FINANCE, AT THE 25TH ANNIVERSARY DINNER OF UNION ACCEPTANCES LIMITED IN JOHANNESBURG ON 6 NOVEMBER 1980

It is indeed a pleasure and an honour for me to be here today on this auspicious occasion - the 25th Anniversary of Union Acceptances - and to extend my warmest congratulations on the attainment of this silver jubilee to UAL, to its Board of Directors and to all its shareholders.

Note time and date of STRICT EMBARGO

As the first/....

As the first merchant bank to be incorporated in South Africa, Union Acceptances laid the foundation for merchant banking in South Africa and played a vital role in the development of our own money market. Today merchant banking is one of the most important service industries in the private sector - a dynamic force which commands a wealth of knowledge and expertise, and which is continually extending its activities and services to provide in the growing needs of the national economy.

Men of vision have always played a notable role in South Africa's development. We were fortunate indeed to have had, in Sir Ernest Oppenheimer, such a man who, in the mid-fifties, foresaw the

change that would/....

little slow to adapt at times but, looking back, it seems al= most impossible to visualise what our financial system would have been like without the challenge posed by UAL and the other new merchant banks which followed in its footsteps. So it gives me great pleasure to thank Sidney Spiro, Alan Williams and the motivated young team they had with them during the late fifties and sixties, for their outstanding efforts in creating new facilities for commerce and industry and, in so doing, diversi= fying both the money and capital markets. The far-reaching and important changes that were wrought by their initiative have created conditions which enable us now to consider new approaches to the operation of policy which would not have been possible in

earlier times./....

earlier times. It is a mark of our sophistication and maturity that we have reached the point where we can look to the market as the touchstone of a new orientation.

Naturally, the support of an enlightened and understanding board of directors was essential for UAL's progress, especially in its developing years, and the bank was fortunate to have many out= standing, wise and experienced personalities to help guide its progress. After Sidney Spiro relinguished the chair in 1969, when he assumed new responsibilities in London, Harry Oppenheimer became chairman again for a short while before handing over to Maurice Rush, who negotiated the series of mergers which led to

UAL eventually/....

ing in die aard, struktuur en aktiwiteite van die bankwese wat in die loop van die vyftigerjare na vore begin kom het. Hierdie proses van verandering het dan ook in die sestiger=jare gelei tot 'n nuwe benadering in bankwetgewing en in monetêre beleid. En ons het tans 'n Kommissie van Ondersoek - die de Kock-kommissie - wat weer eens kyk of verdere aan=passings nie nodig geword het nie.

Daar is tans groter waardering vir die standpunt dat die ower=hede hul beheer oor die geldhoeveelheid, die beskikbaarheid van krediet en rentekoerse behoort uit te oefen op 'n wyse wat die minimum inmenging behels met die banke se vryheid van

optrede by die/....

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optrede by die bepaling van die samestelling van hul bates en laste, en van die voorwaardes waarop hulle fondse aantrek en krediet verskaf. Dit beteken dat die monetêre owerhede deur hul eie transaksies in die finansiële markte die banke sal beïnvloed eerder as om aan hulle voor te skryf. Ons het reeds tekens van hierdie nuwe benadering gesien toe die Suid-Afrikaanse Reserwebank vroeër vanjaar depositokoersbeheer afgeskaf het en vanaf 1 September 1980 ook die bankkrediet=plafonne laat vaar het.

Ook by die owerhede se toesighoudende funksie oor die bank=wese is daar tans 'n groter bewustheid van die perke aan wat

deur voorskrifte/....

bute to Mr. Louw and to thank him, on behalf of the Govern= ment, for the invaluable contribution he has made to the de= velopment and soundness of South Africa's financial system. In addition to being Registrar of Financial Institutions, Mr. Louw is at present a member of the Prime Minister's Econo= mic Advisory Council, the De Kock Commission, the Management Committee of the Stock Exchange, and the Competition Board, to mention just a few examples. At the same time he serves as Chairman of a number of important committees, including the Technical Committee on Banking and Building Society Legislation, the Advisory Committee on Long-Term Insurance and the Advisory Committee on Short-Term Insurance. He was also chairman of

the Commission/....

the Commission of Inquiry into the Long-Term Insurance Industry and a member of the Fouché Commission of Inquiry into Housing.

Mr. Louw's wide knowledge of banking and finance has been of inestimable value to me, to his colleagues in other departments and to his staff. His integrity, ability and dedication to the task at hand serve as a splendid example to others in the Public Service. I wish him and Mrs. Louw a well-earned, long and happy retirement.

Control of the/....

strong recovery in the South African economy, have been proven wrong. In an ailing world economy, South Africa is one of the few countries currently enjoying rapid growth and prosperity.

So far so good. One aspect of the present economic situation which does concern me greatly, however, is the threat of general demand inflation posed by the excessive rate of increase of the broad money supply. After rising by 12,6 per cent in 1978 and 13,3 per cent in 1979, the broad money supply (M2) increased during the first three quarters of 1980 at a seasonally adjusted annual rate of nearly 26 per cent. This rate of increase is more than double the broad guideline of 10 to 12 per cent which

I laid down/....

I laid down for 1980 earlier this year. Moreover, the season= ally adjusted annual rate of increase of M2 accelerated from 13,7 per cent in the first quarter of 1980 to 17,5 per cent in the second quarter and to no less than 48,6 per cent in the third quarter. One does not have to be a devout "monetarist" to appreciate that increases of this magnitude could have serious inflationary consequences.

This inability to exercise effective control over the money supply is particularly worrying in present circumstances. The very success of our growth policy has absorbed most of the surplus capacity in the economy and has highlighted the serious

shortages of/....

tortions have encouraged substantial borrowing and lending outside the banking system - the so-called "disintermediation" or "non-bank intermediation". Disturbing as they are, the money supply figures therefore do not even tell the whole story. Account also has to be taken of changes in the velocity of circulation of money.

These unsatisfactory features of the present monetary situation are not new or entirely unexpected. I already drew attention to them in some detail in my Budget Speech in March this year, and pointed out then that they needed attention.

What are the/....

What are the main reasons for the excessive rate of increase of the broad money supply? The difficulty clearly does not lie with the Treasury's financing operations. Let us consider the facts. During the three years ended March 1980, the net claims of the banking sector on the government sector declined by about R1 billion. In other words, the net contribution of the government sector to the creation of money during this three-year period was negative to the extent of about R1 billion. It is true that during the April-June quarter of 1980 the net claims of the banking sector on the government sector did increase by R1 099 million. But during the July-September quarter they de= creased again by R859 million. And during the present fiscal

year as a whole,/....

From all of this only one conclusion can be drawn: Far from being "inflationary", the Budget is having a marked stabilising effect on the economy. The elements of "built-in" or automatic stability to which I drew particular attention in my Budget Speech in March, are now very much in evidence. Moreover, as planned, I shall persist with a deliberate policy of borrowing in excess of the Treasury's requirements and transferring the proceeds to the Stabilisation Account, with a view to partially offsetting the expansionary monetary impact of other forces.

Why then, despite the disinflationary monetary impact of the Budget, is the money supply rising at an excessive rate? There are two main reasons: The first is the balance of payments

surplus as/....

surplus as reflected in the rising net foreign reserves of the banking system. And the second is an increase in bank credit to the private sector.

The figures for the third quarter of 1980 are particularly re= vealing. The seasonally adjusted annual rate of increase in the broad money supply (M2) of over 48 per cent during that period occurred despite the large negative effect exerted on the money supply by the government sector, and was mainly attri= butable to an increase in the net gold and other foreign reserves of no less than R1 158 million and an increase in bank credit to the private sector of R1 069 million.

The latter/....

And I have no doubt that, just as Union Acceptances rose to the occasion every time it had to overcome difficulties, the South African Treasury and Reserve Bank will succeed in meet= ing the challenges now facing them. It is our aim to devise and employ techniques of monetary policy which will be both effective and reconcilable with our basically free enterprise system.

Once again, my sincere and warm congratulations to UAL on its 25th Anniversary and on its splendid achievements in the in= terests of South Africa.

UITGEREIK DEUR DIE DEPARTEMENT VAN BUITELANDSE SAKE
EN INLIGTING OP VERSOEK VAN DIE MINISTERIE VAN FINANSIES

ISSUED BY THE DEPARTMENT OF FOREIGN AFFAIRS AND INFORMATION
AT THE REQUEST OF THE MINISTRY OF FINANCE

6 NOVEMBER 1980
PRETORIA

FM 7/11/80

(49)

NATIONAL FINANCE CORPORATION OF SA

ADDRESS DELIVERED BY THE CHAIRMAN, DR T W DE JONGH, AT THE THIRTY-FIRST ANNUAL GENERAL MEETING OF STOCKHOLDERS OF THE NATIONAL FINANCE CORPORATION OF SOUTH AFRICA, HELD IN PRETORIA ON 28 OCTOBER 1980

I have pleasure in formally presenting to you the Balance Sheet and Final Accounts of the Corporation for the year ended 30 June 1980, together with the Reports of the Board and Auditors, which will later be moved for adoption.

The changes during the past financial year in those assets and liabilities which deserve special attention, as well as in the income and expenditure items of the Corporation, are described in the Report of the Board of Directors which you have already received. In addition, a comprehensive survey of general economic developments was provided in the Reserve Bank's **Annual Economic Report**, which was released towards the end of August last year.

During the Corporation's past financial year which ended on 30 June 1980, economic activity accelerated considerably further to an exceptionally high level. The real gross domestic product increased by 6½ per cent and the real gross national product by 8 per cent. The accelerated growth was caused mainly by a sharp increase of 8 per cent in real gross domestic expenditure. The increased domestic demand originated mainly in an appreciable increase in private consumption expenditure and private fixed investment. Real private consumption expenditure on durable consumption goods, for example, increased by 20 per cent. The rapid increase in economic activity gave rise to several bottlenecks such as a shortage of skilled and semi-skilled labour and management personnel, and also of certain products. The labour shortages caused pressure on wages and aggravated the already serious inflation problem.

Merchandise imports rose sharply as a result of the increased domestic demand, while merchandise exports began to taper off. Due to a sharp increase in the gold price, however, there was no pressure on the gold and other foreign reserves until the end of the Corporation's financial year, notwithstanding a continued outflow of capital.

The quantity of money and near-money increased by 21 per cent during the review year, compared with an average annual increase of 7 per cent during the preceding three years. Bank credit to the private sector was allowed to rise by 17 per cent in order to finance the economic upswing in the private sector. The net claims of the banking sector on the government sector, however, also gave rise to an addition of R350 million to the quantity of money, whereas a lesser increase in the net gold and other foreign reserves made a smaller contribution than in the previous year.

In March 1980 the Reserve Bank began to move away from the ceiling method of credit control, and the supplementary cash reserve requirements for the banks were raised in conjunction with an increase in the ceilings. In August of this year further increases in the supplementary cash reserves were introduced, and the credit ceilings were abolished entirely.

The money market situation generally remained easy except for seasonal tightenings at certain month-ends, especially in those months when a bunching of tax payments occurs. Indications of the easier money market conditions during 1979/80 are that the average monthly amount of call money with the discount houses amounted to R1 032 million compared with R807 million in 1978/79, and that the free balances of the banks with the National Finance Corporation averaged R173 million as against R55 million for the preceding year.

During the year under review the Reserve Bank's open market sales of securities increased considerably, and the highly liquid market was supplied with as much as R2,3 milliard of investment paper by the Bank.

In the first four and a half months of the 1979/80 financial year money market interest rates maintained the downward movement which had already started in the second quarter of 1976, but a trough was reached towards the end of November and early December 1979. Subsequently there was, in general, a mild upward tendency. The rate on three-month bankers' acceptances declined, for example, from 5,70 per cent at the end of June 1979 to 4,10 per cent on 7 December 1979, and then fluctuated upwards again to 5,10 per cent on 30 June 1980.

The most important changes in the deposits of the Corporation during the past year have already been discussed in the Directors' Report. Although the money market eased in general and call money with the discount houses increased, the average daily deposits of the National Finance Corporation declined from R749 million in 1978/79 to R706 million in the past financial year. The total deposits with the Corporation showed large fluctuations during the year on account of rapidly changing money market conditions caused mainly by the substantial amounts of tax money flowing to the Government at certain months-ends.

After the end of the financial year the deposits with the Corporation showed further sizeable fluctuations and decreased sharply to R556 million at the end of August compared with R1 005 million at the end of July. At the end of September they amounted to R509 million.

The outstanding development on the money market after June 1980 was the substantial tightening at the end of August on account of the unprecedently large flow of gold mining taxation to the State. During September and early in October money market conditions eased only slightly because the easing effect of an increase in the gold and other foreign reserves of the Reserve Bank was partially neutralised by the increased supplementary cash reserve requirements which had been imposed for banking institutions Call money with the discount houses declined sharply to R960 million at the end of August compared with R1 189 million at the end of July. On 30 September it amounted to R1 166 million and on 24 October to R1 194 million.

Money market rates, which increased appreciably until the end of April 1980, subsequently declined in general until the second week in August, but then rose again. The

Treasury bill tender rate, for example, declined from 4,66 per cent on 30 May to 4,36 per cent on 8 August, and then rose to 4,80 per cent on 24 October.

The Reserve Bank continued to sell investment paper to the money market in order to mop up excess liquidity. From the end of June to 23 October 1980 the Bank sold government paper to the market to an amount of R1 158 million.

The liquidity of the private non-bank sector also increased substantially after the end of the Corporation's financial year, and the seasonally adjusted annual rate of increase in the quantity of money and near-money came to 22 per cent for the first eight months of 1980. The further increase in the quantity of money and near-money in July and August was caused mainly by a substantial rise in the net gold and other foreign reserves as well as in bank credit to the private sector. The large increase in net bank credit to the government sector during the second quarter of 1980 was approximately offset by a decline during July and August.

Regarding the balance of payments, imports rose further during the third quarter of 1980 whereas merchandise exports showed little change, so that the trade balance, excluding gold, weakened further. Net gold output, which decreased from R2 795 million in the first quarter to R1 971 million in the second quarter, rose however to R2 885 million in the third quarter due to the higher gold price, and this resulted in an improvement in the current surplus of the balance of payments. The gold and other foreign reserves also increased substantially in the third quarter.

Although full particulars of the national accounts are not yet available for the third quarter of this year, the indications are that the generally higher economic activity in the most important sectors of the economy continued during this quarter, and that the increase in the real gross domestic product for the calendar year 1980 will amount to at least 7½ per cent, compared with 4 per cent in 1979.

On the other hand, it is apparent that the inflation rate accelerated further during the third quarter, mainly on account of rises in the prices of food products, motor vehicles, reading matter and domestic services. The seasonally adjusted annual rate of increase in the consumer price index, which had increased from 8,6 per cent in the first quarter of this year to 13,3 per cent in the second quarter, rose further to 16,3 per cent in the third quarter.

It was inevitable that the exceptionally high growth rate in the domestic economy would result in several bottlenecks, to which reference has already been made above. Firstly, there is the serious shortage of skilled labour which gives rise to substantial pressure on wages and salaries. During the first six months of 1980 the average total remuneration per employee was 26,6 per cent higher than in the first half of 1979. The effect of such salary and wage adjustments on production costs and the inflation rate could be extremely detrimental to the economic growth potential over the longer term. It follows that the availability of skilled labour will have to be increased, especially by the training of unskilled workers in South Africa. However, such a solution cannot be carried through in the short run.

A second bottleneck which has arisen, is a shortage of production capacity, especially in certain basic industries. The high gold price at this stage enables South Africa to supplement supplies by importing from abroad. During the first nine months of 1980 total imports were thus as much as 50 per cent higher than in the corresponding period of 1979. This increase of R3,4 milliard would formerly have caused substantial pressure on the balance of payments, but has now been made possible by the high gold earnings.

The large tax concessions and the sharp rise in wages and salaries and dividend payments, as well as the large-scale utilisation of consumer credit, are stimulating consumer expenditure to such an extent that a situation of excessive demand could easily develop. This could in turn lead to sharp price increases which would exacerbate the inflation.

Furthermore, there still remains the problem of excess liquidity in the domestic economy, which not only gives rise to an undesirable distortion in the movement of funds on the money and capital markets, but also keeps interest rates relatively low. Due to the expectations generally held that negative real interest rates cannot be maintained indefinitely, particularly not on long-term investments, the large volume of liquidity has been concentrated in the money market and the gap between short and long-term rates is therefore exceptionally big. Although the Reserve Bank supplies investment paper to the market by means of its open market operations, the excessive liquidity should be reduced by a net withdrawl of funds from the market by the government and/or a channelling of funds abroad. The latter, however, remains subject to the availability of the necessary foreign exchange, which in turn depends to an important extent on the gold price.

It is clear that the quantity of money and near-money is currently expanding far too rapidly. If the necessary bank credit is to be provided to the private sector to finance a high rate of activity, and if South Africa wants to keep its gold and other foreign reserves at a satisfactory level with a view to the future, the State will have to withdraw a large amount of money from the system under these circumstances and sterilise it at the Reserve Bank. The government has already deposited R465 million in the Stabilisation Account with the Reserve Bank this year, but if the large increases in tax revenues are considered, much more will still have to be done. The net claims of the banking sector on the government sector should, therefore, be reduced considerably.

Undoubtedly the most important problem in the economy at this stage is the unacceptably high rate of inflation and its strongly rising tendency. There is scant solace in pointing out that many other countries are experiencing higher inflation rates than South Africa, or that the South African situation is not one of inflation accompanied by low growth rate and a balance of payments deficit, as in many other countries. Inflation is and remains a serious danger for us. In this regard it is often suggested that, in South Africa's case, a substantial further appreciation of the rand would help to solve the inflation problem as it would mean that importers would pay even less for their imports. The harmful effect of such a further appreciation on the country's export earnings, of which the greater part is conducted in US dollars, and also on the exporters' competitive ability abroad, should however be taken into account. The rand has already appreciated by 16 per cent **vis-à-vis** the US dollar since January 1979 when the new exchange rate dispensation was introduced. Furthermore, it is not always certain to what extent the reduced import costs are passed on to the final consumer.

The bottlenecks and problems which have developed more recently, of which some are the consequences of the sharp upswing in the economy during the past year, cannot be lightly ignored. The necessary adjustments will have to be made even though it may be at the cost of the growth rate in the short term, so that the living standard and welfare of every South African may be improved over the longer term.

As it is my last Annual Address, I would like to avail myself of this opportunity to express my thanks and appreciation towards the Corporation's Board of Directors for the co-operation, advice and moral support which I have received from them during the past thirteen years. The discussions at the Board meetings have always been of a high standard and of great importance for the monetary authorities. My thanks are also due to the Secretary and other officials of the Reserve Bank who have handled the affairs of the Corporation so faithfully and efficiently.

PFP ECONOMIC POLICY (49)

West German model

FM 7/11/80

The Progressive Federal Party is moving uneasily to stake out its position as the party of compassion. As the official opposition to the party of apartheid, it can scarcely do less. In economic theory, however, it seems to be edging towards a form of socialism — and the paradoxes start right there.

For one thing, the PFP has traditionally depended on big business for financial and organisational help (though both Britain and West Germany have their socialist millionaires).

Harry Schwarz, chairman of the commission designing the new PFP economic policy is an avowed proponent of social democracy in the West German mode. By this he appears to mean that the means of production, marketing and distribution should remain in private hands, while heavy taxes on profits and income pay for wide-ranging social services for the poor.

Schwarz fights shy of any suggestion of nationalisation, arguing that no community has ever deprived itself of existing wealth to give to others. "What it has been prepared to do," (he wrote recently) "is to tax newly created wealth, that is income, to provide services for the underprivileged."

His leader Fredrik van Zyl Slabbert, however, in a letter to the *FM* last month wrote that: "New and better political decisions are necessary to facilitate a more equitable redistribution of wealth."

Schwarz tells the *FM* that the party's economic commission has almost finished drafting its report on future economic policy. Other reports, on individual economic problems, are also being prepared. However, it is unlikely they will be released until some time in 1981.

Although he declined to give any indication of the trend of the reports, he agreed that a speech he made to the PFP Transvaal congress recently gave a fair indication of his own thinking. In it he called for:

- Stronger action against monopolies and exploitation.
- Review of the government's handling of controlled prices — particularly for maize and wheat.
- Urgent action on the costs of food and other essentials.
- Fiscal and budgetary action to ensure everyone participated in the economic upswing.
- The scrapping of gst on food and essentials.

Creating for tax

Unfortunately, an air of unrealism does hang over many PFP ideas on the economy. If his published ideas mean anything, Schwarz wishes to retain the market mechanism and the incentive of gain as the most efficient ways of creating wealth, while at the same time imposing high taxes to enforce his concept of "redistribution of wealth."

He cannot have it both ways. Wealth creation, of itself, automatically spreads its benefits through increased employment — particularly when there is an equitable bargaining balance between employer and employed.

Schwarz's intention seems to be to undermine the politics of envy by uplifting those with most reason to be envious. But the logical result would be to remove all reason for envy by destroying the incentive for wealth creation itself.

Only bigots will disagree that all should be given access to opportunity, education and training. But the means of doing so are through an expanding economy from which all legal and racial restraints are removed — not through bleeding existing taxpayers.

Shadows fall across the boom

(49)

RDM 8/11/80

By HAROLD FRIDJHON

A GRADUAL fading of the boom — but not the end of the economy's growth phase — in 1981 is forecast in the November issue of the Standard Bank Economic Review.

There is a growing realisation that the economy's recent acceleration may have been too fast and will become difficult to maintain at present levels, and attention is being drawn to the forces that will ultimately limit the boom.

These include the balance of payments which affects internal liquidity, pressure on prices, and the limitations on physical production.

With the exception of shortages of skilled labour, production ceilings and inventory shortages have not yet had a restricting influence, but now they are coming to the fore.

Inflation, another constraining factor, has suddenly become a focus of attention because of visible price rises. The rapid pace of price rises reflects the fast growth in demand since late 1979. In part this also reflects the failure of the balance of payments to exert its normal restraining influence on money supply growth and on the financial sector early in the upturn.

The reason for this has been the extraordinary increase in gold and mineral earnings. With exchange control damming up growing foreign exchange surpluses, the economy and the banking system have until recently been flush with liquidity, keeping interest rates low.

This is now changing. With the gold price no longer rising and with imports responding strongly to the domestic boom, the current account surplus is shrinking rapidly. As a result the balance of payments is once again beginning to exert resticting influences on financial markets. And the monetary authorities can effectively mop up liquidity through open market operations.

The latest statistics show that while the economy is still growing in most sectors, they indicate that the easy part of the expansion is now over and that further growth from this year's high base will not be easy to achieve.

The bank's review says that overall consumer related inflation has not accelerated since mid-1979 and in recent months the rate of increase has slowed down to an annualised rate of about 10% based on month-on-month changes. September was an exception with a 2% increase because of a leap in food prices half of which was caused by the increase in meat prices

Compared with the boom of 1974, price increases were relatively modest because of higher rate of imports, assisted by a stronger rand. Many prices are settling down at the higher levels and the rate of increase next year is likely to be kept within reasonable limits.

The bank also sees an easing of the demand pressure. The growth of retail sales has slowed down from a 10% growth earlier in the year to 7% mid-year. Food sales have levelled off because of the higher prices.

Levels of employment and earnings have risen rapidly and with record overtime being worked, disposable income has increased substantially. But further growth is unlikely to match past growth because overtime is reaching physical limits and employers' resistance to wage increases is stiffening.

The pace of job creation is slowing down because industry has come up against capacity ceilings. The growth rate of industrial capacity is also slowing down and will only accelerate again when new capacity is installed.

The review also sees a slowing down in the building industry.

Credit is still available and relatively cheap, but a tightening is under way because of the demand for credit and the fact that basic monetary policy is becoming more restrictive. In August the money supply showed virtually no growth and it would appear that the period of large money supply increases is over.

"It is clear that 1981 will be a more turbulent year than the present one. On the one hand, it will become more difficult to grow from present high levels because physical constraints will limit the ability of the production sectors to expand. On the other hand, policy factors will increasingly make their influence felt, limiting the expansion of demand.

"While this does not signal the end of the economy's growth phase, it implies a gradual fading of the boom during 1981."

...ons Research from Tilburg, Holland. He has
...ational for 10 years and worked for that company
...nsultant in several countries around the world.
...s the design and development of systems for
...anufacturing control and production optimisation.
...n Management Information Systems and Operations
...ss Schools of the Universities of Cape Town and
...member of the consultants group of the Computer
...e and specialises in requirement definition and
...ystems.

Reserve Bank holds on as gold slumps

NM 8/11/80

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Financial Editor

SOUTH AFRICA has been holding on to its gold during October while in the last two days the price has plunged over $40 and yesterday sank below $600. According to indications from the Reserve Bank about 140 000 ounces were held out of the market.

Gold slumped to its lowest level for five months yesterday and share prices fell round the world as investors switched their funds into the dollar, attracted by high interest rates.

The dollar, which began to climb following Mr Ronald Reagan's presidential election victory on Tuesday, went up even further, following the decision by US banks to hoist their prime interest rates a full percentage point to 15,5 percent.

Dealers said the high level of the prime rate, which banks charge to their major corporate customers, would make it even more expensive for companies to borrow money, and this in turn brought down share prices.

The Reserve Bank's gold and foreign exchange reserves dropped by R551m to a total of R5,932 billion at the end of October, compared with the September figure of R6,484 billion.

Foreign assets

While the gold content was R414m lower at R5,23 billion because gold has been valued at R429,99 against R469,34 previously, the foreign assets component also dropped.

The bank added to its gold holdings, which were about 138 000 ounces higher at around 12 165 000 ounces. This suggests that the bank held back from the market about 8 percent of the month's production.

A reflection of the tightness which has been experienced in the money market is the increase of R51m to R432m in the bills discounted at the Reserve Bank. In addition, the bank sold R46m worth of Government securities, which represents money taken out of the system.

The position appears to be much tighter than it was last year when bills discounted amounted to R283m, with the Reserve Bank a net buyer of Government securities: which meant that then it was putting money back into the system. Bankers' deposits, which were only R350m in October 1979, were R1,348 billion last month.

The note issue, which amounted to R1,905 billion, was 28 percent higher than in the comparable month of last year.

Gold, boosted by Mr Reagan's victory to $657 on Tuesday, fell at the London morning fixing to $603 dollars, $24,75 lower, as investors put their money in the dollar. It later dropped to $597.

They said 'hot money,' which traditionally moves around the world looking for the best return, was pouring into the dollar and strengthening it against other major currencies.

The dollar was quoted at just under 1,96 West German marks and at 1,75 Swiss francs from 1,94 marks and 1,74 Swiss francs on Wednesday.

Jap. yen

It also gained against the Japanese yen and was quoted at 213,30 yen from 212,45 yen previously.

On the Tokyo Stock Exchange, the market average lost 37,95 points in active trading as operators took their profits from the high prices that followed Mr Reagan's election victory.

Gold shares in Johannesburg fell sharply in line with the lower bullion price and shares in mining, oil and gold on the Sydney Stock Exchange all tumbled on profit-taking.

Bustling Nedbank sees 6% SA growth

By DAVID CARTE

Deputy Financial Reporter

THANKS to a comparative advantage it enjoys in foreign trade, South Africa will achieve a growth rate of more than 6% a year in the medium term, says Dr Frans Cronje in his chairman's review of the Nedbank Group.

According to Dr Cronje, "the present strong upsurge will be the prelude to several years of rapid real economic advance in South Africa".

Dr Cronje bases his optimism on the fact that "generalised inflation" arising from the "initial and then reinforced oil shock", caused large changes in relative prices.

"The value placed on some goods and services in terms of others has altered", he says," and these changes have favoured South Africa and largely improved our economic outlook".

Dr Cronje cites the new emphasis on private enterprise in a "generally less inhibiting political framework" as another factor in favour of the South African economy.

"I am convinced that the medium-term potential of the South African economy is now more promising than most people are accustomed to think."

In the medium term, increasing exports of energy sources, minerals, metals, raw materials, food and manufactured goods, as well as South Africa's large appetite for imports would open the economy and its financial system even more to international markets.

Long-term capital inflows associated with good growth should ensure that current account deficits should "easily" be accommodated and the "basic balance" of the balance of payments remain in surplus.

Dr Cronje looks forward to the rand being a "sought-after international unit" as the economy grows into its new maturity.

At the end of its financial year, Nedbank had surplus capital of R72-million. The managing director, Mr Rob Abrahamsen, told a news conference yesterday that this would enable the group to grow without recourse to shareholders

In the year to the end of September, Nedbank became the first South African bank to achieve a pre-tax profit of more than R100-million. Pretax profit rose 36% to R100 200 000 and taxed income 41% to R69-million.

Earnings a share and the dividend rose in line to 76.4c (1979 54,2c) and and 38c (27c) respectively.

Return on equity was 36,2% before and 25,3% after tax and this put Nedbank among the top banks in the world, says the chief executive, Mr Gerry Muller in his report.

Asked if Nedbank could better these returns again, Mr Abrahamsen said he saw no reason why not. It depended simply on whether Nedbank could increase profits more than shareholders' funds.

Biggest profit contributor last year was the commercial bank, which brought in 64% (59%) of pre-tax profit. UAL, in its 25th year, contributed an unchanged 9%, Nedfin 8% (7%), Nefic 7% (8%) and Syfrets 5% (6%).

The commercial bank increased pre-tax profit 43% to R58 854 000. Deposits rose 24% and advances 19%. Savings deposits nearly doubled to more than R500-million.

"There is every indication that the high level of corporate liquidity will continue, thus maintaining the squeeze on margins early in the year," say the directors.

But they foresee scope for increased lending, further market growth and a bigger market share for Nedbank

UAL increased pre-tax profit 41% to R9 534 000 and its asset base 37%. The domestic banking division had the advantage of greater use of facilities by clients and continued favourable interest rate margins

The corporate finance division raised a record R230-million of equity, preference and debenture capital for private and public sector clients. This compares with the previous year's R165-million. For the public sector UAL raised R390-million.

Profits on the sale of Summit properties are not reflected in UAL's or Nedbank's results. Fourteen such properties were sold for R14 500 000.

After the yearend UAL's half-share of Eastgate was sold for R28 500 000, a capital profit of R9-million, which will go into reserves and enable the group to accept deposits of more than R100-million. Another capital profit of R1 600 000 was made on UAL's stake in Priority Investment Trust.

Nedfin Bank did well on the strong demand for leverage leasing and in the booming HP market. Confident that the upsurge in private fixed investment will continue, the bank has tendered for several large project finance deals and expects more to come.

It is budgeting for further profit gains this year.

In spite of sluggish loan demand, Nefic increased pre-tax profit 16% to R6 689 000, which makes it the most profitable bank in South Africa in terms of capital and staff employed. Nefic, too, is confident of a better 1981.

Syfrets Trust increased pre-tax profit 29% to R6 180 000. Funds under administration rose 39% to R1 514-million and "net new managed money" increased R80-million.

Because of intense competition and commission cuts, Nedsual Insurance Brokers reported a fall in pre-tax profit from R808 000 to R592 000.

Mr Abrahamsen said negotiations with Bank of America and the Zimbabwean authorities on the sale of Nedbank subsidiary, Rhobank, were continuing.

On Nedbank's property exposure, he said the turnaround in property had been "unbelievable" and Nedbank today was happy with the property it had "inherited" at the bottom of the recession.

CURRICULUM VITAE

Klaas van der Poel

Has a degree in Operations Re...
been with Shell International
as an international consultan...
His experience includes the d...
financial management, manufac...
He has taught courses in Manag...
Research
Stellenb...
He is re...
Society
design o...

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EMBARGO: 09h00 on Thursday, 13 November 1980
VRYSTELLING: 09h00 op Donderdag, 13 November 1980

THE SOUTH AFRICAN ECONOMY: THE SITUATION, THE POLICY AND THE PROSPECTS

Keynote Address delivered by
Senator the Honourable Owen Horwood,
Minister of Finance,
at the Financial Mail Investment Conference
in Johannesburg on 13 November 1980

Delivering the keynote address at the annual Financial Mail Investment Conference is always an honour and a privilege. Doing it a few years in succession, however, carries an im=portant element of risk. Mischievous analysts are inclined to look up what the speaker said during the previous year's conference and to point out where his prophecies went wrong! On this occasion, however, I find myself in the fortunate position that the scenario I presented last year for 1980 has now been shown to have been reasonably accurate. So much so, that I feel justified in raising my fee substantially for today's performance! In fact, virtually the only place I as a very moderate recovery, has now developed into one of the strongest upswings in South African history.

In analysing the causes of the expected higher growth rate, I suggested last year that, although real private consumption had increased by only about 2 per cent in 1978 and appeared likely to rise by less than 3 per cent in 1979, it would show a higher rate of increase, possibly of between 4 and 5 per cent, in 1980. It now looks as though real private consumption might rise by more than 7 per cent in 1980.

In the circumstances,/.

In the circumstances, this rate of increase of real private consumption appears to have been of more or less the right order and has certainly been one of the main reasons for the excellent growth performance of the economy this year. Of course, private consumption can rise at an excessive rate, as past experience has often shown. But so far this has not been the case in 1980. The substantial increase in spending on motor cars and other durable consumer goods has thus far been a typical and normal feature of the cyclical upswing and not, in itself, an unhealthy development.

In contrast/....

this respect my forecast was accurate. It now looks as if merchandise imports will rise in 1980 by more than 40 per cent in value terms and by about 14 per cent in real terms. However, my forecast that merchandise exports (excluding gold) would "probably not increase much further in 1980" was unduly cautious, as these exports will now probably show an increase in 1980 of about 8 per cent in value terms and about 2½ per cent in real terms. In addition - and here again I erred on the con= servative side - the gold price has increased from an average price of $307 in 1979 to an average price of probably well over $600 per ounce for 1980. In consequence, the value of the net gold output, which amounted to about R6 000 million in 1979 (as

calculated by the/....

calculated by the Reserve Bank for balance of payments purposes) now looks like exceeding R10 000 million in 1980.

For these reasons, my prediction that there would be a marked decline in the surplus on the balance of payments on current account in 1980 has turned out to be unduly conservative. I was right in the sense that, after reaching an all time record surplus of R7 210 million during the first quarter of 1980, taken at a seasonally adjusted annual rate, the current surplus de= clined to R770 million in the second quarter before recovering to about R2 400 million in the third quarter (annual rates in both cases). But for the calendar year 1980 as a whole, the

surplus is still/....

current surplus declined, the net capital outflow would do likewise, so that the net official reserves would not neces= sarily be adversely affected but might well rise further.

The actual outcome has been somewhat different. The record current account surplus during the first quarter for 1980 was again accompanied by large scale "switching" of trade finance in response to a further widening of the gap between South African and overseas interest rates. In the second quarter, as the current surplus declined sharply, the net capital out= flow also decreased noticeably, but there was nevertheless a small decline in the net gold and other foreign reserves.

From April/....

From April onwards, however, short-term capital movements were greatly affected by the Reserve Bank's new policy of quoting large and varying discounts on forward dollars with a view to more or less neutralising the interest rate differentials be= tween South Africa and the United States. The use of this policy instrument had the effect, first, of sharply reducing the net outflow of short-term capital and then of bringing about a sub= stantial net inflow of short-term funds during the third quarter. Since the current account surplus also increased substantially after the middle of the year, the net gold and other foreign reserves increased by over R1 100 million in the third quarter alone.

As far as the/....

occurred about that time. In addition, account must be taken of the acceleration in the seasonally adjusted annual rate of increase in consumer prices from 8,6 per cent in the first quarter of 1980 to 13,3 per cent in the second quarter and 16,3 per cent in the third quarter.

That I was too sanquine about the quantity of money in 1980 is evident from the following facts. After rising by 12,6 per cent in 1978 and 13,3 per cent in 1979, the broad money supply (M2) increased during the first three quarters of 1980 at a seasonally adjusted annual rate of nearly 26 per cent. This rate of increase is more than double the broad guideline of

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10 to 12 per cent which I laid down for 1980 earlier this year. Moreover, although I would not put too much emphasis on quarterly monetary statistics, it is nevertheless disturbing to note that the seasonally adjusted annual rate of increase of M2 accelerated from 13,7 per cent in the first quarter of 1980 to 17,5 per cent in the second quarter and to no less than 48,6 per cent in the third quarter.

In these circumstances the danger that excess demand might exacer= bate the existing cost-push inflation in South Africa is very real indeed. Most of the surplus capacity in the economy has now been absorbed and, although the balance of payments still the few countries in the world in which there has been vir= tually no increase in real terms in government spending during the past five years, and in which there has accordingly been a substantial decline in the relative share of real resources absorbed by the central government.

The crux of the matter is that at no stage during these past five years did we attempt to stimulate the economy by means of increased government spending, partly or wholly financed by bank credit. We promoted sound growth in the private sector by means of reductions in tax and loan levy rates, specifically designed to offset the effects of "fiscal drag", i.e. the in=

crease in the/....

crease in the real tax burden on the community brought about by the combination of a progressive tax system and inflation.

It is a source of great satisfaction to me and my colleagues that this policy has achieved its main objectives. Together with the increase in the gold price and other favourable eco= nomic developments, it has assisted in making 1980 one of the best years ever experienced by the South African economy.

In the meantime, fiscal policy has not remained static, but has been adjusted to the changing economic circumstances along the lines anticipated in my Budget Address in March 1980. In

setting out/....

nition of the success of our growth strategy, the main emphasis in policy now logically falls on preventing the development of general demand inflation. To this end, the Treasury is deter= mined to keep a tight rein on government spending and, through its financial operations, to assist in curbing the rate of in= crease of the broad money supply. There can be no doubt that, despite the reduction in tax and loan levy rates, this year's Budget is having a marked stabilising effect on the economy. I need surely not remind this audience that in judging the eco= nomic effects of a Budget one does not look only at changes in tax rates, but more particularly at real government spending, the "deficit before borrowing" and the effect on the money supply. As always, it is the "bottom line" which counts.

This does not,/....

This does not, however, mean that I am entirely satisfied with all aspects of our economic policy. On the contrary, it is evident from what I said earlier that the present monetary sit= uation is in need of urgent attention.

As I have pointed out on other recent occasions, the unduly rapid increase in the broad money supply cannot be attributed in any way to the Treasury's financing operations. On the con= trary, although these operations did have an expansionary effect on the money supply of R1 099 million during the April-June quarter of 1980, they exerted a negative effect of R859 million during the July-September quarter and will almost certainly

exert a significant/...

in turn, resulted in a "bottling-up" of funds in South Africa and an unduly sharp decline in interest rates. Since overseas interest rates happened to be rising to exceptionally high levels at that time, the inevitable result was a substantial net outflow of foreign capital, in the form particularly of loan repayments and the switching of trade financing from fo= reign to domestic sources - capital movements not subject to exchange control. Although the whole situation was somewhat artificial as a result of exchange control, this net outflow was beneficial in the circumstances, as it limited to some ex= tent the bottling-up of excess liquidity in the domestic eco= nomy and the decline in interest rates.

In April,/....

In April, however, following a temporary but sharp decline in the Reserve Bank's foreign exchange holdings resulting partly from changes in the exchange control regulations affecting ex= port trade credits, the Bank introduced its new policy of quoting large discounts on forward dollars in an attempt to neutralise to a greater or lesser extent the effect of the in= terest rate differentials on short-term capital movements. Given the existing artificial situation, this step had con= siderable merit. But the effects of this new instrument were quite dramatic and more far-reaching than had been anticipated. It contributed greatly to the excessive increase in the net foreign reserves and in the money supply during the third

quarter, and/....

more and more government stock to the non-bank private sector. This, indeed, is like boxing with one hand tied behind one's back.

On all these matters there is regular consultation between the Treasury and the Reserve Bank and I am also keeping in close touch with the work of the De Kock Commission. Together we shall take whatever action might be necessary to reduce the rate of increase of the money supply and to improve the sound= ness of the monetary and banking situation in general.

Investment/....

Investment allowance in respect of industrial machinery and buildings

Before leaving the field of policy, I have an announcement to make:

The machinery investment allowance, which is granted to manu= facturers in terms of the Income Tax Act, has been in operation for many years. It is, however, not a permanent feature of tax law, but has been renewed from time to time for the purpose of encouraging continuing investment in modern industrial machi= nery and plant. In recent years the allowance has also served as a buffer against the steadily rising replacement costs of new equipment.

The Income Tax Act/....

In both cases the extension of the expiry dates will apply to metropolitan areas only, the position in regard to economic development areas remaining unchanged.

Having regard to the length of time which industrialists require to launch long-term projects and to do their financial planning, I am making this announcement now to ensure that the investiga= tion into the investment allowances in question does not cause any uncertainty as to the future of the allowances in the two years after June 1983, especially where projects have already been initiated or are under consideration.

THE PROSPECTS/....

THE PROSPECTS

I turn now, in conclusion, to a few comments on the prospects for the South African economy in 1981, based on the policy assumptions I have outlined.

1. The present upswing in the economy looks like continuing well into 1981 if not beyond. At some stage, of course, it will reach an upper turning point and will then be followed by a temporary downswing or levelling-off. This will be a perfectly natural development and should provide no cause for concern, particularly since the indications are that the subsequent new upswing will probably take the economy to new record heights.

2. The rate of/....

6. The surplus on the current account of the balance of payments should decline sharply in 1981. The value of imports will almost certainly show another large increase, although probably not as large as the 40 per cent increase which now appears likely for 1980. In view of the reces= sionary tendencies in many parts of the world, merchan= dise exports will probably show a relatively small in= crease in value and possibly a slight decline in volume. As far as the gold output is concerned, I shall again re= frain from making any forcasts of the gold price. But it remains my view that, while the gold price will probably show wide fluctuations in the short term, it should con=

tinue to move/....

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tinue to move upwards in the long run. An average gold price of $600 per ounce in 1981 would give us a net gold output in the vicinity of R10 000 million. Taken together, all these changes would still leave us with a [redacted] current account surplus in 1981. However, it would be quite natural and no cause for concern if this surplus turned into a tem= porary deficit [redacted]

7. The behaviour of the capital account in 1981 will depend on many things, including the extent of the decline in the current surplus and the nature of monetary policy. However, if sound monetary and fiscal policies are applied, resulting in realistic market-related interest and exchange rates, the

capital account/....

Concluding comment

The scenario I have presented today for the South African economy in 1981 is fundamentally a favourable one. We have managed to raise our rate of economic growth to a very high level without thus far producing a situation of excess aggregate demand. And we have done well during the past eighteen months in keeping our inflation rate relatively constant at a time when our main trading partners were experiencing a virtual doubling of their inflation rates. But because of the excessive rate of increase of our broad money supply in recent months, we now find ourselves threat= ened by general demand inflation, and unless we can find ways and means of speedily correcting the monetary situation, much of the

ground we have/....

ground we have gained in recent years through the application of financial discipline might be lost again. These problems are problems of prosperity, but they are problems none the less, and we must find the solutions. I am confident that we have both the will and the ability to do so.

13.11.80

RDM 49

State still has role to play

By SIMON WILLSON
Industrial Reporter

THE GOVERNMENT'S commitment to upholding the free enterprise system did not mean it would "shirk its responsibilities" and disappear from the economic scene, Dr Dawie de Villers, the new Minister of Industries, Commerce and Tourism, said last night.

He said at a banquet given by the Steel and Engineering Industries Federation of South Africa in Johannesburg that there remained an essential role for the Government to play in providing collective services, correcting market imperfections and stabilising the economy.

The Government's commitment to free enterprise was shown by actions such as the curtailment of the public sector's claims on SA's financial and other resources, the movement towards a market-related exchange rate system, the removal of price control over a range of products and the relaxation of quantitative import restrictions.

But, Dr De Villers said, "in South Africa's particular circumstances, taking into consideration the politically inspired pressures to which our economy is subjected from outside, the authorities have perforce to play a role in the functioning of the economy".

"Apart from the Government's duty to grant the necessary import tariff protection to local industry and its responsibility for the establishment of industries which are of a nature that cannot be undertaken by the private sector, like the Sasol and Iscor type of plant, the Government has embarked on a number of policy objectives which are being pursued actively."

He cited the intended establishment of the Small Business Development Corporation and the Southern African Development Bank in support of his contention, as well as the legislation passed at the last parliamentary session to enable the Industrial Development Corporation to establish industries in the homelands.

Dr De Villiers said he was aware of the concern of the exporting community about the hardening of the commercial rand, which reduced export earnings.

"But it is trusted that the improved export incentives recently announced will alleviate the position and that the export efforts of the metal fabricating and engineering industries will not be adversely affected," he said.

CURRICULUM VIT

Klaas van der I

Has a degree in ... . He has
been with Shell ... that company
as an internati ... d the world.
His experience ... tems for
financial manage ... n optimisation.

He has taught co ... d Operations
Research at the ... pe Town and
Stellenbosch.
He is recognised ... e Computer
Society of South ... nition and
design of industr

EXCHEQUER ACCOUNTS

FM 14/11/80

Freezing assets

The transfer of R465m from the Exchequer account to the stabilisation account between July and September is a vindication of Finance Minister Owen Horwood's budgetary promise to finance government spending this year in a non-inflationary way.

As the depositing of funds in the stabilisation account has a negative influence on the monetary system, the transfer is in fact positively anti-inflationary. According to Nedbank's latest Economic Round-up, government spending in the first fiscal quarter was nearly 27% higher than it had been in the same quarter of 1979. This must be viewed in light of Horwood's stated intention to permit no real growth in state expenditure this year by maintaining its nominal increase at the rate of inflation.

The main culprits in the first quarter were the defence and finance votes, which rose respectively 80% and 30% when compared with the same quarter last year. In the first three months of the fiscal year, the Exchequer's overall expenditure was higher, and its revenue lower, than a quarter of the annual budget. By June 1980, the quarterly deficit on expenditure and current revenue alone amounted to R1 164m and funds had to be "borrowed" from the stabilisation account.

The situation swung around completely in the second quarter. Partly as a result of the huge company tax payments made in August, and partly because of a slowdown in government expenditure, revenue exceeded expenditure by nearly R600m. Stock issues and short-term loans raised another R534m. This enabled the stabilisation account borrowing to be repaid, and a further R465m to be transferred to it, and still left the Exchequer cash balance with a surplus of nearly R600m at the end of September.

Nedbank concludes that "despite the transfers to the stabilisation account, the state revenue account is roughly in balance. However, the cash balance on the Exchequer account still leaves much scope for transferring further amounts to the stabilisation account." It is this fact, it adds, which gives meaning to Horwood's September statement predicting that "during the current fiscal year as a whole, the net effect of the Treasury's financial operations on the money supply should be strongly negative."

Given the prospect of another large inflow of tax revenue in March next year, this aim could still be achieved, despite possible seasonal increases in government spending towards the end of the fiscal year should departments have unused allocations to disburse. And this is cause for a little cheer, considering that the 48% leap in the money supply in the third quarter of 1980 makes nonsense of Horwood's stated intention to maintain the rate of increase of this aggregate below the rate of inflation.

No. 2344 14 November 1980

SOUTH AFRICAN RESERVE BANK.—APPOINTMENT AS GOVERNOR, DESIGNATION AS THE SENIOR DEPUTY GOVERNOR AND APPOINTMENT OF DEPUTY GOVERNORS

It is hereby notified for general information that the State President has been pleased, by virtue of the powers vested in him by sections 3 and 4 of the South African Reserve Bank Act, 1944 (Act 29 of 1944), to approve that—

(a) Dr Gerhardus Petrus Christiaan de Kock be appointed as Governor of the South African Reserve Bank, for a period of five years with effect from 1 January 1981, in the place of Dr T. W. de Jongh who retires on that date;

(b) Dr Christiaan Lodewyk Stals, Deputy Governor of the South African Reserve Bank, be designated as

No. 2344 14 Novemb

SUID-AFRIKAANSE RESERWEBANK.—A STELLING AS PRESIDENT, AANWYSING DIE SENIOR VISE-PRESIDENT EN AAN LING AS VISE-PRESIDENTE

Hierby word vir algemene inligting bekendg dat dit die Staatspresident behaag het om krag bevoegdheid hom verleen by artikels 3 en 4 v Wet op die Suid-Afrikaanse Reserwebank, 1944 29 van 1944), goed te keur dat—

(a) dr Gerhardus Petrus Christiaan de Ko President van die Suid-Afrikaanse Reserweba 'n tydperk van vyf jaar met ingang 1 Januari aangestel word in die plek van dr. T. W. de wat op daardie datum aftree;

(b) dr. Christiaan Lodewyk Stals, Vise-pre van die Suid-Afrikaanse Reserwebank, aan

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the Senior Deputy Governor of the South African Reserve Bank with effect from 1 January 1981;

(c) Dr Albertus Stephanus Jacobs, General Manager of the South African Reserve Bank, be appointed as a Deputy Governor of the South African Reserve Bank for a period of five years with effect from 1 January 1981;

(d) Dr Bramie van Staden, the Adviser of the South African Reserve Bank, be appointed as a Deputy Governor of the South African Reserve Bank for a period of five years with effect from 1 January 1981.

word met ingang 1 Januarie 1981 as die Senior Vise-president van die Suid-Afrikaanse Reserwebank;

(c) dr. Albertus Stephanus Jacobs, Hoofbestuurder van die Suid-Afrikaanse Reserwebank, as Vise-president van die Suid-Afrikaanse Reserwebank aangestel word met ingang 1 Januarie 1981 vir 'n tydperk van vyf jaar;

(d) dr. Bramie van Staden, die Adviseur van die Suid-Afrikaanse Reserwebank, as Vise-president van die Suid-Afrikaanse Reserwebank aangestel word met ingang 1 Januarie 1981 vir 'n tydperk van vyf jaar.

DEPARTMENT OF FINANCE

No. 2329 — 14 November 1980

Statement of Receipts into and Transfer from the Exchequer Account for the period 1 April 1980 to 31 October 1980.

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 2329 — 14 November 1980

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1980 tot 31 Oktober 1980.

Tesourie, Pretoria.

RECEIPTS—ONTVANGSTE

Head of Revenue	Inkomstehoof	Month of October / Maand Oktober 1980	Month of October / Maand Oktober 1979	Total 1 April to 31 October / Totaal 1 April tot 31 Oktober 1980	Total 1 April to 31 October / Totaal 1 April tot 31 Oktober 1979
		R	R	R	R
Exchequer Balance, 31 March 1980	Skatkissaldo, 31 Maart 1980	—	—	248 593 278	—
Exchequer Balance 30 September 1980	Skatkissaldo, 30 September 1980	580 813 285	—	—	—
State Revenue Account	*Staatsinkomsterekening*				
Customs and Excise	Doeane en Aksyns	73 765 760	50 118 654	696 478 336	606 714 508
Inland Revenue	Binnelandse Inkomste	632 280 064	577 268 786	6 249 895 875	4 461 164 949
		706 045 824	627 387 440	6 946 374 211	5 067 879 457
State Oil Fund	Staatsoliefonds	23 301 516	19 000 000	156 531 047	148 200 304
National Road Fund	Nasionale Padfonds	11 679 028	9 005 570	79 252 253	73 483 887
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	3 562 000	789 000	10 126 552	4 887 056
Account for Black Transport Services	Rekening vir Swart Vervoerdienste	1 566 296	1 127 164	8 405 310	6 394 084
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing	6	—	950 006	914 763
S.W.A. Territorial Revenue Fund - Sales Duty	S.W.A. Gebiedsinkomstefonds—Verkoopreg	1 130	—	7 219	27 768
		746 155 800	657 309 174	7 201 646 598	5 301 787 319
Other Receipts	*Ander Ontvangste*				
Treasury Bills: *Internal*	Skatkisbiljette: *Binnelands*	960 504 000	—	5 102 678 000	—
Internal Stock, Bonds and Loans Raised -	Binnelandse Effekte, Obligasies en Lenings Opgeneem—				
7 Per Cent Treasury Bonds	7 Persent Tesourie-obligasies	13 837 000	—	96 212 100	—
Five Year Non-Resident Bonds	Vyfjaarobligasies nie Nie-inwoners	—	—	-	—
8 Per Cent Treasury Bonds	8 Persent Tesourie-obligasies	—	—	*Dr* 1 000	—
8 Per Cent National Defence Bonds	8 Persent Nasionale Verdedigingsobligasies	2 744 100	—	24 315 625	—
Defence Bonus Bonds	Verdedigingsbonusobligasies	29 118 893	—	153 532 555	—
Internal Registered Stock —	Binnelandse Geregistreerde Effekte—				
9,25 Per Cent, 2004	9,25 Persent, 2004	—	—	160 633 900	—
9,25 Per Cent, 2002	9,25 Persent, 2002	—	—	225 943 100	—
5 Per Cent, 1983	5 Persent, 1983	—	—	403 793 200	—
5,15 Per Cent, 1981	5,15 Persent, 1981	—	—	752 549 200	—
9,80 Per Cent, 2001	9,80 Persent, 2001	—	—	303 918 200	—
10,35 Per Cent, 2001	10,35 Persent, 2001	74 488 500	—	74 488 500	—
Foreign Loans and Credits Raised—	Buitelandse Lenings en Kredite Opgeneem—				
1981/86	1981/86	178 133	- -	1 600 133	—
1979/84	1979/84	—	—	152 932	—
1980/87	1980/87	—	—	52 342 319	—
Surrenders, *State Revenue Account* 1979/80	Terugstortings, *Staatsinkomsterekening* 1979/80	21 433 991	- -	44 115 483	—
Surrenders, Statutory Amounts 1979/80	Terugstortings, Statutêre Bedrae 1979/80	—	—	2 060 589	—
	R	1 848 460 417	—	14 600 001 434	—
Total (including Opening Balance)	Totaal (insluitende Aanvangsaldo) R	2 429 273 702	—	14 848 594 712	—

ISSUES—UITBETALINGS

Service	Dienste	Estimates / Begroting 1980/81	Month of October / Maand Oktober 1980	Month of October / Maand Oktober 1979	Total 1 April to 31 October / Totaal 1 April tot 31 Oktober 1980	Total 1 April to 31 October / Totaal 1 April tot 31 Oktober 1979
		R	R	R	R	R
State Revenue Account	*Staatsinkomsterekening*					
1. State President	Staatspresident	427 000	38 000	35 000	247 000	245 000
Statutory Amount	Statutêre Bedrag	50 000	4 166	4 082	29 170	26 505
2. Parliament	Parlement	3 262 000	345 000	58 000	2 391 000	2 194 000
Statutory Amount	Statutêre Bedrag	3 837 000	380 000	300 000	2 647 000	2 189 000
3. Prime Minister	Eerste Minister	4 799 460	395 000	40 000	2 161 000	290 000
4. Defence	Verdediging	1 890 000 000	197 000 000	165 000 000	1 339 000 000	1 022 000 000
5. Manpower Utilisation	Mannekragbenutting	29 148 200	2 535 000	1 400 000	21 184 000	17 480 000
6 Co-operation and Development	Samewerking en Ontwikkeling	676 823 000	53 597 500	57 960 500	253 246 200	208 423 500
Statutory Amount	Statutêre Bedrag	204 065 000	16 088 300	20 587 930	204 065 000	180 114 330
7. Agriculture and Fisheries	Landbou en Visserye	431 037 000	32 000 000	18 500 000	275 400 000	167 700 000
8. Commerce and Consumer Affairs	Handel en Verbruikersake	156 840 000	21 000 000	11 500 000	98 000 000	73 893 000
9. Industries	Nywerheidswese	187 555 500	17 000 000	5 000 000	140 500 000	275 000 000
10. Finance	Finansies	3 008 513 000	268 800 000	258 596 000	1 807 715 600	1 504 101 000
Statutory Amount	Statutêre Bedrag	1 514 772 000	233 965 000	228 504 610	944 429 879	848 240 989
11. Audit	Oudit	5 400 000	520 000	400 000	3 438 000	2 740 000
12. Transport	Vervoer	234 381 500	24 000 000	15 500 000	142 000 000	91 500 000
13. Community Development	Gemeenskapsbou	461 558 350	69 000 000	53 900 000	280 400 000	194 000 000
14 Coloured Relations	Kleurlingbetrekkinge	401 617 000	40 300 000	27 500 000	245 450 000	207 080 000
15. Indian Affairs	Indiersake	147 921 000	14 000 000	9 600 000	91 100 000	67 980 000
16. Justice	Justisie	49 813 896	2 900 000	4 500 000	32 265 000	30 407 000
Statutory Amount	Statutêre Bedrag	3 043 000	170 000	250 000	2 020 000	1 790 000
17 Interior	Binnelandse Sake	19 620 000	1 450 000	1 900 000	8 764 000	8 253 000
18 Commission for Administration	Kommissie vir Administrasie	17 400 000	400 000	300 000	15 460 000	10 280 000
19. Government Printing Works	Staatsdrukkery	1 000	—	- -	—	4 800 000
20. Water Affairs, Forestry and Environmental Conservation	Waterwese, Bosbou en Omgewingsbewaring	267 593 000	24 165 000	22 323 000	158 940 000	137 403 000
21. Foreign Affairs and Information	Buitelandse Sake en Inligting	234 811 000	10 716 000	4 750 000	103 016 000	31 600 000
Statutory Amount	Statutêre Bedrag	60 160 000	5 565 000	11 267 900	37 767 000	78 872 700
22 Mineral and Energy Affairs	Mineraal en Energiesake	431 085 330	24 000 000	13 429 000	191 900 000	160 335 000
23 Police	Polisie	309 765 000	35 000 000	27 500 000	201 500 000	135 500 000
24. Prisons	Gevangenisse	110 618 000	11 000 000	8 300 000	77 000 000	56 000 000
25 National Education	Nasionale Opvoeding	407 404 000	27 200 000	34 850 000	286 393 000	249 770 000
26. Public Works	Openbare Werke	390 495 000	37 500 000	25 200 000	239 750 000	191 950 000
27. Statistics	Statistiek	21 487 000	1 500 000	750 000	15 900 000	4 650 000
28 Tourism	Toerisme	8 434 000	680 000	630 000	4 908 000	4 320 000
29. Education and Training	Onderwys en Opleiding	244 153 000	24 000 000	20 000 000	147 000 000	96 000 000
30 Health, Welfare and Pensions	Gesondheid, Welsyn en Pensioene	769 875 000	67 000 000	57 500 000	486 700 000	384 500 000
Statutory Amount	Statutêre Bedrag	150 000	26 000	36 000	104 000	90 000
31. Improvement of Conditions of Service	Verbetering van Diensvoorwaardes	432 000 000	—	—	—	—
Statutory Amount	Statutêre Bedrag	2 002 000	—	—	—	—
	R	13 141 917 236	1 284 239 966	1 107 872 022	7 862 790 849	6 451 718 024

Service	Dienste	Estimates Begroting 1980/81	Month of October Maand Oktober		Total 1 April to 31 Totaal 1 April tot
			1980	1979	1980
		R	R	R	R
State Oil Fund	Staatsoliefonds (a)	270 000 000	23 301 516	19 000 000	156 531 047
National Road Fund	Nasionale Padfonds (b)	133 000 000	11 679 028	9 005 570	79 252 253
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds (c)	6 454 000	3 562 000	789 000	10 126 552
Account for Black Transport Services	Rekening vir Swart Vervoerdienste (d)	12 500 000	1 566 296	1 127 164	8 405 310
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing (e)	850 000	6	—	950 006
S.W.A. Territorial Revenue Fund—Sales Duty	S.W.A. Gebiedsinkomstefonds—Verkoopreg (f)	13 000	1 129	—	7 219
	R	422 817 000	40 109 975	29 921 734	255 272 387
	R	13 564 734 236	1 324 349 941	1 137 793 756	8 118 063 236
Other Issues	*Ander Uitbetalings*				
Treasury Bills repaid Internal	Terugbetaling van Skatkisbiljette, Binnelands	—	660 018 000	—	4 650 616 000
Tax Redemption Certificates repaid	Belastingdelgingsertifikate gedelg	—	—	—	86
Loan Levy 1966/80 repaid	Leningsheffing 1966/80 gedelg	—	945 943	—	4 709 260
Sinking Fund Advances	Delgingsfondsvoorskotte	—	2 142 593	—	16 473 085
Transfer to Central Revenue Fund—S.W.A.	Oordrag na Sentrale Inkomstefonds—S.W.A.	—	3 250 000	—	22 750 000
Payment of Balances on S.W.A. Account	Oorbetaling van Saldo op S.W.A.-rekening	—	—	—	5 042 223
Valuation Adjustment I.M.F.	Valuta Aanpassing I.M.F.	—	—	—	18 478 003
Transfer to Stabilisation Account	Oordrag na Stabilisasierekening	—	247 240 000	—	711 890 000
Internal Stock, Bonds and Loans Redeemed:	Binnelandse Effekte, Obligasies en Lenings Gedelg:				
Five Year Non-Resident Bonds	Vyfjaar-obligasies vir Nie-inwoners	—	26 000	—	1 165 000
8 Per Cent Treasury Bonds	8 Persent Tesourie-obligasies	—	1 715 100	—	8 889 400
Premium Bonds	Premie-obligasies	—	20 020 500	—	39 027 120
Second Series Premium Bonds	Tweede Reeks Premie-obligasies	—	88 000	—	17 973 600
National Defence Bonds	Nasionale Verdedigingsobligasies	—	150 700	—	1 880 250
Second Series National Defence Bonds	Tweede Reeks Nasionale Verdedigingsobligasies	—	22 650	—	336 250
Third Series National Defence Bonds	Derde Reeks Nasionale Verdedigingsobligasies	—	50	—	75 650
7 Per Cent Treasury Bonds	7 Persent Tesourie-obligasies	—	1 779 800	—	6 579 000
Defence Bonus Bonds	Verdedigingsbonusobligasies	—	3 063 705	—	18 962 085
8 Per Cent National Defence Bonds	8 Persent Nasionale Verdedigingsobligasies	—	504 400	—	1 056 400
Internal Registered Stock:	Binnelandse Geregistreerde Effekte:				
8,75 Per Cent, 1980	8,75 Persent, 1980	—	—	—	862 867 550
5,25 Per cent, 1980	5,25 Persent, 1980	—	—	—	84 000 000
5,375 Per Cent, 1980	5,375 Persent, 1980	—	20 000 000	—	20 000 000
Foreign Loans and Credits Redeemed	Buitelandse Lenings en Kriditte Gedelg—				
6 Per Cent Export Credit Facility	6 Persent Uitvoerkrediet Fasiliteit	—	2 256 398	—	4 529 771
1979/81	1979/81	—	—	—	15 629 432
1977/84	1977/84	—	—	—	400 304
1978/81	1978/81	—	—	—	12 554 978
1982/84	1982/84	—	—	—	12 468 828
1979/81	1979/81	—	—	—	5 541 482
1978/80	1978/80	—	—	—	800 830
1978	1978	—	—	—	40 114 663
1981	1981	—	74 424	—	74 424
1976/85	1976/85	—	4 374 263	—	4 374 263
1977/86	1977/86	—	4 268 499	—	4 268 499
1977/86	1977/86	—	4 393 158	—	4 393 158
Issues State Revenue Votes 1979/80	Uitbetalings, Staatsinkomstebegrotingsposte, 1979/80	—	—	—	3 996 000
Issues, State Revenue Votes, 1978/79	Uitbetalings, Staatsinkomstebegrotingsposte 1978/79	—	—	—	24 304
	R	—	976 334 183	—	6 601 941 898
	R	—	2 300 684 124	—	14 720 005 134
Exchequer Balance, 31 October 1980: Cash	Skatkissaldo, 31 Oktober 1980: Kontant	—	128 589 578	—	128 589 578
Totals	Totale R	—	2 429 273 702	—	14 848 594 712

(a) Section 1 of Act 38 of 1977.
(b) Section 2 (1) (a) of Act 54 of 1971.
(c) Section 8 of Act 18 of 1936.
(d) Section 7 (1) of Act 53 of 1957.
(e) Section 19*bis* (1) (a) of Act 63 of 1962.
(f) Section 22 (4) (a) of Act 25 of 1969.

(a) Artikel 1 van Wet 38 van 1977.
(b) Artikel 2 (1) (a) van Wet 54 van 1971.
(c) Artikel 8 van Wet 18 van 1936.
(d) Artikel 7 (1) van Wet 53 van 1957.
(e) Artikel 19*bis* (1) (a) van Wet 63 van 1962.
(f) Artikel 22 (4) (a) van Wet 25 van 1969.

Kantor comments

BRIAN KANTOR

49 FM 14/11/80

Comparisons are odious

Comparisons of the present boom with the boom and bust of 1973 to 1976 are inevitably being drawn. There are some most unfortunate similarities about monetary policy then and now that deserve notice.

In 1973 a sharp increase in the dollar price of gold and other exports meant a vastly improved balance of payments. With an improved balance of payments and faster economic growth came a very rapid acceleration of money supply growth. Faster money supply led in turn to more spending on domestic and foreign goods and still more rapid economic growth in 1974.

In 1975 and 1976 the price of gold fell steadily and substantially. This fall together with the higher level of imports reversed the direction of the balance of payments.

In spite of the balance of payments, rapid monetary growth continued well into 1975 as the government turned increasingly to money creation to finance a large fiscal deficit. This monetary growth, by stimulating imports, exacerbated a fundamentally weak balance of payments and led to a massive devaluation in September 1975.

Less inflationary government finance, combined with a balance of payments weakened by large outflows of capital, brought a rapid deceleration of money supply growth in 1976. This unexpectedly sharp reduction in money supply growth had a most depressing effect on domestic expenditure. The rate of economic growth declined sharply and only began to recover slowly in late 1977.

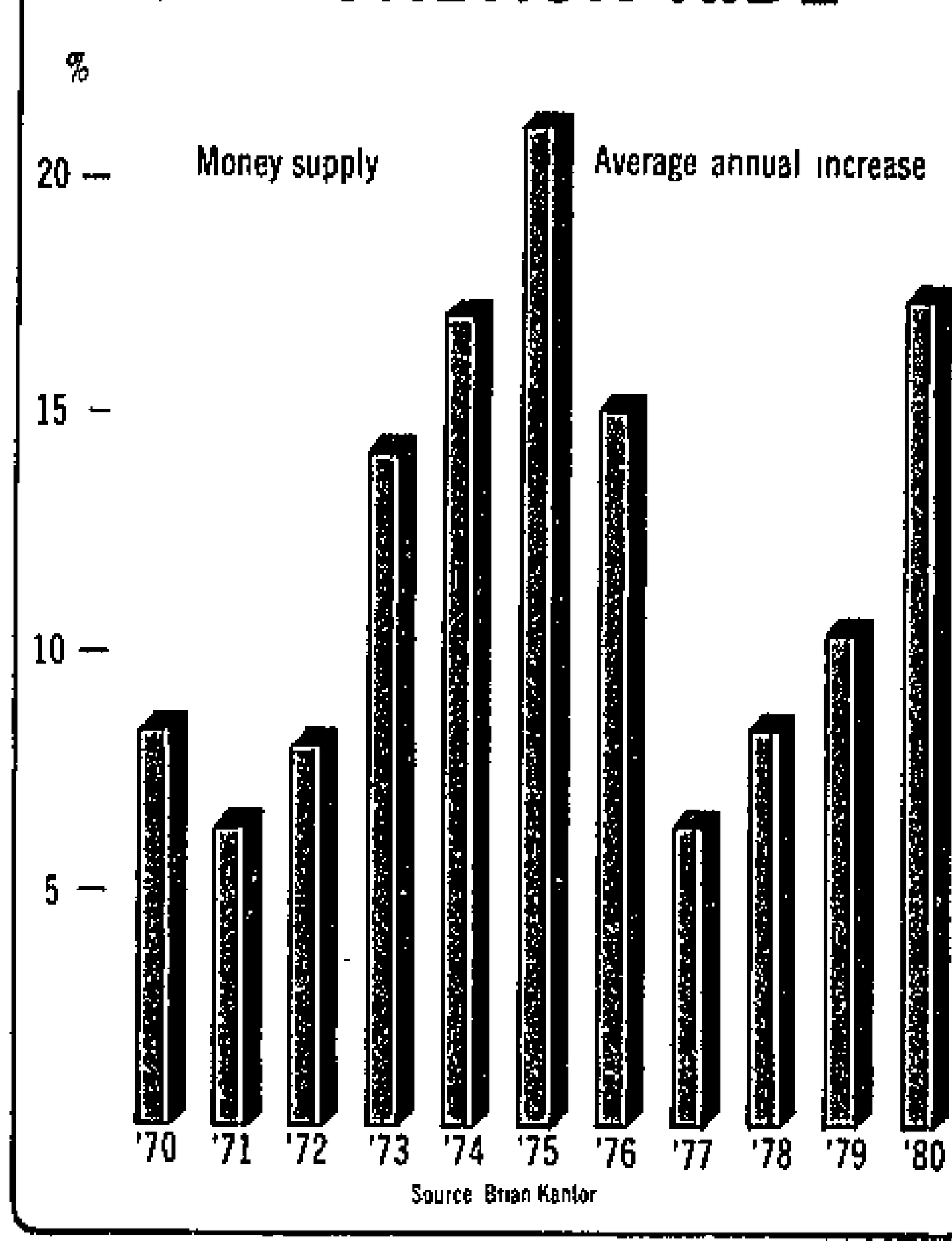
In late 1979 a highly favourable balance of payments, following a high and rising price of gold, caused a rapid acceleration in money supply growth. In 1979, as in 1973, domestic expenditure rose dramatically as did imports and the level of economic activity.

Increases in foreign exchange reserves and high rates of monetary growth have persisted in 1980. The economy continues to boom along.

In 1979-1980, monetary policy has failed to stabilise monetary growth, as it failed in 1973-1974. The earlier failure can perhaps be excused by unfamiliarity with the then strange new world of fluctuating exchange rates and a highly variable price of gold.

The failure to control money supply growth in 1979-1980 in spite of our earlier experience and the examples of other countries is regrettable and inexcusable.

SWITCHBACK RIDE



The Reserve Bank still does not appear to recognise that the only way to gain control over the money supply is to break the connection between the balance of payments and the cash reserves of the banking system. Market-determined exchange rates must be allowed to equalise the demand for and supply of foreign exchange.

The Reserve Bank's attempts to neutralise the effects of the balance of payments through open-market operations have been inadequate. However, had they been successful the surpluses on the balance of payments would now be even larger and require still more neutralisation. Successful neutralisation or policy engineered outflows of capital simply perpetuate an undervalued exchange rate. Monetary policy must choose either an exchange rate policy or a money supply policy. It cannot have it both ways.

Dr Gerhard de Kock, the Governor designate, in his recent sharp criticism of the policies of the Reserve Bank indicated again how clearly he understands these issues.

My great concern is that by the time the Reserve Bank is ready to do what is necessary for a stabilising monetary policy the price of gold may be on the way down. If so, the authorities may be reluctant to allow the exchange rate to depreciate for fear of higher inflation. Interest rates will then have to rise and money supply growth will slow down sharply in order to protect the balance of payments just as in 1975-1976.

Such an abrupt deceleration of money supply growth would then reduce domestic expenditure and the rate of economic growth just as it did in 1975-1976.

We must hope that the price of gold remains high so that the implementation of market determined interest and exchange rates will mean gradually slower and more predictable monetary growth, via a market determined and appreciating exchange rate that will bring a lower rate of inflation. A lower rate of inflation would in turn bring lower, market determined, long-term interest rates.

MONEY SUPPLY FM 14/11/80 (49)

A perilous inflow

Reserve Bank Governor Dr Bob de Jongh's period in office can be measured now in weeks rather than months. It may seem churlish, therefore, at this stage to draw attention once again to his well-known reluctance to implement government policy.

There are those who argue that it will be only months now before the De Kock Commission recommendations are known. And there is much to suggest that they are going to herald radical and much-needed change in the methods of official monetary control. Why, therefore, criticise near obsolete central bank attitudes?

That certainly has until very recently been the *FM*'s view. But a glance at the latest financial statistics, especially those mentioned last week by Finance Minister Owen Horwood at UAL's anniversary dinner, indicate the situation is too serious for either complacency or delay. The amounts of liquidity flowing into the financial system are too dangerously large.

If the recent third quarter increase in the money supply of 48% is assumed to be a temporary surge, the money stock still increased in the first nine months of the year at twice the official target rate. Its potential to continue at that rate remains.

The huge rise of R1 158m in net reserves in the third quarter must inevitably lead to further rises in the money supply. An increase in the reserves of that magnitude, relative to local financial markets, is too great to neutralise through open-market operations, even through the sale of long-term official securities (at which Pretoria has not proved adroit).

A relaxation of exchange control — such as at least allowing the gold mines to invest earnings abroad for six months or so — is now very urgent. It cannot wait for a few months without adding further impetus to the prices spiral and making its control even more difficult.

And, in fact, the more radical the changes envisaged by the De Kock Commission, the more urgent transitionary measures become. In their absence, the potential for disruption in domestic markets is enormous.

Every dollar of the flood now entering the country is invested somewhere. It is not lying idle. It is used to buy bills of exchange, property, services — it is used to acquire some factor of production. The worse the situation now and the more drastic the measures needed post-De Kock to correct it, the greater these investments will face disruptions.

If ever there was an example of the consequences of delay in monetary correction, it was being aired by members of the Confederation of British Industry this week.

The degree of lambasting necessary to contain inflationary pressures in Britain, which was caused by delays in adopting corrective policies, is clearly so great that the productive capacity of British assets is being seriously depleted. We don't want that to happen here. The sorry fact is that it is not impossible.

The money supply is patently out of control and the central bank is doing nothing about it. Not even is it making a token gesture through its discredited, but much favoured, device of the past — the quantitative bank lending ceiling.

The bank, by refusing to adjust the exchange rate adequately or relax exchange controls, is allowing unprecedented rises in the reserves to inflate the domestic money supply.

Its refusal to act is counteracting the efforts of the Treasury to neutralise tax receipts and thus contain monetary growth.

Its argument that by relaxing exchange controls it would "lose" money is fallacious. What would most certainly occur is a rearrangement of foreign assets and liabilities. But the country would lose nothing. The chances are that further foreign assets would be acquired and foreign liabilities reduced.

Sure, the Reserve Bank may in the process be short of international liquidity, to the extent that it chooses to defend the exchange rate. But that could be met by gold swaps or temporary loans. This financing won't be permanent. As relative prices, especially the rand's exchange rate and domestic interest rates, adjust, so the situation will change.

Nor is there any logic in the argument heard increasingly in Pretoria that domestic measures (that is, a reduction in consumer demand) are needed to cure domestic price rises. That is nonsense. SA is a trading nation. Imports and exports represent more than 60% of gdp. The inflation problem is a consequence of the country's foreign trade, not of domestic profligacy.

There is no reckless domestic expansion occurring now. If anything is reckless, it is Church Square's adamant refusal to recognise that under present circumstances exchange controls must go.

Counting the cost of being better off can be a depressing task

14/11/80

By BEN TEMKIN

(49)

WHEN, at the end of March this year the Minister of Finance Senator Owen Horwood, predicted a possible economic growth rate of five percent or more, it was pointed out that one of the greatest difficulties in achieving this would be that this would have to be done on an inflationary base of between 12 and 15 percent.

In the event, we are all now expecting growth of around seven percent for 1980 — notwithstanding an inflation rate of something like 14 percent. Two questions arise directly from this achievement:

- How was it done?
- At what cost was it done?

The achievement was the result of a combination of factors, not least of which was the very rapid rise in the gold price. This caused a very rapid increase in the money supply which, in turn, led to expansion in the economy with consumer spending rising and production levels following suit.

The process was accelerated by the reduction in individual income taxes and company taxes which created incentives for higher productivity as well as the money for the rise in consumption.

The whole process was, not, however, accidental. It was part of the deliberate policy of Government — since Senator Horwood became Minister of Finance — to promote economic growth from a strong base rather than through artificial stimulatory public sector spending.

The emphasis in this policy has been to encourage private sector expansion and to restrict public sector expenditures. This move towards a freer market economy has resulted in greater confidence in the business sector which has been a major factor in promoting economic growth.

In addition, the restraints imposed by the 1974-1976 recession led to improved asset management and the opening up of new markets both here and overseas. The pay-off can be seen in the much higher returns on capital employed being earned during this year.

Fundamentally, we are all better off now than we were a year ago — consumers and producers — and this in spite of the high inflation rate of the past year.

Counting the cost of this achievement is a depressing task.

Firstly, much of the growth has been financed by low interest rates arising mainly from excess liquidity through the high gold price.

While the institutions offering money at these rates have not suffered since they have been able to offer less to their depositors, people who rely on fixed income have been seriously affected. Their plight has been underplayed — mainly because many of them have been able to find part-time employment in a period when there is a serious shortage of skills.

The almost apathetic acceptance of a high inflation rate has allowed the administered price system to aggravate the inflationary problem to an unprecedented degree.

Price rises of administered products have been exceptionally high with the result that another large body of people on fixed incomes — pensioners — have found it as hard to keep up with rising costs of living as have those people who have had to take cuts in their income through falling interest rates.

Because of the enormous amount of money in the system, building societies have been willing lenders and have, therefore, promoted a boom in one sector of the property market — private residential housing.

The prices of existing dwellings, whether flats or houses have risen two or three times in just 12 months. Enormous demand pressure had built up for flats as buildings have been sectionalised and sold off.

Rents have risen astronomically while building costs have also soared as the construction industry has increased its profit margins to an economic level.

The real cost of the housing problem will only begin to be seen in the course of the next year but almost certainly the State will have to provide more housing subsidies and many thousands of people will have to accept accommodation inferior to that in which they previously lived.

While counting the cost is depressing, it has to be appreciated that the advantages of a high economic growth rate far outweigh the disadvantages.

In particular, there has been a rise in the level of employment and the increase in real wealth which has been produced has helped to raise the overall standard of living in South Africa.

In any case, it would be unrealistic to believe that any reasonable economic objective can be attained without some sacrifice.

(49) 08/11/91

Inflation a growth threat

By ALEC HOGG

INFLATION is the most serious threat to growth in the South African economy, says Mr Hendrik Sloet, president of the Afrikaanse Handelsinstituut.

Mr Sloet points out the need to remove the threat which bottlenecks pose to the inflation rate, and thereby to the economy in general.

Of particular importance is a need to stress more and better training of the workforce, which in turn will lead to an increase in productivity.

Mr Sloet also calls for the elimination of red tape encountered by prospective immigrants.

Looking at the money supply position, Mr Sloet welcomes the De Kock Commission's recommendations, which "will bring the necessary order" to the system.

Although the authorities' present system of transferring excess funds to a stabilisation account to mop up liquidity is good, Mr Sloet expresses concern about the possible effect it could have on interest rates.

'Precautions must be taken to prevent interest rates from rising too quickly. This would make productive capital investment unattractive.

The economic growth rate should be about 7% for 1980, and although there is likely to be a falling off in this rate next year, Mr Sloet says this will be off a much higher base, and that it will be a part of the business cycle and as such should not be a matter for concern.

Financial institutions must be careful not to increase their consumer credit, but should allow this to be granted to producers. He does not envisage a futher boost to consumer spending, but he does not encourage any additional measures to depress it.

Mr Sloet believes exact regulations and functions of the Small Business Development Corporation, and the Government's proposed de-centralisation plans, should be made known to the business community as soon as possible. This will be a great help to companies wishing to expand.

Big shift tipped as SA faces reality

RDM 18/11/80

49

CAPE TOWN. — Far-reaching consequences of the Government's move away from ideology due to economic realities were forecast by a South African business leader in addresses in the United States and Canada.

The executive deputy chairman of the Nedbank group, Mr L G Abrahamse, delivered the speeches to selected audiences and copies have now been made available in Cape Town.

Mr Abrahamse said the most significant and fundamental change in official attitude was that for the first time since separate development was first mooted, planning and development were now being assessed on the basis of a fully integrated economy.

"Fragmentation has been abandoned. The consequences of this rejection of ideology due to economic reality will be far-reaching."

Mr Abrahamse, who is to make a similar speech in London tomorrow, said that if there were some resolution of the political uncertainty over Southern Africa, then South Africa, as the "economic powerhouse" of the region, could well become the focal point and catalyst for the development of a broader economic bloc.

The prosperity which had characterised a good deal of South Africa's economic history had had a spill-over effect in most countries within the region, and, for all their diversity, the 10 countries in it could be viewed as a logically coherent economic zone, he said.

"Only the foolish and ostrich-like would discount the possibility of further internal disorder if the pace of change and adaption is inadequate or superficial.

"We need to regain the goodwill of the new generation of articulate, erudite blacks.

"But to force change at a rate and to an extent that creates chaos would be equally disastrous."

Mr Abrahamse said the disinvestment and/or economic sanctions advocates would have to recognise that any determined attempt to force internal change or "to make a pandemonium and call it progress" would backfire.

"It would drive the whites into the laager and polarise the situation between whites and the blacks, who — with our neighbours — would suffer most from any sustained boycott.

"It would certainly abort the groundswell for progress that is gathering effective momentum."

He said: "On many fronts we are doing a complete about-turn — for example, the permanency of the urban black is now recognised as a fact of life."

"And the constellation of states is not absurd economically — though it may sound like Alice in Wonderland politically — but economic reality again and again brings political pragmatism."

He predicted that this year South Africa could achieve the highest growth rate in the world — about 8%.

This could be achieved while running a surplus on current account and while continuing to reduce foreign and, proportionately, domestic debt.

It should also be possible for the South African gross domestic product to grow at an average rate of at least 5,5% over the next 10 years, with private fixed investment rising by an average of more than 7% a year.

Total consumer spending should rise slightly less than this, he said.

He added: "If my analysis of the long-term investment trends is correct and, if the Government adheres to its policy of fiscal and monetary discipline, it should be possible to bring the inflation rate down steadily over this period, to an average rate of less than 10%."

Mr Abrahamse said there were many encouraging developments in the field of industrial relations.

"At last . . . there is a realisation that the wage gap is really a skills gap and that to have a shortage of skills and a surplus unskilled labour reservoir because of colour is absurd in the extreme — let alone the social and political dangers of a large, depressed, unemployed black sector."

(49) ~~(55)~~ ~~(44)~~ STAR 18/11/80

Energy crisis fuels E Tvl economic boom

By Kevin Murray

Hundreds of millions of rands are being poured into the Eastern Transvaal in an economic boom fuelled by the world's energy crisis.

Both the Highveld and Lowveld regions are caught up in a period of runaway expansion as industrialists and businessmen announce plans for new mines, power stations, ethanol and methanol plants, heavy industries and vast shopping complexes.

Authorities there say the boom has been created by a need to employ alternative energy sources as oil prices soar and supplies dwindle.

New coal mines, a power station and a methanol plant — all multimillion rand projects — are being mooted for the Highveld region around Middelburg and Witbank.

A R1 000-million ethanol-from-sugar plant is planned for the Komatipoort area in the Lowveld, and a R25-million ethanol-from-casava plant is being mooted for Hoedspruit.

Population figures in the three main towns in the area — Witbank, Middelburg and Nelspruit — are expected to double within the next 10 years.

The Highveld region is highly attractive to industrialists because of the coal and water supplies, its proximity to the Reef, major ports and labour markets, and already highly-developed municipal infrastructures.

It was last year declared a strategic economic growth area by the Government.

Authorities in the Lowveld say the region's importance as an agricultural centre, its tourist attractions, gold resources and strategic value as a border area are behind its boom period.

● The Star publishes an in-depth look at the region on Pages B6 and B7 in today's special section.

Shocks, relief in budget

CT. 20/11/80 (49)

By NEVILLE FRANSMAN

WHILE commerce and industry must brace themselves for a major increase in property rates at the Cape Town City Council's budget meeting today, home owners can look forward to welcome relief.

This follows from the council's recent decision to introduce a differential rating system.

In effect, this will give residential property owners (except flat owners) a rebate of 20 percent, and further rebates to elderly people living in their own homes and earning up to R400 a month.

At a number of hectic meetings in the past few weeks, the council's standing committees and Exco have frantically pruned estimates to reduce capital expenditure. Interest and redemption on these have created a massive drain on the City's resources.

The relief for homeowners means that commercial and industrial property owners will have to make up the shortfall in rates income.

Late last night Exco chairman Mr Bill Peters and other Exco members declined to disclose exactly what the rate increases would be, but they did not deny or confirm that there would be a substantial difference between what the business sector and homeowners would pay in 1981.

Unofficial predictions have been that the average increase in rates for 1981 would be between 15 and 20 percent, as indicated in a Cape Times report yesterday.

This could mean that the increase for commerce and industry would be close to or above 30 percent, and that for homeowners as low as five percent.

Meanwhile, Cape Town's three new councillors — Mr Gordon Oliver, Mr Leon Markovitz and Mr Manfred Muller — are expected to deliver their maiden speeches during today's budget meeting.

Exco chairman Mr Peters will not deliver the budget speech, since he has had two eye operations. The speech will be read by Exco's deputy chairman, Mr Emil Riese.

The budget meeting starts at 10 am in the Foreshore Civic Centre.

THE ECONOMY 49

Prosperity problems

FN 21/11/80

The overriding theme to emerge from a number of recent economic forecasts is that 1980 has been the peak year of the current upswing and that next year will see a decrease in the growth rates of all major indicators, except perhaps inflation.

Paradoxically, this message contains a deep-seated optimism. The cyclical nature of the upswing, according to Nedbank economist Merton Dagut, masks structural changes in relative prices internationally that will shield SA's balance of payments from excessive fluctuations and the financial constraints that accompany them. And the investment spending triggered by the surge in consumption expenditure contains "multiplier" and "accelerative" effects that have launched the economy into a virtuous cycle.

Taken together, these factors have injected into the economy a momentum that promises to carry it forward into the next decade at high average annual rates of growth. So the inevitable dip in the gdp growth rate in 1981, the consensus projection for which is about 5% after a probable 8% this year, concludes Dagut, will be more in the nature of a recovery of balance than the beginning of another protracted downswing. Dagut estimates an average annual real gdp growth rate of 6% for the first half of the 1980s.

The notion of a short and mild downphase has been echoed by Reserve Bank governor-elect Gerhard de Kock, who anticipates thereafter a new upswing that "will take the economy to new heights and result in a relatively high rate of gross domestic product once again." And Finance Minister Owen Horwood added his support to this outlook last week when he said that the "temporary downswing or levelling-off" would be "a perfectly natural development and should provide no cause for concern, particularly since the indications are that the subsequent new upswing will probably take the economy to record heights." He added that a growth rate of 5% to 6% in 1981 would still represent an excellent performance, since growth would take place from a much higher base than in 1980.

Personally testifying to the accuracy of his forecast last year, Horwood presented one of the most optimistic scenarios for 1981. Private consumption expenditure could reach 6%, gross domestic fixed investment would probably maintain its 1980 level of 13%, the BOP current account could remain in surplus, even at an average gold price of $600, and imports would continue at a high level. This is in sharp contrast to Standard Bank, for instance, which forecast a significant drop in fixed investment, an average BOP deficit of around R1 500m, and a halving of the import level.

The Bureau for Economic Research at Stellenbosch University predicts that private consumption expenditure, eroded by inflation, will fall below 5% next year. All agree, however, that real government spending will be held at a growth rate of about 2%, thus continuing the pattern of concentrating the growth impetus in the private sector.

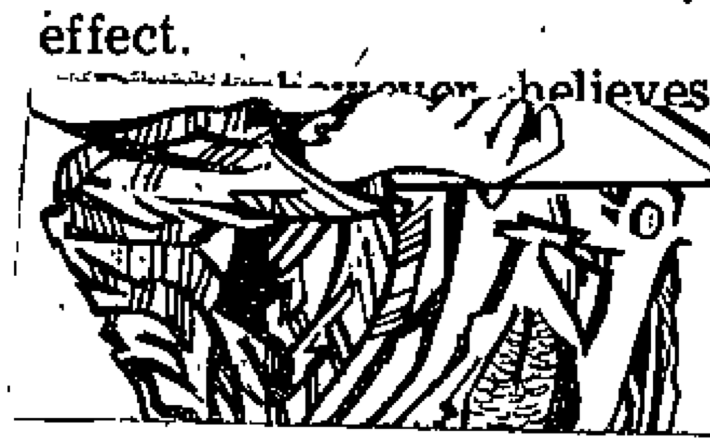
The speed and intensity with which the economy has grown this year appears, nonetheless, to have caught economists by surprise. Opinions differ on the surge in consumption expenditure. Some commentators express disquiet over the huge leap in this indicator, suggesting the economy is "overheated" or "out of control." Dagut maintains that spending has not increased disproportionately in terms of gdp, that its strength is not abnormal for this stage of a cyclical upswing, and that the purpose of an economy is to provide satisfaction of the demand for goods and services.

There is no doubt, though, that inflation has emerged as the main priority of public policy. Disproportionate increases in administered prices, public sector cost pressures as a result of rises in salaries and wages, and resource shortages in general promise greater inflationary pressures in the year ahead, according to Standard Bank. The need for monetary and fiscal control by the authorities will in turn check the upswing unavoidably, since untreated inflation ultimately has the same effect.

... believes that the com- ful blend of policy action and personal restraint."

The main impact of policy, concludes Horwood, should fall on the monetary area. Unless the rate of increase in the money supply is reduced to between 10% and 12% per year, it is "quite possible that the rate of inflation in 1981 will be significantly higher than that of 1980."

But Horwood, in the nature of public policy makers, is ultimately optimistic. "These problems are problems of prosperity," he concludes, "but they are problems nonetheless, and we must find the solutions. I am confident that we have both the will and the ability to do so."



State spending faster than last year

21/11/80

By HAROLD FRIDJHON

GOVERNMENT expenditure for the first seven months of the current fiscal year is running nearly 22% above the total for the comparable period of last year — in spite of Senator Horwood stating in his Budget speech that the 1980-81 spending would be only 14% higher than last year.

Total payments made by the Exchequer in the seven months were R7 863-million compared with R6 452-million last year. If spending were proportional over the period the seven-month expenditure should have been R7 666-million.

But expenditure does not occur evenly over each month of the fiscal year and during the next five months it is possible that the rate of spending will slow down and that the outcome might be closer to Senator Horwood's Budget of R13 142-million.

Numerically the biggest excess in expenditure was in the Defence vote. In the seven months to October, issues to Defence amounted to R1 339-million against R1 022-million last year — an increase of 31%.

Expenditure by the Department of Agriculture and Fisheries was 64% more in seven months this year than last year with a total of R375-million.

Commerce and Consumer Affairs have topped their last year's spending by 32% and Community Development is 54% up with a total of R142-million against R92-million in the first seven months last year.

Indian Affairs is 33% up and police expenditure at R202-million is running 48% higher than last year for the first seven months.

Education and Training at R147-million is 53% above the last year's figure.

The higher Defence figure is understandable in the current climate and so are the increases in Community Development, Coloured Relations (up 18%), Indian Affairs and Education. These increases suggest that the Government is putting its money where its mouth is.

With total expenditure at R7 863-million and total revenue during the seven months amounting to R6 946-million, there is a deficit of R917-million. Net borrowing totalled R795-million, leaving a bottom-line deficit of R122-million.

But the Treasury had R249-million cash in hand. This suggests that the Exchequer did not have to look for additional finance from the banking sector which might have aggravated the money supply position.

Enough of soup-kitchen homelands, says black

By ALEC HOGG

THERE is a vital need to educate blacks in the workings of the free enterprise system, says Mr M Mahanyele, manager, community affairs, at Ford Motor Company.

He told the 75th annual general meeting of the Commercial Exchange in Johannesburg yesterday that because they did not understand the system, more and more young blacks were rejecting capitalism.

The less-priviledged members of the community did not understand free enterprise, "but they certainly understand the continual shrinkage in the buying power of the rand".

Mr Mahanyele called for changes to what he called the useless homelands policy, and to the in-service training courses, which were serving no purpose.

"The economy of all homelands is proving to be more diseased than the other maladies that afflict these regions.

"None of the homelands is economically viable or agriculturally self-sufficient. The land tenure system could do with far more than just tractors and fertiliser.

"Here the need to move away from a 'soup kitchens' approach to one of economic self-sufficiency based on firm business principles has been demonstrated beyond any doubt."

Although circumstances were much better for blacks in urban areas, there was still much to be done.

Mr Mahanyele said relaxations in restrictive legislation had enabled blacks to diversify in business. The support and lobbying by well-disposed white business houses and associations had played a part in helping some blacks to succeed and become part of the free market system.

"At a time when most big and small white companies are recording all-time high profits, it is absolutely vital to remind you of low wages in many sectors of the economy while a galloping inflation rate has caused a rise in the price of every essential commodity."

In-house training schemes were a blight on the economy.

The quality of courses provided at these centres was so low that "in some cases the graduates of these institutions are made a laughing stock when they return to the shop floor".

It was impossible to train an artisan in a mere eight weeks.

By churning out "half-baked and incompetent quasi-artisans", the training centres were damaging race relations.

Mr Mahanyele did not blame white artisans for becoming upset when they were told to work alongside these "know-it-all, eight-week trained graduates".

RDM 20/11/80

(49) RDM 24/11/80

Businessmen praise Government attitude

LEADERS of the private sector and Government representatives have described the present level of co-operation between the public and private sectors as seldom, if ever, better.

Speaking in the Springbok Radio programme, Top Level, to mark the first anniversary this week-end of the Carlton conference, the mining and industrial magnate, Mr Harry Oppenheimer, said co-operation was a good deal better than it was before the conference, although there was still a feeling that some civil servants did not fully understand private enterprise.

Dr Andreas Wassenaar, insurance chief and well known Afrikaans businessman, said that since he had become head of an insurance group in 1948, there had never been a period when such fruitful dialogue between the groups had been possible.

Dr Gerhard de Kock, the Reserve Bank governor-designate, also said co-operation was the best ever in his experience and that the country was in an exciting and optimistic period.

The Director-General for Finance, Dr Joop de Loor, said the level of co-operation was constantly improving. — Sapa.

Private - State link at peak, say businessmen

STAR
24/11/80
49

Leaders of the private sector and Government representatives have described the present level of co-operation between the public and private sectors as seldom, if ever, better.

Speaking in the Springbok Radio Programme, Top Level, to mark the first anniversary this weekend of the Carlton Conference, Anglo American chief, Mr Harry Oppenheimer, said co-operation was a good deal better than it was before the conference, although there was still a feeling that some civil servants did not fully understand private enterprise.

The insurance chief, and Afrikaans businessman, Dr Andreas Wassenaar, said there had never been a period when such fruitful dialogue between the groups had been possible, since he became head on an insurance group in 1948.

Banker, Dr Frans Cronje said co-operation was better than it had ever been, and the Government was prepared to consult the private sector before introducing legislation which could affect it.

The past president of the Chamber of Mines, Mr Dennis Etheredge, said Ministers were taking the opportunity to talk to the private sector about planning, and business leaders were being asked to serve on various committees.

Reserve Bank governor designate, Dr Gerhard de Kock, also said co-operation was the best ever in his experience, and the country was in an exciting and optimistic period.

The Director - General for Finance, Dr Joop de Loor, said the level of co-operation was constantly improving, and he was confident of a further improvement in future. — Sapa.

R100-m scheme to aid the small business enterprise

STAR 27/11/80 (49)

By David Breier,
Pretoria Bureau

The Prime Minister, Mr P W Botha, today announced a R100-million-plus scheme to spread wealth in Southern Africa more evenly.

He was speaking in Johannesburg after the inaugural meeting of the Small Business Development Corporation which is aimed at aiding and financing small business enterprises for all races in Southern Africa.

Mr Botha announced the scheme would begin with a working capital of at least R100-million. Of this, at least R50-million would be held by private investors and another R50-million by the State.

Mr Botha said southern Africa was plagued by economic dualism — rising income among some peoples and growing unemployment among the masses of other people.

"The promotion of small business should assist us in distributing the benefits of economic growth and prosperity to as many people as possible," he said.

Small firms would provide many job opportunities as they would tend to be labour intensive rather than capital intensive, he said.

The corporation will be registered as an ordinary public company and will include the functions of existing development corporations at present serving black, coloured and Indian people.

Mr Botha said the private sector would play the major role in managing the new corporation which would be part of the economic co-operation envisaged in the constellation of southern African States plan.

Discussions with the independent States of Transkei, Bophuthatswana and Venda as well as non-independent homelands had resulted in agreement on three economic fronts:

- Promotion of small business enterprises.
- Regional economic development, transcending political boundaries.
- The establishment of a Multilateral Development Bank.

R30m pledged for Small Business Development Corp

28/11/80

By JOHN MULCAHY

THE private sector is enthusiastic about the new Small Business Development Corporation — as shown by the R30-million of firm pledges by various organisations yesterday.

While none of the commitments has been confirmed, it is believed that Anglo American, Gold Fields, Sanlam and the Rembrandt group are each prepared to contribute R5-million to the company.

Dr Gerhard De Kock, senior Deputy Governor of the Reserve Bank and Co-ordinator of Constellation Affairs, said yesterday that the establishment of the SBDC was a step for small business, and a giant move towards the year 2000.

The Minister of Finance, Senator Horwood, who kept a low profile at yesterday's meeting in Joahnnesburg, said the move was a fulfilment of his hopes for a truly free-enterprise oriented economy, and that the reaction from businessmen was encouraging.

Dr Conrad Strauss, managing director of the Standard Bank of South Africa, while reluctant to state the bank's view of the development, said the meeting showed there was a strong desire by the business community to make the venture a success, and there was a positive atmosphere.

The guest list at the Johannesburg Country Club gathering was formidable, including Dr Wim de Villiers and Dr W B Coetzer from General Mining/Federale Mynbou, Mr Donald Gordon from Liberty Life, Mr Tony Bloom from Premier Milling, Mr Rudy Frankel from Tiger Oats, Mr Murray Hofmeyr from Anglo American and Mr Francis le Riche, Sentrachem.

The SBDC will be a private company, with a share capital of R100-million, of which the Government, through the Industrial Development Corporation, will hold a maximum of 50%. There seems a chance of the private sector contributing more than 50%.

At this stage the SBDC is a purely South African operation, providing finance for entrepreneurs in this country, but the options are open for involvement elsewhere in Southern Africa once the company is established.

The investment by the private sector is seen more as an insurance policy for South Africa's stability than a profit-making move. In terms of the memorandum and articles of association, the private sector (holders of the A shares) will receive a dividend of up to 8%, after which the Government will receive returns.

A return of 8% is by no means attractive, especially in these times of booming mineral prices, and with an inflation rate of 14%, so there must be a motive other than profit for the private sector's enthusiasm.

Dr Anton Rupert says it is not a case of "conscience money", but a realisation from the side of business that there is a need to provide jobs.

It has been proved that small businesses are far more labour-intensive than larger ones, and this is the reasoning behind the establishment of the SBDC.

The idea was mooted by Dr Rupert at the Carlton conference last November, and after some discussion in Government circles led to the SBDC concept.

The company will probably be registered by the end of this year, and will be in a position to start providing finance within a year. The first stage in contact will be the bank manager — whether it be in Blikkiesdorp or Nababeep - as he is the person aware of the small man's needs.

There is no indication yet of the composition of SBDC's management, but it is known that there will be assistance from the banking sector. Professor Fred Du Plessis, chairman of the Bankorp group, said his company had decided to second some staff members (at bank manager level) to the operation.

It is highly likely that this will not be an isolated case, and that the other big banks, Barclays, Standard, Nedbank and Volkskas, will provide staff to run the organisation.

It is a move by Government to get the private sector to put its money where its mouth is, and this is shown by the board's structure, which will comprise private sector members to those from Government in the ratio 4:1.

Rupert's idea handed over

By JOHN MULCAHY

DR ANTON Rupert's Small Business Corporation is being wound down to make way for the Government-private sector Small Business Development Corporation.

Dr Rupert told a meeting of businessmen at the Johannesburg Country Club yesterday that the underlying policy in the Rembrandt group's establishment of a small business organisation was the conviction that others should be helped to help themselves. "Progress is contagious — if you share prosperity, it leads to greater prosperity.".

The provision of job opportunities is one of the most serious problems confronting Southern Africa, says Dr Rupert, and the ability to create jobs is one of the undisputed and most important advantages of the small undertaking.

Citing a US example, Dr Rupert pointed to the eight years up to 1977 when 9-million jobs were created in that country — 3-million by the individual states and local authorities, few by the central Government, and only 500 000 by the 1 000 largest companies — an average of 60 job opportunities a company a year. The balance of 5 500 000 new jobs came from small firms.

In Dr Rupert's view the Small Business Development Corporation is faced with an enormous task, especially because of the need to provide people who want to work for a higher standard of living the opportunity of doing this.

"Without free enterprise, development gets bogged down in over-centralisation and bureaucracy. South Africa, by word of its Prime Minister, has chosen free enterprise as the road along which all population groups could be led to economic self-reliance," said Dr Rupert.

Profits could be considered as the yardstick by which efficiency could be measured, and if there was no profit there could be no reserves, no investment, growth, job creation or welfare.

"Contrary to what some people believe, the making of profit is certainly not a social evil, it is a vital social asset."

Volkskas 1981 view: 4% growth, 14,3% inflation

28/11/80

By HOWARD PREECE
Financial Editor

VOLKSKAS Bank predicts a real growth rate of only 4% next year with inflation as measured by the consumer price index continuing at a high rate of 14,3%.

It expects, however, that there will be a modest R400-million or so surplus on the current account of the balance of payments with gold averaging around $600.

These are the key points in the bank's Economic Prospects for 1981 in this month's Spotlight.

Volkskas agrees with the general view that imports will rise 25% in value next year, against 45% expected by it for 1980, but takes a less pessimistic view than most about merchandise exports.

It forecasts that exports will rise by 15% in value in 1981, although that would be a virtual standstill in volume terms.

The accompanying table shows the varying forecasts for next year from four authoritative studies — those by Barclays, Senbank and the Stellenbosch Bureau for Economic Research, Standard and Volkskas.

	Barclays	Senbank/ Stel'bos	Standard	Volkskas
Real growth GDP	5%	5,4%	5,4%	4%
Inflation CPI	15%	13,5%	13,2%	14,3%
Gold price average	$614	$500	$619	$600
Current account, bal of payments (Rm)	−1475	−1286	−565	+400
Exports	+10,7%	+5,1%	+14,2%	+15%
Imports	+25%	+24,2%	+25,1%	+25%

Points to emerge from the four include:

- There is a remarkably close assessment of the gold outlook by three of the forecasters that the gold price will average around $600.

Senbank/BER, however, expect it to drop back to $500.

Economists generally think that the economic growth outlook for next year will not be much affected by the outturn for gold, but obviously if it did drop back to $500 this could well hit confidence and prospects for 1982 and onwards.

- Inflation estimates range from 13,2% to 15%. It is noticeable that the two latest forecasts — from Barclays and Volskas — are at the upper end of estimates.

Both have, however, been consistently more fearful about the inflation position than the other two.

- Although Volkskas expects a small surplus on the current account of the balance of payments next year. The other three groups expect deficits.

Volkskas' relative optimism on merhandise exports is crucial here.

Explaining its low 4% growth forecast (compared with an expected 7,2% this year) Volkskas says: "Physical bottlenecks, such as the availability of trained people and the full utilisation of population capacity as well as the inflationary consequences thereof, are basically the reasons why the present exceptionally high growth rate cannot be maintained.

"As far as inflation is concerned, we are currently worse off than in 1974.

"This is undoubtedly one of the dark clouds whose consequences could come strongly to the fore in the following years.

"Furthermore, it appears that thus far in the present upswing employment is increasing at a far slower pace than in 1973 and 1974.

"On balance it can be expected that private durable and semi-durable consumption expenditure will still maintain high levels, but a considerable deceleration in the rate of increase must be anticipated.

"However, it must be remembered that even should real expenditure on durable goods not increase further, it will still be an exceptionally favourable year for those producing and marketing such products."

R100m boost to aid small businesses

RDM 28/11/80

Staff Reporter

THE establishment of a R100-million Small Business Development Corporation represented another milestone on the road to a constellation of states in Southern Africa, the Prime Minister, Mr P W Botha, said yesterday.

Speaking yesterday at a luncheon to mark the inaugural meeting of the corporation in Johannesburg, Mr Botha said that since last year's conference with top businessmen, considerable progress had been made — some of it visible, and the rest still below the surface.

He expected significant progress in the simultaneous advance on four broad fronts — inter-state political relations, economics, social affairs and security.

Rapid progress in developing the economic dimension of the Constellation of Southern African States should accelerate progress on constitutional, political and other fronts.

The main emphasis should be placed at this stage on economic co-operation.

The special Cabinet-appointed Constellation Committee consisted of nine of the Government's senior economic advisers under the Co-ordinator of Constellation Affairs, who reported directly to him and the Cabinet, said Mr Botha.

Part of the committee's work was to co-ordinate policies relating to the customs union agreement between South Africa and Botswana, Lesotho, and Swaziland — and the Rand monetary agreement which South Africa had with Lesotho and Swaziland.

The committee was giving priority to three other subjects:

- The official policy of regional economic development;
- The establishment of a multilateral development bank for Southern Africa;
- The promotion of small business enterprises.

Discussions with leaders of the independent states of Transkei, BophuthaTswana and Venda, and the self-governing national states had resulted in agreement in principle to proceed with all speed on the three fronts.

Legislation would be introduced next year in connection with regional economic development co-operation.

An expanded budget programme for financial support of initiatives among public and private bodies concerned with training and guidance of small enterprises would be introduced.

The budget programme would be administered by a programme advisory board, led by an executive chairman with a small secretatiat

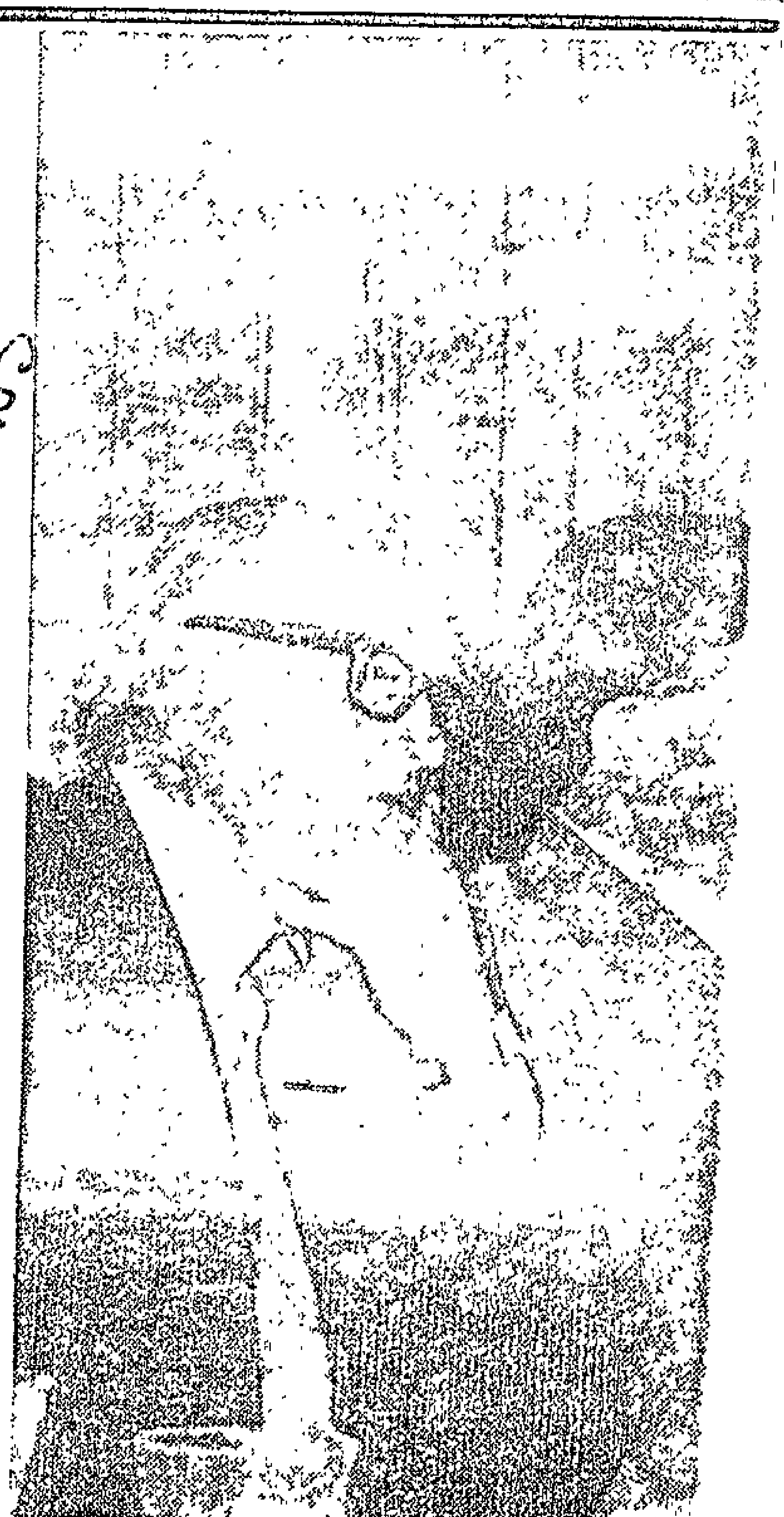
Funds would be appropriated through the Budget Vote of the Department of Industries and Commerce.

Mr Botha said the establishment of the Small Business Development Corporation resulted from negotiations between the Special Constellation Committee, Dr Anton Rupert, the Industrial Development Corporation, banks, insurance companies and other financial institutions.

Share capital would be divided into two categories: "A" shares to be issued to private investors; and "B" shares to be taken up by the IDC on behalf of the Government.

Authorised capital would provide for "A" shares of at least R50-million, and "B" shares of R50-million.

See Page 23



The Prime Minister, Mr P W Botha, a left, are: Dr Frans Cronje, chairma Piet Koornhof, Minister of Co-opera

Business Mercury

28/11/80

(49)

Volkskas sees slowdown in S A economy

Financial Editor

VOLKSKAS has taken a view of 1981 (see table) and like most other commentators sees that the economic climate will slow down from the very good times which have been seen this year.

They forecast that short-term interest rates 'will continue their upward tendency and could even show considerable increases in due course.'

In predicting the balance of payments situation, they have assumed a $600 gold price for 1981 and consider that if the price falls below $575 a deficit can be expected.

'Purely economic factors such as the poor wheat crop in Russia and a strong dollar are not conducive to a higher gold price.'

Volkskas does not think that the prospects for inflation are promising. 'It is only human to adjust prices just that little bit more when demand exceeds supply.'

A slight increase in Government spending is expected, although Government consumption spending will be tightly controlled in the March budget.

Expansion

Their summary for 1981 is: 'In a climate of increasing demand for goods and services, a country's economy can only grow as quickly as the expansion of the supply of goods and services will allow.

'Serious bottlenecks are developing which must inevitably curb the increase in production. This, then, is the most important reason why a lower growth rate must be expected in 1981.

'In a climate of adequate demand the economic growth rate can be increased if some of the bottlenecks in production are eliminated.

'Productivity in South Africa is not performing well and it is our considered opinion that management should give greater attention to this matter.

'An appreciable increase in productivity would of necessity benefit the growth rate and could restrain the increase in production costs which, in turn, would counteract the decline in real purchasing power while improving the [illegible] pursuit of higher productivity in 1981.

'Only through this can healthy long-term growth take place. This is our best counter to our most pressing economic problems — inflation and unemployment.'

Forecast increases in 1981

	1980	1981
Real gross domestic product (GDP)	7,2 percent	4,0 percent
Gross fixed investment	13,3 percent	10,0 percent
Change in inventories	R400m	R650m
Gross domestic expenditure	11,0 percent	6,5 percent
Export of goods and non-factor services	1,5 percent	-1,0 percent
Import of goods and non-facter services	16,0 percent	9,0 percent
Consumer price index	13,5 percent	14,3 percent
Employment	3,1 percent	3,3 percent
Balance of payments		
Exports	18 percent	15 percent
Net gold production	70 percent	-7 percent
Imports	45 percent	25 percent
Net services account	30 percent	24 percent
Balance on current account	R3 800m	R400m

ECONOMY (19) FM 28/11/80

Slower growth

Real economic growth in 1981 will be just 4%, according to Volkskas' November *Economic Spotlight*. Volkskas also forecasts that the average rate of inflation in 1981 will be 14,3% compared with 13,5% this year. Employment, however, is forecast to grow at a stronger rate than this year (3,3% to 3,1%), while the current account is expected to remain in surplus — but with a heavy drop from this year's R3 800m to R400m.

Volkskas' projection of 4% real growth next year contrasts with the more optimistic hopes of Finance Minister Owen Horwood and other economists. At the recent *FM* investment conference, Horwood talked of real growth next year of between 5% and 6%.

But Volkskas expects recessionary conditions abroad to have a detrimental effect on mining production, "while it is highly improbable that agriculture can again perform as well as it has done this year." The bank thus forecasts a 1% drop in growth in the primary sector. In contrast, the secondary sector will expand 5,5% and the tertiary sector 4,5% and domestic demand will remain strong.

The *Spotlight* also foresees sharp acceleration in unit wage costs as production capacity is used up and demand for goods and services tends to outpace supply. As the *Spotlight* comments: "The prospects for inflation are therefore not promising."

The balance of payments, however, is not expected to be a problem next year and in line with general expectations, Volkskas believes short-term and capital market interest rates will rise sharply.

INTEREST RATES 49

On all fronts

FM 28/11/80

The consistent upward movement in short-term rates over the last few weeks, no sustained interruption in which is forecast by money market sources, suggests that the long-predicted rising pattern in interest rates across the spectrum has finally arrived.

Yet the apparent paradox of the money market also being very liquid at the moment, with "well over R500m invested in the NFC," the borrower of last resort, testifies to the part played in these rate increases by the element of expectations. In fact, it has been crucial to the rising rate pattern witnessed in the long-term market this year, drawing credence from repeated policy announcements stressing that rates were too low.

In the last seven weeks, for instance, the official rate on 90-day bankers acceptances has risen to 5,90% from 4,80%, Treasury bills have moved to 5,50% from 4,68% and the call rate paid by the discount houses has jumped to 5,40% from 4,60%. This last rate is somewhat nominal right now, since the houses have taken in as much cash as their capital reserve bases will allow.

These are all liquid asset rates and thus reflect to some extent a captive market. More revealing are the rate movements on non-liquid assets. These give an indication of the efforts of the banks to offload them in exchange for liquids and thus meet the expected demand for loanable funds by expanding their excess liquid asset reserves.

The rate on one-year NCDs has moved to 9,20% from 6,10% in just six weeks. In other words, the differential between the rate on this paper and that on 90-day BAs, the size of which is a leading indicator of the banking system's assessment of the likely demand for funds, has moved from 10 points at the beginning of October to over 300 points at the end of November.

Hence the part played by expectations of the behaviour of so-called fundamentals, which seem to point to a gathering squeeze on the supply of loanable funds in relation to demand. The current liquidity in the money market, sources say, is largely a build-up towards the November month-end, when about R1 000m in assorted tax revenue will flow to the Exchequer. And it also reflects the fact that December will see a huge outflow of bank notes to finance annual vacations. Drawn in Johannesburg and spent some weeks later in, say, Amanzimtoti, these take some time to filter back into the system. The market, it is estimated, could go about R400m short over the month-end.

Long-term rates have tended to move sideways in the last two weeks or so, the longest sideways movement, dealers say, since the upward movement began in the first quarter of 1980. This pattern is mainly a reflection of the fact that the market is winding down for the Christmas period.

But dealers confirm that the large investing institutions are now "nibbling consistently" at long-dated stock, which is a significant change since the beginning of the year. The extent of their buying is not large enough to stabilise the market and has been disguised by being directed through a number of brokers. But it is interpreted as a hopeful sign that the long moratorium on institutional involvement in the long-term market may be coming to an end.

Nonetheless, rates are not considered to have peaked by any means. Long-dated Escoms are currently at 12,20/25% and RSAs at about 11,65/70%. These rates, too, are somewhat nominal, since there is very little real trade. Dealers speak of a buyer/seller stalemate and an inability to find a market-clearing price. As one puts it: "You virtually have to streak down the street to get a firm reaction!"

A brief upward fluctuation in the Escom rate this week was written off as the effect of an isolated deal in a very thin market. And the rate on the RSA 1993, carrying an 11% coupon, is at about 11,60/65% — slightly out of line with the prevailing pattern because of its popularity with short sellers. This particular loan has a high coupon and a short period to maturity, both comparative to the relation between these two factors on other loans.

Greater fluctuations

The capital market pricing mechanism makes this combination produce greater fluctuations as rates change. And short sellers, whose profits are taken on fluctuations in price (and thus capital values), attempt, of course, to maximise them. Hence the attractions of this loan to cover short positions.

The government comes to the primary market in December for a R100m rollover in two tranches: a 21-year loan at 11,50% and a three-year at 8%. The shorter loan will probably be sold at a substantial discount to ensure its success, not only from the point of view of a liquidity mopping exercise, but also because short rates are rising sharply. The longer loan, sources say, is primarily aimed at the PDC, which has still to direct a substantial amount of the funds at its disposal towards the Treasury in terms of the 1980 Budget borrowing requirement.

Standard Merchant Bank, with Senbank backing it up, is privately placing R5m for the Transkei. The loan is being sweetened by an early redemption option, a device considered essential to marketing new issues at the moment.

"Until about a month ago, you could solve your marketing problem by going shorter and offering a high coupon," says a dealer with a note of desperation in his voice. "Now, with short-term rates on the move as well, you have to attach things like a variable rate attached to an index, as Armscor did. Or an early redemption option, as on the Transkei loan."

The finalisation of these two issues will effectively end the 1980 primary market calendar. The new Treasury loan list just issued proposes a 1981 public sector borrowing programme of R1 011m. This will be subject to revision during the course of the year. This year's public sector capital needs, listed in January as nearly R800m, turned out to be just over R690m.

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DAILY DISCOUNT

49

The three discount houses have announced an important change in the method of setting the discount rate on three-month bank acceptances -- a key short-term interest rate. In future, instead of being set weekly, it will be done daily.

From the inception of the discount market, the houses have met on a Friday to set this rate for the following week. Mid-week adjustments to the rate were made rarely.

This agreed rate has become the key indicator of the level of short-term interest rates and is used in most economic assessments and interest rate forecasting models. It is the rate on which many variable-rate loans are based and is used by the Reserve Bank in establishing the important lender of last resort rates.

In the view of the growing volatility of the money market, the weekly setting of the BA rate is no longer appropriate. The rate will be set at noon each day and will be applied to discounts of three-month bills the following day.

It is intended that the daily rate will reflect changing market conditions. But the houses say they "recognise the responsibility imposed on them by their central position in the money market and will continue to set this key rate in a manner which contributes to the maintenance of orderly market conditions" -- whatever "orderly market" might mean.

(49) FM 28/11/80

CHANGING OUTLOOK

The contrast between Finance Minister Owen Horwood's economic outlook for next year and that of the Standard Bank is not as marked as the *FM* reported last week.

The bank expects both fixed investment and imports to grow, but at a slower rate than in 1980. Its forecast for the growth in fixed investment in 1980 is 10,6%, reducing in 1981 to 8,6%, and in merchandise imports reducing from 44,1% this year to 25,1% next year.

The *FM* regrets that it should have referred to a reduction in the rate of growth and not a reduction in absolute terms.

The balance of payments forecast — a R1 500m deficit on current account — was erroneously attributed to Standard, which expects a R565m deficit after a R3 440m surplus this year. The larger deficit was, in fact, Barclay's forecast.

21/2/80

Capitalism may not benefit SA – historian

Argus

THERE were serious doubts that capitalism and the freemarket system in South Africa would produce political freedom and solve the country's social and economic problems, leading Afrikaner academic, Dr Hermann Giliomee said last night.

Dr Giliomee, of Stellenbosch University's Department of History told the Civil Rights League in Cape Town that a universal perspective cast serious doubts on the contention that freedom and capitalism went hand in hand.

The claims of free marketeers should be tested carefully 'lest this beloved country forsakes one chimera for another.'

Dr Giliomee said in Afrikaans and English business, Press and academic circles there was a fervent belief that unfetted capitalist activity would not only generate enormous growth but would also produce political freedoms and solve intractable social and economic problems.

CHANCE

'There is disturbing recent evidence from Third World countries that capitalism and free market ideology go hand-in-hand with political exclusion and repression of large sections of the population,' Dr Giliomee added.

He asked whether South Africa had arrived at the tide of affairs where it had the ultimate chance to move away from political oppression and the denial of civil rights to a more just society with political and civil rights for all.

And, through a number of irreversible processes, South Africa had already embarked on the road of reform and incorporation of blacks.

'What must be decided still is whether this reform will take place without sacrificing existing freedom and rights.'

REASON

Dr Giliomee said large sections of the population who were unemployed and poorly educated were excluded because capitalism, with its reliance on technology rather than labour, did not need them as labourers or consumers.

'If they resist exclusion, or if the urban workers tried to enlist them as allies in a class struggle, the need for repression arises.'

'There emerges from capitalism in this context little or no broad political movement towards liberty.'

Dr Giliomee also disputed the claim made on behalf of economic growth that the removal by the Government of economic shackles would promote the fairly rapid growth of a stable, increasing bourgeois, black middle class, properly housed, well educated and responsibly employed as a buffer caste against black urban militants.

that the proportion of people making a living from agriculture had dropped, probably considerably, since 1960.

TABLE 8: NATIONAL ACCOUNTS OF THE HOMELANDS, 1960/1, 1970, 1973, AND 1976

(R ' 000)

	1960/1	%	1970	%	1973	%	1976	%
Agriculture	56 338	49	72 111	24	127 409	25	258 711	26
Services	26 235	23	81 582	27	138 839	28	278 272	28
All other sectors	32 727	28	147 158	49	235 157	47	460 927	46
G D P	115 300	100	300 851	100	501 405	100	997 910	100
Income from 'commuter'	-		149 972		313 881		864 525	
Income from migrant workers	143 300		423 384		663 324		1 342 304	
Less: 'foreign' payments	-		- 42 780		- 60 374		- 124 538	
G N P	258 600		831 427		1 418 236		3 080 201	
% GNP from commuters and migrants	55,4		6[illegible]		[illegible]		[illegible]	
GDP per capita (197[illegible])	27		[illegible]		[illegible]		[illegible]	

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ECONOMIC SYSTEMS

Free Enterprise Or State Control?

Our Programmed Thinking

ECONOMIC philosophies are like religions. Whichever one we happen to find ourselves thrust into, we tend to hold out as a universal truth. Wouldn't most of the best Christians have been equally good Buddhists if they – the same people, with the same minds and souls – had been brought up in a Buddhist environment? And how many of the dedicated proponents of capitalism would be singing the same song if they were R30-a-week labourers? Or if they were to watch say a furniture dealer pocket their month's earnings as his clear profit on a carpet sale? Most of us have economic views which are mainly emotional, and mainly determined by how well we personally feel we are doing out of the existing system.

In South Africa, for example, there was a strong socialist mood among Afrikaners a generation ago. But now capitalism is as fashionable among Afrikaners, who no longer have a group economic gripe, as it is among white English-speakers, who never had one. Instead, the socialist flag is waved with ever more enthusiasm by blacks, who have a large gripe, and by those white heirs of affluence who are disgusted by their own privilege and who see state control as the only way of erasing the accumulated injustices of history.

State control may be a whole answer if the quest is to abolish the immorality of such things as excess profits and hereditary advantage, or if it is to express the greatest rejection of the structure we have got. But if the quest is for the greatest concrete benefit of the greatest number, the answers are less easy, and it is very much less constructive to rely on the emotive slogans which each side uses to claim that its own cause is sacred.

Michael O'Dowd and John Kane-Berman have thought the issues through, and come up with different conclusions . . .

PLEASE TURN OVER

Socialism

AN EXCUSE TO LOOT

SAYS MICHAEL O'DOWD

The Government of South Africa constantly claims that South Africa is a capitalist or free enterprise country: but governments do not always tell the truth and this claim is not true. Those who say, as I do, that the solution to South Africa's problems can be brought about far better by capitalism than by socialism are not proposing that the status quo should be maintained. They are proposing very far-reaching changes.

The system in South Africa is in fact a mixture of feudalism, capitalism and socialism. The same is true of most other countries in the world. There are hardly any pure socialist systems and probably no pure capitalist systems but the mixture is different in almost every country and the mixture in South Africa is very unusual. The first place in which the South African system is contrary to the principles of capitalism is the whole area of racial discrimination. The principles of capitalism as set out by all the great capitalist writers require free access by everybody to all occupations and freedom of movement of the whole population. Most countries in pre-capitalist times had various restrictions some of them not unlike those which exist in South Africa, and where countries systematically set out to introduce the capitalist system, as Japan did, the very first thing they did was to sweep these restrictions away.

In all advanced capitalist countries today these restrictions are totally absent but the same cannot be said for socialist countries where the practice of influx control is very common. Indeed, influx control is one aspect of economic planning.

Apart from theory these practices are specifically against the interests of capitalists and the capitalist system. Influx control and job reservation do not reduce unskilled wages, they increase skilled wages and to some extent also increase unskilled wages at the expense of reducing job opportunities and creating unemployment. The whole history of modern South Africa has been marked by a struggle between the capitalists and various governments over the issues of job reservation and influx control, which up to now the capitalists have lost.

Apart from these aspects, which are rather survivals of feudalism than socialism, there are some very socialist situations in South Africa. Soweto is a perfect piece of socialist housing. Not only are the houses owned by the State and let at sub-economic rentals in accordance with socialist principles but in accordance with socialist principles the houses are all equal and they are not competed for, but are allocated by authority. Of course, the socialists will retort that Soweto is not 'real' socialism because it is not administered in the interests of the people but in the interests of a ruling group, but this brings us to one of the real problems about socialism.

Should they refuse to eat?

How under socialism in real life do you ensure that the enormous power that is placed in the hands of the State is wielded in the interests of the people? Is it ever wielded otherwise than in the interests of a ruling group? Be that as it may, Soweto and all the places like it in South Africa are socialist in all their principles and they closely resemble the kind of housing that is found in fully socialist states.

Then I must deal with the supposed connection between colonialism and capitalism. Inhabitants of countries which in the recent past lived under colonialism have a natural and justified antagonism for colonialism and it is true that the particular kind of colonialism which existed in Africa and Asia in recent times was the colonialism of countries which were were themselves capitalist. Yet to suggest that colonialism is or ever was simply part of capitalism is obvious nonsense. Colonialism or imperialism is as old as recorded history. It was practised by ancient Egypt. It is still with us today and is practiced by the Soviet Union – in those countries of Eastern Europe which are occupied by the Russian army, in every one of which in recent years revolts have been put down by the Russian army with much bloodshed and, of course, in Afghanistan.

Some antagonism by ex-colonialistic people against the former colonial powers is understandable, but to allow this antagonism to influence them to reject for their own use the system which those powers used for themselves and which brought them to their present state of wealth and power would be a piece of the most extreme foolishness. It is almost as if hungry people having become hostile to people who are well fed should then refuse to eat because that is what the well fed people do.

Let us now come to the main issue.

Here I intend to base my discussion on the biblical text "by their fruits ye shall know them". Let us look at what has actually been achieved by capitalism and socialism.

To start with, let us accept that it is no use looking for a perfect economic system for we live in an incurably imperfect world. It is no use to prove that under capitalism it is possible to be wicked, unless you can prove that under socialism it is not possible to be wicked. I personally do not believe that there will ever be what T.S. Eliot refers to as "a society so perfect that it is not necessary to be good". The traditional approach of people advocating socialism has been that they hardly talk about socialism at all but they list what they call the evils of capitalism. Among these they include

It's not enough to point out the wrongs, you have to show how they'd be removed

evils that are inherent in the human condition, evils created by the historical situation of the country which capitalism is in the process of removing, and evils caused by the absence of capitalism. They then assert that these evils would be absent under socialism. This is not good enough. They have to show convincing evidence that these evils would be, if not absent under socialism, either significantly less or would improve significantly faster.

We have to beware in this connection of the attitude of mind described by the proverb "the grass is always greener on the other side of the fence". People who live or mistakenly think they live under capitalism readily assume that they would be better off under socialism. There is considerable evidence that those who live under socialism may believe the contrary. Western Socialists often make the point that capitalism is principally supported by people who are well off under it, implying that it is a rich man's choice. They ignore the fact that somebody possessing privilege under socialism is going to be more favourable towards it than someone lacking privilege; and do not let anybody say that there is no privilege under socialism because we all know that there is.

Let us look then at the real experience of the world. In 1945 at the end of the last war Germany was occupied by the four Allied powers. As a result of this Germany was divided into two and in the one half, East Germany, a socialist government was established and in the other half a capitalist government was established. In neither half was this originally the decision of the people. Both governments were imposed by the occupying powers. However, in 1948 when the West German government obtained substantial control of its own affairs it decided to move to a more capitalistic system than that which had been established by the occupying powers. In particular, all price controls were abolished by the German government against the advice of the occupying powers.

From a very early stage people started to move from socialist Germany to capitalist Germany. Initially East Germany was willing enough to let them go because it could find no work for them although apparently West Germany could find work for them, but in due course after approximately 5 million people had moved to West Germany, including a great many who had not been unemployed in East Germany, this movement started to threaten the total collapse of the East German economy. The result was that East Germans were forbidden to leave the country and the frontier was fortified to prevent this movement. The most famous part of this fortification is the Berlin Wall where barbed-wire, minefields, guard dogs and machineguns were used to prevent people from moving from socialism to capitalism. After 30 years of socialist development in East Germany the wall is still there.

Five million people chose to be workers under capitalism rather than workers under socialism and after experiencing capitalism none of them went back. Nowhere in the world is there a wall preventing people from moving from capitalism to socialism.

Some people may retort that East Germany is not a fair example of socialism, and that the true and proper example of socialism is China. Well we have an interesting situation in China as well.

High price for a backward move

Immediately adjoining China is Hong Kong. Hong Kong is the most purely capitalistic country in the world, possibly as near to pure capitalism as it is possible to get. In particular, there is no minimum wage legislation, the trade unions are very inactive, everybody pays the same rate of income tax (15 per cent irrespective of size of income). There are about five million people in Hong Kong. My simple question is why do they not, all five million of them, run away to China? But of course as we all know the flow of refugees is the other way.

As far as total or revolutionary socialism is concerned I could very well, in the phrase of the American lawyers "rest my case". However, let us look at one more parallel over a very much longer period of time; let us consider Soviet Russia and Japan. In the middle of the 19th century both these countries were backward although Japan was a great deal more backward than Russia.

The economic development of the two countries started at about the same time in the 1860's, both countries making a conscious decision to embark on development along the capitalist road, signalled in both cases by the abolition of serfdom.

As we all know Russia developed up to 1917 under capitalism and from 1917 to the present under socialism. Japan has developed under capitalism during the whole time. Today the standard of living of the workers in Japan is at least 50 per cent higher than that of the workers in Russia, and the people of Japan have a free society whereas the people of Russia do not have a free society.

We should notice in passing that the price that Russia paid for its transition from the superior to the inferior system was the death of between 20 and 60 million people.

What then of moderate or democratic socialism? What about Britain? Here again the historical evidence is extremely clear. After the war, in 1945, Britain embarked on a policy of moderate socialism aimed at the redistribution of wealth. West Germany embarked on a policy of the creation of wealth under capitalism with almost no intentional redistribution. At the beginning of this time Germany was in ruins and the British worker earned at least twice as much as the German worker. After 30 years the German worker now earns just about twice as much as the British worker, and his social security benefits are in no way inferior.

Of course, neither the level of material earnings nor social security benefits are the only human values, but if there are values in terms of which British society is superior to West Germany society I do not know what they are. Britain is neither freer nor more tolerant nor more open nor more cultured than West Germany.

"But," the reader is probably saying by now "we know that capitalism causes evils. What about the industrial revolution in England?" Well, let us look at that. We have all read of the alleged evils of the industrial revolution in England – the long hours worked in the factories: the low wages: the terrible conditions. These are all true. The fact remains that the overall picture painted in the popular history books is false, and this is because it fails to give a true picture of what conditions were like before the industrial revolution began.

At the outset of the industrial revolution, in 1730, the death rate in England was 33 per 1000. In 1830 after what is generally called the "worst" of the industrial revolution and before the first significant social legislation and before any effective trade unionism, the death rate was 21 per 1000. In 1780, just under half of all children born in England died before they were five, by 1830 just under one third died before they were five.

The fall in the death rate could only have been brought about by better feeding, better housing, or greater cleanliness and these three things came about among the working class as a result of the industrial revolution.

Even the notorious child labour in the factories appears initially to have been a favourable development. The popular history books lead us to picture these children before the industrial revolution

PLEASE TURN OVER

They don't go to where it already exists — they want to be its rulers, not the ruled

CONTINUED

as playing happily in the meadows. The actual fact is that before the industrial revolution they were dead. At the very early stages it was the ability of the children to earn wages that made it possible for their parents to feed them. In due course, of course, as wages rose, it ceased to be necessary for the children to earn and the cessation of child labour was another step forward.

Two other claims for socialism have to be dealt with. The one is that socialism produces equality. Actually there is no evidence that socialism produces equality and indeed how should it when it concentrates all economic and political power in the hands of a few people and has to rely on these people's personal virtue to ensure that they will not use this power to enrich themselves? In fact the inequality of incomes in Russia appears to be much the same as it is in South Africa and a great deal more than it is in Western Europe. This is after 60 years of socialism. The distribution of income in Tanzania is more unequal than in South Africa.

Controlling the lives of others

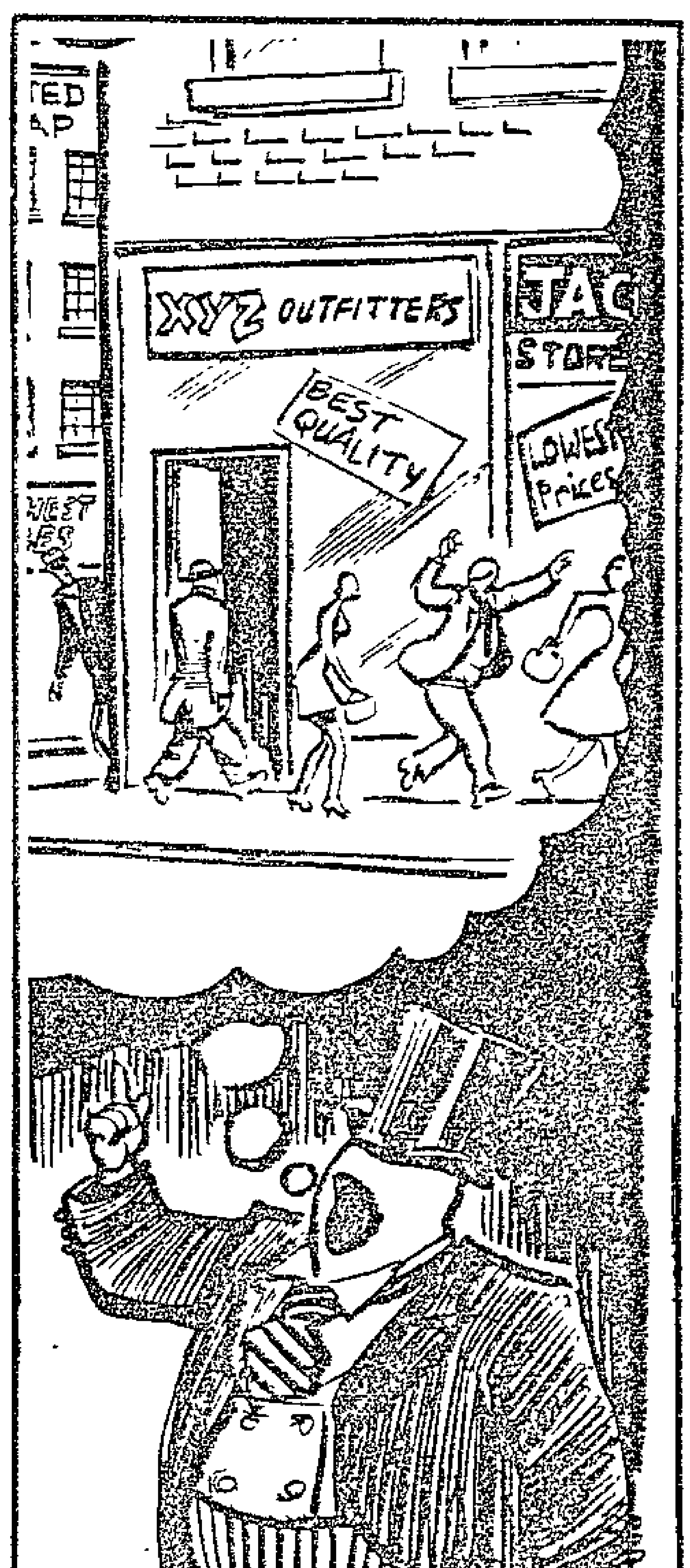
Then there is the claim that the people cannot wait for the benefits promised by capitalism. They want it now and therefore they want socialism. Now the interesting fact is that wherever socialism does not exist those who advocate it use this argument, but wherever socialism does exist little is heard of the instant benefits that it was supposed to provide and the rhetoric of the Government is all about austerity and the need to sacrifice the present in order to build the future.

The real appeal of socialism is different and has nothing to do with whether it is a good social system or even whether it works. As far as the ordinary man is concerned a belief in socialism is essentially an excuse to loot. His object is to redistribute the existing stock of wealth and hope to come up with more than he had before. This ambition, though very understandable among poor people, is based on a fallacy. The existing stock of wealth is quite tiny, wealth has to be produced every day and the process by which it is produced is very complicated and very easily upset. In fact, looting, whether morally justified or not, is extremely destructive and in the process most of the wealth is not redistributed but destroyed. In most revolutions in the past only the successful leaders have come out better off and the ordinary people have been left worse off than they were before, often very much worse off.

The other appeal of socialism, essentially to intellectuals, is the power which it gives to the ruling group over the lives of their fellow. Under socialism the Government can decide how people will live, what they will do, what goods they will consume, even what books they will read. Under capitalism people make these decisions for themselves, and while I know very few people who believe that others can decide for them better than they can decide for themselves, I know many who believe they can decide for other people better than those people can decide for themselves.

This is in fact one of the great weaknesses of socialism. It involves an enormous concentration of power in the hands of the rulers, so that everybody wants to be a ruler and nobody wants to be ruled. This is why in every capitalist country there are people trying to establish socialism but nobody ever leaves capitalist countries to enjoy the fruits of socialism in existing socialist states. In the first case they hope to be rulers, the second case they would have to join the ruled.

The only objective worth working for in a socialist state is to gain control of the government, so that so far from bringing an end to social conflict the establishment of socialism makes conflict far worse. In cases of extreme socialism the conflict becomes so violent that the only solution is the installation of a government so oppressive that no further struggle is possible.



Freedom helps the poor

The last question which we have to ask is, does not capitalism merely perpetuate the existing distribution of wealth? Do not the rich grow richer and the poor poorer? The answer is no. Actually, competition is a very equalising force. The poor have great competitive advantages because they will initially accept lower incomes and because they try harder. We are very familiar in South Africa with the demand that this or that group, normally Black, should not be allowed to compete "because they have a lower standard of living". This is the rich demanding protection from the competition of the poor. It has been one of the main roots of racial discrimination and one of the reasons why we do not have proper capitalism. Most of the South African Jews came to South Africa at the beginning of this century as penniless refugees at a time when most of the land in South Africa was owned by Afrikaners. Today the Jews are the richest ethnic group in South Africa and far richer than the Afrikaners.

The fact that the blacks have made relatively little progress in South Africa up to now has been caused by laws which have actively prevented them from doing so. That these laws were passed at all is testimony to the fact that under free capitalism they could, and would, have made progress. ■

Capitalism

A LICENCE TO EXPLOIT

SAYS JOHN KANE-BERMAN

"Free enterprise" is all the rage. Well-heeled American academics jet in and tell us we shoudn't have a national minimum wage (their friends apparently having forgotten to tell them we don't have one). The problem with South Africa, they tell us, is not apartheid but "creeping socialism," and, conveniently, it follows that the solution is galloping capitalism, known in polite circles as "free enterprise."

But attempts to say that South Africa does not really have a capitalist system or that capitalism cannot be blamed for many of the evils of apartheid simply do not wash. They recall apologists for communism who, when confronted with the evils of the Soviet Union, argue "Ah yes, but you see that's not true communism!"

Equally, the argument that what is wrong with South Africa is its policy of "creeping socialism" is spurious. State regulation of the economy may indeed be a feature of all socialist societies, but that does not mean that all societies where the State intervenes are socialist. That is like saying, "All people have two eyes; my pig has two eyes; therefore my pig is a person."

The vast bulk of assets in South Africa – secondary industry, the mines, and of course the land – are not owned by the State, which would be the case if South Africa were socialist. They belong to whites.

The economy is of course subject to a welter of controls that are probably unique in the Western world, but this high degree of state intervention is not socialism. For these controls are usually racially discriminatory, and racism is foreign to socialist thought.

Futhermore, they are designed to protect the interests of a privileged white minority. This too, is foreign to socialist thought, one of whose principal aims is to protect the interests of the dispossessed. Parties professing socialism favour using the tax system to redistribute wealth from rich to poor. South Africa's tax system does the opposite. Most blacks in this country are taxed more heavily than whites and the present thrust of taxation policy is to swing the balance even further in favour of the rich by cutting direct taxes and imposing indirect taxes (like GST), which hit the poor particularly severely.

Far from being in conflict, apartheid and capitalism in South Africa have become so mutually reinforcing that in practice they cannot be separated.

There are aspects of racial policy that the capitalist sector finds irksome. But the pillars on which the overall structure of economic apartheid stands – pass laws, migratory labour, and the role of the bantustans as labour reservoirs – were built by the capitalist sector as much as by Nationalist ideologues. Capitalists also collaborated actively in implementing other cardinal features of economic apartheid and controls on freedom – like denying blacks trade union rights.

So it is all very well for people professing adherence to "free enterprise" to argue that that system must be separated from apartheid, but given the behaviour of South Africa's capitalists down the years it is hardly surprising that blacks don't bother to draw the distinction.

Free for the bosses

The trouble with the new modish "free-enterprise" philosophy is that it usually means "free enterprise" for the capitalists and no free enterprise for the people they employ. Nobody trumpets the virtues of "free enterprise" louder than the captains of our mining industry, but the last thing on earth they want is to let their black workers get a taste of it. Through their monopsonistic recruiting system and policy of consorting to lay down unilaterally a uniform minimum wage the mining houses still deny their black workers the right to sell their labour to the highest bidder and hence push their wages up.

This policy was re-affirmed earlier this year. Anglo American took the unprecedented step of recommending to the other six mining groups a minimum black wage of R100 a month which it said all the mines could afford to pay, yet when they agreed to put it up to only R75, Anglo American accepted defeat and considered it more important to keep wages uniform than to pay a living wage.

What do blacks think when they read practically everyday about the huge revenues that are flowing into the country because of the high gold-price and the windfall profits that are being made, yet their wages remain so low? What do they think when they see that Anglo American's after-tax profits rose by 51 per cent in its last financial year, and then discover that their own average wages are to go up by no more than 19 per cent? Yet the mining industry is in the very vanguard of those whites who almost daily express the fear that blacks are turning against capitalism.

Far from simply stepping out of the arena and letting the private sector do its thing, the State should intervene to outlaw things like monopsonistic recruiting practices. The role of a democratic state is to intervene to protect workers against the type of exploitation one sees in the mining industry and not simply abandon them to their fate under "free enterprise."

What do black workers think when the moment that there is any sort of industrial dispute, their employers – with a few exceptions – call the police, dismiss the entire work-force, and then often ship it off on the next train to some or other bantustan? Could anything be better calculated to convince them that the Marxists are right when they say that the

In so distorted a society, the free market is sure to work against the poor

CONTINUED

police are simply the agents of the exploiting bosses?

Another thing undermining so-called "free enterprise" is the fact that many employers are busy undermining the trade union rights that blacks were supposed to get following the report of the Wiehahn Commission. Instead of allowing their black workers to choose their own union, they are trying to channel them into tame unions which are controlled either by management itself or by white trade unionists.

There is plenty of evidence that the kind of treatment black workers daily receive at the hands of employers in the private sector is not fundamentally different from what bureaucrats in the pass office or other apartheid institutions do to them. Because of this, the view that freedom entails dismantling capitalism as much as it entails the destruction of apartheid is likely to gain more and more support among blacks.

Caught in a downward spiral

Another criticism that must be levelled against the current "free enterprise" fashion is that it ignores the serious problems in the rural areas. The private sector greeted the Riekert Report with great enthusiasm, and is daily urging its more rapid implementation, but history will probably show it to be the most disastrous policy document produced in this country since the Tomlinson Report. While some of Dr Riekert's proposals will undoubtedly improve the situation of blacks in the urban areas, the position of the vast majority – who do not possess the requisite stamp in their pass-books giving them permission to live and work in those areas – will become immeasurably worse. Through the stricter application of influx control that is already being imposed, blacks in the bantustans are simply being cut off from the mainstream of the economy and abandoned to their fate. In the wave of white euphoria that is sweeping the country with the gold-price and the atmosphere of economic boom, they have been forgotten, and most of them have little chance of sharing in the boom. They are caught in a vicious downward spiral of overcrowding, unemployment, poverty, economic stagnation, and despair.

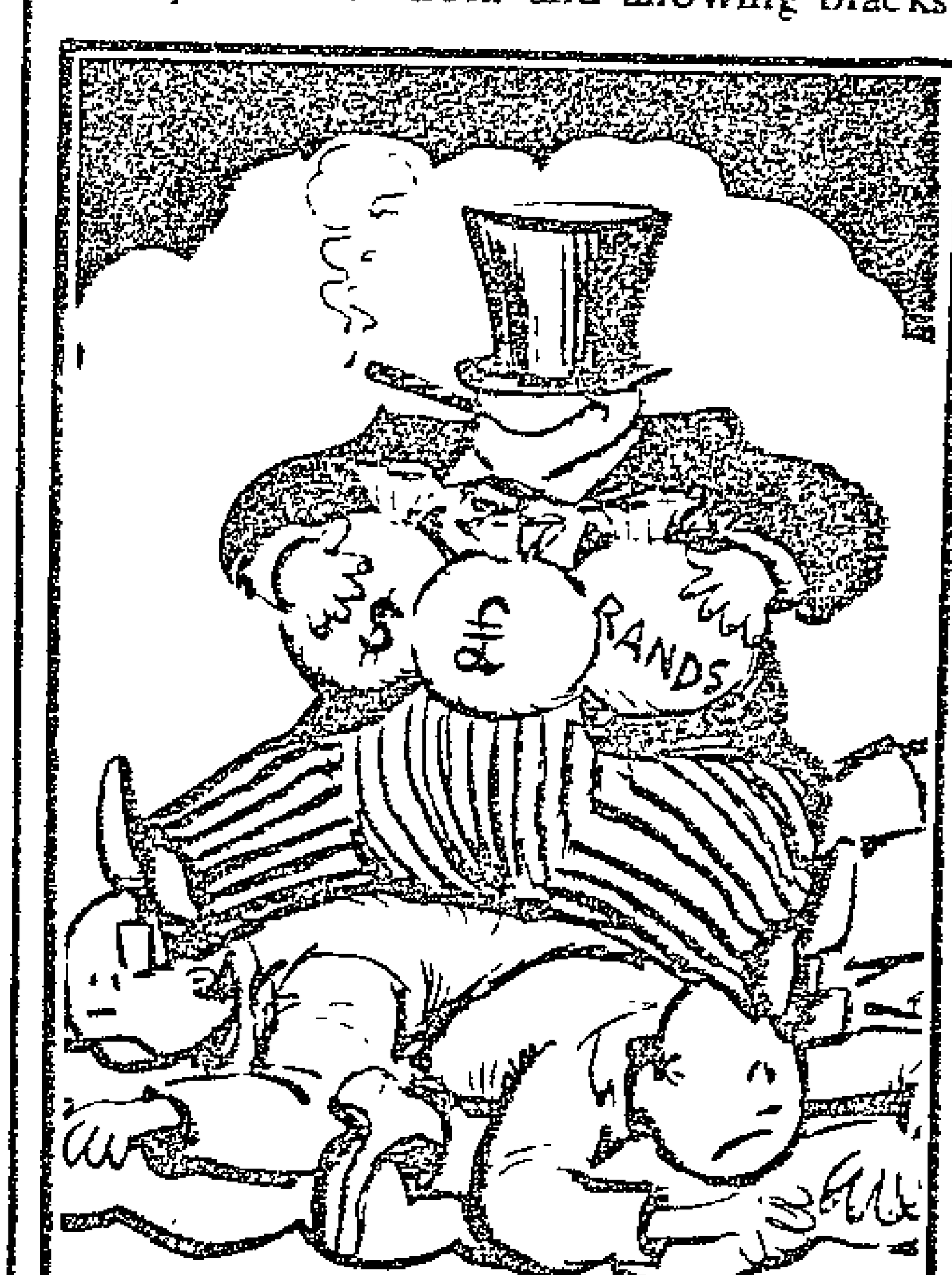
Even if it had the desire to do so, the capitalist sector does not have the capacity to make even a dent in these problems. Private sector-led growth in the industrial areas will do nothing for these millions of people, other than the small proportion who may be recruited for jobs under the migratory labour system.

Unlike the picture which some people like to paint, the bantustans are not idyllic pastoral scenes but vast rural slums, and I believe that their problems are the most serious challenge this country must face up to, and with great urgency. I do not believe that they can begin to be solved without large-scale state intervention of a socialist nature.

Four strategies are necessary. Firstly social relief on a large scale, which would have to be financed by increased taxation of the rich. Secondly, the introduction of state-sponsored employment-generating schemes, the capital for which would have to be provided by the State since the bantustans themselves have no tax base worth speaking of.

Thirdly, the lifting of influx control so that the "surplus" population can move to the towns if it so wishes. This last point would, of course, be consistent with the theory of "free enterprise" (though of course foreign to the manner in which it is practised in South Africa).

Fourthly, the State has to step in to rectify the serious imbalance in land-ownership. Simply following the "free enterprise" solution, and allowing blacks to buy "white" land, would not solve the problem since land prices would exclude all but a tiny proportion of blacks.



In an ideal society where there is a high degree of political, social and economic equality, the free market mechanism may be the appropriate means of distributing resources. But in a society which has become so massively distorted along race and class lines, it will invariably work against the poor, for the contest is hopelessly unequal. In any event, since some two million blacks have been forcibly removed from so-called "black-spots" and other parts of the "white" areas, and resettled in the bantustans, it is manifestly unjust to expect them to buy their land back.

Only the State can solve it

The abolition of influx control – I have yet to hear a concerted voice from all the proponents of "free enterprise" advocating such a move – might result in a substantial increase in the flow of blacks to the towns. Once again, I believe that the State would have to step in on a large scale to provide for this.

However useful the efforts of organisations like the Urban Foundation may be in their limited way, they cannot begin to solve the housing shortage. Nor is the much-vaunted 99-year lease system any real answer. The building societies admit quite frankly that they see their function as to provide finance for middle-class housing, not tackling the problems of the poor, who cannot afford either the deposit or the monthly bond repayments.

Given the expected rate of black urbanisation over the next two decades, I cannot conceive of any solution to this problem other than increased taxation and state intervention on a large scale with the necessary finance. The same applies, of course, to black education.

With the economy awash because of the huge inflow of gold revenues, it seems to me that this country has a literally golden opportunity to solve some of the problems which decades of apartheid have left in their wake. But this means that the State must step in, appropriate a larger rather than a smaller share of national resources, and act as the distributor of social justice in the traditions of social democracy.

'SA needs more skilled blacks'

xon 175 (49) 3/12/80

By ALEC HOGG

SOUTH Africa will need to experience a real economic growth rate of 5% over the next twenty years if the growth in economically active population is to be accomodated, according a report by the University of Pretoria's Bureau for Economic Policy and Analysis.

It says in the latest "Focus on Key Economic Issues" by the bureau that if this growth rate is to be achieved, a yearly increase of about 3,2% in the skilled work force is needed — and more than half of this increase will have to be drawn from the ranks of the blacks.

The number of skilled whites can only increase by 1,3% a year, and while some of the gap can be narrowed by encouraging more immigrants, it is clear that if the socio-political consequences of unemployment are to be avoided, a big increase in the number of skilled blacks is a priority.

The present education system, the bureau argues, does not equip blacks, coloureds and Indians — particularly blacks — to enter the skilled labour market.

Manpower inputs from the ranks of whites, coloureds and Indians — adjusted for the quality of manpower which closely correlates with the educational qualifications of their workers — were responsible for 24% of the high growth rates in the 60s, the bureau maintains.

Education, it adds, was responsible for 14,5 percentage points out of this 24%. If the large numbers of black — unskilled — workers could obtain an equivalent general educational background, the growth rate could be increased by a third.

One of the priorities in uplifting black education, it seems, is closing the broad gap between Government expenditure on white compared with black school children.

Expenditure on a black pupil expressed as a percentage of the average expenditure on a white pupil declined from about 11% in 1960, to 7% in 1970.

Although this ratio improved to 13% in 1978, the absolute difference in the expenditure on whites and blacks has increased from about R240 a pupil to R460, in the same period.

The Bureau notes that if expenditure parity between blacks and whites had been sought in 1978, the total estimated current expenditure by Government in that year would have had to be R3 000-million — nearly three times the actual amount spent.

Also the black pupil/teacher ratio is still too high, while the majority of black teachers are also inadequately qualified.

The average number of black pupils to a teacher was 48 in 1979, while the comparative figure for whites is 20, for Coloureds 29, and Asians 26.

In 1978, eight of every 10 black teachers had only a junior certificate, and only 2,4% of black teachers had graduated. Against this, 28% of white teachers were graduates.

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‘Bumpy, exciting upward ride ahead’

ONE of South Africa's foremost economists, Nedbank's Merton Dagut, who is also deputy general manager of the bank, recently analysed South Africa's economic prospects for 1981 at the Financial Mail conference.

In this extract he examines both the down and upside potential of the economy and concludes that the growth rate next year will be satisfactory and the country can look forward to an average annual real growth rate of six percent for the first half of the 1980's.

THE South African economy is going to negotiate the transition from December 31 1980 to January 1 1981, without a bump, a change of gear or even a twitch of its steering column. The economy will not notice that it moved from the GDP flow of 1980 to the GDP flow of 1981!

I mean this also as a relevant statement. The theme running through what I have to say is "momentum". There is a very strong momentum now in the South African economy.

Barring acts of fundamental stupidity and other disasters — neither of which one has sound reason to expect at the moment — it seems to me that our economy has an all but irreversible impetus which will carry it upwards through the short-term and the medium-term.

I have put that more strongly than many, but I think that most commentators would take a broadly similar line. By Monday morning of this week at least two well respected research units, and the reputable economic teams of four banks, had pinned their forecasts on the public notice board. All were agreed that the economy was on the *up*, that later it would come *down* and then recover to go *up* again!

Timing

For the many of us who today are interested in share prices that consensus advice from the economic profession is not of very much help. Timing, we know in the business, is of the essence, timing and a feel for the magnitude of a swing.

To be fair, the six forecast statements did deal implicity or explicitly with timing and duration. But, as each gave different importance to different constraints which it was thought would cause the "top out", I cannot pull a consensus out of them.

Common to all, though, and I believe correctly, is a concern about inflation, about human capacity and about export earnings. Rather than add a seventh voice to the babble, I think it would be useful to approach the topic from the other side and deal with a set of matters none of the notices on the public forecast board address directly, i.e. what gives the economy the momentum which is now hurtling it along?

Rapid change

In short — however tempting the water may seem — I shall not leap into a forecast. That comes later, diagnoses must always precede prognosis.

Diagnosis, in turn, best begins with a statement of "where" the South African economy is right now, or — more accurately in these times of rapid change — where it seemed to be on Monday morning (when I put these notes together).

On Monday morning the South African economy was in a "cyclical upswing" and at the same time was undergoing, I believe, a beneficial "structural" or "secular" upwards adjustment. Behind that jargon of the trade what I mean is that:

(a) in the short-term we are advancing very rapidly — very rapidly indeed — on almost all fronts, and

(b) this is not just a one-off phenomenon because our ability to advance very rapidly also over the medium-term has been greatly improved.

A glance at the behaviour of the GDP aggregate — the sum of all the goods and services produced in South Africa — is the best way to explain what I mean by (a).

The current cyclical upswing has been unusually long. That, in itself, is one of the clues suggeesting that something "structural" occurred.

It started initially slowly — about three years ago. I recall that at the time many people did not believe it was there and that if they blinked they would find that it had gone away.

They were not correct, and in spite of all the doubts the upphase gained momentum during the second half of 1979 and accelerated further thus far into 1980.

The numbers are exciting, both in relative and in absolute terms. This calendar year South Africa may well achieve the highest real economic growth rate in the world. (The OECD countries estimate that they will achieve about one percent growth this year.)

The advance could well be the largest in any 12-month period since World War II. Unfortuantely, though, as always, the benefit is not evenly spread through the country or among all its people.

This I think, must always be close to the front of our minds when we recall the significance this splendid achievement — it provides only the opportunity to increase the proportion of those of us in South Africa who enjoy acceptable and rising living standards.

Eight percent real growth per annum could meanm some 5½ percent per annum for all. The challenge of this prosperity is to make sure that it does.

To ensure that it will we have to ensure that the growth continues. There is more than academic interest, therefore, in seeking to define (or to understand) the driving forces behind the growth. There are, I believe, two.

The first of these is private consumption spending.

The leap we see follows from the increase in national income

turbed by all this spending. I do not think we should be. Spending has not increased disproportionately in terms of GDP; its strength is not abnormal for this stage of a cyclical upswing; and, finally, in providing satisfaction of demand for goods and services not what economies are there to do? Nobody, I think could argue that South Africa as a whole is a sated consumer society.

Mr Merton Dagut

The second driving force is fixed-investment spending. I was trained as a reasonably old-fashioned Keynesian and so will always know the particular importance of investment spending.

It is well worth recalling in this age of new economic wisdom that the investment stage of an economic cycle carries

Now, even if — as is to be expected — there is some slackening in the rate of increase in consumer spending, the multipliers and accelerators unleashed by this process will carry us into next year with considerable momentum. I see it as an irreversible momentum. I can say this with confidence because the rapid growth is now spread over all sectors.

One must not be rendered uncritical by this tide of optimism. Agriculture presents a weak patch. We are accustomed to saying (and believing) that South Africa, already an exporter of food to a hungry world, will be able to produce enough for its own needs and still have exportable surplses well into the 1980s.

Evidence is accumulating which suggests that this may not, in fact, be so. Soaring domestic food prices are, of course, one indication that on this front all is not well.

Shortages are another, as in the fact that there is mmalnutrition. Crop estimates are worrying. For example, the second official estiamte of the 1980/81 wheat crop has now been revised upwards (after the recent rain) to 1 560 000 tons. Our internal consumption, though, is likely to be of the order of 1 790 000 tons. Thus, we will be net importers again, as we were the year before last.

We are likely to be importers of beans and oats, too. Our

sound and so we can look forward to relatively moderate price hikes on a whole set of essential goods and services.

(iii) The "monetarist philosophy" tells us, correctly, that there is a relationship between an increase in money supply and the general price level.

We are moving into a new era here. Conditions are already less over-liquid, and interest rates are being bid up (at a rather hectic pace this week). Seasonal factors, too, will help.

We, in the banking sector, are looking forward (and that is the right phrase) to a very firm and sensitive grip continuing to be exercised from Church Square.

(iv) The fourth, of course, is the productivity question. The legislative environment is now less restrictive than it once was. On balance, Wiehan and Riekert, most agree, have made it easier for employers to use more expensive people more efficiently.

But, when all is said, inflation will be beaten only when greed is contained and productivity increased.

Labour problems

The second imperfection is related to the first. The economy is already running into supply bottleneck. There is not enough skilled labour available. The inverse of the registered employment index gives as good a clue as does the number of columns filled by job vacancy advertisements.

It is already proving difficult to increase manufacturing output yet further.

In most sectors there is still a little capital capacity available — thanks to the investment in plant and equipment in recent years — but other nec-

If, in these circumstances, monetary and fiscal policies are generally restrictive (or conservative) but applied with moderation and in a market related manner, the GDP growth rate next year would be of the order of five percent.

At the higher gold price I personally expect, the real GDP growth rate could well be little more than five percent in calendar 1981.

Two messages

I am trying, now, to conveoy two messages. The first is that any downturn will be merely a downturn in the growth rate — a shallow dip.

Even 3½ percent during our downturn would be twice as much as the forecast OECD achievement during their *up* phase.

The lower limit of 3½ percent means the ability to further increase the real living standards of all in South Africa while to catch our breath to ready ourselves for the next advance.

The second message is that what government (or the economic authorities) do will matter. This is not always so, often and within reason the activities of the authorities are reasonably irrelevant. This is one of the occasions on which they will be relevant.

The skill with which monetary and fiscal policies are applied will determine not so much the timing, but the quality of the upper turning point and so the nature of the downphase to follow it.

What these authorities will do, depends, I believe, firstly on how strongly they remain committed to their goal of not allowing public sector spending to increase in real terms; and to the related goals of reigning which was associated with the revival of demand in the northern hemisphere as it came out of the original post-oil shock stagflation; and, we must not forget, with our ability to provide the goods — to meet the demand.

Spending

It followed also from the tax rate adjustments which eased the fiscal drag and alleviated some of the disincentives to earnings income; then, of course, private consumption was boosted by the higher level of employment and so of wages and salaries, and the concomitant improvement in consumer confidence.

In more recent months consumer debt has increased — but only after the phenomenal increase in personal savings of the year before.

There are some who are perplexed ... output. It at the same time the ability to increase consumable output (or the wherewithal to buy it from elsewhere) is enhanced, and if the resources to do so are potentially available, investment spending can launch an economy into a virtuous circle. This state, I believe, in general characterizes the South African condition at present.

The numbers show clearly that the large increases in investment spending are concentrated in areas which meet this productive criterion. The investment has taken place in the private sector and those parts of the public sector (Sasol, Iscor, Escom, etc) involved in real output.

Private sector

Private sector investment spending will rise in real terms, on all indicators, by about 20 percent in 1980.

... for the medium-term must be noted.

Agriculture aside, though one can be confident of the momentum because:

- Inventorities generally are at a low level in relation to both present and expected sales.
- Until recently government consumption spending has been playing no role in leading the growth.
- And because the current account of the balance of payments is in very good shape there is no immediate or medium-term external financial constraint waiting to catch us and inhibit the advance. The capital account, too, gives us lots of leeway.

This is the sort of heady stuff of which euphoria is made. So we must remind ourselves that all is not perfect.

Our inflation rate (cpi in September 12,8 up on 12 months before) is still too high. It is worryingly high and it will be difficult to bring it down.

Difficult, but not impossible. I am confident, though, that we shall be able to prevent a runaway inflation. The rate at present is unstable. It could drift upwards and intensify our problems of maldistribution of income and curb our real growth potential if, collectively, we do a whole set of wrong things.

If, though, we remember that inflation is theft and that sooner or later we shall rob ourselves as well, we could find the political will to bring it down.

Long haul

It is going to be a long and difficult haul involving a careful blend of policy action and personal restraint. I can offer four grounds for the belief that we could succeed.

(i) Being an open economy we "import" a lot of inflation. Right now the exchange rate of the rand is now moving upwards, and at a time when inflation rates abroad are being wound down. We can, therefore, expect to enjoy relief on two scores.

(ii) A then necessary large rise in administered prices was an important cause of price inflation during the 1970s. The financial position of the state corporations and business enterprises is now much more ... economy.

In short, the eight percent aggregate real advance has stretched the economy rather taut and beyond its ability to continue at this rate of growth.

This is a clear signal that the awaited dip in the growth rate will come sooner than many expect. We shall, I believe, slow down to a more sustainable pace before we blow outselves up. More, though, of this later. I must deal, first, with two external features.

The first is negative. The other side of the coin of poor economic performance abroad is a tailing off in the demand for our non-gold exports. Some would put it a little more strongly. Overseas markets are now generally soft.

Exporters hit

Exporters are feeling also the pinch that is associated with the appreciation of the rand.

This appreciation, in turn, of course, is a reflection of the underlying strength of our balance of payments and is contributing directly and indirectly to checking the inflation rate and the increase in domestic money supply.

The northern hemisphere has entered its winter unhappy but not despairing. I do not think that our export earnings will collapse. But I think it is sensible not to expect strong markets for most of our exports for the next 15 months or so.

On the external front there are the uncertainties revolving around the gold price and the oil price. Nobody can really claim to be able to predict the gold price. I, personally, think, for example, that the gold price is more likely to average at least $600 in 1981 than $500

But the most authoritative economic analyst in South Africa seems to have put his econometric forecasting money on $500.

Oil price

There is, though, one is told, a larger concenshs about the oil price. Most experts — including those working for Opec — are estimating a "real increase" during 1981 of not more than about 10 percent at most. This will seem moderate after the 60 percent of 1980 which came on top of the big hike during the second half of 1979.

The diagnosis having been cleared as best I can, one may now turn to the forecast.

Taking, first, the most pessimistic option on all the uncertainties and difficulties, it seems to me that the upper turning point of the cycle will occur quite early next calendar year. These "pessimistic options" allow a low gold price, falling non-gold export earnings and a still rising import bill.

If, in these circumstances, monetary and fiscal policies are made very restrictive in an attempt to combat inflation sharply and quickly by reducing the level of internal demand, the aggregate real growth rate for next year will be about 3½ percent.

(I think, incidentally, that this polciy mix would not succeed in breaking the inflation because it is not yet of the general demand-led variety.)

Still being reasonably pessimistic about gold, but less so about non-gold export earnings, and expecting domestic production (rather than a further increase in imports) to satisfy a portion of domestic demand, one still expects the upper turning point to be reached about the middle of next year.

"room" they are going to give to the private sector and market forces. It depends, secondly, on how they read the medium-term future.

Mr Chairman, I used to be called, I am told, the "one-handed economist" so here it is:

We have every reason to believe that government will remain on its present sensible economic path — that the political pressures to do something quickly and to spend a "little bit more" in aggregate will be resisted.

There is a powerful team behind the Minister of Finance. The governor-designate is well-known to favour a market-oriented approach to control. He stated against this week that there was a need for further regulation. The minister, at Union Acceptances' 25th anniversary, again reported:

"It is our aim to devise and employ techniques of monetary policy which will be both effective and reconcilable with our basically free enterprise system"

In context that implied, clearly, the need to keep a tight hold on government spending.

Actions, though, are more persuasive than words. Because of their three-year long track record, I accept their statements of intent.

Now to how they read the medium-term future, for their short-term action, being sensible men, will be determined in large part by what they think comes next. If I may be allowed a small piece of arrogance: I think they read the medium-term future the way we do.

That a fundamental change in South Africa's economic prospects — and for the better — has occurred (and in part been brought about).

The urgent need to curb inflation (which involves understanding that it is a grave evil) should not prevetn us from appreciating that the generalized inflation — which followed the surge in commodity prices in the early 1970s; the initial and then reinforced oil shock of 1974 to 1979; the attempts at avoiding the need to cut back consumption or facing the loss of real income, and the almost world-wide shift back to private choice — masks "large changes in relative prices".

The value placed on some goods and services in terms of others has altered. On balance, these changes have favoured South Africa. The turn of the terms of trade in our favour enhances growth prospects already brightened by the bigger role being allowed private enterprise in a generally less inhibiting political framework

The authorities thus see, as we do, a short and mild downphase. It will be followed by a new upswing which (and I quote Dr De Kock directly) "will take the economy to new heights and result in a relatively high rate of growth of gross domestic product once again"

Thus, I believe, they will follow policies which will turn us gently but firmly around the "upper turning point" But, Mr Chairman, turning in the growth cycle does not mean that we shall lose momentum, merely that we shall rebalance ourselves.

Capacity constraints will prevent the present eight percent advance from either accelerating or even remaining constant.

We are looking towards a cyclical check to bring us closer to a physically sustainable growth rate. This entails remaining for a short while below our medium-term potential.

Having overshot the mark we must now prepare to undershoot for a short while. Our old problem of inflation, shortage of key skills, inadequate social infrastructure, the juxtaposition of the haves and the have nots, of urban crowding and rural poverty have not and will not just go away because the growth rate is high.

The future will bring new economic problems, too, centreing it is very likely on industrial relations.

But we have the momentum. The growth rate for 1981 will not be as high as the huge leap of 1980 but it will be satisfactory.

As we come out of that dip we shall move forward to an average annual real growth rate of six percent for the first half of the 1980s. Mr Chairman, that is what I mean by a "structural of secular" improvement.

I see a slightly bumpy but an exciting and upward ride ahead.

Man on the boom or what's happenning beneath the surface

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By PAUL DOLD
Financial Editor

THE latest edition of Trends, the Bureau for Economic Research's statistical analysis of the economy edited by Willem Roets, provides an insight into what is happening beneath the broad surface of the boom.

Retailers in particular will find the BER analysis most useful as they cast their eye over stocks and ponder the outlook in 1981.

Trends says that the rate of growth in private consumption appears to be tending towards a levelling off and this is largely due to a decline in the rate of expansion of expenditure on non-durables.

The strongest growth is now being seen in semi-durables such as clothing, footwear, household, textiles, recreational and entertainment goods. There is also a marginal *acceleration* in the growth of durable expenditures — furniture and household appliances and motor vehicles.

Black buying power

"These two main categories are now starting to reflect the incidental impact of Mitchell's Plain, Soweto, Atlantis on the more durable goods markets and also the structural changes that are in progress — the buying power of blacks as regards clothing now exceeding that of whites."

In regional activity Durban seems to be losing pace compared with the other four main metropolitan regions.

Economic levels in Johannesburg also seem to be falling gradually behind in growth compared with the national average.

The best improvement in regional activity is being shown by Port Elizabeth followed by Pretoria.

While Cape Town is keeping up with the national average the comparative backlog of the past has not yet been overhauled.

Cape Town now seems to be performing better in building plans approved, commercial vehicle sales and employment but not doing as well in building completions, retail sales, hotel revenue and summonses for debt.

Production levels

Examining production levels Trends says that in consumer goods manufacture food production is showing a disquietening trend to stagnate. Clothing production is slackening off at a record high level while liquor production in growth terms is definitely slowing down.

Mining production volumes, with the exception of ferrous metallic minerals, are all trending upwards.

In intermediate and production goods manufacture metal products are recording the best growth performance, textiles are faltering slightly while machinery production has shown no growth this year.

In capacity usage terms motor manufacture improved dramatically.

While all the consumer goods manufacturing sectors are reporting larger under utilization of (newly extended?) capacity, intermediate goods have been fairing consistently better since the beginning of 1979.

Building plans in current price terms seem to be losing momentum in growth while actual completions also seem to be easing fractionally lately. Price resistance and non-availability of labour are contributing towards these tendencies.

Wine and spirits

The production of beer is contuning to rise while both wine and spirits are stagnating. Trends in liquor consumption are gradually being influenced by changing social precepts associated with improving standards of living of the lower and middle-income groups. Trends says these change seem to favour beer in preference to both wine and spirits.

Spending growth by white consumers is being fuelled by acceptance of credit cards. Whether restrictions on consumer spending are needed at all it still a debatable issue and BER notes that retail volumes in the aggregate have lately been reflecting a slight marginal tendency towards decline in growth rate.

On inflation, Trends says the statistical view supports Andre Hamersma's opinion that a moderation in the inflation rate is a distinct likelihood.

Food

Food coninues to feature among the groups that are showing the largest rise and meat with a weight of 9,2 percent of total expenditure gaining by almost 25 percent in the year ended August.

The production price index (formerly wholesale index): The effect of the high cost of oil is continuing to be the greatest single cause of the unacceptably high rate of increase in production costs, even though a fractional decrease in the price of petrol is shown in the schedule.

The trade weighted exchange rate of the rand has show an almost phenomenal rise since the beginning of 1980 but Trends says that statistically the crude trade balance is now showing a net deficit. Exports have declined with imports rising rapidly.

Imports

An interesting sidelight is that in previous recovery phases of the economy imports have accelerated at an early stage. But the current rate of imports is related to capacity expansion.

The terms of trade, both excluding and including gold, are improving encouragingly while the trend in foreign reserves (gold content not revalued) confirm the hardening of the rand exchange rate.

The graphs dealing with public sector finance indicate a rapid decline in deposits and Trends says this gives rise to the question if public sector projects are at this particular stage of the business cycle not being initiated somewhat too precipitately on the strength of ample liquidity and the strong flow of State revenue.

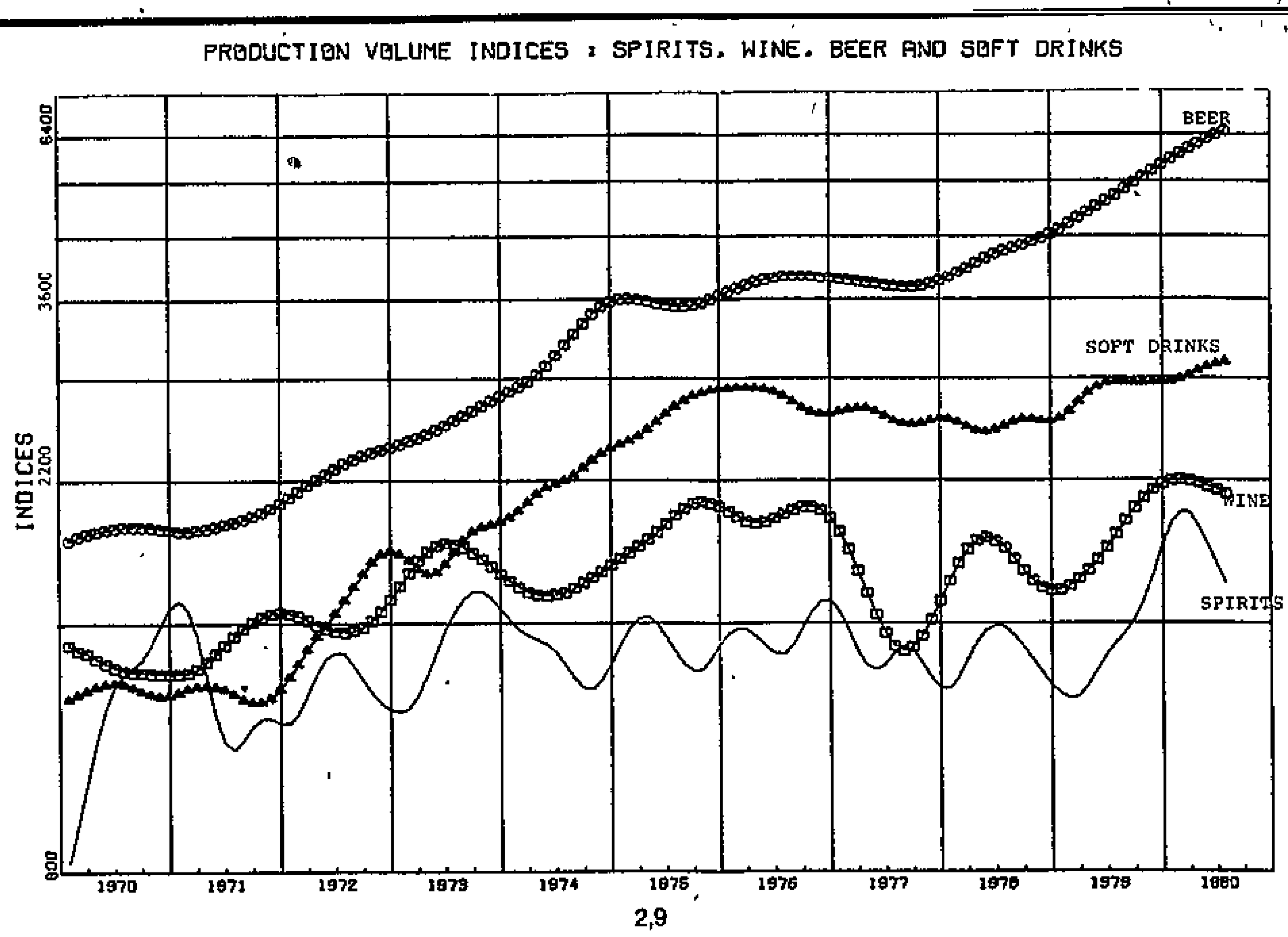
Public sector

Earlier in its review the journal says that expansion in public sector investment is taking place at a time when the private sector is also obliged to expand capacity. As a result, a measure of direct competition for input factors is inevitable between the two sectors.

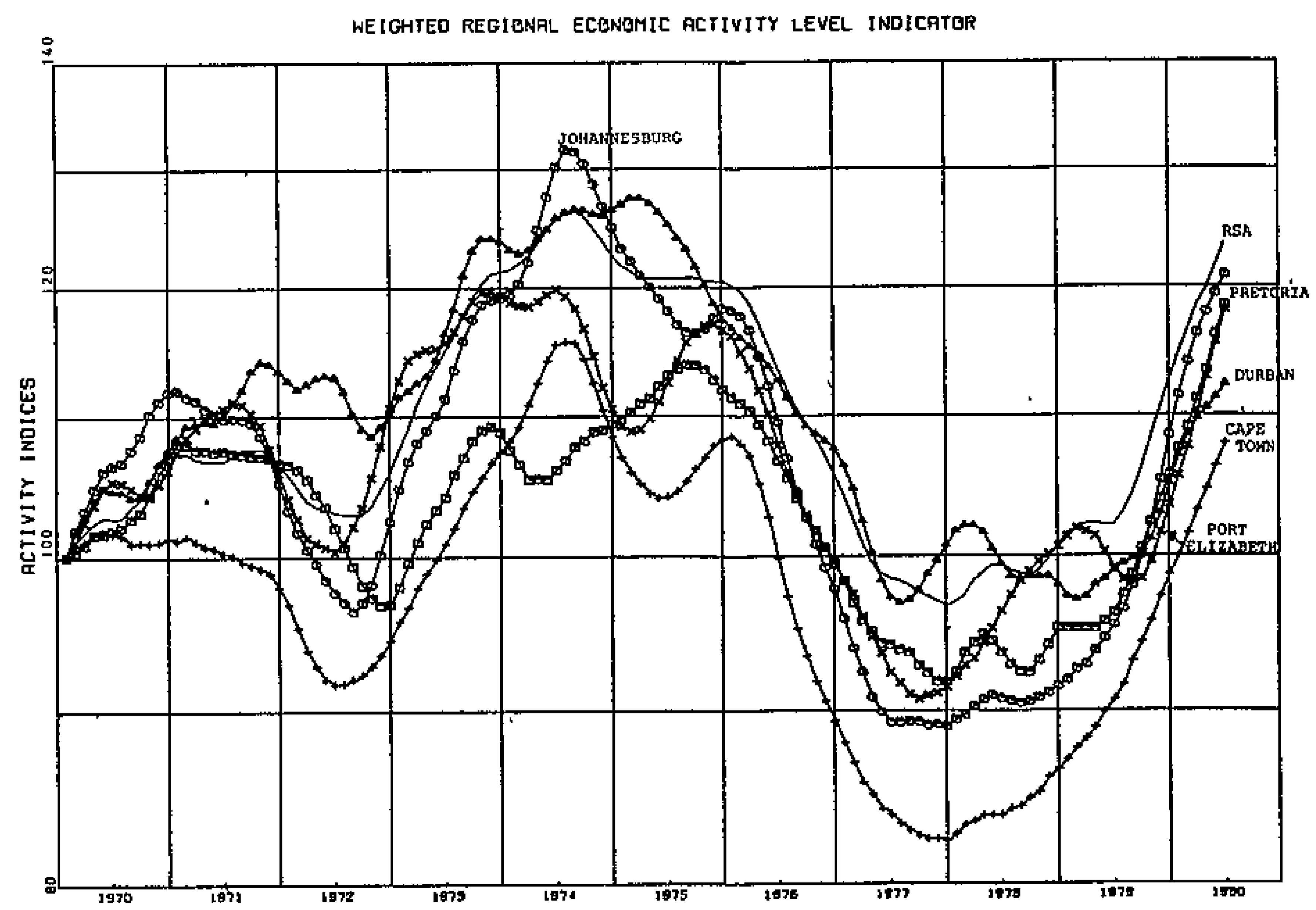
"The intensity of this competition, or the extent of shortages, vary according to the relative size of public sector demand in the different areas of the country.

"Due to the formidable size of several public sector investment projects in process in the Western Cape, the private sector is really hard put to find the needed inputs in the building industry in that region.

"Almost without exception these large public sector investment projects that are now being udnertaken are all of strategic significance although one could have wished that they, or at least part of them, could have been deferred to a later stage in the present cyclical phase."



This graph shows the sharp rise in business activity in Cape Town. It seems as if further acceleration will take place in coming months while growth could tail off in other major areas.



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Interest rates

On interest rates Trends says the lethargic hardening of long-term rates is noteworthy. This trend has been developing since early 1979 leading short-term rates by about six months but up to now had been tending sideways rather than definitely upward.

The statistics indicate that black unemployment is declining. The acceleration in the tempo of decline in registered unemployment points to a faster rate of absorption of other than whites into gainfull productive activities.

Trends suggests the improvement is due to:

- The non availability of formally skilled job-seekers for whom lower skilled employees are now being substituted successfully after on-the-job induction.
- The growing importance of other than whites as factors in the consumer markets which is leading to enhanced employment prospects in the services sectors for members of these groups.

The positive trend in net migration has probably helped to bring some relief in the shortage of skilled labour — the immigrants are mainly expatriates from the former Rhodesia, most of whom fall into the skilled labour category.

De Kock delay knocks finrand

4.9 KOM 3/12/80

By SIMON WILLSON

NEWS that the final De Kock report would not be ready until 1981's second quarter upset the financial rand bulls yesterday and was the dominant influence on a day of quiet trading on Diagonal Street.

Events on the floor had been placid until mid-morning, when the financial tickers ran an interview in which Dr Gerhard de Kock, Governor-designate of the Reserve Bank, was reported to have said that a series of meetings still had to take place next year before the report — the final report of the commission headed by Dr De Kock into fiscal and monetary policy — could be dropped into the Cabinet's in-tray.

The finrand bulls then turned sellers and brought the FR lower, dropping it to US 99,5c at one point after a 1,5c rise to 101,75 US cents on Monday. The FR stabilised somewhat in later trading, but an arbitrage broker said it still looked set to wobble at the 100c mark this week.

The FR's erratic and, for South Africa, not wholly beneficial movements revived speculation recently that the authorities were considering scrapping it and reinstating the unitary rate, particularly after the Director-General of Finance's remark last week that overseas investors should take advantage of the FR while they could because "it might not always be available".

Traders did not take long to appreciate that the short-term effect of the eventual demise of the FR would be negative on the JSE boards, as the unbought stock usually preyed on by the suddenly discountless overseas investors would be temporarily homeless causing a short, price-depressive oversupply in counters.

After its weekend rise to $635 the London gold price has dropped steadily this week to $627 yesterday, and this was the other influence on traders. Of the gold counters traded 13 showed gains and 22 posted losses on a day in which there was more foreign than domestic interest in the gold boards.

Movements were small but, where there were moves, they were usually down. Ergo, President Brand and President Steyn, Western Holdings and East Dries all lost R1 or more in a fairly uniform trend.

London was a gold seller, but the stock coming into Diagonal Street was well absorbed at lower levels.

A gold theory doing the rounds on the Street yesterday was that, as gold was weakening in New York on interest rate considerations, the parallel inverse trend gold showed alongside US interest rates was blunting, indicating a higher floor for gold's drop each time US rates rose.

This, they say, means that the rates are having a reduced effect on gold and that political considerations — Poland, the Gulf, the Reagan team — are on the ascendant. This is even more bearish for gold in the short-term than US rates.

The market was devoid of features yesterday. Scrip was in short supply, so volumes were low, but there was little to trigger large-scale buying.

After a good day on Monday platinums were easier, with Rusplats easing 20c to 820c. Coals were dead quiet, as were coppers.

The industrial board's link to the gold counters general movement was cut yesterday as industrials trended harder in very low volume. Of the industrials traded yesterday 46 counters firmed and 25 eased.

Following LTA's bullish interim report, construction showed one of the few uniform movements as all seven counters traded 5c-10c higher. Chemicals also rose across the board with AECI's 30c rise prominent.

Silverton Tanneries, after going ex-dividend of 90c on Monday, closed at 760c yesterday which was an effective rise of 60c.

In engineering GIC gained 20c to close at 230c and on the food board Kanhym put on 50c to reach 1 200c after closing at 1 150c last Friday.

Packaging counters looked strong as Metbox firmed 10c to 560c, Trio Rnd closed at 300c, up 15c and Carlcor, Press Supps and DRG registered 5c rises.

Truworths, with a 50c increase, OK with 20c and Woolworths with 10c helped stores firm generally.

16 overseas loans for SA this year

149

LONDON. — International borrowing by South Africa has been growing at a much faster rate than generally appreciated.

After a slowdown in foreign fund-raising in the wake of the Soweto uprisings in 1976, South Africa had reportedly made a cautious return to capital markets in 1979 and 1980.

But according to new statistics from anti-apartheid groups, this understates the facts by a sizeable margin, with South Africa raising money on 16 separate occasions in 1980 alone.

The feature of South Africa's fund-raising on international capital markets has been the relatively small sums borrowed each time.

PRIVATE ISSUE

For example, the latest loan — a private bond issue for Escom — puts a tiny £12,5-million (R22,5-million) into Pretoria's coffers.

Such modest sums can be set against South Africa's strong economy, with a projected 1980 growth rate of 7 percent, massive inflows of capital because of the gold price strength and a balance of payments surplus of at least £2-billion (R3,6-billion).

This prosperity when measured against the modest funding programme adds weight to the belief that South Africa's motives for raising money are not entirely financial.

NEED SUPPORT

The general view is that while South Africa does not immediately need to raise extra funds, it may in future need the support of the international banking community.

Raising money now at a time of financial strength will enable the Government in Pretoria to extend its obligations and tie itself closer to foreign banks and governments through the role of debtor.

Outside the sophisticated bush telegraph of the international banking community, South Africa's fund-raising has appeared cautious and modest.

Whereas the 250-million dollar (R187,5-million) syndicated loan and 120-million Deutschemark (R45-million) Eurobond issue in the late European summer drew the South Africans into public gaze, a further nine separate loans have been raised privately. A further nine had been raised privately in 1979.

Ostensibly the syndicated credit and the DM bond were seen as part of South Africa's rehabilitation on capital markets following Soweto.

However, it is now clear that, judging by the rate of borrowing in the past 18 months, South Africa has not needed to rehabilitate itself.

The list of banks involved in funding Pretoria in the past 'quiet' year and a half includes Barclays, Hill Samuel and Standard Chartered of Britain, Citicorp of America, Swiss Bank, Credit Suisse and Kredietbank of Switzerland, and Deutsche Bank Dresdner of West Germany. — Guardian News Service.

C T Verwey: Die gebruiksmoontlikhede van die Lopende Bevolkingsopname vir Onderwysbeplanningsdoeleindes (The
...urrent Population Survey for
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(Some guidelines for possible
Utilization).

...nalisation': a framework for

...shop on Unemployment and Labour

... and Development: A Two-Sector

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MISTAKEN IDENTITY

Last week, the *FM* published a picture of Danie Terblanche above a caption identifying him as Sampie Terreblanche. Our apologies to both gentlemen.

ECONOMIC REVIEW (49)

Monetary disarray

FM 5/12/80

"Conditions in the economy's financial sector during 1980 suggest that control has slipped out of the monetary authorities' hands." That is the pessimistic judgment of the Standard Bank's December quarterly Review on the 49% annual growth rate in broadly-defined money in the third quarter and 50% growth in narrowly-defined money.

The major cause of this increase, the Bank notes, was the R1 158m rise in net gold and foreign exchange reserves and the R1 069m jump in private sector borrowing.

Government borrowing, which was the main impetus behind run-away money supply growth in the mid-Seventies, was not to blame this time, as its borrowing was reduced by R859m.

Open market operations have not really withdrawn liquidity from the banking system, Standard argues, but have only substituted cash for readily encashable liquid assets.

And transactions with the financial system alone mean that the non-banking private sector, which needs to be regulated, is left unaffected. Manipulation of the forward dollar discount as a technique of monetary control is also criticised as contrary to "the spirit of the foreign exchange regime."

While Standard concedes local financing of SA's foreign trade can reduce domestic money supply, it argues that an increase in the velocity of circulation makes the overall benefit in terms of money supply policy "hardly convincing."

Standard thinks an immediate short-term remedy to counteract domestic liquidity is to let the spot exchange rate of the rand rise more sharply. This will reduce exporters' rand earnings and boost imports, with beneficial effects in draining funds from the economy.

Private firms could also be allowed to place money market funds abroad or else exporters could delay the repatriation of earnings.

Longer-term, Standard sees the upsurge in credit demand to finance inventory restocking, a shrinking current account surplus, the moderating influence of high government tax revenues and changes in the methods of monetary control arising out of the De Kock commission's findings, as coping with excess money supply. Short-term interest rates will then rise more in line with precepts of supply and demand and not because of inflationary expectations, which have been the main spur to rising rates in the capital market in the last two years.

EXCHANGE CONTROLS

A time for action

(49) FM 5/12/80

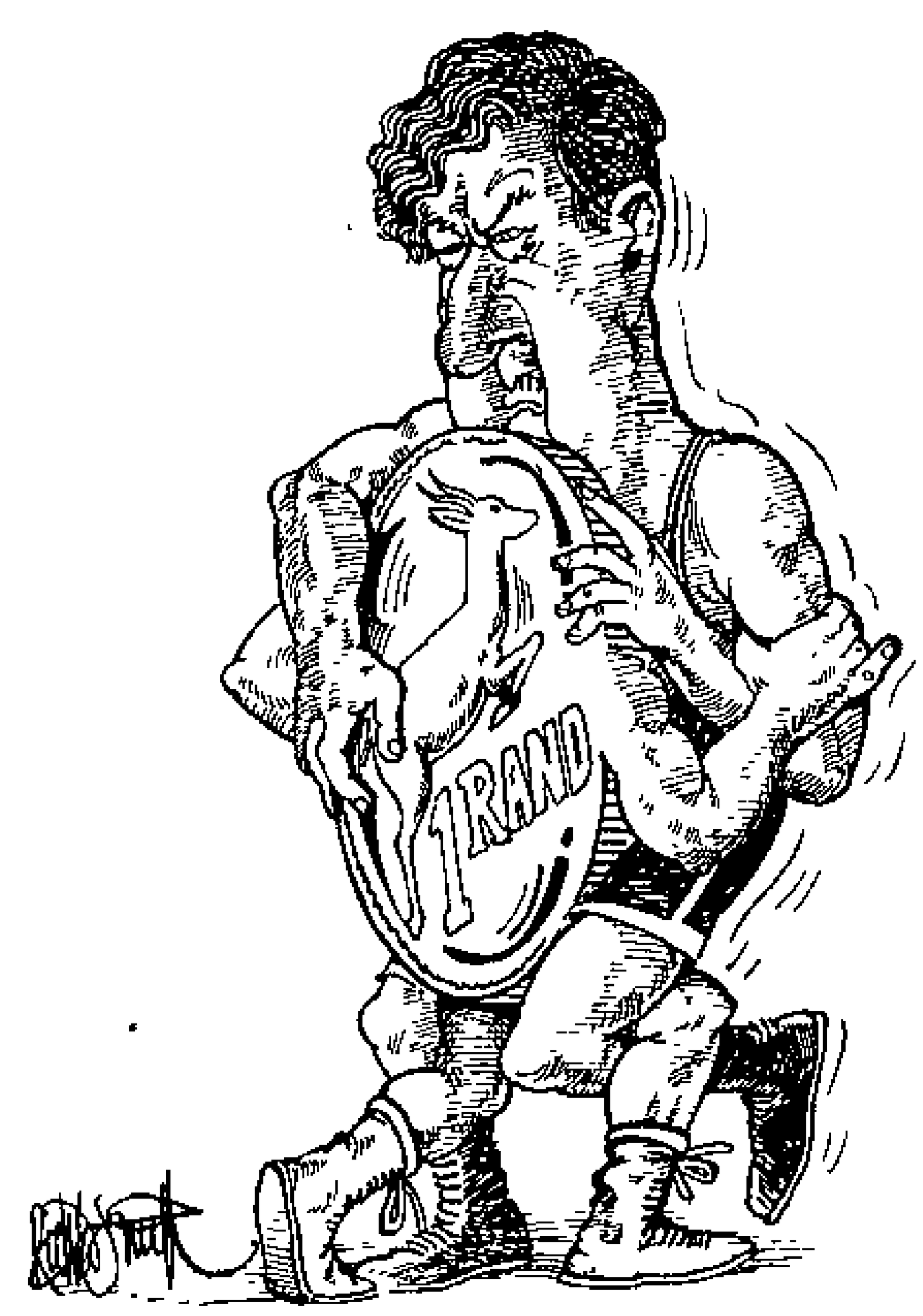
Why don't we get rid of exchange controls and the distortions and economic damage that go with them? To try to answer this question it is first necessary to point out that there is a notable thread that links most serious economic forecasts of next year's business conditions. It is the assumption that control over the growth of the money supply will be regained starting next month.

Even if this is not stated explicitly, it is implicit in the assumptions that next year prices will not rise much faster than they have this year. That is the consensus of the economic estimates of most banks.

Behind this assumption is the fact that Dr Gerhard de Kock takes over as Governor of the Reserve Bank on January 2, and that he will begin soon after to implement the policies formulated by the commission into monetary matters which he chairs. Important among these is that exchange controls will be relaxed.

Without an imminent change in the governorship, that assumption is unlikely to have been made. The present rate of money growth is so rapid and the amounts of surplus liquidity — dammed up behind exchange controls — in the financial system so great, that soaring prices next year would be an eminently logical expectation.

These amounts are now so large — and continue to surge in so fast — that even if the Reserve Bank were capable of open-market operations (which it has shown itself not to be), control is unlikely to be regained without a relaxation of exchange controls.



But can this relaxation be taken for granted, even after Dr De Kock has replaced the outgoing Governor, Dr Bob de Jongh?

After all, for two years now Finance Minister Owen Horwood — as well as his adviser Dr De Kock — have been saying in public that government policy was eventually to abolish these controls. Some small relaxations have been made. And as time has passed the inference in their speeches has been that significant relaxations were to be implemented shortly. They have been just around the corner for years, not months.

Exchange control is the Minister's direct responsibility. The Reserve Bank acts merely as the Treasury's agent in its implementation. Horwood has pointed out frequently — at least twice last month — that these controls are now extremely harmful to the economy and are prejudicing the battle against inflation.

Why do we persist with them?

The straight answer is that Governor De Jongh simply would not relax them, even although they fall outside his independent responsibility for monetary policy. He has resisted the authority of Parliament, exercised through the Minister, and been allowed to do so.

There are several reasons for De Jongh's extraordinary power. One is that the Governor is appointed by the Cabinet for a five-year term. He can hardly be removed over a policy issue mid-term. The crisis of confidence alone that this would engender would be unacceptable.

Another reason is that although Dr De Jongh is within weeks of departure, after having been prevailed upon to retire early, he has put men in positions of bureaucratic power at the bank over the past 13 years who share his views and who will remain in their jobs.

The 200 officials who administer exchange control, for instance, have proved their dexterity at creating bureaucratic difficulties (possibly with the preservation of their jobs in mind).

Moreover, the opposition of the Reserve Bank to Finance Ministry policies has not found expression in independent action but in inertia and obfuscation. For instance, the monthly statement of assets and liabilities of the Reserve Bank no longer easily reflects the disposal by the bank of liquidity inflows. Economists enquiring about what appear to be discrepancies have been told that explanations were forbidden.

In these circumstances, it stands to reason that it will be difficult for De Kock, who has been physically out of the bank for several years, to move in and immediately change ingrained attitudes and erase past loyalties.

But, of course, it is vitally important that change be brought about quickly. It cannot await the personal sensitivities of a retiring governor nor the settling in of his successor.

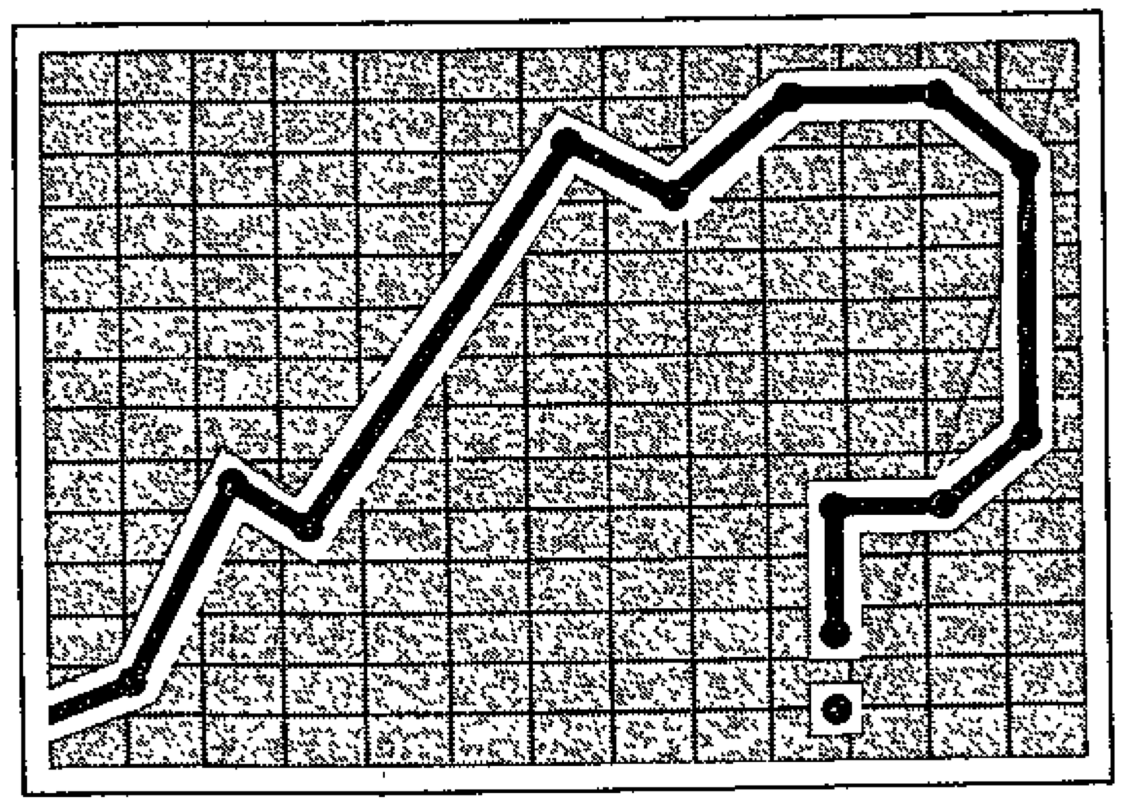
For two years Horwood has treated De Jongh with the utmost patience, at least in public. Although his speeches this month have contained an element of despair and irritation at the central bank's frustration of his anti-inflation policy.

It is time for Horwood to use his authority in a manner that is unmistakable and decisive. It is too late to argue about the merits of exchange control concessions. He must simply abolish exchange control.

It would be a bold move and one that would take courage. But it is the only way out of the present impasse. There is time for nothing less.

IS CAPITALISM OUR SOLUTION?

6/12/80 (119) RDM



This is the first in a three-part series probing the relationship between capitalism and political freedom in South Africa by Dr Herman Giliomee of the University of Stellenbosch. Today he outlines and tests the claims that free enterprise and political freedom go hand-in-hand. Part II of the series will appear on Monday.

SINCE the mid-seventies a new conception of what is in the best interests of whites has begun to take shape alongside separate development. This is the goal of growth which, in the capitalist system, is to be based on the free market and equal opportunities.

A new conception of a state founded on an ideology of growth and non-discrimination against the black "insider" in the urban heartland is now being developed, while separate development remains the ideology for the South African periphery — in terms of which vigorous influx control is practised with respect to those blacks who do not have offers of employment in the cities.

The question that arises immediately is whether this new labour policy could spearhead major political and social changes which would effectively dismantle old-style apartheid.

The new labour policy cannot be seen in isolation from the current emphasis on growth and the ascending ideology of free markets. For the first time since the fifties and sixties, when apartheid and separate development mesmerised the Afrikaners, important sections of the white population are now spellbound by a new panacea.

In Afrikaans as well as English business circles, in the Afrikaans and English popular Press and in important academic quarters, there is a fervent belief that unfettered capitalist growth will not only generate enormous wealth but will also produce political freedoms and solve intractable social and economic problems.

Fleur de Villiers, to my mind the best informed South African journalist writing on white politics, has expounded the new faith with almost evangelical fervour. Just after the 1980 Budget she wrote a long essay under the headline "Go for growth and apartheid falls away".

Fleur de Villiers closely reflects the views of the "new men" in South African politics, the technocrats and academics in Pretoria who are increasingly making their influence felt upon Government thinking and planning.

It will be a most interesting exercise to trace the ideological genealogy of the belief, which has now taken root among the Afrikaner business and technocratic elite, that there is an intimate connection between capitalist growth and political freedom.

One branch of this is of course the view long held by English business interests in this country that capitalist development and apartheid are incompatible. Sometimes loosely referred to as the Harry Oppenheimer thesis, this postulates that the growth of the capitalist sector makes separate development "less and less plausible" and is "best calculated to end racial separation and discrimination".

This view has received some intellectual elaboration from Michael O'Dowd. He stated in 1974 that if South Africa is to continue the "normal pattern" of capitalist development one could expect the present period of political confusion to continue for another 10 to 15 years, accompanied by a steady improvement of position of the black working class, while at the same time there would be a steadily growing demand for a more radical type of reform.

He forecast that in the 1980s one could look for the radical constitutional reform corresponding to the Second Reform Act, and that by the turn of the century South Africa should reach the era of the welfare state and universal franchise.

Another influence is the philosophy of Milton Friedman, who has disciples in capitals as diverse as Seoul, Santiago and Pretoria. Briefly put, Friedman believes that an ever bigger government would destroy both the prosperity that we owe to the free market and the human freedom proclaimed so eloquently in the American Declaration of Independence. However, if on the one hand government activity in the economy is discouraged (by limiting its taxing and spending power, abolishing tariffs, prohibiting wage and price controls and forbidding the taxation of companies) and if on the other hand free market activity is encouraged, capitalism will create political freedoms.

These claims of the free marketeers should be tested carefully both in the universal and South African context lest the beloved country forsake one chimera for another.

A universal perspective casts serious doubts on Friedman's contention that capitalism and political freedom go hand in hand. It is true that the world's mature democracies like the United States and Britain have capitalist economies. However, one should not infer from this fact a syllogism postulating that capitalist economies produce mature democracies. In fact, the majority of the world's capitalist economies are not democracies. And there is disturbing recent evidence from Third World countries, particularly Latin American states of which Chile is but one, that capitalism and free market ideology go hand in hand with political exclusion and repression of large sections of the population.

These large sections of the population who are unemployed and poorly educated are excluded because capitalism with its reliance on technology rather than labour intensive methods does not need them as labourers or consumers. If they resist exclusion, or if the urban workers try to enlist them as allies in a class struggle, the need for repression arises.

What capitalism in this setting does is to create modern or First World enclaves within a pool of Third World poverty and underdevelopment. There emerges from capitalism in this context little or no broad political movement toward liberty. The very opposite may in fact happen, as in the case of General Pinochet's Chile where a long-standing democratic and civil libertarian tradition was reversed in order to follow the free market and other economic prescriptions of Milton Friedman.

We must also investigate the more limited claims made on behalf of capitalist growth. One of these claims is that the removal by the Government of economic shackles would promote the fairly rapid growth of a stable, increasingly bourgeois, black middle class, properly housed, well-educated and responsibly employed as a buffer caste against black urban militants and the rural poor.

The model upon which this strategy is based is undoubtedly the relatively successful capitalist co-optation of the middle class blacks in the United States in the wake of the urban riots of 1965-1968.

In the past, the leaders of the American black community lived mostly in the black ghettos. Since 1969, especially, there has been an accelerated movement by them to better class black suburbs (what Alexandria in Johannesburg conceivably will be by 1985) and later to white residential areas.

In the period following the civil disorders in American cities there developed a much greater differentiation in the black community. During the seventies there were still high levels of unemployment, higher in fact than in the period of the civil disorders, but concentrated heavily in the lower income black communities, with middle class blacks getting not so much better opportunities for increased integration but being able to move into suburbs with better housing and somewhat better schools. Later, middle class black children moved into white private schools and still later into white public schools.

By the end of the seventies it was estimated that about one third of the black community had made it into the American middle class. Although they still pay lip-service to the plight of their fellow-blacks in the ghetto, they are effectively divorced from the marginalised, unemployed urban poor.

From 1968 until the recent uprising in Miami the American cities hardly knew any disturbances. The leadership of the 1965-68 disturbances had effectively been bought off.

Can the same recipe work in South Africa? The first thing to be noticed about the South African black middle class is that it is extremely small. Thus the 1970 population census revealed that there were only some 97 000 blacks in the top occupational categories, namely the professional and administrative categories (about three-quarters of that number were teachers and nurses). In the next category, clerical and related workers, there were about 96 000 people.

If all these people are counted together, they constitute a mere 3,4% of the black economically active population. If other middle class blacks, not members of these occupational categories, are added, the proportion of blacks that could be regarded as middle-class is still barely 4%.

But will the removal of the existing shackles by the implementation of the Wiehahn and Riekert proposals bring about a dramatic improvement? Not really.

In a recent study Robert Davies used minimum and maximum estimates of the number of non-manual jobs which could be created for blacks with an annual growth rate of 5%. He found that even with the new jobs created no more than 8,7% of the economically active African population would occupy "supervisory" or "mental" positions by 1990.

It would seem that even the so-called "insiders" of the black urban areas will remain overwhelmingly working class in the foreseeable future.

We must also look briefly at another claim of the free marketeers. This is the sanguine claim that by allowing maximum play of market forces the issue of the redistribution of wealth between rich and poor, white and black, can be resolved. Here we would do well to take note of some empirical studies undertaken in the United States where the belief in "people's capitalism" has taken strongest root. Herman Miller, in a study originally published by the New York Times Co, effectively dispelled the common myth that incomes were becoming more evenly distributed in the United States.

Dividing the population into fifths, Miller showed that the poorest fifth of families received only 4% of the income in 1929, rising to 5% in 1944 and remaining at that level ever since.

6 percent growth rate needed to absorb school leavers

S. Tribune 7/11/80 (49)

By BEN TEMKIN

EARLY economic forecasts for 1981 indicate that the growth rate will be lower than this year's estimated 7,5 percent — but there is good reason to expect a rate of better than six percent.

This week Sanlam in its economic survey forecast 5,5 percent and it seems a bit of a quibble to argue about small differences in forecasts. However, there is something magical in the six percent figure which is the level required in the opinion of many economists to absorb the people coming onto the labour market each year.

In other words, the more optimistic assumption is not really concerned with figures as such but with the question of whether sufficient growth will be generated to keep pace with the growing number of school leavers.

The key would seem to be to a large extent in the prospects for world markets for South African products. World trade is expected to grow minimally while the economies of several leading countries will continue to be under some pressure.

Against this, it has to be appreciated that many of South Africa's exports are of minerals which will be needed in quantity irrespective of economic conditions elsewhere. And, of course, the price of gold will have a significant effect in this area.

On the domestic front, the key will probably lie in the bringing to fruition of expansionary plans by industrialists. In the latest issue of the Property Economist, the reduction of liquidity in the building society sector is highlighted.

This does not, however, necessarily indicate that industrial building finance will be available. The traditional source of finance for this sector is from participation bonds. It is very likely, therefore, that funds will be available in this sector.

The next big question then is whether the bottlenecks in regard to supplies and labour will be great enough to prevent or inhibit planned expansion. This will certainly be a critical area but there is no reason to suppose that the present rate of activity in industrial building will necessarily slow.

This means that current growth rates will probably be sustained, if not slightly increased over the next year. The continuation of building activity at a high level is a significant factor in sustaining a relatively high growth rate.

It has to be appreciated, however, that much of the growth in the past year has been the result of a take-up of excess productive capacity.

This situation no longer exists as most industries are near to limits of capacity and simply have to expand. The outlay of capital on plant and machinery will result in higher unit costs — lower productivity — and this will certainly inhibit growth to some extent.

The ever-present problem of inflation will also be an inhibiting factor. Unless something can be done to encourage the free marketing mechanism to a greater extent and reduce dependence on the administered price system, it seems that prices in certain sectors will continue to rise frighteningly. The fact is though that a high level of real growth is anti-inflationary and that this could tend to be a positive factor in the economy next year.

While this is by no means a comprehensive nor even very incisive look at prospects, the major point is that it is as good a bet to look for a growth rate which will be sufficient to absorb new entrance into the labour market as it is to look for a slower rate.

There is really no magical figure, but, of course, it's safer — more conservative — to go for a low forecast than a high one, especially if this allows for an unemployment problem.

by 232 000 (?%), and the share of female
otal employment rose from 21,1% to 28,7%.
ith Industrial Census employment figures
ound this interesting result more firmly,
re is a bias towards women in the 1970
mates, it is not likely to be so great as
conclusion that large numbers of African
to the labour market and were absorbed by
's. The net effect was to reduce the
males between 15-64 employed from 87% to
rease the proportion of females between
to 34%. This trend seems to have abated
n the 1970's as can be seen from Table 5.

OF AFRICAN EMPLOYMENT BY SEX, 1979

3 Manufac-turing	4 Electri-city	5 Constru-ction	6 Com-merce	7 Trans-port	8 Fin-ance	9 Servi-ces	Total
641	29	288	373	205	39	538	3 552
141	-	7	194	10	13	755	1 334
782	29	295	567	215	52	1 293	4 886
18,0	-	2,4	34,2	4,7	25,0	58,4	27,3

Population Survey - Blacks - January 1979 to January
atistical News Release, P27.3 of 14 May 1980.

the interpretation of Table 5 (by comparing
by the fact that Transkei and Bophuthatswana
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res are not comparable. It seems unlikely

(b) Summary statistics - domestic population only (continued)

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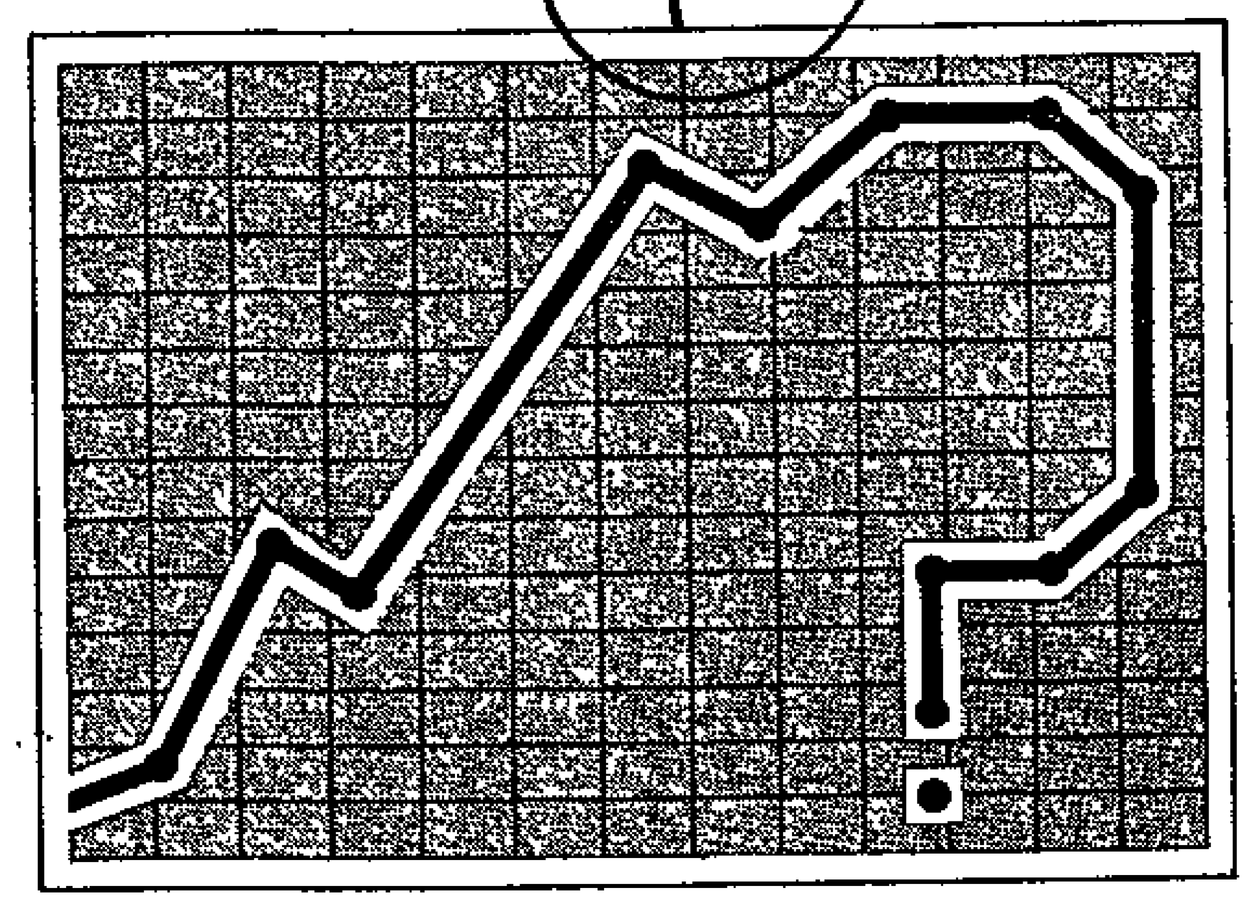
'Growth alone will not set us free'

This is the second in a three-part series taking a hard look at capitalism as the answer to South Africa's social and political problems. Today DR HERMAN GILIOMEE of the University of Stellenbosch examines the claim by free marketeers that a high growth rate is the solution. Part III will appear tomorrow.



THERE has been a dramatic narrowing of the racial wage gap in South Africa since 1970. In mining it shrank from nearly 20:1 in 1970 to 7:1 in 1979 and in manufacturing from 5,6:1 to 4,2:1.

But one wonders how much the gap would have narrowed had it not been for factors such as the disruption of the supply of labour to the gold mines from countries beyond our borders, the Durban strikes and international pressure.

Certainly these political factors had as much to do with the trend toward equalisation, if not more, than economic factors. This confirms the American trend.

Through a combination of the redistributive effects of growth and state intervention to meet black aspirations and assist the poor, South Africa during the past three decades has witnessed a not inconsiderable redistribution of income between whites and blacks.

The black population's share of the personal income of the South African population rose from 19,6% in 1946 to 26% in 1976. In the same period that of whites dropped from 74% to 63%.

Two forecasts were recently made about the pattern of future re-distribution. Forecast A considers it feasible that at a projected growth rate of 4,75% betweeen 1980 and 1990, and 4,7% between 1990 and 2000, the white share of the total disposable income will decline from the present 63,5% to 52,5% in the year 2 000, while the black (African) share will increase from 25,5% in 1980 to 32,4% in 2 000.

Forecast B assumes a redistribution at a somewhat faster rate than in the past, mainly as a result of socio-political pressures, and attempts by the state as well as the private sector to contain these pressures.

Forecast B envisages a drop of the white share from 63,5% to 42,8% in 2 000 and a rise of the black share from 25,5% to 40% in 2 000.

Some other forecasts based on the same assumptions were also made. Under the more conservative forecast A, the relative income gap between white and black incomes will change very little, namely from about 9,3:1 in 1980 to 8,8:1 by the end of the century. Under forecast B this gap will be by 6:1 by the year 2 000.

But in spite of this relative improvement, the absolute income gap, namely the difference between white and black incomes in terms of rands, will increase from R4 100 per annum to between R5 500 (forecast B) and R7 200 (forecast A) per annum.

It may be necessary at this stage to make some common sense statements at the risk of belabouring the obvious. Few would deny that a high growth rate provides more opportunities for a re-distribution of wealth betweeen black and white through creating the need for more black skilled manpower and providing the state with the means for redistribution.

Certainly a high growth rate is desirable also to contain unemployment. According to the recent Economic Development Programme, unemployment will be in the region of 11,5% if the economy grows at an average rate of 5% per year, and as high as 22% if the economy grows at an average of 3,5% per year.

Yet it seems equally obvious to state that the kind of redistributive achievement effected by growth will not remove South Africa's political and social problems, much less set us free as promised by the free marketeers.

As Merton Dagut, deputy general manager of Nedbank, observed recently at the Financial Mail conference: "All our old problems of inflation, shortage of key skills, inadequate social infrastructure, the juxtaposition of the haves and have nots, or urban crowding and rural poverty have not and will not go away just because the growth rate is high."

An unqualified acceptance of the demand that the Government must restrict its interventions in the economy and put an end to welfarism will greatly exacerbate these political problems.

Curbing the expansion of the public sector and the maze of bureaucratic controls are to be welcomed since this contributes to a higher growth rate. However, with the kind of disparity in income between white and black which will persist the state will have to continue to play a major role in easing the plight of the poor and to attempt to stabilise society through welfare measures.

Recent evidence indicates that the state is gradually extending its welfare services to all sections of the population. There is now a far greater concern than before with social security for blacks as a stabilising mechanism. This will take the form of more adequate pensions, better housing and the improvement of the quality of life in the townships. Little has yet materialised but the trend is unmistakeable.

All this adds up to a state where planning for welfare promotion assumes a central position.

This is the issue with which liberals must grapple today. Do they welcome this movement — although still hesitant and inadequate — towards more social democracy (also for blacks), or do they sympathise with the demands of the classical liberals that South Africa should proceed on the basis of a free market economy and that an end should be made to the centrally-planned welfare state, which according to one scholar, "has developed into a malignant growth" absorbing one-third to one-fourth of the national income of South Africa?

Presumably the assumption is that a high growth rate will enable the poor to buy social services at free market prices. What will happen to those who cannot afford it is not spelled out.

There is evidence that the state in response to black political pressure is increasing spending on black social services. In its Prospects for 1981, the Stellenbosch Bureau for Economic Research notes: "Increased pressure to invest in social infrastructure such as low-cost housing and educational and training facilities must be expected. It is therefore estimated that fixed investment by the public authorities will increase by about 2% in 1981."

economically active age ranges has increased in other urban areas. All this is in line with a policy that aims to reduce

Venda's work problem is emphasised

(49) ~~(43)~~ STAR 9/12/80

Own Correspondent

A poor industrial sector and insuffficient jobs are causing serious problems for the economic development of recently-independent Venda.

"The industrial sector of Venda is almost non-existent," said Mr F N Ravele, Venda's Minister of Economic Affairs at a luncheon in Pretoria.

"It is difficult to satisfy our desire to create a stage of full employment as we still have to cope with an unemployment rate of about 6 percent plus an additional 5 000 people leaving school every year," he added.

UNEMPLOYMENT

Mr Ravele said Venda had a problem of "surplus labour in the agricultural sector."

The number of unemployed people in this sector would increase as improved skills and methods of production were introduced, he warned.

The problem would be compounded by about 100 000 Vendas living and working in South Africa who were "anxious to return home," said Mr Ravele.

"Our economic future depends on our ability to develop the agricultural, mining and industrial sectors, and to achieve our goals we will need money, the know-how and suitable training facilities."

Mr Ravele said except for coking-coal deposits and two manganese mines in the small new country, "we have nothing else with a posibility to stimulate our mining potential."

The only hope to stimulate employment in the country was to concentrate on the development of small businesses, both in the retail and manufacturing fields, said Mr Ravele.

He praised Mr P W Botha, Prime Minister of South Africa, for his idea of a constellation of southern African states and for initiating "co-operative development between the two states."

The Natal Mercury, Tuesday, December 9, 1980 17

Long-term economic prospects bullish, says McCrystal

49

NM 9/12/80

Finance Reporter

SOUTH Africa's medium and long term economic prospects were 'decidedly bullish', Dr Lawrence McCrystal, chairman of the Indian Industrial Development Corporation, said yesterday.

Speaking at the opening of the new JMV Textiles factory at Verulam, Dr McCrystal said growth in 1981 and 1982 would be slower than this year, and inflation could reach 20 percent.

But the country did not face the recession which had hit Europe and North America.

Growth rates in textiles and clothing would drop to 1 and 5,5 percent — from 13 and 17 percent this year — respectively, he predicted, warning manufacturers to set their targets with care.

'The one aspect of South Africa's position which is very disturbing is the rate of inflation.

Inflation

'It would appear highly likely that inflation next year will reach the 18 to 20 percent range, which will make it increasingly difficult for businesses to maintain a reasonable level of profitability and liquidity.

'In fact, it will become even more important that businesses should watch their liquidity levels very carefully next year in order to maintain financial viability.'

He said that the IIDC would be absorbed by the new Small Business Development Corporation next year, but this would not affect contracts.

Reserve Bank review of economy

Only agriculture lags in general SA expansion

STAR 49 9/12/80

By Mervyn Harris

All sectors of the economy with the exception of agriculture continued to expand strongly in the third quarter, and in the first nine months of 1980 the total real gross domestic product rose by 8,5 percent, according to the SA Reserve Bank.

The bank says in its latest bulletin that this indicates that a high rate of economic growth will be attained in 1980.

However, the sharp rise in real aggregate domestic demand was offset by faltering foreign demand for South African goods and services due to the current recession in most trading partner countries.

A marked increase in private consumption expenditure had to be satisfied to an increasing extent by imports.

Real government consumption expenditure also rose sharply in the third quarter, but real fixed investment declined and the build-up of real inventories was at the same level as in the second quarter.

The bank attributes the lower rate of increase in non-agricultural employment in the second quarter to a growing shortage of skilled labour.

ACCELERATED

A sharp rise in food prices accelerated the rate of inflation in the third quarter and October.

The higher gold price resulted in a substantially larger surplus on the current account of the balance of payments in the third quarter.

Part of this increase was, however, offset by changes in the other principal current account aggregates. Though merchandise exports recovered slightly in October, imports showed a further big jump.

The inflow of mainly short term capital in the third quarter reflected foreign financing of the sharply rising level of imports, but was also related to the repayment by foreigners of part of the huge amount of trade credit obtained in the domestic money market earlier this year.

The overall balance of payments surplus in the third quarter resulted in a marked increase in the net gold and other foreign reserves and a further appreciation of the rand against most of the major world currencies.

But the increase in gold and other foreign reserves was reversed during October and November.

The rate of increase in Exchequer receipts in the first half of the 1980/1 fiscal year was far above budget estimates for the financial year as a whole.

CHANGES

The bank says that since the end of the third quarter certain important changes have taken place in the economic situation.

Total gold and foreign exchange reserves of the Reserve Bank declined during October and November after the sharp rise in the previous three months.

This was partly due to the lower gold price.

Money market conditions tended to tighten and both long and short-term interest rates moved up strongly.

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and urban areas combined.

FM 12/12/80

Powerful thrusts

49

The tempo of business activity is by no means yet showing any serious signs of declining. Indeed, if the latest Reserve Bank economic review indicates anything, it is that gdp growth this year could be slightly more than 8% and certainly higher than 5% next year.

There are some disquieting signs in the review, but — at least for the time being — they are overshadowed by the good news.

Broadly speaking, this is that the slower growth rate between the second and third quarter was largely caused by an agricultural aberration. That aside, the real gdp accelerated even faster in the third quarter.

The growth initiative has passed from exports to domestic private consumption, but there are not yet signs of overheating. Whatever constraints there might be on manufacturing capacity, consumption demand was met from rising imports.

Nor is there any reason to believe that consumption will decline in the final quarter of 1980. Indeed, it could rise ahead of the holiday season, given wage increases and the availability of credit.

Meanwhile, private fixed investment has continued to soar ahead, which in due course will be translated into additional domestic manufacturing capacity.

Extraordinarily strong

The balance of payments remained extraordinarily strong in the third quarter. Merchandise exports are only marginally below what they were in the same quarter last year, despite depressed Western economies.

Of course, imports are 42% higher than they were in the third quarter of last year. But they are unlikely to continue to rise at that rate. If they do not, they could compensate for reduced export earnings in the third quarter so that the current account surplus remains in substantial surplus.

Moreover, as the *FM* forecast recently, as the prospects for the current account have declined, so the capital account is swinging into surplus. If this continues in the final quarter and the gold price does not ease, the basic balance of payments surplus could be larger this year than last.

The transformation of the capital account has been dramatic. From capital outflows of R547m and R1 681m in the second and first quarters, the third quarter saw a R461m inflow.

This inflow was mainly to the public corporations and, more moderately, to the private sector. Government and the banks repaid foreign debts.

The current account surplus and the capital inflow led to a massive rise in the reserves in September which, in view of the decline in October, was possibly used substantially to reduce the country's indebtedness abroad.

The disquieting aspect of the bank's review is that prices are rising too fast and appear likely to gain further momentum. This is partly because of a lag in adjusting administered prices to accommodate costs. This is a processs that is so laggard that it is surprising more shortages have not yet occurred.

The prices outlook remains depressing, moreover, because of sharp increases in the money supply in recent months as a result of exchange controls bottling up rising gold earnings.

De Kock . . . much depends on his policies

Indeed, uncertain as the gold price may be, and despite a general depression in the West, it is the inflationary potential of the money supply increases — 50% seasonally adjusted between the second and third quarters — that could be next year's greatest constraint on growth. It is not a consequence of run-away consumption, but of monetary policy inadequacy.

Depending, of course, on fourth quarter trends — and on the gold price — these third quarter results suggest that 1981 could be another year in which government would be hard pressed not to reduce taxes.

But, in view of the potential for price rises, a reduction might be substantially absorbed — albeit temporarily — through a loan levy to prevent any immediate tendency for consumption expenditure to cause overheating. Much depends on how the new Governor of the Reserve Bank, Dr Gerhard de Kock, applies monetary constraints and exchange rate and exchange control policies when he assumes office in a few weeks.

GENERAL NEWS

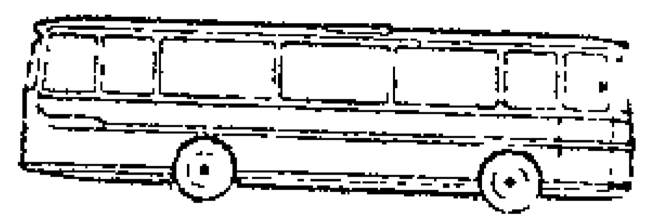
Chief wants financial probe

(1~~04~~) (49) STAR 16/12/80

Own Correspondent

DURBAN — kwaZulu Chief Minister, Chief Gatsha Buthelezi has called for a judicial commission of inquiry into the financial policies of the Corporation for Economic Development.

This follows reports that the CED, the Government's homeland development agency, had signed contracts to pay more for some of its buses than at least one private operator in the area using the same make of vehicle.



A controversy over the prices paid by the CED for some of its vehicles arose when it appeared that a Bloemfontein operator, Thaba Nchu Transport, paid R31 118 a chassis to MAN Truck and Bus (SA) Pty Ltd for 34 buses while the CED paid R35 000 a chassis for 32 MAN buses.

Both deals were signed in August-September.

When the CED — one of the largest buyers of MAN vehicles in South Africa — was approached about the large difference in price the corporation demanded an explanation from MAN.

MAN called in its auditors who supplied CED with a detailed financial statement which concluded that, if all factors such as trade-in deals, currency fluctuations etc, were taken into account, then CED had a marginally better deal than Thaba Nchu Transport.

But it appears that MAN has granted some form of credit to the CED after the latter's strong complaint about more favourable bus prices apparently being quoted to a smaller operator.

In his statement yesterday Chief Buthelezi said that the general manager of the CED's transport section, Mr Dana Viljoen, had shown him confidential, and possibly defamatory, personal documents about individuals.

Section 10(1) is the legal cornerstone of the system. Section 10(1)(d) links it with the [illegible] system; this is the section under which contr[illegible] from rural areas and the homelands are admitte[illegible] metropolitan and urban areas. Contract worke[illegible] be able to earn section 10(1)(b) rights, but a[illegible] lations introduced in 1968 require contract wo[illegible] return to their places of origin each year and the continuity of their residence in prescribed areas. What section 10(1) does is to divide metropolitan and urban workers into two classes : 'insiders' with section 10(1)(a) or (b) rights and 'outsiders' with section 10(1)(d) rights or present illegally.[4] People with section 10(1)(c) rights form an intermediate group of largely not economically active 'dependent insiders'. The residence rights of outsiders depend [illegible]

EXCHANGE CONTROL

Grasping the nettle

(49) FM 26/12/80

If the popular newspapers are to be believed, all the spunk is suddenly going to disappear from Gerhard de Kock when he takes office as Governor of the Reserve Bank next Friday.

According to their wisdom, which claims support from "banking circles", there should not be "extravagant expectations" of exchange control removals or of the "complete dismantling of the . . . apparatus."

The reasons advanced for this are as illogical as they are obscure. Essentially, according to this argument, a declining gold price could plunge the current account of the balance of payments into "serious trouble."

In the light of that, if exchange controls were also removed, the reserves could, it is argued, come under pressure as capital fled to higher interest rates abroad.

An extension to this general thesis is that the capital flight would largely be caused by political and not economic causes. Hence, it is held, De Kock is likely to find the removal of exchange control politically difficult.

Finally, it is argued that if these controls were removed and, in consequence, the rand's value should fall ("look at the 30% discount of the financial rand"), imported inflation will rise.

For the sake of argument, even if a lower gold price and consequent current account deficit are assumed, the *FM* believes there are other factors that need to be kept in mind. One is that the capital account is already in small surplus and has considerable growth potential.

Moreover, if exchange controls were abolished, any tendency for capital to be exported need not reduce the reserves if the managed floating of the rand becomes a reality. Instead, the value of the rand will fall. With a free rand and no exchange controls, those wishing to sell rands would have to find a buyer willing to give them dollars, pounds, DMs or whatever at some price; there is always a price which clears markets.

Nor would a weaker rand necessarily boost inflation. First, the inflation rates in this country's major trading partners are declining faster than they are here. Second, imported inflation is not the main cause of domestic price increases.

The reason for the bland assumption that, in the absence of controls, domestic assets would automatically be switched to other investments abroad, needs some examination. Will higher short-term interest rates abroad necessarily attract long-term investments from the world's fastest growing economy?

Of course, political developments could cause a sudden, sharp flight from rand investments. But as experience has shown, when that happens exchange controls will not stop it.

Indeed, it was for that very reason that government adopted the policy of a managed float of the rand two years ago. To the extent that the rand's price is allowed to reflect political apprehension, the domestic economy is left relatively unharmed.

If, on the other hand, the reserves are used by the authorities to bolster the rand's value artificially, there will be a reduction in international and domestic liquidity, causing, in time, the frustration of growth policies.

Few who advocate the removal of exchange controls regard it as a "miraculous cure for inflation." There is no such cure. But the relationship between price rises and the growth in the money supply is well known. And with the money stock growing by 50% in one quarter alone, it is going to be hard to get it under control. To allow it to be periodically topped up, as will inevitably happen, from excess liquidity sloshing around behind exchange controls, is folly indeed.

Those who believe that De Kock will prove, at least initially, as intractable as his predecessor, should bear the following considerations in mind.

First, two years ago, on De Kock's recommendation, government's economic policy was reversed in some crucial areas. A managed float of the rand and a removal in stages of exchange controls were accepted. This occurred in the face of those who said both were politically impossible.

That neither of these policies was implemented to the extent intended was because of the personal opposition of the previous governor. It was Bob de Jongh, not the politicians, who needed convincing.

Second, economic circumstances have never more favoured a removal of exchange controls. As the business cycle begins to decline, it will become all the more difficult to convince the sceptics and the faint-hearted that they can be removed advantageously.

The *FM* believes that when De Kock moves into Church Square next Friday, there will be rapid moves to implement a genuine managed float of the rand, and to rein in the money supply. To be effective, substantial exchange control relaxations will sooner or later have to be an essential part of these moves.

Expect no repeat of this year in a patchy 1981

RDM 29/12/80

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Harold Fridjhon on Monday

By HAROLD FRIDJHON

IF ONE reads all the signs carefully and takes particular note of how the bones fall, 1981 is going to be a tricky and patchy year.

Statistically and in absolute terms it should prove to be another 12-month cycle in which some progress will be made. But compared with the year of excesses now drawing to a close, to say the least, it's going to be a very uneven year.

In 1980 no one could go wrong — except the tired army of pensioners and the jobless.

For the pensioners it was a year they want to see the back of. Their perspective of 1980 was 12 months of steadily rising prices and an inexorable eroding of their incomes.

Not only were their pensions being cut in real terms by more than 1% a month but, until the last few months of the year, their incomes from fixed interest investments in banks and building societies were also declining.

For the ranks of the unemployed, too, the talk of boom and prosperity was a hollow mockery. True, new jobs were created for many thousands; in mining, in construction, in industry and in the service sectors of the economy.

But these additional work opportunities were for the few. The majority saw few glimmers of hope on the horizon as tens of thousands rotted in idleness in the townships and in the homelands.

But for the rest of the South African society, 1980 was a year to remember.

For those who played the stock exchange, only the dumb-witted and the foolish could go wrong. It was back to selecting shares by playing darts with the JSE list. Some shares did better than others. Some soared. Others moved up more sedately. And company results seemed to outpace each other in zooming profits and bubbling dividends.

Wage earners not only received bursting pay packets as employers were forced by competitive bargaining to keep on raising the antes in a tight skills market, but they were also the recipients of largesse from a benevolent Minister of Finance whose policy was to fuel the boom. He could afford to do this because gold was earning billions for the fiscus as well as for the country.

Yes, 1980 was a leap year in every sense of the word. The economy lept forward and the country went ahead by leaps and bounds.

One must not forget the part the banks played. They gave a tremendous multiplier effect to consumer spending power by their extension of bank credit for consumer durables which lifted the motor car and household furniture and appliances industries out of a years-long trough and catapulted them into the boom category.

And with cash flowing into the building societies homeownership was a growth industry.

1981 will not be a morning-after sort of year. South Africa is not going to suffer a headache and a hangover because I do not believe that most people over-extended themselves. Some might have wanted to but I have no doubt that the banks were not wild and foolish in the extending of credit. Nor do I believe that the economy as a whole over-extended itself.

But, as all the responsible economists have been at pains to point out, the growth rate of last year cannot possibly be sustained in the new year which is just around the corner. We will continue to make headway in national terms but at a slower pace. We need it to catch up on ourselves — and on our debts and on our supply of skilled labour.

This does not mean that from January 1 there will be a dramatic drop in tempo. It's going to take several months for the economy to wind down to the 6% growth pace which is predicted to be 1981's growth rate.

In many areas, wages and salaries increases will not be as generous as they were in 1980 because in a slower-moving economy, competition in business will be keener and sharper and companies will not be able to pass on increased costs to end-users as easily as they did in the boom year.

This in turn means no new surge in credit and hire-purchase buying by consumers who will have to pay off their 1980 commitments before taking on new debt loads. And in turn this means that commerce and the service industries will not find business conditions quite as buoyant as in the 12 months now ending.

The consumer-led boom is drawing to a close.

But there will be growth.

The capital expenditure of the mining industry will ensure that heavy industry will continue to grow at a rare pace. The capital equipment industries, too, will make headway as all manner of manufacturers increase their productive capacity as they started planning to do in the second half of 1980.

And if the price of gold during the year that lies ahead fluctuates between $500 and $550 we will be able to pay our way — with a little difficulty but we will be able to do it with astute management at all levels from the Treasury downwards.

What does all this presage for the Johannesburg Stock Exchange.

To begin with, companies reporting to the end of March 1981 are going to show exceptional figures, a continuation of the 1980 trend.

Companies whose year-ends are in June 1980 may not show the spectacular figures they returned at June 1980 but their results should be more than satisfactory.

But those who will report as at September 30 and the months that follow are going to show a real slowdown in their rates of growth. The results will be good, but the growth rate won't be.

Companies will be affected by the higher costs of borrowing, the higher costs of operation, and by a pruning in profit margins which were left to take wing when a cash-bloated society forgot to compare prices.

Of course these are general observations. There will be many exceptions, among them the construction and engineering companies for whom the boom will not have ended.

But the consumer-orientated companies making and selling consumption and durable products will have to battle to maintain their margins. And their rate of dividend growth.

I think that the market has been telling us this in recent weeks, that the peaking of the share-price indices was the warning that 1981 will not be a repeat of 1980. But having said this, I do believe that 1981, if not a better year, will be a good year. And may it be a happy new year for us all.

Horwood forecasts another great year

RDM
29/12/80

By GERALD REILLY
Pretoria Bureau

49

THE Minister of Finance, Senator Owen Horwood, yesterday forecast 1981 would be another great year for South Africa's fast-expanding economy.

However, in an interview in Pretoria, he warned that inflation, at present running above 14%, would continue to be a major threat.

Economists agreed with this view, and cautioned last night that inflation had gained dangerous momentum.

They said it would be unrealistic to deny the possibility of a higher rate — even significantly higher — next year.

Asked whether pay rises for public sector workers next year would be lower than the present inflation rate, Sen Horwood said he could only state at this stage that all would get "a fair deal".

Senior public servants said last night they expected the increases to average between 10% and 13% — against an expected inflation rate next March of about 16%.

Sen Horwood said this year's massive growth rate of more than 7% could not be maintained. However, he believed a very satisfactory rate of between 5% and 6% was possible in 1981.

Government's apparent insistence that the unit become absorbed in the construction of Maseru's prestigious international airport. The unit is necessarily small (250 employees in the first year and 500 thereafter) because of its experimental nature and its expensive foreign technician leadership. The fundamental obstacles, however, are the setting - a small net increase in employment of a full time nature within the requirements of law and popular expectations set against the alternative of migrant work at recently enhanced rates in South Africa. An alternative approach is suggested below, the strength of which is its ability to provide part-time work at rates below those ruling in the countryside; rates which are a fraction of the present urban determined rate for full-time employment.

The long period of benign colonial neglect has left Botswana with little technology suited to her rather extreme agricultural conditions and with little skilled manpower or institutional capacity to produce the same. [illegible]

[illegible] Ministries of Planning and Finance, Agriculture, Works, Local Government and Lands, Education, Home and Foreign Affairs. It is distinguished by having a Ministry of Mineral Resources and Water Affairs, in keeping with their unique place in the economy. What marks Government functioning is its openess and the amount of structured inter-Ministerial contact (through the mechanism of committees). As Government has sought to tackle more complex issues so the need for contact between Ministries has increased. Today some key committees have been given executive powers. The growing complexity of decision making through the use of committees fits the present phase in which Government is attempting to advance on a number of fronts at once. It also reflects the weakness of local government and the concentration of power at the top, this despite official intentions to the contrary.

The economy was strong, and with the needed confidence and initiative in the public and private sectors, the economy would continue to forge ahead.

However, inflation would remain a great problem. It did not appear the rate would fall next year, he said, but hopefully it would not move significantly above this year's level.

The Government would do all in its power, with the fullest possible support from the private sector, to pull the rate back to a more acceptable level.

He warned that the strictest control and discipline would have to be exercised by the private sector in the fields of wage and salary increases and in cost and price rises.

He said the discipline exercised by the Government in State spending was an important reason for the economy's fine performance this year.

He was not prepared deliberately to abandon a position which had been reached with difficulty by allowing excessive expansion of State spending.

Sen Horwood believes his assessment and planning are conservative enough to protect the economy from a relatively low gold price.

Regarding the balance of payments, the present price of about \$600 an ounce was more than enough to make it possible to avoid acute exchange problems, he said.

Earnings from gold this year had been above the Treasury's expectations. However, he would again work on a conservative figure for next year.

The current account of the balance of payments this year had reached record surplus levels.

The sharp rise in exports and gold turnover had taken care of this, in spite of a sharp rise in imports.

The surplus was used not only to transfer a great part of the country's trade financing from overseas to local sources, but also to help raise the country's net reserves.

He believed, however, that the current account surplus would be decidedly lower in 1981. He thought it unlikely it would swing to a large deficit in the second half of next year, as was being speculated in some quarters.

Only an extraordinarily high gold price could maintain a high surplus level on the current account.

The Minister said the extraordinary economic pace of the past 12 months could obviously not be maintained. Most spare capacity had been utilised.

"Our growth rate next year will be determined largely by the tempo of labour training, the extent to which labour can be efficiently used and equipment and machinery produced in South Africa, or, if necessary, imported".

of annual rentals on surplus grazing rights, would bring some P1 million to P4 million extra income, minus taxation, to the poorer families. If we take the net transfer involved at P1 million to P3 million, we are still left with the question of how government can productively place P6 million to P8 million into the pockets of the poorer families.

A guaranteed employment programme does provide a mechanism - the registration of work seekers - whereby the poor identify themselves and receive wages in exchange for labour. The cost of such a programme is not entirely an extra cost since it can finance much of the physical construction government would undertake otherwise. What it does do is to force government to explore a number of technical and organisational questions that otherwise are convenient to ignore. By placing the initiative in the hands of individual citizens it helps to redefine the service roles of technical departments in contrast to the empire building and management roles that technical departments often [illegible]

The average employed per day over a 350 day work period would be 214 000 per day, or roughly 2 persons per household or 4 per household under the poverty line. At P2,00 per day it would require an average attendance of almost one member from every household for 350 days a year or 2 from the poorer families. Clearly neither magnitude is likely.

By the end of the century when Botswana's population will have doubled from the 700 000 odd today to nearly 1,5 million such magnitudes will look both more likely and probably as,or more,desirable. At present it would seem that a guarantee employment scheme would not be able to spend more than about P2,5 million in wages a year at an average wage rate close to P1,00 per day. That would leave a gap in the minimum income distribution sought of P3,5 million. It raises the question whether or not Botswana should not examine a higher wage as socially desirable, perhaps P2,00 per day. Almost

(49) RDM 30/12/80

Govt spending so far slightly over budget

By HAROLD FRIDJHON

AT the end of November, Government expenditure was running at a rate of 5% above Budget.

Total spending for the eight-month period was R9 206-million. Bugetted expenditure was R13 142-million which, on a pro rata basis, would be R8 761-million for the first eight months of the fiscal year.

With four months to go the "over-spending" of R410-million has little or no significance, particularly as the Treasury is not deficit-financing.

It is very probable that by the time Senator Horwood presents his accounts in March his books will be in balance.

Government spending has a tendency to fall off during the closing months of the fiscal year as the various State departments cut back — or hold back — on their outlays so as to bring their year's figures as closely into line with the Budget as possible.

On an average monthly basis, the total Budget figure works out at R1 095-million. Compared with this the total to the end of November averages at R1 150-million a month against R1 123-million a month for the seven months to October and R1 091-million a month for the five months to August.

Government revenue for the eight months amounted to R8 040-million compared with R5 825-million for the same period of last year.

As is to be expected, the big increase is in receipts from inland revenue which includes income tax and of course gold mines taxes. Inland revenue collections are no less than 46,6% higher at RR7 437-million. Customs and excise collections for the eight months amount to R852-million which is a 13% increase over the figures for the comparable period of last year.

With total revenue amounting to R8 040-million and total spending R9 206-million, the deficit before borrowing was only R917-million which was comfortably financed from borrowing.

Indeed, the Treasury had enough liquidity in hand to transfer R750-million to the Stabilisation Account. This is a very wise action because it means the effective freezing of this amount which will make a contribution to reducing the money supply, currently the aim of Senator Horwood's policy.

On the figures which appear under the heading of "Other Receipts" and "Other Issues" it would seem that the Minister will have the scope for further large transfers to the Stabilisation Account.

So far this year the Treasury has raised, apart from Treasury bills, just under R11 000-million and by the end of November the Department had repaid just over R2 000-million.

Among the "Other Receipts" is the amount of almost R170-million which has flowed into the Treasury from the sale of Defence Bonus Bonds.

Details of the Treasury's collections are available only to the end of October.

In the first seven months of the fiscal year income tax brought in no less than RR3 949-million compared with R2 697-million last year, an increase of 46%. Income from gold mining lease payments is more than doubled at R266-million.

The next biggest head of revenue is general sales tax. During the period April 1 to October 31 1980, GST earned R925-million for the Treasury, compared with R688-million for the same period of last year.

This means that GST revenue poured into the Exchequer at a rate of R132-million a month. The budgetted GST cashflow was R129-million a month to produce total income of R1 550-million.

As the GST collections will probably peak during November and December, it is very probable that collections for the fiscal year will far exceed budget.

Export duty on diamonds has dropped from R19-million to R14,5-million. This probably reflects the quieter mood of the diamond market; on the other hand exports of diamonds can vary from month to month and one cannot assume that the drop in collections is necessarily the result of slack sales.

Non-resident-shareholders' tax has jumped from R90-million for the first seven months of the 1979/80 fiscal year to R160,5-million this year. While a large part of this increase no doubt reflects the very much higher gold mining dividends which have been paid it could also indicate increased foreign investment in South African securities.

The very significant jump in receipts from transfer duties — from R44-million to R85-million — shows clearly the extent of this year's property boom, bearing in mind the rebate of the duty on properties under R30 000.

And another boom which has contributed to the flow of funds to the Treasury is that on the Johannesburg Stock Exchange. Marketable securities tax brought in R21-million during the first seven months of the current fiscal year compared with R9,5-million in the same period of last year.

The economic boom which permanently changed the face of South Africa

(49) C. Times 31/12/80

1980 IN REVIEW

By GORDON KLING

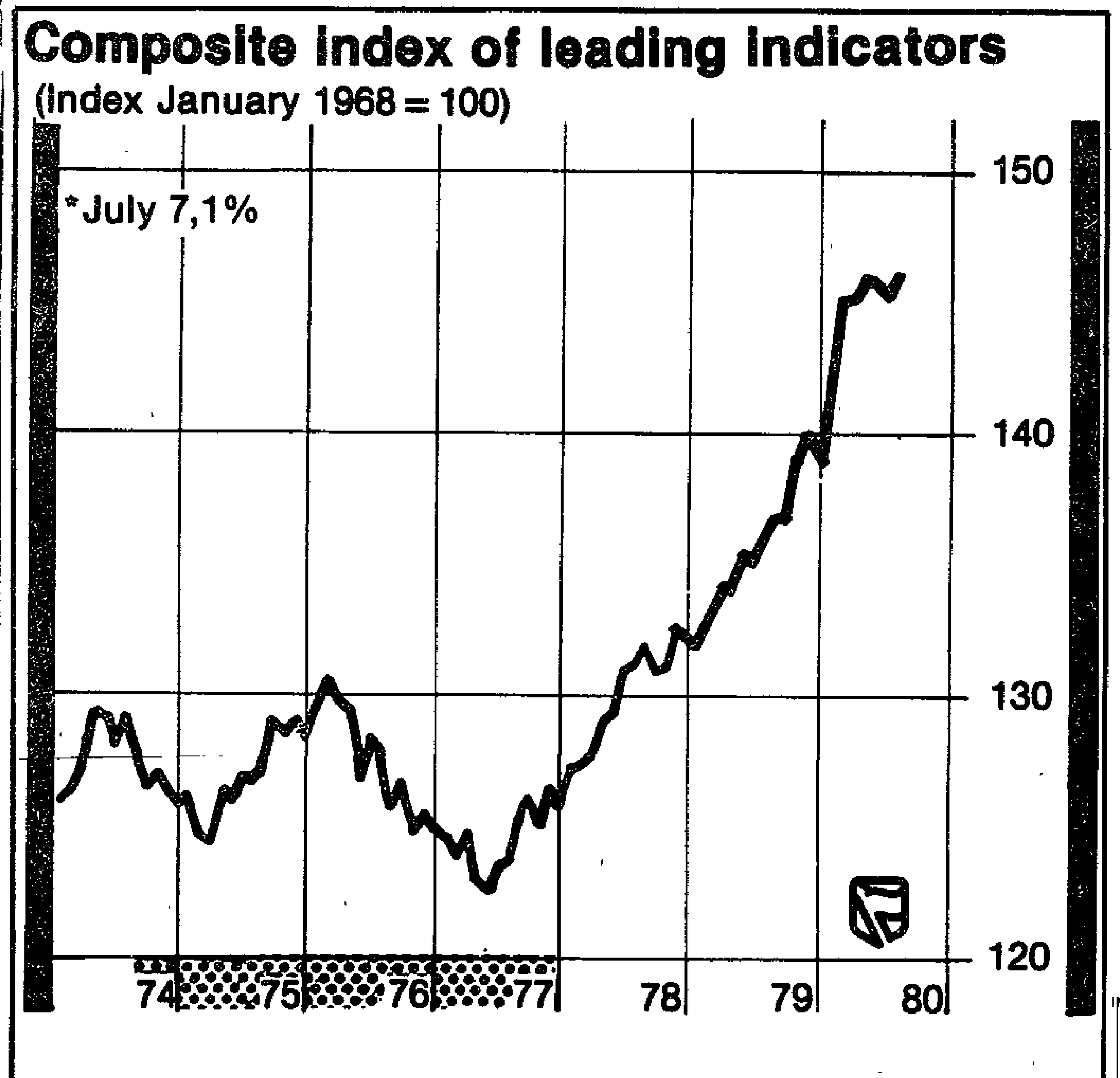
THE SOUTH AFRICAN economy probably achieved the highest growth rate in the world during 1980 amidst indications that the Republic has moved on to a new development base capable of generating still greater prosperity and improved job opportunities for years to come.

This is the conclusion that emerges from any economic study of the boom year that was 1980.

And while economists expect a slackening in momentum during 1981, the economy stampede back into the market amid fantastic price gains for the first time since the crash of '69. Daily trading values on the JSE of R3-million in January exceeded weekly turnover less than a year earlier.

Even the national sport got into the boom — South African rugby made the biggest financial killing in the history of the game from the British Lions rugby tour.

The growth in real Gross Domestic Product (GDP) — the sum of all the goods and services produced in the country after adjusting for inflation — now seems certain to reach about eight percent for the year, probably a world record, and a figure of about five percent is widely accepted for the coming 12 months.

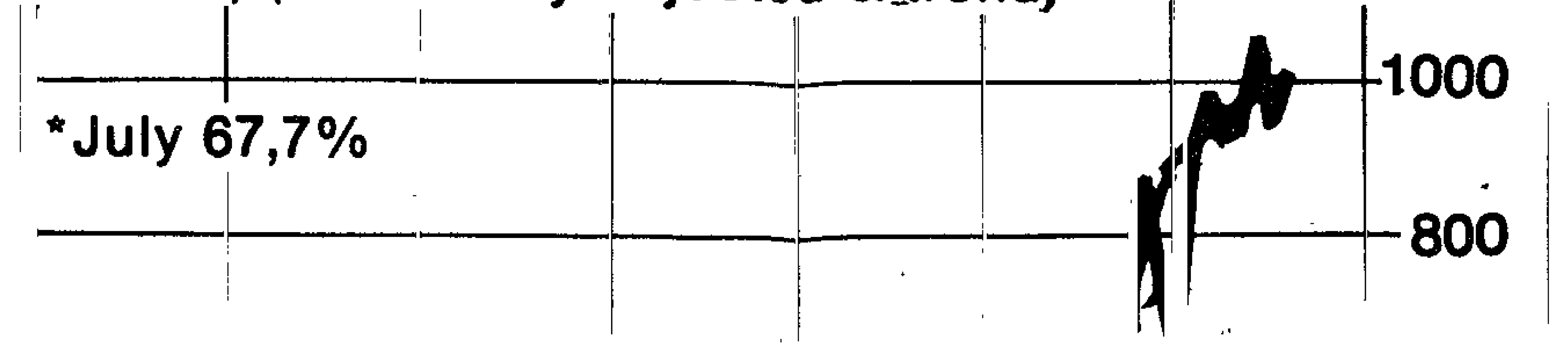


Boom 1980 as depicted graphically by the Standard Bank's composite index of leading indicators.

is likely to grow at a faster pace throughout the consolidation than most of the country's trading partners in Europe and North America will experience in their long-awaited recoveries from recession.

In short, the magnitude of the boom has permanently changed the face of the nation.

The Minister of Finance, Senator Owen Horwood, right, with the new Governor of the Reserve Bank, Dr Gerhard de Kock: From strength to strength with benefits for all.



Government commitments to return the economy to private enterprise meant that a great proportion of the additional money went to the private sector, and the public spent it like it never had before — thanks in no small part to the multiplier and accelerator affects of more plastic money in the form of new credit cards from Volkskas, Santam and Trust Bank.

With inflation at 14.9 percent for the 12 months to the end of November, the rand did not go as far as the year before, but an improvement in the exchange rate against the US dollar from $1.20 in early January to $1.33 by the year's end at least kept down the rise in the price of many imports. It also made our exports less competitive.

A 0,5 percent cut in home mortgage bond rates from February 21 was one of the factors that saw a property market that had lain dormant for more than three years wake up with a vigour of frightening proportions for those without a roof of their own, but one which brought the building industry out of one of its worst slumps ever and gobbled up every brick in sight.

Dr Eschel Rhoodie

Estate agents reckoned that Dr Eschel Rhoodie's proceeds with interest from the sale of his property by the State Trust Board after the withdrawal of provisional sequestration would come nowhere near the cost of getting it back.

For almost everybody else, the easier and cheaper money meant a chance to get a first home, or a bigger and better one, and a great many grabbed it.

Alarmed by a 49 percent increase in the broad money supply during the third quarter, Senator Horwood siphoned money out of the economy into the government's stabilization account, effectively sterilizing it.

a very attractive discount ranging between 20 to 40 percent.

The Reserve Bank showed that it had a heart and a good deal of commonsense in backing down on form-filling regulations pertaining to every foreign exchange transaction of more than R50.

Belatedly facing realities of the late 20th century on the labour front, the government formally began dismantling discrimination in the work place as prescribed by the Wiehahn and Riekert commissions.

Labour itself took on greater sophistication, and the strike as a worker's right was increasingly exercised with the repercussions long familiar elsewhere in the West, and which spokesmen from across the political spectrum maintained had to be accepted as normal.

'Testing the market'

South Africa returned to the international public capital market in June after an effective eight-year absence in floating a 250 million Deutschmark loan.

Senator Horwood acknowleded at the time — in the midst of rioting and school boycotts in the Cape and elsewhere:

"We are testing the market at a testing time, but our advice is that this is the right time, and there is an indication that our rating is very good." It was.

The Minister of Finance talked of the country having the potential to become one of the economic wonders of the world in the 1980s, and very, very few were heard to disagree.

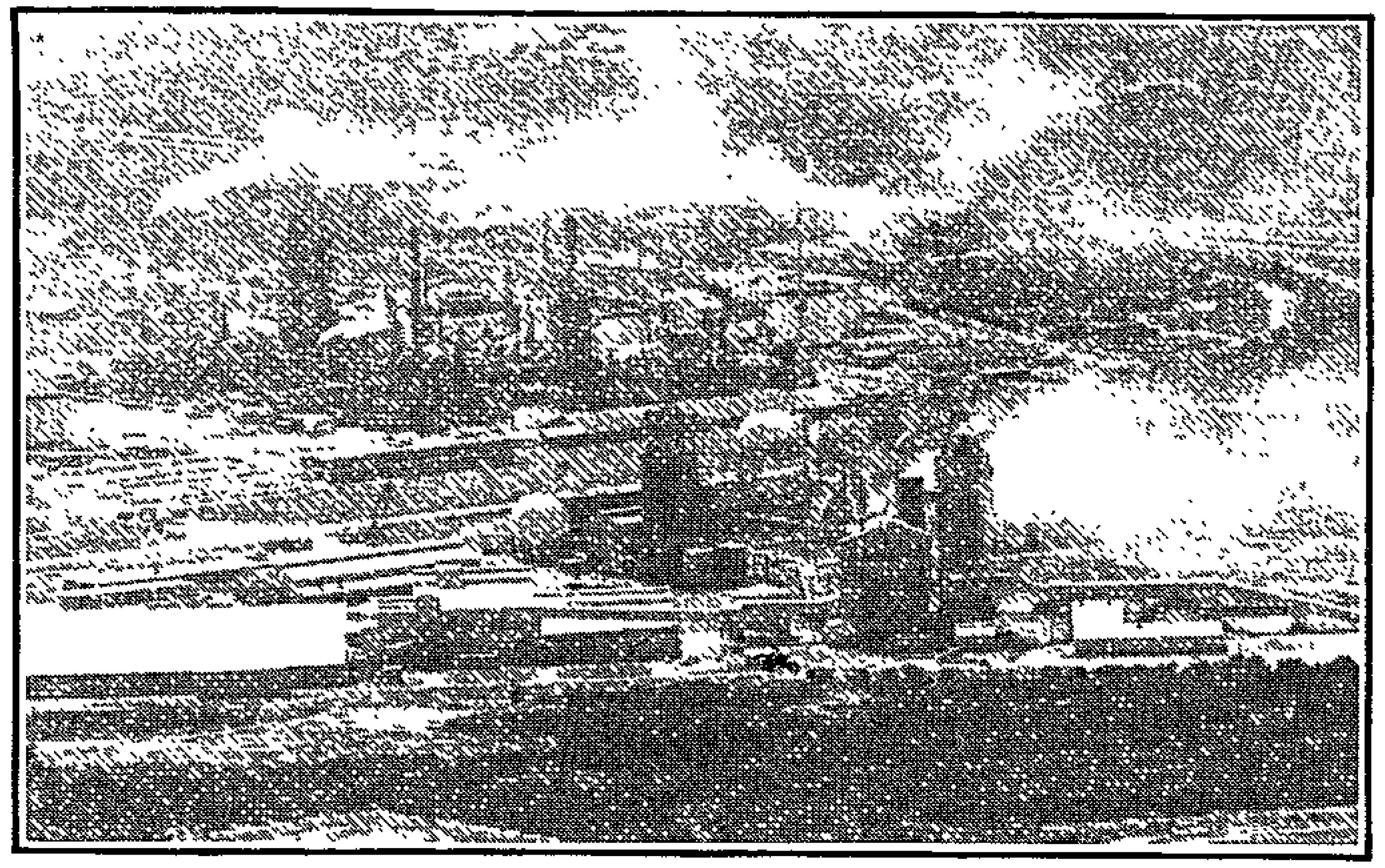
The outlook at the beginning of the new year? Well, as Nedbank's deputy general manager, Mr Merton Dagut, put it:

"Barring acts of fundamental stupidity and other disasters — neither of which one has sound reason to expect at the moment — it seems to me that our economy has an all-but-irreversible impetus which will carry it upwards through the short term

Manufacturing

...e ..y ne .. e anc wages rose; ..m-migration soared, emigration plummeted; building took off and property prices went through the roof, an upsurge in consumer o'e percen.. n mos: o: ..urope, anc a predicted 2.5 percent rise in the United States next year

Essentially the economy grew so fast



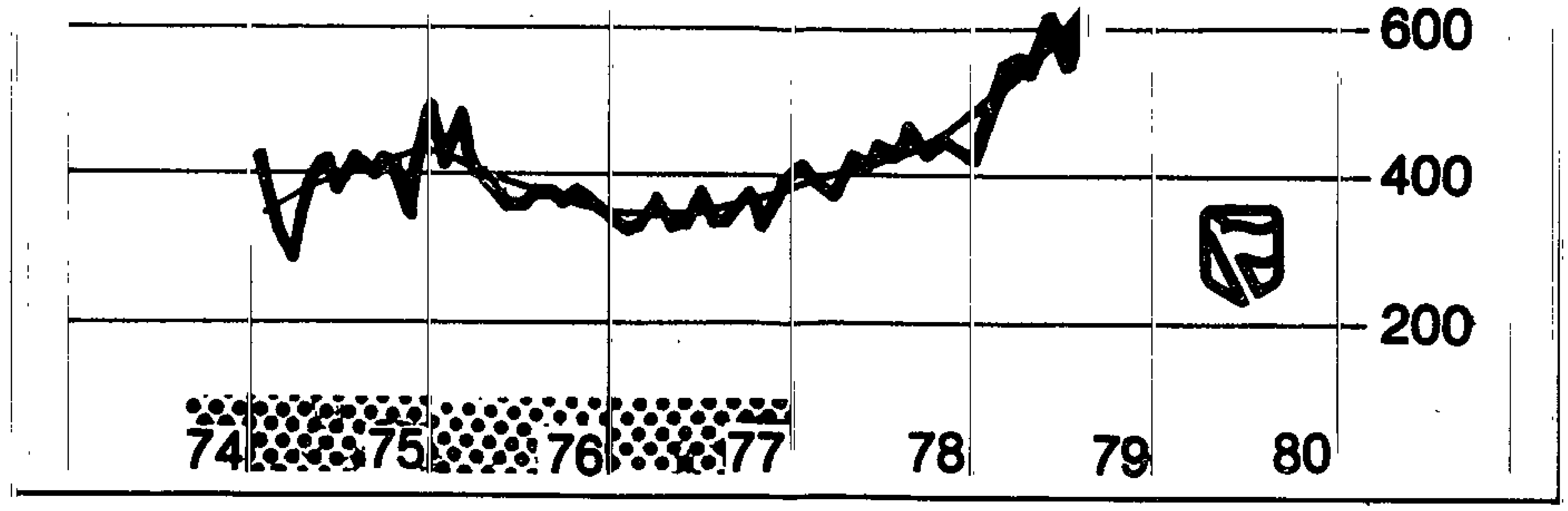
It was full steam ahead for South African industry in 1980 as a new wave of consumer spending swept over the factory floor.

spending took sales of everything from cars to hair-curlers to new records; a massive increase in earnings from abroad saw the balance of payments in the first quarter achieve what Senator Owen Horwood described as an "unbelievable" adjusted annual surplus of R7 780 million.

Most South Africans ended the year richer in real terms for the first time in as long as they could remember.

The Johannesburg Stock Exchange went mad. Brokers saw the man-in-the-street because there was so much more money around from improved exports and virtually doubled earnings from the number one export — gold.

The average daily price for one ounce of the yellow metal at the afternoon fix in London was about US $615 for the year, a dollar shy of double last year's. Multiply the rise by South Africa's annual production of some 20 million ounces to get an indication of the huge implications of the gain.



New companies sprang up . . .

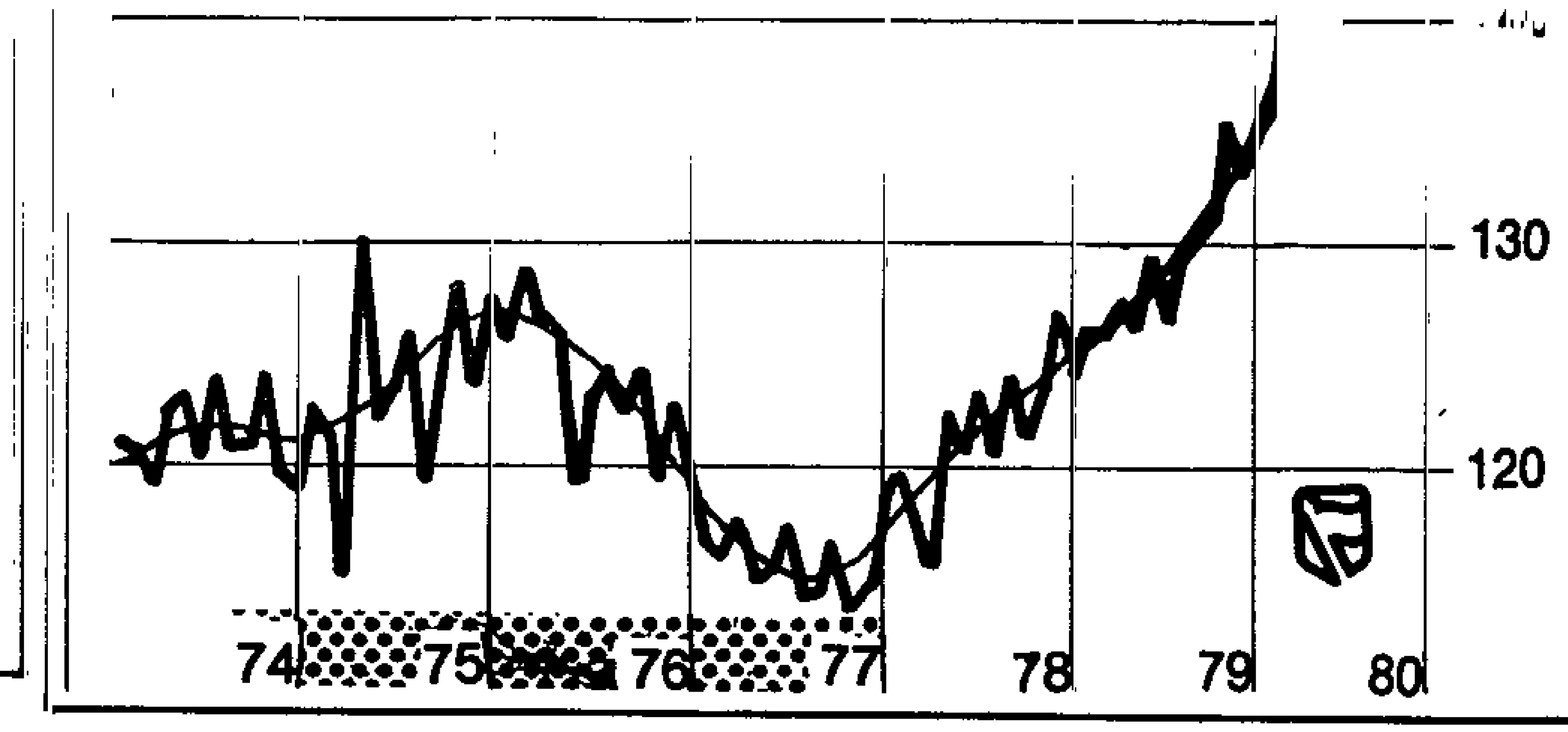
And with the national budget having been based on a price a couple of hundred dollars lower, another handout from Finance Minister Owen Horwood cannot be ruled out come March.

Gold, however, has shown itself to be extremely volatile for an inert metal, and the price which the authorities believe the world will be willing to pay for it next year will again have an influence on how much we pay in taxes.

Nobody expects anything like a repeat of the R.156 billion worth of concessions showered on the taxpayer in the previous budget, but then the price of bread probably won't go up by 25 percent again either.

The income tax concessions provided the biggest collective boost to take-home pay in the history of the Republic. Relatively, lower black taxes dropped by 20 percent across the board and a married white with two children earning a taxable income of R700 a month could expect his PAYE deductions to fall by a staggering 60 percent.

Such was the momentum of the boom, however, that the Treasury was still deluged by a 42 percent increase in the flow of taxes for the first eight months of the financial year to the end of November — Senator Horwood had budgeted for only a 11.5 percent rise in tax revenue for the year.



Manufacturing production soared . . .

He also served notice towards year-end that inflationary aspects of the boom were now cause for concern in a clear warning that the "growth with discipline" policy was not just a catch-phrase.

The powerful hand of Dr Gerhard de Kock, special adviser to the Minister and Deputy Governor of the Reserve Bank, was strengthened with his appointment to head of the bank on the retirement of his uncle, Dr Theunis de Jongh, after 13½ years at the helm.

The business community had earlier given a vote of confidence to far-reaching recommendations of Dr De Kock's monetary commission which relaxed exchange control and provided the groundwork for a free market determined value for the rand.

Overseas investors took advantage of a broadening in the scope of the financial rand to bid up its value while pumping in millions in new investments, admittedly at and the medium term."

In the end, it all comes down to four crucial variables, according to the Director-General of Finance, Dr Joep De Loor:

- The price of gold;
- The price of oil;
- The degree of demand for South Africa's exports;
- The average rate of inflation.

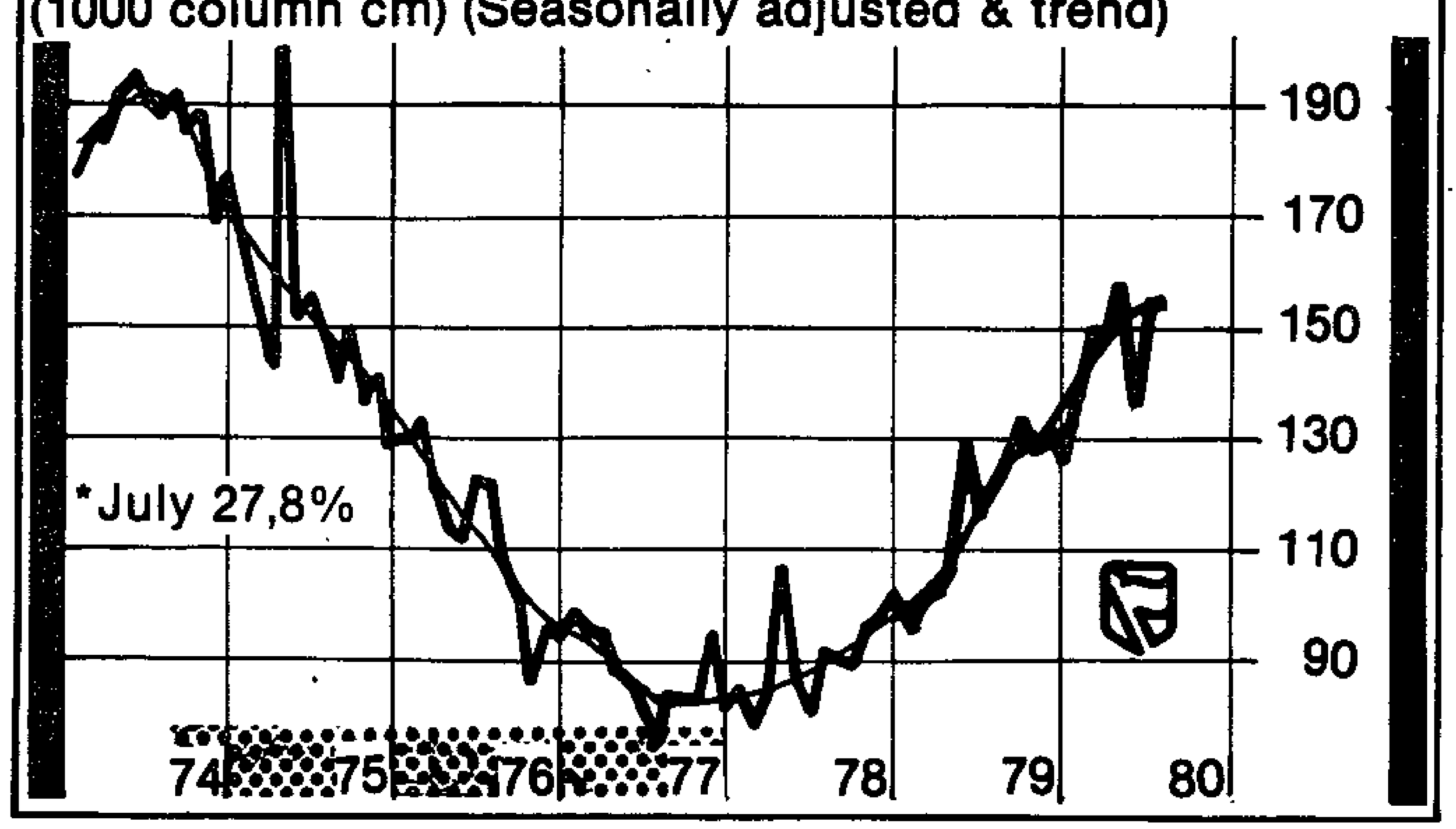
He probably could have included political stability as well.

But there was nothing, absolutely nothing, to prevent a more equitable distribution of the nation's new-found wealth, and with that wealth likely to keep growing at a healthy pace, the opportunity became stronger than ever before to promote the kind of political and social advances which could bring more economic benefits to more of the population and fuel a still bigger boom, sooner, with the next upswing in the business cycle.

Activity indicators

Job advertisements

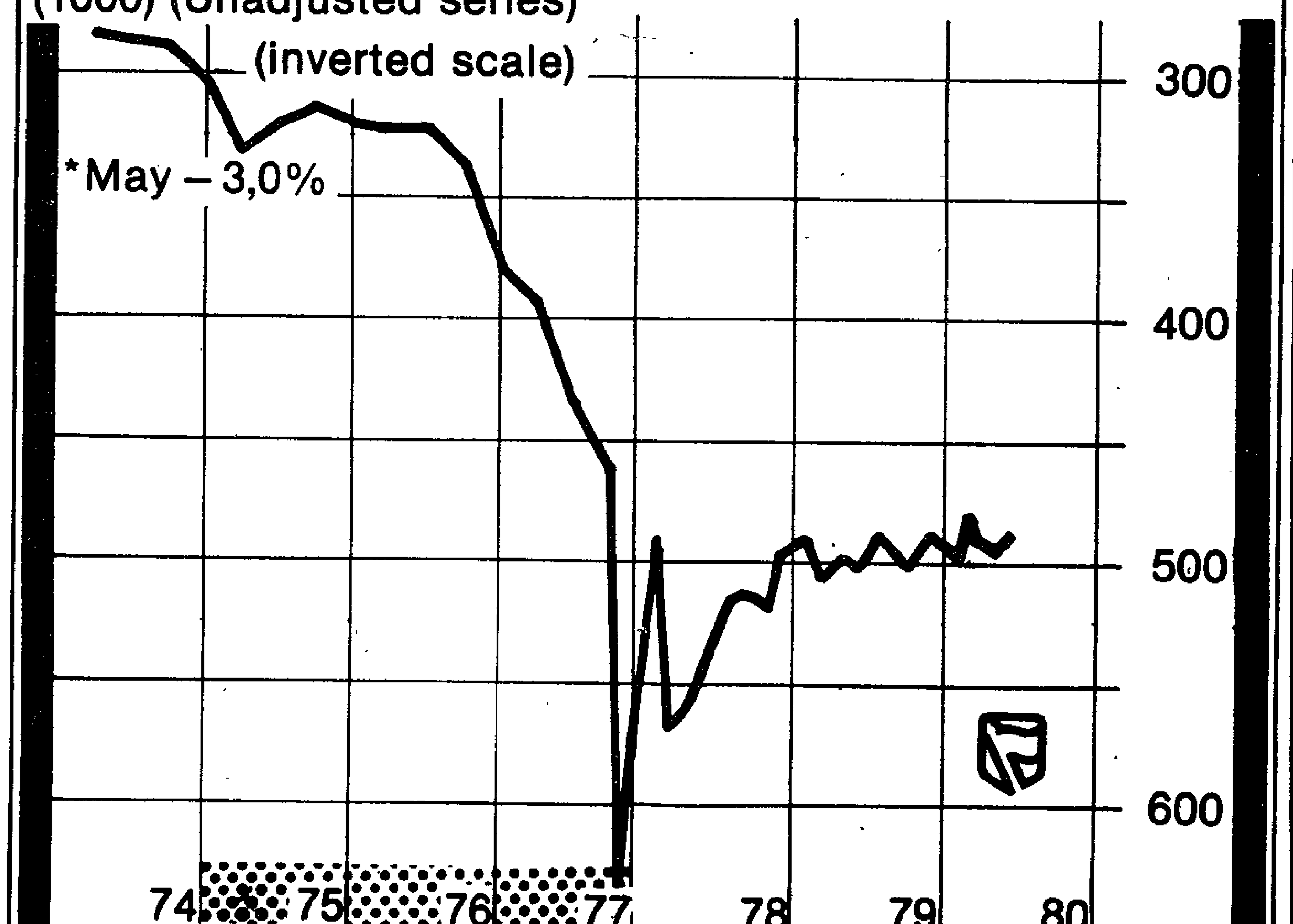
(1000 column cm) (Seasonally adjusted & trend)



Business sought more employees . . .

Black unemployment

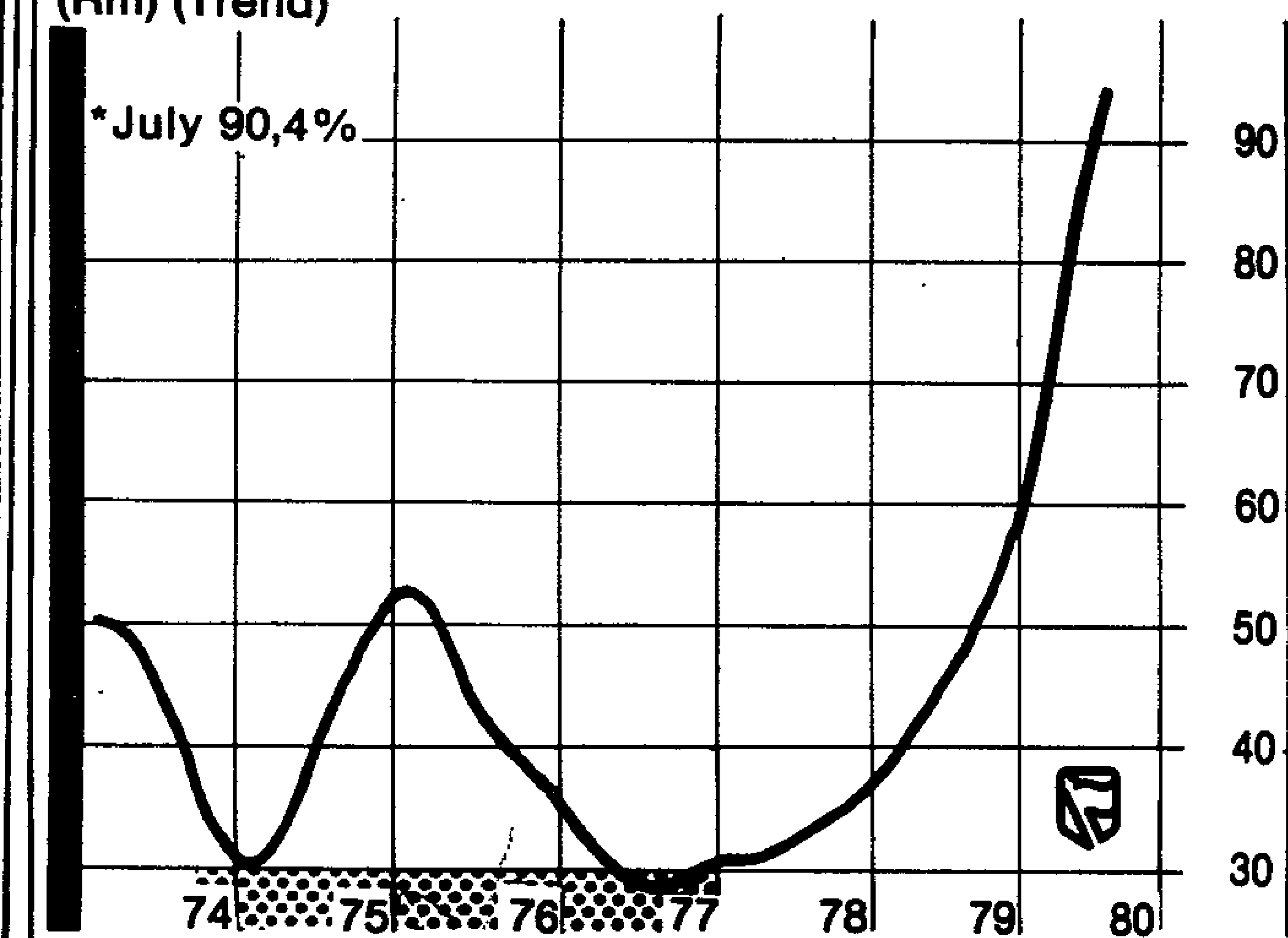
(1000) (Unadjusted series)



Unemployment fell . . .

Plans passed—houses

(Rm) (Trend)



. . . and the property market rocketed.

ECONOMY _ GENERAL

1 April 1980 — 25 April 1980

Interest rates' gap expected to narrow

C.T. 12/4/80

49

By NEIL BEHRMANN

LONDON. — Bankers believe that the gap between South African and foreign interest rates should begin to close. They expect South African rates to rise and foreign rates to begin to fall over the coming nine months.

At the moment three-month Euro-dollar rates are 19 percent, Euro-sterling rates 17,9 percent, Euro-Deutsche mark rates 9,9 percent, three-month French franc rates 12,8 percent and three-month yen rates 12,75 percent. Swiss franc three-month rates are ruling around 6,75 percent.

Three-month NCDs are ruling around five to 5,5 percent in South Africa.

As forecast in these columns several weeks ago, interest rates in South Africa were bound to rise. According to reports, rates have suddenly begun to climb.

There is a good chance that interest rates will continue to rise in South Africa for the following reasons:

With rates much lower than levels seen in Europe, Japan and North America, banks, importers and exporters will resort to rand finance. They will borrow in South Africa for their needs abroad. This is already happening on a wide scale.

Furthermore, South African exporters will tend to keep the proceeds from their sales abroad as long as possible because they can invest their cash on a short-term basis for nearly 20 percent.

While the exporters "lag" on their receipts, the importers will "lead" payments for their goods because of the interest burden on foreign finance.

Foreign banks with subsidiaries in South Africa will arbitrage as much as possible. They will borrow in South Africa and invest abroad — of course within the compass of exchange control regulations. In fact, they are borrowing cheap rands because the forward rand market does not reflect the interest differential between rand and dollar rates.

Inflation is currently running at 15 percent in South Africa — an alarming rate considering the social implications. According to the Standard Bank, the money supply increased at a quarterly seasonally adjusted 24 percent during the three months ended January.

This would indicate that the Reserve Bank will be forced to heighten credit sooner or later. According to a Financial Times report there are already suggestions of a more active open market economy.

The reduction in taxes will increase consumer spending and this will be inflationary. At the same time an expanding economy will raise the demand for funds

percent and Swiss franc 2,5 percent.

The main changes occurred from February onwards and the decline in the long-term fixed income security markets has been dramatic — especially in the United States.

The hike in interest rates has been violent and it is quite possible that the same situation could occur in South Africa.

Meanwhile, rates sagged slightly in the United States and economists here predict that they will begin to decline because the recession is beginning to bite.

49 ~~75~~

Boom 'may pass Western Cape by'

By GORDON KLING

POST-budget euphoria has induced elements of a hangover in the Western Cape, with a warning by one of the most influential industialists in the region, Mr Des Baker, that emotionalism and nostalgia in the area could cause the economic boom to pass it by.

Other prominent citizens do not agree with his argument.

In apparent reference to squabbles concerning the environmental impact of several major construction projects, Mr Baker, executive chairman of Murray and Roberts, said Capetonians could find their children would have to leave the region to earn a living.

There was a boom in South Africa in general, said Mr Baker, but the Western Cape was still going through a depressed period, with growth rates that would be less than the national average; and while an improvement had been noted in construction, it was not comparable with that in other provinces.

'Fragile gains'

Mr Baker said the current upswing had a relatively narrow, mining base. This was of limited benefit to the Cape and one had the impression that some of the area's traditional industries, including textiles and clothing, were being affected by advantages applicable to border industries. Tourism had shown good gains, but this was fragile.

He therefore wondered whether Capetonians could afford to say they did not want projects such as the nuclear power station.

Many people would want things kept as they were in the past, but as a pragamatist who loved the Cape, he believed a balanced view was essential. There was also a responsibility to create more jobs for the coloured people, said Mr Baker.

The president of the Cape Provincial Institute of Architects, Mr Maciek Miszewski, said yesterday that he did not see the issue as being an alternative between jobs and development. It was a question of avoiding damage to the environment, which was one of the Cape's greatest assets.

'Carried away'

The vice-chairman of the Co-ordinating Council for Nature Conservation, Dr Anthony Hall, believed too many people were becoming too carried away with the need for industrialization.

"I have a very strong feeling that this part of the century is going to see conservation as a mark of civilization. We are living in one of the highest quality environments and to preserve this is not a block to development, but a challenge to developers."

The Cape's population growth was bumping up against the ceiling of its resources.

"We are already almost out of scale with our environment with regard to water needs. I just don't agree that we can go on grinding out more factories.... more resource-users," he said.

Many blacks worried says News Magazine

Many experts suggested that the biggest weapon in fighting apartheid in South Africa was turning out to be economic growth — not the sanctions applied so far by critical governments.

A lack of skilled whites when business was booming opened more doors to blacks whose buying power had now ended most consumer discrimination.

To critical outsiders the pace of change still left much to be desired.

"But, within South Africa, American firms are widely perceived as leaders in breaking down apartheid — at least in the workplace. To executives of these countries, this justifies a continued presence in this troubled land".

77,5 + 40 = 117,5 = 59%

3
2 - ?

Treasury sees another huge surplus

49 RDM 28/4/80.

By HOWARD PREECE
Financial Editor

THE TREASURY is already looking set for another huge surplus of revenue over estimates for the 1980-81 year. Revenue in 1979-80 was about R1 380-million above the original estimate — R9 797-million against R8 416-million.

The gold boom was overwhelmingly responsible.

Although the present fiscal year has barely started, the crucial gold mining contribution to the Exchequer is well under way.

This is because the lag between when gold is sold and tax is paid gives several months' effective notice of the prospective take for the Treasury.

In his Budget speech Senator Horwood, the Minister of Finance, said: "In view of the fluctuations in the price of gold it is particularly difficult to estimate the state's gold-mining tax and lease revenues for the coming year.

"However, I am basing my estimates on conservative assumptions.

"Even so, total revenue is expected to amount to no less than R2 485-million, which is R1 630-million in excess of my estimate for the main Budget for 1979-80."

In fact, revenue for last year from gold was about R1 000-million up on the original estimate.

Because of the time-lag mentioned above, the tax liabilities of the gold mines for the first quarter of the 1980 calendar year are broadly the same as the actual tax they will pay for the period covering the first quarter of the 1980-81 fiscal year.

According to the quarterly reports of the gold mines total tax and lease liabilities incurred for January to March were R1 167-million.

That was, however, with a gold price averaging well over $600 — a level that might not be reached again this year.

But even if gold is well below that level, Senator Horwood has a party time ahead.

In the July-September quarter, for example, gold averaged just under $316, but the tax and lease scoop, on the Chamber of Mines calculations, was R462-million.

The chamber's figures do not tie exactly with the realised payments to the Treasury, but they are close enough for estimates.

What can be seen is that if gold were to average only about $350 for the rest of this year, and even if the mines were still on average lower grades than in 1979, the Treasury would be set to take in R1 350-million minimum over the last nine months of the 1980-81 fiscal year.

Add in the R1 100-million or so already in the bag from the first quarter and Senator Horwood has got his R2 485-million safely secured.

But in the October to December quarter in 1979 the State pulled in more than R600-million from the gold mines with the gold price averaging $413.

THAt looks a more realistic minimum assumption for the rest of this year.

On that basis Senator Horwood would be looking at a potential surplus from gold mining of R500-million for starters.

If the price should stay in the $500 region, the Treasury could again have a gold bonanza of a R1 000-million or so.

Senator Horwood will then have the problem of what to do with whatever surplus is realised.

He will be under heavy pressures to make selected increases in State spending — more for teachers, pensioners etc — and perhaps to make further tax cuts or early loan levy repayments ahead of the next Budget.

But there are those who claim that the economy faces severe inflationary pressures and that Senator Horwood should take a cautious approach for the rest of this year.

He also has to consider the fact that gold could come tumbling and it might be necessary to "stockpile" revenue surpluses this year to give leeway for 1981-82.

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WARNING

1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.
2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty wil ... le to disqualification and to possible exclusion from the University

Fringe benefit tax and the executive

JOHANNESBURG — Executives who have the free or subsidised use of luxury company cars will pay up to R73 a month in income tax for the privilege, according to the Government's draft proposals on fringe benefits.

The heaviest blow, however, could fall on people whose jobs allow them subsidised low-interest housing loans. The Treasury proposes to tax them on any loans charged at less than eight per cent.

Employees of banks and building societies — some of whom now get loans at two per cent — would be particularly hit by this.

The Treasury also intends, at present, to clamp a maximum R100 a month on "unattributable" entertainment allowances to businessmen and others.

These proposals are contained in the draft Bill to the Income Tax Act, 1962, which sets out the Treasury's planned clamp on fringe benefits.

The Bill is subject to discussion with business organisations but will become law, possibly modified, from the beginning of the 1981-82 fiscal year.

Items also under attack are staff dining rooms, travel allowances, company loans and subsidised rent.

A key feature of the Bill is that it puts the responsibility on employers, instead of employees as is now the case, to tell the taxman what fringe benefits are being given to their individual staff.

It also makes companies liable for tax payment if their employees default.

The proposal for cars divides them into two groups — above or at and below a car's value when new of R7 000.

In the upper category there is a further sub-division at R12 500. Above that figure the Treasury proposes to regard the car as worth an extra R146 a month to an executive's taxable income and at or below to add R112 a month.

An executive who is paying tax at the proposed new top marginal rate of 50 per cent would, therefore, find his tax for the car at R73 a month.

The tax authorities, however, have already increased the "taxable income" value of a free or subsidised car to R60 a month.

So people using such cars worth R7 000 or less will not be so badly hit.

The taxable value in these cases, it is proposed, is R87 a month for cars with over 2 500 cc, R75 a month between 1 300 cc and 2 500 cc and R58 a month for cars of less than 1 300 cc.

What has to be remembered, of course, is that this is not the amount of tax that will be paid. It is the amount of taxable income. The tax will depend on a person's marginal rate.

A salesman, for example, with a marginal rate of 30 per cent using a 2 500 cc car worth new R7 500 or less will pay just over R26 a month in tax — 30 per cent of R87.

He would now be paying R18, 30 per cent of the existing R60 a month taxable income calculation.

So his extra tax of some R8 a month is swamped by the tax gains he is to get from last week's Budget.

It is hardly likely, therefore, that the Treasury will agree to any modification of this proposal.

Housing is a different matter.

A R30 000 bond, for example, at two per cent would cost the recipient tax on the six per cent up to the "official rate" of eight per cent.

Taking again a person paying a marginal rate of 30 per cent, his tax could rise by around R50 a month — that is, the taxman would value his subsidy at about R170 a month and tax him on it.

The clamp on "unattributable" entertainment allowances — a maximum R100 a month or four per cent of gross income, whichever is the lesser — will lead to a rise in attributable expenses and to that extent will probably be largely circumvented. — DDC.

Budget will not give better deal for all

3/4/80

by Political Correspondent BARRY STREEK

There has been a lot of euphoria about last week's budget in the media and among businessmen.

It has been proclaimed as a budget of growth and expansion on the grounds that the increased income of consumers — through lower taxes — will lead to greater spending and, therefore, promote expansion in the business world.

In the country's largest newspaper, we are told that the expansionist budget will speed up the end of apartheid because through growth many racist barriers will crumble, whatever the verkramptes try to do about it.

These conclusions may be justified, but the uncritical praise the budget has received from moneyed quarters is sadly unjustified. Of course, people like myself who pay taxes obviously welcome having a few more rands at the end of each month. Who doesn't want more money?

One also welcomes not having to pay a loan levy, and the abolition of the import surcharge will reduce the costs of goods imported into South Africa from other countries.

But these are all the problems of the rich in South Africa. As Rapport put it so clearly on Sunday — and thank goodness some newspaper has been taking a more critical look at the budget — when it said it did not reflect the government's promise of a better deal for all South Africans as emboided in the Prime Minister's 12-point plan.

"The question can be asked whether the budget does not put too much emphasis on growth at the expense of the inevitable process of a more reasonable distribution of income.

"This is just as necessary for increasing the general living standards as economic growth, particularly because so many of South Africa's people are still 'underdeveloped' and live below the breadline."

It was "very disapointing" that insufficient emphasis had been placed on the 12-point plan and the "unfortunate impression is left that the well-to-do have gained most from the provisions of the budget. And this impression is increased by the fact that the increase in old-age pensions for white and black does not even keep pace with the rate of inflation."

The newspaper also asked whether it would not have been possible to delay the price increases in bread so that the subsidies might possibly be increased.

"The well-to-do in this country cannot escape from their responsibility to look to the needs of the poor.

"The provision for teaching and training is indeed considerably increased but the backlog in other areas is just as great.

"It seems necessary that structural changes should be made in the budget so that more people can share in the advantages of the country — also in the form of equal pay for equal work," Rapport said.

As far as it goes, Rapport is one hundred per cent right. In no sense will the budget contribute to the restructuring of the economy on non-racial lines. Although Senator Horwood, the Minister of Finance announced another step in the equalisation of taxes, the basic structure of the economy is going to be unchanged.

The gap in spending in education is going to increase in real terms, so the trend over the years will continue.

Senator Horwood himself, without trying to pretend as in previous years that the percentage increases were greater for black people, increased the gap, in real terms, in social pensions.

In short, it wasn't a bold budget, in racial terms; and it pandered to what Harry Schwarz called the other day "the fat cats."

Worse still was the increase in the price of bread. It is all very well for people to wonder what four cents a day more for bread will really mean. It would, after all, be only R1,20 a month for a person or family who consume a loaf of brown bread a day. For urban dwellers, if they are in fact employed, this is not going to be a great burden.

But for the unemployed and for the masses of people living in miserable conditions in the rural areas, it is an additional economic blow — which the subsequent increases in the prices of sugar and flour have made much worse.

Still, the bread price has been fairly well ventilated in the media. The question which really concerns me, and which seems to concern Rapport, is that there is little consideration about alternative forms of growth: what kind of growth are we planning in South Africa?

The budget-planers, and such publications as the Financial Mail and Sunday Times, seem to think that any growth is good because it will mean more money, more jobs, more consumtion, and so on.

It is very capitalist and laissez faire thinking and it ignores the major unemployment crisis South Africa is facing.

Even the government's own economic review, which was released with the budget, gives an unemployment rate, for blacks, of 9,3 per cent for the last month when figures were available — September last year — and that is undoubtedly an understatement.

In any event, that means some two million people are out of work in South Africa. There are thousands of others who are under-employed, particularly those living in the rural areas, like the Ciskei.

The Minister of Cooperation and Development, Dr Piet Koornhof, said in Plettenberg Bay last month that 1 000 jobs would have to be created every working day by the end of the century to accommodate potentially economically active black people.

Dr Koornhof added: "From various investigations done recently in this regard, it is clear that the unemployment issue can even now, but especially in the next few decades and beyond, assume such proportions that it could pose a grave threat to political stability."

What this really means, in real terms, is that vast numbers of people need jobs today and all that last week's budget has done in answer to this is to aid economic growth in the hope that this will absorb some of those without work.

That is certainly not good enough because every day the situation is worsening. Every day any individual is without work, that person becomes more desperate. For people without incomes, stealing becomes a way of survival and other forms of anti-social behaviour become part of daily life.

Last year, the MP for Griqualand East, Mr Jan Jordaan, made a very sensible plea when he urged the government to start constructing canals from the Kubusie River to East London and to use manual labour to do this — to give the people work.

In essence, what he was arguing for was people-related growth rather than profit-related growth.

It is about time the government started listening to such pleas. What is becoming absolutely essential is that tax incentives, and substantial ones, be given to industries which are labour intensive. In other words, it should be made more profitable for firms to employ people than for them to mechanise.

Until such time as there is full employment in South Africa, there should be no state incentive to mechanise and thereby decrease the number of workers.

However, the budget's underlying assumption of growth also did not answer the question about where that growth should be; and it left the impression that the Border area decentralisation programme is receiving less attention than before.

And that will mean increased employment in the big urban areas, but in the rural areas where the problems are the greatest, the anticipated growth will be minimal.

Senator Horwood did announce some R70 million for the homelands, but this is not nearly enough to transform these areas. If the government is really serious about developing the rural areas, it must stop being so mingy and really give those areas the shot in the arm they need.

Where Senator Horwood really needed to do something for the mass of people, he failed.

Dr Ntatho Motlana, of Soweto, said: "It is a white man's budget and always will be until we have the vote,". Senator Horwood has effectively endorsed that view.

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Inflation may soar say SA economists

PRETORIA — South Africa could be fighting an inflation rate in excess of 15 per cent by the year's end, according to leading economists.

For the 12 months to the end of February, according to the consumer price index, the rate was marginally above 14 per cent. With inflation boosting price rises of the past few weeks, it is inconceivable they say, that inflationary pressures will not rise.

The biggest single inflation hazard has been identified as the substantial salary increases for state and provincial departments, railway and Post Office workers, amounting to about R700 million.

Economists support the deputy head of the economic research bureau at the University of Stellenbosch, Mr Attie de Vries, that salary concessions in the public sector could lead to a chain reaction in the private sector.

In the past 10 days, price rises for a wide range of commodities and services came into operation — bread, flour, coal, sugar, cement, bricks and railway rates.

Just ahead are certain increases in the price of maize — at least 20 per cent — and in dairy products, in municipal rates and service charges in June, and a higher steel price is also likely in June.

The head of the graduate school of Business Administration at the University of the Witwatersrand, Professor Gideon Jacobs, said: "If you pump a massive amount of money into the economy, then you must accept the risk of massive inflation."

Professor Jacobs claimed the government had failed to put together a long term economic strategy. The strategy was on an ad hoc year-to-year basis, it seemed.

Professor Jacobs said it looked as if the Budget benefits and handouts would be neutralised by the spate of price rises.

Barclays Bank chief economist, Dr Johan Cloete, said a basic reason for inflation gloom was the fact that there were "too many jobs chasing too few people."

Pushed by a wage rise explosion, resulting from the scramble for skilled workers, the rate could easily rise above 15 per cent later this year. "In fact, it could go out of control," Dr Cloete said. — DDC.

Financial Mail

Fm 4/4/80

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THE BUDGET

Rich man, poor man

The notion that last week's Budget is somehow devoid of advantage — or at best deficient in prosperity — for blacks, the unemployed and the poor in general is not only a mistaken view but one that is becoming dangerously widespread.

The facts are quite to the contrary. This is undoubtedly the best Budget they have had in many years.

Not only is it a commitment to real growth that will bring more jobs and higher wages. It is also a sure fire way of eventually dissolving many of the personal constraints on black workers that are enshrined in apartheid.

Moreover, the prospect of prosperity held out by this Budget should be lasting and not evaporated within months by rapid increases in prices. For firstly it is being encouraged, through lower taxes, in the private sector, where it is more difficult for politicians — or civil servants — to divert the wealth creating process to other ends, and where competition encourages efficiency.

Secondly, government itself has again restrained its own spending, which is where the public's real tax burden lies, and plans to fund its circumscribed activities are a model of sound public finance — that is, they will not fan inflationary tendencies.

Not only does Finance Minister Owen Horwood plan to finance the R3 657m deficit of expenditure over revenue without using inflationary bank loans, he has budgeted after borrowing for a R39m surplus. So Exchequer requirements this year are unlikely to inflate the money supply, as they did in the second half of last year. In fact, they will erode it.

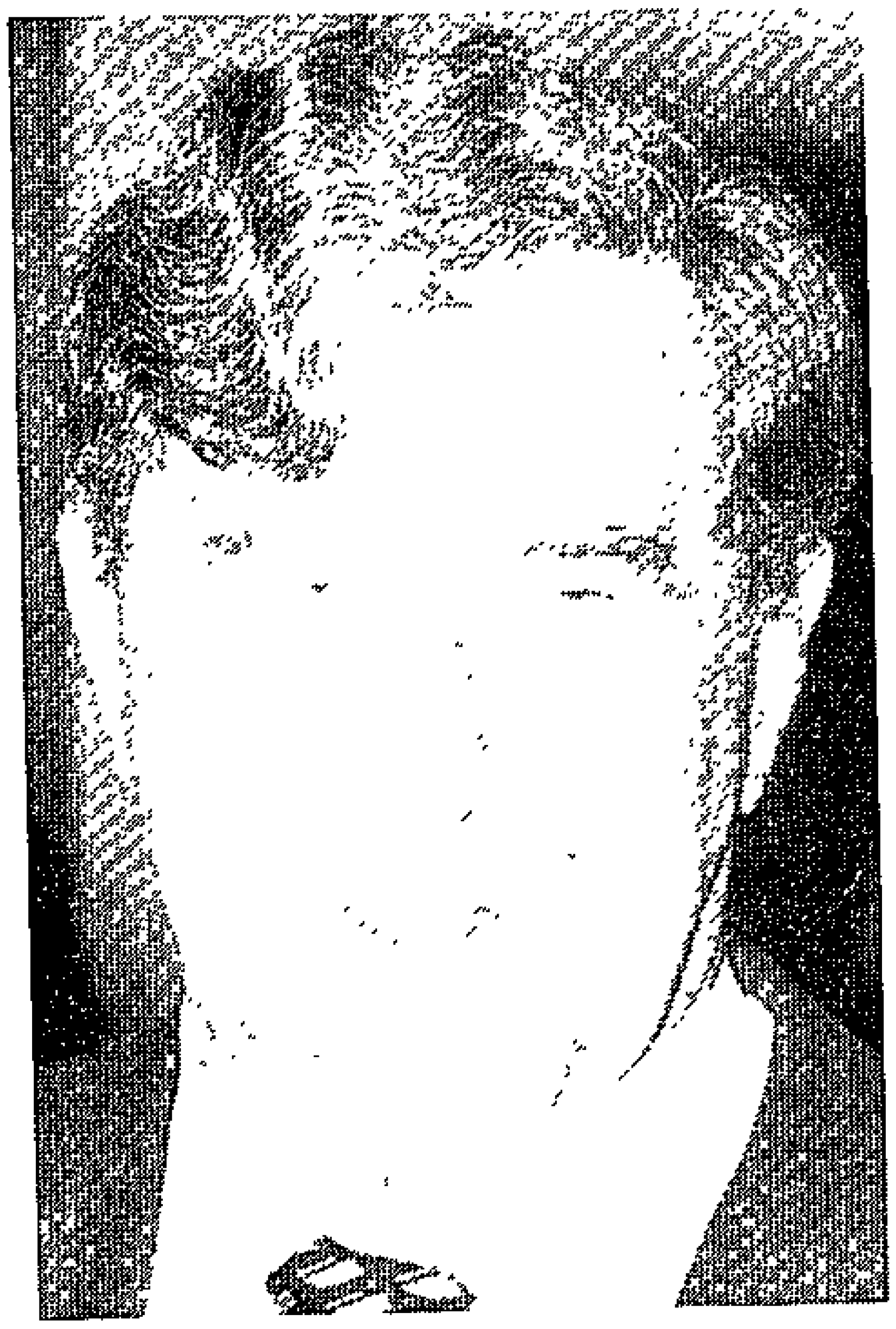
Of course, that is not to say other factors, such as rising gold earnings, will not add to the money stock. But the scene has been set, too, for more effective control of this growth — through an appreciating rand, special issues of Reserve Bank debentures, and higher cash ratios for banks.

Moreover, for the the first time government has set a firm target for the growth of the money supply — just below the rate of inflation. This means that in future the public sector borrowing requirement — the financing of which is crucial to the money supply — will be determined not by Exchequer bookkeeping requirements, but by the rate of inflation.

Provided Pretoria sticks to this discipline — and on Horwood's record there is no reason to believe it won't — then this Budget will not only be a novel one, but government's achievement will stand out among Western nations as remarkable.

Having chosen this method of encouraging growth — through restricted government spending, reduced taxes and a money supply target — it might ostensibly appear that the rich are being favoured above blacks and the poor. For it is the rich who pay the most taxes and, in this country, they are white.

But that is a misconception of what is needed to achieve the consumption levels that will encourage private sector investment. This, in turn, will ultimately fuel a more rapid economic growth rate, the benefits of which will be real, sustainable and widespread.



Horwood . . . giving substance to PW Botha's promises

A close scrutiny of the measures Horwood has employed to achieve this end suggests that central to his diagnosis of the country's sluggish growth in recent years is the belief that rich investors, in particular, lack confidence in government's commitment to free enterprise.

To counteract this, Horwood has been uncompromising in adopting measures that will give substance to Prime Minister PW Botha's promises to revitalise the free market economy and switch resources to the private sector. This is evident from his disciplined fiscal and monetary approach.

He has homed in, too, on precise issues of personal concern to the rich. For instance, death duties have been eased, and fiscal drag has been reduced by modifications to the tax progression rate, apart from a substantial reduction in the top marginal tax rate.

He has introduced, moreover, structural reforms in taxation that will streamline the work of the Department of Inland Revenue which, in consequence, holds out the possibility of a more creative and pragmatic approach from Pretoria.

These reforms are evident from the reversion to the old pre-Franzsen Commission system of rebates and deductions, a new approach to the impact of inflation on taxes, and the technical advantage of consolidating married and single taxes. They make assessing revenue easier at different rates which will, in turn, facilitate tax design or modelling by Inland Revenue officials.

This augurs well for a further change in emphasis in the years ahead towards indirect rather than direct taxes and a cushioned introduction of higher fringe benefit taxation if and when it comes.

Quite likely it was for the same reason — the need to boost the personal position of the entrepreneur — that Horwood did not reduce company tax (apart from removing the loan levy which substantially boosts cash flow) as well as income tax.

If that be so, he probably reasoned that, during a period of increasing fixed and inventory investment, few companies will in any event pay the full 42% company tax. This is because of initial, investment and other allowances, and accelerated write-offs aimed at encouraging manufacturing and exports.

Horwood may also have reasoned that too wide a gap between income tax and company tax would encourage the formation of one-man private companies specifically to avoid income tax. The *FM*'s view is that the broad stimulatory benefits of lower company tax would outweigh this disadvantage.

Considering the country's strong trade surplus and access to relatively cheap imports should domestic capacity loom as a constraint, lower company taxes could have gingered up economic growth that much faster — and the social benefits would have been correspondingly more widespread.

Indeed, the only constraint is likely to be skilled labour, and the *FM* believes that in terms of absolute amounts involved, more public finance could gainfully have been allocated to its relief.

On the other hand, generous fiscal incentives to train blacks have existed for some time and little use has been made of them. Horwood might have reasoned that little would be gained, therefore, if they were increased. He might also have been wary of opening himself to criticism that this should be a matter for the private sector.

However, expected labour constraints are not in themselves adequate reason for a policy of more restrained growth. As the PM's economic adviser, Dr Simon Brand, told an Assocom seminar this week: "Growth cannot be based on availability of existing skills, but it does mean that a lot of attention needs to be given to the labour problem."

He also made the point that in the Sixties, despite labour shortages and more restrictive labour laws, businessmen were sufficiently innovative to sustain a 6%-7% rate of growth.

Indeed, in view of widespread misgivings over the quality of black eductaion, Horwood might also have judged it inexpedient to emphasise technical training ahead of broader reforms in both black academic eductaion and labour legislation. Certainly, without these reforms, Horwood's policy runs the risk of faltering.

But if Horwood is alive to the political sensitivity of black education, it is even more difficult to understand why he deliberately chose to highlight the even more emotive issue of the bread price. It is not a normal Budget matter.

It could be that, by emphasising that a massive R200m additional subsidy would be needed to avoid the very modest 4c increase this year, Horwood deliberately wished to draw attention to the whole question of food subsidies and the hardship that they inevitably bring to the consumer when administered prices are forced up by rising costs.

Certainly, that would be consistent with government's shift to a more market orientated economy, in terms of which it is difficult to see precisely, in practical terms, what more direct assistance he could have given to lower income groups. However, Horwood probably missed a golden opportunity to eliminate racial disparity in pensions.

So far as blacks are concerned, very few pay taxes and, in any event, the easing in black taxes effectively reduced total income from that source by 55%.

As Brand has said, the redistribution of income has not been given much attention by economists in this country. It is a subject requring more analysis with less emotion, and one that must take into account government's evolving constitutional plans and the scars of many years of apartheid.

Moreover, a democratic capitalist society (which is what government appears to be moving towards) gives each individual the opportunity to provide for his old age as he sees fit. In this country few whites living today were not in a position to take at least some advantage of a highly developed insurance and pensions industry, although the means test hardly encourages modest private provisions.

It would be wrong in principle to encourage people to believe that the State had an obligation to support the aged to the same extent as the indigent. Consequently, the trend in Horwood's handouts to the impoverished favoured those incapable of having earned a living.

On balance, in the *FM*'s view, the majority of people in SA will benefit to a greater extent from a higher rate of economic growth than from the ephemeral solace afforded by palliatives such as increased subsidies and other social security payments.

Even after a week of further scrutiny, it is difficult to fault the techniques that Horwood plans to use to put the gold bonanza to the public good. Indeed, the more they are scrutinised, the more masterful they appear to be.

For anyone, therefore, to write this Budget off as a rich man's artifice, devoid of benefit to the poor, would be shortsighted in the extreme. It most certainly uses the rich to benefit the poor, to their greater mutual benefit, and not the other way around.

CONSUMER SPENDING

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Champagne and caviar, any one?

The extra liquidity Finance Minster Owen Horwood will be pouring into taxpayers' pockets after the Budget is a virtual invitation to lash out on a spending spree. And for the first time in four years salaries are expected to rise ahead of the inflation rate, as the reviving economy heats up the competition between employers for relatively scarce skilled personnel.

At long last the taxpayer will get his share of the benefits flowing into the country from the gold, coal, and stategic minerals export bonanza, and his standard of living will improve significantly.

In absolute terms, the rich will receive the most from the tax cuts. A married man with two children, earning taxable income of R15 000 a year will take home an extra R64 a month; but if he earns a taxable R30 000 a year his take home pay will be a hefty R322 a month more.

The tax and loan levy cuts will place an additional R843m at the disposal of individual taxpayers this year — equal to 6,5% of the total budgeted Exchequer expenditure. And almost all of this will be available for discretionary spending. Sales of luxury goods should boom.

More skilled workers

But the consumption boom will be experienced right across the board. The motor industry, already predicting its best year ever in unit sales, is now hastily revising its sales estimates upwards. Consumer durables, such as white goods, furniture, audio equipment are set for a take-off.

The television industry is perfectly poised for expansion to pull out of the slump it has been experiencing for the past three years. The single licence rule, the imminent inauguration of a black channel, and burgeoning replacement demand all promise soaring sales.

Clothing, sports goods, leisure goods and home improvements are also in line for better days. Virtually no area of consumer demand will be unaffected.

Kurt Hipper, chairman of Lindsay Saker, says that since the Budget he has been inundated with enquiries about the Porsche sports cars his company imports and sells for as much as R70 000 apiece.

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Then there are the more writings of Karl Marx. To portrayals of the future re[...] and George Orwell's *Anima[...]*

INTEREST RATES

Close to the bottom?

FM 4/4/80

It is by now something of a truism that the major determinant operating on the interest rate cycle is the interplay between the balance of payments and the level of aggregate demand.

Finance Minister Owen Horwood's Budget last Wednesday cites the promotion of real economic growth and a corresponding increase in the demand for loanable funds as one of the three major planks in monetary policy for the coming fiscal year.

Another is the relaxation of exchange control to prevent the large current account surplus building up excessive liquidity in the domestic money market. The third concerns the government's financing requirement, and it is this aspect, together with other remarks made by Horwood, that contain crucial indications for the future movement of interest rates, according to an analysis currently being made by the Discount House of SA.

One of the most important factors, and one that indicates a change in policy on the part of the authorities, is that Horwood came close to setting a monetary growth target by linking money supply expansion to the inflation rate. Another was the indication contained in his speech that the authorities would like to see the wide differential between prime overdraft rate and money market rates reduced by an increase in the latter, and not a reduction in the former (and by implication in Bank rate).

Moreover, his stated intention to finance the Treasury deficit in a way that does not increase, and will possibly decrease, net claims of the banking sector on the government sector, as well as the shift of emphasis to cash reserve ratios for the banking sector and open market operations using Reserve Bank debentures, all suggest a more rigid and effective approach to money supply control and in consequence a bearish trend in interest rates in the fairly near future.

This forecast is supported by close analysis of the financing requirement itself, says DHSA, which suggests Treasury's additional needs may be lower than the R600m tabled in the Budget, and may in fact balance the institutions' current gilt-edged requirements, placing no undue pressure in either direction on these rates. A similar equilibrium, it claims, is evident in semi-gilts.

Once the upward trend is established, it is suggested, it will be gradual and further stabilised by an inflow of foreign liquidity as the rate gap between SA and the rest of the world narrows. But all indicators support the belief that we are close to the bottom and can go from there in only one direction

9.00 am

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ing Lectures

11.00 am

[...], Careers Adviser, U.C.T., and Edwin de Broize, Careers' Adviser, Career Research and Information Centre, Claremont, will address themselves mainly to parents, and persons concerned with guidance, e.g. teachers, principals, personnel officers, etc. Their aim will be to cover the major principles of career guidance. **Mid-career change will also receive emphasis.**

9. THE CHURCH STRUGGLE IN SOUTH AFRICA — 5 Morning Lectures

28 January - 1 February — 11.00 am

Since the 17th century, the Church in South Africa has played a very significant role in shaping the life and destiny of the country. In many ways the Church continues to fulfil this role today for it remains one of the most dominant institutions within the Black and White, Afrikaans and English-speaking communities, and is deeply involved in some of the crucial issues facing our society. Perhaps in a way that is almost unique in our contemporary world, the Church still makes news in South Africa today!

At the same time, the Church in South Africa is not a monochrome institution, but a house that is divided against itself in many ways. Black Christians and White Christians, English and Afrikaans Churches, as well as more recent dynamic movements such as those represented by the charismatic or ecumenical movements, indicate something of the variety, and the tension. But the tension is nowhere more apparent than in terms of political issues, resulting in considerable tension in Church-State relations.

This series of lectures is designed to probe the historical background to the contemporary situation, to examine some of the more basic issues facing the Church in South Africa today, and to consider the possible future of the Church in our country.

Get blacks involved, urges Sutton

(49) RDM 15/4/80

THE ASSEMBLY. — The quickest and most efficient way to a realistic sharing of wealth in South Africa was immediate black involvement in the free enterprise system, Mr Bill Sutton (NRP Mooi River), said in the House yesterday.

Speaking during the Budget debate, he said one of the greatest problems was that the Government was not prepared to take the first step towards making the changes that were necessary.

"Decisions need to be taken if there is to be real progress. Government policy so often stands in the way, or has stood in the way, and still trembles on the brink of change.

"One of the greatest of all problems is rural poverty in the homelands — the show window of Government policy.

"Consolidation into real political entities is an impossible myth, even in terms of current thinking.

"As an alternative, why not complete the 1936 purchases and recognise the failure of the homeland experiment of Dr Verwoerd as a solution to the black-white problem.

As far as the Budget was concerned, it would be churlish not to recognise the Minister of Finance's achievement in holding State expenditure to "zero" in real terms. The Budget gave welcome evidence of strict discipline and also the Minister's realisation of the importance of the private sector to the national economy.

He suggested the abolition of all fringe benefits and tax free investments and felt that tax should be levied at a realistic rate "which will not overburden the upper tax group who are seeking these benefits".

The tax formula for gold should also be reviewed, he said. The tax had been designed for a specific purpose, which was fair to all parties at a certain gold price level. It should be cut off at a certain level, above which the money could be used for other purposes.

Bread and maize should be subsidised to such a degree that the price of both commodities would not have to be increased, he said. How the Minister could cut the maize subsidy by R10-million was "unthinkable".

"The Minister is cutting taxes to put more money in the pockets of the public. Why not cut input costs and put more money in the pockets of the farmer and at the same time reduce food prices?

"I would like to ask the Minister to try to identify input costs which can be abolished

Mr Sutton moved an amendment on behalf of the New Republic Party that the House decline to approve the second reading of the Budget "because the Government has failed:

- To solve the black housing problem;
- To adopt a realistic approach to the consolidation of the homelands;
- To provide real incentives for training black manpower;
- To provide a comprehensive programme for the adequate care of the aged, and
- To provide a real foundation for a total strategy designed to safeguard all South Africans from communist aggression." — Sapa.

APRIL 6, 1980

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By JACK BRICKHILL

BLUEPRINT FOR MORE JOBS

THE Government and private companies are moving steadily towards a blueprint aimed at revolutionising poor rural areas and creating tens of thousands of new jobs for blacks.

Senator Owen Horwood set aside R10 million in his Budget for the development of small industry but this is regarded by some economists as only the start of a programme involving the Government, private sector and overseas investment which could run to between R500 million and R1 000 million.

The private sector became involved last year with the formation of the Small Industries Development Corporation inspired by Dr Anton Rupert of Rembrandt. The Corporation, with a capital of R1 million, assists small industrialists of all races with capital and advice.

Already it has found that capital is not the only problem especially as the banks are fairly obliging in the present liquid economic climate. The main weakness of small industries is management experience and knowledge.

This is recognised by other large groups which are identifying with the unemployment problem. Anglo American Corporation is investigating labour-intensive projects in the rural areas with the difference that it will keep management control of projects.

The aim of this scheme is to give work to 100 people or more rather than a handful of people as in the case of small industries. The seriousness with which Anglo is taking this project, still largely under wraps, is reflected in the appointment of former gold mining companies managing director, Mike McCrum, to head the operation.

South African Breweries is another giant group involved in this area but mainly through sponsorship of the Potchefstroom Small Business Advisory Bureau, the Centre for Developing Businesses at the University of the Witwatersrand and research into entrepreneurship at Pretoria University.

Research is also being done at the University of Natal into fiscal and other laws which encourage capital investment rather than labour intensive projects.

Ron Pistorius, chief town and regional planner in Natal, says some industrialists follow the trend in Europe where labour is costly and opt for capital intensive methods.

While Senator Horwood's stimulatory Budget will lead to expansion and boost the number of new jobs — 250 000 are needed each year — there is a growing awareness the problem must be attacked at grass roots level. It is also recognised the solution to urban poverty lies in improved rural conditions.

The Strategy Committee, headed by Dr Simon Brand, economic adviser to the Prime Minister, and the investigation into the co-ordination of the numerous development corporations, are expected to recommend a new body to pull together the job-creating activities.

The many-pronged attack will have to gain momentum quickly to cope with the frightening unemployment.

Jan de Jager, head of the Intelligence Research Bureau at the FCI says the unemployed, estimated at perhaps one million, will grow to 2,4 million in the next seven years based on a 3,6 percent annual growth rate and 1,3 million on five percent.

28 January - 1 February

In this series of five lectures presented by Niels Lindhard, Careers' Adviser, U.C.T., and Edwin de Broize, Careers' Adviser, Career Research and Information Centre, Claremont, will address themselves mainly to parents, and persons concerned with guidance, e.g. teachers, principals, personnel officers, etc. Their aim will be to cover the major principles of career guidance. Mid-career change will also receive emphasis.

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FINANCE

Economy spurts: 4,1pc growth in three months

49

10/4/80 Argus

THE economy took off in the last quarter of 1979, growing by 4,1 percent, the Department of Statistics reports. This followed an increase of only 0,6 percent in the September quarter, 0,1 percent in the June quarter and 1,5 percent in the March quarter.

As a result of the upsurge in the economy in the last quarter the overall growth rate for 1979 as a whole reached 3,7 percent, the best figure since the 8,1 percent achieved in 1974.

After that came the deluge with the growth rate plunging to 2,9 percent in 1975. 1,5 percent in 1976, 2 percent in 1977 and 2,3 percent in 1978.

Rocketing agricultural production was one of the main reasons for the upturn in the economy in the fourth quarter last year.

24 PERCENT

Agricultural output grew by 24 percent in real terms in this period after falling by 3,7 percent in the September quarter rising 8,6 percent in the June quarter and falling 6,5 percent in the March quarter.

In the fourth quarter of 1978 agricultural output dropped by 9,3 percent.

However, in spite of the leap in farm production, in the fourth quarter, the overall increase last year was only 1.1 percent, against 3,1 percent in 1978.

The output of secondary industry rose by 2,8 percent, the highest figure for at least 18 months, and brought the increase for the year to 6,4 percent, against 4,5 percent in 1978.

The tertiary sector, which covers banking, finance, commerce and service industries, grew by 2,4 percent in the fourth quarter.

In spite of the jump in the price of gold, platinum and many other minerals in the fourth quarter, the figures show that the mining industry contracted by 0,2 percent.

ANOMALY

This is a statistical anomaly caused by deflating the value of output by the 'inflationary' increase in the price of these metals.

According to the Department's figures the mining sector grew by 5,7 percent last year against 0,9 percent in 1978. Construction grew by 1,5 percent after shrinking by 5 percent while transport grew 9,7percent after a 4,5 percent increase.

Private consumption expenditure showed an increase of 2,6 percent in real terms in the December quarter, against a 2 percent increase a year earlier.

Altogether private consumption expenditure rose by 2.8 percent last year while expenditure on semi-durable goods rose by 1,2 percent on nondurable goods by 2,4 percent and on services by 3,0 percent.

PREVIOUS BOOM

At the height of the previous boom in 1974 private consumption expenditure grew by the 6,2 percent which is just under two-and-a-half times last year's rate.

However, as a result of the recession which was aggravated by political unrest, private consumption expenditure grew by only 3,5 percent in 1975 and by 2,7 percent in 1976, and then dropped by 0,5 percent in 1977. In 1978 it recovered to 1,4 percent.

With the economy in a strong growth trend and income tax having been cut drastically, there are hopes in some official quarters that the increase in real terms in private consumption expenditure this year could rival that of 1974.

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UITREIKINGSUUR: 11H30

OP 17 APRIL 1980

105

LET OP TYD EN DATUM VAN

STRENG EMBARGO

CISKEISE WETGEWENDE VERGADERING

REDE VAN

SY EDELE L. LE GRANGE, L.V.

MINISTER VAN POLISIE EN VAN GEVANGENISSE

BY GELEENTHEID VAN DIE OPENING VAN DIE DERDE GEWONE SESSIE

VAN DIE

DERDE CISKEISE WETGEWENDE VERGADERING

OP DONDERDAG 17 APRIL 1980

TE ZWELITSHA.

UITGEREIK DEUR DIE INLIGTINGSDIENS VAN SUID-AFRIKA OP VERSOEK VAN DIE MINISTERIE VAN SAMEWERKING EN ONTWIKKELING

DATUM: 17 APRIL 1980 105 PLEK: KAAPSTAD

REDE VAN SY EDELE L. LE GRANGE L.V., MINISTER VAN POLISIE EN VAN GEVANGENISSE, BY GELEENTHEID VAN DIE OPENING VAN DIE DERDE GEWONE SESSIE VAN DIE DERDE CISKEISE WETGEWENDE VERGADERING OP DONDERDAG, 17 APRIL 1980, OM 10h30 TE ZWELITSHA

Mnr die Voorsitter, U Edele die Hoofminister, Agbare Ministers en Lede van die Wetgewende Vergadering, dit is vir my 'n genoeë om u welkom te heet by hierdie Derde Gewone Sessie van die Derde Ciskeise Wetgewende Vergadering.

Dit is 'n voorreg en 'n aangename taak om hier op te tree tydens die openingseremonie.

My is opgedra om aan u die goeie wense van die Staatspresident en Sy Edele die Eerste Minister van die Republiek van Suid-Afrika oor te dra.

2/.....

Minder as 'n jaar het verloop sedert die prorogering van die vorige gewone sessie van hierdie Vergadering maar in dié korte tyd het daar op die internasionale sowel as op die Suider-Afrikaanse toneel belangrike verwikkelinge plaasgevind.

Hoewel die probleme in Iran en Afghanistan die afgelope maande die kalklig van ons weggetrek het, sou dit naïef wees om te glo dat ons ordelike voortbestaan in hierdie deel van Afrika nie vir die eersvolgende paar jaar in ernstige gevaar verkeer nie. Russiese imperialisme wat reeds sy kloue diep in die Afrika-bodem ingeslaan het, maak daar geen geheim van dat hy die mineraalryke en strategies belangrike suidpunt van Afrika begeer nie.

3/.......

Die volkere van Suider-Afrika erken die gevare wat hulle bedreig en besef dat kragtens en eensgesinde optrede wat gepaard sal gaan met dinamiese en verantwoordelike leierskap onder alle volskgroepe in hierdie tyd van die allergrootste belang is. Die totstandkoming van 'n konstellasie van state wat ook deur u Hoofminister op entoesiastiese wyse ondersteun is, geniet daad=werklike aandag op hoë vlak en kan moontlik gesien word as een van die belangrikste ontwikkelings vir Suidelike Afrika.

Die onlangse verskyning van die verslag van die Quail-kommissie moet seker as 'n groot dag in die geskiedenis van die Ciskei gesien word. Hoewel daar nog nie voldoende geleentheid vir behoorlike bestudering van die lywige verslag was nie, is dit

4/......

duidelik dat die akademiese integriteit en die wetenskaplike benadering van feite-insameling deur niemand in twyfel getrek word nie. Studente in die staatkunde en veral die aan die universiteite in die buiteland sal noodwendig van die verslag kennis moet neem. Die wysheid van die Ciskeise regering om so 'n kommissie te benoem, moet geloof word. Dis 'n bekende feit dat minstens vyf van die sewe lede van die Kommissie nie ondersteuners van die Suid-Afrikaanse regeringsbeleid is nie. Tog bevat die verslag, wat eenparig deur alle lede onderteken is, baie positiewe gegewens en is een van die belangrikste aanbevelings dat die Ciskei wel onafhanklikheid kan aanvaar indien 'n meerderheid van die Ciskeise burgers in 'n referendum daarvoor stem en indien sekere ander sake soos burgerskap, werkgeleenthede, ens., bevredigend met die Suid-Afrikaanse Regering uitgemaak kan word. Samesprekinge tussen u Hoofminister en die Suid-Afrikaanse Eerste Minister oor sommige

5/......

van hierdie aspekte het reeds plaasgevind.

Die persoonlike besoek wat sy Edele die Eerste Minister verlede jaar saam met die Minister van Samewerking en Ontwikkeling aan u gebied gebring het, word deur die Regering van die Republiek van Suid-Afrika as 'n hoogtepunt beskou in sy strewe na die uitbouing van 'n beter verstandhouding met die nasionale state en die verkryging van 'n beter begrip van u spesifieke probleme. Ek is seker dat u Regering en die volk van die Ciskei hierdie besoek ook nie lig sal vergeet nie. Almal getuig van die bestaan van 'n aangenamer gees van onderlinge vriendskap en samewerking sedert daardie historiese besoek.

In die Ciskei was daar oor die afgelope jaar steeds volgehoue

6/.....

vooruitgang en ontwikkeling. Ongelukkig kon een belangrike probleem, naamlik werkloosheid, nog nie behoorlik aangepak word nie. Dit is natuurlik 'n probleem wat nie slegs in Afrika nie maar ook in ander lande van die wêreld ernstige afmetings aanneem. Hopelik sal die toestand verbeter met die opswaai in die Suid-Afrikaanse ekonomie en met die implementering van 'n nuwe arbeids=bedeling in Suid-Afrika.

Die wyse besluit van u Regering om 'n Ciskeise Jeugbeweging in die lewe te roep moet geloof word, want nie alleen sal dit werkloosheid onder die naskoolse jeug verminder nie, maar dit sal ook dien om die jeug positief te besiel met die kulturele rykdom en historiese erfenis van hul volk. Ek is seker dat hierdie jeug=program se produkte gedissiplineerde, gekwalifiseerde en gemotiveerde Ciskeise burgers sal wees.

7/......

U Regering se beleid om klein nyweraars aan te moedig om tot hul volle potensiaal te ontwikkel, word verwelkom en die nuwe sake/woonstelkompleks te Zwelitsha behoort as 'n goeie inspuiting te dien vir plaaslike entrepreneurs om 'n plek in die mededingende veld van vervaardiging te verower.

Dit is verblydend om te weet dat u Regering daadwerklike stappe gedoen het om 'n program van burgerlike beskerming by alle stamower= hede in te voer en dat besluit is wat die funksies van elke departement sal wees in geval van 'n noodsituasie.

Die inwerkingstelling van 'n oriëntasiesentrum vir alle werkers wat hulle arbeid op die ope mark wil aanbied, is 'n stap in die

8/......

regte rigting, en daar bestaan by my geen twyfel dat hierdie onderneming die aansien van die Ciskeise werker op die arbeidsmark sal laat styg nie.

U Departement van Gesondheid en Welsyn maak goeie vordering met die implementering van sy beleid om goeie gesondheid vir elke individu te verseker. Afgesien van die vier doeltreffende hospitale is daar tans 76 klinieke in die Ciskei, wat sorg dra dat die mees afgeleë gemeenskappe op gesondheidsgebied bedien word. Groot projekte wat tans aandag geniet, is die beplanning van 'n 200-bed-hospitaal in Keiskammahoek en verder die oprigting van 'n 250-bed-teringhospitaal in Mdantsane deur die Smith Mitchell- Maatskappy, wat die ou Woodbrook-hospitaal vir borskwale sal vervang.

U Regering het ook meegedoen aan die Internasionale Jaar van die

9/.....

Kind en aan Gesondheidsjaar deur die organisering van verskeie simposiums en openbare voorstellings. Sover bekend, is u ook die eerste Regering in Suid-Afrika wat begin het met die fluoridering van drinkwater by die nuwe Dimbaza-watervoorsieningskema. Implemente=ring van dié beleid sal mettertyd in ander dorpe volg.

Nieteenstaande 'n tekort aan fondse sowel as 'n ernstige tekort aan gekwalifiseerde senior vakkundige en tegniese personeel het u Departement van Werke doeltreffend gefunksioneer en waardevolle dienste van wye omvang aan u jong en ontwikkelende Staat gelewer. Die bou van paaie en brue, watersuiweringswerke, rioolsuiwerings=werke en kanale, die lê van pyplyne en die beplanning en ontwerp van damme is maar enkele van die projekte waarmee hierdie belang=rike Departement hom besig hou. Die nuutgestigte Padvervoerraad

10/....

was baie aktief gedurende die afgelope jaar en 251 padvervoer=permitte waarby 1190 voertuie betrokke was, is uitgereik.

Die totstandkoming van 'n aparte Departement van Finansies en Ekonomiese Sake was 'n belangrike voorwaartse stap en die onlangse wetswysiging wat kan lei tot die aanstelling van 'n agste Minister in die Kabinet toon nog eens hoe daar voortdurend op grondwetlike gebied vordering gemaak word.

Die Departement van Finansies en Ekonomiese Sake kan 'n uiters belangrike taak vervul veral ten opsigte van advisering oor voor=waardes van beleggingsvoorwaardes van privaatinstellings, die versameling van toepaslike statistieke en bóweal oor die daarstel=ling van 'n nasionale ontwikkelingsprogram oor die vordering waarvan daar voortdurend verslag gedoen moet word.

Een van die belangrikste probleme in die Ciskei is die verskaffing van voldoende behuisingsfasiliteite vir die snel groeiende bevolking. Gelukkig is die dienste van die Nasionale Bounavorsingsinstituut van die WNNR verkry om die hele behuisingsprobleem in die Ciskei te ondersoek en verder na te gaan hoe die ekonomie van die Ciskei aangepas moet word om hierdie uiters belangrike sektor te stimuleer.

Wat primêre onderwys betref, verkeer die Ciskei in die besonder bevoorregte posisie dat daar geen ongekwalifiseerde onderwysers in sy skole is nie. Trouens, daar is tans meer gekwalifiseerde onderwysers as wat daar klaskamers is. Ongelukkig kan dieselfde nie gesê word van die sekondêre onderwysers nie. Vir sommige vakke veral is daar 'n ernstige tekort aan opgeleide onderwysers.

12/......

Hoewel die twee inrigtings wat oor baie jare 'n goeie naam in die Ciskei opgebou het op die gebied van onderwysersopleiding, nl. Lovedale en St Matthews, aan die einde van hierdie jaar gesluit word weens die ondoeltreffendheid van die geboue, kan die Ciskei spog met die baie moderne Lennox Sebe-opleidingskollege naby Zwelitsha, en daar sal ook hierdie jaar 'n begin gemaak word met die bou van die nuwe Dr. Rubusana-opleidingskool in Mdantsane. Die Ciskei is ook die eerste van die nasionale state wat daartoe oorgaan om daadwerklik die opvoedkundige kwalifikasies van onder=wysers te verbeter. Die Kabinet het reeds goedgekeur dat die toe=latingsvereistes vir alle onderwyserskursusse in die Ciskei vanaf 1981 'n st. 10-sertifikaat sal wees. Hierdie jaar het die Zwelitsha-onderwysersopleidingskool ook begin met die opleiding van sekondêre onderwysers.

13/.....

Bewus van die wesentlike belang van tegniese onderwys vir 'n ontwikkelende land, het u Regering ook voortdurend aandag gegee aan die uitbouing van tegniese onderwys en opleiding. Afgesien van die pragtige nuwe tegniese skool wat gedurende die afgelope jaar in Mdantsane geopen is, is die Departement van Onderwys ook besig met planne om deeltydse tegniese klasse in te stel vir geregistreerde vakleerlinge sowel as vir ander volwassenes wat hul tegniese kwalifikasies wil verbeter.

Die belangrikheid van Landbou in 'n ontwikkelende staat soos die Ciskei, kan nooit oorbeklemtoon word nie. Inderdaad, in dié mate wat inflasie en werkloosheid gaandeweg 'n aftakelende invloed het op die sake van alle volke van die wêreld, in dieselfde mate

14/.......

neem die belangrikheid van die landbou in 'n ontwikkelende staat steeds groter afmetings aan. Landbouproduksie is die fondament waarop die ekonomie van die Ciskei gebou moet word.

Waar landbouproduksie in groot mate afhang van die beskikbaarheid van landboukrediet, is dit benoedigend om te verneem dat u Wetgewende Vergadering verlede jaar 'n wet aangeneem het om 'n Landbouleningsfonds in die lewe te roep. Hierdie Fonds kan vir baie tot groot hulp wees ter verbetering van hul oeste. Dit is egter nodig om daaraan te herinner dat landboulenings ook soos enige ander lening terugbetaal moet word, anders droog die bron op.

Die vinnige toename van koöperatiewe landbouverenigings in die Ciskei is 'n goeie teken want goed beheerde koöperatiewe verenigings kan 'n belangrike rol speel in die verkryging en bemarking van landbouprodukte.

15/

. Toenemende produksie sonder 'n effektiewe bemarkingsorganisasie lei tot frustrasie en teleurstelling, daarom moet die totstand=koming en uitbouing van die Ciskeise Bemarkingsraad as 'n baie belangrike skakel in die ontwikkeling van die landboupotensiaal gesien word.

Die vinnige uitbouing van die besproeiingskema te Keiskammahoek waar tans alreeds 60 boere gevestig is en waar meer as 6 000 liters melk per dag geproduseer word, is 'n mooi voorbeeld van wat met goeie beplanning vermag word.

Vanaf 1 September verlede jaar is die beheer oor die Ciskeise Polisie en Verkeersbeamptes onder die toesig van die Departement van die Hoofminister geplaas. Ek is dankbaar om te verneem dat lede van die Ciskeise polisie hul taak met toewyding uitvoer en reeds

16/......

'n eie trots opgebou het. Al die polisiestasies is reeds aan u Regering oorgedra, en na my wete bestaan daar 'n uitstekende verstand=houding en goeie samewerking tussen lede van die Suid-Afrikaanse Polisie en die Ciskeise Polisie. Ek vertrou dat hierdie goeie same=werking sal bly voortbestaan en, indien moontlik, steeds sal verbeter

Suid-Afrika het net soos alle ander state ook te kampe met wesenlike en potensiële binnelandse en/of buitelandse bedreigings van die staatsveiligheid. Om hierdie rede is 'n veiligheidsbestel in die lewe geroep om net soos in ander lande die land teen alle moontlike bedreigings te beveilig en te beskerm, want terrorisme is 'n bedreiging vir die Westerse beskawing en in vele opsigte gevaarliker as die moontlikheid van 'n kernoorlog. Wat nou op die spel is, is beskawing.

17/......

Die Russe onderskei tans tussen wêreldoorloë, beperkte plaaslike oorloë, rewolusionêre oorloë en burgeroorloë. Deur volgehoue teenmaatreëls het die Suid-Afrikaanse Polisie ondermyning, openbare geweld, onrus en terrorisme wat ressorteer onder die sogenaamde "revolutionary wars" tot 'n groot mate suksesvol bekamp..

In lynregte teenstelling met kommunistiese betrokkenheid ten opsigte van Afrika-aangeleenthede glo die RSA nie in die tragiese strategie soos gemanifesteer deur Sowjet en Kuba inmenging in Angola en in die horing van Afrika nie. Hierdie kommunistiese optrede behoort deur besliste internasionale optrede beëindig te word.

Die bydrae van kommunisme tot die gewapende stryd en bloedvergieting

in Suidelike Afrika word gemanifesteer deur o.a. die opleiding van en verskaffing van toerusting aan die terroristemagte. Aanvanklik het hul toerusting bestaan uit verouderde wapentuig van uiteenlopende herkoms en hul opleiding was van 'n lae gehalte. Geleidelik is daar egter moderne en gesofistikeerde wapens en toerusting van kommunistiese oorsprong by hul arsenaal gevoeg en is hul opleiding tans van 'n hoë standaard.

Daarby moet dit vandag as 'n feit aanvaar word dat stedelike terrorisme 'n faset van moderne algehele oorlog geword het. Soveel so dat "alliansies" oor internasionale grense heen gevorm word en meewerk in die, wat hulle noem, "vryheidstryd." Die hand van Moskou en sy ANC dissipels is tot 'n groot mate openlik sigbaar in die totale aanslae wat teen die orde in die RSA en SWA gemaak word.

Terrorisme beoog vandag veral die aanblasing van vrees en chaos deur die pleeg van gruweldade, vernietiging van eiendomme en sluip=moorde op staatsamptenare en gemeenskapsleiers om daardeur vrees en onsekerheid te skep en te poog om die bevolking te oortuig dat die regering nie by magte is om wet en orde te handhaaf nie. Sodoende word die regering dan ook verplig om streng en ongewilde veiligheids=maatreëls toe te pas.

Die taktiese begrippe van die terroris is nou meer ingewikkeld en hulle tegniese vermoë en apparaat het al meer en meer gesofistikeer geraak. Die veiligheidsmagte van die RSA hou tred met die terroriste se tegnieke en het reeds talle aanvalle gefnuik, ernstige skade afgeweer en selfs lewens beskerm deur effektiewe, beplande

20/......

maatreëls betyds daar te stel.

Die "South African National Congress" is deur sy militêre vleuel, Umkhonto we Sizwe (Spies van die Volk), verantwoordelik vir subversie, sabotasie en stedelike terreur. Die oogmerk is om die sosiale orde te ontwrig en die wetsgehoorsame Blankes en Swartes te intimideer. Hierdie oogmerk is ook van toepassing op die Ciskei. U land is ook 'n teiken. Die ANC propageer en verkondig geweld. Dit bevorder die klasbewusmakingsidee om die klassestryd aan te wakker. 'n Sosialis=tiese regeringstelsel word in vooruitsig gestel. Die ANC geniet nie die welwillendheid en toegeneentheid van die bevolking nie, maar om hul aansien internasionaal te bevorder en simpatie te ontvang vir hulle sogenaamde 'bevrydingsoorlog', volhard hulle in geïsoleerde aanvalle op siviele en statusteikens.

21/......

Die terroriste word deur die kommunistiese wêreld aangemoedig en gesteun, soos bewys word deur die kommunistiese wapentuig wat by onderskepte terroriste afgeneem word en deur die onweerlegbare getuienis wat in verskeie terroriste-verhore aan die lig gebring is. Hierdie terreurbedrywighede is nou, soos in die verlede, sonder aansien des persoons teen alle bevolkingsgroepe gerig.

Nog geen volgehoue dade van terrorisme het in die RSA voorgekom nie, maar sporadiese sabotasiedade, gepleeg deur buitelandse opge= leide ANC-terroriste, het wel voorgekom. Die S.A. regering sal die nodige voorsorgmaatreëls tref om ook die soewereiniteit van u land te beskerm.

22/......

'n Groot getal ANC-kwekelinge het wel die RSA verlaat vir militêre opleiding onder andere in Oos-Duitsland, Angola, Rusland en China. Van dié opgeleides het arriveer in naburige state vanwaar hulle sal poog om die RSA in te sypel. 'n Groot getal opgeleide insurgente wat reeds die RSA ingesypel het, is gearresteer. Groot hoeveelhede krygstuig, ammunisie en ontplofbare stowwe is reeds op beslag gelê.

Hierdie terreurgroepe speel 'n belangrike rol om die moreel van die inwoners af te kraak deur dade van intimidasie, sabotasie en aanslae op onskuldige en weerlose persone. U land mag prooi val van hierdie strategie.

Die Swartes het nog nooit die ANC-leiers in "ballingskap" as ware leiers erken nie. Die nie-Blanke bevolking besluit self wie hulle leiers en organisasies sal wees wat hulle belange en welsyn bevorder.

23/......

My advies aan die inwoners van die Ciskei is dat hulle hulle leiers moet eer en respekteer, lojaal teenoor hulle land, hulle tradisies en godsdiens moet bly.

'n Spesiale woordjie aan die jeug van die Ciskei. Leer, studeer, moenie tyd mors nie. Luister na u ouers, respekteer u gewoontes, tradisies. U voorvaders en huidige leiers het u 'n lang pad gebring. U moet trots wees op wat hulle gedoen het/bereik het. U moet bou op hulle fondamente. Ons, u moet die toekoms noú bou en nie môre of oormôre nie. Begin vandag. Kom, sit skouer aan die wiel. Ontwikkeling is belangrik. U het só baie potensiaal - inherente kwaliteite - vrugbare bodemrykdom. Ons hier in Suidelike Afrika kan dankbaar wees vir wat onse Skepper ons gegee het - hierdie mooi land. Kom ons

24/.....

werk saam - gesamentlik sal ons nooit ondermyn word nie en is die toekoms rooskleurig.

Mnr. die Voorsitter en agbare lede, laat my ter afsluiting toe om u alles van die beste toe te wens met dié Sessie van die Wetgewende Vergadering gedurende die komende dae. Mag ons Hemelse Vader Sy seëninge oor u gebied.

Dit is nou vir my 'n groot genoeë om hierdie Derde Sessie van u Derde Wetgewende Vergadering behoorlik geopen te verklaar.

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(49)

VERKLARING VRYGESTEL DEUR SY EDELE DIE EERSTE MINISTER, MNR. P.W. BOTHA, NA AANLEIDING VAN DIE VIER-EN-VYFTIGSTE VERGADERING VAN DIE EKONOMIESE ADVIESRAAD OP 28 EN 29 FEBRUARIE 1980 IN KAAPSTAD

49

1980-04-10

INLEIDING

Soos gebruiklik het die Ekonomiese Adviesraad tydens sy jongste vergadering aan 'n hele aantal sake aandag gegee. Met die oog op die Maartbegroting wat op hande was, is die Raad se aandag egter hoofsaaklik toegespits op die heersende en verwagte ekonomiese toestand en, in die besonder, die beleidsimplikasies wat daaruit voortvloei. Voorts is veral gelet op die langtermynimplikasies van moontlike begrotingsmaatreëls en die mate waarin dit met langtermynbeleidsoogmerke versoen kan word. Nog 'n kenmerk van die vergadering was die feit dat die inflasieverskynsel meer bespreking as gewoonlik ontlok het. Daar is ook besluit om dié onderwerp tydens die vergadering van die Raad in Mei verder indringend te bespreek.

HEERSENDE EKONOMIESE TOESTAND

Aangesien die Minister van Finansies reeds in sy begrotingstoespraak die heersende ekonomiese toestand, en in die besonder die prestasie van die Suid-Afrikaanse ekonomie gedurende 1979, breedvoerig bespreek het, word hier volstaan met enkele opmerkings oor verwikkelinge wat die agtergrond vir die Raad se bespreking voorsien het.

Een van die belangrikste ontwikkelinge sedert die vorige vergadering van die Raad, is die feit dat die groeikrag van die ekonomie verder versterk het. Volgens voorlopige ramings het die groeikoers in die reële Bruto Binnelandse Produk (BBP) gedurende 1979 sowat $3\frac{3}{4}$ persent beloop, wat ietwat hoër is as wat vroeër deur die Raad in die vooruitsig gestel is. Weens 'n verbetering in die ruilvoet, onder meer meegebring deur die skerp styging in die goudprys, het die reële Bruto Nasionale Produk (BNP) selfs vinniger gestyg, naamlik met bykans 5 persent. Wat veral belang=rik is, is die feit dat die sneller ekonomiese groei in bykans alle sektore weerspieël was en dat die bydrae van die fabrieks=wese tot die reële BBP, een van die belangrikste barometers van die inherente groeikrag van die ekonomie, met sowat $6\frac{1}{2}$ persent toegeneem het.

Vir sover dit die vraag na goedere en dienste betref, was dit veral die private verbruiksbesteding en die uitvoer wat 'n betrek=lik groot bydrae tot die hoër groeikoers gelewer het. Invoerver=vanging het egter ook 'n rol gespeel, soos blyk uit die feit dat die volume van die invoer, nieteenstaande die oplewing in die binnelandse vraag, ietwat gedaal het. Hierbenewens het die reële bruto binnelandse vaste investering, na 'n daling van sowat 4 per=sent in 1978, met sowat 2 persent in 1979 toegeneem, terwyl reële voorrade ook minder gedaal het. Die reële owerheidsverbruiksbe=steding het egter onveranderd gebly, wat in ooreenstemming was met die verklaarde beleid van die Regering om die aandeel van die openbare sektor in die ekonomie te verminder.

Die bogenoemde daling in die volume van die invoer en die volge=houe stewige uitvoerprestasie, gepaardgaande met 'n skerp styging in die waarde van die uitvoer - deels meegebring deur die hoër goudprys (wat meer as vergoed het vir die olieprysstygings) - het 'n rekordoorskot van meer as R3 000 miljoen (sowat $6\frac{1}{2}$ persent van die BBP) op die lopende rekening van die betalingsbalans tot ge=volg gehad.

Die positiewe effek van laasgenoemde op die land se bruto goud- en ander buitelandse reserwes is egter in groot mate deur 'n bykans ewe groot kapitaaluitvloeiing geneutraliseer. Vir sover laasge=noemde ontwikkeling die gevolg was van die terugbetaling van sowel lang- as korttermynlenings en die omskakeling van buitelandse na binnelandse finansiering van die buitelandse handel, het dit egter nie enige kommer gewek nie. Sodoende is die land se buitelandse

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skuldposisie verbeter, 'n potensiaal vir toekomstige kapitaalinvloei geskep, en help voorkom dat die binnelandse likwiditeitsopbou (wat later behandel word) onhanteerbare afmetings aanneem.

Die netto goud- en ander buitelandse reserwes het egter nogtans 'n stewige styging van R466 miljoen getoon, aangesien 'n deel van die kapitaaluitvloei 'n afname in die laste verwant aan reserwes bewerkstellig het. Voorts het die rand gedurende 1979 met sowat 5 persent teenoor die VSA-dollar, en met sowat 2,5 persent teenoor al die belangrikste geldeenhede, (met inbegrip van die dollar) geappresieer, terwyl die finansiële rand ook aansienlik verstewig het, wat verder daarop dui dat die groot kapitaaluitvloei nie in 'n negatiewe lig beskou moet word nie. Gedurende Januarie en Februarie 1980 het die rand met 'n verdere 2,4 persent geappresieer.

Die sterk betalingsbalansposisie het dus wel in sekere mate bygedra tot 'n toename van sowat 13 persent in die geld- en kwasi-geldvoorraad gedurende 1979, vergeleke met 'n styging van 12 persent in 1978. Laasgenoemde het egter in sowel die derde as die vierde kwartale van 1979 teen 'n seisoensaangesuiwerde jaarkoers van ongeveer 30 persent gestyg, hoofsaaklik vanweë 'n toename in die eise van die banksektor teen sowel die regeringsektor as die private sektor en 'n stadiger toename in langtermyndeposito's van die private sektor by die banksektor.

Ondanks die skerp toename in die geldvoorraad het die inflasiekoers egter, soos tydens die vorige vergadering van die Raad in die vooruitsig gestel, gedurende die vierde kwartaal gedaal. Die seisoensaangesuiwerde verbruikersprysindeks het naamlik in die vierde kwartaal teen 'n jaarkoers van 10,6 persent toegeneem teenoor 24,4 persent in die derde kwartaal. Gedurende die eerste twee kwartale was die styging onderskeidelik 10,7 en 11,6 persent en vir die jaar as geheel het dit 13,1 persent beloop.

EKONOMIESE VOORUITSIGTE OP DIE KORT TERMYN

Die lopende rekening van die betalingsbalans sal waarskynlik weer eens sterk vertoon in 1980. Dit is selfs waarskynlik dat die lopende rekening 'n groter surplus as in 1979 sal vertoon, tensy die goudprys meer drasties daal as wat die Raad kon voorsien.

Die moontlikheid van 'n sneller ekonomiese groeikoers gedurende 1980 lyk in hierdie stadium ook besonder goed, veral indien daar op die prestasie van die ekonomie gedurende die vierde kwartaal gelet word. Die reële private verbruiksbesteding het byvoorbeeld gedurende hierdie kwartaal teen 'n seisoensaangesuiwerde jaarkoers van ongeveer 10 persent gestyg, terwyl die volume van kleinhandels=verkope ook skerp toegeneem het. Dit wil dus voorkom of die groei in die reële private verbruiksbesteding uiteindelik momentum begin opbou, hoewel dit nog op 'n betreklik lae vlak is. In die alge=meen gesproke het die private vaste investering egter steeds traag vertoon, hoewel daar ook in hierdie geval aansienlike verbeterings te bespeur was in veral die mynbou en die fabriekswese, waar die besetting van die bestaande produksiekapasiteit reeds 'n betreklik hoë peil bereik het.

BEVORDERING VAN GESONDE EKONOMIESE GROEI

Ofskoon die lede van die Raad dit eens was dat die ekonomiese groeikoers verder behoort te styg in 1980, was daar tog sekere mate van meningsverskil te bespeur oor die sterkte van die huidige oplewing in die ekonomie. Sommige lede het die mening uitgespreek dat daar tans 'n voldoende inherente groeikrag in die ekonomie aan=wesig is om 'n bevredigende groeikoers vir 1980 en die eerste helfte van 1981 te verseker en dat daar gewaak moet word teen 'n oormatige stimulering van veral die private verbruiksbesteding. Ander lede van die Raad was egter van mening dat daar nog heelwat ruimte bestaan vir die bevordering van gesonde ekonomiese groei en dat die ruimte wat die hoër goudprys hiertoe bied, hiervoor benut behoort te word.

Ondanks bogenoemde verskille was die Raad dit egter eens dat ten minste die ondersteuning van gesonde ekonomiese groei steeds 'n hoë prioriteit moet geniet, ook in die lig daarvan dat die werk=

loosheid, veral onder die minder geskoolde werkers, steeds onrus=barend hoog is. Die meningsverskil wat daar onder lede bestaan het oor die inherente groeikrag van die ekonomie, is derhalwe nie so duidelik weerspieël in standpunte oor die stappe wat in die Maartbegroting gedoen kon word nie. In hierdie verband was die Raad, soos vroeër, dit eens dat groei nie by wyse van 'n alge=mene verhoging in owerheidsbesteding bevorder moet word nie, 'n standpunt wat in ooreenstemming is met die verklaarde beleid van die Regering om die staat se aandeel in die ekonomie te verminder en sodoende meer ruimte vir die private sektor te skep. Dit im=pliseer egter nie dat besteding in besondere voorkeurrigtings nie uitgebrei moet word nie; inteendeel, sekere lede het opnuut die noodsaaklikheid van verhoogde besteding aan byvoorbeeld behuising, onderwys en opleiding, desentralisasie en streeksontwikkeling be=klemtoon. Hierdie soort bestedings is deur sommige lede bepleit ook op grond van die gunstige uitwerking wat dit mettertyd kan hê op die verkryging van 'n meer aanvaarbare inkomeverdeling, wat nie noodwendig deur belastingaanpassings alleen in die hand ge=werk word nie.

Gegewe bogemelde standpunt, volg dit logies dat daar na die in=komstekant van die Begroting gekyk moes word en in hierdie verband was die Raad dit eens dat die proses van belastinghervorming waar=mee in die afgelope paar begrotings begin is, voortgesit moes word ten einde minstens die dempende invloed van die sterk pro=gressiwiteit van die persoonlike inkomstebelasting op ekonomiese groei teen te werk. Veral in inflasionêre tye het die progressi=witeit van die persoonlike inkomstebelastingskale 'n dempende in=vloed op die totale vraag na goedere en dienste, en moontlik ook 'n negatiewe uitwerking op die aanbod en die produktiwiteit van ar=beid, omdat die verbruiker se belastinglas verhoog word namate sy nominale inkome toeneem.

Daar was egter wel sekere mate van meningsverskil oor die vraag of sodanige belastinghervorming in sigself voldoende sou wees en of daar nie straks addisionele toegewings gemaak moes word ten

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einde die private verbruiksbesteding en investering verder aan te moedig nie. Daardie lede wat, soos vroeër gemeld, van mening was dat daar reeds genoeg momentum in die huidige oplewing is, het uit die aard van die saak nie die nodigheid van sodanige addisio= nele stappe gesien nie, maar die standpunt is ook gehuldig dat verdere belastingaanpassings, waaronder aanpassings in die maatskappybelasting, nodig sou wees vir die bevordering van ge= sonde ekonomiese groei. In hierdie verband het sekere lede dit beklemtoon dat belastingaanpassings daarop gemik moes wees om die private vaste investering te bevorder, eerder as die private verbruiksbesteding. Die klem in die belastingaanpassings moes dus hoofsaaklik op 'n vermindering van die progressiwiteit van die persoonlike belastingskale en op 'n verlaging van die maatskap= pybelasting val.

Vir sover dit indirekte belastings betref, was daar breë een= stemmigheid dat die bobelasting op die invoer geen bestaansreg meer het nie en dat dit derhalwe afgeskaf moes word (ook met die oog op die bekamping van inflasie).

INFLASIE STEEDS 'N ERNSTIGE PROBLEEM

Alhoewel die inflasiekoers, soos gemeet aan die toename in die verbruikersprysindeks, gedurende die vierde kwartaal van 1979 gedaal het, bly inflasie 'n ernstige vraagstuk en het dit selfs meer aandag as gewoonlik in die Raad se bespreking geniet. Ver= skeie lede het gewaarsku dat daar versigtig opgetree moet word ten einde te voorkom dat die huidige kostedrukelemente in die inflasionêre proses vererger en moontlik selfs deur 'n algemene vraaginflasie aangevul word. Veral vier aspekte van die infla= sieprobleem is tydens die besprekinge benadruk, naamlik: (a) die inflasionêre sydigheid van die Suid-Afrikaanse ekonomie; (b) die ruim likwiditeitsituasie; (c) die groeiende tekort aan geskoolde arbeid; en (d) die sterk druk op salarisse en lone.

Sommige lede het die inflasionêre sydigheid van die Suid-Afrikaanse ekonomie benadruk en dit in hoofsaak herlei tot die onvolmaakte mededinging wat op sowel die arbeids- as die goederemarkte heers. Onvolmaakte mededinging kan op sy beurt weer dikwels na die be= staan van allerlei sterk en sterkerwordende bedingingsgroepe, gewoonlik aan die aanbodkant van die betrokke markte, teruggevoer word. Hierdie is 'n belangrike grondoorsaak van inflasie, aange= sien dit 'n meganisme daarstel vir 'n prys-kostespiraal.

Die Raad het kennis geneem van die opbou van likwiditeit in die ekonomie en dit beskou as 'n faktor wat, so nie onmiddellik nie, tog mettertyd 'n verhoging in die inflasiekoers in die hand kan werk na mate die reële hulpbronne van die land vollediger benut word. Gegewe die onlangse neigings in dié verband en die moont= likheid van 'n volgehoue hoë goudprys en 'n groot oorskot op die lopende rekening van die betalingsbalans, behoort die owerheids= finansiering dus te geskied op 'n wyse wat daartoe sal bydra dat die geld- en kwasi-geldvoorraad binne redelike perke sal bly, terwyl die monetêre owerhede die gepaste monetêre beleidsmaatreëls behoort toe te pas om die uitbreiding in die geldvoorraad in toom te hou. Hierbenewens sal sneller ekonomiese groei deur die uit= werking wat dit op die invoer het, en 'n volgehoue kapitaaluitvloei natuurlik ook die oorskotlikwiditeit help opruim.

Die Raad het ook sy kommer uitgespreek oor die inflasionêre ge= volge van die groeiende tekort aan geskoolde arbeid, wat in die meeste sektore waargeneem word. Wat die verruiming van hier= die knelpunt betref, is die Raad van mening dat die opleiging van die binnelandse arbeidsmag steeds die eerste prioriteit moet wees, maar dat immigrasie op die kort termyn, suiwer as 'n oor= bruggingsmaatreël, 'n waardevolle rol kan speel, terwyl die wer= wing van hoogsgeskoolde buitelandse werkers op 'n kontrakbasis ook genoem is as 'n tussentydse oplossing. Maatreëls om die aanbod van geskoolde arbeid uit die geledere van die getroude vroue, waarskynlik die grootste onontginde bron van geskoolde arbeid in die Republiek, aan te vul, kan ook 'n betekenisvolle bydrae lewer.

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Die Raad het met kommer kennis geneem van die moontlike sterk druk op salarisse en lone in die maande wat voorlê. Benewens aan die knelpunt ten opsigte van geskoolde arbeid, kan dit aan verskillende oorsake toegeskryf word. Die hoë prys van goud en ander minerale, die oplewing in die ekonomiese aktiwiteit en die gepaardgaande verbetering in die winsposisie van ondernemings, asook die feit dat die gemiddelde reële arbeidsvergoeding die afgelope aantal jare maar stadig gestyg, en in die geval van die Blankes selfs gedaal het, bring mee dat die werkers in die algemeen klaarblyklik voel dat hulle nou genoeg opgeoffer het en dat hulle nou hulle reële posisie wil verbeter. Gegewe hierdie toedrag van sake, moet daar by salaris- en loononderhandelinge, veral in daardie sektore waar werkgewers vanweë besondere omstandighede tans oor die vermoë beskik om groot verhogings toe te staan, ook deeglik rekening gehou word met die gevaar dat sulke verhogings wyd deur die ekonomie sal uitkring, ook na sektore waarin die werkgewers dit nie so geredelik kan absorbeer nie, en sodoende koste-inflasie verder kan aanwakker. Soos in die verlede het die Raad die noodsaaklikheid van loondissipline, en in die besonder die beginsel dat loon- en salarisverhogings nie sonder enige verband met die verloop van die produktiwiteit behoort plaas te vind nie, beklemtoon. Terselfdertyd het die Raad egter saamgestem dat die verantwoordelikheid vir die verhoging van die arbeidsproduktiwiteit in die eerste plek op die vlak van die bestuur lê. In die voorkoming van verhoogde kostedruk rus daar derhalwe 'n groot verantwoordelikheid op die werkgewers.

Om saam te vat, kan dus gesê word dat die Raad besef dat daar geen kitsoplossings vir inflasie is nie en dat oorhaastige pogings om dit te bestry, teenproduktief mag wees, maar dat die probleem nietemin in 'n ernstige lig beskou moet word; derhalwe is, soos reeds gemeld, besluit om tydens die volgende vergadering van die Raad in Mei verder indringend na die probleem te kyk, ten einde moontlik tot 'n beter begrip van sowel die verskynsel as die juiste rol van verskillende anti-inflasionêre beleidsmaatreëls te kom. Intussen moet die monetêre en fiskale dissipline gehand=

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haaf word, loon-, salaris- en prysdissipline toegepas word, die oortollige likwiditeit in die ekonomie opgeruim word en alles in die stryd gewerp word om arbeids- en ander aanbodsknelpunte te verruim.

WONINGNOOD VERG SPESIALE AANDAG

Om verskeie redes is betreklik min woonstelgebou in 1979 opgerig vir verhuring. Dit gee aanleiding tot 'n tekort aan behuising vir Blankes in die middelinkomstegroepe. Boonop het die Raad weer eens kennis geneem van die agterstand ten opsigte van behuising vir gekleurdes, veral vir Swartes. In die besprekinge is dit benadruk dat die staat nie op al hierdie terreine sonder meer as ondernemer kan optree nie, veral nie in die lig van die Rege= ring se reeds verklaarde voorneme om ekonomiese aktiwiteite in die toekoms steeds meer aan die private ondernemers oor te laat. Ten einde die geleentheid te bied om die behuisingsvraagstuk binne die breë perspektief van die ekonomiese vermoë en priori= teite van Suid-Afrika te ondersoek, het die Raad ooreengekom om by sy Augustusvergadering 'n diepgaande bespreking oor hierdie belangrike aangeleentheid te voer op grond van agtergrondstukke wat deur die sekretariaat van die Raad in samewerking met die Departement van Gemeenskapsbou voorberei sal word.

VRYGESTEL DEUR DIE KANTOOR VAN DIE EERSTE MINISTER

10-04-1980

SOUTHERN AFRICA

Impossible pacts

Southern Africa now has two proposed constellations of states, one to be centred on Pretoria, the other on Lusaka. And, as far as the *FM* can see, neither can succeed.

The Pretoria-based constellation would involve the independent homelands, the neighbouring black states, and would even stretch as far north as Zaire if PW Botha had his way.

But the election of Robert Mugabe in Zimbabwe has effectively ruined Botha's chances. Bishop Abel Muzorewa might have co-operated; but, unless Mugabe has a radical change of heart, he is unlikely to be at all interested in the Botha constellation. This means that Botha is left with only Transkei, Venda, BophuthaTswana and, possibly, an independent Namibia, as potential clients. Although Botswana and Lesotho are economically entirely dependent on SA, they would resist all attempts to be drawn in.

The reason for the reluctance is, of course, apartheid, a philosophy hated more in black Africa than communism. And removal of apartheid to much of black Africa means black majority rule over the whole of SA. Until that happens, co-operation is just not on.

Economically Botha's constellation would be highly practical. The sharing of skills, labour and raw materials would turn the Southern African sub-continent into a potential power of no mean proportions. It could feed itself, with enough left over for export; could create enough energy to supply its own needs; and could develop industry that would provide employment for most of its people.

But politically it is out.

The counter-constellation being formed by nine black-ruled southern African states (Zambia, Tanzania, Angola, Mozambique, Botswana, Lesotho, Swaziland, Malawi, and the government-elect of Zimbabwe) is also doomed to short-term failure — for exactly opposite reasons. Unlike the Pretoria-proposed constellation, it is highly practical politically. Economically, however, it must fail.

The counter constellation is regarded by analysts in SA and Britain as largely a reaction to Pretoria's moves. The nine want to prevent Pretoria's influence from stretching too far and they want to declare their independence of SA, they say.

But the hard economic reality is that at present all the nine states involved, with the exception of Angola and Tanzania, are economically dependent on SA. They rely on it for food, for technological aid and for outlets to export their raw materials.

History has laid down a communications and transport network that links these countries as a unit. The railway line that runs from the Zambian copperbelt, through Zimbabwe and Botswana, to SA cannot readily be replaced. Use of alternative export routes through Mozambique instead of SA is technically feasible, but South African skills keep the Mozambique harbours operating, and so even those routes are dependent on this country.

The other export alternative, Angola, is hampered by continual attacks on the Benguela railway line by Unita forces and is highly unreliable. The Tazara railway line between Zambia and Tanzania is stricken with bottlenecks and inefficiency. Breaking the present transport network and attempting to set up alternatives would be heavily expensive at a time when these states need massive aid for agriculture, mining and secondary industry.

Why then propose such a constellation?

Deon Geldenhuys of the SA Institute of International Affairs sees the counter-constellation's importance in political terms. "It's an attempt to dissociate themselves from South Africa," he says. "It's a gesture. They are saying they don't want to become client states of SA. But if they do want to become totally independent of South Africa, I don't think it can work."

Dr Willie Breytenbach, senior researcher at the SA Foundation, explains that the counter-constellation is an extension of the front-line states' concept, with the addition of new members. "But orchestrating pressure against Rhodesia was easy compared with the task now facing them," he says. "Structurally, it cannot survive. There are too many factors against it. It must be seen as the manifestation of the hostile environment in which SA has to survive."

It seems, therefore, that the undoubted economic potential of which southern Africa is capable will have to wait a little longer until the political hurdles have been cleared.

Economic advisers call for wage discipline

(49)
11/4/80 DD

Alchian & Allen

PRETORIA — There were no instant solutions to inflation and over-hasty efforts to check it might be counter-productive, the Prime Minister, Mr P. W. Botha, said in a statement here yesterday.

The statement, issued after the 24th meeting of the Economic Advisory Council in Cape Town at the end of February, said the problem should nevertheless be seen in a serious light.

It was therefore decided to take another look at the problem at the next meeting of the council in May.

In the meantime, the statement said, monetary and fiscal discipline should be maintained and wage, salary and price discipline should be applied. The excess liquidity in the economy should be mopped up and every effort made to ease labour and other supply problems.

Despite the sharp increase in the money supply, the rate of inflation had declined. The seasonally adjusted consumer price index for the year as a whole had risen by 13,1 per cent.

The current account of the balance of payments would probably perform well again in 1980, the statement said. It was likely to show a larger surplus than in 1979, unless the gold price dropped more drastically than the council could foresee.

There also appeared to be a good possibility of a more rapid economic growth rate during 1980.

The council expressed its concern about the inflationary consequences of the increasing shortage of skilled labour evident in most sectors.

It felt the training of the domestic labour force should continue to be given priority, but in the short term, and purely as a tide-over measure, immigration could play a valuable role.

Married women, probably the most under-utilised source of skilled labour in the Republic, could also make a valuable contribution.

The council noted with concern the possibility of strong pressure on salaries and wages in the months ahead.

Due regard would have to be had in salary and wage negotiations, especially in sectors where employers had the means to grant considerable increases, to the danger of such increases having a wide ripple effect throughout the economy.

The council stressed the need for wage discipline, and in particular the principle that wage and salary increases should not take place without any relation to productivity.

Few blocks of flats were erected for letting in 1979. This had resulted in a shortage of housing for whites in the middle-income group.

The council had again taken note of the backlog in housing for blacks.

"It was emphasised in the discussions that the state cannot simply act as an entrepreneur in all these spheres, particularly in the light of the government's declared intention of leaving economic activities to private entrepreneurs more and more in the future."

The council would hold an in-depth discussion on the housing problem at its August meeting. — SAPA.

Joint, Team Production

We examine... chapter; now... hanced outpu... people or wit... produce so... pilot, operat... steel mill, I a... controller. T... helmsman, a... Four people... surgeon, an... ing nurse. Fi... case jointly... increased ou... effort is take... plained here... why two peo... than one per... Instead we examine how people are guided to teamwork, on a team that is known as a *business firm*. We also inquire into what influences how those firms are organized and internally controlled, and how each member's reward (pay) is determined. We first examine a few control techniques; we assume temporarily that all possible participants are identical in ability.

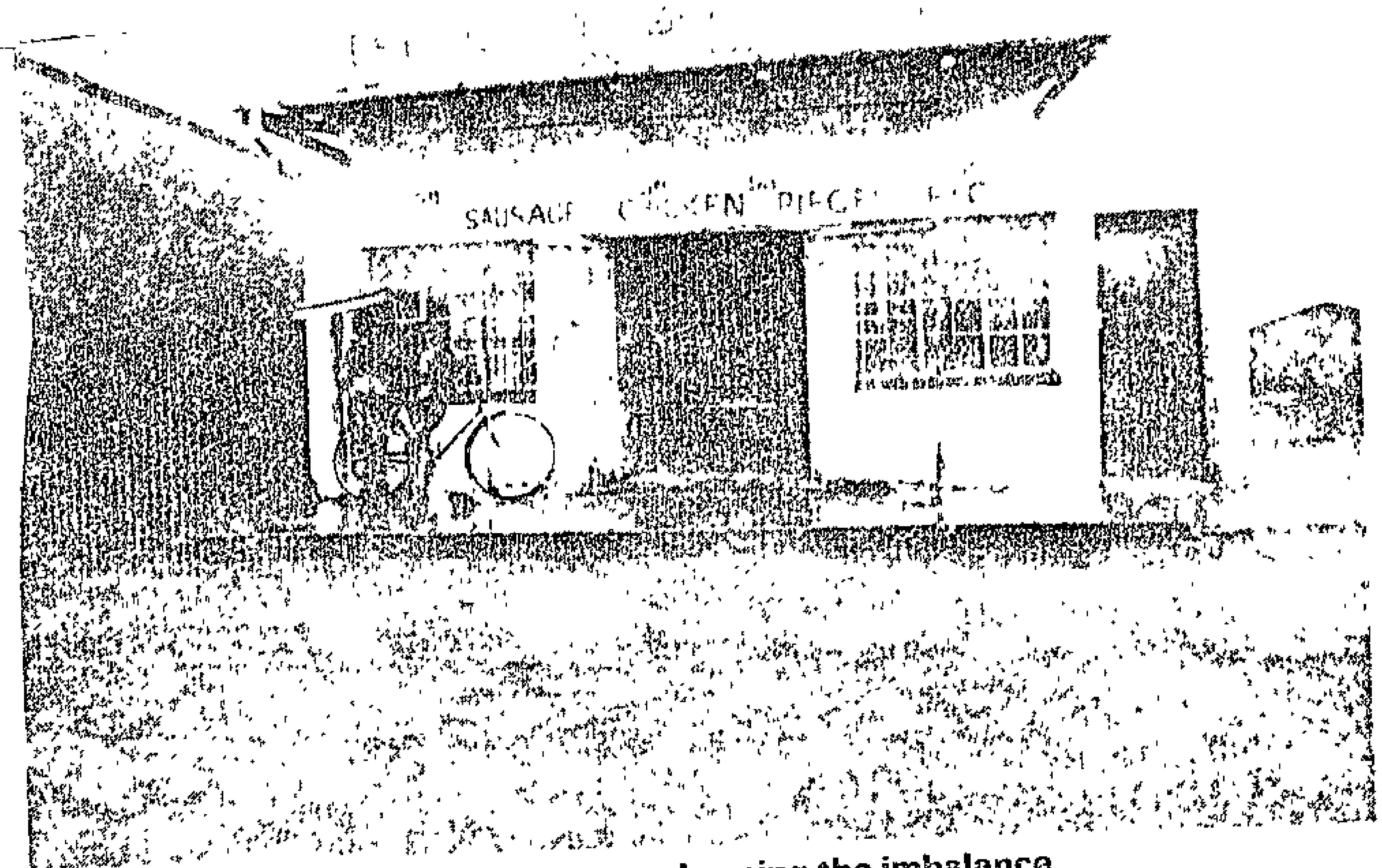
In exploring these basic issues, we can ignore features such as whether the enterprises are small or large, unionized or nonunionized, conglomerate or single-product, local or multinational, new or old, retailing or manufacturing, corporation or proprietorship. We pass over administrative problems like how to select personnel; to plan production schedules; to arrange for purchases, storage, keeping tax and accounting records; to persuade politicians on proposed legislation or regulation; and an incredible array of varied tasks that occupies a businessman's time.

...ucts

Number on Boat

...ct (in fish) ...is the mar... ...areas occu... ...shermen on ...ns are the ...losses of having too many people fish on the boat.

To isolate essentials, assume that 1000 similar people in a community do nothing but fish from the shore, each always catching four fish daily no matter how many people fish. A boat is found; some can now fish out on the ocean. Everyone is interested only in how many fish are caught; fishing from shore or a boat is equally pleasant or arduous. Table 9–1 summarizes the details. The discoverer and sole user of the boat catches



Soweto trader . . . redressing the imbalance

SMALL BUSINESS

Spreading benefits

Small business forms the backbone of the economy. So said Senator Owen Horwood in his Budget speech. Accordingly, the R10m set aside for such enterprises can only be regarded, as he put it, as "provisional."

Horwood made reference to P W Botha's meeting with the private sector last November to underwrite his allocation of funds to aid small business. And he expects the private sector to come forward with proposals to promote the "organisational and financial interests of the small business to best advantage."

Government's concern for the small entrepreneur, he pointed out, stems from awareness that "they serve as a stabilising factor and help in redressing the imbalance between geographical areas and economic groups."

But how big is the sector? It is 10 years since official statistics on the number and nature of small business enterprises were published. The figure of 11 000 manufacturing concerns (constituting 80% of the sector, and employing 30% of the workforce) probably took a dip in the recession. And this applies in the retail sector too, where the small operator accounted for 93% of the total number, though with only 60% of the turnover. But even these figures suggest the sector's importance.

There are also sound policy reasons for the fresh focus on small business. The cost of job creation is low. Since the problem of unemployment stalks the black population ever more bleakly, building up black small businesses will prime employment.

This is the significance of Horwood's announcement. The free enterprise system requires a continual entry of newcomers into the entrepreneurial field and in SA it demands that all groups be drawn in. Otherwise there can be no "stabilising factor."

According to a survey done by Stanley Black, director of the Centre of Developing Business at Wits' School of Business, small-scale Soweto concerns employ about 36 000. This is despite the many restrictions which hamper the development of private enterprise in the black areas.

The bottlenecks are still the lack of facilities and expertise. David Millstein, co-ordinator of industrial development at the Urban Foundation, tells the *FM* that a major programme for infrastructural development is needed. This should be in the form of establishing service sites, industrial estates, and premises, for lease or purchase. A development fund should also be established to enable small entrepreneurs to purchase both the premises and plant equipment.

Mohale Mahanyele, Nafcoc's executive director, "welcomes" Horwood's proposal, and urges that the bulk of the allocation should go towards assisting black entrepreneurs. "Investment in the black entrepreneur will have far more returns in terms of its contribution to the socio-economic spin-offs."

A spokesmen in the Ministry of Finance tells the *FM* that though the government has not yet decided who to approach regarding the establishment of the newly-proposed fund, Nafcoc is "definitely" on the list.

Millstein suggests that "all matters relating to small business should fall under one government department and not, as is the case presently, compartmentalised according to racial criteria. The government should also create an agency to co-ordinate and, if necessary, circumscribe local authorities to get rid of the excessive and duplicating red tape."

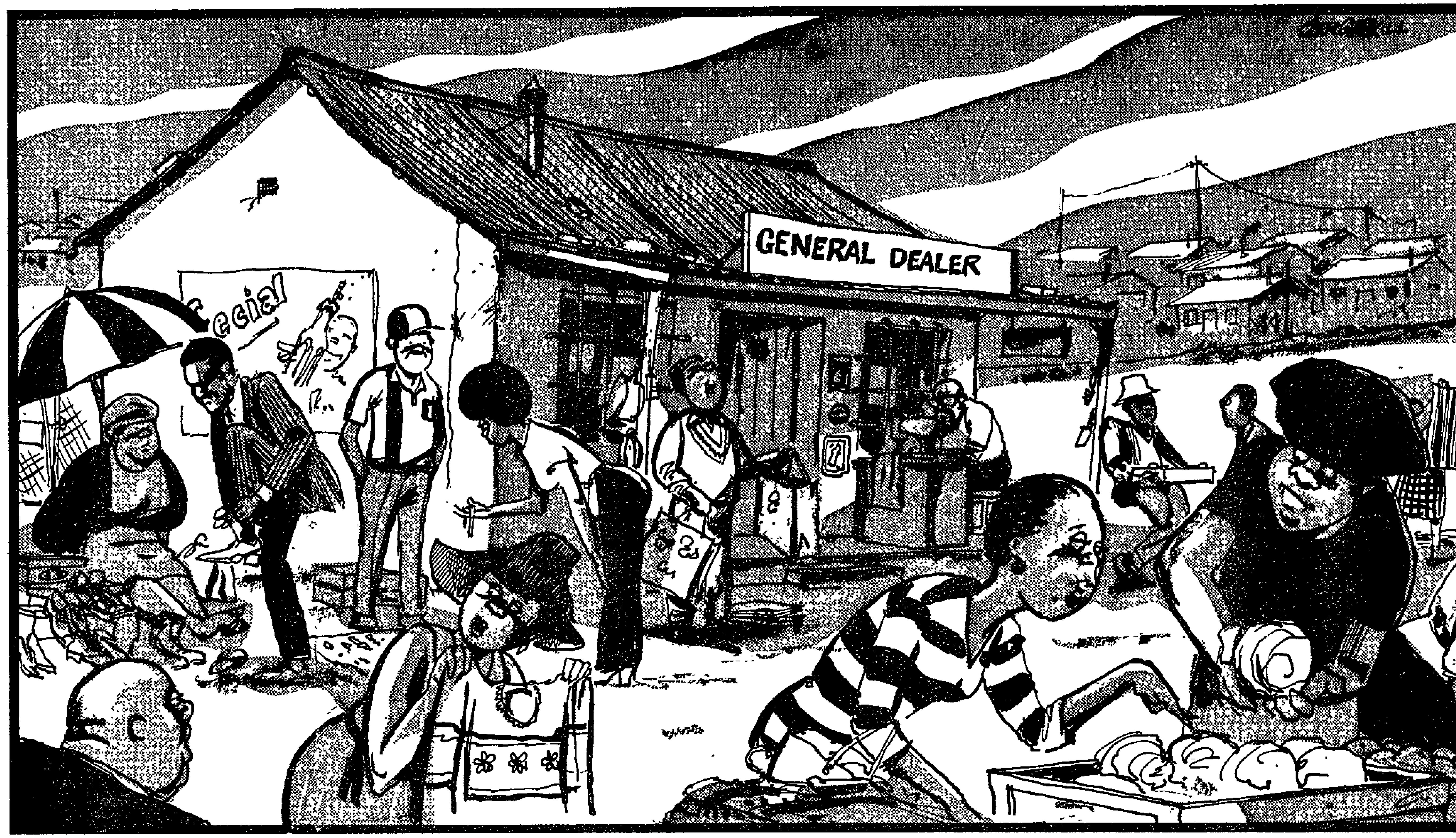
Perhaps Wits's Black makes the major point. He would like to see the "building up of a body of businessmen to provide employment and growth points in the black townships which will also help in creating a black middle-class and bolster the free enterprise system."

By PROFESSOR SAMPIE TERREBLANCHE

AN extract from a recent lecture to the Stellenbosch Autumn School by an economist and member of the Theron Commission.

Set the blacks free to help themselves

Sun Times 13/4/80 (49)



THE multiple structure of the South African economy is an accepted concept — between the traditional sector on the one hand and the modern, or formal, sector on the other, there is a large grey world known as the informal sector.

Black and brown people in their journey from traditionalism and chronic poverty to the modern economy must, literally and figuratively, travel a great distance and this transition area is the grey world of the informal sector.

Thousands, perhaps even millions, make their livelihood, or supplement it, in the informal sector through a wide variety of legal or illegal activities which bear witness to a large measure of imagination and perseverance.

These activities include:

- Production of goods used by the producer and his family such as gardening, and the building and extension of the home.
- Production which provides a cash income but is largely illegal because it clashes with licensing, zoning and health regulations or clashes with the norms that apply to a bourgeois community.
- Seasonal employment.
- Goods and services which are illegal in terms of common law or condemned in terms of middleclass morality such as drug smuggling, prostitution and shebeens.

From the perspective of the formal sector and of a middleclass morality a large number of activities in the informal sector are not merely condemned; determined steps are taken to prevent them.

It is a pity that this attitude prevails because activities in this sector are not only necessary to the livelihood of people who live in the grey areas of the big cities, but also to the total socioeconomic system of a developing country like South Africa.

This sector has an inherent dynamic which could lead to great developments if only the conditions under which it functioned were more favourable.

If we see the development of the informal sector as part of the process of urbanisation a number of interesting shifts in Western attitudes towards urbanisation in the Third World can be discerned.

Originally the urbanisation of unemployed people was regarded as a malignant phenomenon to be fought tooth and nail because poverty and unemployment were seen as a greater evil than rural poverty and unemployment.

Eventually the inevitability of the move to the cities in the Third World was accepted and alternative growth points were developed to limit urban concentration and to encourage decentralisation.

A third approach to the problem is to accept the process of urbanisation as inevitable and to concentrate solely on the large cities and on the potential that they offer for the creation of a livelihood for the poor.

In South Africa the official point of view is still that of the second alternative which accounts for the accent on influx control and decentralisation.

I want to call for a shift to the third alternative. The time has come when we cannot find the solution to our poverty and unemployment problems only in the growth of the formal sector but must seek the answer by accommodating the development of the informal sector.

Given the multiple structure of the South African economy and the differing forms and grades of employment it is difficult if not impossible to assess the scope of unemployment in South Africa.

In the next 10 years some 300 000 people will enter the labour market annually. In the latest development programme it is estimated that if the growth rate averages 3,7 per cent from 1977 to 1987, unemployment will rise from 900 000 to nearly 2,5-million.

Growth in the formal sector cannot solve South Africa's unemployment problem in the long term and we have no other alternative but to increase not only the so called work opportunities in the informal sector, but to improve its nature and intensity.

New attitude

By 1990 two to three-million people will not be able to earn a living in the formal sector and we must make a concerted effort to ... tive rules and regulations — in an element of *laissez faire* which must not mean an attitude of benign neglect.

In the metropolitan grey areas a looser and more adaptable framework must be created in which the informal sector can react constructively to the stimuli and opportunities generated by the more dynamic sophisticated modern sector.

The formal and informal sectors complement one another in many ways and this should be deliberately stimulated.

In addition to the abolition of unnecessary First World rules and regulations which are applicable to black and coloured residential areas, the sanctioning of self-help building schemes is a

QUOTE

We will have to follow a hit-and-miss strategy and with an open mind. If there is one area in which whites will have to discard their typical inclination to decide for poor people (blacks) what is good for them, then it is in the development of the informal sector.

Self-help building schemes must be a part of a total strategy to solve poverty and joblessness in South Africa.

tween traditionalism and modern capitalism.

Luckily it was a world of few rules and regulations and the farmers enjoyed maximum freedom to make a plan and keep their heads above water.

Seen in this light informal sector activities played an important role over many decades in the economic rise of the Afrikaner.

Opportunities must be created so that this "boere ethic" can be expanded and translated into modern terms.

I wonder if we realise what it would mean for South Africa if we could say in 10 or 20 years: Yes, we still have many poor people in our midst but their poverty is bearable because in the

IN THIS ARGUMENT, WORDS LOSE THEIR MEANING

THE squabble between South Africa's "socialists" and "unbridled cap-

nurses and teachers better than we do? Should pensions silliness that would be funny if it did not serve to distort an important debate about national priorities.

The squabble is not what it seems. Both terms are epithets, used not by participants in the debate about themselves, but by their opponents.

Both "socialist" and "capitalist" are labels designed to evoke prejudice, and therefore to obfuscate rather than enlighten.

The descent to such tactics gives a clue to what is happening: powerful interests (academic, political, financial, bureaucratic, even emotional) are contending for the high ground in South African politics, and they are doing so in the mantle of noble purpose.

The result is sometimes confusing. Among the fiercest "anti-capitalists" is Professor Sampie Terreblanche of Stellenbosch University who is constantly warning whites to reconcile themselves to financial sacrifice to overcome poverty among blacks — implying, ne supposes, increased taxion.

That puts him squarely mong the "socialists", ight?

Wrong. He argues trenhantly on this page for the beration of the black comunities from the myriad oppressive regulations at cripple any enterprise the informal sector of the conomy.

... socialist and neither is Schwarz, come to that

KEN OWEN

HARRY SCHWARZ
Social democrat

Impeccable

From the view of any unbridled capitalist", his rguments are impeccable. Vhy raid shebeens? Why an hawkers and flower ellers? Why persecute so o bricklayers who put up arden walls in the subrbs? Why are there no ewspaper stalls on the idewalks, as in Athens and Spain, and no kerbside tailors?

Why not permit blacks to do anything which is (a) not a menace to public health, and (b) makes no demand on the public purse? Why enforce South Africa's miserably inconvenient shop hours? Why not dismiss the unnecessary municipal inspectors whose only job is to harass law-abiding folk, and let them join the police force and chase terrorists? Why, indeed!

Then again, there is Mr Harry Schwarz, the confessed social democrat who would like to develop in this country a system of social security similar to that of West Germany.

It is silly to call him a "socialist"; but he, like many others whom one would expect to favour freer enterprise, flails at "unbridled capitalism" (to be understood, one supposes again, as the system of law and custom which existed in Dickensian Britain). He sees no contradiction (as the "unbridled capitalists" do) between his demand for State intervention in the economy on the one hand and his staunch belief in individual liberty on the other.

Neither man is intended here to be a target. Each is merely an example (more interesting than most) of the blurring of political and economic lines of division which has occurred since it became apparent that the National Party's efforts to make the economy the instrument of ideology had ended in total failure.

It is impossible these days to say precisely where, in economic terms, the members of different parties stand. The Cabinet consists now of what might be called "bridled capitalists" — they have perceived the virtues of economic growth but have not yet understood the need to relinquish control.

Behind them stands the country's most sinister presence — the all-powerful bureaucracy that has been the chief beneficiary of the era of centralised control of the economy, the chief oppressor of the population.

For 30 years it has been pampered. Its most harebrained schemes (District Six; the Planning Act; population registration; job reservation; the book of life; separate buses) have had blind Cabinet support. Its mistakes have been concealed by secrecy, its failures reinforced by law. Its arrogance has swollen until its contempt for the taxpaying public is often flaunted.

(Examples abound. "We broadcast what as we like," says a spokesman for the SABC. "There is no need for you to know the salaries of public servants," says the Public Service administration. Foreigners know when we are at war, or where we buy oil; South Africans don't. Etc, etc.)

Growth

Professor Terreblanche puts his finger on the problem when he talks of the *petit bourgeois* norms — he uses the more graphic Afrikaans term "klein-burgerlik" — applied by public servants, from the central government bureaucrats down to the petty officials of the municipalities.

And this is precisely where the argument might most profitably concentrate.

The virtues of a policy of rapid economic growth are well known: At a growth rate of 10 per cent a year (achieved, but seldom sustained, by Japan, Mexico, Brazil, Taiwan, South Korea, and Singapore), the national wealth doubles in seven years. At this rate, says American think-tanker Herman Kahn, prosperity engages the bulk of the population, and individual wealth tends to increase *faster than the people's economic expectations* — with obvious political implications.

Even at seven per cent (which should be achievable in South Africa) wealth doubles in 10 years which, revolutionaries please note, is faster than can be done by any known form of revolution.

But such rapid growth puts a terrible strain on bureaucratic structures; it bewilders and frightens those — especially public servants — whose entire mission in life is to maintain orderliness. It offends those who don't like to see rural people move from country to slum, and slum-dwellers to suburbs, and suburbanites to mansions.

And since the action is concentrated in the private sector (formal and informal) it evokes a terrible, consuming envy among the sheltered but restricted employees of government. From them, as much as from true socialists, come the cries of "chaos" and "exploitation", and "unbridled capitalism".

Beneath the furious propaganda, however, lie the real questions which seem to be debated in South Africa only in the inner chambers of the Treasury and in the office of the Minister of Finance: the trade-offs.

Sacrifice

Could pensions be raised if the Department of Sport were abolished? Does it make sense to subsidise a 100-kg rugby player at the expense of a war veteran?

Should a Department of Housing or a Group Areas Board be permitted to knock down *any* house so long as *any* family lacks a house? If fewer people were administering pointless laws, might we not be able to pay policemen and

or would it be better to abolish sales tax on food and medicine?

In short, how much growth must be sacrificed for how much welfare? And how much bureaucratic control should be sacrificed for how much growth? How much day-to-day liberty — to trade, to shop, to play, to work — must be yielded to the *klein-burgerlikheid* of officialdom?

There are more questions than answers; though to pose them suggests where at least some of the problems lie. And to try to answer them is at least less sterile than to sit hurling epithets like "socialist" and "capitalist" at each other — unless, of course, the epithets are intended as a smokescreen behind which the real questions are to be concealed.

have to make in the informal sector.

I therefore want to plead for a change in the official attitude to the informal sector.

We will have to follow a hit and miss strategy and with an open mind. If there is one area in which whites will have to discard their typical inclination to decide for poor people (blacks) what is good for them then it is in the development of the informal sector.

The formulation of a policy strategy for the informal sector is a field for maximum consultation between the authorities and the poor.

We do not plead for a bureaucratic green light to invade the informal sector with a complete blueprint and with bags full of money. The help should be rather in the demolition of administra-

QUOTE

The time has come when we cannot find the solution to our poverty and unemployment problems only in the growth of the formal sector but must seek the answer by accommodating the development of the informal sector.

primary requirement to stimulate activies in the informal sector.

Poor people should be allowed to build their own homes — something which according to the latest report of the Secretary for Community Development goes right against the grain of that department's policy.

too poor to pay the rent and service charges of a subsidised house and also do not possess the job opportunities to earn the necessary money.

But many poor people possess the "sweat equity" with which they can build their own homes or complete a so-called "core house". Self-help building schemes can offer the essential stimulus which can give activities in the informal sector a self-sustaining momentum.

They can be the first step towards the relief of poverty and joblessness in ther grey world of our great cities.

The well-known Afrikaans slogan " 'n boer maak 'n plan" came into its own in the long period of the Afrikaner's history when he found himself in a kind of rural informal sector and was for the most part involved in a kind of small-scale marginal framing wich lay somewhere be-

QUOTE

Poor people should be allowed to build their own homes — something which according to the latest report of the Secretary for Community Development goes right against the grain of that department's policy.

big cities we have created circumstances under which the poor are allowed to help themselves.

In this effort we will have to do many things that go against the grain of our old "so-decent middle class morality".

But if we think clearly about it the things which we have to do will not go against the grain of Afrikaner common sense.

These trials won't dish up too much

JOHN KNOX
Unluckiest of all

By BARRY GLASSPOOL

Daan for a big swit

WHEN one looks at the list of trialists — or more specifically grasps the names that are missing — for this week's big showdown at Loftus, one has the irresistible conviction that the side for the first Test against South America at the Wanderers in two weeks is already cut and dried.

Why so? Simply because there are so many shock omissions that the selectors must surely have made their minds up already. Call it just a gut feeling if you like, but the decision to discard players — to mention a few — like wings Hermanus Potgieter and Doug Jeffrey, centre John Knox and flyhalf Gavin Cowley, would suggest this.

Of course, the country will be waiting in the next 24 hours with bated breath for the Big Seven's Shadow Boks side. Then comes the agonising "trial and error" three days when they have to put it all together to vindicate the national panel.

But one thing is certain: if the shadow Boks do come right in Pretoria, expect few changes — if any — for the first crunch against the Puma-dominated South Americans. And that in itself is a passport to the first Test against the British Lions.

By their own admission the selectors have chosen their teams largely on last year's form. Fair enough, one may argue, for this season is but a pup. But they have shown some inconsistencies in their thinking as regards a player like Potgieter, who, admittedly, did not have a happy tournament in Durban last week.

But whereas others have been spared harsh judgment on the evidence of one or two current matches, the wing, who was No 1 choice for the Boks in 1977 and 78, finds himself on the chopping block.

Those invited to the trials do have a head start, but it doesn't rule out those who have missed

tre John Knox, who must rate the unluckiest player of all. There is no doubting the calibre of Hennie Shields' defensive qualities. But on the evidence of the last few seasons, Knox has had no equal as the best "stopper" in the country.

But he is one of those rare players who seldom catches the eye. He's not a "shiner" in the true sense, but is always in there doing the hard graft, taking the nasty knocks (no pun intended) and setting it up for a team-mate to round off in a spectacular burst of glory.

If the selectors cared to discuss the question among the

men" is that Knox has no peers on defence and isn't all that much of a slouch on attack either.

But enough of the men who have been overlooked in the early reckoning for Test places, though one should add that if it's any consolation to Knox, he should remember that often in the past, as much as half or two-thirds of the original choices for a series have fallen by the wayside by the time the Tests come around.

The Pretoria trials can't possibly answer all the problem areas facing the selectors, but the matches could prove useful in determining just how good

wouldn't be surprised if the selectors resort to switching Test-certainty Daan du Plessis from the tighthead.

It may not be advisable to do this, since he is clearly better packing on the tighthead and is more at home there. But with a paucity of looseheads — Western Province's Flip van der Merwe no longer looks the part after a promising start, while Transvaal's magnificent workhorse, Richard Prentis, may be getting just a little past it now — it may be forced on them.

The other two looseheads — Free State's Noel van Rensburg and Northern Transvaal's Okkie Oosthuizen — invited to

Horwood's Budget a 'short-term' job

49

RDM 15/4/80

HOUSE OF ASSEMBLY. — The 1980 Budget could have been one of golden opportunity, but instead it had been turned into one of lost opportunities, Mr Harry Schwarz, the Progressive Federal Party's chief spokesman on finance, said in the House yesterday.

"The issue is not the prosperity for some today, but security for all tomorrow," Mr Schwarz said when the second reading debate on the Budget reopened.

The real test was what the Budget did for almost half of South Africa's taxpayers who earned less than R5 000 a year.

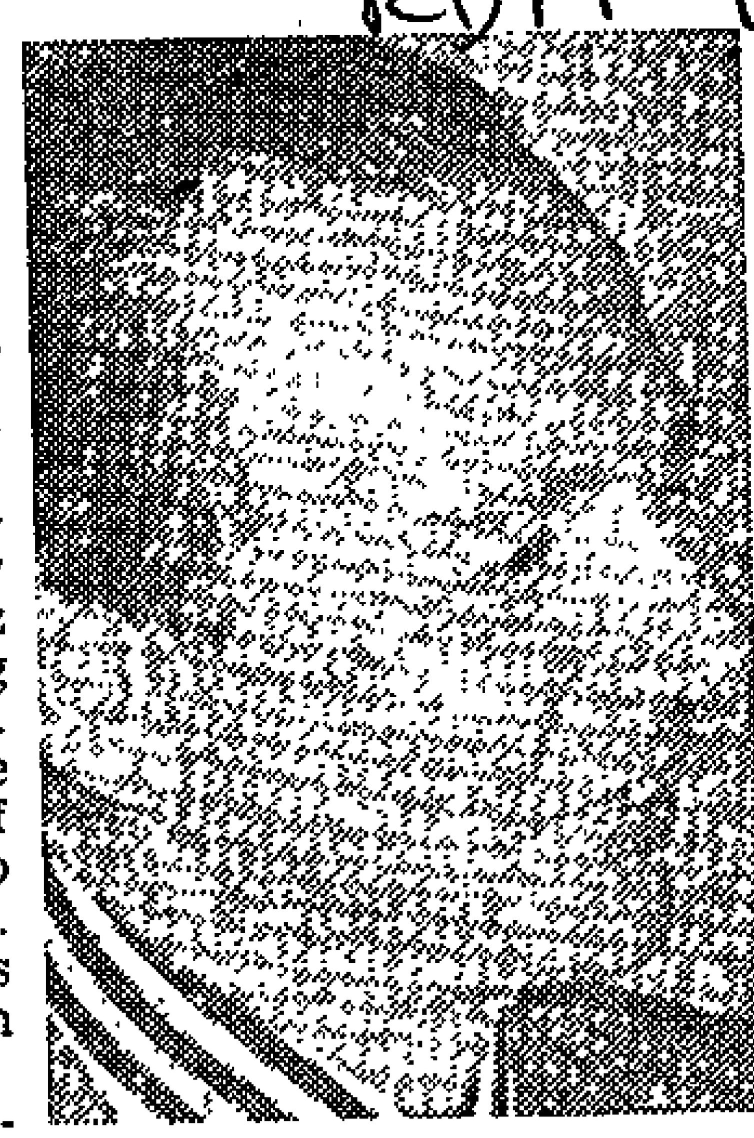
"Short-term considerations have overshadowed long-term interests."

The Budget was in many respects a patchwork, and failed to courageously tackle the real problems facing the country. It also failed to help, in a meaningful fashion, those most deserving of help.

The Minister had been praised in some quarters for his Budget, but the question was whether people in the lower income groups, pensioners, married women and those with large families were satisfied with the Budget.

"What does it do for the man to whom a few rand a month more for food and other essentials makes a meaningful difference?"

Mr Schwarz moved an amendment that the House decline to pass the Budget's second reading because the Government had failed to:



MR HARRY SCHWARZ
... short-term Budget

SENATOR HORWOOD
... under attack

- Formulate and implement a plan to ensure the long term security and prosperity of all the people of South Africa;
- Ensure that the degree of skills needed for proper growth of the economy and to avoid bottlenecks, was acquired by the labour force;
- Take adequate steps to combat inflation;
- Have due regard for the needs of the aged;
- Ensure the proper development of agriculture;
- Take adequate steps against both rural and urban poverty, and to provide social services on a scale sufficient to relieve tensions which threaten the stability of society;
- Give adequate protection to the community against crime, and
- Give the leadership which was required to solve the social, economic and political problems facing the Republic.

The Minister of Finance, Senator Owen Horwood, had failed, said Mr Schwarz, to deal with a number of constraints in the way of achieving greater economic growth.

The bottleneck in skilled labour would certainly not be removed at the pace envisaged by the Budget. The Government had not properly planned for the expected upswing in the economy, and the question had to be asked whether local industry could cope with increased demand.

While productive capacity was being expanded, demand was likely to be met from imports, which would not assist in fighting inflation.

Mr Schwarz said Senator Horwood had not done enough to combat inflation, which was another great restraint on growth

"Increased purchasing power should buy more goods, not the same quantity at increased prices. This reduces consumer demand in real terms and brings with it inflationary expectations and fears for the future, which inhibit spending."

The social effects of inflation could not be ignored, he said. High food prices — the bread price increases and a maize price increase in the near future — caused hardship and contributed nothing to stability.

Top business circles were now echoing the opposition's call for increased food subsidies.

Another constraint on growth was that the Budget contained no specific incentives for investment in productive activity.

There were other constraints over which South Africa had little control, Mr Schwarz said. Those were the relatively bad shape of the economies of the country's main trading partners and world political uncertainty. — Sapa.

Schwarz calls for an all-race commission

RDM 15/4/80. (49)

THE ASSEMBLY. — An all-party, all-race commission comprising the best brains in business and industry to solve South Africa's economic problems was called for yesterday by Mr Harry Schwarz, the Progressive Federal Party's chief spokesman on finance.

He said the main omissions in the Budget were the lack of a plan for the future, the Government's failure to lay the foundations for an economic order which would satisfy the aspirations of all the people, and its failure to in- dicate a true concern for the underprivileged.

The political situation was a great constraint on growth, he said.

Real disposable income for whites had been dropping for some years and the rate of increase for blacks had slowed dramatically. The creation of jobs was a top priority and South Africa would need 1 000 new jobs a day for the next 10 years to cope with the increase in the economically active population.

The world had the seemingly impossible task of creating 100 000-million new jobs by the end of the century, but South Africa could not afford to regard its task as impossible, because of the unique political and social consequences, from a racial point of view, if the necessary jobs were not created.

"The question that needs to be asked is whether the traditional method of job creation merely by stimulation of the economy and creating demand is adequate and will operate sufficiently speedily to meet our peculiar situation.

"Economic growth as such is to us not as important as economic growth in the right sectors. Capital spending is not as important as capital investment, and investment in capital intensive activity is not as important as in labour intensive activity.

"The country needs more people in jobs and increased real disposable income in the hands of those who presently have the least."

To achieve this more planning was needed by the private sector together with the Government.

"An on-going commission, consisting of the best brains in business and industry, free from political shackles, whose object is to eliminate poverty and create incentives and opportunities in our economy for all our people, could set us on a road to a solution for our economic problems."

The Commission would be a logical follow-up to the Prime Minister's Carlton Centre conference, Mr Schwarz said.

The Commission could tackle the problems of rural poverty and investigate the creation of small, local, labour-intensive industries using local materials to meet local demands. It Could evolve real means of bringing the black man into the entreprenurial side of free enterprise and could deal with land utilisation — a major African issue.

South Africa had no overall plan with regard to wealth and income gaps, the quality of life and equality of opportunity.

"The 1980s see us on the edge of a volcano, and the much-vaunted Budget seems like an empty sounding drum — a hotchpotch of ad hoc decisions, pious sentiments and endeavours to satisfy periodic reactionary demands."

Everyone was agreed that South Africa would have to adapt to survive, but it was clear that if separate development remained the underlying philosophy, the process of change would founder.

Policy confusion in the National Party had to be clarified. The question was, whether the line of Dr Andries Treurnicht, Minister of Public Works, or

RM 15/4/80

49

Inflation to stay in 1980

Deputy Financial Editor

SOUTH AFRICA will experience in 1980 the seventh consecutive year of double-digit inflation.

Senator Horwood conceded in his Budget speech that the planned 14 percent rise in State spending this financial year would probably turn out to be a standstill in real terms.

Inflation will be a central issue at next month's meeting of the Prime Minister's Economic Advisory Council. They will have to consider what methods can be used to cool inflation.

Senator Horwood considers that the present inflation is mainly of the cost-push variety and it would be little use depressing output and sacrificing sound growth.

Oil prices

He said that the past year's CPI rise was due to oil prices, administered prices, food prices and the narrowing of the black-white wage gap.

There can be no doubt that money supply and inflation are irrevocably linked; what is less certain is the nature of the relationship.

While the Government has been tough in those policies it can control—State spending, borrowing from the institutions and public sector to meet budget shortfalls—it will have to start looking at other factors.

One of these are administered prices—the Railways and Escom have pushed up tariffs already. What others are in the pipeline?

Best brains should solve problems — Schwarz

C.T. 15/4/82

(49)

HOUSE OF ASSEMBLY. — An all-party, all-race commission of the best brains in business and industry to solve South Africa's economic problems was called for yesterday by Mr Harry Schwarz, the opposition's chief spokesman on finance.

Launching the debate on the second reading of the Budget after the parliamentary recess, he said the main omissions in the Budget were the lack of a plan for the future, the government's failure to lay the foundations for an economic order which would satisfy the aspirations of all the people and its failure to indicate a true concern for the underprivileged.

The political situation was a great constraint on growth, which was the main aim of the Budget.

Real disposable income for whites had been dropping for some years and the rate of increase for blacks had slowed dramatically. The creation of jobs was a top priority and South Africa would need 1 000 new jobs a day for the next 10 years to cope with the increase in the economically active population.

The world had the seemingly impossible task of creating 100 000 million new jobs by the end of the century, but South Africa could not afford to regard its task as impossible, because of the unique political and social consequences from a racial point of view if the necessary jobs were not created.

"The question that needs to be asked is whether the traditional method of job creation merely by stimulation of the economy and creating demand is adequate and will operate sufficiently speedily to meet our peculiar situation.

"Economic growth as such is to us not as important as economic growth in the right sectors. Capital spending is not as important as capital investment and investment in capital intensive activity is not as important as in labour-intensive activity.

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To achieve this, more planning was needed by the private sector together with the government.

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The commission would be a logical follow-up to the Prime Minister's Carlton Centre conference, Mr Schwarz said.

The commission could tackle the problems of rural poverty and investigate the creation of small, local labour-intensive industries using local materials to meet local demands. It could evolve real means of bringing the black man into the entrepreneurial side of free enterprise and could deal with land utilization — a major African issue.

Founder

South Africa had no overall plan in regard to wealth and income gaps, quality of life or equality of opportunity.

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Everyone was agreed South Africa would have to adapt to survive, but it was clear that if separate development remained the underlying philosophy the process of change would founder.

Policy confusion in the National Party had to be clarified. The question was whether the line of Dr Andries Treurnicht, Minister of Public Works, or that of Dr Piet Koornhof, Minister of Co-operation and Development, was the direction the government was taking.

"Nobody knows where we are going, so all — both left and right — are dissatisfied."

Mr Schwarz asked if economic changes had really affected the daily lives of blacks, and said a dramatic gesture should be made to make the black man see in his daily life that reform had come.

The tangible results of reform also had to be seen as the result of negotiation, not of pressure. Moderate leaders had to be able to deliver the fruits of change if they were to have the support of their people.

The government had accepted that people of all races would have to work together on factory and shop floors to create the goods and provide the services the country needed, and the common economic system had political and social implications.

Working together created contacts and associations in which people would realize they had common economic aspirations. This would have to be appreciated and some form of political accommodation found.

Mr Schwarz said that if the present political situation were allowed to drift along, all that would happen would be the replacement of the unitary system of majority rule for whites and minority rule for the rest by simple majority rule.

"As much as words like federation and confederation are anathema to the Prime Minister, unless the foundations are laid for such systems now, there is no possibility of avoiding majority rule."

During the debate, Mr Schwarz moved an amendment that the House decline the Budget's second reading because the government had failed to:

- Formulate and implement a plan to ensure the long-term security and prosperity of all the people of South Africa.
- Ensure that the degree of skills needed for proper growth of the economy and to avoid bottlenecks, was acquired by the labour force.
- Take adequate steps to combat inflation.
- Have due regard for the needs of the aged.
- Ensure proper development of agriculture.
- Take adequate steps against both rural and urban poverty and to provide social services on a scale sufficient to relieve tensions which threaten the stability of society.
- Give adequate protection to the community against crime.
- Give the leadership which was required to solve the social, economic and political problems facing the Republic. — Sapa

ing enough (or the boon of catching more than enough) fish to pay for the day's rent and have at least four fish. If the boat owner hires the fishermen, he (the employer) bears the risk for the *day* on which he has guaranteed the fishermen at least four fish. Why do we emphasize "day"? To see, look again at the rental case: The rent set the *following* day for use of the boat will be adjusted to match the *expected* net catch. If the rent is set per day, the fishermen lose only one day's error in estimated catch. But the boat owner will suffer or enjoy the entire *future projected changes* in catch, as profits or losses in the value of his boat. The boat owner cannot escape projected future change—not even by selling off his ownership, because the new buyer will adjust his offer price to take all that into account. By making *short-term* rental arrangements, the renters who use the boat avoid being stuck with an unexpectedly bad future. As employees, on the other hand, they are always guaranteed four fish, which they could always catch from shore, regardless of the fortunes on the ocean deep. You can probably conjecture that if the boat were for sale it would be bought only by a person who was more optimistic about the potential catch, or who thought he knew better than anyone else how to use the boat so as to get the largest catch—or maybe the best kind of fish.

Public, Communal Property

Scene Three of our saga opens with the public enviously confiscating the boat owner's rights. ... public property for public

Keep the free market short of gold — Aronson

C.T. 15/4/80 (49) (153)

HOUSE OF ASSEMBLY. — South Africa, as the world's major gold producer, should keep the free market in as short supply as possible, Mr Theo Aronson (SAP Walmer) said.

The country should sell its gold only when the price suited it. The SAP welcomed reports that South Africa was going to market its gold as its own convenience.

If the government needed liquidity it could pledge some of its gold as collateral for medium-term loans.

It could also allow consortiums to buy gold on a formula basis, provided the government retained an option to buy back the gold over longer or shorter periods.

The SAP welcomed the Budget which was the best since 1948.

"This Budget in many respects is laying the foundation of improving the quality of life of all South Africans."

The Minister of Finance had shown since 1976 that he knew where he was going and how he intended getting there.

"We are fortunate in having a man of his calibre in the driver's seat."

The SAP largely supported the Budget but there were a number of matters for concern.

Mr Aronson moved an amendment that the House decline the second reading of the Appropriation Bill until the government gave assurances that it would:

- Investigate further ways and means of increasing the share of private business in the gross domestic fixed investment.
- Take more active steps to combat inflation and grant further subsidies on essential foodstuffs.
- Tax married women separately to promote productivity.
- Investigate further ways of promoting exports.
- Initiate a special investigation into the position of people living on fixed incomes and who could not make ends meet. — Sapa

less of the firm's fortunes. They agree to more assured employment at an assured (but slightly lower than otherwise) return. The employer then bears more of the risks of the future transient fluctuations in the net value of the products, net of the relatively constant, assured costs of those inputs. The employer maintains the wages and employment by using fluctuation-smoothing buffer inventories of goods and borrowed funds. When demand for products of the firm fall temporarily (the owner hopes), he retains those employees—at various, probably less-useful tasks. And during transiently high demand, the employees with these arrangements have tacitly agreed on their part not to leave the firm for transiently higher wages that might be available elsewhere.

There is an understanding that despite the *usual* transient shocks, misfortunes, and events, each would stay with the other, with the employer bearing the risks of those fluctuations and assuring a relatively steady income to these "tenured," higher-security employees over the longer interval. During short recessions, the firm would not so quickly lay off those employees and would maintain their wages. Other unemployed people would, of course, like to get those maintained jobs during that transient recession. But the employer would not hire them, even at lower wages, to displace his "tenured" employees. We therefore observe many employers retaining workers at wages higher than those asked by other people seeking those jobs during transient decreases in demand for the firm's product. He honors his tacit agreement with his "tenured," senior employees. Otherwise, he would increase his long-run costs of getting employees during future normal conditions, because employees would not so willingly work for contract violators.

A relatively stable business will have less risk in providing such assurance. A firm that makes a larger variety of products with higher probability of offsetting fluctuations in the demand for its various products can give more employment security by transferring employees from one product line to another.

Governments and some nonprofit enterprises which respectively derive incomes from taxes or investments rather than from customer sales give greater security of employment for lower wages. Initially government jobs with greater security paid less, as in the post office. But recent legislation requiring pay equal to that of private firms will create an excessive demand for those jobs if that equality of pay is not offset by disadvantages in other features of the more secure job.

Other resources employed by the firm, even the initial capital, are hired on a similar variety of terms, though usually with more explicit contracts. Firms hire (that is, borrow) capital funds for investments in plant and equipment. The stated interest rate on longer-term loans is constant over a long period and the firm continues to employ the funds even during recessions when the rate on new loans is lower. The firm also uses short-term loans, usually bank loans, of a few months' duration at interest rates that are more sensitive to short-term business conditions than are the long-term borrowing rates. These short-term loans are paid off ("laid-off" or "unemployed") when the firm reduces output in transient recessions.

Every resource used in the firm is available under a variety of risk-bearing, insuring arrangements. Labor seems to make risk sharing arrangements with the employer, probably because of the higher costs (less security) for an em-

C.T. 16/4/80

The 'bottleneck' that devours

(49)

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HOUSE OF ASSEMBLY. — The Budget stimulated the economy but failed to take account of the economic bottleneck posed by the shortage of skills which would throttle the growth process, Dr Zach de Beer (PFP Parktown) said.

The government placed an extra R1 500 million in the hands of South African consumers, Dr De Beer said in the Budget debate. But once that additional purchasing power began to generate higher production, the shortage of skilled workers would deteriorate sharply.

The result would be rising inflation which in turn would devour the purchasing power of the people.

The government should have budgeted far more for education and training to provide for a sufficiently skilled labour force to meet the challenge of increased economic growth.

"The government now pours the larger part of its available resources into a risky attempt to attain rapid growth without taking into account the shortage of skills and the danger of inflation."

It was being said of the Budget that it created opportunities for free enterprise and the private sector to produce growth and prosperity.

But the private sector could not operate in South Africa as it did in other Western countries, because it was struggling within the coils of apartheid.

"This Budget will not succeed in bringing about balanced growth because our black people are chained by the pass laws, the industrial conciliation legislation, the Group Areas Act and a grossly discriminatory education and training system."

The writers of most economic textbooks drew on their experience from countries which had never heard of separate development.

'Own thing'

On strict economic criteria, the Budget would be a good one in a free society.

But free enterprise meant "people must do their own thing".

"In South Africa, the majority of people are not allowed to do their own thing."

Dr De Beer said the PFP supported government efforts to keep expenditure down, as reflected in the Budget, and shared the government's belief that the private sector should grow.

But the handouts should have started with education and training.

The Budget failed to strike a balance between stimulation of the economy and a necessary visible gesture to alleviate the lot of the poor.

Much more should have been done directly to help the lower-paid groups. — Sapa

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Randfontein shines with 57% profit rise

(49)

By PAUL DOLD
Financial Editor

CT. 16/4/80

RECORD profits and soaring tax are the hallmarks of the latest batch of gold mine quarterly reports. While all the houses show that profits from gold soared as the gold price received was doubled with heavyweight Randfontein outstanding with a 57 percent earnings leap there was a particularly heavy tax bite in the quarter.

Randfontein's tax rose more than fourfold, nearly doubled at Harmony and Blyvors, more than doubled at ETC and soared at Durban Deep. Of course, as capex increases during the year so the tax position will even out but the figures do underscore that the Budget could have been more generous to the gold mines who received only the standard loan levy tax cut for companies.

ERPM was a strong performer with pre-tax profits rocketting fourfold to R29m and taxed profit was more than doubled.

Costs were higher with Rand Mines reporting close to a six percent advance in the quarter. Randfontein's pre-tax profit for the quarter ended March stood at R59 728 000, a 57 percent increase over December's R37 702 000, but taxation and state's share of profits more than quadrupled — from R7 182 000 to R31 195 000.

In the case of Western Areas it zoomed from a lowly R1 052 000 to R24 029 000 — up nearly 23 times. In both cases this left the two companies with decreased net profits.

The reason for the high tax rate was the relatively small capital expenditure during the quarter under review and Mr V Blane, gold manager of JCI, said at a press briefing that the tax figures would probably be adjusted downwards when the final annual tax payments were made in August.

gold mining quarterlies

The following are summarized results of the two mines, with Mr Blane's comments, where applicable:

Randfontein Estates: Tons milled 986 000 (1 036 000), yield 5,3 g/t (5,5), costs per ton milled R32,76 (R30,29), cost per ounce $236,1 ($206,3), revenue per ounce $630,0 ($415,5), net profit R28 533 000 (R30 780 000).

Tonnage milled was down and Mr Blane said he expected production to stabilize around the 1m-ton mark. Grade was also down, due to the higher gold price received and working costs were up by 8,2 percent. This "frightening" increase was due partly to the drop in tonnage and partly due to some increases already in the pipeline, such as labour, stores and power.

The uranium yield was up (from 0,149 kg per ton to 0,157 kg) and he said he expected the uranium profit to more or less double during the present quarter.

Capital expenditure for the current year was estimated at R46-million whereas only some R6-million had been expended in the March quarter. The report adds "consequently the rate of expenditure during the remainder of the year will be considerably higher and this should result in a significant reduction in the rate of taxation.

Western Areas: Tons milled 1 054 000 (1 085 000), yield 4,7 g/t (5,1), cost per ton milled R32,47 (R29,05), cost per ounce $263,8 ($213,9), revenue per ounce $630,6 ($440,2), net profit R24 935 000 (R34 216 000). As in the case of Randfontein, the price received for gold had jumped considerably (43 percent for Western Areas and 51,6 percent for Randfontein).

Tonnage milled was marginally down due to the high seasonal turnover of labour, not a shortage. Grade had dropped significantly and would continue to go down but tonnage milled should increase to around the 1 085 000-ton mark.

Again, working costs were up to an extent which Mr Blane called "horrific" and whereas capital expenditure for the year is estimated at R50-million, only about R4-million and had been spent during the past quarter.

During the quarter, a long-term contract for the sale of the company's future production of uranium oxide concentrates had been entered into on the company's behalf. The purchaser (who cannot be named) had undertaken to help to finance the construction of recovery plant facilities and the development of underground reserves by means of an interest-free loan of R30-million, the first R10-million of which was received on February 1 this year. The balance of the loan will be paid in equal instalments on July 1 this year and January 1 next.

POST
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Post 16/4/80

Give us a fair share

NEVER has so much been done for so many by so few. Not very original, but this is what one honourable member of Parliament said in the House of Assembly during the second reading debate on the Budget.

The reference here was to the living conditions of blacks "created", we suppose, by whites in comparison to the situation in "other African states" and "even some Western countries".

We have stopped going into arguments about whether we should live better than the blacks "up north". We have stopped trying to tell people that blacks in South Africa compare themselves with their white counterparts, not with the blacks in other parts of Africa.

What we do object to, however, is that there are still too many people around who think that blacks simply want to live on handouts.

The actual situation is far more different. All that blacks are asking for is a fair share of the wealth of this country for which they have sweated over the years. All they want is to be treated like human beings, and not like machinery which can be discarded when it becomes obsolete.

Blacks simply want the opportunity to educational advancement. They want the opportunity to compete on equal terms with anybody.

It is the Government which does not want that, not the blacks. So, to claim that "a few have done so much for so many" just goes to show the effect of Government policy — creating a species which believes itself superior, doing favours for those who are "inferior".

The sooner those in government realise that blacks are tired of being done "favours", the better it will be for all of us.

FINANCE

NEW LOOK AT INVESTMENT ALLOWANCES — Horwood

49

17/4/80

Financial Editor

THE standing commission on taxation policy is to investigate whether the policy of granting industry initial and investment allowances on new equipment should be altered, the Minister of Finance, Senator O PF Horwood, said in Cape Town today.

He told the annual conference of the Institute of Cost and Management Accounts, these allowances fulfilled a dual function.

They reduced the effective rate of taxation payable by companies and they brought relief in cases where depreciation and the write-off of assets was based on historial costs.

The allowances encouraged investments and tended to increase industrial capacity.

IN CASH

The view was held in some quarters that in certain circumstances these allowances should be paid in cash, especially in decentralised areas.

In other quarters concern had been expressed about the large amounts foregone in revenue, especially when the allowances were not limited to their original purpose and it was felt that it would be better to provide the incentive in the form of an appropriation of expenditure.

It had also been argued that a better balance should be sought between incentives for capital and labour intensive enterprises and in mining and agriculture as well as in manufacturing.

Senator Horwood said the matter had many facets and he had therefore asked the standing commission to investigate the whole issue.

The investigation could possibly lead to a new approach in alleviating inflationary pressure on the replacement of fixed production assets.

CAPITAL OUTFLOW R3080-m

CAPITAL continued to flow out of South Africa on a substantial scale last year.

Figures issued by the Reserve Bank show there was a net outflow of R3 080-million, which compares with an adjusted outflow of R1 290-million in 1978.

The greater part of last year's outflow — R2 200-million — comprised short-term capital from the private sector.

FELL SHARPLY

However, the outflow of short-term capital fell sharply to R400-million in the last quarter from an average of R600-million in each of the three previous quarters.

The bank attributes the outflow to switching by traders from foreign to domestic financing.

The net outflow of long term capital, mainly arising from loan repayments, was R755-million last year against an inflow of R5-million in 1978.

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If PW is serious about capitalism, then he's just had an offer he can't refuse

(49) Times 20/4/80

FLEUR DE VILLIERS

LAST November 22 Mr P W Botha tossed down the gauntlet to the South African capitalist who for the last 32 years of Nationalist rule had unwillingly paid the political piper but had never been allowed to call the tune.

From now on the private and the public sectors were to be equal partners in forging his dream of a constellation of Southern African states.

This week the private sector picked up that gauntlet — and tossed it right back.

After two days of deliberation in Cape Town, the Federated Chamber of Industries, South Africa's mammoth employer organisation which represents about 10 000 industrialists, produced its carefully weighed response to the Prime Minister's invitation. And it was one which must surely have given the verkrampte-harried Prime Minister pause.

For capitalists, as Mr Botha was to learn, don't produce anything — including cooperation — without a price, and if the private sector is to lend its weight to the achieving of a political ideal, that cooperation will carry a political price tag.

□ □ □

As the FCI director, Dr Johan van Zyl, told a Press conference after the meeting: "For the first time the private sector is prepared to stand up and be counted, to respond to the Prime Minister's invitation to bring prosperity to the whole of the subcontinent.

"But through that invitation Mr Botha admitted that politics and the economy are irretrievably bound up together. We are prepared to cooperate with Government to thrash out solutions to these problems. But we can't talk about prosperity if we don't have change on the political front.

"If we insist that the whole of the Southern African economy is one, then there are certain basic freedoms which underly the whole system of free enterprise."

Those are the freedom of opportunity, the freedom of movement, and the right of contract and of property.

Or as FCI chairman Mr Leo Borman spelled it out: Industry had no wish to prescribe a blueprint for the composition and institutional form of a constellation of states. But there were certain principles which would have to be applied if a meaningful framework for accommodation in South Africa was to emerge.

Those principles were:

- Free enterprise, which meant maintaining the "essential oneness" of the South African economy and guaranteeing the rights of freedom of contract and of property.
- The accommodation of group loyalties, the right of free association and the protection of minorities and cultural and ethnic diversity.
- The principle of negotiation, implying a consensus over some form of collective identity and common institutions.

The speakers at the FCI conference were careful to stress that organised industry's new involvement in politics did not mean that it was carrying any party political banner, although the organisation will be making its own representations based on those principles to the Schlebusch and Consolidation commissions.

"Instead, we are issuing a clear warning: We need a clearer indication of the general ground rules so that the private sector knows where this country is going. The first thing necessary is a common Declaration of Intent which will indicate what the final structure looks like."

And one message came though loud and clear: If Mr Botha wants — as he must — to involve the private sector in his goal of a single interwoven and interdependent Southern African economy then he must learn not only to talk to black and coloured leaders but to negotiate with them.

"There is a difference between consultation and negotiation — and we are not talking about consultation," said Dr Van Zyl.

And the FCI speakers stressed repeatedly, negotiation on a basis of equality must include not only the homeland leaders, but the effective leaders of black and coloured South Africa.

The price tag on prosperity is political stability and stability, like charity, must begin at home, if investors are going to have the confidence to make the Botha vision a reality.

As Mr Borman said: The concept of a constellation of states implies nondiscrimination and the need for agreement between partners of equal negotiating status. "And we are thinking as much of the people of Soweto as of Transkei."

□ □ □

But what basically is meant by those "three principles" on which negotiation must be based?

A single unified South African economy, which rolls back every element of the great Verwoerdian carve-up so that men can move to sell their labour and capital can flow across the Verwoerdian borders without fear of nationalisation or other harassment by black states.

The sacrifice by all the components of pre-Verwoerd South Africa of a measure of sovereignty and autonomy so that the same economic rights and rules apply everywhere and to all.

The guaranteeing of that fundamental economic unity through negotiation to achieve a key political unity, before South Africa is further dismembered by greater consolidation. "If we are to have borders they must be soft."

The protection of minorities, possibly through a major decentralisation of political power down to local municipal level — what has been described as the missing piece in the Prime Minister's jig-saw if he is to successfully allay white fears.

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Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

'Lure savings to the high capital areas'

RDM 22/4/80

IT WAS necessary to ensure that savings in the economy were channelled into investment areas where the productivity of capital was relatively high, Mr Bob Aldworth, managing director of Barclays National Bank, said in Port Elizabeth.

South Africa had an enviable savings record. In fact, with the exception of Japan, the propensity to save in this country exceeded that in most industrialised countries.

With regard to foreign investors, Mr Aldworth said they would continue to invest in this country provided South Africa maintained a stable and growing economy in which profits could grow satisfactorily and provided that political developments or employer/employee relations did not unduly increase the risk attached to investment.

Mr Aldworth stressed the growing importance of self-financing by companies in the savings/investment process.

"In view of this, it seems that if we are to make sure that we shall continue to have sufficient funds to finance a high level of capital formation in South Africa, then we must help and not hinder companies to build up their internal sources of capital.

"One way of doing this would be to look into the possibility of applying a differential company tax so as to reduce, or even abolish, the tax liability on undistributed profits of companies.

"Depreciation provisions allowed by the tax authorities should also be related more closely to the price inflation of capital goods," he said.

Discussing the role of financial institutions, Mr Aldworth said they were not in a position, for liquidity reasons, to support too strongly risky investment in the private sector and the fact that they were constrained to invest a substantial part of their funds in the public sector further circumscribed the extent to which they were able to provide capital funds to the private sector.

"Surely the time has now come to free the capital market in South Africa from the inhibitions imposed upon it by the 'captive' market and to allow interest rates freer play in allocating the available savings resources between the private and public sectors of the economy," said Mr Aldworth.

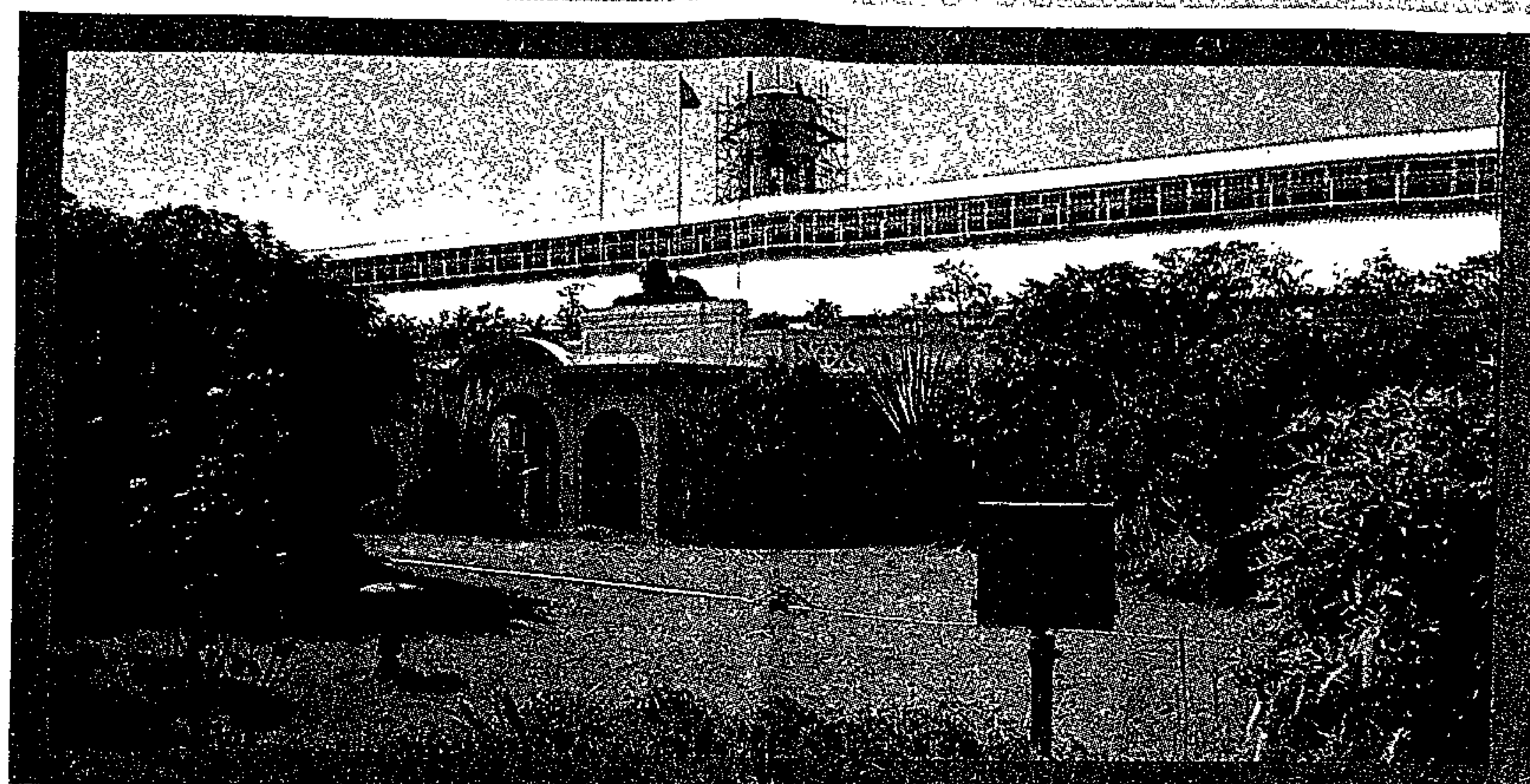
The Natal Mercury
126th YEAR INDEPENDENT AND DEPENDABLE

THE GOLDEN YEAR

100 top companies for 1979

Compounded annual growth in dividends per share over the past five years — 1975 — 1979

Rank		%
	MORE THAN 45 PERCENT	
1	METRO CASH AND CARRY HOLDINGS	47,85
	MORE THAN 30 PERCENT	
2	PICK 'N PAY STORES	34,20
3	KOHLER BROTHERS	30,56
4	TRADE & INDUSTRY ACCEPTANCE CORPORATION	30,54
	MORE THAN 25 PERCENT	
5	GRAND BAZAARS	27,80
6	ISSUES & INVESTMENTS	27,71
7	DUNLOP SOUTH AFRICA	27,17
8	DE BEERS CONSOLIDATED MINES	26,85
9	FEDERALE MYNBOU	26,80
10	UNION & LONDON INVESTMENT TRUST	26,75
11	W & A INVESTMENT CORPORATION	26,44
12	STANDARD BRASS, IRON & STEEL FOUNDRIES	25,76
13	VOGELSTRUISBULT METAL HOLDINGS	25,26
	MORE THAN 20 PERCENT	
14	GENERAL MINING & FINANCE CORPORATION	24,22
15	BAKERS SOUTH AFRICA	23,86
16	INDUSTRIAL & COMMERCIAL HOLDINGS GROUP	23,86
17	EDWARD L. BATEMAN	23,26
18	BARCLAYS NATIONAL BANK	22,96
19	NED-EQUITY INSURANCE COMPANY	22,22
20	A.B.C. SHOE CORPORATION	22,11
21	KAROO MEAT EXCHANGE	21,79
22	SEARLES HOLDINGS	21,54
23	GENERAL OPTICAL COMPANY	21,15
24	ASEA ELECTRIC SOUTH AFRICA	20,86
25	LIBERTY HOLDINGS	20,66
26	CONSOLIDATED GLASSWORKS	20,46



THE attractive premises of the Lion Match Company in Umgeni Road, Durban. Lion was ranked 28th in the list of top companies for 1979. Other Natal companies to feature in the list are : Dunlop South Africa (7th); Bakers (15th); Natal Chemical Syndicate (37th); C.G .Smith Investments (46th); Dubin Investments (69th). Tongaat Group (79th) and Beares (99th).

Growth-taking a new look

FOR the past 15 years, I have ranked, on an annual basis, the top 100 financial and industrial companies listed on the Johannesburg Stock Exchange.

The mining companies have been excluded because of the amortization factor — i e their dividends include an element of return of capital depending on the lives of the mines. However, both DE BEERS and ANAMINT have been included - the former under Mining Houses and the latter under Mining Holding Companies - as I consider both these companies are wrongly classified under Diamond Mining.

This year, for the first time, the companies have been ranked according to the compounded annual growth

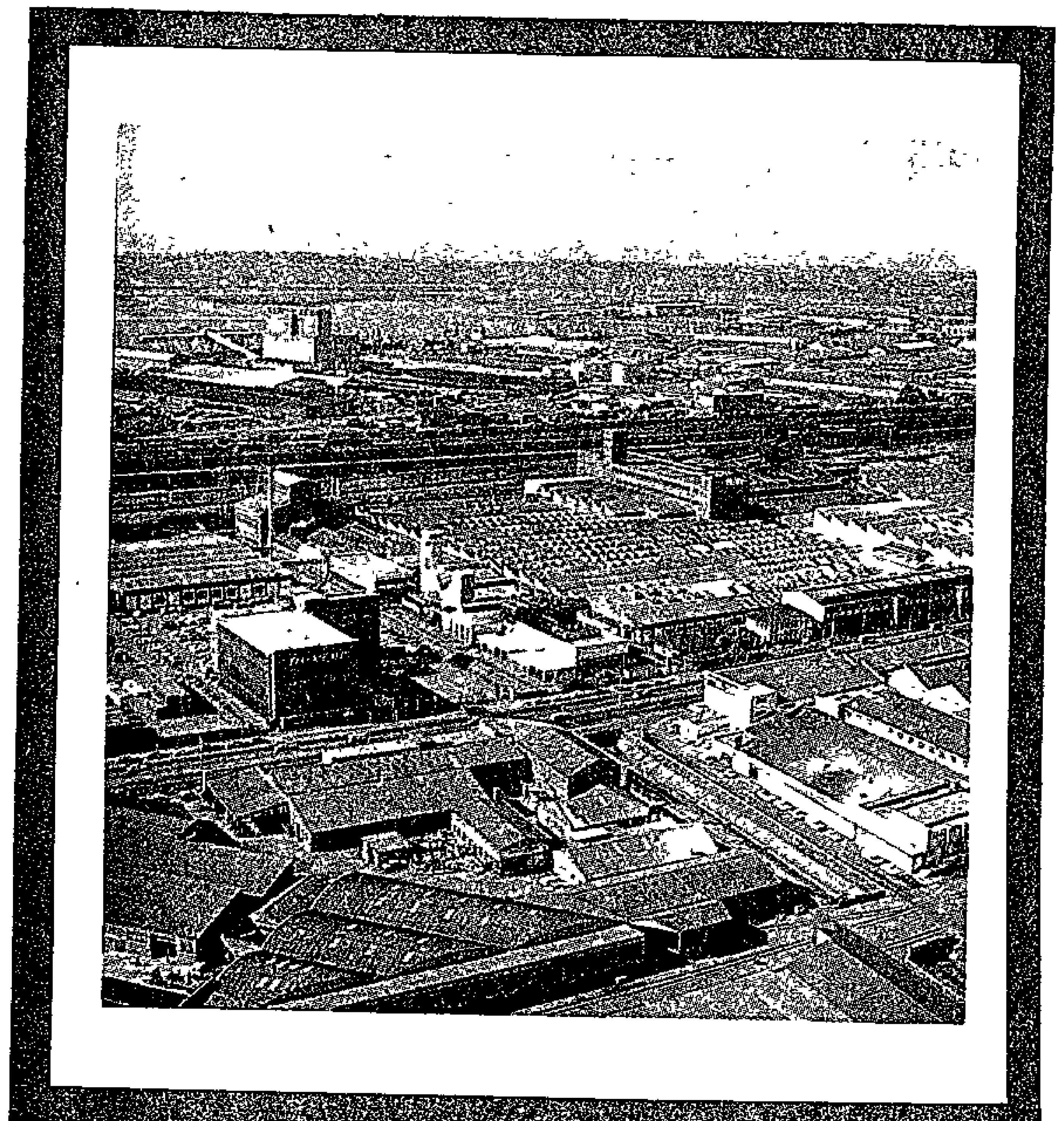
Mr. Fred Beard

they have done so, the earnings per share have been adjusted retrospectively in order to make the figures comparable.

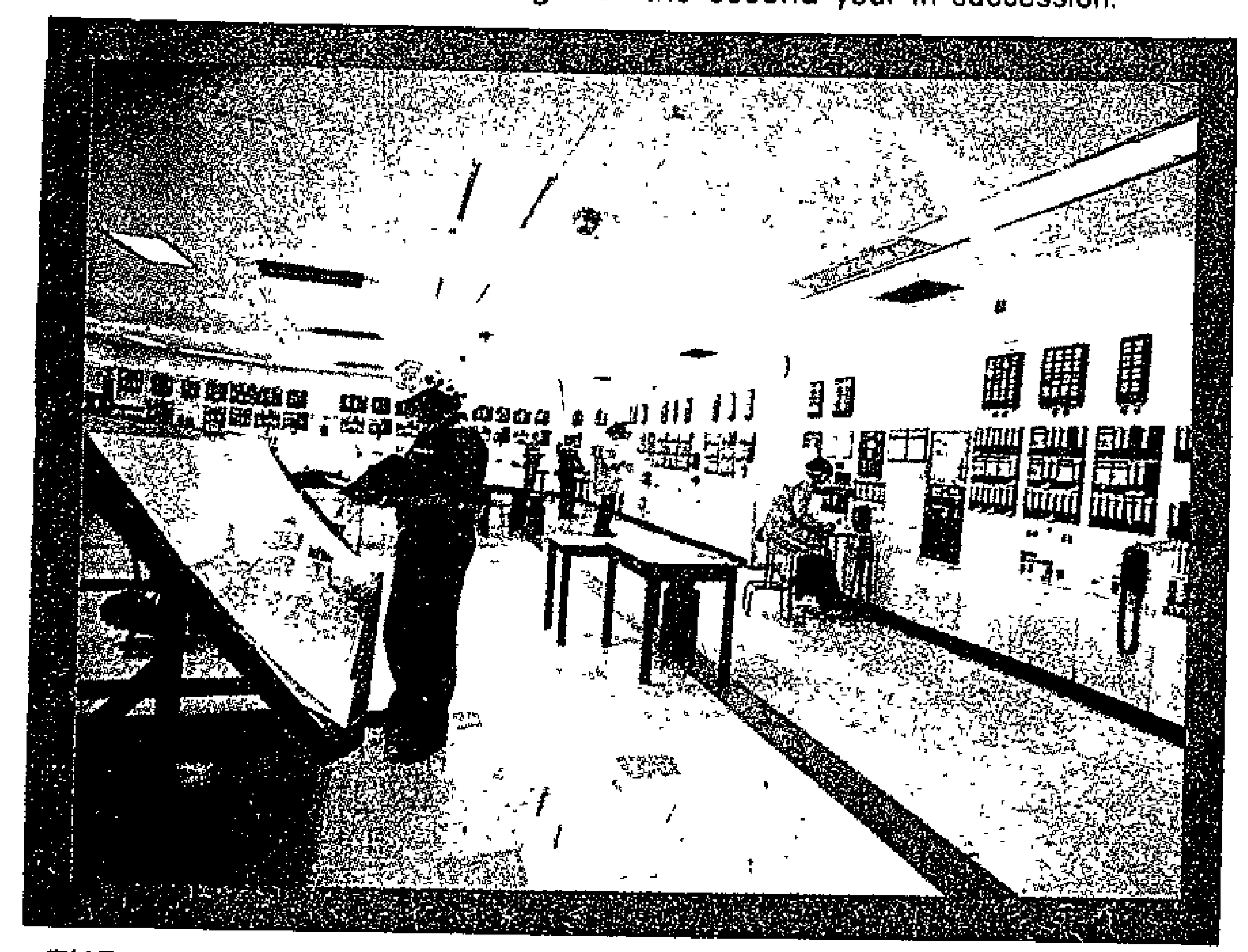
I have been asked why, instead of measuring dividend growths, I did not opt for measuring the return of shareholders' funds. One well-known financial journalist, in fact, has pointed out that in the group of which I am chairman we measure the return on shareholders' funds as one of our finan-

TO PAGE TWO

Section leaders



AN aerial picture of Dunlop's Durban factory. This company is seventh in Mr. Beard's rankings for the second year in succession.



THE control centre of the ammonia complex at Modderfontein, the biggest of AECI's four factories. Modderfontein represents a capital invest-

28	THE LION MATCH COMPANY	20,15
29	TRANSVAAL CONSOLIDATED LAND & EXPLORATION CO.	20,05

MORE THAN 15 PERCENT

30	CONSOLIDATED GOLD FIELDS	19,98
31	AFRICAN OXYGEN	19,63
32	GENERAL ERECTION HOLDINGS	18,93
32	HIGHVELD STEEL & VANADIUM CORPORATION	18,93
32	TREK BELEGGINGS	18,93
35	PRETORIA PORTLAND CEMENT COMPANY	18,09
36	LONRHO	17,74
37	THE NATAL CHEMICAL SYNDICATE	17,67
38	BERZACK BROTHERS HOLDINGS	17,41
39	LEWIS FOSCHINI INVESTMENT COMPANY	16,72
40	LIBERTY LIFE ASSOCIATION OF AFRICA	16,66
41	ELLERINE HOLDINGS	16,57
41	SHULTON AFRICA	16,57
43	ANGLO-ALPHA CEMENT	16,51
44	EDGARS STORES	16,45
45	FOSCHINI	16,38
46	C.G. SMITH INVESTMENTS	16,37
47	S.A.P.P.I.	15,83
47	ASSOCIATED ORE & METAL CORPORATION	15,83
49	FIRST UNION GENERAL INVESTMENT TRUST (FUGIT)	15,66
50	CANADIAN OVERSEAS PACKAGING INDUSTRIES	15,48
51	MUTUAL & FEDERAL INSURANCE COMPANY	15,19
51	DE BEERS INDUSTRIAL CORPORATION	15,19
53	BLUE CIRCLE	15,02
53	RENTMEESTER BELEGGINGS	15,02
53	SEARDEL INVESTMENT CORPORATION	15,02
53	CULLINAN HOLDINGS	15,02

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CONTENTS

over the past five years. Previously, the companies were ranked according to the compounded annual growth in earnings per share but there are so many different methods of calculating earnings that it is no longer possible to compare the listed companies on this basis.

As I explained last year, some companies have adopted the equity method of accounting for associated companies (picking up the attributable profits instead of merely receiving dividends) and other companies do not use this method - so that no valid comparisons can be made of the companies *inter se*. In fact, some companies (such as ABERCOM) have discontinued the equity method of accounting for associated companies, thereby invalidating comparison with previous years.

Two sets

Again, more and more companies are presenting two sets of earnings per share - one on the LIFO basis and another on the FIFO basis - one after calculating depreciation on replacement values of plant and machinery and another on historical cost - and so on. Which earnings per share should be used?

Some companies pick up the full investment allowance of 30 percent in the first year and so materially reduce their tax rate for that year and thus invalidate comparison not only with previous years but also with future years. Other companies - such as AECI - transfer this investment allowance to non-distributable reserves and thus avoid distorting their earnings per share.

Even the giant BARLOW-RAND - in its latest statistical table over the past seven years - warns that 'earnings per ordinary share have not been adjusted retrospectively for changes in bases of accounting.' This means that its earnings per share cannot validly be compared with any other company or companies which have not changed their basis of accounting or, if

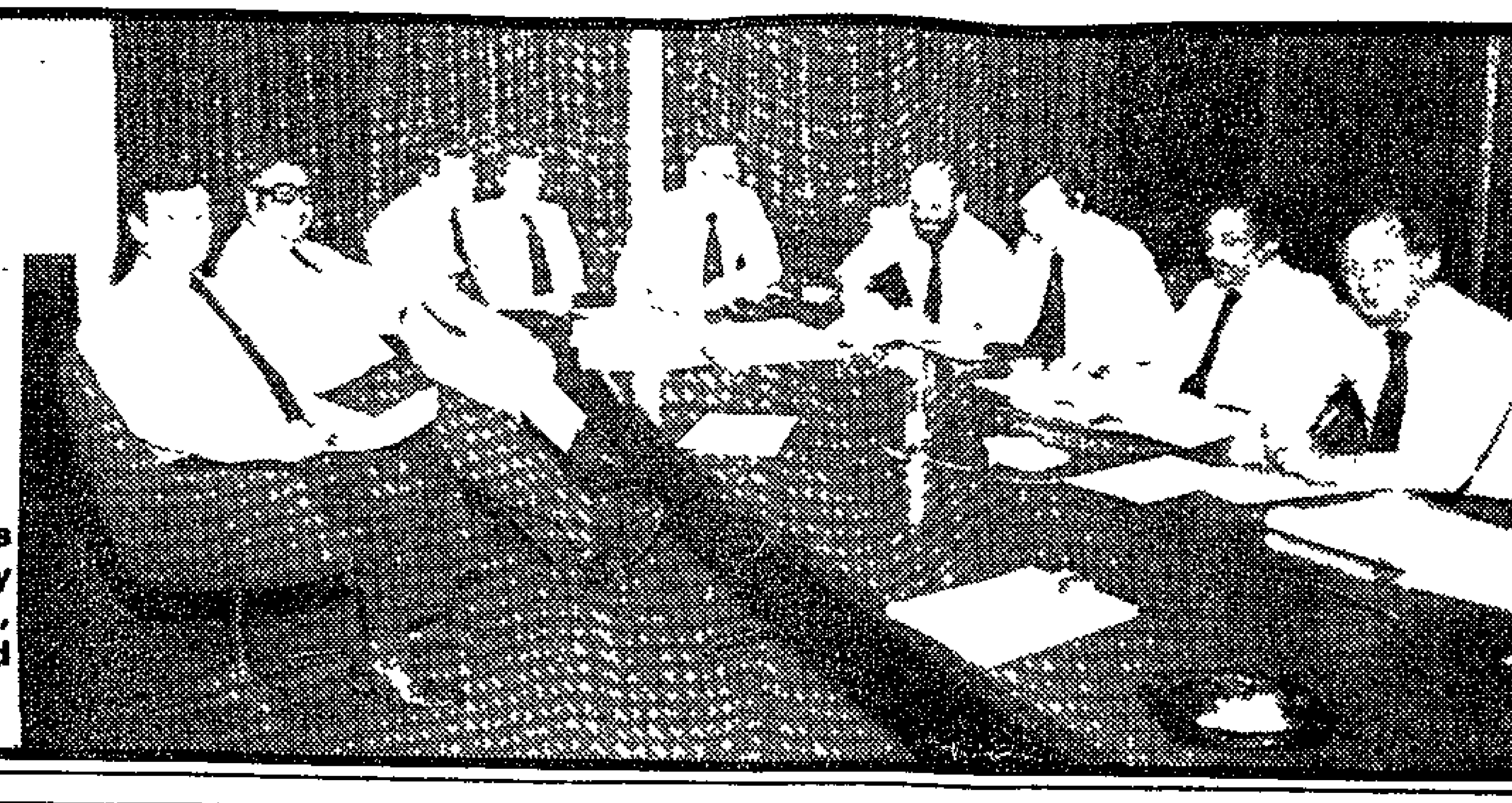
	Compounded Annual Growth %
Mining Houses	
DE BEERS CONSOLIDATED MINES	26,95
Mining Holding Companies	
VOGELSTRUISBULT METAL HOLDINGS	25,26
Banks & Financial Services	
TRADE & INDUSTRY ACCEPTANCE CORPORATION	30,53
Insurances	
NED-EQUITY INSURANCE COMPANY	22,22
Investment Trusts	
ISSUES & INVESTMENTS	27,71
Industrial Holding Companies	
W. & A. INVESTMENT CORPORATION	26,44
Beverages & Hotels	
UNION WINE	14,06
Building & Construction	
PRETORIA PORTLAND CEMENT COMPANY	18,09
Chemicals	
TREK BELEGGINGS	18,92
Clothing, Footwear & Textiles	
SEARLES HOLDINGS	21,54
Electronics, Electrical & Battery	
ASEA ELECTRIC SOUTH AFRICA	20,86
Engineering	
STANDARD BRASS, IRON & STEEL FOUNDERS	25,76
Food	
BAKERS SOUTH AFRICA	23,85
Furniture & Household Goods	
ELLERINE HOLDINGS	16,57
Motor	
DUNLOP SOUTH AFRICA	27,27
Paper & Packaging	
KOHLER BROTHERS	30,55
Pharmaceutical & Medical	
GENERAL OPTICAL	21,15
Steel & Allied	
HIGHVELD STEEL & VANADIUM CORPORATION	18,92
Stores	
METRO CASH & CARRY HOLDINGS	47,85
Sugar	
THE TONGAAT GROUP	13,47
Tobacco & Match	
THE LION MATCH COMPANY	20,14
Transportation	
MOBILE INDUSTRIES	14,88

million a year to run and employs 7 500 people.

ROYAL COMPANY FOR 1979

(Increase in dividends of not less than 20% each and every year)

RANK			ANNUAL GROWTH PERCENT			
1979	1978		1975/76	1976/77	1977/78	1978/79
1	1	PICK 'n PAY STORES	41	25	32	40



MR RAYMOND ACKERMAN (fifth from left) and his board. Pick 'n Pay is second in Mr Beard's rankings for 1979 and it is the only ROYAL company for the year. The board members are — from the left — Guy Hawthorn, Keith Blumgart, Alan Gardiner, Chris Hurst, Raymond Ackerman, Richard Cohen, Rene de Wet, Hugh Herman and Don Cobb.

The hobby that has become an important service

MR FRED Beard, for the 15th year in succession, has ranked South Africa's top financial, industrial and commercial companies listed on the Johannesburg Stock Exchange.

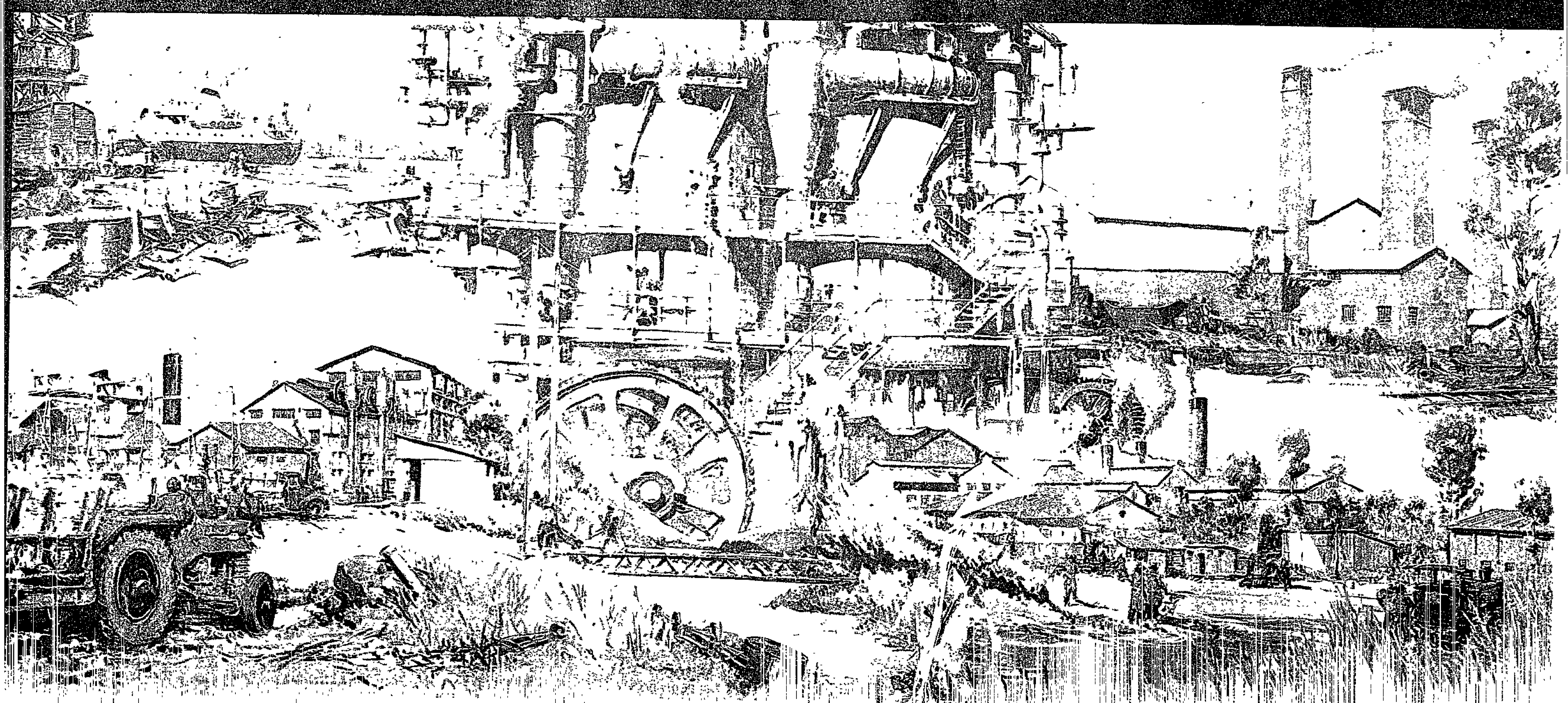
This year he has changed his basis of ranking performance. Previously the 'yardstick' was compounded annual growth in earnings per share over the previous five years. With effect from 1979, it is compounded annual growth in dividends per share over the past five years — 1975 to 1979.

Mr. Beard tackles his annual task as a hobby. He offers the results as a free service to investors. His findings have been made available to The Natal Mercury for the past four years.

The size of this supplement has jumped from eight pages in 1977 to 14 pages this year which is an indiction of the growing reader interest.

For the second time this year a stock exchange portfolio competition has been run in conjunction with the preparations to publish the supplement and the name of the winner is anounced on the opposite page.

From the success of our past stem the dynamics for our future



New look

FROM PAGE ONE

cial objectives and yet I am now measuring dividend growths.

Comparable

It so happens that my group correctly calculates our earnings — including picking up the attributable profits of associated companies — and our earnings per share are always strictly comparable with previous years.

However, the return on shareholders' funds is calculated by expressing these earnings as a percentage of shareholders' equity and — if the earnings of the listed companies cannot be validly compared (as I have clearly shown) — then this return must be meaningless and misleading for ranking purposes.

To return to my new basis of calculating the compounded annual growth in dividends per share over the past five years, I submit that the emphasis today in the share market is on dividend returns and dividend growth rather than the erstwhile price-earnings ratios. Shareholders and prospective investors are really only interested in dividends paid and the prospects of dividend growth in future and measuring the growth in dividends over the past five years does enable future growth to be reasonably assessed.

However, when using dividends as a basis for measuring growth there

47,85 percent down to 11,16 percent - with 4 companies more than 30 percent per annum, 9 companies more than 25 percent per annum, 16 companies more than 20 percent per annum, 27 companies more than 15 percent per annum, 39 companies more than 12 percent and only 5 companies between 11 percent and 12 percent.

As the rate of inflation has average round about 10 percent per annum over the past five years, this certainly highlights the advisability of investing in sound financial and industrial shares in order to keep well ahead of inflation.

The leaders

Not unexpectedly, the company in first place i METRO CASH & CARRY HOLDINGS with an outstanding growth of 47,8 percent per annum base on dividends of 18 cents i 1975 increasing to 86 cent in 1979. Unfortunately they do not qualify as *ROYAL* company be cause they increased thei dividend by only 1 percent in 1976. Neverthe less, Lionel Katz and hi team are to be warml congratulated on thei phenomenal growth sinc then.

In second place and th only *ROYAL* company Raymond Ackerman' PICK 'N PAY STORE with a growth of 34,2 percent based on div dends of 37 cents in 19 instance, where dividends have been paid in respect of periods in excess of one year these dividends have been proportionately reduced to a period of twelve months. Conversely, where dividends have been paid in respect of periods of less than one year, these dividends have been proportionally grossed up to the full twelve months. Again, where the dividend in the first or base year was abnormally low — i e materially less than the previous dividend — it would not be fair to the other companies with regular increases from year to year to include these companies with their distorted growth so that they have been excluded from my survey.

Where companies have paid dividends in excess of earnings - such as OTIS ELEVATOR — they have been excluded because their growth is also distorted. Where companies have paid extraordinary or bonus dividends, these dividends have been ignored because they also distort the growth pattern. Obviously, where there has been a capitalization issue, the dividends have been adjusted retrospectively for comparative purposes.

And, finally, and probably much more important, where companies have reduced their dividends at any time during the five-year period — or losses have been incurred resulting in no dividend at all — these companies have been excluded because I am measuring positive growth only. This has resulted in a large number of companies being excluded from my survey.

The top 100

Let us now deal with the top 100 dividend growth companies for 1979 - that is, for the full calendar year with all the companies being considered in respect of their finanacial years ended from January 31 to and including December 31, 1979.

This is the first time dividend growth has been measured in South Africa - or anywhere else, to the best of my knowledge.

It will be noted that the compounded annual dividend growth over the past five years ranges from

pany qualified for sion in my annual su in 1973 after havin listed for 5 years - figured prominently rankings and has been included amo ROYAL companies. is a proud and uni record.

KOHLER BROTHER occupy the third pla with a growth of 30, percent based on div dends of 21 cents in 19 increasing to 61 cents 1979. After a slow start paid the same dividend 1976), this company h leapt ahead. Basil Land and his team are to congratulated.

In fourth place TRADE & INDUSTR ACCEPTANCE CORP RATION with a growth 30,54 percent based dividends of 7,75 cents 1975 increasing to 22 cents in 1979. This co pany also had a slow sta (only 8,5 cents in 1976) b since then it has had o standing growth and - li Kohler Brothers - it w be a ROYAL company 1980 if it keeps up this ra of growth. Ivor Jacobs and his team are al congratulated.

The company in fif place is GRAND B ZAARS with a growth 27,80 percent on divide of 6 cents in 1975 increa ing to 16 cents in 19 Congratulations to M and Manual Sachar.

I have already me tioned that there is o one ROYAL compa this year — PICK 'N PA STORES — although looks as if it will be join by several other compa ies in 1980. The Roy companies, of course, a those with an increase dividends of not less th 20 percent each and eve year over the five ye period.

And, finally, I ha listed (on the previo page) the Section Leade for 1979. I have found ov the years that the compa ies attach a great deal importance to leadi their particular section classification, probab because it is comforting know that your compa had better growth th your competitors in t same line of business.

I cannot conclude th article without paying t bute to Paul Acott, B (Hons), F C A, for h valuable assistance in m survey.

Top companies

FROM PAGE ONE

MORE THAN 10 PERCENT

Rank		%
57	NEDBANK GROUP	14,89
57	MOBILE INDUSTRIES	14,89
59	TOLLGATE HOLDINGS	14,84
60	THE CEMENTATION COMPANY (AFRICA)	14,80
61	BERZACK-ILLMAN INVESTMENT CORPORATION	14,68
62	NAMPAK	14,65
63	EDGARS CONSOLIDATED INVESTMENTS	14,56
64	METALS & MINERALS INVESTMENT CORPORATION	14,43
64	METAL CLOSURES	14,43
66	TEGNIESE BELEGGINGSKORPORASIE	14,40
66	TEGNIESE & INDUSTRIELE BELEGGINGS	14,40
68	SENTRACHEM	14,25
69	DUBIN INVESTMENTS	14,19
70	UNION WINE	14,06
70	WOOLWORTHS HOLDINGS	14,06
72	ASOKOR	13,92
73	FRASERS	13,85
74	PLASCON-EVANS PAINTS	13,63
74	CLAUDE NEON LIGHTS (S.A.)	13,63
74	A.E.C.I.	13,63
74	DIROYAL INVESTMENTS	13,63
74	ANGLO AMERICAN INDUSTRIAL CORPORATION	13,63
79	THE TONGAAT GROUP	13,47
80	BARLOW RAND	13,38
81	DARLING & HODGSON	13,22
82	CURRIE FINANCE CORPORATION	13,02
83	CHLORIDE HOLDINGS S.A.	12,91
83	ABERDARE CABLES AFRICA	12,91
85	GRESHAM INDUSTRIES	12,70
86	ANGLOVAAL HOLDINGS	12,67
87	TIGER OATS & NATIONAL MILLING CO.	12,64
88	ANCHUSA HOLDINGS	12,47
88	VEREENIGING REFRACTORIES	12,47
88	STANDARD BANK INVESTMENT CORPORATION	12,47
91	REMBRANDT GROUP	12,36
92	MALBAK	12,27
93	ANGLO AMERICAN CORPORATION OF S.A.	12,23
94	REMBRANDT BEHERENDE BELEGGINGS	12,20
95	ANGLO-TRANSVAAL CONSOLIDATED INVESTMENT CO.	12,10
96	TRENCOR	11,97
97	JOHANNESBURG CONSOLIDATED INVESTMENT CO.	11,50
98	NATIONAL TRADING COMPANY	11,38
99	BEARES	11,21
100	INTERNATIONAL COMPUTERS EQUIPMENT FINANCE CORP.	11,16

●Financial Editor Jack Keir explains some of the risks that lie ahead for the unwary investor and warns...

What goes up must come down

STAY out of the stock market at present price levels. If you are still holding shares, take profits to offset the greater risks to which investors are exposed in the current situation.

This is the message which comes across after reading the expert opinions published in this survey.

But, why this note of caution? There are a number of reasons. The main one is gold.

Bullion has dominated share prices during the past 12 months. The startling rise in the gold price has emphasised, once again, that the Johannesburg Stock Exchange is a metal market.

If bullion does well, so do gold shares and there is a spin-off for industrials too. For the last three years investors have enjoyed what I call 'the happy time' because of the explosion in the gold price.

Anyone who bought shares in 1977 has had a carefree ride and at least doubled his money.

There is no argument about that or that the end cannot be far away — everything that goes up must come down. The indications are that the bull run will be completed sometime this year. An old stock market rule is: 'Get in before the bottom and out before the top.

Our expert contributors point out that red warning lights are burning and it is time to sell. Reasons given for this view are laced with unnerving comparisons with what happened in 1969.

In the second half of that year a market slide began from which it took years to recover. This had disastrous results for hundreds of companies and thousands of investors.

So, what does an investor do in the current situation?

How does he offset the high rate of inflation?

If he gets into fixed interest stocks how can he accept low rates of return and no capital growth. In fact, his capital value is depreciating by 14 percent a year.

If he accepts the risks of remaining in the stock market the wild movements of the bullion price will give him a nerve-racking experience. If he stays out, the prospects are uninviting.

Perhaps, this is the time to establish a few guide lines? I suggest that:

●There is little comparison between the tone of the market today and in 1969. Eleven years ago people were buying shares with borrowed money or 'on tick'. Today, every purchase has to be paid for within seven business days.

●Today's market has strength because the institutions are more heavily involved than a decade ago. They are in because they have done their homework nor do they take fright easily.

●In 1969 small investors bought on a 'lucky dip' principle in the hope of making quick profits.

But, what about the bullion price on which so much depends?

Gold soared for two main reasons — a lack of confidence in paper money and fear about the future.

The gold price is a barometer of world events. In present political and economic conditions people would rather have gold coins in their pockets than currency.

Gold is performing in a hard currency role. The US gold auctions are to stop. Gold is being hoarded more than ever. There is not enough of the metal to go round — demand has out-paced supply.

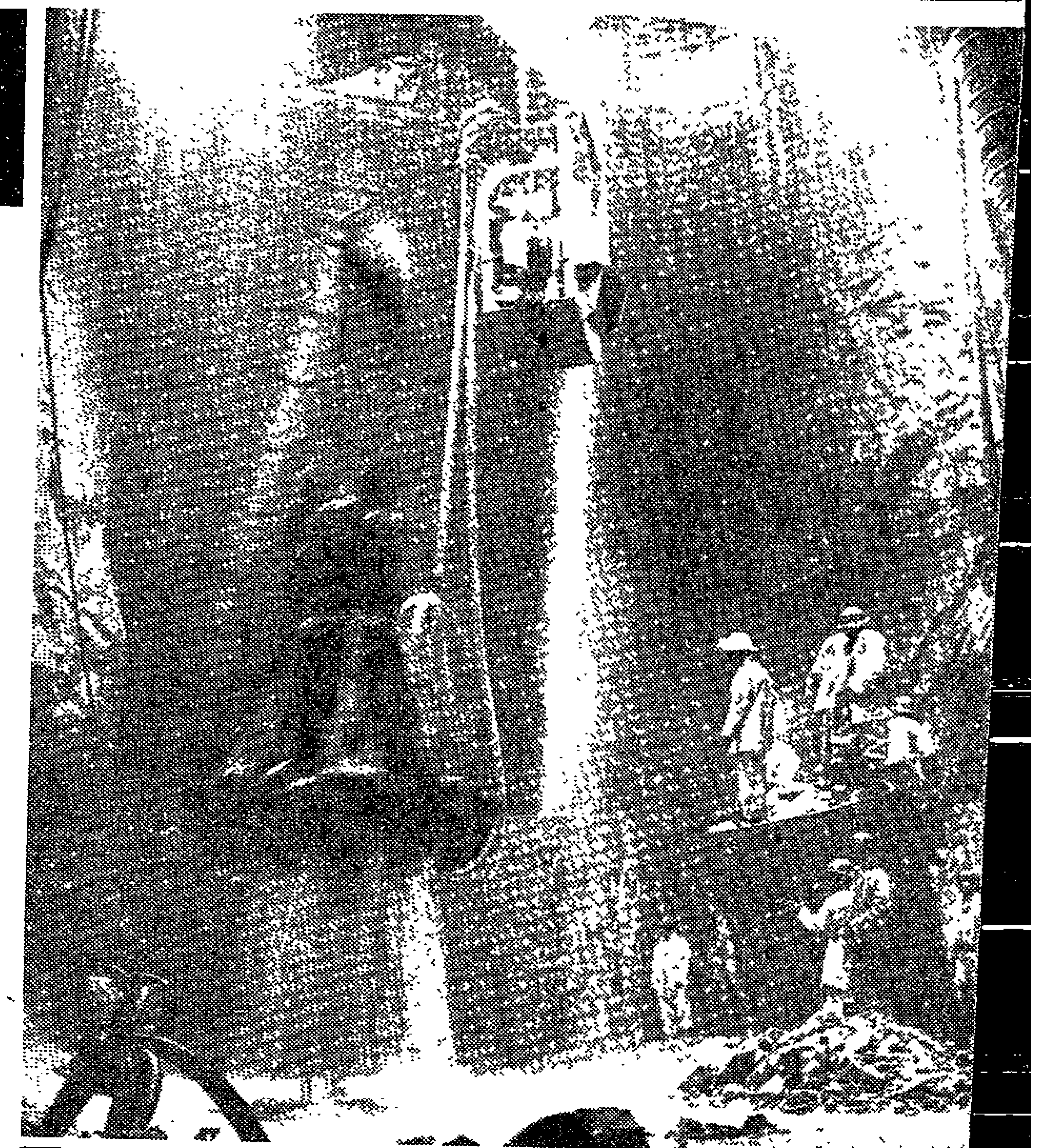
There are no signs that the political situation in the Middle East will improve, that overseas inflation rates will drop or that the Western World will avoid another recession.

Acknowledge these facts and investment decisions become easier. The price of bullion should remain firm with all that this means for the stock market and South Africa.

However, it would be wise to discount talk that it will move up to 1 000 dollars. Some new event, such as a major war scare, will be necessary to hoist it to that level.

For the man-in-the-street this is fine. A firm bullion price means lower taxes, more job opportunities, higher salaries and a buffer against the effects of the international inflation.

But, for the individual stock market investor, there are risks and in the majority of cases these are not acceptable.



Shaft sinking a Elandsrand, an Angl American mine on th West Rand This is a dar gerous and highly skille job carried out on a cor tinuous and high-spee basis The black miner who sink shafts, are co sidered to be the top me in the business.

Recent figures ha shown that black mine are becoming increasinc career orientated Tl has been reflected by decreasing labo turnover Higher wag made possible by t higher gold price a better living and work conditions have ma mining more attractive the workforce

An additional factor been the introduction the Valid Re-engagem Certificate which m issue to their men at end of their contra These guarantee mi their jobs back at same rates of pay sh they return within a st lated time

Portfolio winner

Mr C V Mathias

MR V C MATHIAS, of Howick, has won the Natal Mercury's Stock Market Portfolio Competition. His entry of six shares appreciated in value by R17 545 — an outstanding performance.

Mr Mathias says that he has been playing the market for about 30 years and has come out on the right side 'by a long way'.

He said: 'I bought in the bad times when everyone else was sitting back. I sold when prices had risen and took my profits. I am out of the market now. My only holdings are property mutuals which give a good return and will not be affected so much if there is a slide in share prices.'

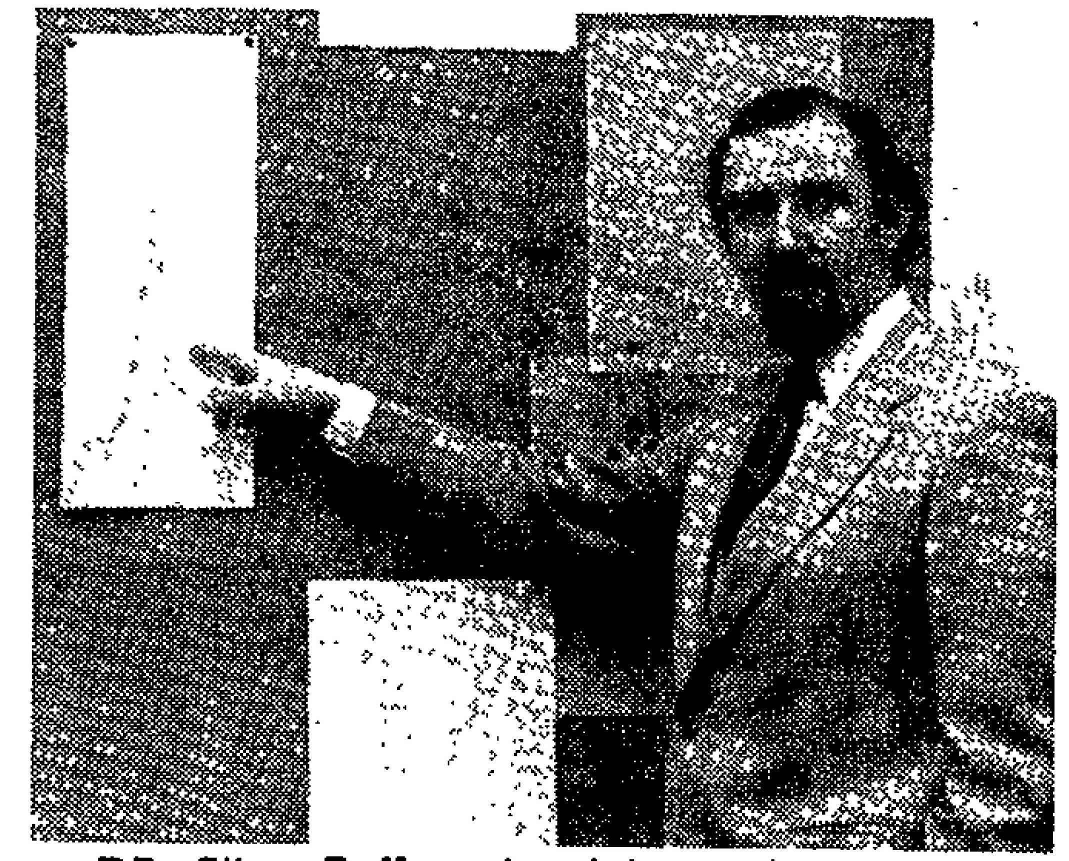
Mr Mathias' winning portfolio was : 38 800 Bivec, 100 John Orr, 200 IGI, 100 Press Supplies, 100 Tollgate and 100 Berzack.

Other competitors who deserve a special mention are Messrs S.V. Hagger and M.S. Leisegang of Durban, whose portfolio appreciated by R50 850. However, joint portfolios were not allowed by the rules of the competition.

A CHARTIST REPORTS...

It's still a bull market

'SELL in May and go away'. This old stock market adage may have its truth underlined this year. Industrial and gold shares have been in a continuous bull market for more than three years. Their bull run gives every indication of coming to an end in the May/June period.



DR Clive Roffey, the Johannesburg stock market analyst, makes a point with the help of one of his gold charts and says...

Sell in May and go away

Even so the short term prospects for both sectors are exciting — in terms of percentage return on capital.

The gold market received a set-back between January and March as the bullion price fell. However, the most encouraging aspect of that fall was the non-performance of the shares. Many analysts are attempting to label bullion with the bear market tag. This is not apparent from my work.

In a true bear market the marginal gold shares undoubtedly suffer the most. Bullion's recent 44 percent fall had virtually no effect on the marginals. In fact, the 100 dollars bounce off the 474 dollars low, rocketed several marginals to new highs.

That is not the performance of a marginal share in a bear market.

I therefore maintain my stand that both bullion and gold shares are still in bull markets.

The worrying feature is that the up-move in golds through to May is likely to lead to the market top. Nevertheless, many marginals are indicating at least 50 percent upward movements during the next eight weeks.

I expect the marginals to out-perform the heavies during this period with one exception — Randfontein.

This 'granddaddy' of the heavies totally out-performed every other share in the 1971/74 bull market.

However, while many shares have shown a 10-fold increase during the past two years, Randfontein has procrastinated by forming a massive sideways pattern. It is evident that this chart pattern has been completed and I expect Randfontein to have a substantial up-move to reach a short-term target of around R140 from its current price of about R71.

Although Randfontein's chart has a virulent appearance, the most exciting chart is that of the gold index compared to the industrial market.

There is no doubt in my mind that gold shares are going to out-perform industrials during the final stage of this market. However, one must not lose sight of the fact that the industrial index is composed of the blue chips and other data indicates that the secondary industrial shares will out-perform the industrial blue chips.

Therefore, if one does a clinical analysis one should be a net seller of blue chip industrials with a view to converting them to Randfontein - the blue chip gold share.

Short-term speculators should have a field day with the marginal mines and secondary industrials of the Trust Bank, Retco, Amaprop, Carrig, Bromain, Trumcor category.

That is all very well until May/June. What then? I believe that major profits should be taken during April/May since my data indicates a substantial down-move across the board for at least six months after that.

Let me put this into context. We have finished the 1969/77 industrial bear market and have resumed a new long-term bull trend. This will have periods of consolidation but, when the bull market resumes its course, it will more than recoup the losses incurred during the consolidation period.

This is the difference between the gold and industrial markets. When the current gold surge has ended it should move into a true bear market which will wipe out at least 50 percent of the total gains since 1976.

Thus the picture for the rest of 1980 appears to be good for short-term traders in gold and secondary industrial shares but not so hot, during the second half of the year, for others unless they are 'rampant bears'.

Even though the prospects for the latter half of 1980 look a little dim, the prospects for recovery in 1981 are excellent.

Metals and commodities

Before concluding I would like to take a look at Wall Street and the metals/commodities arena.

Wall Street is finished. My data has clearly indicated that the Dow Jones will fall to 650/680 this year. It will then rally to 800 before falling to a level not seen since 1929.

Conversly, the data on metals and commodities is bullish — particularly in the short term. I expect Wall Street to hit the 650/680 level at the same time as gold hits 820 dollars, copper makes £1500, zinc reaches £480 and sugar goes through to £400 a ton.

The chart data then indicates that commodities will fall as Wall Street recovers to 800.

The final long-term drop in the Dow Jones to below 400 should be accompanied by a massive surge in commodity prices.

This is diametrically opposed to classic economic theory.

There are two ways that the US can move into the crisis area of a 400 Dow Jones level accompanied by rocketing metal and commodity prices.

One is war. The other is a total fiscal collapse of the US credit, pension fund and banking systems leading to a flight from paper money into hard barterable commodities.

South Africa, as a major supplier of metals and commodities, will benefit by America's demise and boom while Wall Street slides.

Prospects for industrial shares

A Durban stockbroker talks about the prospects for industrial shares.

THERE have been few years since World War II when the outlook for the South African economy has appeared more favourable. The reasons are:

- The high price of gold.
- Government has kept a tight rein on spending and improved its finances.

COMPARISON OF OPERATING RESULTS OF GOLD MINES

a policy point of view, as a result of the De Kock, Wiehahn and Riekert Commission reports.

● The new direction established by the Prime Minister, Mr P W Botha, has improved South Africa's image overseas, and enhanced the motivation of the private sector in South Africa.

● The recent oil price rises have confirmed the correctness of the drive for energy self-sufficiency through the Sasol process.

Thus, even if the gold price should fall to $350, it would not be inconceivable to talk about an average gold price in excess of $450 for the year and a balance of payments surplus of the order of R3 billion.

For the 1979/80 Budget we estimate the government used a gold price of $210. Thus with the current policy of 'growth with discipline' a conservative gold price is likely to be used and the 'boom and bust' scenario of the previous economic cycle is unlikely.

This approach represents the current conventional view and is hard to fault, With interest rates likely to remain at low levels in relation to inflation, and with strong growth in corporate profits, the industrial market has further upside potential.

Meanwhile, the Industrial Index is around the 510 level and the reverse yield gap is 4,5 percent.

The trend of the market is now closely linked to the bullion price. During 1979 the average gold price was $308. So far this year the average level has been about $640.

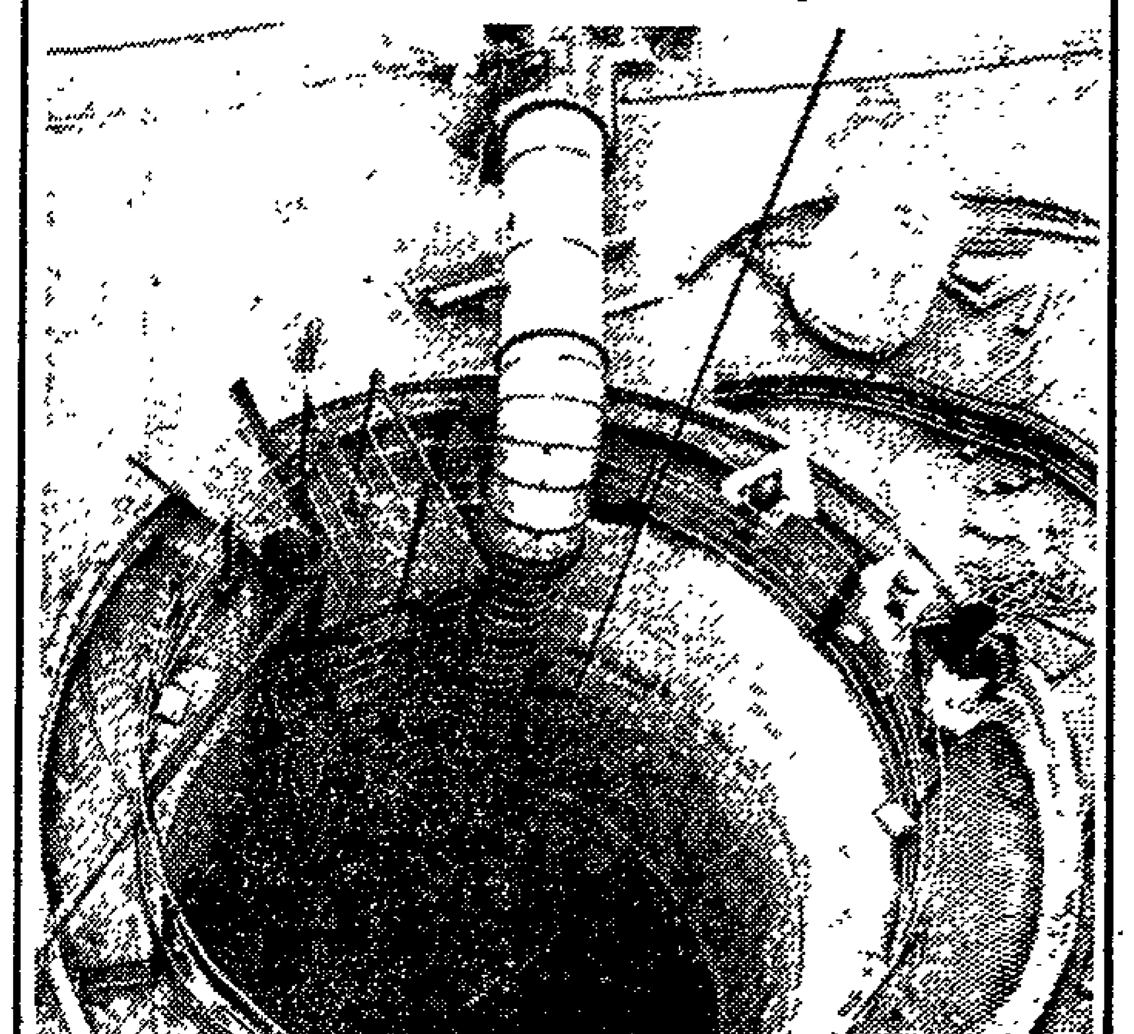
If this price is maintained for the remainder of 1980 it will mean an infusion of an extra R6,4 billion into the economy.

Under these conditions interest rates are likely to fall.

Another factor which has to be taken into account, is the string of good company results which are coming through.

According to our projections, it is likely that the yield on the Industrial Index could increase by 20 percent over the next 12 months.

Provided the gold price remains at a high level, the market still has good prospects.



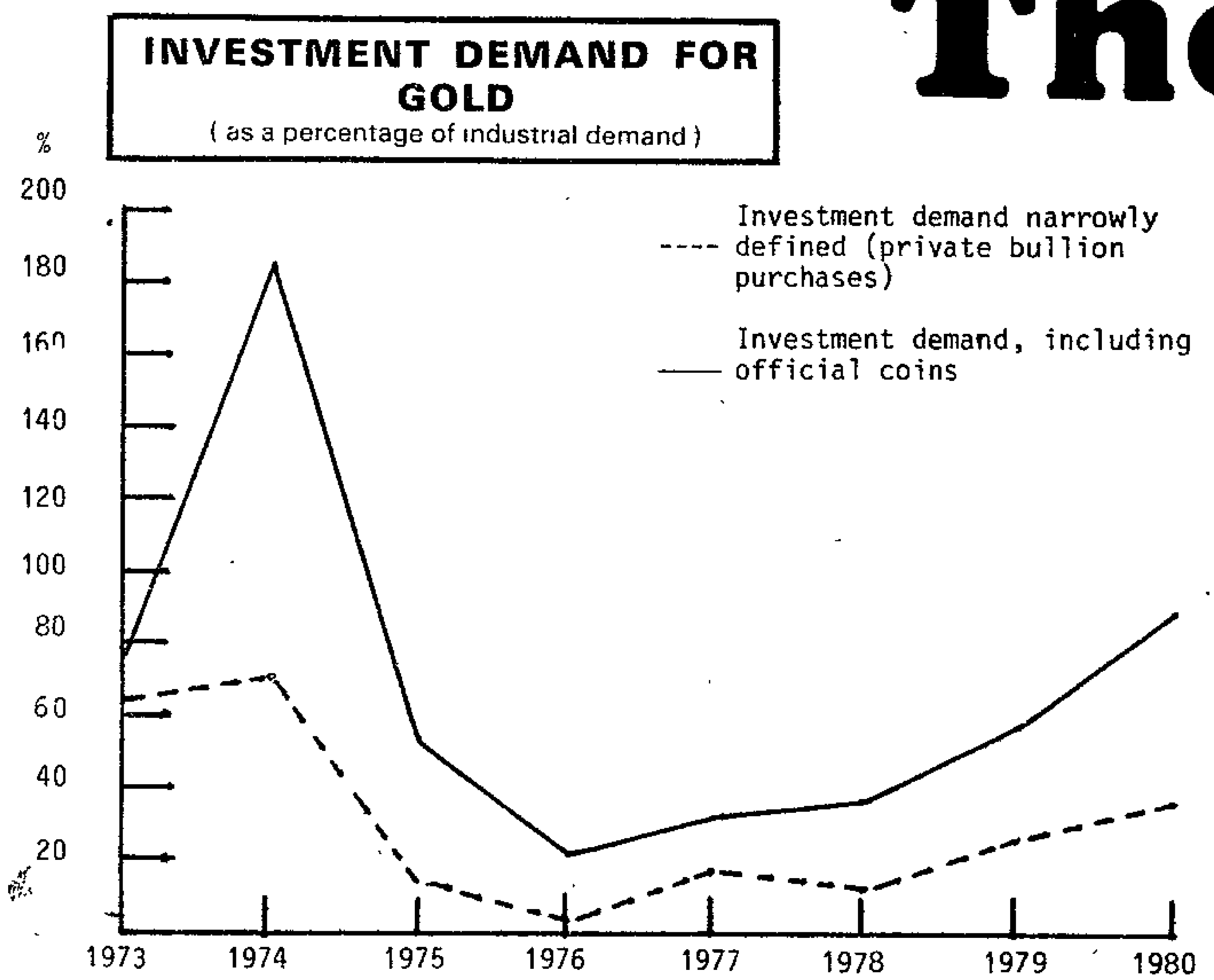
The new ventilation shaft constructed at Free State Geduld No 1 shaft by Murray and Roberts.

PARED WITH 1978

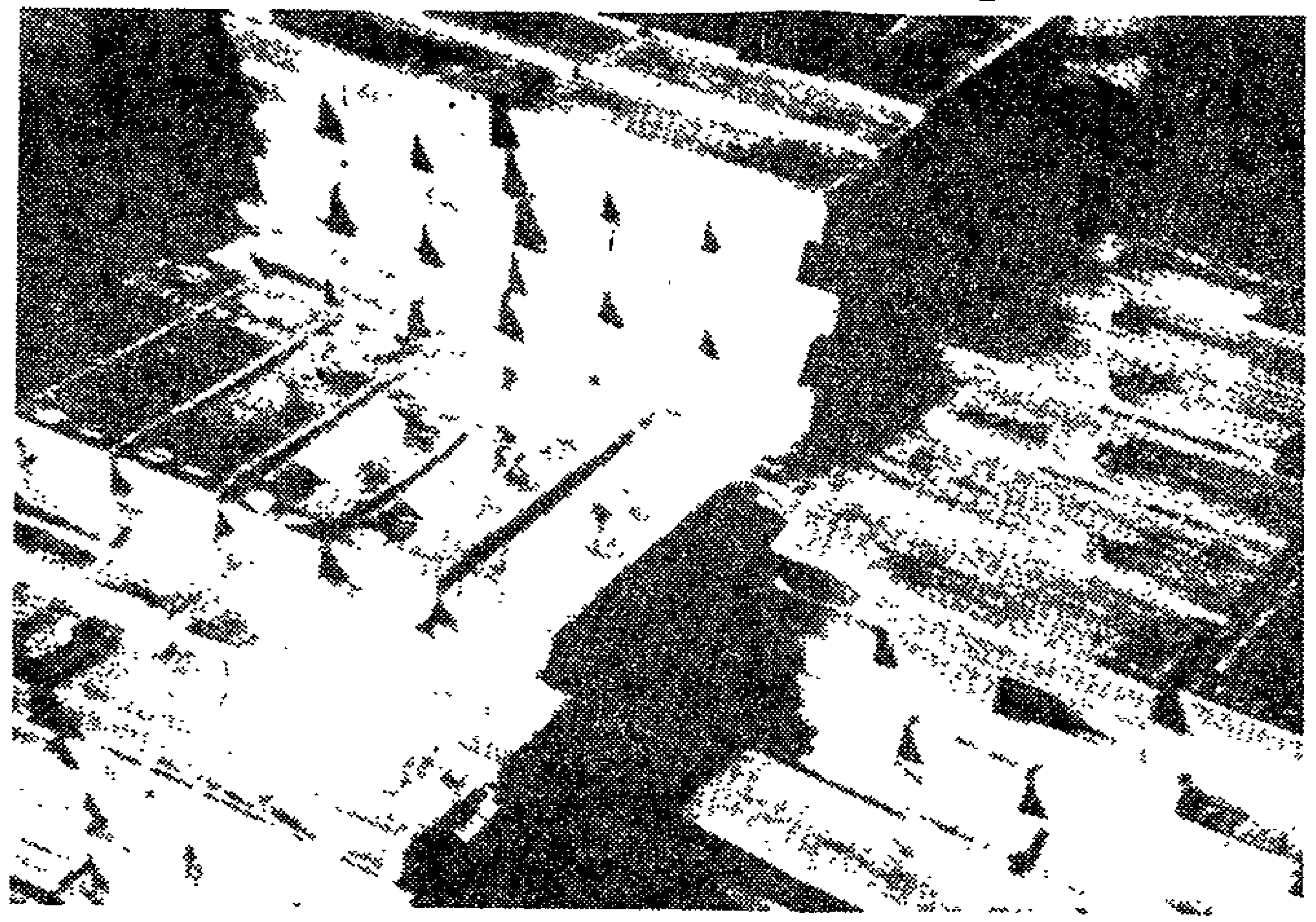
		1978	1979	Percentage Change
Tons Milled (Millions)		78,157	83,529	+ 6,9
Kilograms of gold produced.				
(i) Gold and Primary Uranium Producers		691 436,3	684 488,9	– 1,0
(ii) Total (including all other Miscellaneous Producers)		704 478,8	702 830,4	– 0,2
Grade (Grams/Ton)		8,85	8,19	– 7,5
Cost/Ton milled		27,14	30,18	+ 11,2
Working Revenue	R – Million	3 863,1	5 666,3	+ 46,7
State Assistance	R – Million	25,5	7,7	– 69,8
Total Profit	R – Million	2 073,3	3 537,3	+70,6
Estimated Taxation and State's Share of Profits	R – Million	937,3	1 703,0	+ 81,7
Capital Expenditure	R – Million	448,3	689,0	+ 53,7
Dividends	R – Million	546,6	962,9	+ 76,2
Uranium Oxide Produced (including Miscellaneous Products)	Metric Tons	4 531,2	5 539,1	+ 22,2

Source:- Chamber of Mines Quarterly Analysis of Working Results.

THE GOLD MARKET



The signs are healthy


GOLD bars each weighing 400 ounces in the London store-room of the bullion dealers, Johnson Mathey

...and a crack is unlikely

THIS article on the gold market, the bullion price and the future for gold shares, has been contributed by a leading firm of Johannesburg stockbrokers.

THE gold price will continue to fluctuate, up and down, but fundamental supply and demand factors lead us to believe that the market is unlikely to crack as it did five years ago.

While the average price may well be lower for the whole of 1980 than it was for the first two months of this year however, the average for the year is likely to be about 500 dollars an ounce and at this level gold shares still represent good value.

Predicting the short term movement of the gold price over the last few months has been a thankless task which analysts have avoided.

THE price of gold, like the price of all commodities, is determined by supply and demand. This is true in the short, as well as medium and long terms; but information about the medium and long terms is more reliable and less affected by political ephemera such as U S embassy hostages.

Our projections of supply and demand for 1980 suggest that the supply will drop markedly and that a far greater proportion of demand will come from the investment and speculative areas.

Thus, even if invest-

payable and are mined. To compensate for this, small increases from producers in Canada, the U S, Latin America and the Phillipines are possible. New projects will take some time to start producing and we estimate that mine production will be unchanged this year, at 970 tons.

Official sales

A major complicating factor in predicting supply is the possibility of official sales, such as the U S and I M F gold auctions.

In 1979 the U S sold over 360 tons and the IMF over 170 tons: together, about 30 percent of total world supply. The IMF sales are due to finish in May, and further U S sales, if any, will take place on an *ad hoc* basis. Clearly, then, one can expect a consider-

It has also been predicted that Russia will sell a further 200 tons to Saudi Arabia this year, and put little or nothing on to the world bullion market. Again we prefer to be cautious, and estimate net Communist bloc sales at 200 tons for 1980.

Total supply

Our estimate for 1980 is 1 370 tons, down about 20 percent on 1979 supply. If anything, this estimate may be a little high, and an even larger decline, to the region of 1 100 - 1 200 tons, is possible.

Demand

Demand for gold is complex and we have reduced it in our table (p 6) into three broad and approximate categories: industrial demand, investment demand, and

major world fabricator, Italy, is already experiencing serious problems, but crude 'traditional' jewellery sold in the eastern countries is holding up fairly well after a below-average year in 1979.

Nevertheless our forecast, if correct, would mean the lowest tonnage bought for the fabrication of carat jewellery this decade, with the exception of 1974's disastrous 212 tons. Our estimate for 1980 is higher than 1974 for two main reasons:

Manufacturing jewellers are now far better equipped both technically and psychologically, to handle large increases in the gold price.

Real disposable incomes of consumers have not (yet) plummetted to the extent that they did in 1974.

tempt to look at gold supply and demand in broad terms, in the belief that these factors are the most reliable guide to price over a period of time.

We cannot, for example, predict when the U S hostages will be released in Iran or what the effect would be on the gold price but we can make an educated guess as to the scope and shape of gold supply and demand for 1980.

This approach to the gold market is reliant, to some extent, on published data. We have also interviewed Swiss and British bullion dealers and are indebted to Consolidated Gold Fields, in London, for giving us some of its latest provisional supply and demand figures as well as its up-to-date assessment of the bullion market.

Our conclusion is that the gold market, this year, will be more dependent on investment and speculative demand than at any time since 1973-74. This means that the volatility of the last three months will continue.

Even so, our indices, which try to separate stable industrial demand from fickle investment, suggest that a slump in the bullion price is unlikely.

We tend to agree with the opinion of Consolidated Gold Fields, expressed when the price was 700 dollars an ounce, that the market is healthy in fundamental supply and demand terms.

Naturally this does not preclude violent price movements downwards. We are more concerned with the average price of bullion, over time, than its peaks and troughs. The average price for 1980 to date is aout 670 dollars an ounce. Thus, even if gold averages 460 dollars an ounce for the rest of the year, the average price for 1980 will be about 500 dollars.

At this average level gold shares appear to offer good value. But, the timing of purchases will be crucial. Any weakness in bullion should be used to acquire selected gold shares.

mand is weak, their downward pressure on the bullion price will be counterbalanced to some extent by the smaller available supply.

This is not to suggest that gold bullion will be on a stable or even keel for 1980, but merely that it is not vulnerable or unstable.

It is easier to estimate and predict supply than it is demand, but several complicating factors make it a difficult task.

Supply from the free world has been remarkably constant over the last five years, and we do not expect any major change. South African production might fall a little below recent levels of 700 tons as lower grade ores become the 530 tons from these sources. One recent estimate is as low as 70 tons. Our estimate is 200 tons, which allows for the possibility of some large U S sales as part of a stimulatory package later this year.

Gold sales by the communist bloc, the U S S R in particular, are another difficult factor to predict. There have been widespread reports of huge Soviet sales in 1979 (of up to 300 tons) direct to Saudi Arabia. This is likely to be exaggerated but large direct sales would partly account for the decline of U S S R supplies to the world market from 410 tons in 1978 to about 230 tons in 1979.

trial usage and investment.

Industrial demand

We predict a large decrease in the industrial off-take of gold for 1980, of above 350 tons or 33 percent of 1979 levels. If strong investment demand boosts the price of gold higher than its present levels, the decline in industrial demand could be even steeper.

The major portion of industrial demand is for the fabrication of jewellery. This demand fell in 1979 by about 200 tons on the previous year, to 800 tons. In 1980 it is likely to fall still further, to around 450 tons or even lower. The

WORLD GOLD SUPPLY
(metric tons)

	Free World Mine Production	Sales by Communist bloc (net)	Official sales (net)	Total Supply
1972	1 183	213	(151)	1 245
1973	1 121	275	6	1 402
1974	1 006	220	20	1 246
1975	953	149	9	1 111
1976	967	412	58	1 437
1977	968	401	269	1 638
1978	969	410	362	1 741
1979	970	230	500	1 700
1980*	970	200	200	1 370

Source: Consolidated Gold Fields.
* Our projection.

To next page

THE GOLD MARKET

continued

Other components of industrial demand, we estimate, will be slightly, but not drastically, down. The Chamber of Mines has pointed out that the scope for economising in gold use per unit of output in areas, like the electronics industry, is now far smaller than when the gold price last took off in 1973-74.

In-between demand

Official gold coins are generally lumped in with industrial demand because it is argued that the coins are rarely returned to the market in volume. We argued in a report two years ago that coins, such as Krugerrands, are bought in response to an external economic situation and are intimately related to 'investor demand' for gold. The Chamber of Mines now takes the same view.

To be conservative, however, we categorise demand for gold coins as 'in-between' demand, neither purely investment nor purely industrial. Such coins probably utilised 240 tons of gold in 1979 (of which Krugerrands accounted for 153 tons) compared to 259 tons the previous year.

If one adds in a portion of the gold used for medals, medallions and fake coins, the total comes to about 275 tons. We expect a similar tonnage to go into this 'in-between' demand category in 1980. We would caution, however, that the demand for gold coins is frequently more dependent on the gold price's *momentum* than the gold price itself, so our estimate could prove to be optimistic.

The amount designated as 'investment demand' is a residual figure, arrived at by subtracting industrial and in-between demand from total supply. It is by far the most difficult component of demand to predict, and has by far the greatest short term effect on the gold price.

We do not propose to attempt a comprehensive account of investment demand, but will detail some of its facets and components merely to give an indication of the wide variety of events which tangibly affect investment demand:

ECONOMIC: the burgeoning price of oil, and rising inflation in the industrialised countries has encouraged investors to hedge or speculate in gold. The weakening U S dollar also boosted the (dollar) price of gold. Reversal of any of these factors would also, to some extent, discourage investment and speculation in gold.

Our cautious prediction for 1980 is that inflation will continue to rise. Oil prices, on the other hand, will fail to increase at 1979 rates. Spot prices in particular may even come down as supplies build up further.

POLITICAL: turbulence in the Middle East and Persian Gulf, combined with Soviet expansionism, has fuelled the latest phase of the gold price explosion. Short of a fullscale war in the area, it is difficult to imagine how things could get worse in 1980. We would predict a relaxation of tension in the area this year, which could substantially reduce investment demand for gold.

DOLLAR PHOBIA: there has been a world wide diversification out of the dollar into other forms of investment including, of course, gold. The massive overhang of U S petro-dollars, Eurodollars and ordinary dollars on world currency markets has encouraged Americans and others to lighten their dollar holdings. Most will not go back into dollars until there are signs that the U S administration has a firm grip on the money supply and is likely to keep that grip over an extended period of time.

Arab buying of gold with dollars, in particular, is reputed to have been large, with predictions that this will become a regular practice. The Opec countries current account surplus for 1980 is expected to be between $70 and $100 billion: $26 billion would buy the world's total gold supply for 1980 at a price of around $600 an ounce.

Opec buying on that scale is unlikely for many reasons; but if Opec countries spent a mere $5 billion of their $70-100 billion to buy gold at $600 an ounce, they would account for 20 percent of world supply. One published estimate of Saudi Arabia's plans for 1980 suggests that it will buy 200 tons direct from the U S S R this year.

On the other hand it should be pointed out that the central bank gold reserves of all the oil exporting countries hardly increased at all between September 1978 and September 1979: from 1 076 tons to 1 130 tons. Several European countries have reserves double that size, and the U S held over 8 250 tons at September 1979.

MONETARY: Central banks have been free for some time now to buy and sell gold on the market. Many have revalued the gold component of their reserves at gold prices closer to today's levels. Gold has thus become a far larger part of world monetary reserves.

In addition, the establishment of the European Monetary System resulted in the European Currency Unit backed, *inter alia*, by gold reserves.

Nevertheless, gold is not likely to be officially remonetised, and it is not clear whether it would benefit the gold price even if it were. Probably it would not, though central banks may now take a more direct interest in supporting the gold price at levels below $500 an ounce.

FUTURE MARKETS: Contracts for over 3 000 tons of gold were traded in the U S in 1979. This increased the liquidity of the market and the sophistication of the market's price-establishing mechanism. The physical influence of these markets, however, is small with only 1 — 2 percent of all transactions resulting in physical deliveries of gold.

WORLD GOLD DEMAND

	Industrial demand†	In-between† demand	Investment† demand	Total
1972	1 258	84	(97)	1 245
1973	789	65	548	1 402
1974	439	290	517	1 246
1975	718	255	138	1 111
1976	1 172	208	57	1 437
1977	1 245	160	233	1 638
1978	1 271	282	189	1 742
1979	1 075	275	350	1 700
1980*	725	275	370	1 370

Sources: Consolidated Gold Fields.
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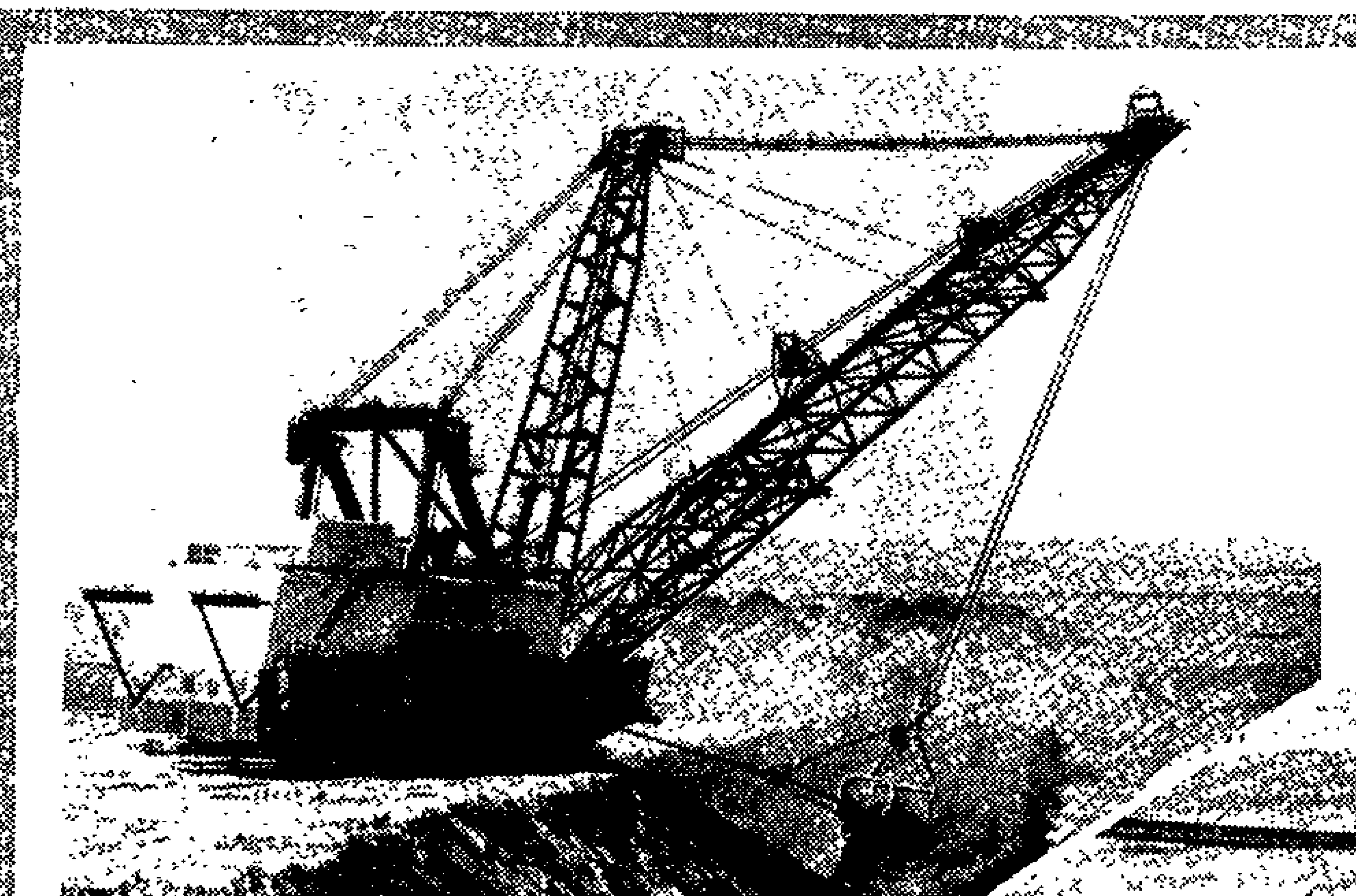
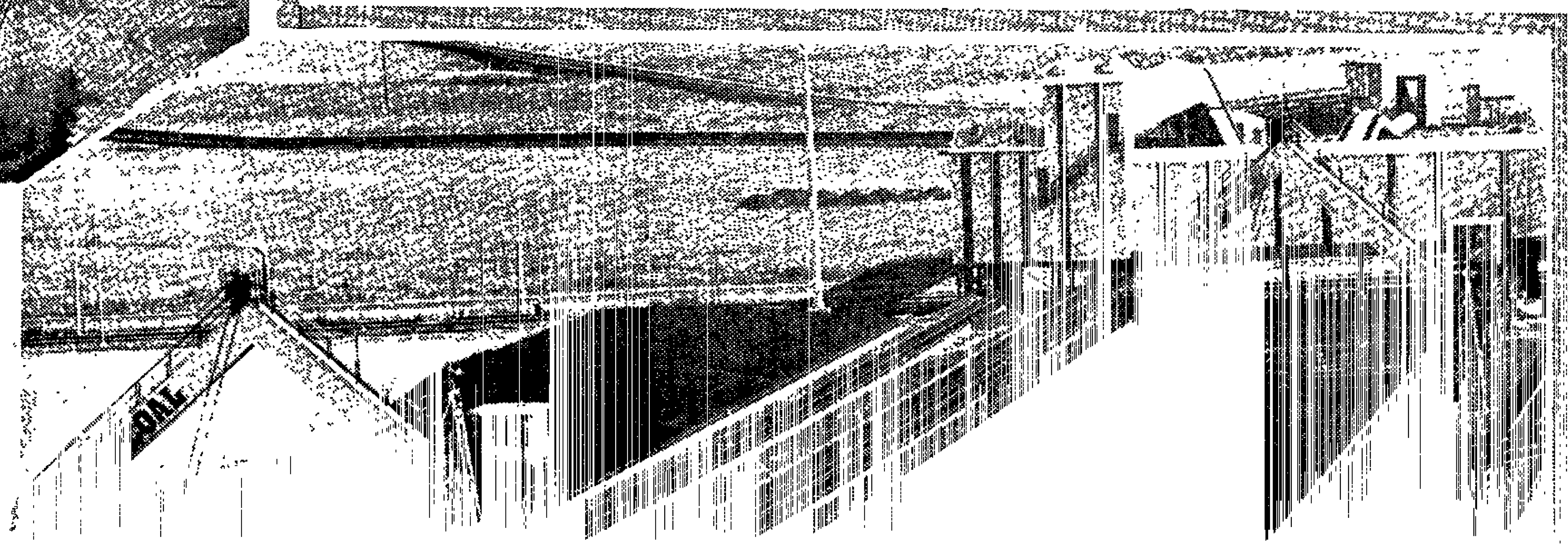


Dragline operations at Amcoal's Kriel colliery



THE GOLD MARKET

continued

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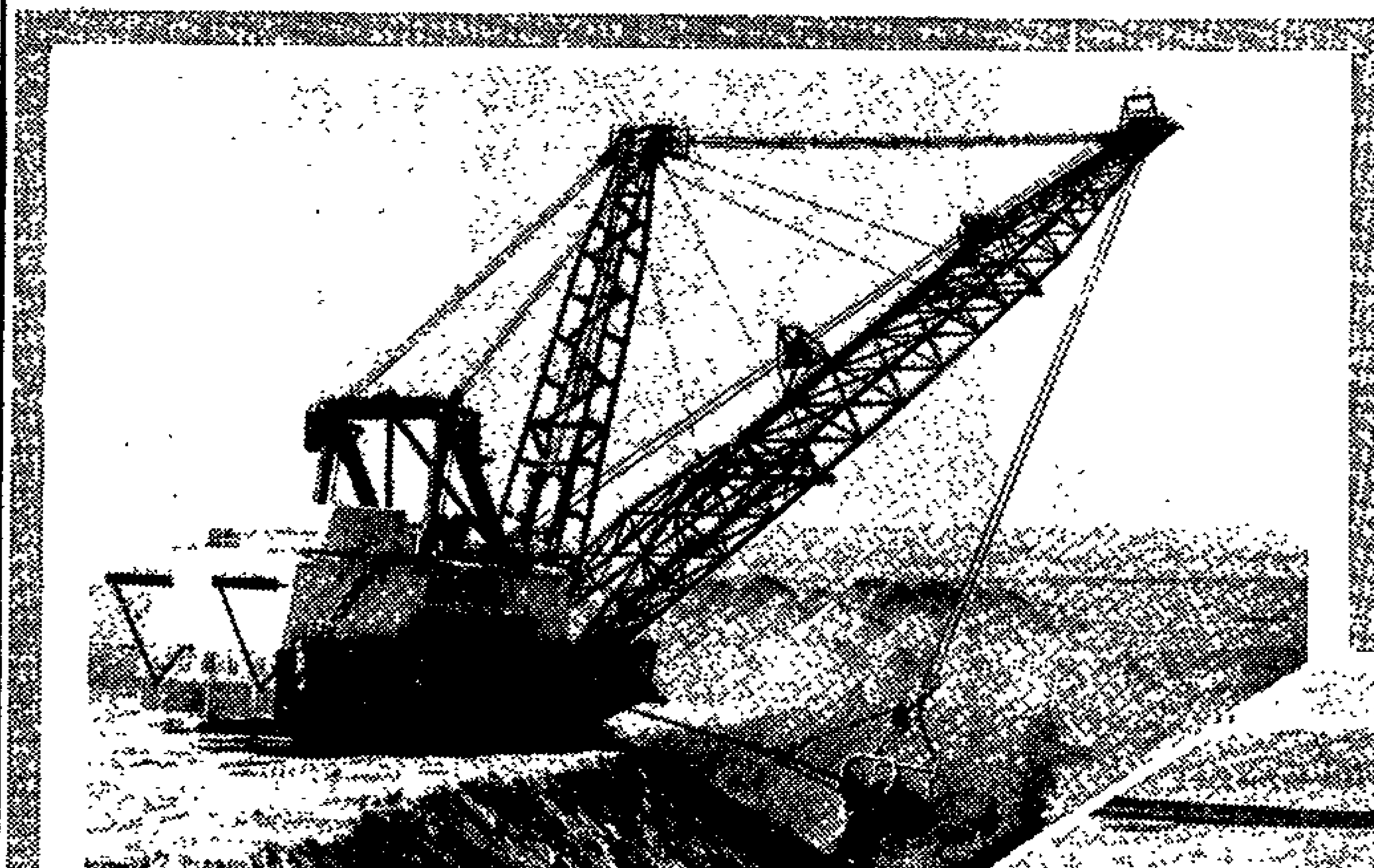

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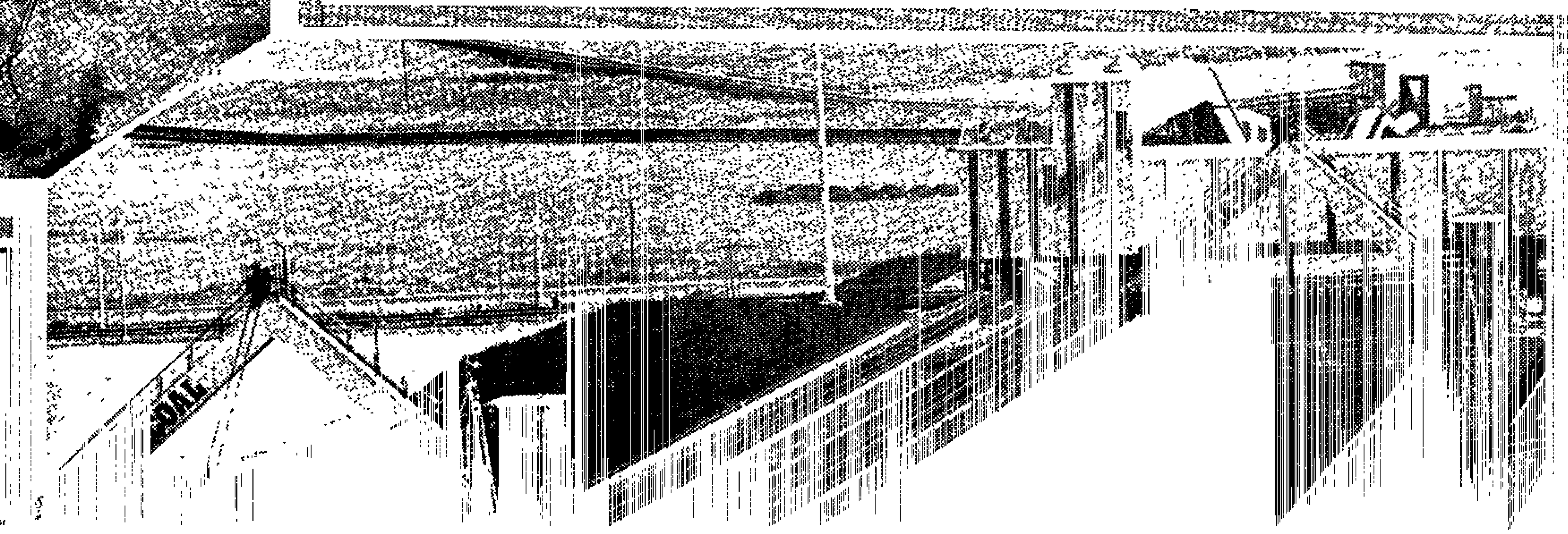


DIAMOND STRENGTH

World demand is strong

DE BEERS Consolidated Mines has blue-chip status in the financial capitals of the world and has been rated by Mr Fred Beard as section leader of the mining holding houses.The reasons are not far to find — one is its strength in the diamond world: the other is its world-wide spread of investments .

But this was not the case 50 years ago when the company owned a few diamond mines, a dynamite factory at Somerset West and held the diamond buying Syndicate and the Premier Mine at arms length.

The catalyst was Sir Ernest Oppenheimer who snatched the diggings in South West Africa from the defeated Germans and, from under the nose of De Beers, came to an agreement with the Premier Mine, founded Anglo American Corporation, and helped to set up the structure that took care of all diamond buying in South Africa.

Within two decades the diamond industry which then was largely South African was under the wing of this 'benevolent monopoly'.The Central Selling Organisation was formed and this dealt with emerging diamond producers in Africa and elsewhere.

The company's investments had a book value of R 626 million at the end of 1979 with the bulk being listed.The balance sheet will change following the purchase of Consolidated Goldfields.

It appears that the company has disposed of R70 million worth of unlisted investments- leaving it with a R6,06 million balance worth R326 million. Explanation of this will have to wait for the annual report.

The investments and interest produced income of

There are a couple of pages listing all the investments- the main ones are Anglo American, Minorco, Ergo, AECI, Highveld Steel, AMIC, JCI and Sibeka.

The second and more important side of the company is its diamond stake.

Last year De Beers' made R831m on its diamond account, had R409m worth of diamonds on hand (valued at cost of production which probably indicates something like 20 million carats) and nearly R1 billion in cash. Most of this cash is used to buy diamonds to control the market.

It is digging probably the third largest diamond mine in the world at Jwaneng in Botswana and a 'new' mine is being created at Premier below the existing mine, other mines are being expanded.

Abroad De Beers is fossicking in the Kimberleys of Australia and through its association with Sibeka is involved with developments in Brazil.

Less well-known is De Beers role in industrial diamonds.It makes these stones in plants in Ireland, Sweden and South Africa and is spending over R150 million on expansion of existing factories.

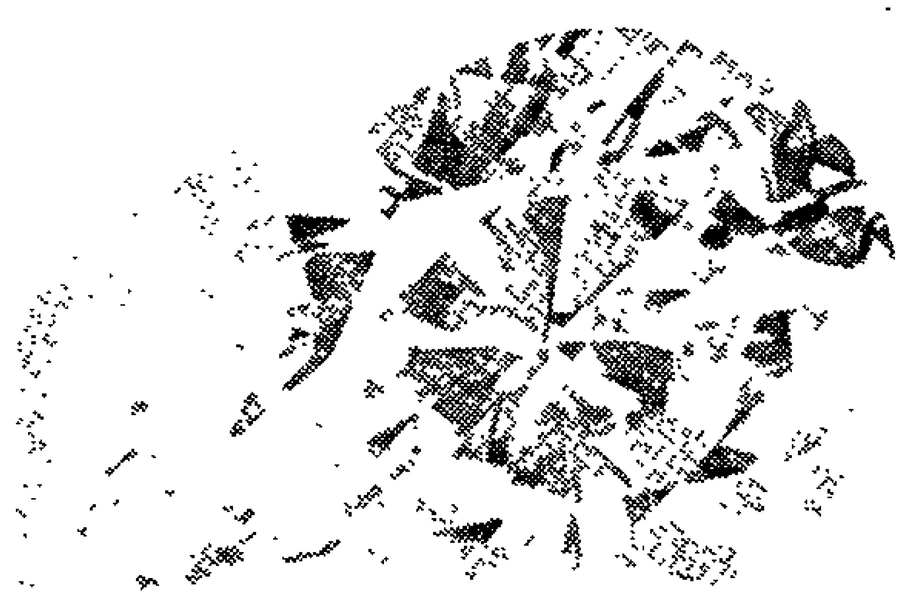
Two other aspects contribute to diamond profits.One of these is the advertising campaign aimed at the public and designed to promote the idea of buying small and at other times large diamonds depending on the market balance.

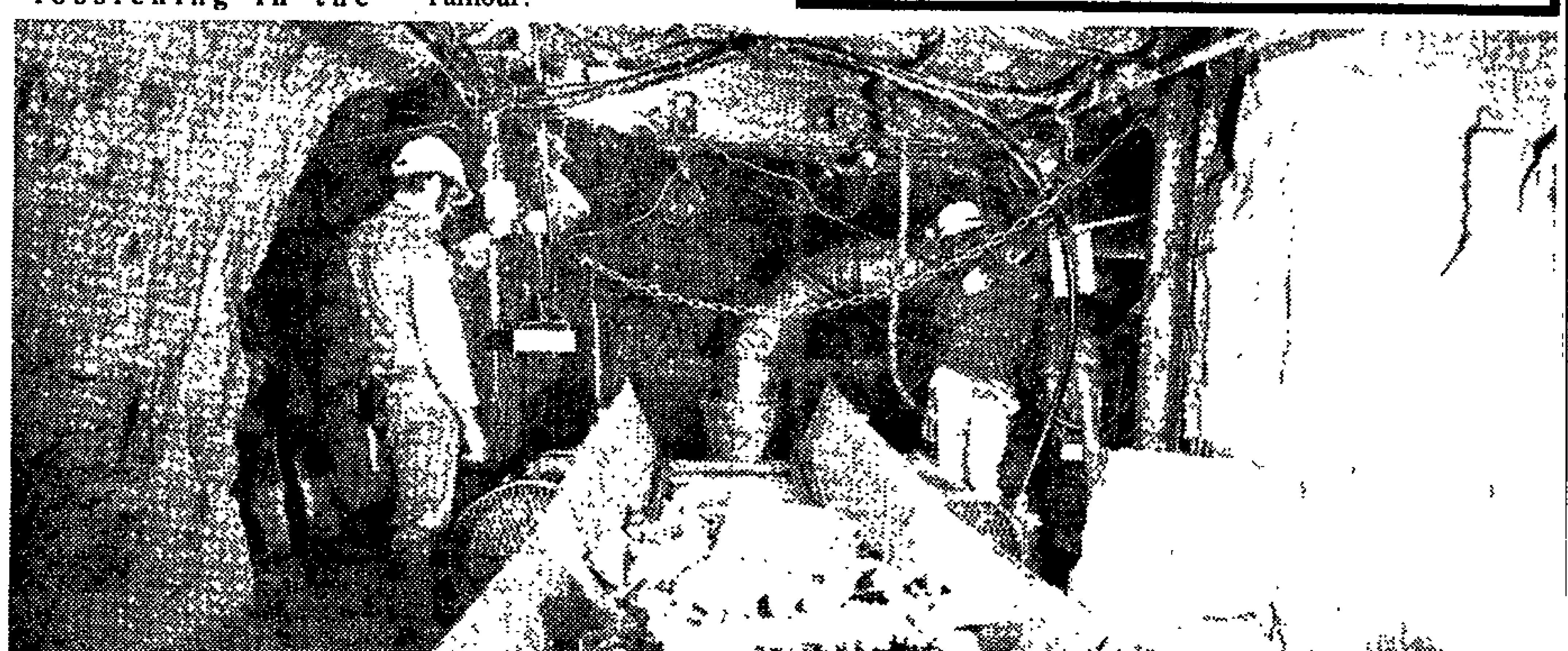
The second is the activities of the CSO which has offices in Antwerp, Tel Aviv and London. It sells rough diamonds to the trade at sights in London,Johannesburg and Geneva.

It gets its supplies from many sources ranging from Russia to Lesotho and is reputed to handle 85 percent of the world's diamonds.

The CSO has set up a sawing factory in Belgium and another in Israel. There are persistent reports that the CSO also enters the market to buy polished diamonds when the market goes out of balance, but there is never any confirmation of this rumour.

THE Premier Rose Diamond shown as it was found and after it had been transformed into a pear-shaped gem of 137,02 carats. It took four months to cut. The result was a jewel of exceptional quality. Two pieces of rough produced during the cutting process became a further pear-shaped stone of 31,48 carats and a brilliant of 2,11 carats. South Africa continues to produce more large gem stones than any other country in the world.






FOR A LONGER RIDE - GO WIDE.
THE DUNLOP SP99.
The Dunlop SP99 Radial is the widest tyre Dunlop ever made.
Because it's wider, it spreads the load over a larger footprint area. Slows down wear.
Controlled tests show that the wider SP99 will give you 23% more wear than the famous Dunlop SP49.
It simply takes you further but costs no more.
The Dunlop SP99. South Africa is buying it now.
The Wide One.
DUNLOP SP99
Leaders in tyre design and development.
"Wow! It's so wide!..."
"But that's the whole point!"

COMPANIES AT THE TOP

METRO CASH AND CARRY

Backing the independents pays dividends

By extending a helping hand to the independent retailer Metro Cash And Carry has hit the number one spot in Mr Fred Beard's top 100 companies. As one of the largest wholesalers in the Southern Hemisphere, a position achieved in 10 years, Metro sees the small store as a vital link in the distribution chain for big manufacturers.

Metro has faith in independent traders — the stores that stay open late at night and at weekends serving shoppers long after the supermarkets have closed their doors.

This is the message that comes through, loud and clear, from Mr Lionel Katz, chairman and managing director of Metro Cash And Carry. His business achieved sales that topped R450-million in the year just ended - though Metro's number 1 spot in Mr Beard's rankings comes from figures for the year ended February 1979.

With 12 cash-and-carry branches in Natal, Metro plans to enter KwaZulu, has a new superstore planned for Durban and projected openings for a Bingo outlet and the Lucky Seven voluntary group. Mr Katz said that while he knows that Metro had done a good job in Natal he hoped they could do even better. 'It's my intention to give the independent trader the best deal I can. Our main aim is to provide every assistance. He's a very important person to me and as he grows, so will we.'

In Natal, Lucky Seven has had a flying start with 240 independent retailers joining this voluntary group in only two months. Mr Katz is proud of the role Metro is playing in the development of these traders.

'Metcash has an enviable track record, and the future looks good', says Mr Katz.

'The chain has a total of 108 branches in Southern Africa and is committed to another 18 countrywide, with a major thrust into the smaller areas.'

With diversification in the hardware field through the Bingo outlets and a satisfactory expansion into software, it is obvious that Mr Katz and his team have no intention of sitting back and resting on their laurels.

Metro has taken a lead in helping black traders to obtain loan capital, leasing and overdraft facilities and insurance. The traders have reciprocated. Today, stores owned and operated by Indians and Africans are responsible for about 60 percent of all Metro's sales.

MR Lionel Katz — chairman of Metro Cash and Carry.

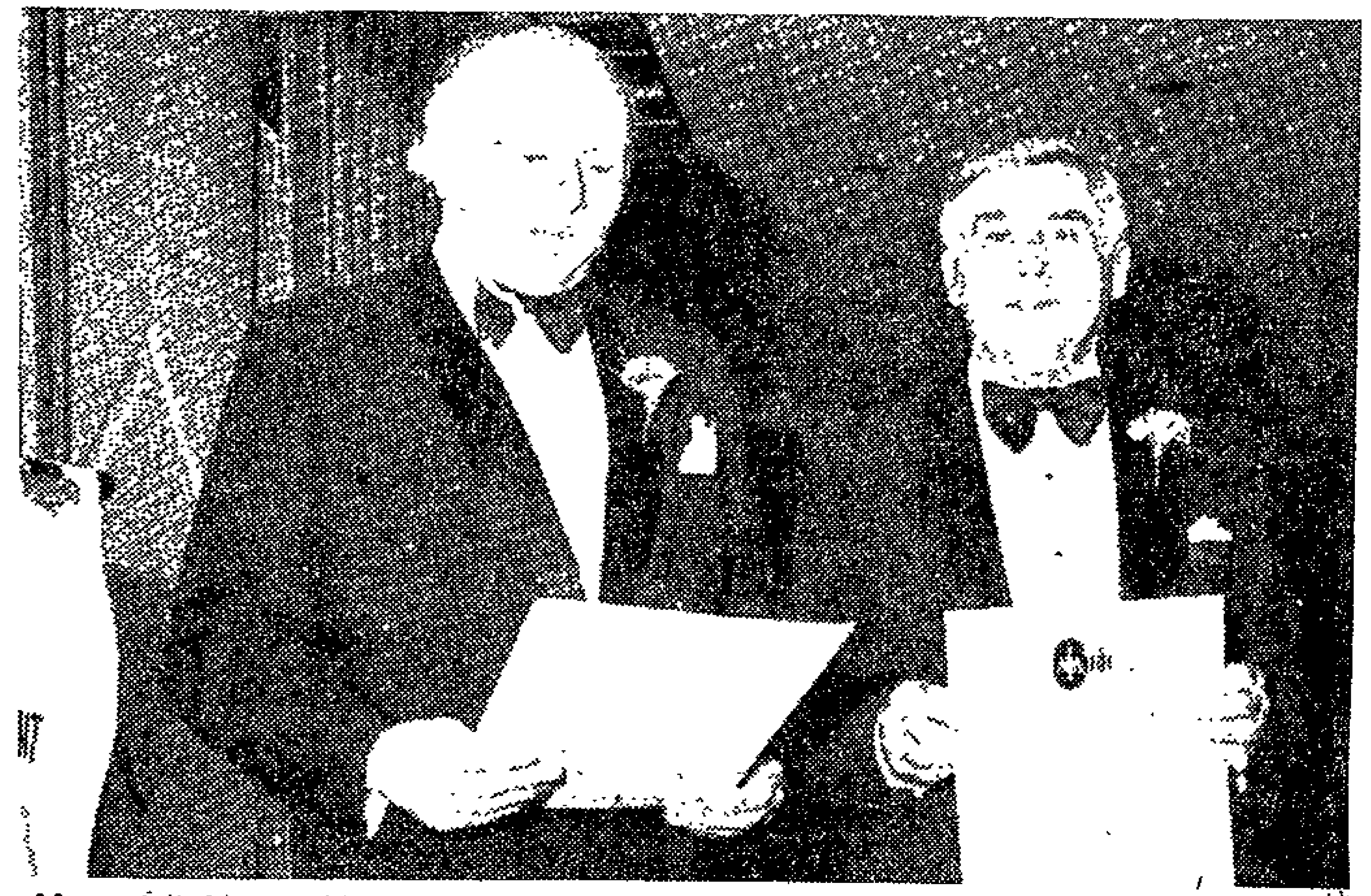
GRAND BAZAARS

Teamwork is the answer

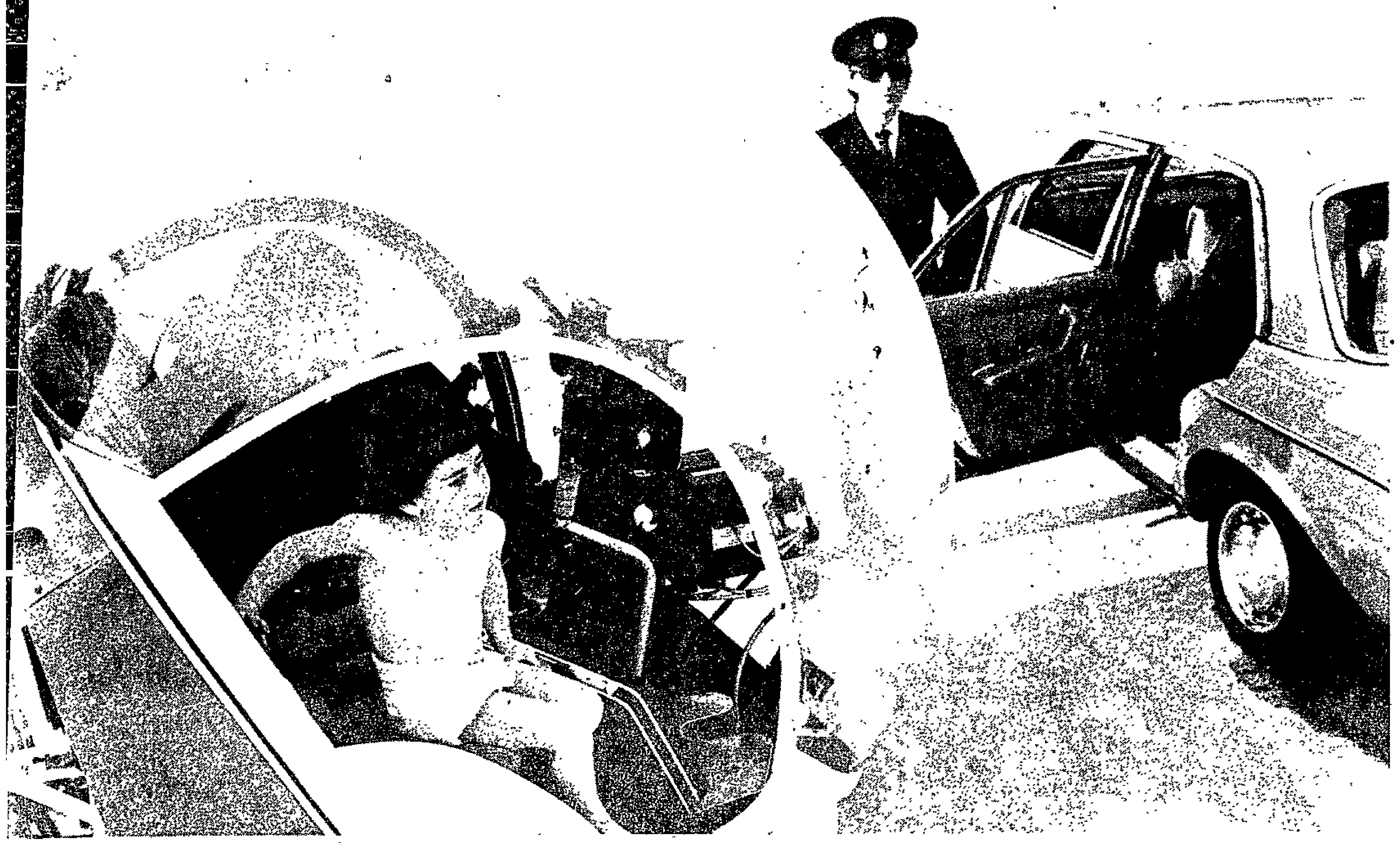
GRAND BAZAARS has soared from 22nd position in 1978, to fifth place in Mr Fred Beard's rankings for 1979. Messrs Manual and Max Sachar, the joint chairmen of the company, answer the question: How did you achieve this success after starting in a small Parow shop 40 years proved his ability he would soon be appointed to an executive position.

He did not have to wait a lifetime to join top management. He could start at the bottom in the delivery department and become a branch manager in three years.

A training scheme and continued development of the ability of the staff made it possible for mos



Manual (left) and Max Sachar, joint chairmen of Grand Bazaars, seen recently when they received the Marketing Award of the Year for 1979 at a function arranged by



They replied: By honest and fair dealings with our personnel, customers, suppliers and shareholders.

Our team of loyal and devoted staff is our greatest asset — some have been with the company well over 20 years, many have 15 and 10 years service.

During its 40 years the company has never retrenched anyone. No one has lost his job because he became redundant. When computer operations and other technologies made some people redundant, new jobs were found for them.

People were promoted primarily on merit. A young man who joined the company knew that if he within the company. The pension fund, medical aid scheme and other staff benefits are among the most liberal.

Although there is a carefully planned line of management, staff always have the ear of the co-chairmen and directors.

We have exceptional customer loyalty. In many families the parents and grandparents of our current customers also shopped with us. We have their confidence — they know they will always get value for their money.

We don't sell anything below cost and don't have to charge exorbitant prices for other lines to make up for the loss.

When we make a good buy and pick up a bargain we don't ask ourselves what is the maximum at which we can sell this article, but rather what is the minimum we can afford to sell it and thus pass on the benefit to the customer.

Our guarantee that any article bought from us can be returned if the customer is not satisfied and the money refunded without asking reasons, has created trust and goodwill.

It is an unbroken rule that the store manager or assistant manager is always on the floor to attend to the needs of the customer. Management of the branch is done from the floor and not from the office.

Staff are trained to be polite and obliging to customers. This has established goodwill over many years.

Speaking of relations with suppliers, the joint chairmen said that while they tried to buy goods on the best possible terms and would fight for an extra quarter cent in price or an extra half cent of discount or rebate they did not apply unfair pressure on suppliers.

We will not refuse to buy from a supplier unless he undertakes that the terms he gives to us will not be given to anybody else. We resist price maintenance and do not ask for exclusive rights on any product.

In the many years of dealing with our suppliers, we have never cancelled an order placed or refused acceptance of the goods. This is done only where the supplier is at fault by not delivering the product, as per sample, or not delivering at the time stipulated.

DUNLOP SOUTH AFRICA LTD

Growth in the industrial sector

Mr Clive Hooper

DUNLOP South Africa Limited, the top company in Natal and seventh in Mr Fred Beard's rankings, will spend R20 m over the next three years on expansion, the company's managing director, Mr Clive Hooper, announced yesterday. Much of this investment will go into the industrial and consumer divisions of the group.

This investment is likely to accelerate a trend which has become apparent in the Group recently as the industrial and consumer divisions increase their share of profits year by year.

In 1977, the consumer and industrial divisions contributed only 23 percent of the trading profit. By last year this had nearly doubled to 45 percent. Even the motor industry products division showed a satisfactory increase in the face of the continuing pressure of the fuel crisis.

Mr Hooper said that although motor industry products would continue to make up the largest single division in the company, the proportion of profits from the consumer and industrial divisions was likely to continue its increasing trend.

In his report on operations for 1979, he pointed out that South Africa was less dependent on oil as a source of energy than most countries. Nevertheless, in view of the worldwide demand for fuel, only limited growth could be expected from the motor industry, in spite of South Africa's greater self-sufficiency in fuel supplies.

With the favourable budget, motor vehicle sales this year are now expected to increase by 13 percent to 355 000, compared with the 3 percent increase in 1979, but they will still be 2½ percent lower than 1975. While passenger vehicle sales at 240 000 will exceed the previous record set in 1975, commercial vehicles at 115 000 will be 15 percent below 1975.

The mining industry continues to be an excellent source of growth and the Dunlop Group has invested in substantial manufacturing facilities to produce solid woven PVC belting for South Africa's coal mines. A new plant was completed in the middle of last year, after drawing on Dunlop international expertise, which has enabled the Group to obtain a significant share of this growing market.

The building industry, too, is beginning to improve with an increased demand for Dunlop's flooring products.

The Dunlop Group operates six factories in South Africa and employs 4 400 people. Group assets amount to more than R51m.

During 1979 sales increased from R106m to R127m with a corresponding increase in profit before tax to R15,3m compared with R11,8m the year before.

COMPANIES AT THE TOP

KOHLER BROTHERS LTD

Judicious takeovers

KOHLER Brothers' performance over the past five years has been impressive by any standard. During this period, which was one of considerable economic hardship for the country, the group succeeded in more than doubling after tax profits to over R10,3 million while almost trebling the dividend from 21 cents to 61 cents per share.

This improvement is attributable to a number of factors. Particularly important has been the effect on the company's balance sheet of applying the basic principles of sound management with vision, vigour and consistency, and constant attention to asset management.

Kohler has long been known for its dedication to productivity, and the fact that sales and profit increases have been achieved without a significant rise in its number of employees, highlights the effectiveness of the measures that are constantly undertaken to improve performance at all levels in the Group. Allied to its concern with productivity is an acute awareness of the importance of cost control on which Kohler's management has concentrated with gratifying results over the past few years.

Also, Kohler has followed a policy of judicious acquisition and several strategically important take-overs have broadened its product base and increased its market penetration, particularly in such growth areas as plastics.

Kohler has more than 20 factories throughout Southern Africa making a wide variety of paper, board and plastic packaging, as well as producing printed products.

Running a group as geographically dispersed as ours, says Mr Basil Landau, chairman of the company, calls for special management systems, and Kohler has in recent times evolved a style which combines a high degree of operational decision-making and accountability with strong central group services and co-ordination. This allows us to work towards clear-cut objectives while maintaining the flexibility to adjust and amend decisions in the light of changing circumstances.

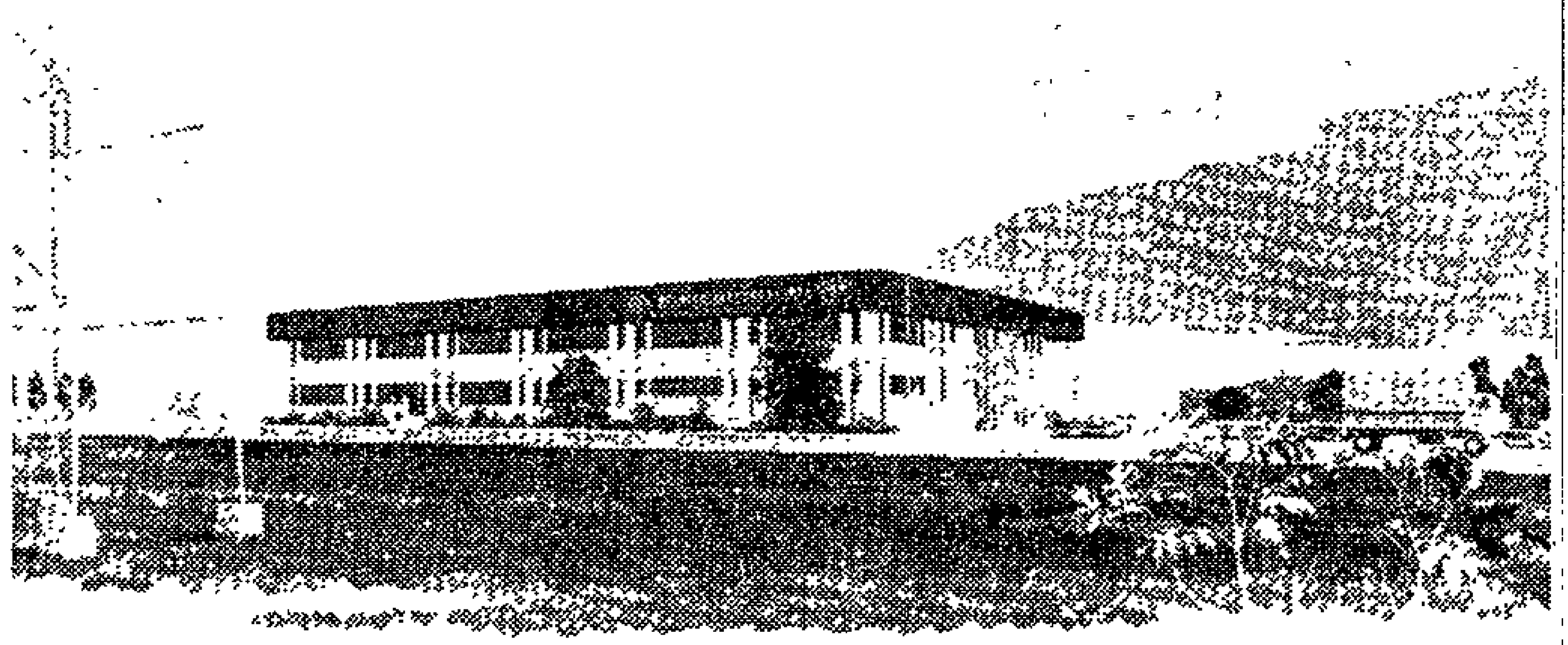
It is Kohler's policy to continue its diversification in packaging and related fields in order to maintain its high rate of profit growth, utilise its resources and skills to their greatest effect and spread its risks over a variety of products and operations.

It remains on the alert for suitable acquisition opportunities, and it is also actively promoting organic growth.

In 1980 it will be spending more than R16 million on new production facilities in Natal, the Transvaal and the Cape and on additional and replacement equipment for existing operations.

This carefully planned development programme, its well-balanced range of products, strong financial position and the proven skills of its dedicated management team should make the Eighties a decade of further growth for the Kohler Group.

Mr Basil Landau



Kohler Brothers' new Masterform building, the first stage of the new complex at Robertville.

Investment success

ISSUE and Investments Ltd, which came sixth in Mr Beard's rankings for 1979, is an investment holding company. Its only material investment is an 82,42 percent holding in Industrial and Commercial Holdings Group Ltd.

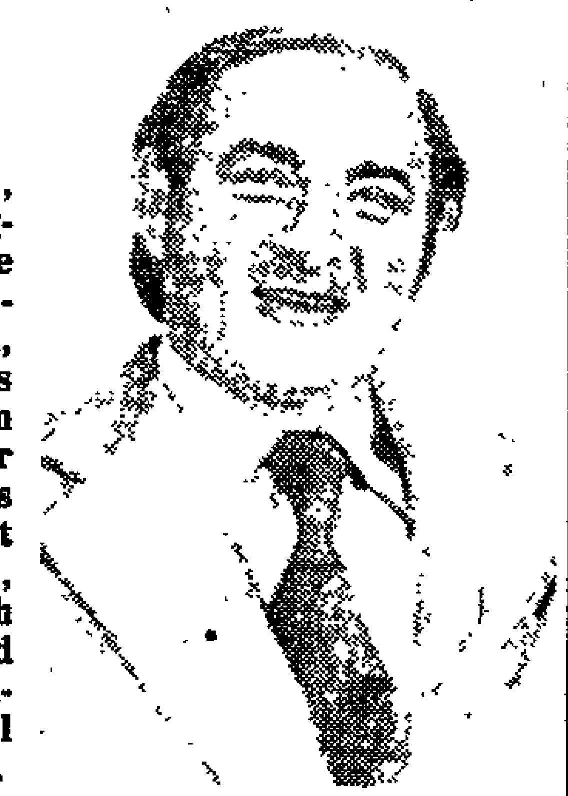
Mr N.M. Cullinan, chairman, writes that 1979 had been a good year for the company's portfolio of investments.

'While acknowledging the benefits of a rising market we are nevertheless well pleased with the past year's performance.

'We anticipate once again in the current year to show an improvement in group earnings and dividends.'

Ranked fourth

MR I J Jacobson, chairman and managing director of Trade and Industry Acceptance Corporation Ltd, the company which has been ranked fourth in the Top Companies for 1979. Mr Jacobson says he is satisfied that Trade and Industry, which is involved with international trade and finance, will have another year of successful operations during 1980.



Finding

various new factors on the international scene which will continue to affect our economy over the next few years. The greatest of

... mixture

Mr A M A Campbell, Managing Director of Rand Natal Investments (Pty) Ltd discusses the protection of capital.

TODAY, as always, the investor's greatest concern in the protection of his capital and income is its erosion by inflation. With the inflation rate running at between 12 and 14 percent, it is the greatest single cause of worry to all investors.

Those who have relied solely on participation mortgage bonds and building society investments have, over the past three years, suffered the double blow of rising inflation coupled with falling interest rates on their investments. This has led to some real problems for many people throughout South Africa who have been struggling to make ends meet.

On the other hand, those who placed their capital in the stock market some three years ago should have doubled their capital and had a good growth in income. Their main worry is the length of time this can continue.

In choosing the form of investment best suited to an investor's needs, we must examine the broad spectrum of investments that are available.

Interest rates

At present, interest rates are low, having fallen steadily over the last few years. Conversely the share market has shown considerable growth. The big question in every investor's mind must be how long these movements can continue.

At present, the reverse yield gap, which is basically the difference in the yields between blue chip stocks and gilts, is at an all time high being similar to that which was obtained in the 1969 stock market boom. This does not mean to say that a crash in comparison to that which was sustained in 1969/1970 is just round the corner. It does, however, point to an overheated market where further gains in capital may be limited.

Of course, the entire economic and political field is entirely different now especially after the expansionary budget last month — but the investor must not lose touch with reality and expect trends to continue indefinitely. It would be wise therefore to expect that interest rates are at present fairly near their bottom.

While there may be a small further drop due to the pressure of money on the economy, this cannot continue. With the recent cuts in income tax and increase in various allowances, tax free investments are perhaps less attractive now than they were six weeks ago and the investor must guard against indiscriminate investments in these avenues without taking real account of the nett after tax position.

Challenges

The whole question of capital protection is a complex one. The investor who three years ago placed one-third of his capital in the share market and two-thirds in various forms of participation mortgage bonds, should today have at least maintained the current value of his capital and probably increased his income.

In this regard, the investor must educate himself to take an overall view of his capital and not simply say: 'my stock market investments have been tremendous but my bonds have been a disaster.'

The investor having had all his investments in the stock market will, of course, have done well but it is this person who must guard against resting on his laurels.

He must look forward to the challenges that will be coming in the next few years and pick the right mix of investment to see him through the first part of the 80s.

At present there are sion in the United States and a view must be taken as to how this will affect South Africa's overall economic position.

At present, blue chips industrial shares are yielding in the region of five percent on an historic basis. Shareholders can look for an increase in dividends in the next year or so with a degree of certainty, although they must guard against the erratic behaviour of the stock market.

Correct mix

It is important for the investor to obtain the correct mix of investments to protect his capital in the event of a falling stock market, to safeguard his income and obtain a degree of relief from inflation.

The demand for funds in recent months has become more evident. Building societies are beginning to see some of the excess liquidity which they have complained about drying up. The same is evident in mortgage bond companies which serve the industrial and commercial market. The demand for money will increase as the economy moves in to high gear and building picks up.

Interest rates could show a marginal increase towards the middle of the fourth quarter of 1980 and this must be borne in mind in taking investment decisions.

A good case can be argued for investors who have been in the share market to secure some of their profits and earn a higher rate of return outside the market.

Mortgage bonds

In this regard, they can choose either high yielding preference shares or other forms of investments, such as participation bonds and building society shares. This would serve as a buffer against the time when the stock market's advance is checked.

Mortgage bond investments are perhaps one of the few investments offering a flexible rate of return as bond rates move up with an increase in interest rates.

The message for the investor is a simple one — do not back one horse in the race against inflation. Keep an eye on the field and pick the investment coming in on the inside rail.

THE JOB MARKET

Employment picture is encouraging

• A survey of the prospects for fuller employment indicates that if the economic revival turns into a boom, while there could be a significant drop in the present rate of unemployment, it will not necessarily affect all areas of the job market.

DURING the past year the pace of the economy has quickened visibly. This acceleration of activity has brought about a change in the job market, which so far has become generally tighter in the skilled and semi-skilled categories.

The apparent increase in demand for qualified staff has been reflected in a sharp acceleration in the volume of newspaper job adverts. The absolute level of unemployment is still comparatively high, but official statistics are beginning to indicate a visible downward trend in the number of registered unemployed whites, coloureds and Asians, as well as in the sample data provided for the black segment of the population.

The number of whites, Asians and coloureds which were registered as unemployed in December, 1979 was only 23 888. This is nine percent lower than in the same month of the previous year. The average figure for 1979 was about 8,7 percent lower than that for 1978, and marginally below the 1977 average.

The slight increase in unemployment during some months last year, at a time when output and activity increased throughout the economy, can be attributed to employers making better use of existing facilities and staff (e g by working overtime) before employing additional staff. Official statistics on black unemployment, although considered to be too low by most unofficial sources, never- than in corresponding months of 1978. In December, 1979 their number was no less than 20 percent lower than in December, 1978.

The drop among unemployed **white women** (who outnumber males by some 1 000) has not been so marked, though this figure is not really a true reflection of hardship, as many married women register as unemployed on account of pregnancy. In the case of **coloured workers** there is a large discrepancy between the number registered as unemployed and official statistics on the total number of unemployed persons. In September, 1979, total coloured unemployment was 65 000, while those registered as unemployed numbered only some 12 000.

This difference can be attributed to the fact that some workers are not aware of the benefits of registration, while others do not qualify for any benefits (e g domestics, seasonal workers, family employees, etc). Not surprisingly, therefore, registered men substantially outnumber women, while unregistered women outnumber men.

Over the year, the total number of unemployed men however, dropped by some 23 percent, while in

The **Durban/Pietermaritzburg** complex has the highest number of unemployed men, mainly Asians. But, significantly, the overall number of unemployed white men and women is higher than in Cape Town, although the area's population is lower.

Non-black unemployment has remained low in **Pretoria** (by virtue of a large civil servant population and relatively healthy economic conditions) and similarly in **Bloemfontein.** A salient feature which emerges is that these are the only two areas where unemployed women outnumber men, but this is likely to be due to their small coloured and Asian communities.

Prospects in **Johannesburg** for unemployed workers in the non-black category look favourable, with the male figure down some 20 percent on December, 1978. However, the picture is not so rosy for women (unemployment down only some six percent). In addition, Johannesburg has the largest number of unemployed whites in absolute terms, both male and female. This is obviously due to its population size, but also to the lure of the Witwatersrand as the hub of business activity. Finally, in **George** and **Kim-**

etc) has not declined significantly both in the case of men and women.

Nevertheless, there was a gentle downward trend throughout 1979 and this is likely to accelerate in 1980. In the case of **administrative and clerical** staff, 1979 data show a basically unchanged position compared with the previous year. The number of unemployed men in the category **commercial workers** (shop assistants, sales representatives, etc) showed slight increases for most of 1979 — an opposite trend to the position of women.

A feature of all three of the categories mentioned is that the number of unemployed women is almost double that of unemployed men. In the latter two categories whites form the bulk of unemployed women, while in the case of men the figure is almost equally divided among whites, coloureds and Asians.

In the grouping services **and transport** (hairdressers, drivers, hotel workers, etc.) the overall number of unemployed men appears to be decreasing, but a closer examination reveals that this applies only to whites; in the case of coloureds and Asians it is increasing.

1979 figures were 37 percent down on a year earlier. Although the number of women in this category is negligible, unemployment is also decreasing.

In the **semi-skilled** group, the opposite situation prevails and there is a steady, marked increase in male unemployment. This applies especially to coloureds: while the overall figure is increasing, that of whites has actually declined and that of Asians has shown no change.

The number of unemployed women in this category has shown a steady decline. Although overall numbers of unemployed workers in the category **unskilled labourers** are declining, the bulk of this decrease involves whites, while coloureds are especially hard hit. This appears largely due to blacks making inroads into suitable jobs.

Provided the economy performs as expected, developments in the labour market should continue to be positive. It is clear from the analysis, however, that the benefits of an economic revival are not always equally distributed. Further, for several non-black groups, areas and occupational groups, prospects are not completely favourable. Never-

...movemen..

Since October, 1977, black unemployment reflected by these data has been decreasing rapidly from 633 000 to as low as 487 000 in July, 1979, and the average for last year is likely to be more than six percent lower than that for 1978.

While the overall employment picture now looks encouraging, as could be expected at the beginning of a period which looks like emerging into a boom, a more detailed analysis of unemployment data is necessary in order to place the degree of change in the labour market into greater perspective.

An analysis of the non-black segment, where detailed data are available, reveals that the overall optimistic picture is not all-embracing, since some segments of the population and areas of the country have not shared equally in the overall positive trend.

According to latest avalable statistics, the following picture for the non-black groups emerges.

The number of **white men** registered as unemployed has declined significantly. Throughout last year their numbers have remained some 500 lower employment, the figure for men has declined by only nine percent and that of women by about 10 pecent. The lesser decline in the number of coloured workers registered as unemployed compared to whites is attributable to the concentration of this group in the coastal areas, where the economic revival hs been less marked so far than on the Witwatersrand.

Similar factors have led to a position where the number of **Asian men** registered as unemployed is on the increase. In percentage terms the unemployment of **Asian women** has fallen dramatically but this figure has traditonally never been high in absolute terms.

The bulk of the non-black unemployed are to be found in the age group 21/35. A disturbing feature, however, is the fact that juvenile (under 21) unemployment is rising relatively sharply (on account of the high population growth) and is especially visible in coloured and Asian juveniles of both sexes.

The majority of these youths are either unskilled or semi-skilled, and this is likely to be the area where black workers provide the stiffest competition.

From a regional analysis point of view, too, a pretty varied picture emerges. **Cape Town** appears to be the most healthy of the coastal cities, in terms of the improvement in the job market. During the past year or so, it produced a significant drop in the unemployment of both sexes.

Even so, it still had more unemployed whites, coloureds and Asians than Johannesburg.

In **Port Elizabeth** male unemployment is up 13 percent on December, 1978, and the figure for women also shows a slight increase. The bulk of this number is made up of coloured workers, but unemployment among whites, too, is still disproportionately high. With the recent pick-up in the motor industry these figures are likely to improve

The unemployment data for both males and females in **East London** show a slight upward trend, although there was a dramatic drop in the male total in December, 1979, most promising.

Viewing the unemployment situation across the spectrum of job categories, surprising trends emerge. Most startling is the fact that unemployment among **professionals and semi-professionals** (e g architects, draftsmen, be a consequence of increased job competition with blacks. The figure for women in this sector has remained erratic As could be expected in the light of the economy's revival, in the category **skilled trades** there was a dramatic drop in unemployed men December, registered unemployed whites, coloureds and Asians has tended to be strongly cyclical, and when the economic revival turns into a boom, a significant drop in overall unemployment can be expected.

Source — Standard Bank of South Africa.

Risk rating

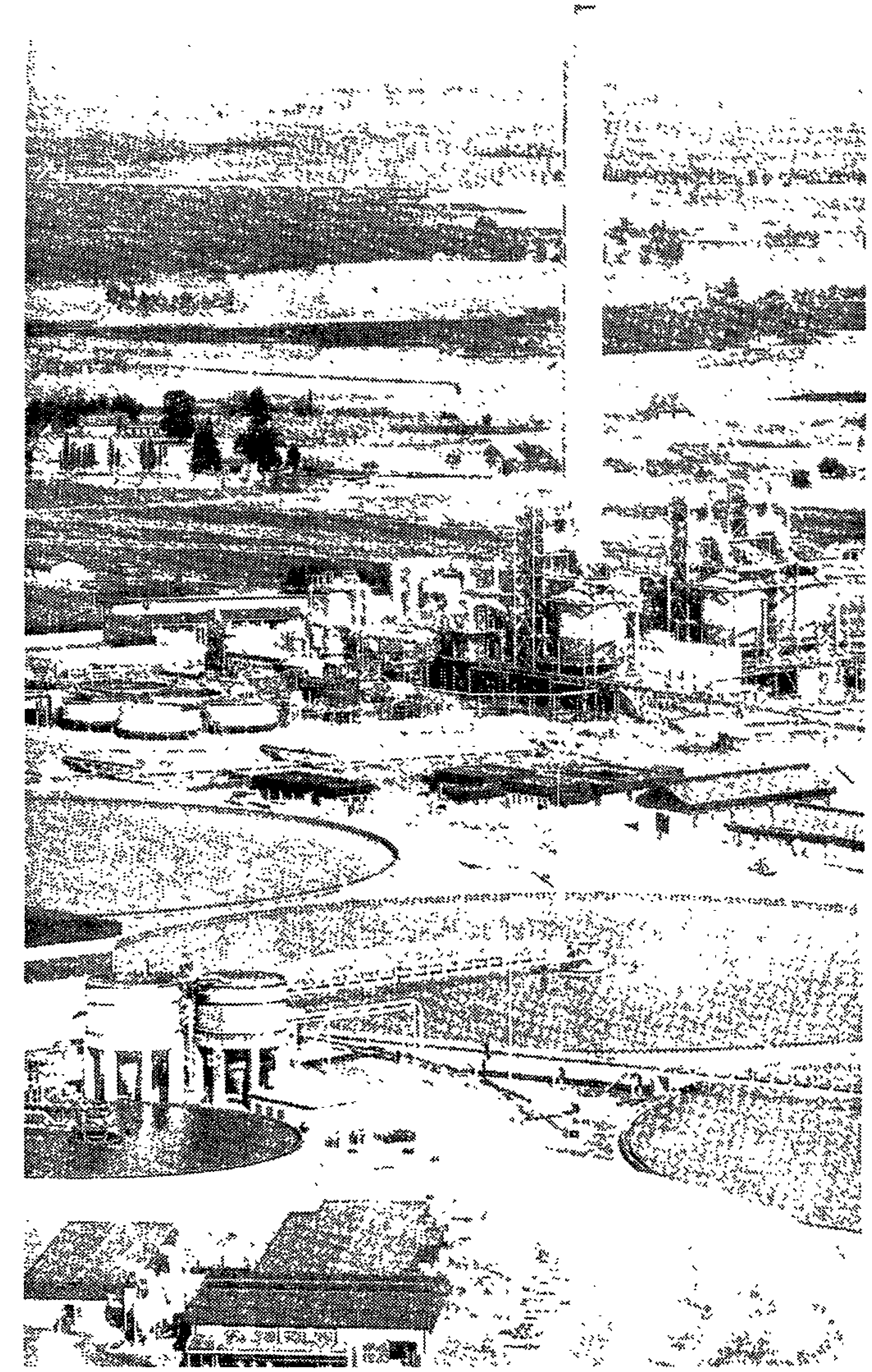
SOUTH Africa has taken a big step forward in her risk rating for foreign investment. In the past year she has jumped from 19th to 12th place, according to the Business Environment Risk Index, published in Newark, USA.

Commenting on this finding, the South African-German Chamber of Trade and Industry Ltd, Johannesburg, writes that German investors share this new-found confidence.

German direct investment in South Africa increased in 1979.

During the third quarter last year, the BERI compiled a selection of risk factors for 45 countries such as political stability, economic growth, communication and others. Each country was awarded a rating

Germany and Switzerland were top of the list with 82,6. South Africa at 12th, with 64,4, was ahead of Sweden, Denmark, United Kingdom and France



AN aerial view of Ergo, the vast unranium gold and acid recovery plant on the East Rand

RISING PRICES

'We must have freedom to negotiate'

RAYMOND ACKERMAN, CHAIRMAN PICK 'N PAY STORES

[TH]E South African con[sum]er can expect a [mo]re buoyant year, [fro]m the economic [poi]nt of view, and this [bu]oyancy should put [mo]re money into the [av]erage person's pocket [thr]ough reduced taxes [fol]lowing the March [bu]dget

[W]e have also seen a re[duc]tion in home ownership [int]erest loans However [the] curse of inflation, [wh]ich is a world-wide [pro]blem, is still with us [and] increased fuel costs, [hig]her labour costs, im[por]ted inflation and other [fac]tors are going to in[cre]ase the basic price of [foo]dstuffs, clothing and [raw] materials

[T]he cost of building is [goi]ng up all the time, and

study developments The swing to larger stores, built out of town, which provide consumers' basic requirements, is becoming more prevalent It is this type of store that can keep prices down even if they cannot keep inflation at bay.

This does not mean that the *efficient* small trader, downtown or in shopping

rising prices

As the economy improves competition increses and, as the large chains are all opening more stores, this can only be to the benefit of the consumer as competition is 'going to be rougher in 1980 than we have ever had it before

The chains are flexing their muscles and margins

ers — it is a world-wide problem, it is a Government problem and it is certainly not going to be solved by words Competition, however, is definitely going to keep the inflation rate within manageable proportions so long as chain stores' buying methods do not become a crucial issue

I do not believe that

Human relations

South Africa is a bountiful country, rich in food, minerals, and good-will There is so much that we all have to do on the human relations side in building a non-discriminatory society where all our people can walk and work with dignity. I think this is really the message for the 80s, that all of us, not only in business, but in our private lives, can do much to wipe out any form of discrimination that affects the dignity of any person in our country.

It needs to be actively handled by parents, by schools, by business leaders and employers everywhere. Good-will must flow on both sides between black and white, coloured and Indian, in order that

... ex-
that the buoyant economic position, linked with the soaring gold price, will help to improve the employment situation.

On a recent trip overseas I felt that the attitude of the Western World to South Africa is changing for the better. Foreigners are realising the importance of the Cape sea route and our mineral wealth — particularly after the Russian invasion of Afghanistan.

The feeling of the Western World working together has never been stronger than now. This augurs well for South Africa if we move on changing certain policies in South Africa that affect the dignity of people in this country.

Larger stores

There is no doubt that the trend to build larger supermarkets, hypermarkets and superstores has now become world-wide. I have seen this for myself after visiting America, the UK and Europe recently to ...

... speciality trader who gives good service in a particular field, has a big role to play in the 80s because the consumer will demand more specialisation as well as low prices for basic requirements.

Negotiations

One of the most dangerous aspects, for the consumer, in the year ahead is the present enquiry into the negotiating tactics of the large chain stores. If these stores are prevented from negotiating freely the present inflationary spiral may be given a boost with serious consequences for food and other prices.

However, I believe that after the Government has investigated the complaints, which have been made primarily by some of the large suppliers, they will allow the market forces of the free enterprise system to have their way. This will check inflation and protect consumers who have been buffeted, over the past five years, by constantly ...

... the consumer.

I do not want to give the wrong impression that inflation will be arrested. This is a problem that is out of the hands of retail- ...

The problem in 1980 ... is certainly a fight that we, in the marketing field, will have to continue to wage until it is resolved, and I am sure the solution will come in 1981 or 1982 ...

... see worth, merit and dignity.

This is the challenge of 1980. We can all play a role in meeting it and not wait for others to set the lead.

Stockpiling to hold down prices

Financial Editor

PICK 'N PAY has stockpiled about R11-million rands worth of food in warehouses around the country in a bid to hold down prices of as many lines as possible during the current year.

Mr. Raymond Ackerman, chairman of the group, has announced in Cape Town that his company has channelled this huge sum into the purchase of food and renting warehouse space.

This deliberate policy decision will cut the group's high stock turnover but it will give it a competitive edge during the months ahead.

'We see no end to the flood of price rises by manufacturers nor has there been any sign of a slowing down in the spate of increases which began last year.'

Mr Ackerman also said that Pick 'n Pay would pass on to its customers the entire 7,5 percent saving due to the abolition of the import surcharge in the March budget.

Store managers had already begun marking down the price of goods. This would mean a potential loss of R150 000 in profit to the group.

These announcements are typical of Pick 'n Pay which grasps any opportunity it sees in the market to give its customers a better deal and, as a result, improves its own business position.

THE MONEY MARKET

Dr R J CLOETE, economic consultant to the Barclay's Group discusses the possible behaviour of the rand in the international money market.

Now's the time for a 'Buy South African' campaign

THE Budget speech contained statements which will, in due course, have an effect on the Commercial and Financial Rand.

However, the comment that the Commercial Rand could be allowed to appreciate further seems to me to be contradictory to the general stimulatory policies of the budget.

The abolition of the import surcharge of 7.5 percent, together with the general tax concessions to consumers, which will boost private consumption expenditure, should be sufficient to cause imports to rise so that the embarrassingly high current account surplus, and the excess domestic liquidity which it induces, is partially corrected.

Should the rand be allowed to float substantially stronger, the past endeavours of South African exporters to enter competitive overseas markets and, in so doing, create the balance of trade surplus which has made the present upswing possible, could be instantly eroded by our goods being priced out of foreign markets.

Such an appreciation of the rand could thus create unemployment in the export sector - which is in for a tough time anyway since the rest of the world is heading for a recession.

Further implications of a stronger rand would be that imports would be encouraged at the expense of the local manufacturer.

Why should our increased consumption expenditure be directed solely towards creating employment overseas when the objective of our economic policy should be to create employment and raise the standard of living of all South Africans?

In fact, there has never been a more opportune time for a 'Buy South African' campaign, so that our foreign exchange reserves can be spent on the purchase of capital goods, which will create domestic employment, rather than be squandered on imported luxuries.

The Budget statement that early repayment of foreign loans will be encouraged is more in keeping with the type of policy we expect of our government.

Such repayments will have a dual effect on the economy. Firstly, some of our excess liquidity will be siphoned off while at the same time, our credit-worthiness overseas will be enhanced, and secondly the cost of servicing the loans will be reduced by some ten percent per annum (the difference between local and Euro-dollar interest rates) which can only have a beneficial effect on our inflation rate.

If the slogan 'More growth from greater strength' is going to be more than just a slogan, then it is essential that 'discipline' is retained, particularly as regards the exchange rate of the Commercial Rand.

I am sure the authorities in Pretoria realise the implications of the exchange rate - it formed the basis of the interim report of the De Kock Commission which stressed that the exchange rate should be a tool in the overall economic strategy — and will continue to 'manage' the float of the rand in the best interests of the South African economy.

If this is the case, then the weighted value of the rand against the currencies of our major trading partners should not change substantially.

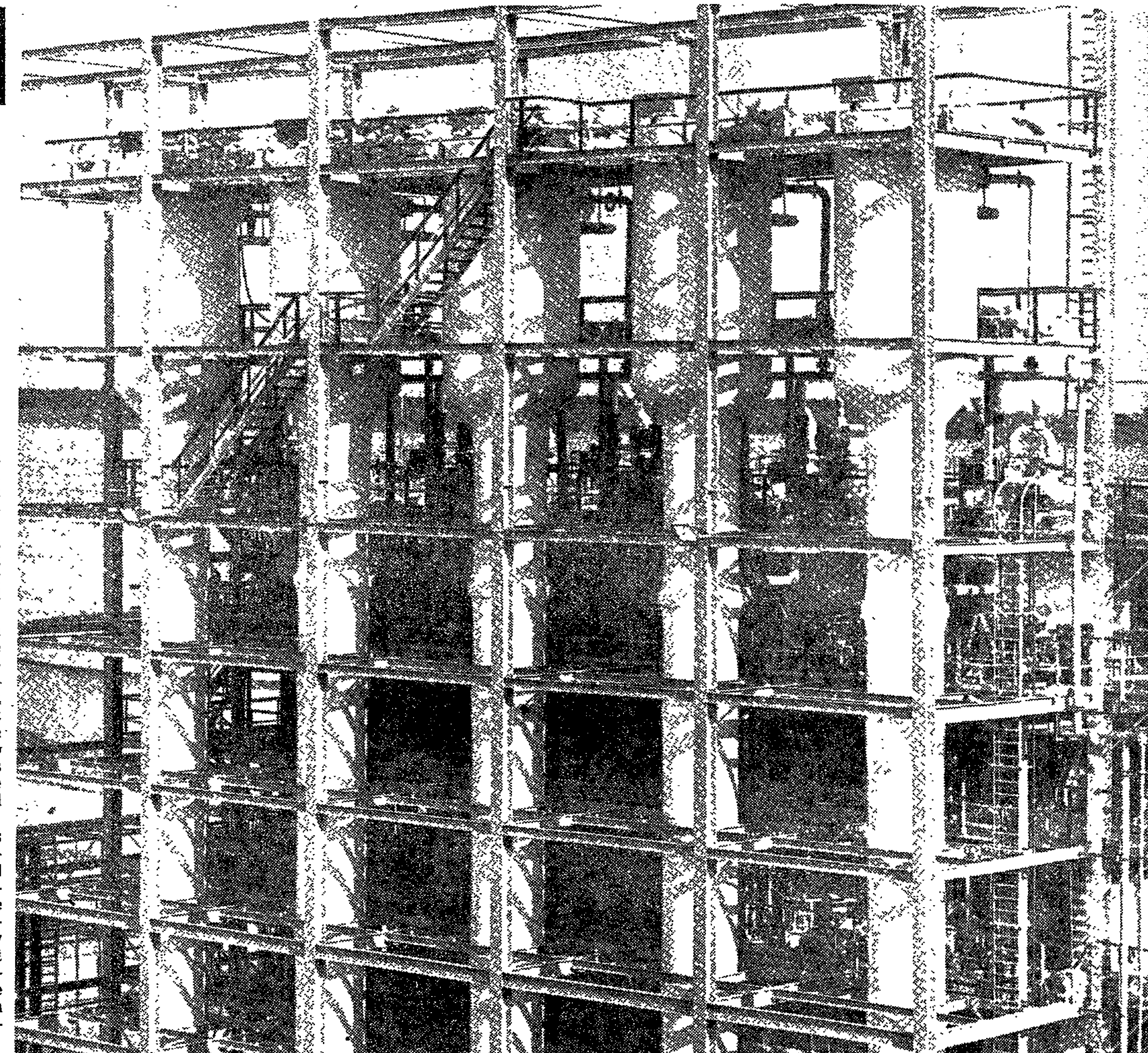
However, with the U S dollar appreciating rapidly on the foreign exchange markets - and likely to appreciate further as the overseas recession intensifies - the recent upward float of the rand dollar rate might well be checked - particularly if the gold price declines in sympathy with the strengthening dollar.

In contrast to my forecast of a fairly stable Commercial Rand rate, I expect the Financial Rand rate to continue to fluctuate widely during the rest of this year.

The discount has fluctuated between 10 percent and 30 percent as the gold price has performed its gyrations, with the discount narrowing rapidly each time the price surges upwards and widening just as quickly on profit-taking or on declines in the gold price.

With dollar strength and, provided the Middle East political arena remains quiet with a declining gold price, I expect the discount to remain at the wider level of the range initially and then to narrow as interest rates overseas decline while profits on shares quoted on the J S E increase.

As our economy gains momentum and new investment from abroad flows in through the Financial Rand to increase existing manufacturing capacity or to establish new factories, the discount could narrow further depending on the size of the new investment in relation to the relatively small Financial Rand pool.



The new uranium plant at Vaal Reefs.

RETIREMENT

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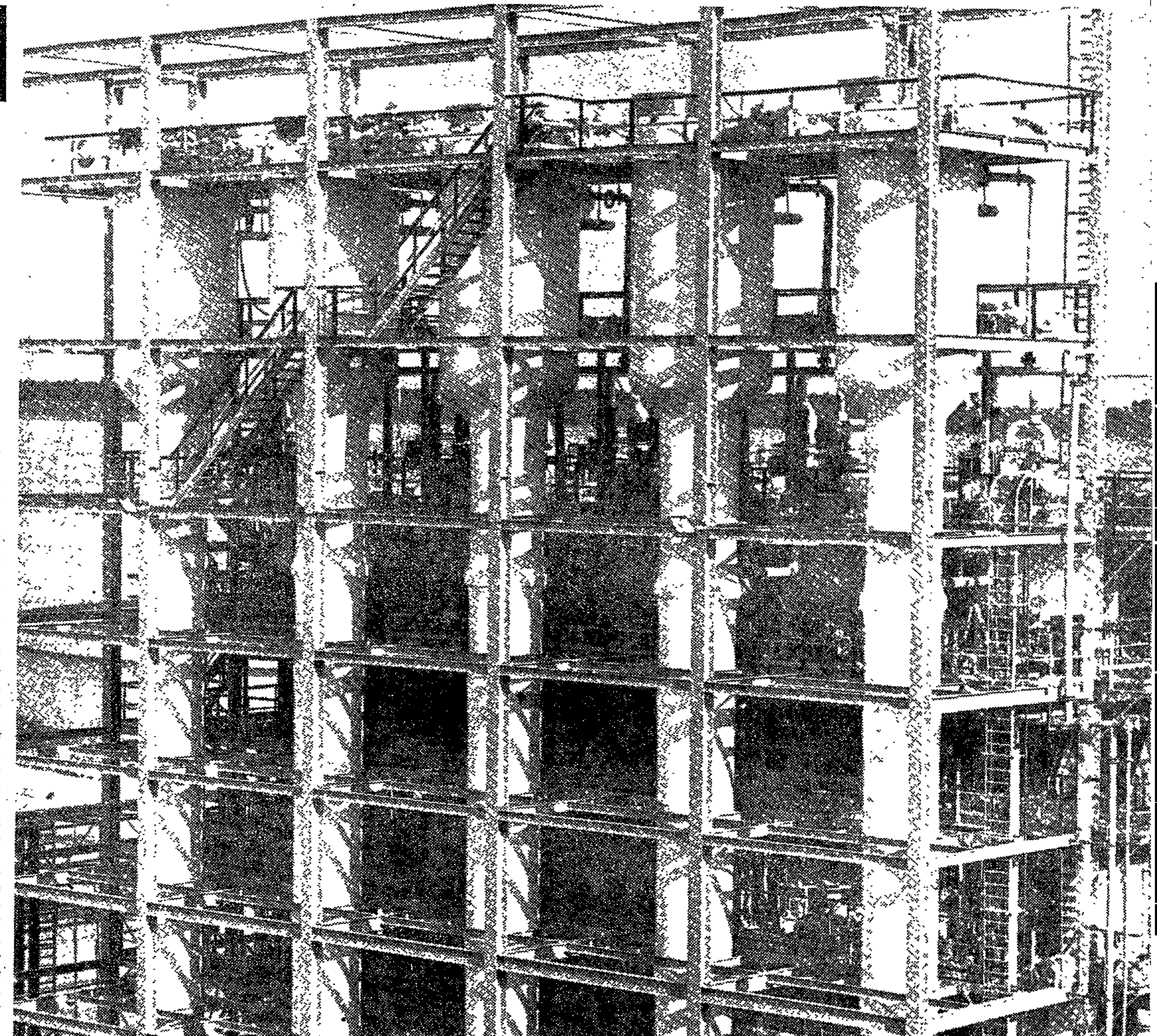


The new uranium plant at Vaal Reefs

RETIREMENT

Seeking a realistic

A SURFEIT OF KRUGERRANDS

Enter the Mini-rand

●*This report on the trading pattern of the Krugerrand during the past year has been prepared by the Chamber of Mines of South Africa.*

WITH 695 411 Krugerrands sold during December 1979 sales of the one-ounce gold coin totalled 4 940 755 during 1979, of which 4 836 376 were sold overseas and 104 379 in South Africa.

This represents a decline of 17,8 percent on 1978's total sales of 6 012 293 coins, but the amount realised, at R1,3 billion, is a 27 percent improvement on the previous year's earnings of a little over R1 billion.

This was, of course, the consequence of the higher gold price which, on the London market, averaged $307,03 an ounce over 1979, more than 58 percent above the average price of $193,27 an ounce ruling during 1978.

The International Gold Corporation, the Chamber's gold promotion and marketing company, says the decline in total Krugerrand sales over 1979 does not reflect an overall weakening in the demand for the coin, but is more the consequence of conditions prevailing in the market during certain periods of the year.

For instance, extremely poor sales were recorded during January and February with the combined total for the two months only amounting to 373 579 coins. According to Intergold the predominant reason for this was the high stock levels built up by distributors in Europe and America in the last two months of 1978, and these had to be run down.

The sales of Krugerrand recovered during March and, from April through to July, the numbers of coins sold were the highest yet achieved in each of those months since the Krugerrand's inception. This buoyancy was largely due to the activity in the gold market and the run-up in the gold price through the $300 an ounce level. Although there was some profit-taking at this price level sales remained firm with August and September averaging some 400 000 coins each month.

DECLINE

unprecedented demand for the coin led to supplies being exhausted by December 21.

Intergold reports that the strong surge in the demand for the Krugerrand in the closing weeks of 1979 stemmed largely from Germany, following the announcement on November 9 that VAT was to be imposed on the coin from January 1, 1980.

GOLD PRICE

The high level of the gold price, together with its wild gyrations, which have been a marked feature of the gold market during the first weeks of 1980 have had a marked effect on bullion coin sales.

In the case of the Krugerrand, following a sharp demand for the coin in the first weeks of January by primary distributors covering the shortfall that occurred in December, sales declined dramatically. This is not so much reflected in January's total sales from South Africa, which at 287 641 coins amounted to a 53 percent improvement on the previous January's sales, but is significantly illustrated in February's sales pattern.

Intergold reported that only 6 254 new Krugerrands were distributed to the market by South Africa during the second month of 1980, reflecting a slump of almost 98 percent on January's performance.

This substantial slide is attributed to the extremely volatile nature of the gold market rather than the consequence of high price levels. What has emerged, as a resullt, is a strong secondary market, in which large numbers of Krugerrands are being sold back to distributors and banks by individuals or institutions going on a profit-taking spree. New orders for the coin are, therefore, being met from these supplies.

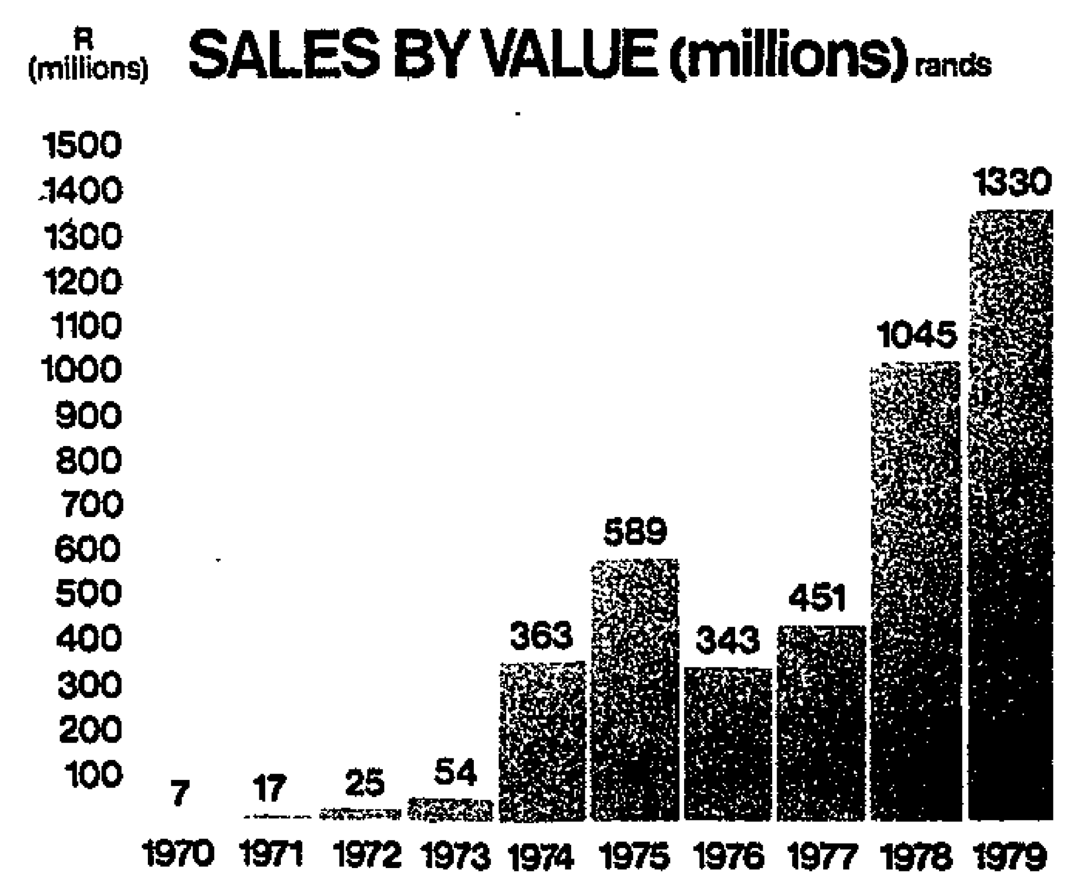
STOCKS

This situation has caused the coin markets in Europe and the United States to become liquid, with fairly substantial stocks of Krugerrands being held in both regions. It is noteworthy, however, that the flow of Krugerrands being bought back from the market has slowed and a more normal trading pattern can be expected. But in view of the stock position it seems unlikely that any substantial ordering of Krugerrands from South Africa will be seen for some while. The conclusion is, therefore, that total Krugerrand sales this year could be below 1979's total - unless there is a dramatic turnround in the market.

It is noteworthy that in view of the generally high gold price, which has positioned the Krugerrand beyond the pockets of the ordinary investor, Intergold is to make South Africa's two other bullion coins, the R2 and R1, generally available overseas through the usual Krugerrand distribution network. They contain, respectively, 0,23 ounces and 0,11 ounces of gold.

A further development of importance in this regard is that the Government has agreed that a further bullion coin, containing half an ounce of gold, is necessary. Following representations made by the Chamber of Mines, the Minister of Finance, Senator Owen Horwood, announced in Parliament earlier this year that South Africa is to produce the new mini or Half Krugerrand later this year. At this stage it has yet to be decided what premium the coin will be sold at.

THE coin which has held the centre of the investment stage during the past two years



A BAR chart which shows how the value of Krugerrands sold has almost trebled during the past two years after a slow start in the first four years that followed the introduction of this internationally popular investment coin

THE BUDGET

Equality of sacrifice

SOUTH Africa's new tax structure will result in a tax incidence in the Budget of any reference to proposals for taxing cap-

and is to be welcomed. In fact, the disparity may now be only seven

Now it's word processing

Financial Editor

A REVOLUTION is taking place in South African offices. The typewriter, filing cabinet and telex machines may soon be as obsolete as the ox-wagon.

These changes are being brought about by word processors which, in their simplest form, are electronic typewriters. However, word processing does much more than make it easier for a typist to do her job.

An operator at a word processing station can store text, play it back at high speed for corrections, print out letters, reports or documents and send a memorandum to offices in other parts of the country by the touch of a button.

During a visit to the Durban office of General Business Systems — the South African represenative of Wang Computers — I found that the clear-cut functions of typewriter, filing systems and telecommunications had become somewhat blurred.

Mr. M E O Hammerschmidt, the managing director of GBS, said that his company opened its doors for the first time in Durban and Johannesburg five years ago.

'Our turnover last year was R5-million for the first time and we have experienced a 60 percent growth every year. Word processing has not only caused a revolution in offices, it has brought about an explosion in the market place. 'Managers have found that a typist can treble her output. Production increases from 60 to 300 percent according to the type of work.'

Mr. Hammerschmidt said that the first companies to instal word processors were those involved with finance and insurance.

'Companies, which have a large number of words to process, realised the value of this equipment at once. In addition, it makes a star out of the most ordinary typist. Operators love it because there is no re-typing. Corrections are done on the screen.

'Managers find that it saves them time too. Alterations can be made without re-typing the whole text with no risk of fresh errors being made.

'Office equipment has not advanced much for 10 years but, in five years' time, word processing will be as common as the telephone and telex is today'

Mr Hammerschmidt said that the new equipment had come on the scene suddenly. So much so that managers had not had the time to appreciate what it could do for them.

'Computers have been around for 20 years but word processing is new. A lot of education is required in the market before the basic concept of the system is established particularly at boardroom level.'

MR COLIN Young discusses the latest Wang word-processor with Miss Judy Granger at the Durban offices of General Business Systems. The three main items in this work station are a keyboard and video screen, a printer (on the left) and diskettes (below) in a storage container. The equipment is designed so that it can be expanded without difficulty.

Steady growth

TURNOVER up from R22,7-million to R100,6-millior and pre-tax profit up from R1,5-million to R5,8-million i 11 years — that is the story of Malbak Ltd, a diversifie industrial company which occupies 92nd place in M Beard's Top Companies for 1979. It was 45th in 1978 an 64th in 1977.

Malbak's earnings have grown at an annual compoun rate of 14,3 percent since the group was formed in spit of the recession which hit the farm machinery and m tor industries hard. However, during the past 11 year the group has improved its earnings and dividends ea year.

Mr Bjorn Winberg, group managing director, sa that Malbak is planning for significant growth duri the next few years.

cline in sales occurred during October when only 103 835 Krugerrands were sold. This low volume was primarily due to the extraordinary conditions in the gold market during this period with the gold price fluctuating wildly. The volatile conditions evoked considerable nervousness and much of the demand for the coin was met out of sales back to the market.

Sales during the first half of November were also slow, but recovered during the final two weeks of the month, to reach almost 400 000 coins. This turn around in the market gained momentum during December when an almost

that can rank among the lowest in the world. This ought to make a real contribution to the growth of the economy, writes Professor Aubrey Silke, the Cape Town tax consultant.

One only hopes that for top executives in business and industry the tax concessions will not, in due course, be cancelled out by the introduction from March 1, 1981 of the new provisions to tighten up the law relating to the taxation of fringe benefits. Other taxpayers will welcome the ab-

The minister's programme of tax reform this year incorporates a reduction in the disparity between the maximum tax rate for individuals, now 50 percent, and the fixed company tax rate of 42 percent.

A large disparity, such as existed in previous years, operated unfairly on those individual taxpayers who cannot operate through companies. For example, by the creation of companies to which the income of individuals can be diverted in order to pay less tax.

The new disparity of


Prof. Aubrey Silke

eight percent will go a long way to achieve greater equality of sacrifice in the tax system

a company pays the requisite amount of dividend, it will be liable for one percent undistributed profits tax on its taxable income, the rate of UPT being 33 1/3 percent and calculated on the taxable income less a ploughback abatement of 55 percent and less the income tax payable on taxable income i e 42 percent.

On this matter of equality of sacrifice as between different taxpayers,the Treasury has again shown a bias in favour of the single person — a repetition of what occurred with the tax-reduction in the Budget of last year.

A feature of this year's tax reduction is that single persons receive substantially higher tax reductions than married taxpayers.

On a taxable income of R15 000 the saving to a single person is R1 199 and to a married person with two children R599 i e R640 more.

Unfortunately, the present system of tax does litle to encourage marriage and families and this fact becomes only too evident when the 1981 tax liability of a married man with two children is compared with that of a single person.

It is inequitable that on a taxable income of R8 000, the take-home pay of a married man is R7 700 out of which he, his wife and two children must be maintained whereas a single person is left with R7 304 — only R396 less — with only himself to maintain. (In 1980 the unmarried person has R526 less than the married person.)

On a taxable income of R15 000, the unmarried person is left with R676 less than the married person with two children to maintain, as compared with R1 316 for 1980.

There is a good case for making the single person bear a larger share of the tax burden than the married man with a family.

THE STOCK EXCHANGE

Hedging against inflation

Mr Richard Lurie

Richard Lurie, President of the Johannesburg Stock Exchange

T is incumbent on every individual, in a osition to do so, to secure his financial uture and that of his family by devoting is attention to the intelligent investment f his resources in these inflationary imes.

Equities have proved over the years that, proided they are soundly selected with due attention timing, they offer the best hedge against inflaon for the individual who is not the owner of his wn business — and even for him they offer a usel diversification of his financial resources.

Other hedges against inflation such as property d antiques, demand a high degree of expertise the part of the purchaser. They are all subject the disadvantage of illiquidity and uncertainty to their true price at any one time, whereas the ares listed on the Stock Exchange are always adily purchasable and saleable at prices which e established daily in a well-regulated public arket.

It is interesting to note that industrial equities ve given the following results compared with gilt-edged securities and debentures over varying periods, based on a combined dividend or interest yield and the change in capital value in terms of their Stock Exchange quotations.

Fifteen years to December 31, 1978:

Industrial Equities 15,4 percent; Gilts 1,3 percent; Debentures 3,0 percent.

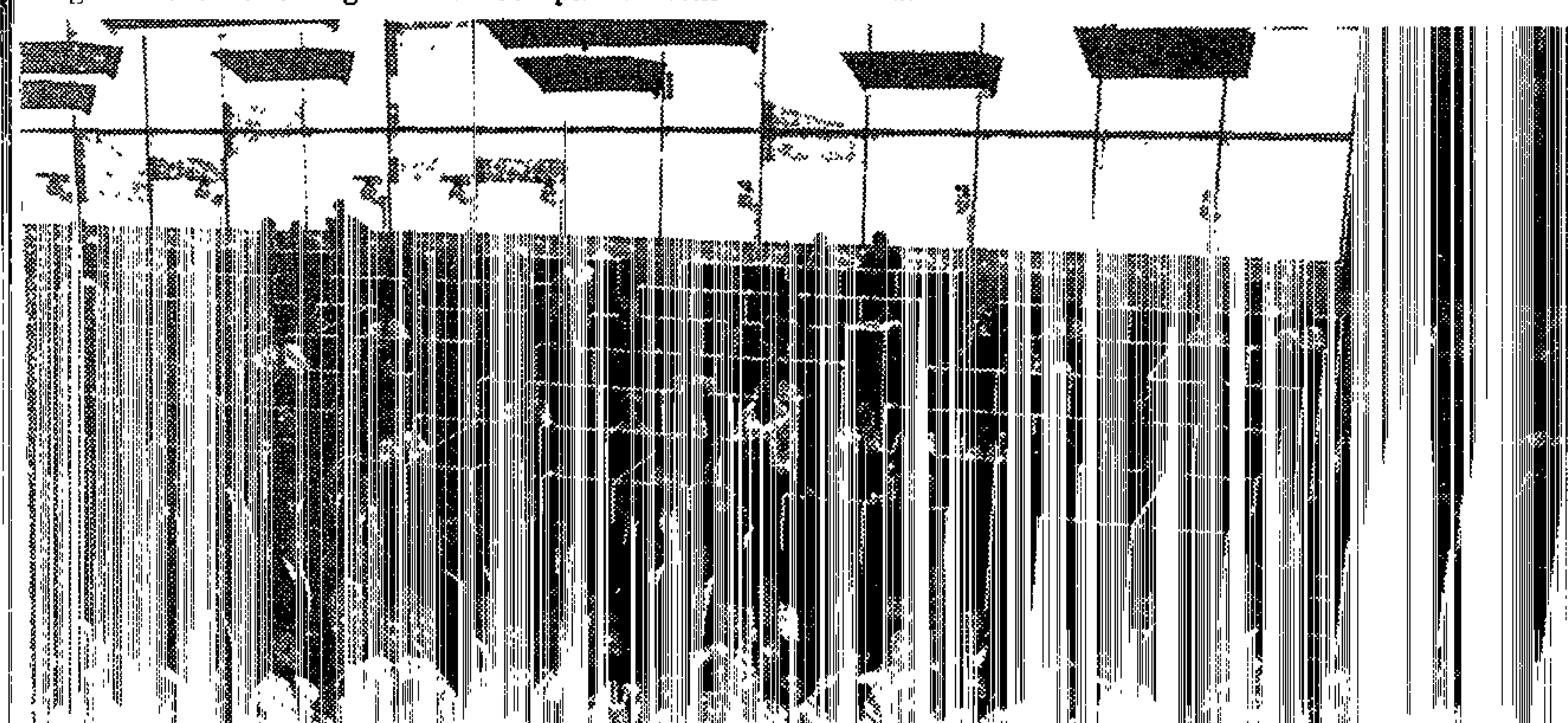
Five years to December 31, 1978:

Industrial Equities 18,3 percent; Gilts 4,5 percent; Debentures 6,8 percent.

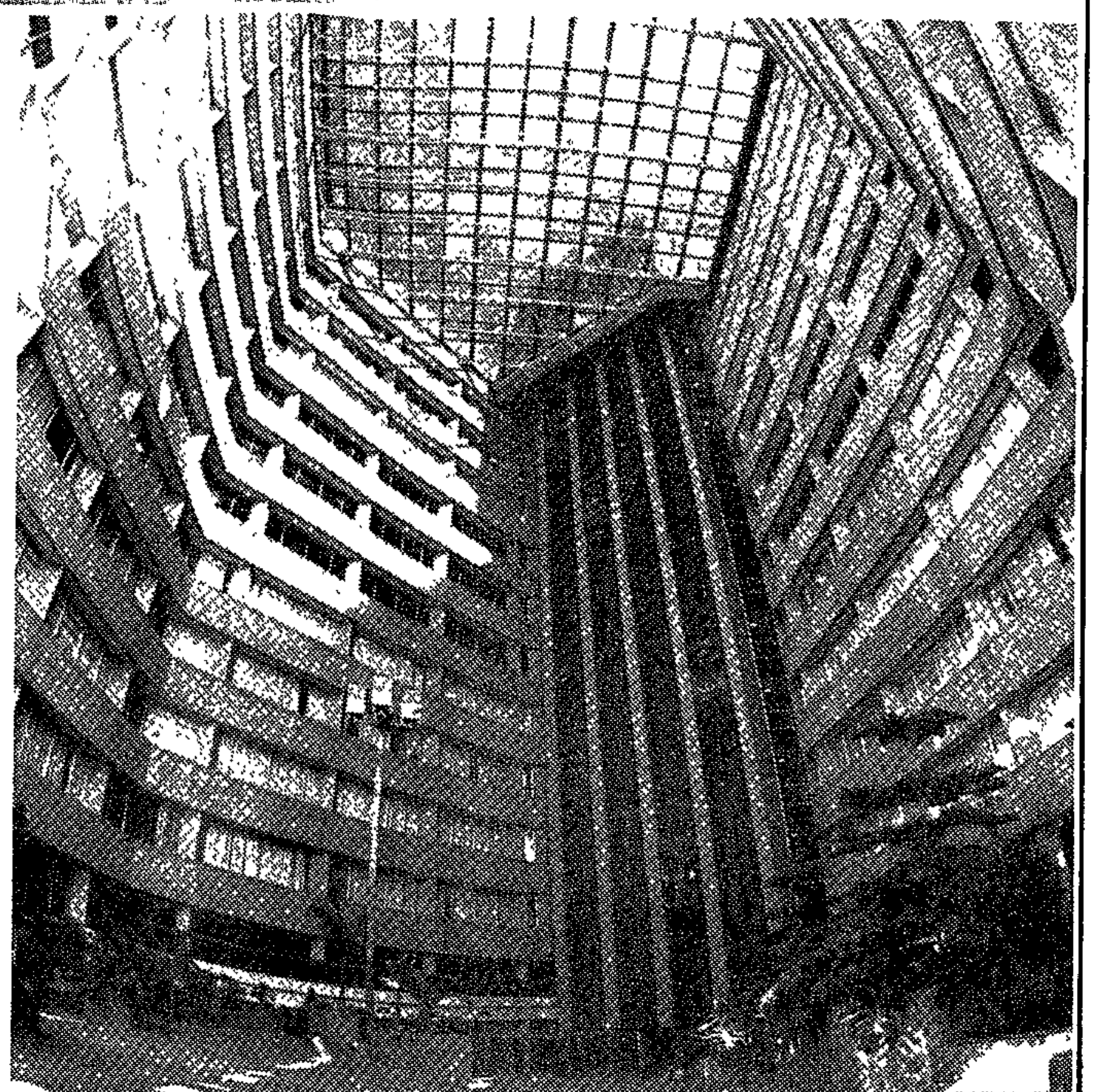
It will be seen that equities out-performed gilts throughout this period and on the detailed figures debentures have yielded a higher combined return than equities on only three occasions out of the past 17 years to 1978, and that has been a temporary feature.

I would also like to point out that these figures were calculated to the end of 1978; when they are brought up to date to the end of 1979 they will show a marked improvement in favour of equities in view of the considerable rise (about 85 percent) in equity industrial prices during last year.

With South Africa's economic prospects for the new few years bright, it seems that the outlook for further dividend growth in industrial shares is assured.



LEFT: An exciting moment on the floor of the Stock Exchange as Sasol shares were traded for the first time



THE atrium of the new Johannesburg Stock Exchange in Diagonal Street

Time of growth for company profits

r R P J Vink, the Investment Manager of ll Samuel, gives his ew on what the stock arket holds for investors during the rest of 1980.

HE peak in the stock arket may be reached wards the end of the ird or the beginning the fourth quarter of 80. Meanwhile, economic prospects for the urrent year look good.

Senator Horwood presented Parliament with favourable budget in March aimed at ensuring that South Africa would fully utilise its growth potential in 1980.

The private sector has again been provided with the scope and incentive for further expansion. Some R1 500-million has been placed in the hands of the private sector in the form of the abolition of the loan levy and various tax concessions.

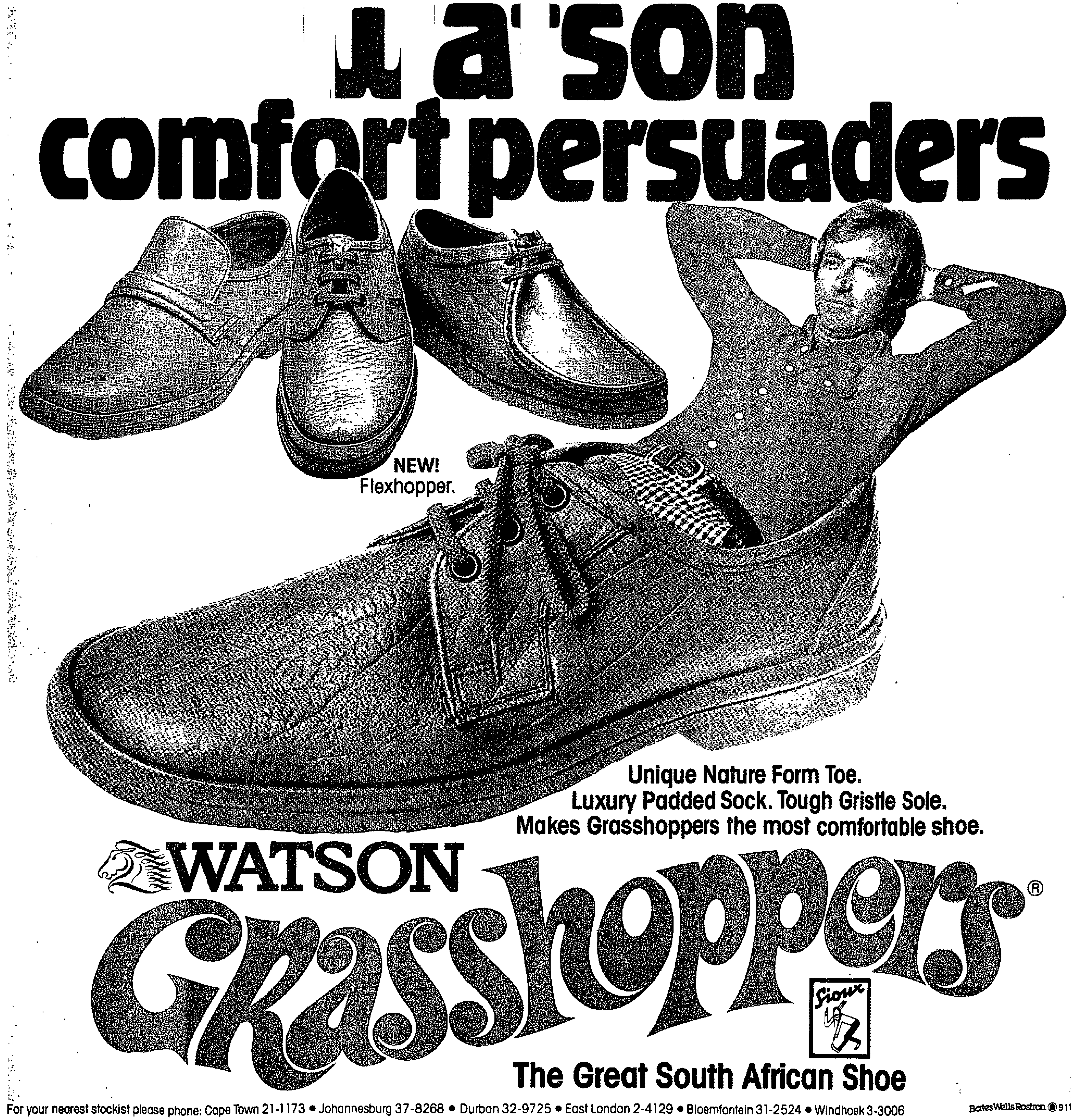
Many companies, across the board, will benefit from the higher level of economic activity generated by increased consumer spending following the abolition of the personal loan levy and the granting of various tax concessions. Company cashflows will benefit directly from the abolition of the company loan levy.

Current share prices have, to a certain extent, discounted future earnings and dividend growth. However, following an expected growth in earnings and dividends of between 25 percent and 60 percent from many of the industrial companies, the RDM industrial index could well rise by another 10 percent to 20 percent above its current level of around 500, during 1980.

The Budget was consumer orientated and sectors that should benefit the most include stores, clothing and textiles, furniture, motors, beverages and hotels, paper and packaging, building and engineering.

Companies to watch in these sectors include:
Stores — OK Bazaars, Pep, Pick 'n Pay, Edgars and Woolworths.
Furniture — Afcol, Amrel, Tedelex and Russells.
Motors — McCarthy.
Beverages and Hotels — SAB, Southern Suns.
Paper and Packaging — Nampak, Carlton Paper.
Building — Plate Glass.
Engineering — Dorbyl.
Industrial Holding — Barlows.
Chemical — Sentrachem and AECI

The benefits derived from the abolition of the loan levy will have the effect of increasing distributable earnings of the gold shares by about 12 percent. In spite of an expected higher gold price average for the year than the $308 in 1979, private investors should be cautioned against speculation in a market which will remain volatile during the year.



(153) (49)

DD 23/4/80

Public sector pay warning

PRETORIA — Public sector increases will leave many thousands of state and provincial departments workers, police personnel, nurses and teachers deeply dissatisfied, according to senior public servants.

The allocation of the R480 million set aside in the budget for increases has been heavily weighted in favour of senior ranking personnel, with the lower ranks getting too little even to compensate for the inflation rate of the past 12 months.

Since the increases were announced in the budget the prices of foods and other goods have been announced.

These include bread and maize, as previously announced by the Minister for Agriculture. Also the prices of fresh milk and other dairy products are to be raised late next month, eggs are to go up by 4c a dozen this week, and because of the maize price rise, meat, pork and poultry rises are expected to rise sharply.

Economists said yesterday it appeared the government had decided to hold increases down to a figure lower than the current 14 per cent inflation rate.

In fact, the mass of public sector workers will get less than 14 per cent.

The increases of small groups in the Post Office, the state departments and in the teaching profession, will sink as low as six per cent, it was learnt.

The general secretary for the Posts and Telegraphs Association, Mr Daan Coetzee, said that for the time being most Post Office staff were happy with the rises.

"However, price rises are eroding the increases virtually before we get them, and this is causing serious concern," Mr Coetzee said.

Yesterday the SA Nursing Association had discussions on the new scales for nurses with the Department of Health.

The executive director, Miss Ralie du Plessis, said a statement on the talks might be issued later today.

The Minister of Health, Dr Lapa Munnik, said last week nurses' rises would range from between 17 and 19 per cent. If this is so, then nurses have benefited to a greater extent than the average worker in other public sector areas.

The average increase for police is, according to police spokesmen, about 12,5 per cent. Here, too, the emphasis has been on the top grades in the service.

'Pay heed to grievances'

(49) BS 23/4/80

BLACK grievances are being articulated more forcibly every day and agitation will continue and grow to form an inevitable part of South Africa's political evolution, says Mr Basil Hersov.

"Change is taking place neither as fast as white spokesman say it is or as slowly as blacks say it is," the honorary president of the South African Foundation told an investment conference in Johannesburg this week.

But "in Southern Africa change has come more rapidly than almost anywhere," he said with reference to the traumatic effects of change as spelled out in the bestseller, 'Future Shock'."

He noted that:

- "The permanence of blacks in white areas and the legitimacy of their aspirations has now been recognised.
- "In a fundamental reversal of policy the Government has granted home ownership rights, trading rights and local government rights to urban blacks.
- "Perhaps the most notable feature of the new politics has been the acceptance of the necessity to consult with blacks, particularly urban blacks, about their fundamental rights as permanent residents.
- "And in a period of less than three years South Africa has restructed its legislation governing industrial relations. Full trade union membership is now a right for all black South Africans."

While South African economic power was "overwhelming", in regional terms, the country's resources were "severely limited" when measured against the social problems to which they needed to be applied.

South Africa's gross national product was less than half that of Australia.

"South Africa remains largely a Third World country with Third World problems," Mr Hersov stressed.

"When the lights went out in New York it took only hours for a large section of the population to lose all self-restraint and respect for property.

"In Africa, this incipient return to lawlessness is dramatically closer to the surface," Mr Hersov warned.

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has ... mns (2) and

External

(3)

Inflation slows but uptrend now likely

(49) RDM 24/4/80

By HOWARD PREECE
Financial Editor

THERE has been a striking slowing in the rate of inflation in the past six months — but the trend is now likely to move up again.

The consumer price index rose by 13,1% in the year to the end of March, according to the Department of Statistics.

This is an improvement on the 14% rate for calendar 1979 and more so on the 14,3% on the rate for the 12 months to February this year.

But the decisive evidence of slowing in the CPI is seen in the figures for last September to the end of March which show an annualised rate of inflation of only 7,3%.

The all-items CPI was 162,1 (base 100, 1975) in September, and reached 164 at the end of 1979 and 168 in March this year.

However, while the annual rise in the CPI in the last quarter of 1979 was a minimal 4,7% it was 9,7% in the first quarter of 1980.

But this accelerating movement was still well below the prevailing annual rate and, if broadly continued, would certainly bear out the optimism of those who believe inflation can be held to perhaps 12% this year.

There have, however, been several false dawns on inflation breakthrough hopes in the last few years — not least in 1978 when the rate dropped briefly below 10% — and there are some good reasons for caution again now.

It is noticeable that the CPI also slowed between September 1978 and March 1979 and then began to pick up as the wave of new year price increases made themselves steadily felt.

The same could happen this year.

In the pipeline are increases for, among others, maize, feedstocks, meat, bricks, cement, sugar, eggs and milk.

There are also some general inflationary pressures from wage and salary rises overhanging the economy, which faces overheating problems as growth rises.

At this stage, then, it seems as if the implicit Budget assumption of Senator Horwood, the Minister of Finance, that inflation this year will be around 14% is still a fair estimate.

(That is also allowing for the fact that the CPI does not necessarily reflect the true inflation rate).

In February this year the CPI was 167.

The sub-divisions of the CPI show a rise for the lower income groups (primarily blacks) of 12,5% for the year to March, 13,3% for middle incomes and 12,9% for upper incomes.

These various figures put into perspective the 12,5% "rises" that the police have been awarded and the apparent 14% that is going to teachers.

Both groups, and others with similar awards, are actually getting little more or less than what is needed to put their real incomes back to the levels they were a year ago.

The food-only index rose to 167,7 in March, reflecting a 0,30% rise for the month and giving a 14,40% year-on-year increase.

● Prices for all US urban consumers rose a seasonally-adjusted 1,4% in March, the same as in the previous two months, the Labour Department said.

The increase left the price index at 14,7% higher than a year earlier.

Britain is running an inflation rate of 20% but a slight majority of Western European countries are faring better than South Africa.

Australia's consumer price index rose 2,2% in the three months ended March, bringing the increase for the 12 months to 10,5% compared with 8,2% in the year ended March 1979.

In the 12 months to February the US inflation rate was 14,1%, Japan 8%, Germany 5,6%, France 13,4%, UK 19,1%, Canada 9,4%, Italy 20,8%, Australia 10%, and Switzerland 4,1%.

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.
4. Do not write in the left hand margin.

WARNING

1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.
2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

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Financial Mail

fm 25/4/80

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THE RAND

Uncertain road ahead

No matter whether you're involved in foreign or domestic trade, hold on to your hats, for you could be in for some dramatic financing cost adjustments over the next few months.

It could be a sharp revaluation — or rapid upward float — in the spot rate of the commercial rand. Or a substantial cut in the forward dollar discount from the 12% to which it was pushed last Friday. Or a dip followed by a sharp rise in domestic interest rates as exchange controls on non-residents are hastily dismantled.

The choice, of course, rests with the authorities in Pretoria. What they will decide to do is uncertain. About all that can be said with any degree of certainty is that the sudden rise in the forward dollar discount — from 2,5% to 12% — has plunged the Reserve Bank into a volatile situation that is likely to force it into one or more of the options just outlined.

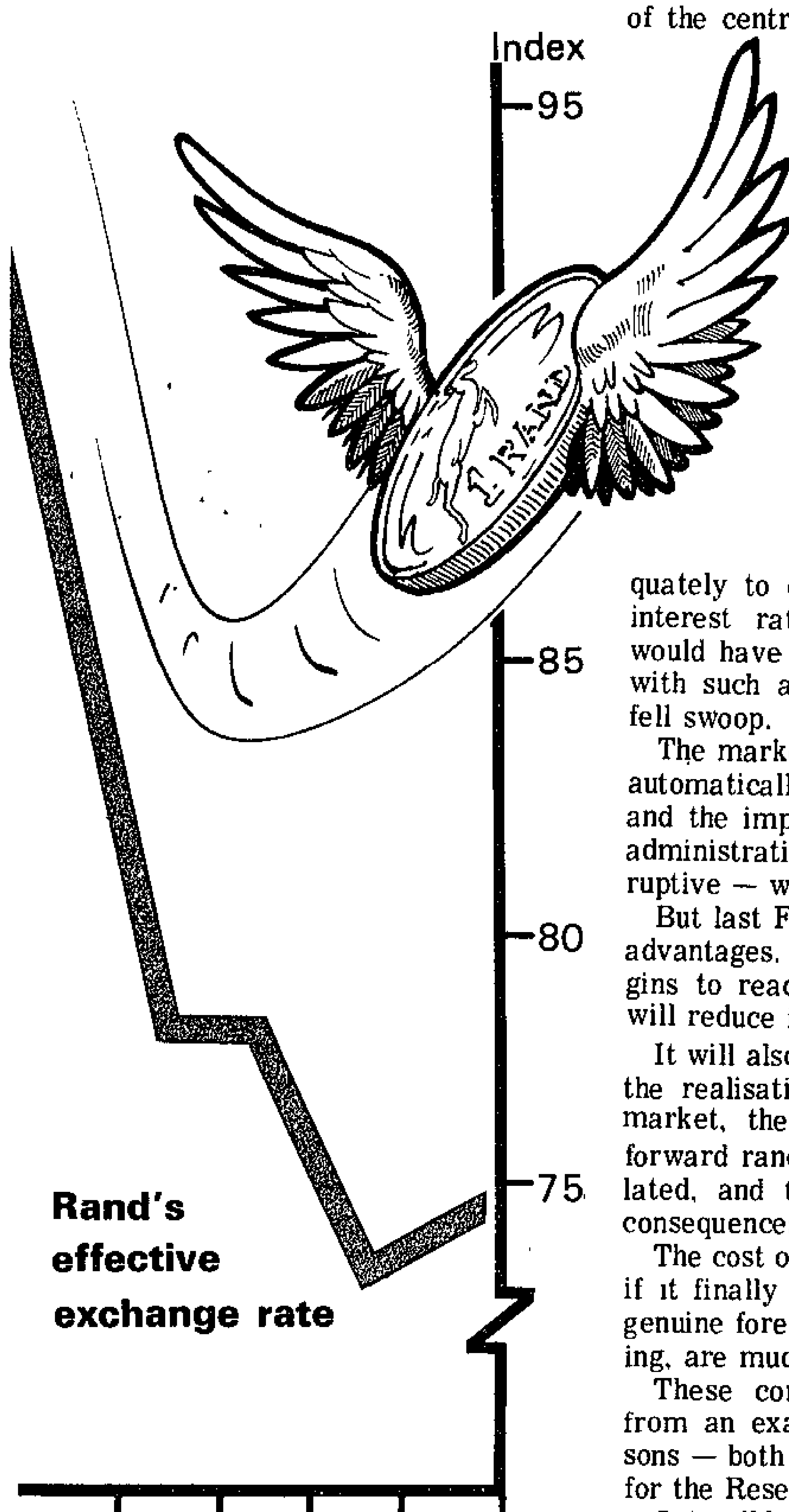
What is also certain is that the consequences of last Friday will be far-reaching on the national economy. The immediate implications are that imports have been given a substantial subsidy, and exports are being hit for six in one mighty swipe.

In broader economic terms, the widened discount will ultimately encourage a short-term capital inflow — or return flow — at precisely the time when the country does not need it — that is, when we have a record surplus on the current account of the balance of payments.

So, unless economic growth is going to shoot ahead with startling rapidity and the Reserve Bank sells massive amounts of its new long-term debentures, there is going to be a rising tide of surplus liquidity building up once more on the domestic financial system — especially with gold still above $500 and Pretoria withholding current output to keep the price "stable."

Short-term interest rates, in these circumstances, must plummet just at the time when the Treasury planners in the Union Buildings, with anti-inflationary objectives in mind, were trying to bring about the exact opposite.

In other words, the fiscal and monetary measures carefully planned in the March Budget to reduce surplus liquidity and discourage borrowing and lending outside the banking system — which, in turn, is making control of the money supply less certain — have been flouted before they have even begun really to bite.



Rand's effective exchange rate

Source Mercabank Base 1965=100

The move is, moreover, an abnegation of the central philosophy of the De Kock Commission's interim report on exchange rate policy, which designed a system of managed floating of the commercial rand precisely to avoid the type of market shock that Church Square has just administered to embattled exporters.

Had the rand been allowed to float over the past year, and the technical shortage of dollars avoided by the bank's setting the forward dollar discount adequately to cover the difference between interest rates here and abroad, there would have been no need to hit exporters with such a large additional cost in one fell swoop.

The market would simply have adjusted automatically to changed circumstances and the imprecision of attempts at price administration — which are always disruptive — would have been avoided.

But last Friday's move does have some advantages. As domestic production begins to reach capacity, cheaper imports will reduce inflationary pressures.

It will also force the Reserve Bank into the realisation that the domestic money market, the spot rand market and the forward rand market are inextricably related, and that intervention in one has consequences rapidly in the others.

The cost of that lesson may be high, but if it finally gets home, the chances of a genuine foreign exchange market developing, are much more promising.

These conclusions have been drawn from an examination of the precise reasons — both immediate and cumulative — for the Reserve Bank's move last Friday.

Ostensibly, it was to stem the outflow of short-term capital that was encouraged by the forward discount having been so inappropriately narrow for so long. It encouraged importers to repay foreign loans and borrow more cheaply locally. It also encouraged exporters to retain foreign earnings abroad, where interest rates are high, and to extend credit to foreign customers

While domestic business activity was inadequate to absorb the high gold and other export earnings, the inappropriate forward discount was a useful means of syphoning off surplus liquidity that could have had demand inflationary implications. Then three things happened which turned the outflow into a problem for the authorities.

First, some months ago — in accordance with the De Kock Commission's recommendations — exporters were encouraged to extend their facilities abroad, and were given forward cover at 2,5% for this extended period. It was to their very material benefit to take advantage of this quickly and so the short-term capital outflow was given greater impetus.

Second, the widening differential between interest rates here and abroad encouraged the financing by local banks of trade between other countries. It was done off balance sheet by banks guaranteeing bills that appeared in their books merely as contingent liabilities.

This was difficult to detect and detracted from the control of the money supply and encouraged the outflow of capital. A particular R130m deal of this nature finally determined Church Square to act.

Third, government's decision last month to withhold gold production to influence the world price created an additional shortage of international liquidity in the reserves.

Essentially, therefore, the widening of the forward discount was a device intended to protect the reserves — a need which the De Kock exchange rate policy was deliberately designed to avoid. This policy would also have avoided a destabilising shock to exporters, many of whom are locked into long-term contracts.

The Reserve Bank argues that it could not have "floated" the spot higher in recent months because of the shortage of dollars created by the capital outflow. And that it was difficult to "manage" a higher rate as the Treasury, whose responsibility it is, would not say to precisely what value.

The Treasury counters that if the Bank had been dealing appropriately, that is by abolishing its 20-point spread, abandoning dollar pegging, and encouraging a swap market, the technical shortage of dollars could have been overcome and the rand's basic value would have then been determined by the market.

If the speed with which the earlier concessions to exporters accelerated the capital outflow is anything to go by, then the wider forward discount could lead to an equally dramatic reversal.

It is difficult to escape two conclusions from last Friday's move.

First, that the Reserve Bank has grasped the foreign exchange market by its tail and it will not easily now be able to let go. It is going to have to pay much more attention to market forces. The fact that only four days after the bank widened the forward discount it found it necessary to revise it down by 1% for shorter term transactions seems to bear this out.

Second, that it is quite clear from this experience that *ad hoc* implementation of the De Kock Commission reforms is tricky, and could have serious and widespread implications in the markets.

In these circumstances, it is not difficult to see what importers should do — they should borrow as much as they can abroad at the cheap rate now available to them, for it might not last. But the situation is much more complex and potentially volatile for exporters.

Some banks have advised that they do not cover. The *FM* is not so sure. In such uncertain times, it might be far more judicious for them to bite the bullet and pay up for the certainty that forward cover provides.

FM 25/4/80

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AFRICAN ECONOMICS

Go north, young man

South Africa's economic position in relation to the rest of Africa is slipping.

In 1972 SA's gnp was 22,5% of the continent's total. By 1977 — latest available figures — it had dropped to 18,4%.

Admittedly, much of the change could be attributed to the wealth achieved by oil-rich Nigeria over this time. That country's gnp grew from R8 130m in 1972 to R28 900m in 1977 — a rise of 255%. In the same time, that of SA grew from R17 430m to R31 320m — a 79% rise.

It is sobering to remember, too, that SA is only third when it comes to per-capita income. Libya ranked first with R5 808 in 1977, Gabon second with R3 243 and SA third with R1 165.

Libya's per-capita figure is boosted by its small population of 2,6m and Gabon's by its population of only 552 000. However, it can also be argued that SA's wealth is concentrated mainly in the hands of its 4m whites, meaning that the per-capita income for its black people is considerably lower than R1 165.

Per capita

But, having said this, it remains true that the SA per-capita figure is way above that for most of black Africa, particularly poverty-stricken Mali, and war-ravaged Ethiopia, and Somalia, which shared the dubious distinction in 1977 of the lowest per capita incomes in Africa — R96.

A look at the economic indicators for southern Africa — listed as a group in the accompanying table — also makes sobering reading for those countries determined to rival SA in an economic community independent of the white-ruled south. With 47% of the population of the region, SA has 77% of the total gnp, 75% of the imports and 72% of the exports. Its per-capita income is 131% above that of its nearest rival, Swaziland, and a staggering 536% above that of the weakest performer in the region — Mozambique.

The survey also shows that the only countries that can approach SA economically are north of the equator — Egypt, Algeria, Libya, and Nigeria, and most of those are a long way off rivalling SA in gdp.

SA completely dominates the southern half of Africa.

1977	Population '000	Gnp R'000	R Per capita income	Imports (Rm)	Exports (Rm)	Main trading partners
NORTH AFRICA						
Egypt	39 214	10 634	269	641	227	US, Germany
Algeria	16 997	16 478	965	6 521	5 100	France
Libya	2 636	15 321	5 808	288	770	Italy, US
Morocco	17 696	8 782	495	2 408	1 220	Germany
Tunisia	5 873	4 408	748	1 596	812	Germany
SOUTHERN AFRICA						
South Africa	26 807	31 321	1 165	,5 124	5 355	US, UK
Rhodesia (now Zimbabwe)	6 758	2 921	435	416[1]	500[1]	n/a
Lesotho	1 271	261	200	170*	15*	SA
Botswana	692	261	383	240	157	SA
Swaziland	527	270	504	169	163	SA
Angola	5 952	1 713	287	340	665	Portugal, US
Mozambique	9 410	1 704	183	23	105	SA, USA
Zambia	5 210	2 026	391	356	477	Japan, UK
BLACK AFRICA						
Zaire	26 074	2 843	113	596	1 278	Belgium
Ivory Coast	7 300	4 504	617	1 545	1 903	France
Cameroon	7 781	2 304	296	691	622	France
Madagascar	9 410	1 704	183	250*	240*	France
Senegal	5 274	1 948	365	506*	426*	France
Niger	4 860	670	139	110*	116*	France
Gabon	552	1 791	3 243	632	987*	France
Upper Volta	6 318	626	111	184	49	France
Togo	2 350	609	261	162	91	France
Benin	3 286	574	174	217	27	France, China
Mauritius	906	600	661	397	274	UK
Mali	5 986	591	96	128	60	France
Chad	4 207	470	113	101	54*	France, Nigeria
Congo	1 392	609	435	250	153	France, Italy
Central African Republic	1 867	409	217	55	72	France
Mauritania	1 525	356	235	178	134	France
Rwanda	4 299	504	113	99	80	Belgium
Burundi	3 963	452	113	64	78	Belgium
Nigeria	78 982	28 991	365	3 898	4 492	Britain, US
Ghana	10 619	3 548	330	969*	924*	US, UK
Ethiopia	29 397	2 800	96	341	290	Japan, US
Sudan	16 536	4 270	261	112	70	UK, Italy
Kenya	14 369	3 400	235	434*	331*	EEC
Uganda	12 331	2 800	226	167	503	Kenya, Tanzania
Tanzania	15 545	2 696	174	660	480	UK
Sierra Leone	3 126	530	174	184	131	UK
Liberia	1 652	617	374	403	389	US, Germany
Malawi	5 572	696	122	207	180	SA, UK
Somalia	3 660	356	96	134+	77+	Italy
The Gambia	546	96	174	399	154	UK

[1] 1973 * 1976 + 1975

Sources: World Bank, Europa

ECONOMY

1-1-80 — 30-3-80

MP: await big boom

DD 1/1/80 (79)

EAST LONDON — South Africa, and the Border area in particular, is poised for a boom in development, the MP for Griqualand East, Mr Jan Jordaan, said yesterday.

In a New Year Message Mr Jordaan said there were numerous factors pointing the way for economic growth in this area and 1980 should bring clarity on the future of the area and the so-called white corridor.

He said reliable indicators for an economic upheaval on the Border were:

An expected increased demand for primary products.

A projected big growth rate in the motor industry.

A revival in the building sector.

The gearing of industries for greater production.

Significant government spending, particularly on the electrification of the rail line between East London and Springfontein over the next two years.

The recent decrease in income tax and estate duty working through to the man in the street with stimulating effects.

A tourist boom for East London and the east coast resorts as a result of more spending power on the part of holidaymakers.

A demand for skilled and semi-skilled labour.

A call for unskilled labour through new and expanded industrial projects.

"With determination South Africa has moved out of a deep and long lasting economic depression and we are on the threshold of an economic revival too exciting for words," Mr Jordaan said.

The political stability of South Africa, he said, coupled with the steadfastness of the government and the disciplined and foresighted movements of the Prime Minister, were all plus factors in the economic revival.

February would bring the Ciskei Regional Consolidation Committee to the area, while March 31 was D-day for the Henhie van der Walt Consolidation Committee to report on their consolidation recommendations for the whole of South Africa to Mr P. W. Botha.

During the coming parliamentary session a decision on consolidation would have to be taken. "1980 will thus bring the long hoped for clarity about the future of the borders of the white corridor," Mr Jordaan said.

"Furthermore 1980 will see new delimitations in South African constituencies. As for speculation about delimitations on the Border and in particular speculation that Griqualand East will vanish, the name at least must go. I suggested and wish for this constituency to be called Kaffraria."

Constituents had asked: "What will happen to us?"

"Come what may you will still be placed in a constituency and so will I. The National Party will remain and together we will be there trying to represent and look after your needs. Your primary task is to check whether you are on the voters roll."

He congratulated the 800 plus matriculants on the Border who had passed their examinations. "Godspeed with your career and may it be that the Border will be more viable and able to accommodate more of you with suitable career opportunities than ever before," he said. — DDR.

XVI

	W M	W F	A M	A F	C M	C F	B M	B F
0-1	0,85	0,69	0,70	0,31	1,18	1,24	0,32	0,19
1-4	0,49	0,21	0,31	0,27	0,63	0,61	0,21	0,20
5-24	0,71	0,22	0,68	0,20	1,40	0,38	0,68	0,12
25-44	1,18	0,30	1,43	0,37	3,32	0,70	1,22	0,26
45-64	1,25	0,42	1,55	0,40	2,89	0,76	1,10	0,31
65+	1,26	0,71	1,34	0,91	2,19	0,90	1,02	0,53
ALL	0,95	0,33	0,95	0,29	1,91	0,56	0,89	0,20
NO.	1973	677	333	104	2175	652	1868	324

...S, POISONINGS AND VIOLENCE (EXTERNAL CAUSE)

W F	A M	A F	C M	C F	B M	B F
54	2,10	1,24	7,00	6,86	19,69	19,83
04	0,21	0,35	0,75	0,77	2,58	2,48
01	0,09	0,06	0,08	0,03	0,21	0,23
05	0,28	0,17	0,42	0,31	0,72	0,78
8	1,73	1,04	1,73	1,02	3,80	3,64
35	8,32	6,56	8,55	5,71	14,69	14,84
13	0,56	0,38	0,83	0,65	1,80	1,96
15	199	134	943	761	3765	3145

TREASURY'S MILLIONS

(74) (49) FM 4/1/80

Unwind or bust!

Financially for SA the New Year could hardly have kicked off on a sweeter note. As the gold price soared to $560/oz by midweek the smiles round Church Square were broadened by considerably more than champagne.

The real significance of the latest surge in the bullion price is the extra boost it should give to Finance Minister Owen Horwood's confidence as he decides how best to distribute the overflow from 1979, which hopefully he will accomplish in the form of tax reductions in March.

The value of SA's net gold output, which amounted to R3 987m during the first three quarters of 1979, is estimated at around R5 880m for the full year, thanks to an average price of about $415/oz during the last quarter. The average price for the year was approximately $305.

The buoyant price during 1979 meant that, despite the physical volume of production being only marginally higher than in 1978 — estimated at about 21,9m/oz last year compared to 20,9m/oz in 1978 — the value of net gold output was nearly 60% higher than in 1978 (R3,7 billion).

Gold experts calculate that Treasury's share of the bonanza will amount to no less than R1 400m in fiscal 1979/80, on top of which must be added Reserve Bank sales following its repurchase of earlier gold swap agreements. In the latter case, the sum is guesstimated at around R200m. This means that Treasury will probably see its budgeted revenue from gold — about R750m — more than doubled.

The question is, to what extent will Horwood channel a sizable portion of this new found wealth through to those sectors in the economy which are most likely to generate maximum economic growth?

Certainly, judging by his reputation for fiscal and monetary conservatism, a large chunk will probably be stashed away in a stabilisation fund. But it would be a grave mistake to overplay the need for caution while the economy is on the threshold of high growth. That would be burying the talents.

The most important area Horwood needs to consider is private consumption expenditure. Since it accounts for roughly 60% of total expenditure, the extent of relief granted to consumers by way of tax cuts this March will have an enormous impact on overall economic activity.

Some of the more pessimistic observers think it unlikely individuals will benefit by much more than about a 5% average cut. However, others say they are confident of at least an average 10% reduction.

Naturally, a higher level of aggregate demand must filter through to manufacturers and industrialists, encouraging them to invest more in expanding their plant capacity. But economists emphasise that, if government is serious about boosting private sector investment, there must be tax cuts right across the board. A revision of the gold mines' tax formula is long overdue, including perhaps higher capital allowances. Mining men insist this needs urgent attention if new, lower grade mines are to be developed.

Moreover, the loan levy could happily be abolished, while there no longer seems to be any reason to maintain the 7,5% import surcharge, particularly since its inflationary impact is considered to be quite substantial. And, while boosting demand, Horwood must go all out to reduce the inflation rate.

Of course, there are numerous other major capital projects, notably the electrification of Soweto, black housing and schools, to name only a few, which would pay handsome dividends in terms of longer term political stability were they to benefit by substantially higher Treasury outlays.

But if government deems it wise not to push the economic growth rate much beyond the 4,5%-5% level, in which case Treasury should see a big build-up in unutilised funds, then every effort should at least be made to ensure that these funds earn the maximum possible return. This, suggests Barclays Bank in its December Business Brief, may entail allowing the banks to place such funds in dollars or sterling investments overseas, which would also be another important step in removing exchange controls.

The country is on the threshold of tremendous opportunity. There is more to be gained at present from a bold fiscal stance than from timidity.

WORLD OUTLOOK

49

FUn 4/1/80

A slow juggling act

The world economy, weighed down by energy woes and stubborn inflation, is hobbling. The year ahead marked by slowing growth and higher unemployment induced, at least in major part by the renewed upward surge of energy prices, promises to be disappointing.

It may not, however, turn out a rerun of the outright recession of 1974-75 that followed the first big oil price rise. The world could start to harvest the first fruits of the new, more conservative economic policies that Western governments are embracing, to lay the foundations for a sustainable recovery even though at lower rates of economic growth than in the past.

Yet a major question mark remains. Will the Organisation of Petroleum Exporting Countries (Opec) knock any future upturn on the head by making it the pretext for another abrasive rise in oil prices? The oil sword remains suspended ominously over the world economy as a constant reminder that energy is now the major factor affecting the world's economic health.

Economic growth certainly seems likely to slow down appreciably in most major Western countries under the twin impact of continuing high inflation and dearer energy.

The OECD secretariat sees average economic growth decelerating in its 24 member countries from nearly 3% last year to between 1,5% and 2% this year. At the same time, the average inflation rate could edge back up towards 10%.

Yet, in several important respects, the outlook may be a shade less bleak than first meets the eye. In the first place, 1980 seems unlikely to see a repetition of the synchronised downturn in all the major Western economies that left the world economy flat on its back five years ago.

The US economy appears to be tipping over into a long-overdue recession, though how deep and prolonged remains uncertain. Elsewhere the candle flame of economic growth is still flickering, albeit dimly.

West Germany and Japan still seem likely to keep up their locomotive role of recent years, turning in growth performances comfortably above the average that help pull other economies along a little faster, perhaps 3% compared with last year's 4,5% for Germany and about 5% for the second year running in Japan.

The OECD also sees Italy's economy remaining moderately buoyant while France's should keep moving along more or less at last year's pace. Most of the overall downturn in Western growth, in short, reflects the expected US recession.

Meanwhile, the big payment imbalances that have proved an obstacle to economic recovery in the past are starting to correct themselves. America's payments deficit is dwindling and the administration predicts a small current account surplus this year. At the same time, Germany's and Japan's worrysome surpluses are contracting sharply.

A more balanced world payments picture promises stable exchange rates, and while the growth of world trade is likely to slow from 6% to 7% at present, to around 4% this year, this is still a lot better than feared earlier. And the major powers seem determined to keep the world's commercial arteries open and resist the protectionist temptation hard times bring.

For some observers, the skyrocketing interest rates that have accompanied rising energy prices seem certain to knock an enfeebled world economy into recession gulch.

Higher interest rates have to be measured against inflation. In real terms, they are often quite low or even negative. More importantly, tighter monetary policy reflects the new Western censensus, that emerged at last year's IMF meeting, that inflation is the number one obstacle to sustained growth and lower unemployment.

As inflation is conquered, interest rates will fall, but, until it is beaten, no one sees much hope for recovery in the West. The idea that the West could coax itself back to full employment by selectively stimulating stronger economies, as the OEDC secretariat once urged, has been replaced by a new conviction that financial stability is the prerequisite for any lasting improvement in the world's economic fortunes.

Iran's Ayotollah . . . one of the keys to the oil crunch

By themselves, rising energy prices are not an insuperable barrier to economic growth. But last year's experience is a reminder, abrupt and sharp, even though Opec has done little more than restore oil prices to the same real level they were at in 1974 by compensating for inflation.

One result of last year's price rise will be to send Opec's collective balance of payments surplus soaring up from a mere $5 billion in 1978 to around $40 billion and keep it there for several years. The reappearance of this chronic Opec surplus, largely concentrated in the hands of a few Gulf oil states, creates several problems that will require careful handling.

Much of the counterpart deficit will fall again on the backs of the developing world, whose indebtedness in some cases is already reaching dangerous proportions. But these countries can scarcely be expected to ease their position by exporting more in a climate of slowing world growth. Nor will forcing them to borrow from the IMF and put their economies under its supervision necessarily improve their positions much.

Secondly, the Western industrial countries will have to brace themselves for another big shot of Opec investment in their economies and the political difficulties this can create with fears that the Arabs are taking over the world.

The higher that oil prices move the less incentive the chronic surplus countries have to go on producing, particularly when they complain about a lack of good investment outlets for their earnings. The new and sinister feature of last year's oil crisis was that it took place against a background of mounting concern, not just about price, but about availability.

The Iranian crisis privides the most obvious example of just how fragile supplies have become. Countries such as Saudi Arabia and Kuwait are only maintaining present production levels out of concern for the international economy, and the International Energy Agency in Paris no longer expects any increase in Opec output at all.

What many Western governments hope is that a bargain can be struck with at least moderate Opec members. Consumers would undertake to curb oil use and help Opec with its industrial development plans, while the oil exporters would offer secure supplies and limit price increases to what the world economy can afford.

It may seem a slim hope but, that it should be entertained at all, shows how the world's economic health has become fatefully intertwined with the politics of oil.

PAUL LEWIS is the European economic correspondent of the *New York Times*, based in Paris. He was formerly chief correspondent for the *Financial Times* of London in Brussels, Paris and Washington, where he joined the *New York Times* three years ago.

Financial Mail

(49) 4/1/80

SOUTH AFRICA

Reason for optimism

This time last year the 12 months ahead looked to us as though they would be filled with unrequited gloom. We could not have been more wrong.

Of course, at that time, as we groped for historical precedent on which to assess the future, there was little to suggest so much would happen here in so relatively short a time.

But who could have foreseen that, out of the depths of the Info scandal, there would emerge such a change in emphasis in National Party leadership? Last year, what little momentum existed for change was still having to rise through a sort of capillary attraction to a party leadership whose ideas were moribund — and had been for 20 years.

This year, however, saw new Premier P W Botha take the lead in policy formation and then begin the uphill task of carrying his conservative party grassroots along with him. The *FM* believes that his most telling innovations were the decision to seek economic well-being by encouraging private enterprise and by removing some of the restraints on black labour.

Nor, for that matter, was it easy to have foreseen at that time the heights to which the gold price would soar or the extent to which the dollar would be battered. Although, with the benefit of hindsight, some telltale signs — such as the instability in Iran and the Middle East in general, as well as President Carter's political pusillanimity — were there for all to see.

Equally unexpected, however, was the emergence of a new British government that would begin to tackle both the erosion of that country's great wealth and the Rhodesian question with resolution, courage and some success.

Of course, 1979 was not without some very serious problems, many of which continue to confront us today. There has been a quickening in business activity, but unemployment remains high. The country has a very positive energy policy, but the economy remains vulnerable to increases in world oil prices and to Opec production cutbacks.

This, as well as delays in adjusting domestic administered prices and an inappropriate exchange rate policy, have put the rate of inflation on an upward spiral that will take time and resolve to break.

Nevertheless, the financial discipline of the government — particularly its control of the money supply — has held prices in reasonable check, considering what would have happened if the massive gold and other export earnings had been spent by the authorities in the domestic economy.

Instead, they have been used to repay foreign debt, and this, coupled with labour reforms, significant moves toward a more market orientated domestic economy (including a more flexible exchange rate policy and a reduction in exchange controls) as well as some small moves towards racial integration, have softened foreign investor resistance to this country.

Minister Horwood . . . good news for taxpayers in March?

Consequently, the country's credit rating has risen far beyond the expectations of last year.

The continued impoverishment of the Third World and the extravagance of the Arab oil producers have, along with the developments already mentioned, combined to reduce the threat of further sanctions against this country. Nevertheless, the absence of a greater inflow of foreign fixed capital investment is disturbing.

The situation in Southern Africa itself remains delicate in the extreme. The ending of UDI, the removal of sanctions against Rhodesia and a British Governor in Salisbury hold within them the seeds of greater stability and prosperity. But, while hopes are high, there is no certainty yet that there will be a lasting and peaceful settlement in Rhodesia.

SWA/Namibia remains as politically mercurial as it was a year ago. Negotiations with the five Western powers and with the United Nations are in sad need of stimulatory initiative, which SA seems unable, or unwilling, to give.

It is abundantly clear from the nature of our forecast last year that to attempt to gauge the future on the basis of past events can be both hazardous and misguided. This time around, we offer, instead, an educated guess.

We see no reason to believe that government's financial discipline will be relaxed or its moves to encourage greater private sector investment reduced. Indeed, when the final report of the De Kock Commission into the monetary system and monetary policy is made later this year, these moves could well be accelerated. But much could depend on how fast radical change in this and so many spheres can be accepted by a conservative electorate that clings to old, albeit mistaken, values.

Consequently, the resistance of white trade unions towards greater freedom for organised black labour groups could slow the pace of change, as could the trend towards the greater sharing between black and white of public facilities and the lifting of restraints on blacks' involvement in business.

In particular, this resistance could come as the labour recommendations of the Wiehahn Commission and Riekert Commission reports are implemented.

Indeed, there are those who argue that, if the pace of change — be it economic or political — remains at the rate of last year, Prime Minister Botha will begin this year his run-up to an April 1981 election.

But, whether this occurs or not, the *FM* believes that the year will see a more sturdy and pragmatic official opposition party emerging. With economic issues moving to the foreground of contention, the Progressive Federal Party will be forced to clarify its policies in this regard and, in all respects, substitute practicability for a bleeding heart. We would not be surprised to see further changes among the leaders.

The need for economic growth to create more jobs is likely to dominate politics, although constitutional questions will by no means be ignored. However, the impracticability of the Prime Minister's idea of a constellation of states and the nebulous nature of PFP proposals are unlikely to lead to constructive reforms in the short run.

The indecisiveness of United States policies — both in the fields of foreign affairs and energy — as well as the explosive political and religious situation in the Middle East, suggest a still weaker dollar, a firmer price of gold and generally rising prices. This, in turn, could lead to slower growth in other Western economies, which are SA's main customers, and an economic crisis in the Third World.

Against that background, the *FM* foresees this year a continued demand for many of this country's mineral exports, as well as a greater inflow of foreign capital as the economic growth rate here outstrips those in most other economies. Indeed, while the trade surplus — excluding gold — may decline, the buoyancy of gold and the growing attractiveness of this economy as an investment, could see the maintenance of a surplus in the current account of the balance of payments, especially if there were to be further exchange control relaxations.

Peace in Rhodesia and in SWA/Namibia could greatly enhance this latent prosperity, to the extent that the authorities will have to be very careful that demand inflationary pressures do not appear later in the year. In this respect, the greater determination of the rand's value by market forces will be very important. For the time being, any fears of a general demand for goods and services exceeding supplies are very premature.

Deterioration of the situation in neighbouring states could, of course, hinder growth, as could further violence in the townships. Minister Piet Koornhof, who has charge of the latter, has yet to prove his ability to bring greater autonomy to township inhabitants.

Even so, the country's growth prospects are unlikely to be reduced much below the 5% growth in GNP which is currently expected. There is no immediate need for foreign capital. In fact, over the past year, the country has, rather remarkably, been an exporter of short-term capital.

Perhaps the greatest imponderable is our ability to maintain an adequate supply of oil. The *FM* is confident that it will be found, but the price could be higher. For this reason, and because we do not believe the Reserve Bank will appreciate the rand sufficiently in terms of the dollar, we see the possibility of inflation rising above the current 15%. In the longer term, measures have been taken that will counteract that trend, depending, of course, on political events — both domestically and internationally. But time and patience will be needed.

In a more positive vein, we see further curtailment of government's trading role in the economy and believe this will be reflected in more fiscal stimulus in Senator Horwood's March budget. We rule out any likelihood of further taxation of fringe benefits and of a capital gains tax.

We believe a great deal still needs to be done to reform the tax system — especially to reduce fiscal drag — to improve the mobility of labour so that production costs will fall and to create equality of opportunity.

On balance, the domestic events of the past year have been enormously encouraging and, even if the pace of change declines this year, the outlook must still give rise to optimism. About the international scene we are much less optimistic. Although for a short time SA has sufficient resources to withstand a detrimental spinoff, ultimately we, as a trading nation, cannot isolate ourselves. Our ability to ride out that growing storm will depend largely on the extent to which advantage is taken this year of the opportunities open to us

BOOM JUST ROUND THE

corner says bank

+ 49 STAR 8/1/80

By Sieg Hannig, Labour Reporter

South African employment prospects are at their best since the 1976 riots and the long awaited economic boom is just around the corner, according to reports issued today by Manpower and the Standard Bank.

The Steel and Engineering Industries Federation, representing the country's largest employment sector, also expects a definite improvement on last year with growth rates ahead of those of the economy as a whole.

"All major areas in the economy are set for growth, with few major constraints," said the Standard Bank review.

Windfall gains from previous metal prices could be used to enhance growth in sluggish areas to create more employment for blacks and to counteract inflation, the bank said.

Expansionary forces which had built up for more than two years were be[illegible]ble.

The growing international [illegible]s had benefited South Africa to an extent not foreseen even months ago.

The rapid advancement of the gold price was a major but not the only factor likely to result in a doubling of the record current account surplus of 1978 to one probably "considerably in excess of R3 000-million" in 1979.

Plus factors

The bank listed several other plus factors:

- Business and consumer confidence has increased rapidly since mid-year because of the economy's apparent invulnerability to the new oil crisis.
- There is pent-up consumer and inventory demand, prospects for agricultural crops are good and there is the distinct possibility of stimulative tax cuts and other positive fiscal action.
- Industry continued its expansion at an annual rate of about four percent, and faster growth spread to some sluggish sectors. Orders are mounting as a result of export successes.

"Industry at large is now faced with shortages of skilled labour and is approaching capacity constraints. Later on this year the need to expand capacity is likely to become urgent, and fixed investment should take off," the bank said.

The bank's prediction is echoed by the lateste quarterly survey of employment prospects by Manpower.

It shows that nearly one of every five employers among the 1 200 companies questioned plans to take on more staff.

Mr Ralph Parrott of Manpower gives credit to the Prime Minister's recent business and labour reforms for the "sense of anticipation" reflected.

But he warns that unemployment remains an unsolved and "frightening spectre."

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ADDRESS BY DR. THE HONOURABLE S.W. VAN DER MERWE, SOUTH AFRICAN MINISTER OF INDUSTRIES AND OF COMMERCE AND CONSUMER AFFAIRS, AT A LUNCHEON ARRANGED BY THE SWISS-SOUTH AFRICAN ASSOCIATION IN ZURICH ON 9 JANUARY 1980

Dr. Meier, Gentlemen

THANK YOU FOR INVITING ME TO BE PRESENT HERE TODAY. I CAN ASSURE YOU THAT IT GIVES ME GREAT PLEASURE TO MEET MEMBERS OF THE SWISS-SOUTH AFRICAN ASSOCIATION SO SOON AFTER MY APPOINTMENT TO MY PRESENT PORTFOLIO. I ALSO WELCOME THE OPPORTUNITY AFFORDED ME TO SAY A FEW WORDS ABOUT THE SOUTH AFRICAN ECONOMY AND OUR TRADE AND ECONOMIC RELATIONS WITH WESTERN EUROPE.

AS MOST OF YOU ARE, NO DOUBT, AWARE, SOUTH AFRICA'S TRADE AND OTHER RELATIONS WITH WESTERN EUROPE ARE OF LONG STANDING. THESE RELATIONS HAVE, INDEED, BEEN DEVELOPED AND BUILT OUT OVER

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CENTURIES. AND, TO AN IMPORTANT EXTENT, THE DEVELOPMENT OF THE RELATIONS IS CONNECTED WITH THE FACT THAT THE WHITE POPULATION OF SOUTH AFRICA DESCENDED FROM THE MOST ENTERPRISING AND INDUSTRIOUS NATIONS OF EUROPE. THOSE WHO CAME TO SOUTH AFRICA BROUGHT WITH THEM THE SKILLS AND KNOWLEDGE OF THEIR TIME AND, WITH THE ASSISTANCE OF THESE QUALITIES, LAID THE FOUNDATIONS FOR SUSTAINED ECONOMIC GROWTH.

WHILE SOUTH AFRICA INITIALLY DEPENDED UPON AN AGRICULTURAL SUBSISTENCE ECONOMY AND PRODUCED LITTLE OR NO GOODS FOR EXPORT TO WORLD MARKETS, THE POSITION IMPROVED PROGRESSIVELY. IN ADDITION TO EXPANDING THE AGRICULTURAL INDUSTRY BY PRODUCING AN INCREASING VARIETY OF COMMODITIES FOR DOMESTIC CONSUMPTION AND FOR EXPORT, SOUTH AFRICA ALSO MOVED INTO MINING AFTER THE DISCOVERY

OF./......

OF, FIRSTLY, DIAMONDS AND GOLD DURING THE SECOND HALF OF THE NINETEENTH CENTURY. THESE AND SUBSEQUENT DISCOVERIES OF OTHER MAJOR MINERALS ENABLED SOUTH AFRICA TO FIRMLY ESTABLISH ITSELF AS ONE OF THE PRINCIPAL SOURCES OF SUPPLY OF ESSENTIAL MINERALS AND INDUSTRIAL RAW MATERIALS WHICH ARE NEEDED IN EVER-INCREASING QUANTITIES BY THE COUNTRIES OF THE WESTERN WORLD.

THE MINING OPERATIONS IN SOUTH AFRICA ALSO BROUGHT IN THEIR WAKE, AMONGST OTHERS, A STRONG EXPANSION IN THE COUNTRY'S INFRASTRUCTURE AND, FURTHERMORE, LED TO THE DEVELOPMENT OF MANUFACTURING INDUSTRY. THESE PROCESSES RECEIVED ADDED MOMENTUM THROUGH THE INFLOW OF FOREIGN CAPITAL AND TECHNICAL SKILLS WHICH WERE ATTRACTED TO SOUTH AFRICA AS A RESULT OF THE NEW OPPORTUNITIES FOR EARNING A HANDSOME REWARD. IN ADDITION, THE GROWTH OF SECONDARY INDUSTRY WAS GREATLY ACCELERATED BY THE EXCEPTIONAL

CIRCUMSTANCES WHICH PREVAILED DURING AND IMMEDIATELY AFTER THE TWO WORLD WARS, AS WELL AS BY OFFICIAL POLICIES AIMED AT GIVING ENCOURAGEMENT TO THIS BRANCH OF ECONOMIC ACTIVITY.

DUE TO THE NATURE OF ITS DOMESTIC ECONOMIC ACTIVITIES, SOUTH AFRICA WAS TRADITIONALLY AN IMPORTER OF MANUFACTURED CONSUMER AND CAPITAL GOODS AND AN EXPORTER OF AGRICULTURAL COMMODITIES AND MINERAL PRODUCTS. HOWEVER, AS SECONDARY INDUSTRY EXPANDED, ITS CONTRIBUTION TO TOTAL EXPORTS ALSO INCREASED. YET, AGRICULTURAL AND MINING PRODUCTS STILL CONSTITUTE AN IMPORTANT PART OF SOUTH AFRICA'S EXPORTS AND IT REMAINS THE POLICY OF THE SOUTH AFRICAN GOVERNMENT TO DIVERSIFY THE COMMODITY COMPOSITION OF THE COUNTRY'S EXPORT TRADE.

THIS ALSO APPLIES TO THE GEOGRAPHICAL DISTRIBUTION OF SOUTH AFRICA'S EXPORT TRADE. IN THIS RESPECT I NEED MERELY MENTION THAT SOME 65 PER CENT OF THE COUNTRY'S MERCHANDISE EXPORTS (EXCLUDING GOLD) IS CONCENTRATED ON SIX MAJOR MARKETS, NAMELY THE USA 18,6 PER CENT IN 1978, THE UNITED KINGDOM 16,8 PER CENT, JAPAN 10,5 PER CENT, WEST GERMANY 9,2 PER CENT, SWITZERLAND 6,4 PER CENT AND FRANCE 3,8 PER CENT. WHILE THERE IS OBVIOUSLY A NEED FOR GREATER MARKET DIVERSIFICATION, THESE FIGURES ALSO UNDERLINE THE IMPORTANCE OF WESTERN EUROPE AS AN OUTLET FOR SOUTH AFRICAN EXPORTS.

IT IS EQUALLY SIGNIFICANT THAT THE SIX COUNTRIES WHICH I HAVE JUST MENTIONED ACCOUNTED FOR MORE THAN 75 PER CENT OF SOUTH AFRICA'S TOTAL IMPORTS IN 1978. THE FACT THAT THE REPUBLIC'S IMPORT TRADE IS DOMINATED TO SUCH A LARGE EXTENT BY THESE COUNTRIES IS NOT SURPRISING, SINCE SOUTH AFRICA HAS ALWAYS

PRESENTED/......

PRESENTED AN EXPANDING AND LUCRATIVE MARKET FOR THE SOPHISTICATED MACHINERY, EQUIPMENT AND INDUSTRIAL MATERIALS WHICH THEY PRODUCE. ALTHOUGH SOUTH AFRICA IS TECHNICALLY QUITE CAPABLE OF MANUFACTURING MANY OF THESE PRODUCTS, IT STRONGLY BELIEVES IN THE BENEFITS OF COMPARATIVE ADVANTAGE IN INTERNATIONAL TRADE. CONSEQUENTLY, WE WILL CONTINUE TO IMPORT MUCH OF OUR REQUIREMENTS FROM OUR TRADITIONAL TRADING PARTNERS IN THE BELIEF THAT THEY, IN TURN, WILL CONTINUE TO BUY FROM US PRODUCTS WHICH WE CAN SUPPLY AT COMPETITIVE PRICES ON A CONTINUOUS BASIS.

IN THIS RESPECT I MAY ADD THAT, IN ACCORDANCE WITH MY GOVERNMENT'S FAITH IN A MARKET-ORIENTED ECONOMY, SOUTH AFRICA ALSO BELIEVES THAT THE FREE FLOW OF GOODS AND SERVICES ACROSS THE BORDERS OF COUNTRIES SHOULD BE DICTATED BY ECONOMIC CONSIDERATIONS ONLY,

AND/......

AND SHOULD NOT BE SUBJECTED TO POLITICAL INFLUENCES. WE ARE FIRMLY CONVINCED THAT, IRRESPECTIVE OF POLITICAL AND IDEOLOGICAL DIFFERENCES BETWEEN COUNTRIES, THEY COULD STILL MAINTAIN SOUND ECONOMIC RELATIONS PROVIDED THAT THEY RESPECT EACH OTHER'S SOVEREIGNTY AND APPLY A POLICY OF NON-INTERFERENCE IN THE DOMESTIC AFFAIRS OF THEIR TRADING PARTNERS. WITH THIS END IN VIEW, IT HAS ALWAYS BEEN AND STILL REMAINS THE POLICY OF THE SOUTH AFRICAN GOVERNMENT NOT TO PARTICIPATE IN ANY BOYCOTT ACTIONS, BECAUSE IN THE END THESE PROVE TO BE COUNTER-PRODUCTIVE IN THE SENSE THAT THEY DO NOT SERVE TO PROMOTE THE ECONOMIC WELL-BEING OF THE INHABITANTS OF THE COUNTRIES CONCERNED.

THE FOREIGN TRADE SECTOR IS, OF COURSE, ALSO INFLUENCED TO A LARGE EXTENT BY THE GENERAL ECONOMIC CONDITIONS WHICH PREVAIL AT HOME AND ABROAD. IT MAY BE APPROPRIATE, THEREFORE, TO TAKE A CLOSER

LOOK/.....

LOOK AT THE PRESENT STATE OF THE SOUTH AFRICAN ECONOMY AND THE PROSPECTS IN THE SHORTER AND LONGER TERM.

IN GENERAL, ECONOMIC CONDITIONS IN SOUTH AFRICA HAVE IMPROVED NOTICEABLY IN THE RECENT PAST. AFTER THE REAL RATE OF ECONOMIC GROWTH HAD SLOWED DOWN FROM 8 PER CENT IN 1974 TO AN ANNUAL AVERAGE OF ABOUT 1,5 PER CENT DURING THE YEARS 1975 TO 1977, IT ACCELERATED TO 2,5 PER CENT IN 1978. THIS RECOVERY WAS LARGELY DUE TO THE EXPANSIONARY EFFECTS OF A SUBSTANTIAL INCREASE IN EXPORTS AND IN THE NET GOLD OUTPUT.

FROM THE FIGURES WHICH I HAVE JUST QUOTED IT WILL BE CLEAR THAT, ECONOMICALLY SPEAKING, SOUTH AFRICA PASSED THROUGH DIFFICULT TIMES DURING THE THREE YEARS 1975 TO 1977. THESE YEARS WERE CHARACTERISED BY EXCEPTIONALLY LOW RATES OF ECONOMIC GROWTH, COUPLED WITH, AMONGST OTHERS, RISING UNEMPLOYMENT,

A/......

A RELATIVELY HIGH RATE OF INFLATION AND A DIFFICULT BALANCE OF PAYMENTS PROBLEM. HOWEVER, THE SOUTH AFRICAN GOVERNMENT TOOK STRONG REMEDIAL MEASURES WITH A VIEW TO RESTORING SOUND ECONOMIC GROWTH.

THE LATEST AVAILABLE INFORMATION ALSO INDICATES THAT THE ECONOMIC REVIVAL IN SOUTH AFRICA WHICH HAS BEEN EVIDENT SINCE 1978, IS STILL GAINING MOMENTUM AND BECOMING MORE EXTENSIVE. HOWEVER, IT APPEARS THAT, APART FROM AN APPRECIABLE RISE IN THE VALUE OF GOLD PRODUCTION DUE TO THE FURTHER CONSIDERABLE INCREASE IN THE PRICE OF GOLD, THE INITIALLY EXPORT-LED RECOVERY IN THE ECONOMY IS GRADUALLY MAKING WAY FOR A CONSUMPTION-LED RECOVERY.

WHEREAS THE VOLUME OF EXPORTS (EXCLUDING GOLD) ROSE BY 4 PER CENT IN 1978, AN INCREASE OF ONLY ABOUT 1,5 PER CENT WAS RECORDED DURING THE FIRST NINE

MONTHS/......

MONTHS OF 1979, COMPARED WITH THE CORRESPONDING PERIOD OF 1978. ON THE OTHER HAND, PRIVATE CONSUMPTION EXPENDITURE SHOWED A RELATIVELY SHARP UPTURN IN THE THIRD QUARTER OF 1979 AND, MEASURED IN REAL TERMS, WAS ABOUT 2,5 PER CENT HIGHER DURING THE FIRST NINE MONTHS OF 1979 THAN IN THE SAME PERIOD OF 1978, COMPARED WITH AN INCREASE OF ONLY 1,5 PER CENT DURING 1978 AS A WHOLE.

THE IMPROVEMENT IN PRIVATE CONSUMER DEMAND WAS ALSO ACCOMPANIED BY A BETTER UTILISATION OF THE EXISTING PRODUCTIVE CAPACITY IN MANUFACTURING INDUSTRY AS WELL AS BY AN INCREASE IN THE REAL FIXED INVESTMENT IN THIS INDUSTRY. IN ADDITION, REAL FIXED INVESTMENT IN THE MINING SECTOR AND IN HOUSING CONSTRUCTION SHOWED MARKED INCREASES DURING THE THIRD QUARTER OF 1979.

OTHER/......

OTHER INDICATIONS OF THE CONTINUED REVIVAL IN THE SOUTH AFRICAN ECONOMY ARE A MORE RAPID INCREASE IN THE VOLUME OF MANUFACTURING PRODUCTION; A RENEWED RISE IN THE VOLUME OF MINING PRODUCTION (EXCLUDING GOLD); AND A FURTHER INCREASE IN THE CONTRIBUTION OF THE CONSTRUCTION SECTOR TO THE REAL GROSS DOMESTIC PRODUCT. IN ADDITION, WHOLESALE AND RETAIL SALES, MEASURED AT CONSTANT PRICES, INCREASED IN THE THIRD QUARTER OF 1979 FOR THE FIRST TIME SINCE THE LAST QUARTER OF 1978.

NOTWITHSTANDING THESE FAVOURABLE DEVELOPMENTS, THERE ARE ALSO SOME FACTORS WHICH HAVE A RETARDING EFFECT ON THE ATTAINMENT OF A SATISFACTORY RATE OF ECONOMIC GROWTH IN THE FORESEEABLE FUTURE. IN THE FIRST PLACE, PRIVATE FIXED INVESTMENT IS NOT YET INCREASING AT A DESIRABLE RATE. SECONDLY, ECONOMIC CONDITIONS IN MOST OF THE MAJOR

INDUSTRIAL/......

INDUSTRIAL COUNTRIES OF THE WORLD APPEAR TO BE DETERIORATING, WHICH IN TIME MAY LEAD TO A FURTHER SLOWDOWN IN THE GROWTH OF SOUTH AFRICA'S EXPORTS.

NEVERTHELESS, A FURTHER INCREASE IN THE RATE OF ECONOMIC GROWTH CONTINUES TO BE THE MAIN OBJECTIVE OF THE SOUTH AFRICAN GOVERNMENT'S ECONOMIC POLICY IN THE SHORTER TERM. AND, THE GOVERNMENT HAS ALSO INDICATED THAT, IN THE FORMULATION OF ITS ECONOMIC POLICY IN THE NEAR FUTURE, ATTENTION WILL BE GIVEN TO MEASURES WHICH WILL ALSO BE CONDUCIVE TO SOUND ECONOMIC GROWTH IN THE LONGER TERM.

IN THIS REGARD, THE CRUX OF THE MATTER IS THE MAINTENANCE OF A RELATIVELY HIGH RATE OF ECONOMIC GROWTH, WHICH IS ESSENTIAL FOR SOCIAL AND POLITICAL REASONS, WITHOUT CAUSING BALANCE OF PAYMENTS PROBLEMS WHILE DOING SO. FORTUNATELY,

SOUTH/......

SOUTH AFRICA'S BALANCE OF PAYMENTS PROVIDES ENOUGH ROOM FOR A CONTINUED UPTURN IN THE ECONOMY. IN FACT, THE CURRENT ACCOUNT OF THE COUNTRY'S BALANCE OF PAYMENTS IS AT PRESENT CONSIDERABLY STRONGER THAN WAS PREVIOUSLY FORESEEN. THE SURPLUS ON THE CURRENT ACCOUNT AMOUNTED TO APPROXIMATELY R2600 MILLION DURING THE FIRST NINE MONTHS OF 1979.

MOREOVER, THE SOUTH AFRICAN GOVERNMENT BELIEVES THAT THE PURSUIT OF AN INCREASED RATE OF ECONOMIC GROWTH NEED NOT RESULT IN AN ACCELERATION OF THE HIGH RATE OF INFLATION WHICH WAS EXPERIENCED IN 1979 AND WHICH WAS AND STILL IS A CAUSE FOR CONCERN. DURING THE FIRST NINE MONTHS OF 1979 THE CONSUMER PRICE INDEX WAS ON AN AVERAGE 12,8 PER CENT HIGHER THAN DURING THE CORRESPONDING PERIOD OF 1979. HOWEVER, THIS RISE CAN LARGELY BE ASCRIBED TO AN EXCEPTIONAL CONCURRENCE OF

CIRCUMSTANCES/......

CIRCUMSTANCES WHERE THE EFFECTS OF INCREASES IN THE PRICES OF SEVERAL MAJOR COMMODITIES AND SERVICES COINCIDED. CONSEQUENTLY, THE GOVERNMENT IS OF THE OPINION THAT THE SOLUTION TO THE PROBLEM OF INFLATION SHOULD BE SOUGHT MAINLY ALONG THE LINES OF PRODUCTIVITY INCREASES AND PRICE AND WAGE DISCIPLINE.

BUT APART FROM THE NECESSITY TO RAISE THE RATE OF ECONOMIC GROWTH FURTHER, IT IS THE INTENTION TO EFFECT, TO THE EXTENT WHICH THE NEXT BUDGET IN MARCH 1980 WOULD PERMIT, FURTHER TAX REFORMS WHICH ARE DIRECTED, AS FAR AS POSSIBLE, AT STRENGTHENING PERSONAL SAVINGS AND THE INTERNAL FINANCING ABILITY OF UNDERTAKINGS WITH A VIEW TO PROMOTING PRIVATE FIXED INVESTMENT. SUCH A STEP WOULD, IF IMPLEMENTED, CONSTITUTE A CONTINUATION OF A MAJOR TAX REFORM PROGRAMME WHICH

WAS/......

WAS STARTED IN 1978 WHEN A GENERAL SALES TAX WAS INTRODUCED WHICH COMPRISED THE MOST COMPREHENSIVE TAX MEASURE TO BE APPLIED IN SOUTH AFRICA SINCE THE ADOPTION OF THE INCOME TAX ACT IN 1914. THIS SERVED AS A FIRST STEP IN BRINGING ABOUT A GRADUAL SHIFT FROM DIRECT TO INDIRECT TAXATION IN ORDER TO ACHIEVE A MORE BALANCED DISTRIBUTION OF THE TAX BURDEN OVER THE WHOLE POPULATION AND A STABILIZATION OF THE TAX FLOW.

AS I HAVE ALREADY SAID, THE MAINTENANCE OF A RELATIVELY HIGH RATE OF ECONOMIC GROWTH IN SOUTH AFRICA IS ESSENTIAL FOR SOCIAL AND POLITICAL REASONS. AS FAR AS THE SOCIAL ASPECT IS CONCERNED, I HAVE IN MIND IN PARTICULAR THE PROVISION OF AMPLE EMPLOYMENT OPPORTUNITIES FOR THE COUNTRY'S GROWING POPULATION.

SOUTH AFRICA'S LATEST ECONOMIC DEVELOPMENT PROGRAMME INDICATES THAT AN AVERAGE ECONOMIC GROWTH RATE OF 5 PER CENT PER ANNUM IS REQUIRED OVER THE NEXT FEW YEARS TO ENSURE THAT EMPLOYMENT IN THE TRADITIONAL AREA OF SOUTH AFRICA, WHICH INCLUDES THE INDEPENDENT STATES OF TRANSKEI, BOPHUTHATSWANA AND VENDA, IS MAINTAINED AT A SATISFACTORY LEVEL.

IN THIS CONNECTION IT IS ACCEPTED THAT THE BETTER UTILISATION OF THE COUNTRY'S CAPITAL AND LABOUR RESOURCES COULD FURTHER INCREASE THE ECONOMIC GROWTH RATE AND CONSEQUENTLY ALSO THE PROVISION OF EMPLOYMENT. FOR THIS PURPOSE A SPECIAL ROLE IS ALSO ALLOCATED TO THE PRIVATE SECTOR PURSUANT TO THE SOUTH AFRICAN GOVERNMENT'S BELIEF IN THE PRINCIPLES OF A FREE ENTERPRISE ECONOMIC SYSTEM. THIS POLICY APPROACH HAS RECENTLY ALSO BEEN

RE-INFORCED BY MEANS OF VARIOUS MEASURES. THUS THE SOUTH AFRICAN GOVERNMENT ACCEPTED THE INTERIM REPORT ON EXCHANGE RATES WHICH WAS COMPILED BY THE DE KOCK COMMISSION OF ENQUIRY INTO THE MONETARY SYSTEM AND MONETARY POLICY IN SOUTH AFRICA, WHILE STEPS WERE ALSO TAKEN TO ALLOW THE PRIVATE SECTOR PARTICIPATION IN STATE CORPORATIONS, SUCH AS THE OIL-FROM-COAL PROJECT. THE GOVERNMENT BELIEVES THAT SUCH MEASURES WILL ENCOURAGE THE PRIVATE SECTOR TO PLAY ITS PROPER ROLE IN SOUTH AFRICA'S ECONOMIC DEVELOPMENT AND WILL MAKE A MAJOR CONTRIBUTION TOWARDS CREATING ADDITIONAL EMPLOYMENT OPPORTUNITIES FOR ALL SECTIONS OF THE COMMUNITY.

FURTHERMORE, THE GOVERNMENT SOME TIME AGO APPOINTED TWO COMMISSIONS OF INQUIRY INTO LABOUR MATTERS, KNOWN AS THE WIEHAHN AND RIEKERT

COMMISSIONS/......

COMMISSIONS. BOTH HAVE MADE IMPORTANT RECOMMENDA=TIONS IN THE FIELD OF LABOUR RELATIONS, AS WELL AS THE BETTER UTILISATION OF MANPOWER, AND VIRTUALLY ALL THEIR RECOMMENDATIONS HAVE BEEN ACCEPTED BY THE GOVERNMENT AND ARE NOW IN THE PROCESS OF BEING IMPLEMENTED.

THE RECOMMENDATIONS ALSO HAVE A BEARING ON THE ADAPTATIONS IN SOUTH AFRICA'S DOMESTIC POLICIES. IN THIS RESPECT MY GOVERNMENT HAS ALWAYS FIRMLY BELIEVED THAT SUCH ADAPTATIONS SHOULD BE EFFECTED IN AN EVOLUTIONARY AND NON-DISRUPTIVE MANNER WHICH PROMOTES PEACEFUL CHANGE AND STABLE ECONOMIC GROWTH, MUCH RATHER THAN IN A REVOLUTIONARY MANNER WHICH COULD ONLY JEOPARDISE THESE OBJECTIVES. ANY PRESSURE AND INTERFERENCE FROM OUTSIDE OUR BORDERS DO NOT SERVE TO PROMOTE THIS COURSE, BUT ONLY MILITATE AGAINST OUR EFFORTS TO FIND A PEACEFUL AND EQUITABLE SOLUTION TO OUR

DOMESTIC/......

DOMESTIC PROBLEMS, AS WELL AS TO PROMOTE ECONOMIC GROWTH AND CREATE ESSENTIAL EMPLOYMENT OPPORTUNITIES WITH A VIEW TO IMPROVING THE LIVING STANDARDS OF ALL SECTIONS OF THE COMMUNITY IN SOUTH AFRICA.

BUT APART FROM THESE IMPORTANT CONSIDERATIONS, THERE IS ANOTHER ASPECT WHICH I WOULD LIKE TO HIGHLIGHT AT THIS JUNCTURE. AND THAT IS THAT SO MANY THOUSANDS OF THE INHABITANTS OF OUR NEIGHBOURING COUNTRIES ARE TOTALLY DEPENDENT ON SOUTH AFRICA AS A SOURCE OF EMPLOYMENT FOR THEM. INDEED, THESE COUNTRIES ARE CLAMOURING FOR MORE OF THEIR PEOPLE TO BE ALLOWED TO WORK IN SOUTH AFRICA, WHICH IS INDICATIVE OF THE LUCRATIVE EMPLOYMENT OPPORTUNITIES WHICH THEIR INHABITANTS ENJOY IN SOUTH AFRICA. IT IS OBVIOUS, THEREFORE, THAT ANY ACTION ON THE SIDE OF OTHER COUNTRIES TO

BOYCOTT/......

BOYCOTT EXPORTS FROM AND RESTRICT THE FLOW OF INVESTMENT FUNDS AND SKILLS TO SOUTH AFRICA WOULD NOT ONLY DETRIMENTALLY AFFECT MY COUNTRY'S OWN PEOPLE, BUT ALSO THOSE OF ITS NEIGHBOURS.

I NEED HARDLY EMPHASISE THAT EXPORTS HELP TO PAY FOR IMPORTS, WHILE FOREIGN LOANS AND PRIVATE CAPITAL INFLOW HAVE ALWAYS PLAYED AN IMPORTANT ROLE IN SUPPORTING SOUTH AFRICA'S BALANCE OF PAYMENTS AND IN PROMOTING A FASTER RATE OF ECONOMIC GROWTH THAN WOULD OTHERWISE HAVE BEEN POSSIBLE. MOREOVER, INVISIBLE IMPORTS IN THE FORM OF ADVANCED TECHNOLOGY AND EXPERTISE HAVE GREATLY STRENGTHENED SOUTH AFRICA'S ABILITY TO MANUFACTURE TO AN INCREASING EXTENT SOPHISTICATED PRODUCTS BOTH FOR THE DOMESTIC MARKET AND FOR EXPORT. THE MEANINGFUL CONTRIBUTION WHICH SWISS TECHNOLOGY HAS MADE IN THIS RESPECT, NOTABLY IN THE PHARMACEUTICAL AND ENGINEERING FIELDS, IS

ALSO/......

ALSO WELL-KNOWN.

IT IS CLEAR, THEREFORE, THAT THROUGH THEIR ACTIVE PARTICIPATION IN THE SOUTH AFRICAN ECONOMY, EUROPEAN COMPANIES HAVE MADE AND ARE MAKING VITAL CONTRIBUTIONS TOWARDS IMPROVING THE LIVING STANDARDS OF <u>ALL</u> THE COUNTRY'S INHABITANTS. IN DOING SO, THEY ARE ALSO HELPING TO CREATE A FAVOURABLE CLIMATE FOR THE IMPLEMENTATION OF POLITICAL AND SOCIAL REFORM TO WHICH THE SOUTH AFRICAN GOVERNMENT HAS FIRMLY COMMITTED ITSELF.

THE GOVERNMENT'S RESPONSE TO THE ECONOMIC AND OTHER CHALLENGES WHICH CONFRONT SOUTH AFRICA, IS ALSO REFLECTED IN THE LONGER TERM ASPECTS OF OUR ACTIONS. AT PRESENT A NATIONAL ECONOMIC STRATEGY FOR THE COUNTRY IS BEING FORMULATED AND DRAFT POLICY GUIDELINES HAVE BEEN SET FORTH ALREADY FOR THE PURSUIT OF ECONOMIC OBJECTIVES WHICH NOT ONLY

ENVISAGE/.......

ENVISAGE THE MAINTENANCE OF A SATISFACTORY RATE OF ECONOMIC GROWTH AND THE PROVISION OF SUFFICIENT EMPLOYMENT OPPORTUNITIES, BUT ALSO THE FOLLOWING:

1. A SOCIALLY ACCEPTABLE DIVISION OF INCOME;
2. A SOCIALLY ACCEPTABLE GEOGRAPHIC DISTRIBU= TION OF ECONOMIC ACTIVITY;
3. SUFFICIENT PROVISION OF COLLECTIVE GOODS AND SERVICES;
4. ADEQUATE PROTECTION OF THE ECONOMY AGAINST EXTERNAL ECONOMIC, POLITICAL AND SECURITY THREATS; AND
5. THE PROMOTION OF ECONOMIC DEVELOPMENT IN, AND ECONOMIC CO-OPERATION BETWEEN, THE COUNTRIES OF SOUTHERN AFRICA.

ALL THESE OBJECTIVES ARE SUBJECT TO THE MAINTENANCE

OF/......

OF RELATIVE PRICE STABILITY AND EQUILIBRIUM IN THE BALANCE OF PAYMENTS.

THESE OBJECTIVES SERVE TO INDICATE THAT SOUTH AFRICA IS DOING ITS UTMOST TO SECURE CONDITIONS OF ORDERLY PROGRESS IN THE COUNTRY, AS WELL AS TO PROMOTE CO-OPERATION WITH ITS NEIGHBOURING STATES IN PARTICULAR.

AS REGARDS THE LATTER, YOU ARE PROBABLY ALSO AWARE OF THE FACT THAT THERE ALREADY EXIST CLOSE ECONOMIC AND TRADE TIES BETWEEN SOUTH AFRICA AND ITS NEIGHBOURING COUNTRIES AS WELL AS VARIOUS OTHER STATES ON THE AFRICAN CONTINENT. MY PRIME MINISTER HAS RECENTLY ANNOUNCED THE SOUTH AFRICAN GOVERNMENT'S FIRM DESIRE TO TAKE THE LEAD IN THE ESTABLISHMENT OF A CONSTELLATION OF SOUTHERN AFRICAN STATES WHICH COULD INCLUDE ANY COUNTRY IN THE SUB-CONTINENT WHICH IDENTIFIES THE NEED TO EXPAND RELATIONSHIPS

AND/......

AND TO CO-OPERATE IN A REGIONAL CONTEXT. HE ALSO POINTED OUT THAT COMPREHENSIVE RECIPROCAL RELATION= SHIPS ALREADY EXIST ON BOTH BILATERAL AND MULTI-LATERAL LEVELS WHICH OFFERED CONSIDERABLE POTENTIAL FOR EXTENSION AND RATIONALISATION. MUCH HAS ALREADY BEEN ACHIEVED ON A MULTI-LATERAL LEVEL BY WAY OF ORGANISATIONS SUCH AS THE CUSTOMS UNION BETWEEN SOUTH AFRICA, BOTSWANA, LESOTHO AND SWAZILAND, AS WELL AS WITHIN THE RAND MONETARY AREA.

THE CO-OPERATION AND ASSISTANCE OF THE PRIVATE SECTOR IN SOUTH AFRICA HAS ALSO BEEN SOLICITED IN THE FORMATION OF A CONSTELLATION OF SOUTHERN AFRICAN STATES.

FROM THESE BRIEF REMARKS IT WILL BE CLEAR THAT MEANINGFUL PROGRESS HAS ALREADY BEEN MADE IN MY COUNTRY TOWARDS FINDING ACCEPTABLE SOLUTIONS TO THE COMPLEX PROBLEMS WITH WHICH IT IS CONFRONTED.

I/......

I FIRMLY BELIEVE THAT, WITH THE GOODWILL AND ASSISTANCE OF OUR FRIENDS IN EUROPE AND OUR WILL TO SUCCEED IN THE TASK THAT LIES AHEAD, THE NEGATIVE FORCES AGAINST SOUTH AFRICA WHICH ARE OPERATIVE IN THE WORLD COULD BE NEUTRALIZED. GIVEN THE OPPORTUNITY AND FREEDOM FROM INTERFERENCE, SOUTH AFRICA WILL BE ABLE TO DEMONSTRATE IN A PRACTICAL MANNER THAT EVOLUTION IS BETTER THAN REVOLUTION; THAT ECONOMIC PROGRESS AND SOCIAL WELLBEING ARE MORE IMPORTANT THAN QUASI-POLITICAL SHIBBOLETHS; AND THAT TRUE FREEDOM FOR ALL PEOPLES STEMS FROM ECONOMIC INDEPENDENCE, MUTUAL RESPECT AND NATIONAL PRIDE.

I BELIEVE THAT IN ALL THE FIELDS WHICH I HAVE INDICATED, ORGANISATIONS LIKE THE SWISS-SOUTH AFRICAN ASSOCIATION CAN PLAY A VITAL ROLE IN

MEETING/......

MEETING THE CHALLENGES AND IN STRENGTHENING AND PROMOTING THE ALREADY CLOSE TIES BETWEEN OUR RESPECTIVE COUNTRIES.

Senator Horwood's golden grab-bag Budget

The bulging coffers of the State have produced a feeling of euphoria among taxpayers and hopes of a bumper Budget. Financial Editor **HOWARD PREECE** examines some of the options open to Senator Owen Horwood.

MOST people think Christmas is coming in March this year.

Senator Owen Horwood, the Minister of Finance, is expected to announce the biggest giveaway Budget in South African history in some two-and-a-half months' time.

He has, in fact, already promised major concessions

The crucial reason for the euphoria is obvious to everyone. Gold.

As the price has bounded up from around $225 at the beginning of 1979 to over $600 early this year it has dramatically and fundamentally changed South Africa's economic and financial prospects

But it is important to see the Budget in perspective or else some may find the champagne a little flat on the day.

The white railway worker, the black labourer and the coloured housewife, among others, are not going to get all kinds of immediate fat cash handouts from Senator Horwood, although they will all get benefits.

However, the (overwhelmingly white) middle and upper income groups will certainly rejoice over very substantial tax reductions — the rejoicing possibly tempered in some cases by a clamp on 'tax-free "perks"

This means the Budget will clearly be attacked in some quarters as heavily biased in favour of the rich.

But Mr Aubrey Dickman, chief economist of Anglo American, says: "The Budget will, or should, be aimed at boosting growth in a balanced and sustainable way.

"To the extent that it succeeds, particularly in creating new jobs, everyone will benefit.

"Major tax reforms are necessary for this and the impact will filter through beyond the direct recipients "

Dr Johan Cloete, chief economist of Barclays National Bank and one of the most powerful critics of the Government's severe economic restraint in 1976-77, cautions that Senator Horwood dare not increase State spending much above the inflation rate without fuelling the present 14% rate further.

This means that if such diverse areas as defence and black education and training are to get particular boosts, real increases in other areas will have to be zero or even negative.

So do not look for sweeping across-the-board welfare and subsidy increases.

Dull and churlish would he be, however, who would dispute that gold offers Senator Horwood some great Budget opportunities.

- Balance of payments fears, even with frightening world oil prices, have disappeared, at least for the time being.
- Gold tax revenues have been pouring into the Treasury like a fruit machine jackpot. The original estimate for 1979-80 was R875-million. The Chamber of Mines now expects at least R1 400-million But the level could well be R1 500-million to R1 600-million.
- "Prepare to meet thy boom", says Dr Gerhard de Kock, senior deputy governor of the Reserve Bank and Senator Horwood's principal economic advisor.

Private sector economists broadly agree that after the lean years of stagnation and faltering recovery since 'the crash of 75' real growth next year will be a minimum 4,5% and maybe 5% to 5,5%.

Wide expectations that Senator Horwood will don red cloak and white beard and punctuate his Budget speech with plenty of "ho, ho, hos" while dishing out the presents are, therefore, wholly understandable and in many ways well based

Even with the reservations above it seems reasonable to assume that.

- PERSONAL income tax (but not the General Sales Tax) will certainly be cut. This could include cutting or scrapping the 10% loan levy.
- COMPANY taxation must also get some relief, boosted perhaps by bigger investment and export incentive.
- TAX concessions involving married women, child allowances, medical and insurance abatements, savings annuities and others will be announced.
- THE IMPORT surcharge of 7.5% on a sweeping range of goods looks set to be scrapped.

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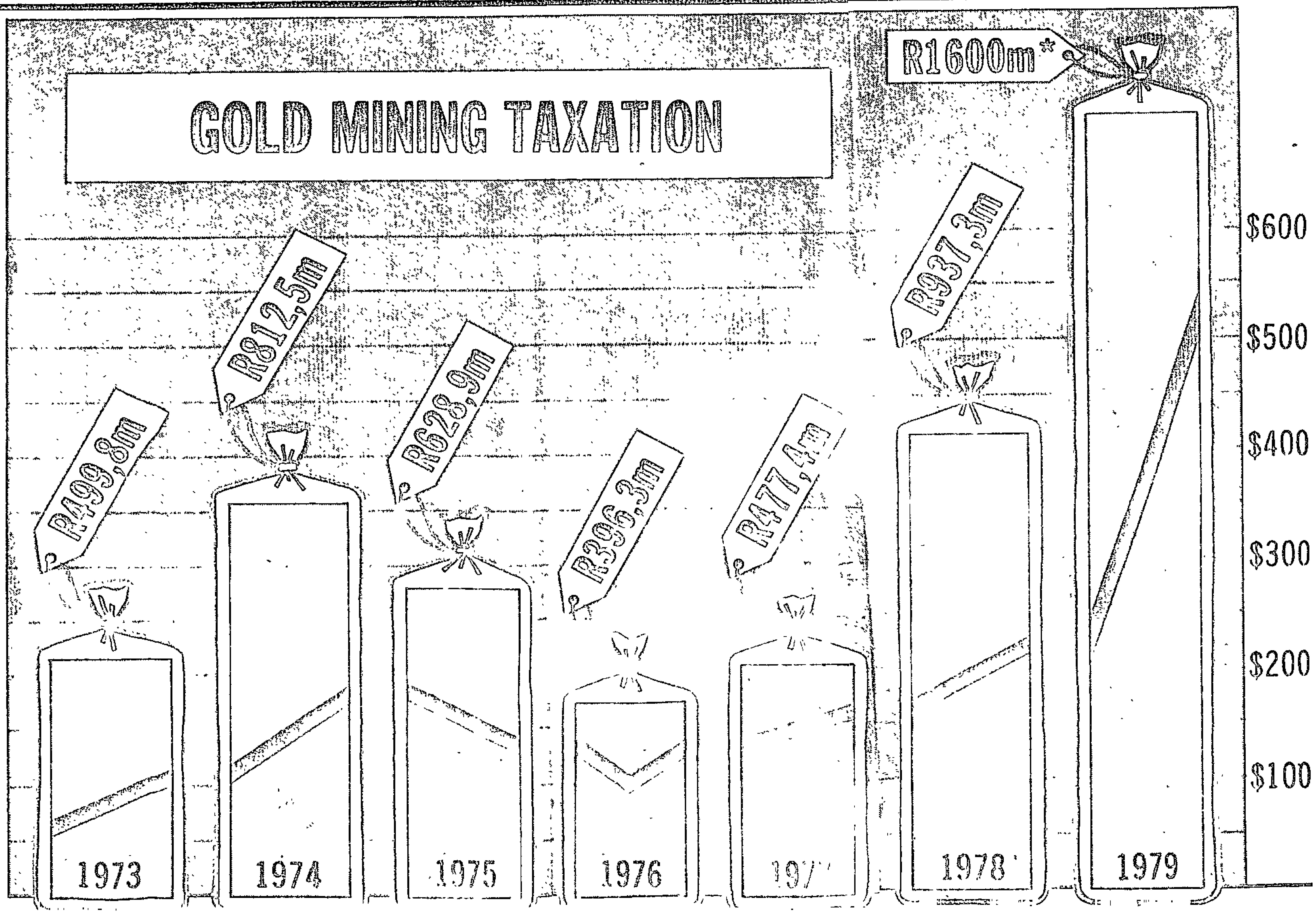

Senator Horwood is faced with something of a problem

He has to take a view on inflation but the decision he takes can itself affect inflation

Senator Horwood expects a real economic growth rate of 5% this year and will want a real rise in State spending of less than that to allow for the promised reduction of the proportionate public sector stake in the economy

What, however, does that mean in money terms?

Private sector economists variously expect inflation this year between 12% and 15%.

If Senator Horwood bases his estimates on 12% (or even below that) he risks holding back growth by too little public spending

On the other hand he will certainly come under heavy attack if he appears to be taking 14% or so inflation for granted

Most likely he will opt for the lower level estimate but state spending (like state revenue, unless the gold price collapses beyond plausibility at this stage) will turn out well above target

Apart from the likely scrapping of the import surcharge there will be little in the Budget that will directly restrain inflation.

Some private sector economists, such as Mr Andre Hammersma of Standard Bank, believe the best option for the Government is to let the rand appreciate in value on the back of gold and curb import costs.

Apart from attacks on a "rich man's Budget" Senator Horwood may well be criticised for not being bold enough in his tax concessions and in being too cautious in his revenue estimates.

We shall see. It is a pity, though, that some of those calling for great boldness now were such enthusiastic supporters of the clobbering of the economy in 1976-77

○ BLACK taxpayers have been promised the phasing out of separate taxation over three years. That will be further implemented this year. Last year the cost was R53-million.

That is one part of the equation. Another is particular assistance in some areas through special or higher-than-average increases in State spending.

Among items here will be

○ DIRECT help for the poorest groups, particularly the blacks, will be given — most likely through higher subsidies on food (definitely) and transport (probably).

○ INCREASES in State spending for 1980-81 will include proportionately large rises in black education and training, and, in conjunction with private enterprise, black housing.

○ PENSIONS will go up — about R10 a month for whites, R7 for coloureds and Asians and R4,50 for blacks.

○ TEACHERS and NURSES will get large percentage pay rises. Other civil servants may not be so fortunate, particularly if the Government genuinely wants to reduce their number.

But there are political issues here and who knows how the Cabinet will weigh those.

One of the main drawbacks of GST is that it can only really be changed in 1% moves and that is now around R300-million a scoop.

I cannot see a GST reduction in this Budget.

Much of all this has, of course, been heavily discounted already. The question is how big will the total package be.

Let us first clear away what seems to be something of a popular misunderstanding.

There is a tendency to estimate how much extra revenue Senator Horwood will have scooped in for 1979-80 over his original estimates and to assume that that is the amount he can "hand out" in his Budget for 1980-81.

Government finances do not in fact work that way.

In the first place Government spending for 1979-80 will also be well above the original estimate — perhaps 16% up against a 12% ...

The spending estimate for 1979-80 was R10 ... million.

It could all turn out to be R450-million or so higher.

When Senator Horwood announced the early repayment of loan levies in September last year (not part of the 1979-80 Budget sums) he cautioned that extra spending on items such as R75-million to stabilise fuel prices, R55-million to the Railways as remission of interest charges on investment in passenger services, a R45-million rise in the bread subsidy and so on were swallowing up higher revenues.

However, as he was also then some R450-million ahead of his borrowing schedule he was able to repay a large Government loan (with no new stock) without any financing problem.

The gold price has gone through the roof since then and so have gold revenues but the tax payments will not all be reflected in this financial year.

It is also likely that Senator Horwood has soft-pedalled on borrowing in the second half of 1979-80 — and will have not drawn the R221-million from the Stabilisation Account as estimated — so his realised Budget surplus is unlikely to be anywhere near the R1 000-million that is sometimes touted.

It could perhaps be R300-million to R400-million.

But in any case the important point is that tax and other concessions in the coming Budget will primarily depend on Treasury estimates for 1980-81 revenue and spending and on the broad economic strategy of the Government rather than on whatever arithmetic the Minister announces for 1979-80.

"Tell me this year's gold price and I'll tell you what is in

The gold price has gone through the roof since then and so have gold revenues but the tax payments will not all be reflected in this financial year.

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However, this would still be handsomely sufficient to allow tax concessions at the absolute minimum similar to those in the 1979 Budget.

There were then income tax reductions of R455-million and

the Budget" says Dr J H de Loor, the Secretary for Finance.

He wouldn't, of course, but the point is well made.

The Government, the Treasury and the Reserve Bank were all badly bitten in 1975 when they based their strategy on an assumption that the gold boom of 1974 would continue.

When gold went into reverse it was a painful experience and memories are still vivid.

I have no idea what gold price or range Senator Horwood will assume for his 1980-81 revenue estimates (nor, I am sure does he yet) but I would expect it to be below $400 even on the present level of the gold market.

However, this would still be handsomely sufficient to allow

came down last year from 48% to 46%. It will surely be eased further.

Total net tax concessions of R700-million to R800-million could certainly be on the cards.

But what about Government spending?

a R160-million reduction in the import surcharge from 12,5% to 7,5% on top of R150-million cuts in loan levies previously announced.

The top effective marginal tax rate was cut from 66% to 60,5%, with reductions down the line.

I would not expect the top rate in the coming Budget to come down much below 55% except as a part of a compensating deal for action on fringe benefits.

That could see it down to 50%.

Getting rid of the import surcharge would cost around R200-million.

Company tax, plus levy, came down last year from 48% to 46%. It will surely be eased further.

... concessions of ...

primed.

Of course, if we have any similar experience to the human tragedy and political blunder of the 1977 Biko incident we shall again pay a heavy economic price in lost opportunity even with a soaring gold price.

... depends crucially on physical factors such as manufacturing capacity and availability of skilled labour and the previous economic "over-kill" is a limiting factor to expansion now.

That aside, however, there clearly is a danger that Senator Horwood will be too timid — and not just in fiscal policy.

Against that it can be hoped that if the gold boom continues anywhere near its present level the economic upturn will automatically be accelerated through the private sector.

Senator Horwood can always take further action later and in any case it may well be in 1981 that he will most need money to keep the economic pump primed.

Of course, if we have any similar experience to the human tragedy and political blunder of the 1977 Biko incident we shall again pay a heavy economic price in lost opportunity

Embargo 15H30 op 15 Januarie 1980

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ADDRESS BY DR. THE HONOURABLE S.W. VAN DER MERWE, MINISTER OF INDUSTRIES AND OF COMMERCE AND CONSUMER AFFAIRS AT A MEETING ARRANGED FOR PROMINENT BUSINESS= MEN BY THE "HAMBURG HANDELSKAMMER" IN HAMBURG, FEDERAL REPUBLIC OF GERMANY ON 15 JANUARY 1980

THEME: ECONOMIC DEVELOPMENT, OBJECTIVES AND POLICIES IN SOUTH AFRICA

SEHR GEEHRTER HERR PRAESIDENT, SEHR GEEHRTE DAMEN, MEINE HERREN

DIESES IST MEIN ZWEITER BESUCH AN IHR SCHöNES LAND INNERHALB VON ETWA DREI MONATEN. ES FREUT MICH, DASS ICH DER EINLADUNG FOLGE LEISTEN KONNTE, HEUTE ALS GAST UNTER IHNEN ZU WEILEN UND EINE ANSPRACHE AN SIE ZU RICHTEN. SIE WERDEN JEDOCH VERSTäNDNISS DAFüR HABEN, DASS ICH MEINE REDE LEIDER NICHT IN IHRER MUTTERSPRACHE HALTEN KANN. SOMIT MöCHTE ICH MIT DIESEN PAAR WORTEN

MEINEN/...

MEINEN DANK ZUM AUSDRUCK BRINGEN FüR DIE HERZLICHE AUFNAHME DIE SIE MIR ERWIESEN HABEN.

THE THEME CHOSEN FOR MY ADDRESS IS: ECONOMIC DEVELOPMENT, OBJECTIVES AND POLICY IN SOUTH AFRICA. ON THE QUESTION OF ECONOMIC DEVELOPMENT, EVEN A BRIEF REVIEW OF ECONOMIC EVENTS DURING THE PAST DECADE CLEARLY REVEALS THE INHERENT STRENGTH AND RESILIENCE OF THE SOUTH AFRICAN ECONOMY. DURING THIS SHORT SPAN OF TIME, WE WERE ABLE TO OVER-COME AND ADAPT TO THE UNFAVOURABLE EFFECTS OF CONSECUTIVE AND SERIOUS INTERNATIONAL CRISES. THESE INCLUDED THE ADVERSE EFFECTS OF SUCH EVENTS AS -

- THE CONTINUED INTERNATIONAL MONETARY UNCERTAINTY;

- THE

- THE SUCCESSIVE RISES IN CRUDE-OIL PRICES, WHICH AFFECTED OUR INTERNAL COST STRUCTURE AND OUR EXTERNAL PAYMENTS SITUATION, AS WELL AS THE DIRECTION OF THE FUTURE DEVE= LOPMENT OF OUR ENERGY-INTENSIVE INDUSTRIES; AND

- THE HIGH INFLATION RATES, COUPLED WITH RECES= SIONARY CONDITIONS IN THE ECONOMIES OF OUR MAIN TRADING PARTNERS.

IN ADDITION TO THESE ADVERSE ECONOMIC FACTORS, WE HAD TO CONTEND WITH SUCH OTHER FACTORS AS THE TOTAL INTERNATIONAL, POLITICALLY- INSPIRED ONSLAUGHT AGAINST THE EXISTING ORDER IN OUR COUNTRY. ALTHOUGH THIS ACTION WAS INITIATED UNDER THE BANNER OF HUMANISM, IT SOON CAME TO BE EXPLOITED BY THE PROTAGONISTS OF THE MARXIST DRIVE TOWARDS WORLD DOMINATION. AS AN IMPORTANT SOURCE OF STRATEGIC RAW MATERIALS

TO THE WEST, AND AS THE GUARDIAN OF THE SEA ROUTES AROUND THE CAPE, SOUTH AFRICA WAS CAUGHT IN THE EAST-WEST AND NORTH-SOUTH IDEOLOGICAL CONFLICTS, WHICH HAVE DOMINATED THE SCENE OF INTERNATIONAL RELATIONS IN RECENT YEARS.

THE RESULTS WERE MANIFOLD: BADLY NEEDED FOREIGN CAPITAL WAS WITHHELD FROM US AND INTERNATIONAL BOYCOTTS, SANCTIONS AND THREATS AGAINST US BECAME THE ORDER OF THE DAY. SOUTH AFRICA WAS COMPELLED TO EMBARK ON COSTLY SCHEMES OF CONTINGENCY PLANNING TO ENSURE THAT SUFFICIENT STOCKS OF STRATEGIC MATERIALS WERE AT HAND AND TO FIND ALTERNATIVE MEANS OF SATISFYING OUR NEEDS, IF CONDITIONS SHOULD DETERIORATE.

BUT, WORST OF ALL, SOUTH AFRICA WAS UNWILLINGLY

DRAWN INTO A PROTRACTED AND SENSELESS LOW INTENSITY ANTI-INSURGENCY WAR AGAINST TERRORIST AGGRESSION, OR SO-CALLED LIBERATION FORCES. THESE TERRORISTS RECEIVED THEIR TRAINING AND IN= STRUCTION AS WELL AS THEIR WEAPONS FROM MOSCOW AND ITS SATELLITES. MANY OF THEM ALSO RECEIVE FINANCIAL AID FROM NUMEROUS FOREIGN ANTI-SOUTH AFRICAN ORGANISATIONS.

IN MY OPINION, MY COUNTRY'S ABILITY TO SUCCESS= FULLY EFFECT THE STRUCTURAL CHANGES AND ADAP= TATIONS NEEDED TO OVER-COME THE UNFAVOURABLE INFLUENCES OF THESE ECONOMIC AND OTHER FACTORS ARE TO BE FOUND IN -

(A) THE UNPRECEDENTED LONG TERM OF STABLE GOVERNMENT, WITH SOUND AND RATIONAL FISCAL AND MONETARY POLICIES, WHICH PROVIDED A HEALTHY BASIS FOR MAINTAINING INTERNAL LAW

AND/...

AND ORDER AS WELL AS EXTERNAL CREDIBILITY;

(B) THE SOLID FOUNDATIONS UPON WHICH MY COUNTRY'S ECONOMY IS BUILT, NAMELY ABUNDANT HUMAN AND NATURAL RESOURCES, WHICH COULD BE APPLIED TO MEET OUR CHANGING REQUIREMENTS, AS WELL AS THE ENTREPRENEURIAL TALENTS REQUIRED; AND

(C) THE ADHERENCE TO THE PRINCIPLES OF A PRIVATE ENTERPRISE ECONOMIC SYSTEM AND FREE INTERNATIONAL TRADE, COUPLED WITH THE ESSENTIAL NATURE OF OUR EXPORTS OF INDUSTRIAL RAW MATERIALS ON A BASIS OF NON-DISCRIMINATION AND NON-INTERFERENCE IN THE DOMESTIC POLICIES OF OTHER COUNTRIES.

BY AND LARGE, THE PROBLEMS WHICH BESET MY

COUNTRY'S/...

COUNTRY'S ECONOMY DURING THE PAST DECADE HAVE SO FAR BEEN COPED WITH SUCCESSFULLY. BUT THAT DOES NOT DETRACT FROM THE FACT THAT SOUTH AFRICA, LIKE ALL OTHER OIL-IMPORTING COUNTRIES, HAS PASSED THROUGH A VERY DIFFICULT PHASE IN ITS ECONOMIC HISTORY. IN FACT, DUE TO THE WORLD-WIDE RECESSIONARY CONDITIONS FOLLOWING THE 1973 OIL CRISIS, SOUTH AFRICA'S REAL ECONOMIC GROWTH RATE DURING THE PERIOD 1975 TO 1977 DECLINED TO AN AVERAGE OF 1,5 PER CENT PER ANNUM, AS AGAINST A SUSTAINABLE GROWTH POTENTIAL OF BETWEEN 5 AND 6 PER CENT PER ANNUM. AS A RESULT, UNEMPLOYMENT ROSE SUBSTANTIALLY; THE INFLATION RATE ACCELERATED TO DOUBLE DIGIT FIGURES; AND THE DEFICIT ON THE CURRENT ACCOUNT OF THE COUNTRY'S BALANCE OF PAYMENTS REACHED UNPRECEDENTED HIGH LEVELS, AT A TIME WHEN POLITICAL FACTORS INDUCED A SUBSTANTIAL NET

OUTFLOW/...

OUTFLOW OF FOREIGN CAPITAL, WHICH PLACED SEVERE PRESSURE ON OUR COUNTRY'S FOREIGN EXCHANGE RESERVES.

HOWEVER, THE STRINGENT MONETARY AND FISCAL POLICIES WHICH WERE INTRODUCED BY THE GOVERNMENT SUCCEEDED IN CURBING INFLATION TO AN EXTENT, WHILE A REMARKABLE TRANSFORMATION TOOK PLACE IN THE CURRENT ACCOUNT OF THE COUNTRY'S BALANCE OF PAYMENTS. THE CONSIDERABLE DEFICIT WAS TRANSFORMED INTO A SUBSTANTIAL SURPLUS, WHICH INCREASED FROM ABOUT 1,4 PER CENT OF SOUTH AFRICA'S GROSS DOMESTIC PRODUCT IN 1977 TO 3,6 PER CENT IN 1978, AND IS EXPECTED TO REACH THE LEVEL OF 4,5 PER CENT DURING 1979, OR ABOUT R3 000 MILLION. BUT, IN THE PROCESS OF CURBING INFLATION THE COUNTRY'S RATE OF ECONOMIC GROWTH DECLINED TO ALMOST NIL IN 1977 AND UNEMPLOYMENT INCREASED SUBSTANTIALLY.

/9/

AT THE END OF 1977 CONDITIONS SEEMED TO HAVE REACHED THE BOTTOM OF THE CYCLICAL TROUGH AND THE GOVERNMENT GRADUALLY CHANGED THE EMPHASIS OF ITS ECONOMIC POLICY TOWARDS STIMULATION, ALBEIT STILL WITH FINANCIAL DISCIPLINE. AS A RESULT THE RATE OF ECONOMIC GROWTH INCREASED TO 2,5 PER CENT IN 1978 AND IS EXPECTED TO REACH JUST MORE THAN 3 PER CENT DURING 1979, WHILE A FURTHER IMPROVEMENT TO BETWEEN 4 AND 5 PER CENT IS FORECAST FOR 1980.

THE IMPROVED GROWTH SCENARIO WAS SUPPORTED BY AN EXCELLENT EXPORT PERFORMANCE. APART FROM THE FAVOURABLE EFFECTS OF THE HIGH GOLD PRICE, THE VALUE OF MY COUNTRY'S OTHER MERCHANDISE EXPORTS HAS BEEN RISING STEADILY. A STRONG STIMULUS CAME FROM THE INCREASED EXPORT CAPACITY FOR COAL AND IRON ORE THROUGH THE NEWLY CON=

STRUCTED/...

STRUCTED RAIL AND HARBOUR FACILITIES AT RICHARDS BAY AND SALDANHA BAY. IN ADDITION, SOUTH AFRICA HAS SUBSTANTIALLY EASED ITS BURDEN OF SHORT TERM FOREIGN DEBT, AND, WITH THE INTRODUCTION OF THE NEW MORE FLEXIBLE EXCHANGE RATE POLICY, A MORE FAVOURABLE ATTITUDE AMONGST POTENTIAL FOREIGN INVESTORS IS ALREADY NOTICABLE. IN FACT, THE SOARING GOLD PRICE, THE INCREASING INTEREST DISPLAYED IN GOLD, DIAMONDS AND PLATINUM AS A HEDGE AGAINST INFLATION, AND THE GREATER DEMAND FOR COAL AND URANIUM AS ALTERNATIVE SOURCES OF ENERGY, HAVE ALL HELPED TO MAKE SOUTH AFRICA'S GOLD ANDINDUSTRIAL SHARES THE WORLD'S TOP PERFORMERS DURING 1979. TRADITIONALLY, SUCH AN INCREASE IN STOCKMARKET ACTIVITY HAS BEEN A GOOD INDICATION OF THE LEVEL OF LOCAL AND FOREIGN BUSINESS CONFIDENCE AND OPTIMISM IN THE COUNTRY'S ECONOMIC FUTURE.

THIS/...

THIS RETURN OF BUSINESS CONFIDENCE GAINS MORE SIGNIFICANCE IF IT IS SEEN AGAINST THE BACKGROUND OF THE MANY ADDITIONS TO THE COUNTRY'S INFRASTRUC=TURE, SUCH AS THE TWO NEW HARBOURS, WITH THEIR CONNECTING RAILWAY LINES, WHICH I HAVE ALREADY MENTIONED, AND THE INTRODUCTION OF A SYSTEM OF CONTAINERISED SHIPPING, TO NAME BUT A FEW.

FURTHERMORE, LARGE AMOUNTS OF CAPITAL HAVE BEEN INVESTED IN THE OIL-FROM-COAL PROJECT SASOL II AND III WHICH WILL EVENTUALLY SUPPLY APPROXIMATELY 40 PER CENT OF SOUTH AFRICA'S DEMAND FOR PETROL AND DIESEL OIL - A POSITION WHICH, IT IS HOPED, WILL BE REACHED BY 1985. THIS, TOGETHER WITH THE POSITIVE INFLUENCE OF THE FUEL CONSERVATION MEASURES, THE SHIFT TOWARDS THE GREATER USE OF ELECTRICITY AND THE SEARCH FOR ALTERNATIVE SOURCES OF ENERGY, SHOULD HELP TO REDUCE OUR DEPENDENCE ON IMPORTED FOSSIL

FUELS SIGNIFICANTLY IN THE NEAR FUTURE.

THE SOUTH AFRICAN ECONOMY IS, THEREFORE, WELL-PLACED TO SUSTAIN A HIGHER RATE OF ECONOMIC GROWTH AND DEVELOPMENT AND TO WITHSTAND OUTSIDE PRESSURES AND EFFORTS TO CUT THE COUNTRY OFF FROM ESSENTIAL FOREIGN SOURCES OF SUPPLY. THIS STRONG POSITION IS NOT ONLY IMPORTANT FROM AN ECONOMIC POINT OF VIEW, BUT IT IS ALSO A PREREQUISITE FOR UNDERPINNING THE PROCESS OF POLITICAL AND SOCIO-ECONOMIC IMPROVEMENT AND REFORM FOR ALL SECTIONS OF THE POPULATION TO WHICH MY GOVERNMENT HAS FIRMLY COMMITTED ITSELF.

IMPORTANT ASPECTS OF THIS PROCESS OF CHANGE, WHICH IS BASED ON THE PRINCIPLE OF RECOGNITION OF THE RIGHTS OF ALL POPULATION GROUPS ARE, AMONGST OTHERS, THE DEVOLUTION OF POLITICAL

AUTHORITY/...

AUTHORITY TO GOVERNMENTS SET UP FOR THE DIFFERENT POPULATION GROUPS; THE CREATION OF ECONOMIC OPPORTUNITIES FOR ALL THESE GROUPS, ESPECIALLY JOB ADVANCEMENT FOR BLACKS THROUGH STEPPED-UP TRAINING PROGRAMMES AND THE REMOVAL OF STATUTORY RESTRICTIONS ON ACCESS TO CERTAIN TRADES AND TRADE UNION RIGHTS, AS WELL AS THE ENCOURAGEMENT OF BLACK HOME-OWNERSHIP IN THE CITIES.

DURING THE PAST YEAR, VARIOUS IMPORTANT COMMIS= SIONS HAVE REPORTED TO THE GOVERNMENT ON DIFFERENT ASPECTS OF THE FUNCTIONING OF THE SOUTH AFRICAN ECONOMY. THESE INCLUDED THE DE KOCK, THE WIEHAHN AND THE RIEKERT REPORTS WHICH CONTAINED RECOMMENDATIONS FOR RADICAL CHANGES IN THE FIELDS OF EXCHANGE RATE POLICY, LABOUR RELATIONS AND THE BETTER UTILISATION OF MANPOWER, RESPEC=

TIVELY/...

TIVELY. MUCH PROGRESS HAS ALREADY BEEN MADE WITH THE IMPLEMENTATION OF THE RELEVANT RECOM= MENDATIONS. IN ADDITION, VARIOUS OTHER IMPORTANT INVESTIGATIONS ARE IN PROGRESS, FOR EXAMPLE, THAT OF THE WORKING GROUP ON A NEW INDUSTRIAL STRATEGY FOR SOUTH AFRICA, WHICH IS NEARING COMPLETION, AND THE INVESTIGATION INTO THE CONSOLIDATION OF THE NATIONAL STATES AND THE POSITION OF THE BLACK WORKER IN THE CITIES.

THE IMPLICATIONS OF THE RECOMMENDATIONS OF THE VARIOUS COMMISSIONS AND COMMITTEES HAVE EMPHASISED THE NEED FOR THE FRAMING AND IMPLE= MENTATION OF A CO-ORDINATED OVERALL NATIONAL STRATEGY, WHICH WOULD EMBRACE THE POLITICAL, SOCIAL AND SECURITY ASPECTS OF OUR POLICY, AND WHICH WILL BE BASED ON A SOUND AND INTEGRATED ECONOMIC DEVELOPMENT STRATEGY. ALL THESE ASPECTS ARE AT PRESENT RECEIVING THE URGENT ATTENTION OF MY GOVERNMENT.

[illegible]/...

IT IS OF SPECIAL SIGNIFICANCE TO NOTE THAT, APART FROM THE <u>INTEGRATED</u> NATURE OF SUCH A NATIONAL ECONOMIC DEVELOPMENT STRATEGY, A WHOLE NEW APPROACH HAS BEEN EMBARKED UPON, NAMELY THE RECOGNITION OF THE SPECIAL ROLE THAT <u>CO-OPERATION</u> WILL PLAY IN MY COUNTRY'S FUTURE DEVELOPMENT PLANS. THIS APPLIES TO CO-OPERATION BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR WITHIN THE BORDERS OF MY COUNTRY, AS WELL AS BETWEEN SOUTH AFRICA AND THE OTHER INDEPENDENT STATES IN SOUTHERN AFRICA.

IN FRAMING THE BROAD NATIONAL ECONOMIC DEVELOPMENT STRATEGY, MY COUNTRY'S VARIOUS NATIONAL OBJECTIVES, THE MEANS AT ITS DISPOSAL, AND ITS PRIORITIES WILL HAVE TO BE BORNE IN MIND. THIS STRATEGY WILL HAVE TO PROVIDE A FRAMEWORK OF BROAD POLICY GUIDELINES, GEARED TOWARDS ACHIEVING THOSE NATIONAL OBJECTIVES.

THE <u>PRIMARY</u> NATIONAL ECONOMIC OBJECTIVE OF SOUTH AFRICA IS THE MAINTENANCE OF A RELATIVELY HIGH RATE OF ECONOMIC GROWTH AND EMPLOYMENT. THE LATEST ECONOMIC DEVELOPMENT PROGRAMME INDICATES THAT AN AVERAGE ECONOMIC GROWTH RATE OF 5 PER CENT PER ANNUM IS REQUIRED OVER THE NEXT FEW YEARS TO ENSURE THAT EMPLOYMENT IN THE TRADITIONAL AREA OF SOUTH AFRICA (WHICH INCLUDES THE INDEPENDENT STATES OF THE REPUBLICS OF TRANSKEI, BOPHUTHATSWANA AND VENDA) IS MAINTAINED AT A SATISFACTORY LEVEL.

IN ORDER TO ACHIEVE THIS MINIMUM GROWTH OBJECTIVE SPECIAL ROLES ARE ALLOCATED TO THE GOVERNMENT, THE PRIVATE AND FOREIGN SECTORS OF OUR ECONOMY. IN THIS CONNECTION, THE GOVERNMENT HAS ALREADY FIRMLY COMMITTED ITSELF TOWARDS REDUCING ITS STAKE IN THE ECONOMIC PROCESSES OF THE COUNTRY BY A THREE-PRONGED APPROACH, NAMELY, BY CURBING THE RISE IN PUBLIC EXPENDITURE AS FAR AS

POSSIBLE; BY KEEPING THE GROWTH IN THE MONEY SUPPLY UNDER CONTROL; AND BY FORFEITING TAX REVENUE THROUGH CONCESSIONS AND ALLOWANCES AIMED AT STIMULATING PRIVATE CONSUMPTION EXPENDITURE. AS A FURTHER MANIFESTATION OF THIS POLICY APPROACH THE GOVERNMENT NOW ALLOWS THE PRIVATE SECTOR TO TAKE UP EQUITY IN STATE CORPORATIONS SUCH AS THE SASOL OIL-FROM-COAL PROJECT AND THE SOUTH AFRICAN IRON AND STEEL INDUSTRIAL CORPORATION.

THE PRIVATE SECTOR IS THUS ENCOURAGED TO TAKE UP THE CHALLENGE AND ACCEPT A GREATER RESPONSIBILITY IN THE PURSUIT OF A FASTER RATE OF BALANCED ECONOMIC GROWTH WHICH WOULD NOT ONLY BRING ABOUT GREATER PROSPERITY TO THE REPUBLIC OF SOUTH AFRICA, BUT WOULD TRANSCEND ITS NATIONAL BORDERS AND STIMULATE ECONOMIC PROGRESS IN THE

NEIGHBOURING/...

NEIGHBOURING STATES. IN THIS CONNECTION, I NEED ONLY REFER TO THE HISTORIC MEETING ON 22 NOVEMBER 1979 WHEN THE SOUTH AFRICAN PRIME MINISTER MET WITH A LARGE NUMBER OF BUSINESS LEADERS IN THE COUNTRY TO EXCHANGE VIEWS ON THE RESPECTIVE ROLES OF THE GOVERNMENT AND THE PRIVATE SECTORS IN ACHIEVING THE COMMON OBJECTIVE OF A CONSTELLATION OF STATES IN SOUTHERN AFRICA.

AS FAR AS THE ROLE OF THE FOREIGN SECTOR IN OUR PURSUIT OF A HIGH ECONOMIC GROWTH RATE IS CONCERNED, THERE ARE ALSO TWO VERY IMPORTANT ASPECTS WHICH COME TO MIND. ON THE ONE HAND THERE IS THE NEED FOR CLOSER ECONOMIC CO-OPERATI BETWEEN SOUTH AFRICA AND ITS NEIGHBOURING BLACK STATES. THIS NEED HAS BEEN EMPHASISED BY OUR PRIME MINISTER ON VARIOUS OCCASIONS AND FORMS

THE/...

THE FOUNDATION OF HIS PROPOSALS FOR A CONSTEL= LATION OF STATES IN SOUTHERN AFRICA. AS THE UNDISPUTED ECONOMIC LEADER IN A GEOGRAPHICAL AREA CONTAINING ECONOMIES WHICH ARE IN VARIOUS PHASES OF DEVELOPMENT, IT IS IMPERATIVE THAT SOUTH AFRICA SHOULD TAKE THE INITIATIVE IN THE COMMON PURSUIT OF ECONOMIC GROWTH AND HIGHER LIVING STANDARDS FOR EVERYONE IN THE REGION - A ROLE FOR WHICH IT IS ADEQUATELY EQUIPPED BECAUSE OF THE ADVANCED STAGE OF THE COUNTRY'S ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT.

ON THE OTHER HAND SOUTH AFRICA HAS BEEN TRADITIONALLY DEPENDENT ON FOREIGN INVESTMENT CAPITAL TO ENABLE IT TO ACHIEVE A HIGHER ECONOMIC GROWTH RATE THAN WOULD OTHERWISE BE POSSIBLE. SOUTH AFRICA HAS REACHED THE STAGE WHERE ENOUGH CAPITAL CAN BE MOBILISED

FROM/...

FROM INTERNAL SOURCES TO SUSTAIN A REAL GROWTH RATE OF BETWEEN 3,5 AND 4,5 PER CENT PER ANNUM, BUT THAT IS STILL FAR BELOW THE COUNTRY'S LONG TERM GROWTH POTENTIAL AND THE RATE OF GROWTH NEEDED TO REDUCE UNEMPLOYMENT EFFEC= TIVELY. CONSEQUENTLY, IT IS OBVIOUS WHY SOUTH AFRICA STILL WELCOMES FOREIGN CAPITAL AND KNOW- HOW.

THE SECOND ELEMENT OF THE COUNTRY'S ECONOMIC STRATEGY CONCERNS THE AIM TO PROVIDE SUFFICIENT EMPLOYMENT OPPORTUNITIES FOR ITS RAPIDLY INCREASING POPULATION. WITH AN AVERAGE POPULA= TION GROWTH RATE OF 2,7 PER CENT PER ANNUM OVER THE PAST DECADE, WHICH CONSTITUTED ONE OF THE HIGHEST AMONGST DEVELOPING COUNTRIES, THE CREATION OF MORE EMPLOYMENT OPPORTUNITIES, AND THE BETTER TRAINING AND UTILISATION OF ITS

LABOUR/...

LABOUR RESOURCES, REMAIN MAJOR POLICY OBJECTIVES. WITH THE IMPLEMENTATION OF THE RECOMMENDATIONS OF THE WIEHAHN AND RIEKERT COMMISSIONS OF INQUIRY, THE GOVERNMENT HAS LAID THE FOUNDATION FOR GREATER EMPLOYMENT, SECTORAL AND REGIONAL MOBILITY OF LABOUR, ESPECIALLY OF BLACKS, WHILE STEPPED-UP EDUCATIONAL AND TRAINING PROGRAMMES SHOULD CONTRIBUTE TOWARDS INCREASING LABOUR PRODUCTIVITY, MAKING IT EASIER FOR THE PRIVATE BUSINESS SECTOR TO ACCEPT THEIR CO-RESPONSIBILITY IN THIS MATTER. IN THIS PROCESS IT IS EXPECTED OF BUSINESSMEN TO RECOGNISE BROAD POLICY GUIDELINES ON SUCH MATTERS AS COMMUNITY DEVELOPMENT AND HOUSING; EMPLOYMENT CREATION THROUGH MORE LABOUR INTENSIVE PRODUCTION METHODS; SPECIAL ASSISTANCE TO SMALL BUSINESS UNDERTAKINGS; REGIONAL DEVELOPMENT; AND THE DECENTRALISATION OF INDUSTRIES WITH A VIEW TO BRINGING BALANCED

GROWTH/...

GROWTH TO RURAL AREAS, AS WELL AS THE BLACK STATES AMONGST AND AROUND SOUTH AFRICA.

THE THIRD IMPORTANT ECONOMIC OBJECTIVE IS TO MAINTAIN RELATIVE INTERNAL PRICE STABILITY. SOUTH AFRICA, LIKE OTHER COUNTRIES, IS CONFRONT WITH AN UNDESIRABLY HIGH RATE OF INFLATION. SINCE IT IS FACED WITH A CONTINUING SLUGGISH TREND IN THE TOTAL EFFECTIVE DOMESTIC DEMAND FOR GOODS AND SERVICES, ITS INFLATION CANNOT BE EFFECTIVELY CONTROLLED BY THE TRADITIONAL DEMAND MANAGEMENT POLICY INSTRUMENTS. THREE IMPORTANT FACTORS WHICH CONTRIBUTED TO THE PRESENT HIGH RATE OF INFLATION WERE THE POLICY OF NARROWING THE WAGE-GAP BETWEEN THE LOWER AND HIGHER INCOME GROUPS OF THE COMMUNITY, AS ONE OF THE FACTORS IN THE PROCESS OF SOCIAL REFORM TO WHICH THE GOVERNMENT HAS COMMITTED ITSELF; THE UNPRECEDENTED INCREASES IN THE PRICES OF

CRUDE/...

CRUDE-OIL WITH ALL ITS ADVERSE SECONDARY EFFECTS, SUCH AS EXPENSIVE PROGRAMMES OF STOCKPILING AND THE SEARCH FOR ALTERNATIVE ENERGY SOURCES; AND THE INTRODUCTION OF A GENERAL SALES TAX IN JULY 1978.

IN VIEW OF THE URGENT NEED TO CREATE MORE EMPLOYMENT OPPORTUNITIES, THE HIGHEST PRIORITY IS AT PRESENT BEING EXTENDED TO THE MAINTENANCE OF A HIGH ECONOMIC GROWTH RATE WHICH WOULD NOT ONLY CREATE MORE EMPLOYMENT OPPORTUNITIES, BUT WHICH WOULD ALSO RAISE THE LEVEL OF PRODUCTION CAPACITY UTILISATION. THIS, IN TURN, SHOULD BRING ABOUT A LOWERING OF THE UNIT COSTS OF PRODUCTION, THUS MAKING A SIGNIFICANT CONTRIBUTION TOWARDS THE FIGHT AGAINST INFLATION. THE GOVERNMENT HAS ALSO EMBARKED ON A CO-ORDINATED ANTI-INFLATION PROGRAMME WHICH WILL JOIN PUBLIC AND PRIVATE FORCES IN A CONCERTED

EFFORT TO CONTAIN PRICE INCREASES AS FAR AS POSSIBLE. IN THIS PROCESS, SPECIAL ATTENTION IS GIVEN TO ANY ADVERSE EFFECTS RESULTING FROM MONOPOLISTIC PRACTICES - A TASK ENTRUSTED TO THE NEWLY CONSTITUTED COMPETITION BOARD. SPECIAL ATTENTION WILL ALSO BE GIVEN TO INCREASING PRODUCTIVITY GENERALLY BY MEANS OF RATIONALISATION IN THE PUBLIC AS WELL AS IN THE PRIVATE SECTORS.

THE FOURTH IMPORTANT NATIONAL ECONOMIC OBJECTIVE IS TO MAINTAIN BALANCE OF PAYMENTS EQUILIBRIUM, AS AN ESSENTIAL PREREQUISITE FOR LONG TERM ECONOMIC GROWTH. FOREIGN TRADE HAS ALWAYS PLAYED A VERY IMPORTANT ROLE IN SOUTH AFRICA'S ECONOMIC DEVELOPMENT. IN FACT, TWO SALIENT FEATURES OF OUR COUNTRY'S ECONOMIC STRUCTURE ARE THE EXISTENCE OF A STRONG EXPORT SECTOR, ESPECIALLY FOR THE PRIMARY PRODUCTS OF AN

AGRICULTURAL AND MINING ORIGIN ON THE ONE HAND, AND A HEAVY DEPENDENCE ON IMPORTS, ESPECIALLY IN RESPECT OF INDUSTRIAL RAW MATERIALS AND CAPITAL GOODS REQUIRING A HIGH INPUT OF CAPITAL AND ADVANCED TECHNOLOGY.

INTERNATIONAL AGITATION AGAINST SOUTH AFRICA IN RECENT YEARS, HAS COMPELLED US TO PURSUE A POLICY AIMED AT REDUCING OUR DEPENDENCE ON FOREIGN SOURCES OF SUPPLY OF GOODS AND SERVICES, FOR EXAMPLE, THROUGH IMPORT SUBSTITUTION AND THE STOCK-PILING OF STRATEGIC COMMODITIES, SUCH AS CRUDE-OIL. ON THE OTHER HAND, SOUTH AFRICA HAS ALWAYS SUBSCRIBED TO THE PRINCIPLES OF FREE INTERNATIONAL TRADE IN THE FIRM BELIEF THAT RECIPROCAL TRADE BETWEEN COUNTRIES IS MUTUALLY BENEFICIAL AND WILL, THEREFORE, ADHERE TO THIS POLICY AS LONG AS IT IS IN THE COUNTRY'S INTEREST TO DO SO.

TO/...

TO MY MIND THEN, THE CONCLUSIONS TO BE DRAWN BY THE INTERNATIONAL COMMUNITY FROM THE ECO= NOMIC CONDITIONS, OBJECTIVES AND FUTURE POLICY IN SOUTH AFRICA IS THAT THINGS ARE MOVING IN THE RIGHT DIRECTION. THE DIFFERENT POPULATION GROUPS ARE IN THE PROCESS OF SORTING OUT PROBLEMS AMONGST THEMSELVES IN THE SEARCH FOR MUTUALLY ACCEPTABLE SOLUTIONS CAPABLE OF ACCOMMODATING THE POLITICAL AND SOCIO-ECONOMIC ASPIRATIONS OF ALL SECTIONS OF THE COMMUNITY. OUTSIDE PRESCRIPTIONS, OR ECONOMIC PRESSURES AGAINST SOUTH AFRICA COULD ONLY HINDER THIS HEALTHY EVOLUTIONARY PROCESS, AND WOULD DO MORE HARM TO THE VERY PEOPLE THEY ARE SUPPOSED TO HELP.

NATURALLY THE VARIOUS CHANGES AND REFORMS NEEDED TO IMPROVE THE QUALITY OF LIFE OF SOUTH

AFRICA'S/...

AFRICA'S INHABITANTS AND TO ASSIST THE NEIGH= BOURING BLACK STATES IN EMBARKING ON THE ROAD OF SUSTAINED ECONOMIC DEVELOPMENT, CAN ONLY BE IMPLEMENTED SUCCESSFULLY IF A HEALTHY RATE OF ECONOMIC GROWTH IS MAINTAINED. TOWARDS THIS END WE NEED THE POSITIVE SUPPORT AND GOODWILL OF WESTERN COUNTRIES, ASSISTED BY AN UNHINDERED RECIPROCAL FLOW OF GOODS AND SERVICES ACROSS OUR BORDERS, AS WELL AS A NET INFLOW OF FOREIGN INVESTMENT CAPITAL AND TECHNICAL KNOW-HOW. SOUTH AFRICA HAS ALWAYS BEEN A RELIABLE TRADING PARTNER AND WILL, AS IN THE PAST, OFFER RICH REWARDS IN THE FIELD OF FOREIGN CAPITAL INVESTMENT. ABOVE ALL, PARTICIPATING COUNTRIES WOULD BE JUSTIFIED IN CLAIMING THAT THEY ARE MAKING POSITIVE AND VISIBLE CONTRIBUTIONS TOWARDS CREATING BETTER LIVING CONDITIONS FOR THE PEOPLES OF SOUTHERN AFRICA, INSTEAD OF MERELY PAYING LIP-SERVICE TO VAGUE IDEOLOGICAL CONCEPTS.

I AM CONVINCED THAT SOUTH AFRICA STILL HAS MANY FOREIGN FRIENDS WHOSE JUDGEMENT HAS NOT BEEN CLOUDED BY THE DOUBLE STANDARDS AND UNJUSTIFIED CRITICISMS LEVELLED AT MY COUNTRY FROM INTERNATIONAL POLITICAL PLATFORMS. IN FACT, IT IS THIS KNOWLEDGE THAT HAS MADE IT A PLEASURE FOR ME TO ADDRESS THE MEMBERS AND GUESTS OF THE HAMBURG HANDELSKAMMER TO-DAY. IT IS MY WISH THAT THE FRIENDSHIP, MUTUAL TRADE AND OTHER RELATIONS BETWEEN OUR RESPECTIVE COUNTRIES WILL GROW FROM STRENGTH TO STRENGTH IN THE YEARS TO COME.

Massive boom in SA shares

CT 16/1/80

49

By GORDON KLING

THE GREATEST SHARE BOOM since the inception of the Johannesburg Stock Exchange (JSE) gathered momentum yesterday as the gold price soared to new records on world bullion markets.

Stockbrokers say the man-in-the-street is stampeding back into the market amid staggering price gains, for the first time since the crash of 1969. The outlook remains cautiously bullish.

Shares worth R34 566 641 were traded on the JSE yesterday, up from R28,7 million the previous day.

Daily trading values now exceed weekly values of less than a year ago, and the JSE last night released figures showing that turnover last week, at R102 262 817, was the highest ever recorded, up from the previous record of R98 810 621 in the week ended May 9, 1969.

The JSE computer has been running hours behind time in an effort to cope with the transaction surge.

Gold shares are now outperforming the bullion price, which closed at a record high of $683,50 an ounce in London last night. Shares in the speculative Lorraine gold mine, for example, have more than doubled in the past two weeks after a rise of more than 22 percent on Monday and 13 percent yesterday.

"The man in the street has come storming back into the market," said a Johannesburg broker. "We are getting orders for shares with no limit on the price. This can be dangerous, but it all depends on the gold price."

The latest surge is confined largely to gold shares, but strong performance by industrial shares caused the JSE to outperform every major bourse in the world last year and brokers yesterday believed this sector still held potential for further advances.

A Cape Town broker yesterday attributed the spectacular rises to a global flight out of paper money. South Africans could not buy bullion, but they were going for the next best thing in the form of gold shares, he said.

"You have to have nerves of steel, courage, and money if you want to play the gold shares now," he added.

Mr Max Borkum

But the acting president of the JSE, Mr Max Borkum, pointed out last night that changes in the Stock Exchange Act which required that share transactions be settled within seven working days had gone a long way towards eliminating the dramatic plunge of 1969, when payments were stalled for months.

"We are, of course, working longer hours," said Mr Borkum, who believed the boom could create one of the highest growth rates in the West and allow the country to settle major social, economic and political problems.

"South Africa is in the fortunate position that the rise in the price of its imports is being more than offset by the higher gold price. While other countries are introducing deflationary policies to reduce imports and raising interest rates to attract short-term funds, we can allow interest rates to remain at a low level.

"At the same time the Minister of Finance can stimulate the economy by means of tax concessions and additional expenditure by the public sector" he said.

Meanwhile, the Cape Times correspondent in London reports that brokers there say the gold share boom has brought the most active trading they have ever experienced in any previous mining share market rise, including the hectic Australian run in the early Seventies when some shares virtually went into orbit.

"I have never seen anything like this in my entire trading career in mining shares, and this period stretches over more than 20 years," said one senior broker

Economy healthy, says Minister

(49) 16-1-80 KDM

CAPE TOWN. — The South African economy is well placed to sustain a higher rate of economic growth and withstand outside efforts to cut it off from essential supplies, says the Minister of Industries and of Commerce and Consumer Affairs, Dr Schalk van der Merwe.

A copy of an address he made to the Hamburg Chamber of Commerce in West Germany was released in Cape Town yesterday.

Dr Van der Merwe said that in a short time South Africa had been able to overcome or adapt to the unfavourable effects of "continued international monetary uncertainty, rises in crude oil prices and high inflation".

"In addition, we had to contend with other factors such as the total international politically-inspired onslaught against the existing order in South Africa.

"Though this action was initiated under the banner of humanism, it soon came to the exploited by the protagonists of the marxist drive towards world domination.

"As an important source of strategic raw materials to the West, and as the guardian of the sea routes round the Cape, South Africa was caught in the East-West and North-South ideological conflicts which have dominated the scene of international relations in recent years.

"As a result, badly needed foreign capital was withheld from us, and international boycotts, sanctions and threats became the order of the day. South Africa was compelled to embark on costly schemes of contingency planning to meet our future needs.

"Worst of all, South Africa was unwillingly drawn into a protracted and senseless anti-insurgency war against terrorist aggression — or so-called liberation forces.

"South Africa has reached the stage where enough capital can be mobilised from internal sources to sustain a real growth rate of between 3,5% and 4,5% a year, but that is still far below the country's long-term potential and the rate of growth needed to reduce unemployment effectively.

"Countries trading with South Africa would be justified in claiming they are making positive and visible contributions towards better living conditions for the people of Southern Africa, instead of merely paying lip-service to vague ideological concepts.

"I am convinced that South Africa still has many foreign friends whose judgment has been clouded by the double standards and unjustified criticisms levelled at us from international political platforms."

TABLE I

MORTALITY RATES FOR THE 17 MAJOR DIVISIONS OF THE ICD (8th REVISION)

(Note: There are no tables for divisions V, XI, XII, XIII because of the small numbers in each of these categories).

,86	0,21	0,21	0,20	0,22
,20	1,14	0,78	0,36	0,45
,45	3,30	1,37	2,15	1,27
,98	5,48	2,78	5,45	2,93
,45	3,33	2,69	1,66	1,61
159	3792	3146	3472	2593

II

NEOPLASMS

	W		A		C		B	
	M	F	M	F	M	F	M	F
0-1	0,17	0,13	0,00	0,21	0,06	0,16	0,04	0,06
1-4	0,03	0,07	0,07	0,00	0,07	0,05	0,03	0,04
5-24	0,09	0,05	0,07	0,05	0,06	0,04	0,05	0,04
25-44	0,26	0,33	0,21	0,26	0,54	0,56	0,34	0,36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,68	2,32	1,91
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7,51	6,16	4,10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0,69	0,58	0,45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	809	3472	715

IC DISEASES

	W		A		C		B	
	M	F	M	F	M	F	M	F
0-1	0,09	0,05	0,06	0,21	2,27	1,68	2,31	1,96
1-4	0,03	0,01	0,00	0,05	1,27	1,08	1,02	1,29
5-24	0,01	0,01	0,01	0,01	0,01	0,01	0,02	0,02
25-44	0,02	0,02	0,08	0,08	0,08	0,05	0,06	0,07
45-64	0,09	0,12	0,39	0,88	0,28	0,42	0,24	0,61
65+	0,39	0,59	1,61	2,59	0,81	1,28	1,04	1,44
ALL	0,05	0,08	0,12	0,18	0,28	0,26	0,22	0,33
No.	114	173	43	63	316	307	455	530

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sday January 17 1980

Gold has won paper battle—Horwood

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17/1/80 Star

CAPE TOWN — The higher gold price had extremely favourable implications for South Africa "provided that financial discipline is maintained and Government spending kept under tight control," the Minister of Finance, Senator Owen Horwood said yesterday.

The benefits of the higher price had to be passed on to the general public in the most beneficial and lasting manner and, to this end "all actions with inflationary consequences, including excessive wage and salary increases, should be avoided," he said.

Commenting on the further rise in the gold price yesterday to record levels in excess of 750 dollars a fine ounce, the Minister said in a statement:

"Gold has clearly won the battle against paper currencies. In a world plagued by political uncertainties, inflation, payments imbalances and recessionary tendencies, businessmen, financiers and the general public, have rejected the attempts on the part of some governments to demonetise gold, and have demonstrated once again their faith in gold as a reliable store of value with eminent monetary characteristics.

"In this regard I have noted with interest the statement by the United States Secretary of the Treasury that treasury gold sales seem inappropriate in the present unsettled and uncharacteristic period.

"For the world as a whole, the recent behaviour of the gold price must

Horwood promises benefits for all

CAPE TIMES 17/1/80

(49)

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By GORDON KLING

AS THE GOLD BOOM took on the proportions of a chain-reaction explosion with the price shattering the $700-an-ounce barrier, the Minister of Finance, Senator Owen Horwood, last night pledged to pass on the benefits of the bonanza to the public.

And in a practical exhibition of foreign envy the discount on the financial rand, through which non-residents are enticed to invest in the country, continued to narrow towards the level South Africans have to pay for the same investments.

Senator Horwood said the implications for South Africa economy were "extremely favourable", provided financial discipline was maintained and government spending kept under tight control.

The benefits of the higher gold price, at $760 an ounce on the London bullion market after the close last night, "must be passed on to the general public in the most beneficial and lasting manner", he said.

To this end, he appealed for the avoidance of all actions with inflationary consequences, including excessive wage and salary increases.

The minister also gave new hope to South African businessmen of both a further relaxation in exchange control and an accelerated dismantling of the unpopular dual-currency system, comprising the ordinary commercial rand and the financial rand, which has highlighted the political risk of investing in the country since the system was created in the economic panic which followed the Sharpeville riots in 1960.

He said in a statement released in the City last night:

"Naturally, the rise in the gold price and accompanying developments, such as the marked strengthening of the financial rand, have important implications for our fiscal and monetary policies, including exchange rate and interest rate policy. These policies are therefore being kept under careful review and will be adjusted where necessary."

Investors continued to clamber on to the gold share bandwagon on world stock exchanges, and in Johannesburg the JSE was forced to declare an indefinite early closure to allow staff and computers to keep up with the frenetic activity on the trading floor.

From today trading on the JSE will cease at 3 pm instead of 4 pm.

The value of shares traded on the JSE set a new record, as has been the case all week, with R35,182 million changing hands, but there were signs of profit-taking and some of the more speculative shares closed weaker on the day.

Incredulous

Market observers attributed yesterday's rise to the usual world political ills, including the unease in Iran and the Soviet occupation of Afghanistan.

A statement by the United States Treasury Secretary that the US considered the present to be an inappropriate time to sell any of its gold, saw incredulous speculators rush to buy.

o The World Environmental Report said in its January edition that one of Africa's most ambitious environmental improvement plans — the grassing over of a 100 km-long belt of sterile gold mine dumps in South Africa — had been shelved as the soaring price of gold made the reprocessing of the dumps more profitable, Sapa-AP reported from New York last night.

The article noted that the dumps on the Witwatersrand contained 5 000 million tons of highly acidic powdered rock. In dry, windy weather silica dust storms once gave the Witwatersrand the highest incidence of ear, nose and throat problems in the world.

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Big gold trade is between US and Continent

Cape Times 17/1/80

By PAUL DOLD
Financial Editor

A soaring financial rand and a bout of profit-taking turned gold shares easier yesterday in spite of the leap in the bullion price.

The financial rand touched 110 at one stage from the previous 101 and effectively braked the gold sector's advance. While this high financial rand, which narrows the discount on the official commercial dollar rate and cuts the profit margin for foreign investors, is a drag on share prices, it will of course provide a comfortable cushion on the downside.

While the high financial rand patently suggests demand for gold shares there are of course big operators in the FR market itself who have made a 15 percent profit on the FR alone in the past few days.

Both the FR and the commercial rand are clearly undervalued — particularly the ordinary rand. The commercial rand is continuing to strengthen and closed at 1,2200 - 10

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Star 24/1/80 (49)

Reserve Bank steadies 'Kruger'

By Colin Campbell

The Reserve Bank's plan to buy Krugerrands at the market price of gold (based on the average of the last two London fixings) has been generally welcomed.

While the Reserve Bank says its action is not intended to take business away from the commercial banks it does say that its move is intended to give stability to a market which has been affected by widely fluctuating daily gold prices.

Some commercial banks, it has been suggested, have of late been buying and selling Krugerrands at a discount to the London gold price.

Presumably this has led to complaints from the general public whose avenue to date has been to sell to a bank, through the Stock Exchange, or to a coin dealer.

Now the Reserve Bank steps into the market as the buyer of last resort — and puts the value of the Krugerrand in its correct perspective.

The SA Mint and Coinage Act of 1964, as amended, declared that the Krugerrand is legal tender — but no one had taken much notice of this in past years because the Krugerrand had always traded at between 15 percent and 35 percent above its legal tender value.

The Reserve Bank will charge a handling fee of 1,05 US dollars, and the net US dollar price will be converted into Rands at the Bank's telegraphic transfer buying rate for US dollars.

Kruger rand chaos

Reserve Bank steps in

NM 24/1/80 (49)

Mercury Correspondent

CAPE TOWN — The South African Reserve Bank has stepped in to bring order to the Kruger rand market following the refusal of some banks to repurchase the coins from clients in the face of wild gyrations in the gold price.

The move, which follows reports of dissatisfaction with the trading practices surrounding the coins, preserves their role as legal tender.

It was announced in a Reserve Bank statement yesterday as investors continued to unload their holdings. Sellers of the one ounce gold coins have exceeded buyers since Friday, for the first time since the coins have been available in South Africa.

The Reserve Bank said the Kruger rand was legal tender to an unlimited amount in the Republic and the bank was accordingly prepared to buy them at its branches.

The purchase price will be determined by the average of the previous two fixings of the gold price on the London bullion market, less a handling charge of R1,05.

The conversion from the U S dollar price in which gold is quoted on the London market will be on the basis of the Reserve Bank's telegraphic transfer buying rate of exchange for the dollar.

Dramatic

Meanwhile, the gold price yesterday partly regained earlier dramatic losses to be fixed yesterday at 695 dollars in London, down 200 dollars from Tuesday's afternoon fixing but up on the morning opening of 580 dollars.

Heavy losses in more speculative gold shares were recorded on the Johannesburg Stock Exchange.

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Reserve Bank to buy Kruger rands

T. 24/1/80 (49)

By GORDON KLING

THE South African Reserve Bank has stepped in to bring order to the Kruger rand market after the refusal of some banks to repurchase the coins from clients in the face of wild gyrations in the gold price.

The move, which followed reports in the Cape Times on dissatisfaction with the trading practices surrounding the coins, preserves their role as legal tender.

The announcement was made by the Reserve Bank yesterday as investors continued to unload their holdings. Sellers of the one-ounce gold coins have exceeded buyers since Friday, for the first time since the coins have been available in South Africa.

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The conversion from the United States dollar price, in which gold is quoted on the London market, will be on the basis of the Reserve Bank's telegraphic transfer buying rate of exchange for the dollar.

The South African Gold Coin Exchange yesterday welcomed the Reserve Bank's undertaking to buy Kruger rands at their gold value.

"It's good news for Kruger rand investors," Mr Eli Levine, chairman of the exchange, said in Johannesburg.

Meanwhile, the gold price yesterday partially regained earlier dramatic losses to be fixed at $695 in London.

INDUSTRIAL MARKET

FM 25/1/80

Pay day for the faithful

The faithful who stuck by the industrial market through the thin times can prepare for the pay off. Rentals — and capital values — are soaring across the country, with Durban and the Reef leading the way.

The property market as a whole is on the up, of course, but the manufacturing sector looks to be out front. Rent on new space is topping the R2/m² mark in some cases and deals at R1,80/m² and 1,90/m² are commonplace. Equivalent rates 12 months ago lagged 30% to 50%.

Durban is feeling the upsurge more strongly than most, with prime-stock shortage and growing demand pushing rentals sharply upwards. Colin Peet of C G Peet and Witherow puts it down to the end of the 1969 building cycle — and the start of a new one. New stock, he reckons, must come on at R1,72 to R2/m² to provide a return on today's development costs.

Russell and Marriot's Michael Hyatt says space is going consistently at R1,40 to 1,50/m², rates reserved for prime space a year ago. Schemes now in preparation, he believes, will come on around R1,80 to 1,90/m², and he backs the prediction by citing the new R250 000 development for Mr X-Haust on the Moore/Umbilo Road corner. The starting rate is R2,09/m².

Predictably it is now the landlord who is seeking shorter leases and regular reviews. But RMS-Syfret's Wally Meyer sees no pressure on escalation rates, although he does expect a further all-round hike in rentals of 10% to 15%.

Prime space is now just about spoken for in both Durban and Pinetown. There's strong demand for mini factory units in Pinetown, says Sloane and Partners' John Sloane. Tailor-made units, he says, are fetching as much R2,70/m²

Pinetown veteran Max Dales claims to have done more industrial business in the last six months than the preceding two years. He expects rental hikes to be rapid. For example, where today's rate is R1,08/m², he says it should top R1,60/m² shortly. The main reason, as Dales sees it, is the small manufacturer. He's back in business, thanks largely to easier bank credit.

The Durban and reef markets appear to be running in tandem. In Johannesburg, says Landmark's Peter Frank, rentals are reflecting the increase in building and land costs. The Department of Planning's continuing strictures on new development is exacerbating the shortage of prime stock and industrialists are having to move increasingly away from the Witwatersrand core (as foreshadowed by Planning in its PWV Guide Plan — *FM* December 7, 1979).

While tatty stock is still fetching R1 to R1,20/m², Frank says, new developments in demand areas are commanding R1,80 to over R2m/² — very much the same as Durban. But a lot of the older space is still on tied rental and rates can be expected to harden as leases expire.

Richard Ellis' Alastair Barclay goes along with the crowd. But things are changing so rapidly, he warns, that the position can alter almost overnight. Rents have risen about 20% on the latest upswing, he says, and good factories and warehouses are coming in at R1,80 to R2/m² on the inner Witwatersrand.

Odd man out seems to be Cape Town. SRE Real Estate's Sam Turecki finds that where Durban is letting at R1,50/m², Cape Town is achieving little more than R1,10/m². Rates are rising, he says, but not as dramatically.

Indeed, says Turecki, Cape Town could do with an industrial shot-in-arm. Industrialists face rail-delivery bottlenecks and are under statutory disadvantage by having to use Coloured labour. That makes production more expensive and goods less competitive.

SRE's Duncan Tooley found in a recent survey that industrial land is plentiful around Cape Town but much of it is badly located with rail-served stands of 5ha or more hard to come by.

All round, however, investors can look forward to substantial capital gains — if they want to take them. Inevitably, better yields are pushing up values. Yet there's little point in getting out.

The faint-hearted who tied up tenants for 15 years with small escalations and no reviews might be tempted. But investors with reasonable leases may as well stay in — as fas as property is concerned there's nothing better to do with the money.

War fever a boost for SA

As the United States prepares to put more muscle into its counters to Soviet expansion, the prospects for the South African economy light up. Western spending on arms will be good for Southern Africa's minerals, and that 5% growth target for South Africa this year could be exceeded.

By HAROLD FRIDJHON

A BANKER I lunched with last week expressed doubts whether South Africa would achieve a 5% growth rate this year, bearing in mind "there will be a world recession spreading out of the US and a war threat is making business sentiment very jittery".

To begin with, world recession and war threats don't go hand in hand On the contrary, if there is anything which could turn a recession — or a would-be recession — inside out it is a state of war psychosis with billions being spent on armaments, armies and their modern camp followers

The behaviour of Wall Street in recent weeks — and last week in particular — signals all too clearly that fears of a recession have gone out of the backdoor.

What issues have American and foreign investors gone for? Armaments no less, the steel and the electronic manufacturers, aircraft industries, and it won't be long before most other industries in the US become involved.

All I have seen are the Wall Street index numbers Unfortunately neither Standard & Poor nor the index of trading on the American Stock Exchange has come my way. But I am prepared to stick my neck out and venture that these indices have performed even more impressively than has the Dow Jones They reflect broader views of the US stock exchange scene than does the DJ.

There are two reasons for this.

First, American investors usually take a longer-term view of a share market than do their counterparts in Europe and in this country. They have been buying now in anticipation of the recesssion bottoming out before Jimmy Carter and Company go to the polls in November.

Whatever happens, the probabilities now are that it is going to be business on the boom with all thoughts of controlling inflation dissolving.

And it isn't going to be a case of the US just arming itself and building ships, aircraft, transport vehicles and missiles. America will suddenly become Q-stores for the world, keeping the best and newest weapons for herself and offloading the older stuff, first on those who can afford it and on a lease-lend, aid basis to those who cannot.

And so what about the dollar in an inflationary situation which this will undoubtedly be?

The dollar will strengthen, not only because there will be a massive dollar inflow from Europe and elsewhere — oil money included — well-guided investors drawn into US stockmarkets, but because the sales of arms will mop up some of the surplus dollars which have been causing big problems in international currency markets.

On top of all this, if the US begins to display decisive leadership qualities, the American currency will re-develop the aura which once surrounded the dollar and gave it a sought-after desirability.

But I do not believe that the restoration of status for the dollar will automatically result in the depreciation of gold. The dollar *versus* gold struggle has been considerably overdrawn. As long as the dollar is strong, I am convinced that the US authorities don't care a damn about gold. They only get a little neurotic when gold is used to denigrate the dollar

But when the dollar recovers its own inherent strength and gold continues to be firm, the Americans will not intervene. If their allies in Europe want to link their monetary unit to gold, then good luck to them. And in a cold war situation, there will be many people, many more people than now, who will want to hold their own little bit of gold — just in case.

Rearmament, however, will not be confined to the United States and possibly Europe. Japan will be urged to increase its expenditure on arms And China, too, will be helped, both with arms and with the plant, machinery, equipment and know-how to make its own armaments.

And so from the world to the parochial — what about South Africa and its growth rate?

If the scenario I have painted has any validity, 1980 will be a very busy year for this country. All our politicians never tire of stressing the strategic importance of the minerals of Southern Africa and it looks as if their long and plaintive calls are about to be answered.

World demand must quicken for copper, lead and zinc; for steel and all the ferroalloys; for coal and all those other minerals which this country and the rest of the sub-continent produces

And, of course, for gold, platinum and diamonds — not for decorating beautiful women but for their strategic importance in the manufacture of weapons and of the systems which will direct them.

The original question posed by my friend was: "Will South Africa achieve a 5% growth rate this year?"

I don't think that there is any doubt that it will be at least a 5% growth rate, but if the pace of world rearmament quickens, as I believe it will, we will start talking to more than a simple 5%-plus. It could be an explosive boom — but there are a number of ifs that have to be fulfilled:

- IF we can import the training manpower in sufficient numbers to teach skills to all our people.
- IF we can give all our people the security of knowing that they are wanted.
- IF the politicians stop talking and get on with doing.

is consistently worse than that of the whites. The 'coloureds' have higher mortality rates for all the major causes of death apart from cardiovascular diseases and neoplastic diseases in men over 65 years of age, neoplastic diseases in women in this group, and cardiovascular disease in men 45-64 years of age during 1960 and 1970. Clearly the rate of 5/1 000 which has been chosen is entirely arbitrary but a similar pattern of mortality emerges if lower or higher levels are selected.

Two aspects of these age-cause specific mortality rates require emphasis. Firstly, whilst being affected by the incidence of the diseases in question, these rates are also influenced by their fatality rates, for example, a decrease in the mortality related to Tuberculosis will not only be influenced by a decreasing incidence of this disease but also by improved prevention at primary, secondary and tertiary levels of intervention which will consequently decrease the fatality rate and, therefore,

Both white and 'coloured' females have shown an increasing life expectancy at the age of 45, and although this has been small, it contrasts with the downward trend of both white and 'coloured' males.

Although it is apparent that the Expectation of Life at birth for the 'coloureds' has shown a marked improvement between 1941 and 1970, it is salutary to note that neither 'coloured' males nor females, at either e_0 or e_{45} have reached expectations of Life in 1970 which are as high as the whites were in 1929. What also gives some cause for concern is that although the expectation of Life cannot be expected to improve indefinitely, it would appear that the 'coloured' life expectancy is levelling off at a much lower age than has occurred in the white community.

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Small firms' investment sluggish

30-1-80

RDM

49

By HAROLD FRIDJHON

CAPITAL investment in the private sector — a prerequisite to large-scale absorption of the millions of unemployed in South Africa — is still sluggish. The largest companies and corporations plan to spend millions of rands, but the larger number of medium-sized and smaller businesses* appear to have no expansion programmes, according to bankers.

The Sasols, the Sentrachems and groups such as Barlows have announced development plans which probably aggregate R100-million or more.

Mr H Rostowsky, joint senior general manager of Nedfin, says that there are substantial schemes in the pipeline for the leasing of plant. These inquiries and actual contracts are all coming from major companies.

But Mr Colin Waterson, senior general manager of Barclays National, does not see any great demand from smaller firms.

"Of course," he says, "it's still early days. The year is young, but many manufacturers have enough spare capacity to meet a larger level of consumer demand. Real demand will have to show considerably more growth before they will consider expansion plans.

Credit card sales during December and January reflect that consumer demand exploded, but this offtake of goods has yet to work its way down the pipeline to the factory floor."

Another point made by Mr Waterson is that potential growth in productive capacity is inhibited to some extent by the shortage of skilled labour. Proprietors of factories are loath to extend buildings and to install more plant and equipment when they are unsure of being able to get trained, skilled labour to operate it.

In these circumstances, investors need more than encouraging words and low inventories before they splash out on new equipment.

Mr Anton van der Merwe, Nedbank general manager, said he had seen many requests for leasing and suspensive credits, but these came from large organisations. Optimism was moving down the line, but he would like to see some of the lesser companies starting to take action.

Many of them were still at the thinking and talking stage. They were showing confidence and positive thought. This was encouraging — although from a banker's viewpoint time-consuming.

He had seen a few negotiations for longer-term fixed interest loans, more of the institutional type than normal banking business.

On the other hand, Mr Van der Merwe said that with so many companies enjoying excessive liquidity and not using the considerable overdraft facilities which were available to them, they could be embarking on expansion plans without the banks being aware of their plans.

Dr Conrad Strauss, man... director of Standard B... and an economist of ... does not expect ... investment, parti... small compan... marked incr...

Demand ... year be... did no... ity ... f... tlene... be the ... was going ... approved o... immigration. Skilled people we... temporary measur... cational and training for all people were subs...ly improved to bring them to required standards.

A banking economist who did not wish to be named said that there was only one way to stimulate demand quickly so that entrepreneurs would step up the rate of fixed capital investment and that was for the Government to embark immediately on large-scale housing projects.

He said that the Treasury had the money and it should spend it. This would not only create employment — and hence demand for consumer goods — but it would also send a flow of mainstream orders to countless factories all over the country, increasing labour opportunities at that level and taking up whatever surplus capacity that existed in the building supply industries.

Iran partly reflects world-wide ... Iran imports many

11

Much planning theory does assume that the state can simply 'set' public sector objectives without recourse to the community on particular issues. However, in a democratic government, conflicts in society will be reflected in impediments to identifying public sector priorities at the policy formulation level.[8]

Nattrass also feels that problems of poor communication between groups, inadequate understanding of the complementarity and conflict between objectives and conflicts of interest hinder definition of objectives, but can, to some extent, be overcome by the use of simple health indicators and the adoption of clear policy criteria. Westcott does not think that differences of interest are thus reconciled but that the net outcome is embodied in the value judgements fed into policy evaluation. The formal methods embody and clarify the outcome of the conflicts. It is an open question whether formalising a judgement will alter the nature of the debate and the outcome.

Westcott discusses various methods of choosing objectives, but notes that before it becomes possible to tell whether any re-allocation of funds between programmes is required, it is necessary to know how much is being ...

... ed on the relative importance of, say, reducing ... ss, though many measures affect both.

... hat three simple indicators be collected initially ... ide and benchmark for health policy: infant ... status and the tuberculosis infection risk. ... a can be collected by small teams of well-trained ...

... status, one would need to know:

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(a) how much various programmes contribute to improving these measures by evaluating ... as has been done by e.g. Frankish (Vol ...

(b) the cost of e...

Market prices may b... governing the propor... deficiencies of mar... correct these when ... e.g. a lower wage ... on other policy de... shadow prices shou... health programme. ... and cost to societ... the one which shou... on the amount of ... Thus, a relations... health, and expen...

Even where such ... inapplicable.

... estimating the benefits ... them in money terms, and thus render them directly comparable to cost... If the benefit-cost ratio is greater than one, then the project is worth doing. No other technique can tell this; it can only rank programmes in order of priority, and this within a very narrow range. It also makes health projects comparable to other projects and enables a rational decision to be taken on the proportion of funds allocated to the health sector in toto. Unfortunately, however, rationality is sometimes achieved at the expense of accuracy, and the rather broad value judgements which go into deciding the value of health in money terms (particularly the value of

BUSINESS

(49)

South Africa reaps golden harvest

The South African Reserve Bank, sales agent of the country's 35 gold producers, is gradually taking a more active role in the international bullion market. It can no longer be relied on to sell constant daily tonnages to a small band of customers in Switzerland and Britain.

Since 1976, the bank has broadened its market to include US bullion dealers, such as J Aron and Company and Republic National Bank, as well as two West German banks, Deutsche and Dresdner.

These newcomers' share of South African sales has been rising in recent months and is estimated by private sector sources not to be around 20 percent of the total. A German banker said: "We're very happy with what we've been getting from the Reserve Bank in the past two-three months."

The main reason for their bigger share is, simply, that they have been offering better prices. For long periods of last year, German and American customers quoted much narrower spreads between buying and selling rates than did the Zurich gold pool.

The Americans' and Germans' meat has been Zurich's poison. The Swiss gold pool, which had a virtual monopoly on Pretoria's gold in the late 1960s now takes only about 60 percent. British dealers account for 20 percent.

It is unlikely, however, that Zurich's share will fall much further. Swiss banks have done much to promote the gold market and have been among the biggest investors in South African foreign loans.

Pretoria is thus unlikely to desert them. In any case, the Swiss have made up for their loss of bullion by becoming keen Krugerrand customers. Swiss Bank Corporation was by far the biggest buyer of coins last year, taking about 40 percent of the 4,9 m coins sold abroad.

Besides diversifying their customers, the South Africans have also begun to withhold gold from the market to keep up prices. Reserve Bank officials say that volumes may be cut for several days while they wait for prices to harden.

The tap has never been completely closed, however. The London market gets some bullion every working day, though other customers may occasionally get nothing. "It is still our policy to sell current production all the time, especially at the moment," said a senior Reserve Bank official.

On one occasion last October, when the bullion price slipped from 437 dollars per ounce on October 2 to 368 dollars on October 5, South African sales are believed to have dropped — no doubt one reason why the price climbed back through 400 dollars by October 10.

To increase its flexibility without giving the market too many clues about short-term sales policy, the Reserve Bank switched three years ago from publishing weekly figures of its gold holdings to monthly releases. The Government has also scrapped the law which compelled the bank to hold at least a quarter of its note issue and other public liabilities in the form of gold.

KRUGERRANDS

Of the 703 tons of gold dug out of South Africa's mines last year, some 22 percent was used for Krugerrands, which was slightly less than 1978, when almost 27 percent was diverted for the minting of coins.

Bullion production in 1979 therefore totalled around 510 tons. Pretoria sold a total of about 560 tons, however. The extra 50 tons came from reserves, and consisted mainly of gold repurchased by South Africa from the Swiss banks with which it negotiated a series of "swops" in 1976 and 1977.

The swops were negotiated at an average price of around one hundred and ten dollars per ounce. The repurchase price is of course higher, reflecting the interest paid by Pretoria for its foreign exchange. But it is far below current market prices. By selling this gold now rather than three or four years ago, the Reserve Bank has thus scored handsomely. — Financial Times.

KRUGERRAND SALES AS A PERCENTAGE OF GOLD PRODUCTION

Year	South African gold production kg fine	Krugerrand sales kg fine	Krugerrand share of production %
1970	1 000 417	6 563	0,7
1971	976 297	17 113	1,8
1972	909 631	16 911	1,9
1973	855 179	26 727	3,1
1974	758 559	99 615	13.1
1975	713 417	149 119	20,9
1976	713 390	93 464	13,1
1977	699 887	103 616	14,8
1978	704 449	187 003	26.5
1979 (prelim)	703 345	153 657	21,8

Business outlook brighter

Star 31/1/80

(49)

By Colin Campbell, Deputy Financial Editor

The business outlook is growing even brighter. The Reserve Bank said in its December bulletin that the economic upswing was gaining momentum. Standard Bank recently said that the boom is just around the corner. And now the Bureau for Economic Research at the University of Stellenbosch says that a real spending boom may be on the cards.

After sifting the answers from 2 134 questionnaires, the Bureau notes a fairly broadly spread improvement in business sentiment and that businessmen are fairly confident that it is going to be a much better 1980.

There are, however, two main worries: Unemployment and inflation.

Though unemployment was still a "cause for concern" . . . "there are signs that the number of unemployed may be declining."

"But unfortunately we cannot foresee any substantial favourable development in the inflation rate."

MOOD

The galloping gold price signals an internationally unfavourable political climate and rising inflation rates. South Africa cannot escape the negative aspects of the worldwide inflation, and the country's already too high inflation rate is likely to be fuelled by imported inflation and dearer crude oil.

But with the economy in better shape and with the gold price higher, the mood of the people has much improved. The motor trade has swung from pessimism to optimism; the majority of retailers (88 percent) are expecting better business conditions in the first quarter of this year; manufacturers have noticed higher sales and production; while wholesalers have noticed that the value of orders placed has risen "quite dramatically".

As has been suggested by others, the Bureau records the potential the Minister of Finance should have to cut tax.

Real after-tax income will probably be raised by a reduction in loan levies and/or tax cuts, Ber's Opinion Survey Report says.

The question remains, however, whether consumers will decide to spend or to save. But on balance BER has found many factors which leads it to believe that a real spending boom may be on the cards.

- More people will be employed, leading to additional incomes and an increase in potential demand;
- Tax cuts are possible;
- Hire purchase credit is freely available at reasonable interest rates;
- There is a possibility that wages and salaries will increase at a faster rate than the consumer price index — thus increasing real income and, possibly, consumer confidence.

Capital Radio bus shelter advertisement . . . the radios are still turned off

wave signal drops short of Cape Town even if you can hear it. At night, there's a reasonable signal into Johannesburg and parts of Durban but we're not achieving what we promised. It's like LM radio used to be."

The fervent prayer is that advertisers won't switch their accounts to alternative media. At this stage, advertisers, with the exception of a few disillusioned small account holders, have opted to stay and take a chance with Capital.

Options offered to advertisers who pledged R1m before transmission started are twofold. A 100% bonus once Capital operates at full strength or a 50% discount to big advertisers from February. To date, only R18 000-R20 000 in billings has been cancelled, says Bruce.

The problem is a complex technical one. Capital is pushing only half its signal strength. The antennae consultants, Cohen & Dippel, have just arrived from the US to investigate the problems. They're taking measurements country wide, and Capital will get a computer printout on what has gone wrong.

Costs are likely to exceed R100 000 for sorting out the problems. But the equipment is guaranteed for 25 years, so the future is promising. A weary Bruce tells the *FM*: "I can't prejudge a legal situation. But every prudent company in this sort of situation would be thinking of taking legal opinion."

PLACEMENTS

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Happy hunting

FM 1/2/80

After sitting tight for three years, SA's white workers are on the move again — a sure indicator of returning confidence. Firms are expanding to meet increasing demand in the economy and are eagerly looking for staff to fill new positions.

Michael Lane, senior consultant for P-E Consulting group says: "Everyone is talking about the boom. There is tremendous movement in the employment market with firms seeking staff and, as with any boom situation, employees are more confident."

Colin Katz Associates, a firm of personnel consultants confirms this view. Says MD Colin Katz: "Companies are hard-pushed to find the right staff, as there is a desperate shortage of qualified and experienced people. It is an employee's market. Staff are no longer scared to move as in the past. They are going for the better jobs and salaries. Placement figures for January are 40% up on last year's."

He estimates that demand has pushed up the salaries of skilled personnel by at least a third. "We've seen nothing yet. Salaries will really soar this year as demand is far in excess of suppply."

To illustrate the change in conditions in the job market, Katz cites the example of a client who is offering R1 000 for a position that was worth R700 two years ago. He is, however, less optimistic about filling the position, despite the hike in salary.

This increase in job availability is borne out by advertisements related to appointments. The *Sunday Times* achieved a record number of advertisements in its January 13 edition. It printed 35 full pages of appointments advertising 2 000 positions — an increase of nearly 50% on a 1974 record figure.

The Star reports similar increases in appointment advertising, claiming a 50% increase on last year's figures.

Advertisers point out that, while January is usually a good month, this time the figures far outstrip previous comparable levels.

Paul Tingley Associates, personnel consultants, claim a 50% increase in placements over last year's figures for the same period. "The increase in demand cannot possibly be met locally," says Tingley. "Training campaigns take time and the only alternative is overseas recruitment. Our overseas recruitment programmes have been very successful, and more than 30% of the positions we handle are filled by overseas personnel."

He views government's recent relaxation on immigration as a recognition of the chronic skilled staff shortage

In fact Table 4 does not give a full indication of the advantages of either outpatient treatment or the 4-drug regime. It is seen that outpatient treatment, at a direct cost of about R72,20 to R100 per month, is far cheaper than hospitalisation; moreover on this budget the family of the patient also receive medical attention which does not occur with hospitalisation. A large part of the cost of hospitalisation is production foregone.

... a conservative estimate of the inpatient cost per day has been used;

SA economy got big boost in 1979

Rom 21/2/80

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THE ASSEMBLY. — The performance of the South African economy during the past year had been a major favourable development, the State President, Mr Marais Viljoen, said in Cape Town yesterday when he opened the fourth session of the sixth Parliament.

The reasons for the performance were not only further increases in the price of gold and natural economic forces in general, "but also the direct result of the policy of financial discipline applied since 1976", he said.

"The strengthening of the economy was well illustrated by the attainment of a record surplus on the balance of payments on current account, and by a substantial further increase in gold and other foreign reserves in 1979.

"The economy was further strengthened by the Government's action in severing the link between the rand and the United States dollar, and in making the rand an independent currency, finding its own level in the foreign exchange market — subject to Reserve Bank management.

"Both consumption and investment expenditures in the aggregate are rising after a period of some sluggishness, and the country's credit rating in the world's capital markets is excellent.

"One serious blemish in the overall economic picture was the acceleration during the past year of the rate of inflation. This stems largely from higher oil prices and other cost increases, and is not the result of excessive spending or money creation.

"In the year ahead, the main emphasis in economic policy will remain on sound economic growth — based on the encouragement of private enterprise and the harnessing of market forces, always with the retention of financial discipline.

"Considerable progress has been made towards the necessary restructuring, consolidation and bringing up to date of legislation relating to training and employment, as proposed by the Riekert Commission.

"The other outstanding feature of the past year in the field of labour and employment was the release of the report of the Wiehahn Commission of Inquiry, which dealt with sensitive key issues in industrial and labour relations.

"In accepting the majority of the commission's recommendations, the Government has demonstrated its determination to lay solid foundations for a dynamic and adaptable labour policy in a complex society. Together with the Riekert Report, it has paved the way for a new framework of labour relations in South Africa.

"Export earnings from minerals broke all previous records in 1979, and gold was one of the major contributions. The Republic continues to play a dominant role in the supply of strategic minerals to the steel and allied industries of the West.

"Meanwhile, the search for oil in the deeper off-shore areas of the Republic will be accelerated by the commissioning of a third drilling rig." — Sapa.

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8. INDIGENOUS HEALING IN SOUTH AFRICA

The nature of indigenous healing has been well described elsewhere,[19] and the papers presented at the conference cover only a few selected aspects. Various points were emphasised about the nature of the indigenous healing: it is not static (Schweitzer, Vol.2), but dynamic; it 'is always related to the environment and is present-oriented' (for example indigenous systems of health care used to relieve the disintegrative effects of urbanisation). Thus Schweitzer objects to the term 'traditional healing'.

It involves not only different practices but a different world-view from western scientific medicine. Robbertze (Vol.2) counterposes the over-individualised and over-intellectualised Western lifestyle with the 'holistic unfragmented philosophy' of African systems of thought, though admitting that this is altering under the influence of the West. A. Solomon (*31) points out that 'conflict arising from the two forms of medicine has a disruptive effect on the well-being of the people in their pursuit of medical attention'.

Solomon also shows that indigenous medicine in Xhosa rural society has important preventive dimensions: certain avoidances and positive signs of respect, particularly towards the ancestors are held to maintain the favour of important protectors, and a harmonious relationship between man and his environment. Relationships with neighbours, particularly with kinfolk, are also the object of many observances and customs, and illnesses specifically linked with transgressions of the code that makes this harmony possible (e.g. the exchange of gifts and sacrificial feasts which traditionally introduced a bride to her husband's family). The practice of an indigenous healer should be seen in the light of this unity of religious, social and economic behaviour; illness is cured as well as prevented by honouring and seeking the protection of ancestors by 'speaking out', by ritual dancing or feasts, restoring or maintaining relationships in the community (Monica Wilson, Vol.2), or, where this is impossible, identifying ill-wishers to neutralise their harmful effects.

Solomon notes how this practice is changing in response to altered social and economic circumstances: the independence of the young, the decline in the subsistence economy and thus the economic basis for traditional rites. (Clarke shows how failure to pay lobolo, often as a result of poverty, has a direct impact on malnutrition). The smaller size of the urban family and introduction of Christianity have also had their impact on indigenous healing as well as bringing conflicts with modern Western norms.

Revaluation of rand inevitable say UK experts

S. Times (Business) 3/2/80

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By NEIL BEHRMANN
London

LONDON brokers and bankers maintain that with the huge flow of cash into South Africa, a revaluation of the rand is inevitable.

They also recommend selective exchange control relaxations.

Over the past year, the rand has appreciated by 7% against the dollar.

South Africa's effective investment currency, the Financial Rand (FR) has appreciated by 60% over the same period.

In fact, at its recent peak of $1,14 the FR was at a par with the old commercial rate which ruled in January last year.

This was prior to the start of the dual exchange rate system put into effect by the De Kock Commission.

With South Africa's inflation rate a high 14% the foreign economic experts believe that the huge money flow could be inflammatory if the authorities do not neutralise its effect on the money supply.

With total gold output in the region of R3,9-billion in 1978, rising to R7,5-billion on a $400 gold price, R9-billion on $500, R11-billion on $600, and nearly R15-billion on $800, it is not surprising they are of this opinion.

And this inflow excludes the huge revenue from diamonds, coal, copper, platinum and other commodities.

Brendan Brown, economic consultant of Amex bank says: "There is no alternative but to allow the rand to appreciate. Exchange control could be liberalised, too."

Mr Brown also suggests that the Reserve Bank will have the leeway to increase the supplies of Financial Rands.

With greater volume in the market this could help increase foreign investment.

George Forrest, chief economist of Barclays Bank, agrees that the rand should be allowed to float upwards.

Mr Forrest, who worked in South Africa for two years said that large corporations should be allowed to invest abroad. This would improve the invisible earnings of South Africa because of the dividend payments into the country.

Mr Forrest also suggests that the mining companies could be taxed in dollars and not rand.

In effect cash will be frozen. The money will automatically become foreign exchange reserves, rather than rands, which can be spent by the Government in an inflationary way.

The Arab states apply this technique with their oil revenues.

All economists and brokers interviewed recommended spending to improve education, housing and city facilities for blacks.

They are aware that Senator Horwood has already hinted at tax cuts and they suggest that industries' investment allowances should be increased too.

They also recommend further export subsidies and incentives for the exporters which could be hit by the appreciation of the rand.

Reg Eccles of Metals and Minerals Services, also has interesting ideas.

He says that instead of the clandestine information activities of the Seventies, South Africa should go into the open and give foreign aid to African countries who will be sorely hit by the huge oil price increases.

Of course countries in southern Africa are the most important, but the aid could stretch throughout the continent.

Mr Eccles believes that more money can be used for oil exploration in southern Africa and abroad. This would ensure supplies of the strategic commodity in the years ahead.

Of course, the country could continue to increase its oil stockpiles and other strategic materials, because there is more than sufficient money to pay for the commodities.

What Arrie Paulus could cost SA

South Africa's economy could weather a work stoppage by gold miners. But for holders of gold shares it would be a different story — a tale of woe, falling share prices and greatly reduced dividends.

By HAROLD FRIDJHON

IF THE THREATS made by Mr Arrie Paulus, secretary of the Mine Workers Union, to seek confrontation with the Government are translated into action — and by action one assumes militant action — the bullion market, the gold-share market and the economy at large might well be endangered.

Last year, the MWU directly or indirectly staged a wildcat strike, but it was neither industrywide nor of long duration. Nonetheless it had an impact on gold production.

If the MWU were to decide on industrial action, although strictly speaking it would not be an industrial dispute because it would represent a protest against Government policy, not against the employers, the effects could be far reaching even if it were to last for a few weeks.

In the first place gold would not reach the market in a smooth and regular flow. This would mean that South Africa would lose about R4-million a day — R20-million a week. With the present buoyancy of the economy and the reserves, South Africa as a whole could sustain a loss of this magnitude for several weeks, but it would have a debilitating effect over any long period.

But what would happen on the bullion market — a tight gold market in which demand and supply appear to be just about in balance? The shortage of 8 000 ounces a day could result in wide swings in price. The bulls would make a ball of such an occasion and, if there were no central bank intervention, in a situation such as this the price could temporarily go through the ceiling.

In the past few weeks, the exuberance on the bullion market is said to have been caused by excessive speculation. It doesn't require much imagination to picture what speculators would do if they were fully aware of the fact that the market was being starved of its regular supply of newly mined gold. Buyers would have to depend on sellers and sellers would cash in.

I said "if there were no central bank intervention". In fact there is only one central bank which would likely intervene — the South African Reserve Bank. If the gold price were to soar into spatial orbit, it is not impossible that Reserve Bank would sell from its stock, replenishing its "inventory" of gold when mine production returned to normal.

If the authorities were to act in this manner the effects of a mineworkers' stay-away would not be as damaging as it could be if the Reserve Bank were to remain aloof from the situation. All the arguments are against an attitude of aloof indifference.

With the cash inflow continuing — and probably at a high rate — South Africa's finances could probably be strengthened and not weakened and this might well undermine any action which the mineworkers might be contemplating.

True, direct State profits and tax receipts from the gold mines would be drastically reduced, but these would be more than offset by the profits which the Reserve Bank would make. And it must not be overlooked that excess profits made by the Reserve bank eventually find their way into the Treasury's accounts.

The major losers in the event of mineworkers taking any industrial action — apart from the mineworkers themselves — would be the mines and their shareholders.

Shareholders would lose on two fronts: they would find their dividends and the market value of their shares greatly reduced. The most serious damage would be a crumbling of gold-share prices. Overseas holders would rush to offload because they would see in a work stoppage the deeper political significance of any mineworker action.

And the one thing which frightens foreign investors is any thought of political instability in this country.

No Confidence Debate Hansard 1 (4/2/80)

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with, and which I should like to motivate as comprehensively as possible.

†Before I do so, however, I wish to refer to and ask for clarity on a matter which has enjoyed considerable attention in the local and international news media. I refer to the alleged activities of the former Bureau for State Security, now the Department of National Security. It has been reported and I have been told that the hon. the Prime Minister himself has asked for a report from the department concerning the allegations of a certain Mr. McGiven, a former member of the department. Let me make it quite clear that I do not question the need for a security and intelligence-gathering service where the safety of the State and the maintenance of public order are at stake. This is a normal occurrence in any society.

Certain allegations were, however, made concerning this department, allegations which by the most imaginative use of one's intelligence cannot persuade one that such activities have anything to do with the safety of the State or with public order. In fact, if these allegations were true it would be a gross abuse of the taxpayers' money, possibly contempt for Parliament and the parliamentary tradition, and a very bad case of political paranoia on the part of those who govern this country.

What are some of these allegations? They are, firstly, that the prime function of the Bureau for State Security, now the Department of National Security, is to provide information on internal, legitimate political organizations and that all other functions it performed were a cover for this main purpose . . .

The MINISTER OF COMMUNITY DEVELOPMENT: Do you believe that?

Dr. F. VAN Z. SLABBERT: I am asking. The second is that the mail of individual members of Parliament was regularly intercepted and that their telephone conversations were tapped, and the third that reports were filed on discussions at and decisions of committee meetings of legitimate political parties and that bugging devices were installed in their committee rooms.

Mr. Speaker, I am sure the hon. the Prime Minister would become very angry if he found that he was being bugged and spied on and that his mail was being intercepted. He is a former Leader of the House and at present its most senior member. If anyone knows and has experienced parliamentary tradition, it is the hon. the Prime Minister.

Therefore he will appreciate the gravity with which I put certain questions to him and the seriousness with which I ask for certain assurances from him. I should like to ask the hon. the Prime Minister whether he has received a report from the department on the allegations of McGiven. If so, can he give an assurance to every member of the House that his/her mail has not been and is not being intercepted and read by former or present officials of this department? Thirdly, can he also give us an assurance that every member of Parliament could in the past and can now rely on the privacy of his/her own telephone conversations as far as the department is concerned? Fourthly, and more seriously, can the hon. the Prime Minister give me and all leaders of Opposition parties in the House the assurance that they could in the past and can now hold meetings of their respective caucuses in confidence and in private, free from any bugging by any member of the department?

I ask for these assurances because they arise directly out of allegations made concerning the activities of the department, allegations which, presumably, prompted the hon. the Prime Minister to ask for a report from the department himself. These assurances are vitally important because the parliamentary tradition cannot survive at all if there is a breach of confidence, confidence in its members, and their *bona fides* are consistently questioned. Furthermore, if there is any substance to even one of the allegations I have referred to, the very least we can do is to appoint a parliamentary commission of inquiry to investigate the whole affair in depth and report to the House.

*Sir, my motion of no confidence really covers three areas of Government activity. I am moving this motion of no confidence in the Government for the following reasons: That the Government (a) refuses to consider and decide jointly with leaders in the various population groups about the introduction of a new constitution for the Republic of South Africa; (b) is unwilling and/or unable to get

rid of apartheid and discrimination systematically, and (c) is neglecting to make adequate provision in its economic and social planning for the consequences of the increase in population for the standard of living and the opportunities of all our people. I want to discuss these three aspects of my motion in the following sequence: The socio-economic aspect, then the question of discrimination and apartheid, then the problem of constitutional development.

In this period of our history it may perhaps seem strange that one should bring a motion of no confidence against the Government on, *inter alia*, the socio-economic level, because the gold price does after all incline one towards optimism. The Prime Minister's conference on 22 November last year clearly captured the imagination of our businessmen. The financial discipline of the Department of Finance is beginning to bear fruit and for that the hon. the Minister and his department deserve to be complimented. It would seem that there is a new enthusiasm for the free market economy among Government spokesmen and that there is a declared desire for minimum Government intervention. In spite of all these aspects I nevertheless move that there is reason for no confidence in the Government on this level as well. I want to make it very clear at once that this part of my motion does not concern fiscal/monetary policy in the short term or the good intentions of some Government bodies. It is essentially concerned with co-ordinated long-term planning in the social and economic sphere with a view to the impact that population growth will have on the people of the Republic. For example, we know with a reasonable measure of certainty to what degree the population will increase in South Africa over the next 20 years. We also know with a reasonable degree of certainty how many workers are going to enter the labour market and more or less what the demand for various categories of labour will be. Consequently, we can also calculate how land will have to be used for residential, commercial and agricultural purposes. That is why I say that when it comes to long-term planning on the ratio between people, labour and land, the Government is setting to work either incorrectly or inadequately, and that we are headed for disaster in the economic and social spheres unless spectacular and dramatic action is taken. Let us begin by examining the factual situation [illegible] the various areas of socio-economic [illegible]. Then we can examine the Government's intentions to deal with these problems [illegible] as the obstacles in their way. The first [illegible] example is the question of what I [illegible] the ratio between Soweto and land. We [illegible] Soweto comprises approximately [illegible] sq km. We also know that at a conservative [illegible] the population of Soweto is 750 000 [illegible]. There are people that allege that Soweto [illegible] 1½ million inhabitants, but for the purposes of my argument I shall use the more conservative estimate. This gives a population density of approximately 12 500 people per sq km, as opposed to the 1 400 people per sq km in the so-called "White" part of Johannesburg. Consequently Soweto is five times more densely populated than New York, Chicago or Los Angeles and "White" Johannesburg . . .

*The MINISTER OF POLICE: What about Hillbrow?

*Dr. F. VAN Z. SLABBERT: Mr. Speaker, I shall come to that problem. In "White" Johannesburg, the density of population is ten times less than in Soweto.

*Mr. H. D. K. VAN DER MERWE: What about Rondebosch?

*Dr. F. VAN Z. SLABBERT: The hon. member asks "What about Rondebosch?" It is clear to me that the hon. member has never been to Rondebosch, otherwise he would have known what the population density was there. I mention Soweto specifically because a planning council has been established and a so-called "eco-plan" has already been published. I have read this "eco-plan". The "eco-plan" of 1979 is allegedly "the greatest Soweto development guidance system". However, having read it, and having seen the terms of reference of the planning council, I still say the following: It is generally expected that Soweto's population will double within 15 to 20 years. If the surface area of Soweto remains constant, this means a population density of approximately [illegible] to 25 000 people per sq km. If hon. members read what is being proposed in this "eco-plan", they will see that there is an awareness of the lack of planning in regard to the whole question of more land. In this regard I quote the following from this plan—

> There is thus no doubt that the Johannesburg zone faces a serious problem of Black over-population relative to the ground available for housing. The problem is most acute in Soweto, which houses nearly 78% of the Zone's Black population and where the average density has already risen from 78 to 104 persons per hectare. It is estimated that by 1980 Soweto will face a shortfall of 1 173 hectare of land at the present density. This problem can only be solved by either extending Soweto still further or acquiring new township capacity. If it is not considered desirable to extend Soweto, this new capacity will need to be found either elsewhere in the Johannesburg zone itself or on the West Rand. The problem facing Soweto is thus one of increasing population, limited land for expansion, where the consequence of development can only take place by increasing density.

Mr. Speaker, this plan says that if we cannot make more land available, there is only one solution, and that is higher density occupation, at 24 500 people per sq km. I say that such a plan borders on insanity and cannot be valid. Accordingly it is by no means my intention to say that this is a courageous effort to deal with this problem, and what applies to Soweto, applies to all the other Black urban areas in South Africa as well. Now I just want to ask whether the idea is that land for the urban settlement of Blacks is going to remain more or less static; if not, what long-term plans are there? Secondly, by way of illustration, I just want to refer to the White-Black population ratios. It is common knowledge that the White population in the Republic is going to decrease in relation to the Blacks. It is estimated that the Whites will comprise about 11% of the total population by the year 2000. At the moment Whites are the major source of manpower for skilled and professional labour available to industry, the Public Service and the Defence Force. All three of these aspects of our life—industry, the Public Service and the Defence Force—have to depend on this one dwindling source of manpower. It is impossible for the Whites to bear this burden alone.

However, I refer to this dilemma because it coincides with another problem, viz the degree of inequality between Black and White in South Africa. This also coincides with a tremendous gap between White and Black with regard to economic standards of living. For example, three years ago Whites had a personal disposable income nine times higher than that of the average Black man. In fact, in 1976 40% of the population lived on 6.6% of the total personal disposable income. I am not furnishing these figures to arouse a feeling of guilt or in order to apportion blame. I merely want to illustrate the problem against the background against which we, according to the hon. the Prime Minister, are going to try to improve the living conditions of all these people. How is this to be done? It can only be done if growth is stimulated, and how can growth be stimulated? Well, in the nature of things it can be stimulated by the activities of the entrepreneurial class. The entrepreneurial class comprises 2% of the total economically active population in South Africa. In a Western European economy it is usually 6%.

The argument I am advancing is that it is impossible for only the entrepreneurial class in South Africa to bear, unaided, the responsibility for economic growth. And yet they are the people who demonstrate the success of a capitalist system. How are we to include the Blacks in this success group? Since I am asking this question, it is perhaps as well to bear in mind that in 1978, 59% of the male unemployed in South Africa were between the ages of 16 and 29 years. In view of that, is it not surprising that the young Black man is increasingly questioning the capitalist system? Only the other day we read in a newspaper about the research of Prof. Simpson in this regard. Consequently this system is being questioned increasingly because the young Black man is unable to taste its fruits.

This brings us to the problem of unemployment. I need not say much in this connection; the hon. the Minister of Manpower is fully conversant with this problem. He knows that there is going to be a drop in the demand for skilled labour whereas there is going to be an increase in this type of labour on the labour market. This is the problem of unemployment. We, as well as the hon. the Minister, know that if we want to reduce the labour surplus over the next ten years, there must be

a growth rate of 5% in our economy. If that growth is 4.5%, unemployment will double, and if it is 3.5%, unemployment in South Africa will increase fivefold. We also know that over the past five years our growth rate has been between 2% and 3%. The hon. the Minister of Manpower himself said that within this period 8 million workers are going to enter the labour market, 80% of whom will be Black.

*The MINISTER OF MANPOWER UTILIZATION: Not in ten years.

*Dr. F. VAN Z. SLABBERT: Over the next 20 years. Accordingly, two things are clear to me: There is going to be an increase in the demand for skilled labour, and there is going to be an oversupply of unskilled labour. In other words, with an oversupply of labour there is still going to be a shortage of labour in South Africa, and we are not going to solve this problem by importing technical labour by way of immigration. The hon. the Minister of Co-operation and Development said himself that if we want to make our Blacks part of our skilled labour force, then at a growth rate of 5% we have to bring between 30 000 and 40 000 of them onto the labour market annually. This sketches the problem for us. That is why we have to do two things. We have to make unskilled labour skilled on a massive scale, in other words, a programme of technical training . . .

*Mr. P. J. CLASE: We know that.

*Mr. H. E. J. VAN RENSBURG: But you do nothing.

*Dr F. VAN Z. SLABBERT: I am merely trying to sketch the problem. Secondly, we have to create skilled labour among the Blacks, and even if we create adequate opportunities for them, at the same time we must set in motion labour-intensive economic development. I want to repeat this point. We have to do two things that almost sound contradictory. That is, we must promote skilled labour among the Blacks, and at the same time make provision for labour-intensive economic development. This economic development cannot take place in urban areas; it has to take place in rural areas. That is why I say that if it must take place in rural areas we must study the problem, irrespective of whether it is agricultural land within or outside the homeland areas. Now the question arises: Do we still have such land? By 1975, 90% of the cultivable land in South Africa was already cultivated. With a population of 23 million in South Africa, an average of [illegible] ha per capita of cultivable land was available, and it is estimated that by the year 2000 0,23 ha per capita will be available, which is less than the 0,4 ha necessary for a person to survive. That means that we cannot afford to leave agricultural land uncultivated or unproductive or use it for meaningless political ideologies that are not going to succeed. This is really the problem I have tried to sketch here.

While I was sketching this problem, there were many hon. members on the Government side who said, "We know about that, so why are you telling us about it?" What does the Government really have in mind as far as dealing with these problems is concerned? I suspect the hon. the Prime Minister is aware of these problems, since he has already announced his 12 point plan to get to grips with many of them. As the Defence Force interpreted the 12 point plan, it means basically two things: firstly, to improve the quality of life of the people of the various population groups and, secondly, the constellation of states idea. I shall come to this idea of a constellation of states later. Suppose we want to improve the quality of life of the various population groups. Then I can only say that no one can quarrel with the hon. the Prime Minister if he wants to do so. However, if we are in earnest in wanting to do this, then there are certain things that are very clear to me, viz. that we cannot limit the population groups that are growing most rapidly, to the smallest territories. This is a point of departure underlying an Act such as the Group Areas Act and an Act such as the Blacks (Urban Areas) Consolidation Act. Those Acts presuppose that the population groups which are growing most rapidly, must be restricted to the smallest area of land. This is really why I brought up the problem of Soweto. You can never do that. What is more . . .

*The DEPUTY MINISTER OF AGRICULTURE: Does that include agricultural land?

*Dr. F. VAN Z. SLABBERT: Of course it includes agricultural land. That agricultural land is being used, and at a later stage I shall come back specifically to the hon. the Deputy Minister's question. In the second place, you do not improve the quality of life if you summarily prosecute persons seeking employment or fine persons when they do perform work for others. And yet this has happened, due to the fact that the Government killed the spirit of the Riekert Commission. The Riekert Commission recommended that the restriction of 72 hours should go, and that instead of that a fine of R500 . . . [Interjections.] No, that is true. The point is that we have an anomaly here. On the one hand we have the hon. the Prime Minister saying that we must better and improve the quality of people's lives, and on the other we have statutory measures making this impossible. I want to give the hon. the Minister of Co-operation and Development another example. I refer to the case of Dube in which judgment was passed by judges Didcott and Milne. It dealt with the so-called "idle Bantu clause" of that particular legislation, i.e. the Blacks (Urban Areas) Consolidation Act, 1945. This particular man was defined as idle by the commissioner, but had the right of appeal. He was defined as idle by the commissioner because he in fact suffered from epilepsy and could not readily obtain work. He was then endorsed out, but appealed to the appeal court. I should like to read aloud a portion of the judgment passed by these judges. Hon. members must listen to this. If we are in earnest in improving the quality of life of people, we must avoid situations such as these. Judge Didcott said the following—

> An official who has reason to believe that you belong to the class of idle persons may arrest you at any time and at any place outside a special Bantu area. You are then brought before a Commissioner of the Department of Plural Relations and Development. He calls on you to give a good and satisfactory account of yourself, whatever that may mean. Unless you manage to do so he formally declares you to be an idle person. Nobody is required to prove that you match the definition; you must prove that you do not. Once you are officially idle all sorts of things can be done to you. Your removal to a host of places and your detention in a variety of institutions can be ordered. You can be banned for ever from returning to the area where you were found, or from going anywhere else for that matter although you may have lived there all your life. Whatever right to remain outside a special Bantu area you gain by birth, lawful residence or erstwhile employment, is automatically lost. Perhaps you have never broken a law in your life or harmed anyone or made a nuisance of yourself by your activities or the lack thereof. To complete our example, let us take that to be so. It makes no difference. When the Commissioner has finished with you, the papers in your case go on review to a judge of the Supreme Court. He is expected, if everything is in order, to certify that what happened to you appears to him to have been in accordance with justice. The trouble is that it was not. It may have been in accordance with legislation, and because what appears in legislation is law, in accordance with that too, but it can hardly be said to have been in accordance with justice. Parliament has the power to pass the statutes it likes and there is nothing the court can do about it. That result is law, but that is not always the same as justice. The only way that Parliament can ever make legislation just is by making just legislation.

*HON. MEMBERS: Hear, hear!

*Dr. F. VAN Z. SLABBERT: This is the pronouncement of a judge of our Supreme Court about things that restrict the freedom of movement of people who seek work in an effort to improve their living conditions. We can never succeed in improving the quality of life of our people if the consequences of our policy are that rural areas become impoverished and unproductive as a result of deliberate population resettlements. In the long term this simply increases the rate of urban immigration. This will be the necessary outcome of an unimaginative homelands policy. I want to repeat this. If we are going to buy out productive farms and hand them over just like that, we are going to impoverish our rural areas, and once we have done so, the pressure urban immigration is going to be ten times worse than it is now. Consequently we shall not improve the quality of life of

people by drawing a few lines of power on the map and withdrawing people's citizenship and pretending that they are strangers in the country of their birth.

What can we do? This is a dilemma which each of us has to face. I should say that to achieve our aim of improving the quality of life of people, it is necessary, to begin with, that we mobilize all our human resources to plan together and tackle the problem. We must rid ourselves systematically and rapidly of all stumbling-blocks in the way of economic development. If experts such as Dr. Riekert and his associates, or Prof. Wiehahn, make certain proposals, we must accept that they do so with the best knowledge at their disposal and we should not contradict the essence of this Commission's recommendations in the way in which the Government has incorporated their recommendations in legislation. We also need a large-scale plan to stimulate technical training at various levels amongst our Black population. I know that the Government is aware of this and I realize the problem the hon. the Minister of Mining had in making this point very clear to the Mine Workers Union. However, what is important, is that we shall have to make use of imaginative methods to inform and educate the entire South African population with regard to the nature of these challenges and the sacrifices they will require, *inter alia*, by means of the mass communication media. We must use television more effectively and must draw all population groups into this debate. Why do we have to read about people such as Poppie Nongena? Why can we not talk to them on television so that the average White can see and experience in his own home the nature of the problems of existing inequalities? Furthermore, we shall have to get rid of obsolete ideological concepts with regard to the effective utilization of all our natural resources. We shall clearly have to carry out planning on the basis that South Africa's population comprises 26 million people and not merely 4,5 million. All those people form part of South Africa and depend for their living on the same economy. Consequently their quality of life has to be improved by way of that same economy.

It is because I see no long-term planning in this regard that I motivate a motion of no-confidence at this level of Government activity as well.

†I now wish to come to the second leg of my motion. This concerns the whole question of the systematic removal of discrimination and of apartheid. I believe it is fair to say that the hon. the Prime Minister has created more expectations with regard to change on this level than any of his predecessors. He has said things in connection with discrimination that none of them would have dared to say before at NP congresses and, it also seems, to their caucus.

I quote him—

> Discrimination, a system which seeks to maintain a superiority of one man by force at the cost of another man's dignity, has no place in the world of today.

Another quote—

> Why should the Government not remove those things which are hurtful and which offend decent people?

I applaud the hon. the Prime Minister for this kind of courage and I should like to add my own maxim on racial discrimination in South Africa—

> You cannot extend a hand of co-operation to your fellow-countryman and hope that it will be accepted if you keep your foot of discrimination on his neck.

However, we need to go further than to simply state or express good intentions. We need to move onto the level of concrete action. A first step would be for every hon. member of the Government to commit himself publicly through a declaration of intent as far as discrimination is concerned. [Interjections.] I wish that every hon. member of the NP had the guts and the courage to go back to his constituency and ask for a personal mandate on the following declaration of intent, in other words to say personally to their supporters in public the following—

> (a) I believe in the right of every man, regardless of colour, to be heard when decisions are taken affecting his own destiny, in other words, in participation in the decision-making processes.

They must say this publicly to their own constituents. [Interjections.]—

While this progress towards conciliatory attitudes and greater tolerance is taking place—this is what great minds have written, and what I have to swot up at night in order to know that I have taken the right road and am continuing along it, because we are in a position of tremendous responsibility—there must be order. If there is no order, there cannot be freedom, either. Prof. S. P. Huntington writes as follows—

> The primary problem is not liberty but the creation of public order. Men may, of course, have order without liberty, but they cannot have liberty without order.

This is a fact that still has to be learned in Africa I hope that we in South Africa do not learn it by way of the method indicated in Welsh and Slabbert's book, because if we were to do so, our goose would be cooked! There is not the slightest doubt about that. Prof. Huntington goes on—

> Authority has to exist before it can be limited, and it is authority that is in scarce supply in those modernizing countries where government is at the mercy of alienated intellectuals, rambunctuous colonels and rioting students.

I am very tempted to add—

> . . . and the hon. Van Zyl Slabbert and David Welsh's brand of Progfed politicians in South Africa.

If they really believe what they write in this book, then against the background of the wisdom of these learned philosophers and intellectual giants such as De Tocqueville and Prof. Huntington, I just want to say that the hon. the Leader of the Opposition seems to me to be something of a lightweight, in fact very much so. In addition, he is on the wrong track. Worst of all, however—and this worries me a great deal—is that in this book he fails entirely to appreciate what is precious, fine and powerful in his own heritage. He and the hon. gentleman Prof. David Welsh—and I have been in correspondence with him, too—can do what they like, but when they make such a fuss about "siege politics" in this country and predict the end under this NP Government, they are writing

against their own people and against what is theirs in this book, and that is not a good thing. To me this does not seem to be the kind of leader I should like to follow, however attractive he may look and be as a person. I should like to put a question to the hon. leader. They have a lot to say in this book. I think the hon. leader is an intelligent young man and he is also an academic. Is he really in favour of "one man, one vote" in a unitary State in South Africa?

*Dr. F. VAN Z. SLABBERT: No. It says so in the book.

*The MINISTER: He states that he is not in favour of it. I had expected the hon. leader to furnish that answer, but now that he has given that answer clearly and we know it, I should very much like to ask that the hon. leader—I have reams of newspaper cuttings at my disposal in which the other gentlemen and the lady in his party say the contrary—should settle that dispute among them so that we can debate the matter further on other occasions, because it is very clear that there is a dramatic difference in the ranks of the Opposition concerning this most cardinal issue. The man with the broadest smile is the hon. Chief Whip because he knows what he has said on this subject on more than one occasion. Before I have finished with the hon. the leader concerning this point, I want to add that the most important determinants of stability—what we need most and what the world envies us—does not figure at all in this book. They will have to go back to their studies and reconsider their hypothesis. One can say that to scientists, because they can revise their theories, but how does one tell the leader of a large political party what to do when he has led one to catastrophe? Then one does not know that one has already, together with one's people, come to grief along the way. I wish to indicate that we are not purely a pluralist society, but also a transitional society in which the degree of modernity and acceptance of certain Western values, differ among the various communities. Indeed, at this level there are the widest differences which will not disappear overnight, nor will they disappear in the course of the so-called national convention. Let me just add at once that these hon. gentlemen's idea of a national convention is a recipe for a caretaker Govern-

ment in this country That is at least the recipe for a demise of this Government and the demise of good order in this country. In the setup we have in South Africa, one or other group must play the role of a catalyst Who is playing this role of catalyst? Surely it is the Whites that have to play this historic role in South Africa To want to deny all this and make a new start in accordance with the PFP's proposed policy, is a recipe for intrigue, and would spell the end for South Africa. We therefore reject the PFP in this regard. Last night we saw the three hon. Opposition leaders on television. All three of them came over very well, each one better than the next However, I find it interesting that not one of these three gentlemen uttered a single word about, or made any reference to, the national Black States in this country That made me realize that we still have Rip van Winkles in this country.

*Mr T ARONSON: They had too little time.

*The MINISTER: What a confession! I think they also have too little time to save South Africa! I want to put it very clearly that we on this side regard economic, political, social and other forms of development of our national States as one of the priorities for survival and for a contented society for all the population groups in this country. There is not the slightest doubt about that. I am therefore very proud to be able to mention that the gross domestic product of these national States during the seventies amounted to 8%, a figure which compares very favourably with, for example, Zambia's 3.8% Kenya's 6.6% and the Ivory Coast's 6% Since due to the short time at my disposal I am unfortunately unable to dwell on the productivity of the national States. I just hope that I have stated clearly that to us on this side that is a priority This is something which must be clearly understood

In virtually every sphere we have effected the changes which the hon. the Prime Minister held out as a prospect. I also want to sound a warning. Hon. members on this side of the House—I, perhaps, more than anyone else—realize that one must not create expectations among the Black man that cannot be realized. We on this side of the House really make an effort not to do such a

thing. Now, however, I want to make a very friendly request to hon. members opposite to ensure that they, too, will not create expectations which cannot be satisfied. I maintain that this could be dangerous.

However, I want to take this further. In my opinion this is the one thing which the hon the Leader of the Opposition can destroy totally, if they should over-emphasize this matter. I mean this sincerely and I am very serious about it. We must take care We are dealing with a dangerous matter. When people arouse expectations among the masses, expectations which cannot be satisfied, then at the very least it is dangerous. We on this side of the House shall do all we can to avoid this. I ask hon. members of the Opposition to do the same. I request them to ask their news media, too, not to do so. It would not be in the interests of South Africa.

We have already made changes. I want to mention a few of them. I refer briefly to Crossroads, for example, to Alexandra, which is now going to get its own local management: its own town council. Then, too, there is Fingo Village.

Mrs. H. SUZMAN: [Inaudible.]

*The MINISTER: There is symbolism behind all those things. The symbolism does not mean that expectations are being created. It means that the Government, by way of great deeds, is committing itself to ensuring that the Black man has a place where he can live and be content. I believe that that is a very important symbolism. What we are dealing with here is dignified, human, friendly nationalism. [Interjections.]

*Mr. SPEAKER: Order!

*The MINISTER: We shall take it further and we shall continue to take it further We shall put it into effect. I refer to the partnership of 51:49% in commerce What is the symbolism behind that? Then, too, there is the narrowing of the wage gap Do hon. members know that in this country Black wages have risen by more than 23% over the past few years? Are hon. members aware that the real income of the Whites has not increased?

*The MINISTER OF TRANSPORT AFFAIRS: 23% in real terms

*The MINISTER OF CO-OPERATION AND DEVELOPMENT: It is 23% in real terms. Surely the narrowing of the wage gap is not merely an expectation which was created, but people are experiencing it themselves. It is true. What is the symbolism behind that? What is the symbolism behind what the Riekert Commission put forward for the Black man in White South Africa? That, too, derives from the Government. What is the symbolism behind that? Surely those are not expectations that are created. They are things that are being put into effect. We have set in motion processes which no one can check. We have done so in order to create a contented South Africa.

I refer, too, to the Wiehahn Commission. I also want to say a little more in connection with the six regional committees. Then too there is the removal of permits for mixed sport, restaurants, and so on. All these things are symbolic. I refer, too, to the consolidation and economic development of the Black States. Then too there is the Council for the Development of Soweto, a council which has already come into being. I refer, too, to the appointment of Messrs. Rive and Knoetze, and the Black Chain, and a Carlton Centre in miniature in Soweto. This is a scheme which has already been approved. Then, too, a factory complex is being built there. We have also called in the IDC to assist with financing. In Soweto alone, more than 2 000 posts have been created which will be controlled by local city councils. Surely these are not purely expectations that have been created. They are expectations which are being put into effect by way of action.

Permit me, too, to point out that as far as the Black man in the White area is concerned, we have appointed the six committees. We have received their recommendations. They have co-operated wonderfully with us. One of the recommendations is that they should continue to exist on a permanent basis. They have made recommendations relating to a wide variety of subjects. The co-operation was absolutely unbelievable. They made 580 recommendations. We are now studying those recommendations in conjunction with other departments. Some of them have already been put into effect while others are still being considered. Some of the recommendations will be submitted to the Committee concerned and subsequently to the Cabinet. The fact is that in the course of this parliamentary session we shall make further announcements in this regard.

I also want to say that my department is engaged in a review of the whole spectrum of its legislation but the priority will be to have a Mr. F. W. Durandt undertake a review of statutes arising out of the White Paper on the Riekert Report and related matters. He will be assisted by a committee that will be nominated. In the process legislation relating to community development for Blacks in the White area will be prepared. Renewal and alteration of the administration of justice will in the nature of things also occur in the process, viz. obsolete, cumbersome and outdated provisions will where necessary be replaced and modernized with a view to the development of good relations. Hurtful, discriminatory measures will be eliminated as far as possible. We are busy doing so. We do not want to create expectations, but this constitutes a realization of what has to be done in this country. Attention will also be given to consolidation so that the system of laws can be made simpler and more accessible.

I should like to announce that over the weekend, as a direct result of the conference at the Carlton Centre on 22 November 1979, the private sector made R7,5 available to us at 3¼% interest over 30 years for the construction of Black housing in a suitable area. I believe that this will be the start of a remarkable example worth following.

As far as influx control is concerned. I should like to say that the Riekert Commission recommended that influx control should only be linked to the availability of employment and approved housing and that the 72-hour provision be phased out. I should like to say more about this but due to a lack of time I shall only say that I take pleasure in announcing in this House this afternoon that the administrative process whereby to implement the recommendations of the Riekert Commission in this regard has already been put into effect on an experimental basis in the prescribed areas of Pretoria and Bloemfontein. Accordingly, we have decided to conduct experiments in Bloemfontein and Pretoria in order by so doing to put an end to the 72-hour provision, to see how it works and then to take it further. As soon as it has been tested for a few months, it will be evaluated

and the necessary decisions taken in regard to this matter. I want to put it very clearly that it is my endeavour to implement all the recommendations of the Riekert Commission as soon as possible and to phase out the 72-hour provision where possible.

As far as reference books are concerned, I am committed to replace this system. We have already made a great deal of progress in this regard.

To sum up, I just want to say that discussions are still being conducted with the various Black States in order to achieve an ideal state of affairs. If we can achieve success with regard to the omission of the 72-hour provision, we shall be far closer to an ideal state of affairs in this regard. I have already been granted approval in principle for the purchase of the necessary equipment and material and the incurring of certain expenditures in order to implement a system of influx control and a reference book system, and identification system which is comparable in every way with those of our other population groups.

I want to conclude by referring to the four points raised by the hon. Leader of the Opposition with regard to what I allegedly said at Palm Springs. I raised those four points. I do not want to repeat them, because the hon. the Leader of the Opposition quoted them correctly here this afternoon. However, he must only add that I also said that we could obtain all those wonderful objectives in this country. Indeed, I believe that we are very rapidly beginning to achieve them under the leadership of our hon. Prime Minister. That is why, with Help from Above, we are able to accomplish a prosperous decade for ourselves. However, I added that they could not be achieved in a system of "one man, one vote" in a unitary State. That is not possible. They are only possible in terms of the principles I have mentioned and already spelt out and which I do not have time to repeat. However, they are absolutely in accordance with the principles and the point of view of this side of the House. Therefore I am very proud of those four points, and I am also very proud of the fact that we in this country are able to implement them in such a way.

I must conclude. Towards the end of this decade South Africa will be unrecognizable. I believe that South Africa will be a finer, better and more prosperous place, with good relations between White and non-White, and that it will be a shining example of peace as Switzerland has been in the second half of this century, through two world wars. This is my vision, the vision of the Prime Minister and the entire National Party for the Republic of South Africa. I say that we can do it if we want to, and this side of the House wants to do it. If that hon. Opposition would only stop writing such books as the hon. the Leader of the Opposition has written, and if those hon. gentlemen make better speeches than the hon. member for Durban North has just made, then I, too, shall be convinced that they want to as well, and then we shall solve the problems of this country in a wonderful way.

In lighter vein, I want to say that South Africa is engaged in a whole new ball game, and the NP is the leader in that regard.

Mrs. H. SUZMAN: Mr. Speaker I wish I could join the hon. the Minister of Co-operation and Development in the visionary study he has produced for us this afternoon, but unfortunately the realities of the situation in South Africa are different. What the hon. the Minister said very bravely when he was 9 000 miles away did not, of course, touch upon any of the fundamentals that are worrying the Black people in this country, and for him to present a solution which is evolved in terms of the separate development of the Black States does not, of course, convince anybody overseas nor is it, I am afraid, going to help over here.

I am delighted to hear—let me say at once—that the hon. the Minister intends to get a move on with some of the positive recommendations of the Riekert Commission. Up to now the Government has only implemented what I would call the punitive and negative side of that commission's recommendations. It is a pity that the hon. the Minister finds it necessary to start off with a little pilot scheme based on the Riekert Commission's recommendations because obviously what he should do right away is to implement some of those positive proposals throughout the country. Let him be as brave and as bold inside South Africa as he is when he is talking in Palm Springs, 9 000 miles away.

The MINISTER OF CO-OPERATION AND DEVELOPMENT: We shall do it quickly and we are doing it.

Growth rate in 1980 could be 5 pc – Horwood

Star 6/2/80

HOUSE OF ASSEMBLY — While some of the most powerful countries in the world were struggling to achieve a growth rate of one percent, South Africa's growth rate at the end of this year could possibly be about five percent, the Minister of Finance, Senator Owen Horwood, said here yesterday.

Speaking during the no confidence debate, he said it was encouraging that while practically every country in the world was adjusting its growth rate downwards, South Africa's was increasing.

"An indication of the healthy state of the economy is the desire by other countries to invest here.

STRONGEST

"We are in the fortunate position that we are being offered good money on investment, so much so that the public sector cannot accept all the offers. We are thankful for this state of affairs."

When the gold price hit the 200 dollars an ounce mark in 1974, most of us tended to spend too much and live beyond our means.

"Since then the government has embarked on a policy of monetary restraint which has turned a deficit on balance of payments into a surplus.

"Today the rand is one of the strongest currencies in the world by any standards."

Mr Harry Schwarz, the Progressive Federal Party's chief spokesman of finance, felt however that the Government, at a time when things were going well, had let down the ordinary man.

The Government had failed the pensioners, the elderly who relied on fixed income from savings, the housewives, the middle and lower income groups and the unemployed.

"Inflation has been allowed to run rampant — State-administered prices have been increased.

"Sales tax has been maintained on the essentials of life. The rand has been managed at levels which have caused prices of imports to increase."

OBSTINATE

The government had pursued an obstinate policy in respect of subsidies on basic essentials and had taken inadequate steps to control profiteering and exploitation.

"The consumer, particularly the lower income group and the elderly, have been the casualties in the current economic upswing.

"Inflation is a major government failure and the Minister of Finance has failed to curb it. The Government must take the responsibility and act to remedy the situation."

In response, Senator Horwood said that taken over any period, increases in pensions exceeded the increases in the cost of living. He denied that the government had let the pensioner down.

DEFENCE

In the interests of national security and in order to make this country really safe, it has become necessary to spend increasing amounts on defence and police services.

In the past five years, the defence budget has grown from about R600-million to over R2 000-million. Had this not been necessary, money would have been available for other matters.

Despite this, the Government was spending increasing amounts on housing, health and the food subsidy. So it was obviously wrong for the Opposition to maintain the Government was not playing its part in improving socio-economic services. — Sapa.

TABLE I

MORTALITY RATES FOR THE 17 MAJOR DIVISIONS OF THE ICD (8th REVISION)

(Note: There are no tables for divisions V, XI, XII, XIII because of the small numbers in each of these categories).

I

INFECTIVE AND PARASITIC DISEASES

	W		A		C		B	
	M	F	M	F	M	F	M	F
0-1	1,99	2,2	9,81	6,60	55,55	51,04	29,36	27,05

,05	1,27	1,08	1,02	1,29
0,01	0,01	0,01	0,02	0,02
0,08	0,08	0,05	0,06	0,07
0,88	0,28	0,42	0,24	0,61
2,59	0,81	1,28	1,04	1,44
0,18	0,28	0,26	0,22	0,33
63	316	307	455	530

II

NEOPLASMS

	W		A		C		B	
	M	F	M	F	M	F	M	F
0-1	0,17	0,13	0,00	0,21	0,06	0,16	0,04	0,06
1-4	0,03	0,07	0,07	0,00	0,07	0,05	0,03	0,04
5-24	0,09	0,05	0,07	0,05	0,06	0,04	0,05	0,04
25-44	0,26	0,33	0,21	0,26	0,54	0,56	0,34	0,36
45-64	3,01	2,58	1,47	2,19	5,10	2,68	2,32	1,91
65+	12,24	7,26	4,70	5,18	12,59	7,51	6,16	4,10
ALL	1,41	1,21	0,36	0,43	1,03	0,69	0,58	0,45
NO.	2920	2522	126	152	1170	809	3472	715

DEVELOPMENT. And more nonsense too.

*The PRIME MINISTER: And some of them more nonsense? The Press is so free that a leading South African recently remarked to me: "Only one thing can destroy real freedom in South Africa and that is the irresponsible section of the Press." If the Press does not consider itself free because it is expected to act within the limits of the security laws of the country, I ask myself. Is there no Press legislation in other countries as well? I have here a summary of a whole lot of Press legislation that exists in other countries, democratic countries of the world, legislation which is just as stringent in some respects, even more stringent and more direct, than the Press legislation that we have in South Africa. There are democratic countries in the Western World in which there is specific Press legislation.

It is the primary responsibility of any Government to ensure that the security of the State is maintained at all times. Accusations are made against us at the UN, especially by countries from the Third World. When we look at the countries represented at the UN, I want to ask how many of those who accuse us have Press freedom themselves. None of those who accuse us have this. Is it not time we began to spell out these things to the

Hansard 1 (224)

6/2/80

L9

No Confidence Debate

world? What a help it would be if the hon. the Leader of the Opposition, with the reasonable attitude he has adopted, would add his voice to mine and say: "Please stop this nonsense. It is not true."

I want to give a further example in connection with this "unjust society". Where in the world is there a legal system which is more independent of the executive than the one we have in South Africa?

†Naturally, Sir, I do not claim that we have attained the perfect society in this country. That is not possible this side of the grave.

Furthermore, we protect minorities. We have to protect them in this country: their cultures, their traditions, etc. We have many minorities in this country, not only the Afrikaans-speaking and English-speaking sections, the Coloureds and the Indians, but also Italians, Greeks and Portuguese—all of them are protected to live according to their rights and cultures in South Africa.

*I have spoken to some of them and they tell me: "We are much happier here than we would be in our countries of origin." How then do we explain the dreadful things which are supposed to happen in this unjust society, the things which our political opponents sometimes lay at our door?

†Part of our freedom in this country is the right to acknowledge and encourage our industries and commerce to operate within a free-market economy. That is what we are protecting when we fight for South Africa. We make an exception in the case of strategic industries. That has always been the case. It has been the case for decades in this country. It is true that we object to and oppose the idea of undermining our State. The security of the State must be protected in the interests of all of us. Our security laws do not, in essence, go further than those obtaining in Northern Ireland and Western Germany in the fight against terrorism.

*I have here the provisions which are in force in Northern Ireland. I shall give them to any hon. member to examine. I also have those of India, Canada and the United Kingdom. When one examines them, one finds that they all contain some provision corresponding to those which people seize upon to allege that we do not have a free society in South Africa.

Dr A. L. BORAINE: How many people have been banned in Canada lately?

*The PRIME MINISTER: That is not the point. The point is that those countries also have similar legislation. However, that does not turn them into police States. The hon. member should rather tell us how his little boy got on with Buthelezi. [Interjections.]

Our economy is part of the freedom and opportunities of the citizenry. I want to say to the hon. the Leader of the Opposition that unlike large parts of Africa, we are experiencing an economic revival. Our country, this so-called unjust society in which there is supposed to be no freedom and in which people are supposed to be leading a wretched existence, is experiencing an economic revival, but in Zambia, one of our accusers, and in Angola, one of the countries that threaten us, and in Mozambique conditions are miserable. There people lead a wretched life. Our growth rate is rising more rapidly than those of many Western countries. [Interjections.] The Opposition does not like that. Our agricultural prospects are good, in spite of the drought. Our mining industry maintains a high level. Our manufacturing production is increasing more rapidly than before. The building industry is improving. Consumer expenditure is increasing satisfactorily and exports are rising rapidly. This community, of which it is said that people should not fight for it, is able to feed itself and to export food to other countries as well. However, we are alleged to be the enemies of freedom, the people one should not fight for. It is disgraceful to allow people to go so far as to slander their own country for their own petty party-political gain and their hypocritical and hostile plans.

*Mr. P. A. PYPER: Mr. Speaker, may I ask the hon. the Prime Minister which hon. member on this side of the House has said that he would not fight for South Africa?

*The PRIME MINISTER: The hon. the Leader of the Opposition said that we should create a just society. I want to say to him that people sit behind him in this country who are undermining national service on the grounds

'Profit for all in free enterprise'

Sow 7/12/80

449

By Sieg Hannig, Labour Reporter

The 1980s can give South Africa increased economic growth (6 to 7 percent) and welfare — provided the entire labour force is drawn into the system of free enterprise.

There would be enough for all races in this situation, Professor Geert de Wet, an economist at the Rand Afrikaans University, told the white Confederation of Labour yesterday.

The speech — which went unchallenged by the confederation's congress in Pretoria — stressed two conditions of which this high growth would depend:

- That blacks be given labour rights previously denied to them; and
- that income be distributed with greater equity.

The professor also stressed that free enterprise was possible irrespective of political policies.

South Africa's political system could be worked out without regard to greater economic freedom.

But all groups bargaining on the labour front, should take care not to sabotage free competition and thus lower growth and welfare, he said.

A more equal distribution of income was essential to avert the risk of lower income groups venting their frustration on the economic system.

The right way of redistributing income was to train the low-paid for greater production, he said.

Prospects of increased income were needed also for the higher income group — the leaders of industry — otherwise they would lose their motivation and production would drop.

"There is little fear for the white worker as far as his income is concerned," Professor De Wet said.

Optimism grows

POM 7/2/80

CAPE TOWN. — **Business was permeated by a mood of optimism, based on mounting evidence that South Africa's economic upswing would gather momentum, said the Minister of Industries and of Consumer Affairs, Dr Schalk van der Merwe, in Cape Town yesterday.**

Dr Van der Merwe told a luncheon of the Cape Chamber of Industries that the economy had been in a cyclical upswing since the end of 1977.

Initially, the upswing had received its main impetus from a strong increase in the value of exports and the net gold output.

"Government policy is designed to ensure that this upswing develops sufficient thrust and that the South African economy achieves the growth rate of which it is capable."

Much of the earlier gloom and hesitation in business circles had made way for a optimism and an increased desire to share in the expected more rapid development of the economy.

"This optimism is based not only on the further increase in the gold price, but on mounting evidence that economic activity in South Africa is indeed now rising at a more rapid rate."

He welcomed the change of mood in the private sector, and said he expected it to be translated into further expansionary action.

"I remain convinced that the present upswing will not only continue but will gather further momentum, and that 1980 will turn out to be an improved growth year for the South African economy."

Population growth demanded that sustained and sound economic expansion should receive priority to ensure jobs for the potential labour force.

Official US report forecasts growth for SA

Argus 11/2/80

449

WASHINGTON. — The United States Department of Commerce said here that due to record gold prices, public sector initiatives and renewed private sector confidence, South Africa was on its way toward a period of economic growth.

In its annual report entitled World Trade Outlook the department said US exports to South Africa were up sharply in 1979.

US manufacturers were beginning to recover their lost market share 'which occurred after the US ban on sales of American products and unpublished technical data to the South African military and police.'

US exporters were said to now be moving more into the general areas of maintenance equipment, mining equipment, chemicals and computers.

'Two factors will continue to be significant for South Africa's economy and trade trends.

First, South Africa will continue to feel the effects of spiralling oil prices, particularly prices of oil bought on the spot market.

'A second factor is the rate of inflation, 14 percent in 1979.

'The Government can be expected to encourage moves to control the effects of inflation while wages will continue to increase.' — Sapa-AP.

Monis efektri
thwa kwabasebenzi
izi bahlanu,
nothethwa
yure ezisi -
kwamandla yaye

i) obizwa
esayinile
ibetele ekunoku-
neUnion.
o yabantu yiyo

leyo ngamagoduka abantu
the bagrogriswa ngokugxothwa babuyele emphandleni aba basebenzi
icala lebeBala ababathatha ngokuba bangabantu kwabo. Ngosuku
ndoda imele icala losebenzi ezame ukubohlula abeBala kubantu
aphandle kweFektri. Abasebenzi balile ukwahlulwa, omnye wabo uthe
injongo zethu zinye."

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Peninsula Training College ne Bellville Technical College.
enzi mabaphinde baqeshwe kungenjalo yonke imveliso yakwa
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rovince Traders Association uthe uza kuxelela onke amalungu awo
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ican Council of Sports SACOS ucele onke amalungu awo nazo zonke
wane kunye nabo ukuba zixhase abo bagxothiwyo de baphinde
eki bayithenge imveliso yale fektri.

bayenzile eyabo intlanganiso bebona kalisa ubunye nabasebenzi.
zakwa Fattis & Monis zingathengwa okanye zingasetyenziswa.

Peace Movement ucele ukuba efektri yenzi uphando nothethwathethwano

oyi National African Federated Chamber of Commerce ubhalile
asa abasebenzi abagxothiweyo.

e ukuthi akukho ngxabano nakungevani kulefektri. Kodwa ke lowo
i, ukhathazekile xa kusithiwa imveliso yabo mayingathengwa
kxaso enkulu ivelo kwabo bamNyama. Abaphathi bale Fem baqashe
ukuba basebenze endaweni yabo bagwayimbileyo ukuze kubekho
o yehlile

Ngubani uFattis & Monis? UFattis & Monis yiFektri enezimveliso zilandelayo:
Record Self Raising Flour, Record Cake Flour, Record Bread Flour, Record Sifted Flour,
Record Unsifted Flour, Record Wheatie Treat Flour; Philadelphia Flour; Koeberg
Mille pack Mealie Meal; Fattis & Monis icecream cones, wafers and cake cups;
Fattis and Monis Macaroni, spagetti, shells, ribbons, rings, dilatines;
Princess macaroni, spagetti, shells, rings, ribbons, dilatines;
Checkers, Poto' Gold, Pick 'n Pay macaroni, spagetti, rings, ribbons, shells, dilatines;
Wrench Town Bakery, Observatory ; Good Hope Bakery, Elsies River; Ultra Bakery,
Somerset West.

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Spw 13/2/80

LG1

BUSINESS

1980 will be year of good growth—Sanlam

By Pieter de Vos

In contrast to the poor prospects for the world economy in the next 12 months, everything indicates that in 1980 the South African economy will achieve its best growth performance since 1974, Sanlam says in its monthly economic review.

Though the South African economy will be affected by the declining growth rate of the world economy, the full effect will only be felt late this year or early next year in accordance with the normal time lag between business cycle developments abroad and those in South Africa.

But the unfavourable effects which the international recession might bring could be materially mitigated by the country's record earnings from gold, platinum, coal and uranium.

It appears that even if the gold price should decline sharply to an average of 400 dollars an ounce, the current account of the balance of payments may still show a considerable surplus this year — estimates are ranging between R2 000m and R3 000m.

South Africa's balance of payments will not restrict growth in the next 12 to 18 months, Sanlam says.

Steep increases in the profits of commercial and industrial companies may be expected during the next 12 to 18 months. Though sharp increases in costs will be experienced, increased turnovers should have a favourable effect on unit costs.

Profit margins may be restored as increased demand should enable businesses to pass on cost increases to consumers more readily than in the past few years.

Sectors about which Sanlam feels particularly optimistic include furniture and domestic appliances, clothing and footwear, food and building material.

FATTIS & MONIS STRIKE

Inyanga ngoku sele izakuphela abasebenzi abangama - 88 bakwa Fattis & Monis efektri eBellville South benogwayimbo. Into ebangele ukuba bagwayimbe kukugxothwa kwabasebenzi abahlanu ebebesebenza nabo. Bathi unobangela wokugxothwa kwaba basebenzi bahlanu, kukuba bebengamalungu eTrades Unions. Le union ibe izama ukwenza uphando nonthethwathethwano lokuba kunyuswe imali ibeyi - R46 ngeveki, yaye kusetyenzwe iyure ezisi - 8 ngemini. Umphathi weFektri leyo uthe ezizinto bazifunayo zingaphezu kwamandla yaye ziya kwenza uqhushululu efemini.

Abasemagunyeni kumbutho weUnion onamalungu ayi 10 000 (amawaka alishumi) obizwa ngokuba yiFood and Canning Workers Union bathi abo bagxothiweyo bebesayinile amaphepha anika i-Union igunya lokuba benze uthethwathethwano ngemeko ezibetele ekunokuthi kusetyenzwe phantsi kwazo. Ifektri leyo ilalile oluthethwathethwano ne Union. Ifektri ibalula into yokuba omatshini ekusetyenzwa ngabo bathethe indawo yabantu yiyo lento kunyanzeleke ukuba kuphungulwe abasebenzi.

Nangona aba bagxothiwyo ingabantu beBala uninzi lwabo bagwayimbileyo ngamagoduka abantu abamnyama. Nangona bathe bagrogriswa ngokugxothwa babuyele emphandleni aba basebenzi bamnyama bame bemi kwicala labeBala ababathatha ngokuba bangabantakwabo. Ngosuku lokuqala logwayimbo indoda emele icala lomsebenzi izame ukubohlula abeBala kubantu abamnyama xa bebemengaphandle kweFektri. Abasebenzi balile ukwahlulwa, omnye wabo uthe "Silapha sonke yaye iinjongo zethu zinye."

Ayenda amanani abantu abazibanakanyileyo nabasebenzi abagwayimbelileyo. Kwenye yeentlanganiso zokux[...] ephelileyo kubekho abafundi base University nakwano[...] kwezi zikolo U.W.C., Hewat, Belli[...]ge. Ababafundi bathe abasebenzi ma[...]e Fattis & Monis ingathengwa [...]

Umbutho oyi Western [...] onke amalungu awo ukuba angayithe[...]wano.

Umbutho oyi South [...]ungu awo nazo zonke izikolo ezin[...]othiweyo de ba phinde baqeshwe. Y[...]

Abanfundi baseUJC[...]ubunye nabasebenzi. Bacele ukuba imve[...] ingasetyenziswa.

UFattis & Monis u[...]fektri. Kodwa ke lowa ungumphathi [...] wabo mayingathengwa ngabamnyama [...] Fem baqashe abase[...] ukuze kubekho imv[...] Ngubani uFattis [...] Record, self rea[...] Wheatie Treat, El[...] Fattis & Monis i[...] spagetti, shells [...] Checkers and Ron[...] Wrench Town Bake[...] in Elsies River [...]

Cautious note on future growth rates

Sow. 13/2/80

49

Mr E P H Bieber of Old Mutual uttered a word of caution when he said: "One must be careful not to forecast high growth rates for the 1980's as a whole, based simply on December 1979's gold price and our optimism for 1980."

He was speaking at the Simpson Frankel Investment conference in Johannesburg today, which has attracted wide South African and overseas interest.

Institutional investors must be humble about forecasts, he said. They administer what are, in the main, trust funds and must therefore ensure that as much risk as is practical is removed for their portfolios.

What Mr Bieber forecasts for the eighties is:

- The long predicted US recession ending late 1980 early 1981 while other major economies will recover later but on average have a lower inflation and much higher growth.
- There will be no major wars in the eighties but uncertainty and tension will remain meaning that the expected weakness in metals and minerals will be less than otherwise would have been the case.
- Inflation will not fall much below 10 percent and high food prices will continue.
- There will be an acute shortage of skilled and managerial labour.
- High Government spending on black education, housing, homelands development and defence.
- The authorities may even take courage in both hands to revalue the rand in one significant step.
- Utilisation of spare capacity will lead to productivity gains.
- We can expect a reduction in individual and perhaps corporate tax rates.
- Interest rates will bottom in the third or fourth quarter of 1980.

Looking at investment opportunities Mr Bieber said that with the growth in marketability of gilts, and semi-gilts and the probable reduction or elimination of the compulsory investment requirements, institutional investors will attempt to manage their stocks more actively.

In equities he sees continued development of Government-sponsored industries deemed necessary for strategic reasons.

THE SOUTH AFRICAN

(19)

Company tax 'stifling growth of economy'

(380) (49) Star 15/2/80

The current rate of company tax at 42 percent in South Africa is suffocating and counter-productive, with the rate of increase over the years a clear indication of the growth of the State.

In an article entitled "Company tax and national impoverishment," written for the latest edition of Businessman's Law, David Matthews says individual capitalism is being turned into State capitalism by means of taxation.

Mr Matthews contends that the suffocating and counter-productive nature of the tax is self-evident to those who eke out a living in the market place and has escaped the notice of officialdom.

PRODUCTIVITY

"The greater the transference of funds from the private sector to Government by means of such a tax, the greater will become the fall-off in national productivity," he says.

Mr Matthews says while the tax rate over the years has increased dramatically (see table) it 's not regarded as unacceptable.

But it is interesting to note that compared with the beginning of the century company profits have been effectively reduced by 42 percent.

And the implications of this reduction have had an enormous effect on productivity.

ODDS

The amount of self-generated cash for future growth has been drastically reduced.

Individuals who may have set themselves up as self-employed and as employers will not do so because of the tax odds stacked against them.

Today's business man though better off than in the past, is denied vigorous growth because, with R42 out of every R100 being siphoned off in tax, his productivity effectiveness is greatly reduced.

INEXPERIENCED

"A high rate of taxation denies the entrepreneur and businessman the tool of their trade — money," he says.

The high rate of taxation now means that the economy is being controlled by a few salaried civil servants with little practical experience as to how the market works.

"Economically speaking, the ship has been taken over by the passengers. The crew (the business community as a whole) is on water and biscuits and the captain (the entrepreneur) is locked in his cabin."

INVESTMENT CONFERENCE 49

Crumbs of comfort

FM 15/2/80

The annual investment conference sponsored by brokers Simpson, Frankel, Hern, Kruger at Johannesburg's Carlton Hotel on Wednesday was entitled "Outlook for the 1980s." Hence, the speakers, who included Minister of Finance Owen Horwood, the Reserve Bank's Dr Chris Stals, Rustenburg Platinum's Sir Albert Robinson and Old Mutual's Peter Bieber, tried hard to peer into the future.

Sir Albert, in a wide-ranging review of the place of platinum, took a gloomy view of international affairs. "It seems likely that the Eighties will be a glacial decade — with chilly relationships between the super powers, and some considerable uncertainty whether there will be enough oil to keep us warm and the wheels of industry not merely turning but turning at an accelerating tempo. Within this scenario, what is the outlook for platinum?" he asked.

More platinum

He answered by saying that, basically, supply would increase in the early Eighties. "In addition to the probability of intensified competition from Russian metal, the established SA producers face the prospect of competition from new producers. Texas Gulf is actively exploring the Merensky Reef in the Brits area . . . the Johns-Manville Corporation is at an advanced stage of exploration of a platinum group metals deposit in the Stillwater Complex of south-central Montana. This deposit, the geology of which is well known to Rustenburg, could supply most of the palladium needs of the US and about a quarter of its platinum needs at current rates of consumption. It seems likely that metal from this source will be available in the platinum market by 1985." Hence, Robertson concluded, "I would expect the statistical position of platinum to move from a state of scarcity towards a state of better balance between demand and supply."

Bieber's investment overview, in attempting to span a decade, was, inevitably, discursive. Nevertheless, he made some bold predictions:

- "There will be no major war in the Eighties, but uncertainty and tension will remain, and localised wars are possible".
- "Inflation will probably not fall much below 10%."
- "Strikes will be an increasing feature on the labour front."
- "SA is probably now over-shopped — and retailers are therefore likely not to be the most attractive investment."
- "Coal (energy related) and base metals (volume increases) could be attractive."

From the UK, Phillips & Drew's Dr Paul Neild presented a tightly reasoned analysis of oil's impact on the world economy. His conclusion: "We therefore look for stability in the oil price for the remainder of this year, a further 10% increase in the dollar oil price at the beginning of next year, and continuing tightness in the oil market which may last for the whole of this decade."

On world investment strategy, Neild had some crumbs of comfort for SA. "For a worldwide investor with no overseas constraints, our global strategy is . . . basically, D-mark assets are relatively attractive, the yen is relatively attractive, the natural resource based markets of SA and Australia are still relatively attractive".

What will happen to the rand

S. Times (Business) 17/2/80

49

By STEPHEN ORPEN

THE RAND will not be formally revalued. That is virtually official.

The commercial rand and the financial rand will not be merged yet, despite the fact that the gap between them is down to historic lows. That is also virtually official.

At the same time, the Ministry of Finance recognises that South Africa's currency is under-valued, and will become "ridiculously" so if gold stays strong or gets stronger.

As one Government spokemen explains: "If the rand was worth $1,20 when gold was at $390 it is clearly worth much more in terms of dollars now."

These, and many related matters, will be discussed as a matter of urgency when the De Kock Commission meets again in the coming week.

According to sources very close to the Commission, Government wants the rand's value to move up significantly.

But it is not yet confident that the Reserve Bank has sufficiently mastered the art of intervening in the so-called "managed float" of the currency to be able to play a proper role in getting the rand up through the market mechanism without seeming to interfere and thus "losing credibility".

As a top government manager told me this week: "The private sector banks have built up valuable experience in buying and selling most of the major currencies.

"The Reserve Bank has also learnt a lot but is still not adept. Unfortunately I have to admit that when the banks and foreign investors claim that our foreign exchange machinery is a in a mess they are not far wrong.

"The red tape is horrendous and the anomalies highly frustrating for those — and there are many — who are queueing up to invest in South Africa."

He says it has been pointed out that if the gold price remains at its present levels throughout 1980, or rises, there could theoretically be a trade surplus of as much as R6 000-million.

"Clearly, we have to act to prevent that. We have to find ways to get the money out of storage and down into national growth and into the pockets of all South Africans.

"So far, we have worked hard to prevent interest rates falling still further — as the rand is now being used to finance third-country purchases as well as business with our major trading partners.

"But we have nevertheless been liberal in allowing money to flow out of the country to prevent too large a build up of inflationary funds domestically.

"Now we have to look at how we can get still more growth while also moderating inflation

● To Back Page

& Monis factory in Bellville Sout have
the fellow workers were dismissed. The
five were members of a trade union.
pay and hours of work - R40 a week
factory says these demands are "out
d lead to "disruption" in his firm.

od & Canning Workers Union) say the
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d gathered outside the factory. The
We were all there for the same purpose."

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Monis products.

s it will instruct its members not
's negotiation.

s called on all sports bodies and
ll for re-employment of the workers

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blacks. The management have kept
the place of the stiking workers.

the factory which produces the
including self-raising flour, Cake
fl... flour, Wjeatie Treat flour; All
products with the Fattis & Monnis brand name including icecream cones, wafers, cake cups, macaroni, spagetti, large & small shells, ribbon noodles - broard, narrow, plain and green, rings and dilatines; All the above noodles and spagettis under the following brand names: Pick 'n Pay, Pot o' Gold, Princess, Checkers and Roma; Philadelphia flour and Koeberg Mille pack mealie meal; Fattis and Monis also control a number of Bakeries including Wrench Town Bakery in Observatory, Good Hpe Bakery in Elsie River and Ultra Bakery in Somerset West.

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Profits signal economy on march

RDM 18/2/80 882 49

By HOWARD PREECE
Financial Editor

SOARING profit figures streaming in from industrial companies offer powerful confirmation of the economic upsurge.

An analysis of 1979 annual profit figures from 14 companies reporting in the last 10 days shows pre-tax earnings up to R153-million in 1979 against under R109-million in 1978.

In addition, another 12 companies reporting figures for the second half of 1979 — groups with June 30 yearends — had interim pre-tax profits up from R36-million to R55-million.

That is apart from the mining companies and excludes Barclays National Bank which had changed its yearend. Barclays made R97-million for the 15 months to last December against R60-million in the previous year.

Huge profit increases will obviously be shown by the mining sector with the spectacular rise in the gold price and in commodities generally.

Last week Johnnies reported half-year profits more than doubled from less than R22-million to nearly R46-million.

It is industry, however, that must bear the main burden of boosting economic growth and providing tens of thousands of new job opportunities. Profit figures show evidence of a move in the right direction.

The comapnies whose annual results I have added together are, aphabetically, Aberdare Cables, Brick & Clay, Cadswep, Darling & Hodgson, Evelyn Haddon, Haggie, Kohler, Metalclo, Nat Trade, Ninian, Quinton Hazell, Rennies, Sappi and Trencor.

The rise in their combined net attributable profits for 1979 was from R66-million to nearly R90-million — a jump of almost 35%.

Even allowing for 14% inflation last year that is a healthy real increase.

The companies I have included for interim figures are Abercom, T W Beckett, Calan, Edgars, Gresham, Hesperus, McCarthy, Mitchell Cotts, Morlite, Nat Bolt, Steelmetals and W & A.

They increased their net attributable half-year profit from under R21-million to more than R32-million — a rise of well over 50%.

These are the kind of figures, of course, that the stock market has been anticipating in driving up industrial share prices by 100% on average in the past 18 months.

I have said, however, that I think the overall industrial is now vulnerable to any political uncertainty because I do not believe there is sufficient yield protection to meet any major unsettling effect.

Also, it is one thing to send profits surging from a depressed base — keeping up the momentum is a different matter.

Be that as it may, what matters in this context is that the industrial companies are certainly generating profits to justify overall economic confidence.

It also so happens that some of the star performers in the past couple of weeks have been companies controlled by or associated with Union Corporation. These are, in particular, Haggie, Sappi and Kohler. Their performances are a reminder of the strength of Union Corp's industrial interests.

But for those who think the industrial market still well worth buying the question is: what to buy?

A stockbroking firm which sponsored the highly successful investment conference in Johannesburg last week has done an interesting valuation test on all the main non-mining shares.

It has given each company two ratings. The first is based on the brokers' estimate of "total expected return" this year; that is, dividends plus capital gains.

The second is "residual return" — the amount by which the total return of any share exceeds or falls short of the average returns of shares reckoned to have the same investment risk.

Clearly this involves some subjective judgments as well as forecasts being in turn dependent on other forecasts.

However, the five shares the broking firm selects are Federated Property Trust, Scottish Cables, Currie Finance, Kohler and SA Druggists.

Argus 21/2/80

49

SA rated safe for investors —Minister

Political Staff

SOUTH AFRICA had once again been rated as a safe and rewarding field of investment, the Minister of Industries, Commerce and Consumer Affairs, Dr Schalk van der Mrewe, said today.

Speaking at the Italian Machinery Exhibition at Milner Park in Johannesburg, he said with the exception of 1977 and 1978, South Africa had always been rated as a low risk country by international financial institutions.

'Since the venemous campaign against South Africa by certain political organisations in those years failed, the country has once more been rated as a safe and rewarding field of investment.'

CO-OPERATION

He said South Africa attached importance to strengthening economic co-operation with Italy.

'Foreign observers may tend to overstate the current political uncertainties facing our country.

'Although the short-term economic outlook appears somewhat blurred and time is necessary to sort out certain socio-political issues, South Africa's human and natural resources unquestionably hold the key to a prosperous long-term future.'

DISCUSSION

The crude death rates and the standardised mortality rates for whites, Asians and 'coloureds' and urban Africans are presented in Fig. 1. The interpretation of these figures is confounded by the differences in the underlying structure of the population. The population pyramids of the various groups were pictured in Part I with the exception of the urban Africans, which appears in Fig. 2. This population shows an excess of healthy working males and lack of elderly persons as a result of the migratory labour situation.

The standardised mortality rate provides a single figure for the mortality experience of a population which can only be fully expressed in terms of a series of age specific death rates. The SMR is calculated by multiplying all the age specific mortality rates in the observed population by the corresponding numbers in the standard population, adding the number of deaths so

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Infant mortality rates are summarised in Fig. 3. Once again, difficulty is experienced in obtaining data for Africans. Birth statistics for Africans are not published by the central government. The various medical officers of health[9] have estimated the infant mortality rates for their urban areas. These show considerable variation. (See also ref.15). A mean figure and the range are given in Fig. 2. These de facto figures should be interpreted with caution as sick infants are often brought to the cities from rural areas. An indication of the situation in the rural areas is given by a sample survey carried out in Cape Town and Transkei among Xhosa-speaking Africans.[12] An increase in infant mortality was observed with decreasing urbanisation, the figure for the completely rural areas being of the same magnitude as those parts of the world devoid of medical services. Fig. 4 summarises the age specific mortality rates of

rural areas or cause of deaths' according to the Bantu Reference Bureau (Personal Communication). At least 50 000 deaths among Africans were not registered. These occur mainly in the rural areas. It is estimated that about 10% of the deaths in the main urban districts are not registered for Africans.

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METHODS

The following indices were calculated:

1. Crude Mortality Rates.
2. Standardised Mortality Rates. Two standard populations were used: England and Wales representing a developed population and Mexico 1960 for a developing one.
3. Age and Cause Specific Death Rates. Calculated mainly in five year age groups for the seventeen major divisions of the eighth revision of the

Why whites 'cannot be smug'

Argus 22/2/80

IT was inevitable blacks and whites were going to evaluate developments in South Africa in very different ways, a former senior assistant editor of the Financial Mail, Mr John Kane Berman, told students at Cape Town University yesterday.

He said this was borne out by the reaction to the Silverton siege and the subsequent Soweto funeral of one of the black gunmen involved. The funeral was attended by between 15 000 and 20 000 people.

He said it was also possible most blacks were hoping that either Joshua Nkomo or Robert Mugabe would win next week's elections in Rhodesia as opposed to white support for Bishop Abel Muzorewa.

HAPPENING HERE

'And South Africans must not be smug about what's happening in Rhodesia and say it can't happen here, because it's already happening here,' he said.

'The Prime Minister, Mr P W Botha, is realising that this country can't survive by military force alone.'

Mr Berman said the Riekert Commission's report had resulted in the influx control laws being tightened up.

MOST NEGATIVE

'This is one of the most negative labour developments which has had a serious effect on blacks in urban areas,' he said.

To make an accurate assessment of whether the country is changing 'for the better or the worse,' students should watch for changes in security laws; freedom of the Press; black family life; the pass laws; the Government's resettlement policy; trade unions; black political rights and financial policy pertaining to development in black areas.

● See page 15

specific population. No official estimates of this are available for inter-censual years. For whites, Asians and 'coloureds, the 1970 population has been projected forward using the age specific survival rates from 1970 and taking into account the actual births and deaths in the 0-4 age group. Allowance was made for migration.

For Africans, a different procedure was adopted as a population figure for only part of the country was required. The 1970 age distribution[10] by magisterial district was used, the numbers being adjusted by the 1974 gross population estimates by economic region.[11]

Politics cloud rosy economics picture

Star 22/2/80 4 9

Colin Campbell

IN THE MARKET

There are now 22 trading days to the Budget. My chart shows how industrial shares have moved 20 trading days before the Budget in the last nine years and how they have performed 20 trading days after the event.

Whither industrial shares this year?

While the economic picture certainly looks bright — and good company results continue to flow — the while the Budget is Budget is likely to please investors.

Can Senator Horwood really fail to give tax handouts? The political picture looks a little clouded.

Next week is the second leg of the Rhodesian election — and both local and overseas investors are holding their breath over this chapter in Africa's history.

NERVOUS

It could be argued that the stock market — and South African investors — have had enough experience over the years to discount political events. But while locally we may be able to take a more sober view of events, overseas investors are traditionally nervous and tend to read any situation in the worst possible light.

However, if all goes well next week, then Diagonal Street should see no more than a little bump.

As for post-Budget movements of industrial shares, that finally depends on the detail of Senator Horwood's measures. But it seems a common belief that he will be stoking the fires of SA's economy, that he will be giving encouragement to companies and businessmen, that he will be able to paint a very bright picture of the economic prospects in the year ahead.

The stock market anticipates events rather than follows them, and the market has been good of late. But if you share the belief that the Minister has more goodies to unveil, then the post-Budget market should rise.

I view the prospects for industrials ahead of the Budget as good; and the prospects for industrials even better.

Unicorp bid — no change

Now that preliminary year-end results for Genmin and Unicorp have been published it seems clear that there will be no change in the 80-for-100 terms — as some brokers had believed. The ratio of a true merger based on earnings would have been 58-for-100; on the dividend front the ratio would have been 62-for-100; and on net asset value the ratio would have been 68-for-100.

The premiums now offered to a Unicorp shareholder are thus 38,2 percent on eps; 29 percent on dividends; and 18 percent on NAV.

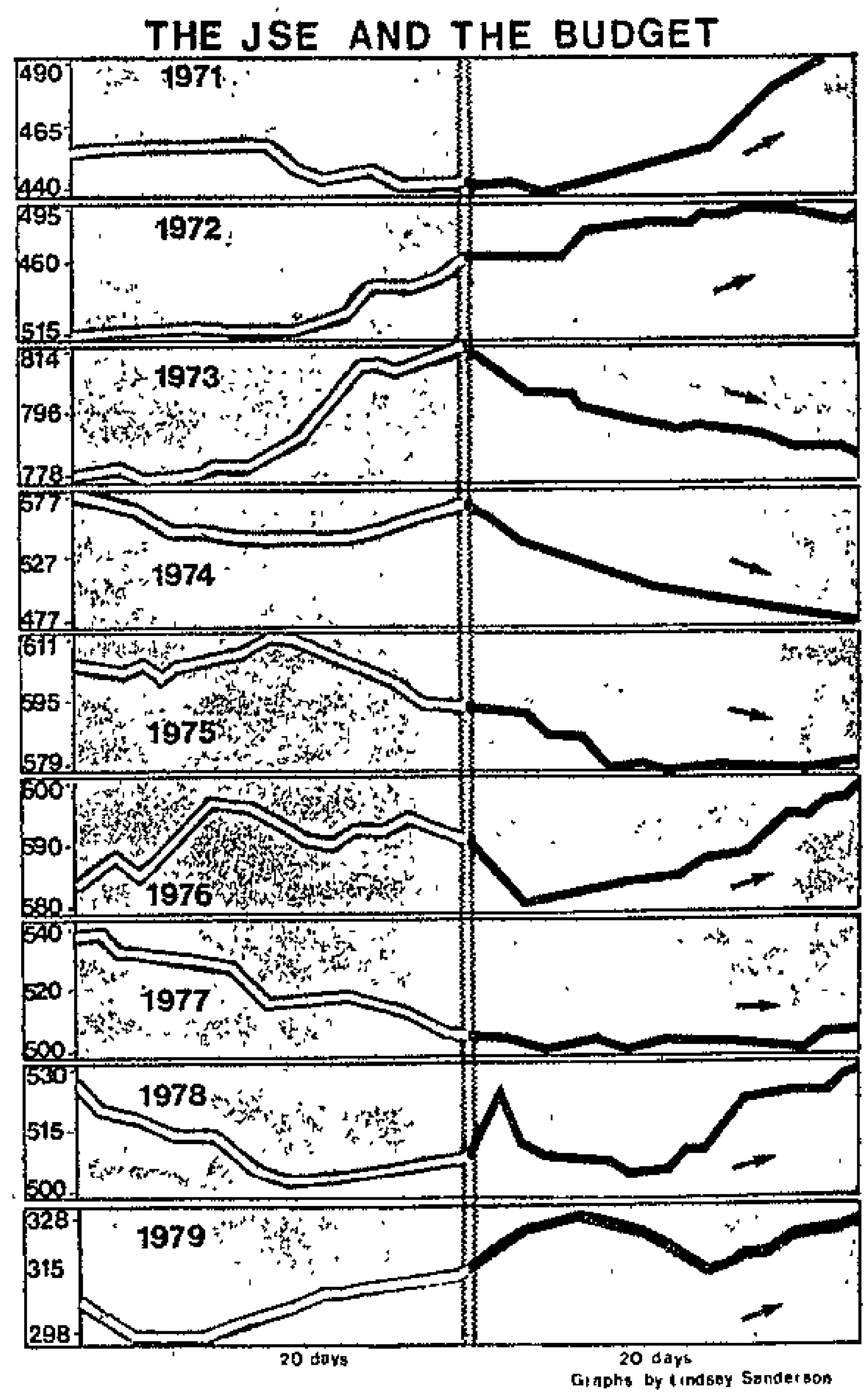
Full details of the merger proposals should be out on Tuesday.

Tailpiece

London Press comment and headlines have been far from kind about De Beers and its share raid on Consolidated Gold Fields.

So I suppose that De Beers-Anglo can at least be thankful that they didn't snap up that vital percentage stake last Thursday, February 14.

That surely would have invited the headline: "The St Valentine's Day Massacre."



The crude death rates and the standardised ... Asians and 'coloureds' and urban Africans ... The interpretation of these figures is con... the underlying structure of the population ... the various groups were pictured in Part I ... urban Africans, which appears in Fig. 2. ... of healthy working males and lack of elder ... migratory labour situation.

The standardised mortality rate provides a ... experience of a population which can only ... series of age specific death rates. The ... all the age specific mortality rates in the ... corresponding numbers in the standard popul... deaths so obtained and dividing the total s... this figure is independent of the age struc... the choice of the standard population will ... the deaths in the various age groups. The choice of ...

5. Infant Mortality Rates.

...cording to the Bantu Reference Bureau ...t 50 000 deaths among Africans were not ... the rural areas. It is estimated that ... urban districts are not registered for ...

...ted:

Two standard populations were used: ... a developed population and Mexico 1960 ...

...ates. Calculated mainly in five year age divisions of the eighth revision of the ... Diseases (ICD).

... summarises the age specific mortality rates of

ALL CAUSES

	W		A		C		B	
	M	F	M	F	M	F	M	F
0–1	21,76	16,18	40,44	27,11	133,70	119,02	91,30	88,18
1–4	1,17	0,94	2,42	2,39	17,22	16,21	10,23	9,93
5–24	1,05	0,46	1,31	0,74	2,26	1,25	1.64	1,12
25–44	3,02	1,47	4,33	2,48	8,80	4,96	4,78	3,70
45–64	17,46	9,49	26,27	18,72	24,27	17,87	18,06	15,57
65^+	73,62	54,55	92,20	82,93	96,90	71,79	53,38	45,89
ALL	9,44	7,40	8,03	5,51	14,62	11,00	8,77	8,13
NO.	19600	15374	2828	1967	16632	12847	18348	13062

FCI chief shrugs off growth fears

Star 22/8/80

There is a lot of talk of the dangers of a swing into demand-inflation should the South African economy grow too rapidly.

This view is almost wholly fallacious, said Dr J. C van Zyl, executive director of the South African Federated Chamber of Industries, when he addressed the 19th meeting of the Textile and Clothing Advisory Council in Port Elizabeth.

The sharp increase in the gold price has given the South African economy considerable room to import commodities which is, of course, a natural result of a higher domestic growth rate.

Thus, even if the domestic production machine should not be able to cope with a substantial increase in demand, the considerable scope on the current account of the balance of payments will prevent any increases in prices being generated by "overspending."

Continued increases in real consumer expenditure remains vital to induce higher rates of growth than we have so far experienced in the upswing.

For this reason the FCI is looking to a reduction of tax rates on personal incomes. At the same time, however, it is also important to reduce taxation on private companies in order to provide them with an additional incentive to undertake investment activities and unless investment in the private sector accelerates markedly, the boom is likely to be short-lived, said Dr van Zyl.

XVI SYMPTOMS AND ILL-DEFINED CONDITIONS

	W		A		C		B	
	M	F	M	F	M	F	M	F
0–1	0,51	0,54	2,10	1,24	7,00	6,86	19,69	19,83
1–4	0,04	0,04	0,21	0,35	0,75	0,77	2,58	2,48
5–24	0,01	0,01	0,09	0,06	0,08	0,03	0,21	0,23
25–44	0,05	0,05	0,28	0,17	0,42	0,31	0,72	0,78
45–64	0,44	0,18	1,73	1,04	1,73	1,02	3,80	3,64
65+	1,84	1,95	8,32	6,56	8,55	5,71	14,69	14,84
ALL	0,22	0,23	0,56	0,38	0,83	0,65	1,80	1,96
NO.	463	485	199	134	943	761	3765	3145

XVII ACCIDENTS, POISONINGS AND VIOLENCE (EXTERNAL CAUSE)

	W		A		C		B	
	M	F	M	F	M	F	M	F
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,18	1,24	0,32	0,19
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0,63	0,61	0,21	0,20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,40	0,38	0,68	0,12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,32	0,70	1,22	0,26
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,89	0,76	1,10	0,31
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,19	0,90	1,02	0,53
ALL	0,95	0,33	0,95	0,29	1,91	0,56	0,89	0,20
NO.	1973	677	333	104	2175	652	1868	324

(49) FM 22/2/80

The PFP's blind spot

It is interesting that P W Botha, who has never been in business, is the National Party prime minister who has taken the private sector into his confidence and firmly embraced the doctrine of free enterprise.

His timing could not have been better. He assumed office just as SA neared the end of a long, weary recession. His *toenadering* with the business community coincided with a gold boom which fuelled an incipient economic recovery.

His finance minister, Senator Owen Horwood, has established himself as a successful occupant of this difficult post. Not least among the reasons for his success is his willingness to listen to the men around him and act on their advice.

It would not be an exaggeration to describe this team of economic advisers as one of the most potent weapons in Botha's political armoury. It includes, for example, a man of the international stature of Dr Gerhard de Kock, senior deputy governor of the Reserve Bank presently seconded to Horwood as a special adviser; Dr Joep de Loor, the new director general of the Treasury who, like De Kock, represented SA at the IMF in Washington; and Dr Simon Brand, the PM's highly intellectual economic adviser.

This trio, instructed by a minister who talks their language, has fashioned a monetarist economic policy which has curbed government spending and assisted a massive turnaround on the nation's external trading account. One of the fruits of this policy is the prospect of real growth of 5% in 1980, a performance which would be practically unmatched internationally.

More reforms (such as tax and banking law) are in the pipeline and the success of this vigorous new approach has built the platform for PW's streamlining of the civil service. The PM has grasped, as all successful statesmen must, that it is a *political economy* which he is running.

This policy, with its commitment to free enterprise, lower taxes and higher growth, has powerful appeal to SA's increasingly sophisticated white urban electorate.

Now this electorate is precisely the target at which the official Opposition, the Progressive Federal Party, must take aim. But what is its counter to the finelytuned Botha/Horwood economic game plan?

"Well," said one PFP leader to the *FM*, "we have a commission." This commission is there, presumably, to structure a new PFP economic policy. Anything, of course, would be an improvement on Harry Schwarz's muddle-headed "social democracy," whatever that may be.

Schwarz, for example, attacked free enterprise supporters with this asinine remark: "State action is always unjustified interference in the market mechanism (in the opinion of supporters of capitalism). Rules are permitted for other forms of human activity, but not in the economy.

"Here," writes Schwarz, "the weak must perish and the strongest survive. Anyone who dares to challenge this concept of an economic jungle is immediately labelled a socialist and worse."

Such claptrap makes no contribution to a serious debate of great moment in our affairs. It certainly does no credit to a party when its chief economic spokesman sounds off so illogically. Clearly no rational man advocates anarchy, even the most fervent supporters of capitalism readily grant that rules and laws are essential, as is government machinery to enforce them.

The father of free enterprise, Adam Smith, wrote more than 200 years ago. "Justice . . . is the main pillar that upholds the whole edifice." Smith added in his classic, *The Theory of Moral Sentiments*, that ". . . the observation of justice" serves "to protect the weak, to curb the violent, and to chastise the guilty."

Schwarz's economic sallies bring to mind the words of John Neville Keynes, father of the great Lord Keynes ". . . people think themselves competent to reason about economic problems, however complex, without any such preparatory scientific training as would be universally considered essential in other departments of inquiry."

Van Zyl Slabbert . . . must override his commission

What is disturbing about all this is that this apalling philosophical vacuum in PFP policy could dissipate the considerable gains which have been made in this session under Dr Frederik van Zyl Slabbert's leadership.

It is now necessary for Van Zyl Slabbert to override his commission. He must quickly draw upon the ample economic talents available to the PFP to fashion an integrated economic policy. This policy must be attuned to the needs and aspirations of modern urbanites. *Realpolitik* dictates that such a policy have appeal to the white urban voter. But that does not mean that it should not stress the need to cater to the aspirations of the black proletariat.

In fact, a policy of high growth, low taxes and reduced government interference is best designed to serve black interests. Such a policy leads to job creation while history shows that growth, powered by a virile private sector, breaks down social and economic class barriers more surely than any other process. Why, for example, does the HNP oppose foreign investment? Precisely because they correctly perceive that growth guarantees the destruction of apartheid.

The PFP can, and should, turn the PM's commitment to free enterprise into a political weapon of their own. How, they should ask him, does he reconcile free enterprise with influx control? Free enterprise requires that there be no barriers to entry. It calls for equal opportunity but does not guarantee equal results.

To what it perceives as its potential black constituency, the PFP should point out that the system under which they live is *not* one of free enterprise. Apartheid is a close relative of communism, a system under which the state dictates where a man shall live and work, under which the state owns his home and subjects him to humiliating regimentation. This is communism, not free enterprise.

Van Zyl Slabbert must not allow the PM to steal a march on him in this critical area. He can, given his debating skills, mental agility and intellectual strength, meet the National Party on its own economic ground.

All this assumes, of course, that the PFP is in favour of reduced government interference, lower taxes to promote growth and a genuine free enterprise philosophy which demands that all be permitted to compete equally for the good things of life.

Above all, Van Zyl Slabbert should beware of the zero sum trap, that seditious argument which holds that if the rich prosper it must be at the expense of the poor. It is an illusion that whites have prospered, via apartheid, at the expense of blacks. Clearly, if blacks had for these past generations been allowed to compete and grow we would all be better off.

Sterile arguments calling for more welfarism do not serve the interess of black South Africans. What they want is for the state to get off their backs.

Van Zyl Slabbert and his party can, if they act swiftly ahead of the Budget debate, add new impetus to SA's move towards free enterprise which will bring with it the inevitable destruction of apartheid.

The rest of the world heads for recession but not Pretoria

Swimming against the economic tide

Inkw 24/2/80 (49)

By BEN TEMKIN

ONE of the most striking points about South Africa's expected outstanding trade performance in 1980 is that it will probably be achieved as most of the rest of the world moves into recession.

The Republic, and possibly a few other countries, will be the exceptions in an environment where most countries are expected to show minimal or even negative real economic growth rates this year.

In its issue of February 4, the U.S. magazine Business Week points out in 1979 sluggish growth in the U.S. and Britain was offset by accelerated growth elsewhere in the industrial world notably in Japan (six percent), West Germany (4.2 percent), Italy (4.5 percent) and France (3.5 percent.

But Business Week is far from optimistic about a repeat performance. It sees the possible danger of the industrial world moving into a "synchronised recession" similar to that of 1974-75.

At the very best, it expects countries with the closest ties to the U.S. to be hard hit by its recession. Business Week takes the view that the recession was narrowly averted by the U.S. in 1979 but higher oil prices and tightening of the monetary policy make it seem that the U.S. is "clearly headed for a full-fledged recession in 1980."

In particular, unemployment is expected to reach about eight percent by year-end with inflation in the nine to 10 percent range in the final quarter.

South Africa is one of the countries which has close trading ties with the U.S. In 1979, the United States was ranked second in value of exports from the Republic and third in value of imports.

At first glance, therefore, it would seem that we cannot but suffer from the expected downturn in the U.S. economy.

As for our other major trading partners:

- Japan's economic growth rate is expected to fall sharply.
- The turnaround in Britain is expected to be a long way off.
- Growth in West Germany is expected to slow.
- The French economy will probably grow by only 1,5 percent this year.

A second glance shows quite a different picture, however:

- The United States, irrespective of the state of its own economy, has run its stockpiles of strategic minerals down to low levels and will continue to have to buy from South Africa.
- Exports to Britain tend in many respects to be immune from economic conditions in that country.
- Japan's fall in economic growth by no means implies a negative growth rate. To maintain the expected rate of growth, it will have to continue to import on a large scale from South Africa.
- Much the same picture will be seen in West Germany and France. In addition, it has to be appreciated that the pattern of South Africa's trade is changing — as can be seen to some extent from the accompanying tables (from the Standard Bank's February review).

Incidentally, Switzerland heads the table mainly because of its imports of Krugerrands and because South Africa's diamond trade is now through Switzerland and not Britain.

What is not shown in the tables is the rapid increase in trade that is taking place with the Middle and Far East and South America.

Exports to South Korea rose by 378 percent in 1979 to R41-million, to Israel by 92 percent to R69-million and to Taiwan by 39 percent to R82-million.

Good gains should again be made in these areas and so boost South Africa's overall trade figures.

S. Africa's trade

Merchandise trade distribution (excluding gold bullion, oil and arms).

South Africa's exports to:

(Under headings for each year — rank — percentage of total value)

	1st 8 months 1979		1978		1977	
Switzerland	1	15,7	6	6,3	7	3,7
United States	2	15,3	1	18,4	2	13,5
United Kingdom	3	10,9	2	17,2	1	22,7
Japan	4	10,3	3	10,4	3	11,0
West Germany	5	8,5	4	9,3	4	9,0
Africa	6	7,6	5	7,3	5	8,9
France	7	3,9	7	4,0	6	3,9
Belgium	8	3,8	8	3,1	8	3,1

South Africa's imports from:

(Under headings for each year — rank — percentage of total value)

Major trading partner:	1st 8 months 1979		1978		1977	
West Germany	1	18,9	1	20,4	2	18,2
United Kingdom	2	18,2	2	16,7	3	16,5
United States	3	17,3	3	15,8	1	19,0
Japan	4	11,3	4	13,2	4	12,2
France	5	7,9	5	7,6	6	4,7
Italy	6	3,4	7	3,5	7	4,1
Africa	7	3,4	6	3,9	5	5,6
Switzerland	8	2,6	8	2,7	8	2,3

TABLE 4

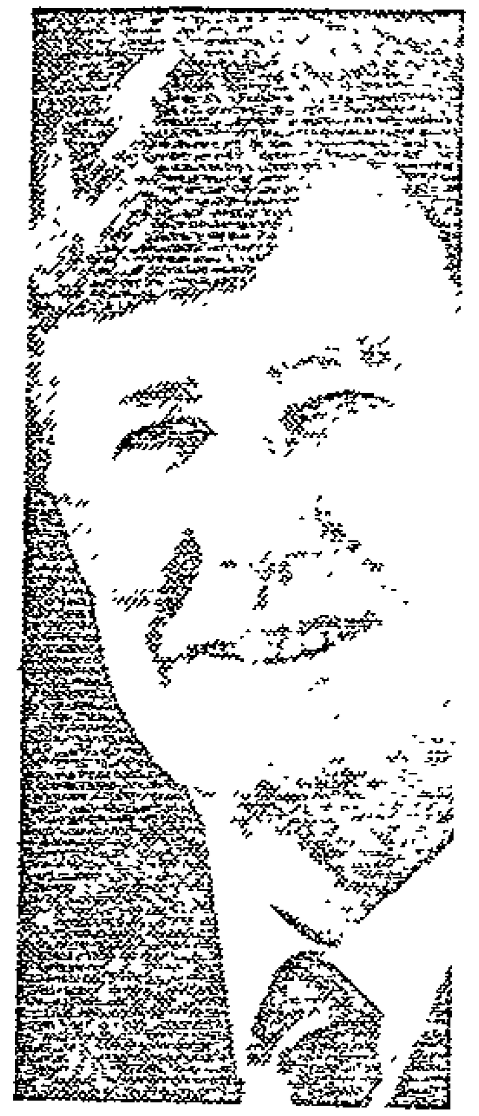
Distribution of farms by number of sheep (x) and size of permanent male labour force (y)

Total No. of farms	4	9	7	5	2	2	2	1	32

BUSINESS

'SA set for best growth'

5/7w (49)



Senator Owen Horwood

OUDTSHOORN. — South Africa's strict monitoring and conservative tax and fiscal policies established in 1973 before the oil crisis had paid dividends.

Today, with the capital budget at a record high, South Africa was able to fund 90 percent of its own capital requirements, the Minister of Finance, Senator Owen Horwood, said at a Rotary banquet here.

The Minister said the Government had kept its spending in real terms constant over the last four years. This, with the disciplines that had been introduced, had enabled South Africa to turn the corner long before the rise in the gold price.

The rise in the gold price as well as better prices for South Africa's strategic materials had enabled the country to continue its economic development and he pointed to the harbours at Richards Bay and Saldanha Bay which were paying their way.

The economy could move forward today and the growth rate at present was four percent in real terms and he hoped that by the end of the year it would reach five percent, which would be the highest in the world.

Senator Horwood paid tribute to the work of the Rotary movement in actively fostering the improvement of relations between South Africa and other countries. In the same way, the Government with its policies was fostering better understanding between the peoples in South Africa. There were many differences amongst the various races in the country. One could not subsidise the other for ever, but would help people to the point where they could help themselves.

South Africa was today setting an unparalleled example in the world and he thought that no other country had done as much in respect of housing as South Africa had done in the past two years. This was also true in the field of education.

While the country did not always get the response from the Western world which one could expect, he had encountered positive signs from all the countries he had visited overseas of a changed attitude and more goodwill than one normally read about or heard through the news media, Senator Horwood said. — Sapa

29/2/80

Dr Gerhard de Kock

'. . . and economic miracles'

Own Correspondent

PRETORIA — South Africa's present economic situation is an economist's dream, thanks to a variety of factors of which the rising price of gold in the past six months is only one.

One of the country's most celebrated economic intellectuals, Dr Gerhard de Kock, said that if South Africa played its cards right in the months ahead, it could attain "an economic miracle" with the simultaneous realisation of several goals:

- A higher real economic growth rate:
- Increased employment
- A stronger currency:
- Higher gold and other foreign reserves:
- A reduced rate of inflation: and
- Increased prosperity for all sections of the population.

"And this in a world which, according to all the latest indications, will in 1980 experience a combination of reduced growth, higher inflation and serious payments imbalances," Dr de Kock, senior deputy governor of the Reserve Bank, told the Pretoria Press Club.

The country's present economic strength was based on more than a sharp increase in the price of gold. Among the factors were rich natural resources, rising food production, expanded economic infrastructure, a "quite phenomenal" increase in non-gold exports, effective government control of spending, and the recent emphasis on harnessing free market forces to promote rapid development.

Dr de Kock said he could not agree with those who saw the rapid increase in the price of gold as an inflationary force which threatened the country's well being.

"After all a Standard 6 pupil will appreciate that if the value of your main export commodity doubles, it can only be good news."

He added that South Africa had been afforded the kind of opportunity for sound economic expansion which came along very rarely in the life of a nation.

6

2. Structural fiscal and monetary policy:

This includes policies relating to tax reform, the composition and control of State expenditure, programme budgeting, cost-benefit analysis, State tenders, investment in the public sector, provincial and municipal finance, structural changes in the monetary system and exchange control.

3. The development and regulation of financial institutions:

In this regard the committee will to a large extent be guided by the Registrar of Financial Institutions and his technical committee.

4. South Africa's external financial relations:

In this respect we shall work very closely with the Reserve Bank and other international bodies such as the International Monetary Fund, the World Bank Group and the Bank for International Settlements, as well as with private international banks and other financial institutions, as is the case at present.

5. Fiscal and monetary co-operation with the Black national States and other States:

Under this heading will be included all relevant financial matters arising from the arrangements relating to the Rand monetary area and the Customs Union, as well as from bilateral arrangements with individual Black States and other States. It is envisaged that this aspect of the committee's work will assume increasing importance as progress is made with the development of the proposed constellation of States in Southern Africa, which the hon. the Prime Minister has put forward so clearly, and of the financial and economic strategies to be associated with it. We shall, of course, work very closely with the Committee on Strategy which was announced recently by the hon. the Minister of Industries.

In a reasonably developed economy like that of South Africa, which is based to a predominant extent on private enterprise and the free market mechanism and which has a sophisticated financial system, financial strategy must inevitably be evolved as a twin partner of industrial and commercial strategy in the formulation of a national economic strategy. I believe that the Committee for Financial Policy and Strategy in its new formalized guise will play a key role in the formulation, co-ordination and implementation of just such a strategy.

MONDAY, 25 FEBRUARY 1980

Prayers—14h15.

PART APPROPRIATION BILL

(Second Reading)

The MINISTER OF FINANCE: Mr. Speaker, I move—

That the Bill be now read a Second Time.

As hon members know, the Appropriation Act for the 1980-'81 financial year will only be passed by Parliament at the end of the present session. The 1980-'81 financial year, however, commences on 1 April 1980. In the Part Appropriation Bill now before the House, the customary authority is therefore sought to spend an amount of up to R3 640 million as an advance on the main estimates, which will be presented to Parliament in due course, to carry on with the services of the Government during the first four months of the new financial year while the main estimates are under consideration.

In accordance with the provisions of section 4(2) of the Exchequer Act, 1975, the moneys appropriated by the Part Appropriation Act will only be utilized for existing services, i.e. services in respect of which expenditure was authorized by the Appropriation Act for the 1979-'80 financial year or in respect of which some other authorization by Act of Parliament exists.

I intend giving the House the usual review of our economic situation when I present my budget. However, there are some aspects of our economy on which I should like to comment at this stage.

Hon. members may recall that I spelt out a strategy of discipline and growth in my budget on 28 March last year. I said at that time that I believed financial discipline should remain the key to final success in our economic policy. It was my contention at that time that it should not be our aim to stimulate the economy in the first instance through increased Government spending. On the contrary, with a 12% envisaged increase in budgetary spending I stated that our policy needed to be aimed at the encouragement of expansion in the private sector. In this direction I believe we have been persistent, consistent and successful.

On 18 September last year I proposed additional fiscal and other measures which were not so much intended further to stimulate the economy as to normalize or maintain the position as envisaged in my budget as at the end of March last year. Important new developments in the world economy, in South Africa in particular, during the first six months after the budget, including substantial increases in oil and gold prices, necessitated these adjustments in order to ensure that our policy aim of stimulating private consumption and investment expenditure should not be neutralized.

The steps which I announced included—

(a) a special non-recurring bonus to social pensioners, paid out in November last year;

(b) an additional amount of R20 million for the further subsidization of basic foodstuffs;

(c) a contribution of a further R12 million, in addition to the R50 million originally provided, for the purpose of limiting unavoidable increases in bus fares to resettlement areas owing to the substantial rise in fuel prices; and

(d) the early repayment of R160 million in 1977 loan levies on individuals on November 12 last year

Together with other revenue sacrifices and additional expenditures already approved at that time, I estimated that this normalization package would add up to more than R500 million. If this is considered in conjunction with the aggregate concessions amounting to R762 million set out and approved in the budget in March, I am sure the House will agree that the Government has done its part in achieving the goal of what we call "growth from strength".

All indications are that our economic momentum has increased appreciably since then and we appear to be on a winning course. In fact the senior editor of one of America's most influential financial Magazines, *Forbes*, has recently said, after a study tour of South Africa, that this country has the potential to become the economic wonder of the world in the 'eighties. I fully agree with him, provided always that all of us work hard and withstand the temptation to live beyond our means.

At the same time the very substantial rise in the gold price since the middle of 1979 and certain accompanying developments thereafter have brought about a new set of circumstances in the South African economy which will require our closest attention in the weeks and months ahead. Close surveillance will need to be exercised over the build-up of liquidity in the domestic money market, the more rapid rise in broad money supply, the continued large disparity between domestic and overseas interest rates, the appreciation of the commercial rand, albeit moderate, and the marked further strengthening of the financial rand.

RATIONALIZATION EXERCISE

It is clear that important decisions in the field of fiscal and monetary policy will have to be taken in the near future, and for this we need a streamlined departmental structure and an effective decision-making set-up. In the first place, in this respect I have on more than one occasion drawn the attention of this House to the existence of the Priorities Committee, a body chaired by the Secretary for Finance with the specific task of investigating and advising on guidelines to be followed and priorities to be set in the use of scarce capital resources in the public sector. This committee has been asked to consider, on the one hand, the extent, cost, suitability and dependability of various sources of capital, both domestic and foreign, and to compare these on the other hand with the total demands made on these resources by the public and private sectors. I have already received several very useful reports from the committee.

Secondly, hon. members will be aware of the important structural reforms introduced by the hon. the Prime Minister during the past year, *inter alia*, in the operation of the Cabinet decision-making process by the consolidation of all previous Cabinet committees into five committees, and in the rationalization of the Civil Service, all with a view to attaining a leaner, more compact and more effective Government structure to meet the swift-moving challenges of our times.

In my own Ministry a new rationalized structure will come into being on 1 April. The four existing departments: Finance, the Treasury, Inland Revenue and Customs and Excise, will come within the general co-ordinating authority of a super Department of Finance, to be headed by a Director-General, who will be Dr. J. H. de Loor, the present Secretary for Finance. In other words, the Director-General for Finance will be responsible for co-ordinating the activities of the Departments of Finance, of the Treasury, of Customs and Excise, of Inland Revenue, as well as of the office of the Registrar of Financial Institutions and various other ancillary financial organizations.

Whilst the Commissioners—the term to which the "Secretaries" will revert—for Inland Revenue and Customs and Excise, together with their departments, will come within the co-ordinating jurisdiction of the new rationalized Department of Finance, it is necessary to stress that as has been traditional, also in the international sphere, both revenue collecting departments will continue to act autonomously in the execution of their duties and powers as entrusted to them in the various revenue Acts passed by Parliament. This uniqueness of their duties and responsibilities has been identified by the Public Service Commission in the course of its investigation. In fact the commission, in conjunction with the Ministry of Finance, is at present engaged in further considering the exact position of both of these departments in the new rationalized scheme of things. The terms "Treasury" and the "Secretary to the Treasury" remain as before.

I am convinced that this new structure will further enhance policy co-ordination in the economic and financial spheres in the Public Service.

THE COMMITTEE FOR FINANCIAL POLICY AND STRATEGY

However, we need to co-ordinate our financial and monetary actions on a much broader front throughout the public sector as a whole. It is essential that decisions at all levels should form part and parcel of an internally consistent national financial strategy involving, among other things, well-defined policies in relation to the maintenance of a strong balance of payments, the financing of the Government's so-called "borrowing requirement" or "deficit before borrowing", the broad money supply, exchange rates and interest rates, and consumption, investment and tax policies aimed at developing the economy to its full capacity. Partly as a result of the De Kock Commission's investigations to date there has emerged a new appreciation of the close inter-relationship among these variables and of the need to adjust them continually, in a co-ordinated way, to meet constantly changing circumstances.

It is perhaps not generally known that there has, for many years, been in existence a policy committee, under the chairmanship of the Minister of Finance and consisting of senior representatives of the Department of Finance, the Reserve Bank and the office of the Prime Minister's Economic Adviser. This committee has played an important role in formulating and co-ordinating fiscal and monetary policies.

In the light of the changed economic circumstances it has now become necessary and desirable to transform this committee into a more formal body with expanded functions and responsibilities in the field of fiscal and monetary strategy. This new formalized body, which has already held its first meeting, is called the Committee for Financial Policy and Strategy and consists of, as permanent members—

The Minister of Finance, Chairman.
The Deputy Minister of Finance, Deputy Chairman.
The Special Economic Adviser to the Minister of Finance, Director.
The Director-General of Finance.
The Deputy Director-General of Finance.
The Secretary to the Treasury.
The Governor of the Reserve Bank.
A Deputy Governor of the Reserve Bank.
The Economic Adviser to the Prime Minister.
The Deputy Economic Adviser to the Prime Minister.
The Registrar of Financial Institutions.

The Senior Deputy-Governor of the Reserve Bank and my Special Economic Adviser, Dr. Gerhard de Kock, will serve as Director of the committee under my chairmanship. In this capacity he will be entrusted with the task of guiding, co-ordinating and organizing the work of this new policy-making body.

Whenever necessary, the committee may also from time to time co-opt other senior officials, such as the Commissioner for Inland Revenue, the Commissioner for Customs and Excise, the Managing Director of the Land Bank, the Secretary of the Public Debt Commissioners and the chairman of the Working Committee on the Economic Position of the Farmer and Agricultural Finance in general, which we now call the Jacobs Committee.

In performing its main task of assisting the Minister of Finance and the Cabinet in the formulation and co-ordination of broad financial strategies, the committee will concentrate on many aspects of the financial scene, *inter alia* on—

1. Short-term or contra-cyclical fiscal and monetary policy:

This will cover quite a wide field, including a more systematic approach also to agricultural finance.

Among the longer-term objectives of such fiscal and monetary policies are included the following—

(a) The promotion of real economic growth and production;

(b) the provision of adequate employment opportunities;

(c) the curbing of inflations; and

(d) the maintenance of equilibrium in the balance of payments.

Whenever these objectives conflict, as is often the case in the short term, the committee will have to assist the Minister and the Cabinet in determining the necessary policy priorities and in adjusting these priorities from time to time in the light of changing cyclical and other circumstances.

Blacks criticise business system

RDM 25/2/80

(49)

30

Staff Reporter

GREAT efforts have been made by the Government and private sector to impress blacks with the merits of the free enterprise system, but black businessmen feel the system does not exist for them.

This view was expressed in an editorial in the latest issue of "African Business," the official voice of the National African Federated Chamber of Commerce.

If South Africa was to have a stable and hopeful future, change must be brought about, not under the pressure of circumstances, but out of recognition of the need for change, the paper says.

The paper sketches the historical development of the black businessman and says he has:

- Always operated under restrictions and this has been the major determinant of the nature and character of his business. "The fear to compete with blacks may have prompted the restrictive attitudes of both the white Government and the private sector;"
- Remained small because he has operated largely in an environment where the residents are predominantly poor;
- Had his business isolated from the mainstream of business in the country. His business is dealt with by the Department of Co-operation and Development, while it should fall under the Department of Commerce and Industry.

There were a number of areas where "visible and heartening" change had taken place.

"The passing of the 99-year Leasehold Act has given blacks in the urban areas the necessary collateral for acquiring funds from financial institutions.

"The Government's approval of the Wiehahn and Riekert commissions and also the concessions extended to urban black traders during the past three years have met with universal approval by the black businessman.

"But what is to be regretted is that these concessions emanate out of a crisis situation created by the Soweto student riots," the paper says.

However, there were shortcomings upon which the Government still had to legislate. These were:

- The transfer of Government liquor outlets and businesses to black entrepreneurs,
- The removal of restrictions still imposed by the Group Areas Act upon black businessmen to trade where they wanted and the amendment of restrictions on black businessmen under the Urban Areas Act; and,
- The 99-year leasehold concession did not go far enough and should be substituted by freehold landownership by blacks. "This concept should also be extended to the rural areas if we are to meet the demand of truly free enterprise."

'Growth rate rising, so is inflation'

HOUSE OF ASSEMBLY — In a world fraught with physical, political and economic uncertainties and difficulties, South Africa had much to be grateful for, the Minister of Finance, Senator Owen Horwood, said here yesterday.

Introducing the second reading of the Part Appropriation Bill, Senator Horwood said that where in one country after another in the world, economic growth rates were falling, South Africa's rate of economic growth was rising.

"Where the world economy, generally, is reeling from the onset of huge payments imbalances and deficits, our current account payments surplus is the highest yet achieved.

"But, like the rest of the world, we are grappling with an unacceptably high rate of inflation. The Government continues to give priority to this baffling world phenomenon.

"High on the list of priorities, too, remains the position of the aged and the pensioner and the effective amelioration of their plight under conditions of high living costs.

"Our currency is sound and strong, and our credit rating in the world at large is excellent.

"All in all, we have strong grounds for viewing our economic prospects ahead with sober and balanced optimism."

Senator Horwood said the substantial increases in the gold price since the middle of last year and certain other developments had brought about a new set of circumstances in the economy which would equire close attention in the months ahead.

"Close surveillance will need to be exercised over the build-up of liquidity in the domestic money market," the Minister said.

The more rapid rise in broad money supply, the continued disparity between domestic and overseas interest rates, the moderate appreciation of the commecial rand and the marked strengthening of the financial rand would also be watched.

He said the Government had done its part in achieving the goal of "growth from strength."

The Minister pointed out that the editor of an influential American magazine, Forbes, had said after a recent survey that South Africa had the potential to become the economic wonder of the world in the 80s.

"I agree with him, provided always that all of us work hard and withstand the temptation to live beyond our means."

Senator Horwood said the rationalisation of his department under Dr J H de Loor, the Director-General for Finance, had begun. The new structure would come into being on April 1.

The "new" Department of Finance would now incorporate the former Departments of Finance, the Treasury, Inland Revenue and Customs and Excise. — Sapa.

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(8)

...ground to sheep-shearing in South Africa, see: ...ng presented to Parliament (Cape of Good Hope) ...855 p.496; also Francis Wilson, A Centry of Agri- ...on and Leonard Thompson (eds) The Oxford History ..., O.U.P., 1971. Wilson refers to Cape of Good ...ect Committee on the Supply of the Labour ...379).

...earing Services Co-operative, (Bloemfontein) ...g all over the country except in the Karoo ...re described as shearing an average of 50 ...ent shearer, according to the manager of ...shear 80 sheep a day.

...on of the activities of Shearing Services

...ENS KOÖPERATIEF BEPERK

...k is in 1953 gestig en geregistreer as 'n Landbou ... 29 van 1939.

...atskappy is om volgens 'n koöperatiewe stelsel ...ng van wol ten behoewe van lede te onderneem. Die ...l van 3 500 en skeerders deur ons gewerf skeer/ ... 5 miljoen skape.

...joen wolskape in die Republiek van Suid Afrika. ... 2 000 en 3 000 skeerders in die Transkei en ...er toegeruste vragmotor in spanne van 8 tot ...ere gebiede vanwaar hulle dan deur ons organi- ...l op vooraf opgestelde skeerprogramme. Elke ...oonlik uit 16 000 tot 20 000 skape.

Le... 10... se... ske...

Na... ...ltooi is word die skeerders weer na hulle hui...

Die... of meer soos volg :-

...1 Augustus tot ongeveer 30 Oktober en weer ... end April.

...es vanaf 1 Augustus tot end Desember en ...nuarie tot end April.

...lik nie meer as 4(vier) maande van hulle

Die skeerders word op die plase waar hulle skeer gratis gehuisves en hulle ontvang gratis voedsel. Hulle word gratis vervoer en ontvang gratis mediese en hospitaal dienste.

Hansard
26/2/80 4(183)

49

Gross national product

127. Mr. N. B. WOOD asked the Minister of Statistics:

49

(1) What was the gross national product for the latest year for which figures are available;

(2) what was the (a) percentage and (b) amount allocated to (i) health in the Republic and the Black states, respectively, and (ii) social welfare services;

(3) what was the (a) percentage and (b) amount allocated to (i) education and (ii) housing in respect of each race group?

4(183)

26/2/80

The MINISTER OF STATISTICS:

(1) R38 122 million for the calendar year 1978

	Percentage of gross national product	Amount R million
(2) (i) Health:		
Republic	2,27	877,7
Black states	0,23	89,1
(ii) Social welfare services	1,52	588,1
(3) (i) Education:		
Whites	2,62	1 009,8
Coloureds	0,51	196,7
Asians	0,25	95,2
Blacks	0,66	253,6
(ii) Housing:		
Whites, Coloureds and Asians	0,85	326,4
Blacks	0,53	203,4

Items (2) and (3) include the Republic of Transkei and the Republic of Bophuthatswana and relate to the financial year ended 31 March 1978. In the case of item (3)(ii) separate figures for Whites, Coloureds and Asians are not available.

SA — potential 80s world wonder

(49) CT 26/2/80

HOUSE OF ASSEMBLY. — The South African economy appeared to be on a winning course, the Minister of Finance, Senator Owen Horwood, said here yesterday.

Introducing the second reading of the "Mini Budget", he said a recent influential view from the United States was that South Africa had the potential to become one of the economic wonders of the world in the 1980s.

"All indications are that our economic momentum has increased appreciably."

The substantial increases in the gold price since the middle of last year and certain accompanying developments had brought about a new set of circumstances in the economy which would require close attention in the weeks and months ahead.

"Close surveillance will need to be exercised over the build-up of liquidity in the domestic money market."

The more rapid rise in broad money supply, the continued disparity between domestic and overseas interest rates, the moderate appreciation of the commercial rand and the marked further strengthening of the financial rand would also be watched.

The government had done its part in achieving the goal of "growth from strength".

The senior editor of one of America's most influential magazines, Forbes, had said after a recent survey that South Africa had the potential to become the economic wonder of the world in the Eighties. "I agree with him, provided always that all of us work hard and withstand the temptation to live beyond our means," Senator Horwood said.

The rationalization of his department under Dr J H de Loor as Director-General for Finance had begun and the new structure would come into being on April 1.

A new Super Department of Finance would now incorporate the former departments of Finance, the Treasury, Inland Revenue and Customs and Excise.

Senator Horwood announced that an informal Policy Committee, in existence for many years, had been transformed into a more formal body to be known as the Committee for Financial Policy and Strategy.

Its functions and responsibilities in the field of fiscal and monetary strategy had been expanded. Its main task would be to assist the Minister of Finance and the Cabinet in the formulation and co-ordination of broad fiscal strategies and would concentrate on the following areas:

- Short-term or contra-cyclical fiscal and monetary policy.
- Structural fiscal and monetary policy.
- The development and regulation of financial institutions.
- South Africa's external financial relations.
- Fiscal and monetary co-operation with the black national states and other states.

Under the short-term fiscal and monetary policy the committee would formulate policies relating to Bank credit and money supply; the money and capital markets, interest rates, the foreign-exchange market, spot and forward exchange rates; exchange control; gold sales, the balance of payments and the gold and other reserves, budgetary policy (including government expenditure, revenue and borrowing); domestic and foreign loans and investment in the public sector as a whole, and agricultural finance.

"In a reasonably developed economy like that of South Africa, which is based predominantly on private enterprise and the free-market mechanism with a sophisticated financial system, financial strategy must inevitably be evolved as a twin partner of industrial-commercial strategy in the formation of a national economic strategy. — Sapa

Horwood: Much to be grateful for

CT 26/3/80

HOUSE OF ASSEMBLY. — In a world fraught with physical, political and economic uncertainties and difficulties, South Africa had much to be grateful for, Senator Horwood said.

Where in one country after another in the world, economic growth rates were falling, South Africa's rate of economic growth was rising.

"Where the world economy generally is reeling from the onset of huge payments imbalances and deficits, our current account payments surplus is the highest yet achieved.

"But, like the rest of the world, we are grappling with an unacceptably high rate of inflation. The government continues to give priority to this baffling world phenomenon.

"High on the list of priorities, too, remains the position of the aged and the pensioner and the effective amelioration of their plight under conditions of high living costs.

"Our currency, the rand, is sound and strong, and our credit rating in the world at large is excellent.

"All, in all, we have strong grounds for viewing our economic prospects ahead with sober and balanced optimism and it is on that note of confidence that I have the honour to move the Second Reading of the Part Appropriation Bill," Senator Horwood said. — Sapa

A 'peoples' Budget?

(49)

CT 26/2/80.

HOUSE OF ASSEMBLY. — The process of orderly change in South Africa had to continue if business confidence in the country was to be ensured, the Official Opposition's chief spokesman on finance, Mr Harry Schwarz, said.

"If there are signs that the process of orderly change is to stop or go into reverse, there will be very serious consequences for both local and overseas business confidence," he said.

Reaction to the announcement by Dr Piet Koornhof, Minister of Co-operation and Development, that the 72-hour influx-control restrictions were to be lifted experimentally in Pretoria and Bloemfontein had harmed South Africa, Mr Schwarz said.

The "carefully chosen words" of Dr Andries Treurnicht, Minister of Tourism and Statistics, had also had the effect of putting the process of orderly change into reverse.

Businessmen needed to know where the country was going constitutionally and the present state of "constitutional confusion par excellence" did not aid confidence.

"This situation cannot be allowed to continue. The Prime Minister should state his plans and objectives."

Industrial peace was also required if the economy was to prosper and changes had to be made tactfully, but some trade unionists appeared to be influenced by short-sighted policies.

There had seldom been greater expectations for a Budget than for the present one and Mr Schqarz called on the Minister of Finance to present a "peoples' budget" next month. — Sapa.

are reasonably accurate.

Horwood told: Use gold bonanza to avert war

Political Staff

THE ASSEMBLY — Opposition speakers yesterday called on the Minister of Finance, Senator Horwood, to use the gold bonanza to implement urgent socio-economic reforms which were essential if violence and revolution were to be averted.

Speaking during the second reading debate on the Part Appropriation Bill, Mr Horace van Rensburg (PFP, Bryanston) called on Senator Horwood to use the resources at his disposal to improve race relations, remove frustration and conflict and create a real spirit of common South Africanism.

"The Minister has the opportunity to make a major contribution to averting war in South Africa," Mr van Rensburg said.

He said he was speaking on behalf of the vast majority of South Africans of all races who were deeply concerned about the gathering clouds of war on the country's northern borders.

Mr van Rensburg said there were many deserving causes on which the Minister of Finance could spend his money. "But nowhere is there a cause more important than in removing discrimination and providing a better quality of life for all South Africans," he said.

Even more important than the total removal of apartheid was the need to create real equality of opportunity for all the country's peoples.

INJUSTICE

One of the most important areas that needed attention was in education where there were still vast gaps in State spending on children of different race groups.

The money was available to make a major impact on closing the gap in education which represented not only gross discrimination but also a major injustice in the society.

Mr Ron Miller (NRP, Durban North) called on the Government to initiate fiscal and tax benefits that would encourage industry to train employees across the board.

The Government had up to now adopted a passive and reactive approach to fiscal and political matters.

What was needed was an active participation that would lead the private sector in the right direction, he said.

"Concessions and tariff reductions are passive measures and are inadequate," Mr Miller said.

He also called on the Government to give some recognition to the 400 000 people in South Africa who were prepared to invest one third of their income in real estate.

He suggested that the Government should make the interest paid on mortgage bonds tax-deductible.

"The effect on the building industry would be tremendous," he said.

Mr Theo Aronson (SAP, Walmer) said Senator Horwood had the opportunity of laying solid foundations to ensure that South Africa could emerge into the "golden years of the 1980s."

"More money and concessions must flow from the central Government to the consumer and private enterprise to ensure sufficient growth to alleviate our unemployment problem," he said.

An important priority also was to grant exporters bigger and better concessions.

... areas — Nats accused

...aff

— Opposition ... the Assembly accused ... of failing ... stop the depopulation ... strategically vulnerable ... areas on South ...'s borders.

... was suggested that ... national servicemen ... placed there to protect borders and to get to the areas.

... Assembly was told hundreds of farms ... standing empty in ... Transvaal farming ... in spite of Government incentives to get farmers to stay on ... farms.

... taking in the second ... debate on the ... Appropriation Bill, ... P A Myburg (PFP ...berg) said the Prime ...ter had warned more ... year ago about the ... of allowing border ... become depopu... a military-

Mr Philip Myburg

strategic viewpoint, no county could afford to have its border areas unpopulated and unprotected.

In an attempt to correct the situation and to prevent further depopulation, legislation had been passed last year to enable new farmers to obtain land in border areas. Arrangements were also made for established farmers to be supported financially.

Mr Myburgh said all this seemed to have had little effect. Meetings had been held in those areas and, according to reports, there was much dissatisfaction.

The impression had been created that those responsible for carrying out the measures had failed.

Mr W M Sutton (NRP, Mooi River) said everything was going wrong in the strategically important border areas.

The farmers there were very important to the country's defence.

Mr Sutton appealed to the Government to place more national servicemen in border areas to stiffen resistance to possible attacks and to get to know local conditions.

The Mau Mau had been defeated in Kenya only because those fighting them knew the conditions in the forests.

In future, it would be a tough pioneering job to live in South Africa's border areas.

Hansard
4(211)
27/2/80

(211) 27/2/80

Public debt

*15. Dr. Z. J. DE BEER asked the Minister of Finance: 4(211) 27/2/80

What was the total amount of the Republic's public debt as at 31 December 1979?

†The MINISTER OF FINANCE:

R18 010 546 984,52

Marketing Act: agricultural production

*16. Mr. P. A. MYBURGH asked the Minister of Agriculture:

What percentage of South Africa's total agricultural production in the financial year 1978-'79 was not under the control of any board established under the Marketing Act?

The MINISTER OF AGRICULTURE:

24,27%

(49)

Council factory plan under fire

49 216 180

RDM 28/2/80

Staff Reporter

TO BOOST industrial development in Nigel, the town council launched a project to build 13 "mini" factory units for private enterprise — and promptly incurred the wrath of the Free Market Foundation of South Africa (FMFSA) an organisation promoting "econimic freedom".

The project, the first of its kind by a Reef council, received wide publicity and the attention of the foundation. It wrote to the council saying: "It is alarming to us that your town council has decided to trespass on the territory of the private entrepreneur."

FMFSA said it was convinced private enterprise would have such factories erected if the need existed in Nigel.

It told the council: "The Government has promised its full support to the expansion of the free market system. It would be an unfortunate deviation of this policy for you to go ahead with the project.

"It is not the function of a town council to compete with its own ratepayers and we appeal to your council to reconsider this project in support of the policy of free enterprise."

FMFSA appealed to the council to hand the project to private enterprise.

The town council has decided to inform the foundation it would be quite prepared to hand the project to private enterprise if the foundation could recommed a factory developer who will be able to complete the project to the council's satisfaction.

Should the foundation not be able to do this, the council will go ahead with the project.

The town clerk, Mr Piet Wagner, said yesterday: "We are going ahead with the project to help the little man. If private enterprise is so concerned about what we are doing why haven't they done something about it yet?"

Economy set for a big lift—survey

49

If you think that the economy has been bright of late, there are even better times round the corner.

By Colin Campbell, Deputy Financial Editor

Household and business confidence is at its highest level in five years; higher consumer spending is on the cards; business generally reports that stocks are insufficient to meet the expected demand; and conditions are extremely favourable for private sector fixed investment.

These are the main findings following a Consumer Survey Report, issued by the Bureau for Economic Research, University of Stellenbosch, in which about 2 000 heads of white households were quizzed and over 2 000 firms were canvassed. The Human Sciences Research Council provided a portion of the funds required for the basic research, and the findings are the most positive for some considerable time.

The survey found that while the household sector was positive about the development of the economy over the past 12 months (January to January), there is even more optimism about the next 12 months. The outlook over the next five years is also positive, with only about 12 percent predicting a deterioration.

Though the majority of consumers reported either an unchanged financial situation or an improvement, some 29 percent still reported a deterioration. But it makes interesting reading that only 16 percent expect a further deterioration in the financial position over the next 12 months.

"It would thus appear that neither the country's economic environment nor the financial environment of the household sector should damp down any potential upsurge in spending of a discretionary nature," the survey reports.

DURABLES

When asked how they viewed the current time for buying durables, 22,6 percent said now was the "right" time — the most optimistic response since the surveys were started at the beginning of 1975.

As for the assessment of the suitability of the time for saving, 13,1 percent said conditions were "definitely favourable"; 45,7 percent said "probably favourable"; 29,8 percent said "probably unfavourable" and 11,4 percent "definitely unfavourable."

The response to the question about the ability to save during the coming three months was finely balanced: "yes" — 21,6 percent; "probably" — 28,7 percent; "probably not" — 23,1 percent; "no" — 26,5 percent.

CONFIDENCE

For the first time since January 1976, consumers have indicated that they expect a levelling off in the rate at which prices are increasing.

Stellenbosch notes: "This is a very favourable development — seen from a confidence boosting point of view — unfortunately one can never be sure that consumers will not be jolted, as they have been in the past, by considerable rises in administered prices."

However, the survey adds: "All income groups are optimistic in their outlook, though (as is customary) confidence is the highest among the upper income groups."

WARNINGS

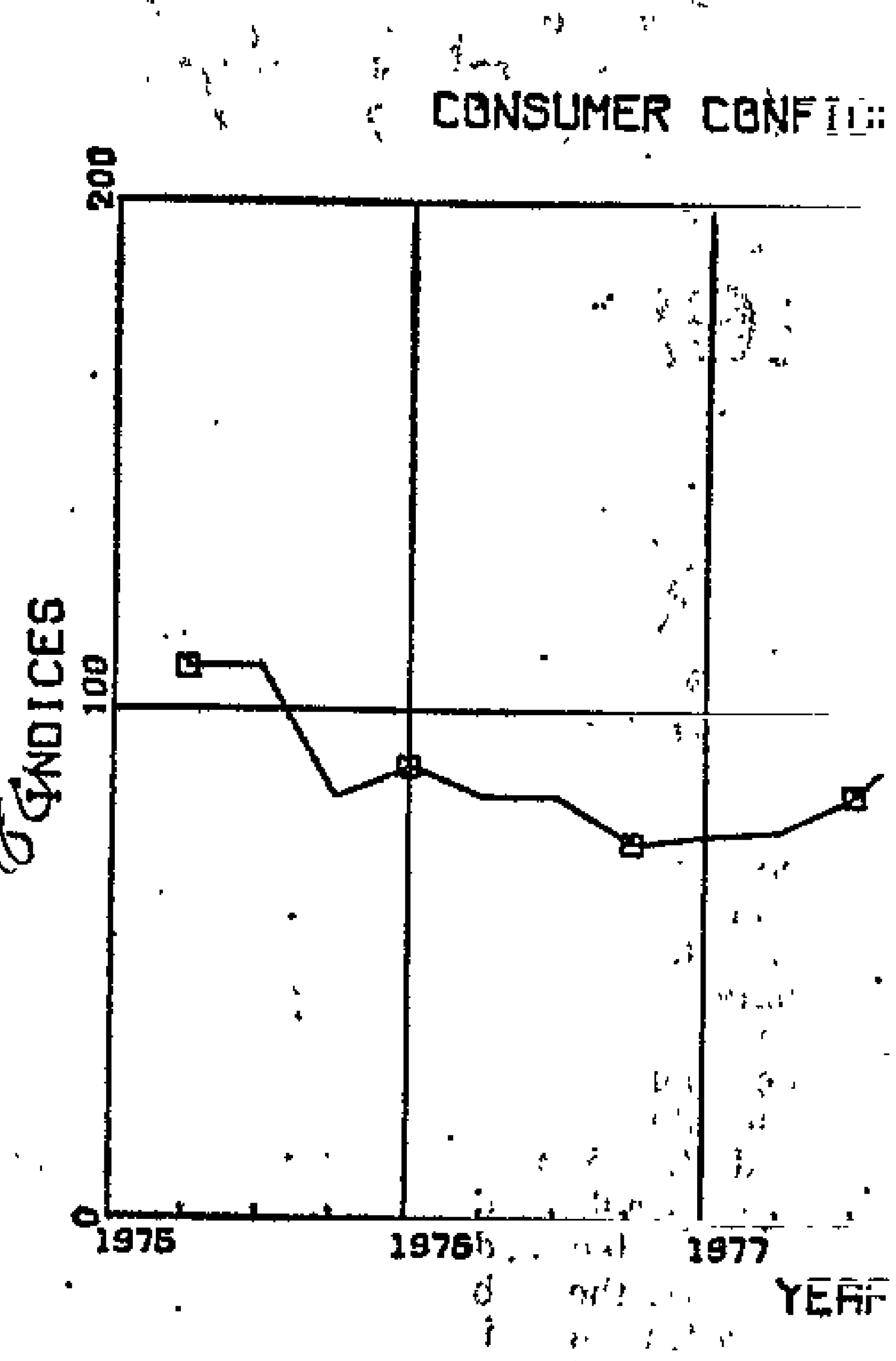
The major feature of the section dealing with businessmen in the consumer goods sector is probably the very favourable mood of the manufacturing sector — in spite of indications of a slight deterioration during the first quarter and the indications which point towards an acceleration in the rate at which fixed investment is being undertaken.

There are two warnings, however: The faster pace at which the consumer price index is increasing "should be cause for concern for the authorities."

And the large number of unemployed people, especially unskilled blacks.

"To our way of thinking the training of these people for higher skilled jobs is becoming of utmost importance, taking into account the shortage of skilled workers and thus the possibility of increased pressure on salaries and wages," the survey says.

● See leading article, Page 28.



DURBAN INDUSTRIAL 49 FM 29/2/80

Maintaining the pace

The perk-up in industrial activity in the Durban/Pietermaritzburg area (*Property* January 25) continues. Several deals have been closed in the last few weeks, including the sale of the Haggie Rand factory in Willowton to Huletts — subject to board approval.

The 20 000 m² building, in mothballs since 1976, has now been sold by Peet, Witherow for an undisclosed sum. But price is well below the R3,8m development cost, which has been written down due to the specialist design of the space. The sale was probably concluded at about R2m.

Hulett associate Alpak will move in as tenant.

The same agents have also sold the Packing and Industrial Equipment building at Durban's Maydon Wharf. The property has 2 500m² of warehousing and offices on a 3 270m² site. It was bought by Oceanair for R300 000. P & I are moving to larger premises.

A seven-storey, multi-tenanted complex in Station Road, Durban, has gone to a private investor for R410 000 (6 340m² on a 1 332m²-site) and Peet, Witherow say they are looking at a potential of R12m sales over the next few weeks.

Financial Mail, February 29, 1980

Financial Mail

(29) FM29/2/80

THE BUDGET

Taxes must be cut

If there are not tax cuts in next month's budget substantially greater than those of last year, it will not only be Finance Minister Owen Horwood who will have some explaining to do. So will Prime Minister P W Botha.

Even with a gold price as low as $450 an ounce, this country can afford a top marginal tax rate of below 50% and a company tax close to 30%. And if we don't get them now, it's likely we never will.

Moreover, politicians as astute as Botha and Horwood know that budgets belie political rhetoric. By tracing the rands and cents they apportion, government's policy priorities are laid bare.

Therefore, if PW is serious about reducing the role of government in the economy — and the *FM* believes he is — it will be reflected more starkly and to a much greater degree in the budget than in the civil service reshuffle.

For the budget is no longer merely the mundane balancing of government's books that is was during the terms of Hofmeyr and Havenga. It is the most important instrument of economic policy which, while concentrating on the objectives of the year ahead, must also provide the groundwork and the framework for the gradual achievement of longer-run policies.

And in a country as dependent on foreign trade as ours, it must also aim at the co-ordination and orchestration of fiscal, monetary, exchange rate and exchange control policies — which quite patently past budgets have not done for a long time.

For almost three years, the severity of monetary restraint has hampered the stimulus given the economy through fiscal incentives; the rand's exchange rate has been, and remains, woefully out of kilter with the extent of the trade surplus; and it has led to tumbling domestic interest rates that are out of keeping with the rate of inflation and interest rates in the economies of our main trading partners.

As a result, and quite inappropriately, the export of capital is being encouraged as if SA were a mature economy rather than one in need of development and fixed investment.

Not until this co-ordination and orchestration takes place (see Page 813) will the liquidity slopping around in the financial system be turned into real investment — the achievement of which is really at the very crux of the task facing those drafting the budget at present.

Be that as it may. There is another equally telling reason for substantial tax cuts. The gold price shot up from $235 an ounce on February 26 last year to $636 on Wednesday after having been much higher. Now is the time to adjust taxes so that the country can benefit from the windfall — if that is all it is — and not wait until it is too late. This opportunity to stimulate growth via tax cuts must not be lost. Government itself could experience higher revenues on lower rates applied to a far wider base.

The surplus on the current account of the balance of payments last year is expected to be R3 000m or twice the surplus in 1978. If the gold price remains above $500 an ounce — as some believe it will — that surplus could be double this year.

Minister Horwood . . . don't miss the chance

And that is taking only gold into account. The prospects for other minerals are also encouraging as is the agricultural outlook. The reserves are rising, our old mines are said to be full of stored oil and even the rand is appreciating, albeit at a snail's pace. This year, moreover, at 5%, we are expecting one of the highest rates of economic growth in the world.

True, there is a capital outflow and inflation is high. But the former includes debt repayments and is mainly because of trade finance switching, which is finite although we don't quite know when it will reverse itself. Inflation is not growing as fast as it did last year as the antidotes of the past few years slowly begin to work.

Of course, a cautious approach by government in its budget to as volatile a commodity as gold would be understandable, especially after its experience in 1975. But the situatio is not really comparable.

At that time, the balance of payments was much weaker and government had committed itself to expenditure that it had difficulty funding when gold earnings began to wither. To have spent, knowing the gold price was, or could, be volatile was, clearly, extreme folly. To cut taxes in those circumstances is another matter.

If caught short, it is not impossible to increase them, even if the period before the higher revenues begin to flow might require bridging loans from abroad. There is hardly a foreign banker who would shy at that type of loan. After all, tax cuts are no manifestation of profligacy, but an economically desirable shifting of resources to the private sector.

Accordingly, if that is the course it adopts, there is no earthly reason why government must base its income expectations on a gold price that is about half the current level. What it must keep constantly in mind, however, is the need for, and the limits to, its ability to adjust economic policies appropriately to changes in market trends.

In SA's circumstances, the main vehicle for this type of rapid adjustment should be government's long-term borrowing activities. For even if tax rates could be adjusted quickly, the rigidities of the PAYE system are such that revenues take a long time to adjust to new taxation levels.

This year, with so much steam under the gold price, these borrowing activities take on a new importance. One reason is that they may be needed among other measures to stem a disruptive and potentially inflationary flood of liquidity hitting the economy at short notice. Indeed, at a lower key, they may be needed for a similar task even if gold remains at about $500 an ounce for any length of time.

In turn, the successful marketing of official loans will depend largely on interest-rate expectations, and they are closely allied to the money supply and the international value of the rand, influenced as it is by the Reserve Bank and exchange controls.

Another aspect of economic policy that is in danger of becoming enshrined in dogma is the assumption that government spending must increase annually at least in line with the prevailing rate of inflation.

But the *FM* believes that this conventional wisdom requires much more careful examination. First, we believe broadly that the creation of wealth — which ultimately will be to the benefit of all races here — can be achieved and sustained mainly through private-sector endeavour.

To achieve that, government's withdrawal from economic activity must be robust and it must begin now while the country can afford it. If it be gradual, the temptation towards delay will most likely become paramount, reflecting the vested interests of a *verkramp* civil service.

Second, we still have an inflation problem in this country. And while the *FM* believes growth should be given priority in government policy, it is quite likely that in recent years the public sector's financial discipline has been much less than reflected in the national budget, which is basically the expected expenditures and revenues of the state revenue fund. Transfers to and from it do not necessarily reflect the spending through separate accounts of a large number of central government bodies.

According to Dr J van der Spuy Heyns, a Natal university lecturer who has made a study of the scope of the extra-budgetary sector, there was a time in the budgets he has scrutinised (1960-61 and 1972-73) when the movement in the national budget deficit was in the opposite direction to that of the public sector deficit which includes those government bodies not financed through the state revenue fund.

In view of the heavy (and often necessary) capital expenditures of the public corporations in recent years, the *FM* believes that this might well have been the case also in 1979, and that it could have been a factor in the delayed reaction of prices to other anti-inflationary measures.

Pegging outlays

Thirdly, socially desirable expenditure need not necessarily be prejudiced if overall government outlays were in absolute terms to be pegged at last year's levels — ie allowing for no increase for inflation — provided wasteful moves towards separate development were avoided and the government stopped interfering in labour mobility.

Both fly in the face of government's stated policy to revive the market economy and play a lesser role in it. They constitute an interference in vital markets and cannot be reconciled with Botha's free-enterprise stance.

The final cost of consolidation of the homelands is so enormous that the amounts involved are almost meaningless numbers. Last year, annual expenditure on this item was budgeted to rise by 63%. The cost of turning some of this country's most barren tracts of land into economically viable nations is equally nonsensical. Yet government is continuing to pour funds down this drain — as large (sometimes staggering) rises in the Foreign Affairs' departmental spending in recent years illustrate.

The more efficient use of other resources should also lead to considerable savings. Take defence, for instance. Although, in comparison to some other more developed economics, SA's defence expenditure is relatively small, it is beginning to rise again.

Last year, the total cash amount at the disposal of the Defence Force was R1 857m — nearly 20% higher than the 1978-79 budget estimate and about 12% up in the final expenditure estimates of 1977-78.

No general will ever agree voluntarily to cut defence expenditure. The only feasible method, therefore, of forcing the army to become more efficient is by squeezing its budget allocation. This would be in the interest of a stronger, not a weaker, army and it would certainly make more skills available to commerce and industry.

The shortage of skills is one of the main constraints of economic growth and a serious potentially inflationary factor. Appropriate educational expenditure should, therefore, also come under close scrutiny and the wasteful application of ideological principles to state education be abandoned.

One way to provide better education faster, as the *FM* has advocated before, would be to import teachers from abroad, where there is a glut of them, and allow their earnings to be fully transferable. Such a move, by increasing the supply of teachers, would also reduce pressure from local teachers' associations for salary increases.

There should be room this year, too, for cuts in the Treasury's allocation. This is, by far, the largest departmental outlay and only two years ago, over half of the annual increase was accounted for by interest commitments in respect of state debt. With so much foreign debt having been repaid, the cost of capital having tumbled, and after reduced government borrowing last year, there should be leeway in it for significant reductions, especially as the country is almost self-sufficient in its capital needs.

The *FM* calculates that if overall government spending were pegged to last year's R12 000m and the defence and Treasury votes were cut by a mere 4% each, and the foreign affairs vote by 40% (it shot up by 586% in 1976-77 to finance the independent homelands), an additional R270m to R300m could be made available for social welfare, community development and black education.

It would mean increases in these latter votes higher than those of recent years and it should be sufficient to get a crash education programme for blacks underway.

But there is another area in which Horwood ought to assist Harry Schwarz's helpless. The nation's savers pay a heavy and unfair hidden tax as a result of life assurers and pension funds being forced to invest large amounts of premiums in low-yielding official securities. If these statutory requirements were abolished, at least

THE LIKELY TAX OUTCOME

	Budgeted estimate Rm	Likely outcome Rm	Amount over budget Rm
Revenue			
Gold mining tax			+500
GST			+130
Company tax			+200
Other			+167
	8 383	9 380	+997
Expenditure	11 247*	11 745	+498
Deficit before borrowing	2 864	2 365	+499

* Including the increased pensions and subsidies announced in September.
Source: The Standard Bank.

those about to go on pension or retire would do so in considerably improved circumstances.

In essence, the *FM* believes it would not require a superhuman effort to limit government spending to the roughly R12 000m projected last year. And the economic benefit from it would far outweigh any sacrifices that were involved. The main cost would be ideological — and that comes cheap.

If that amount of expenditure were held, deducting R10 500m in revenue that existing tax rates would yield, there would be a deficit (before loans) of only R1 500m. If, in addition, taxes were cut to reduce revenue by a further R1 400m, the deficit would be hardly more than it was at the start of the current fiscal year. On a cash flow basis it would be even less.

And with liquidity in financial markets on a rising trend — which means still lower interest rates are most likely in prospect — that amount, and more, could be borrowed effortlessly from long-term capital markets.

But the fiscal stimulus would be enormous. Last year, when income tax cuts for individuals cost only R358m — or 46% of the total tax cuts — the top marginal rate was reduced from 60% to 55%. If roughly double that amount were cut in this budget, top rates could be reduced to below 50% with corresponding reductions down the line which should modify, to some degree, the steep rate of progression. Of equal importance is the raising of the thresholds at which top rates apply. This combination is vital if there is to be amelioration of the pernicious effect of fiscal drag.

Last year, corporate taxes were effectively reduced form 48% to 46% with only a R111m concession on the loan levy. This year, a R300m to R400m concession through a direct tax cut — rather than through the loan levy — could mean a rate of company tax closer to 30%.

The need for government to borrow heavily will be given additional emphasis if there is not some appropriate adjustment soon to the rand's undervalued exchange rate. Those drafting the budget will have to keep that in mind.

For the depressed value of the rand is one of the factors encouraging the enormous trade surplus that is weighing heavily on domestic interest rates — inappropriately in terms of the rate of inflation — and is thereby encouraging the export of capital rather than the investment of it here.

While this is happening, the real benefits of the gold windfall are, to a large extent, passing by the domestic economy and, in the absence of an exchange rate adjustment, the only way the Treasury can hope to stem this haemorrhage is to borrow so much that domestic interest rates are forced upwards.

If the Treasury has to do this, then it must, with the other hand, extend as much fiscal stimulus as possible. The repayment of another loan levy may be the best way of doing so.

Nothing would be more deleterious, now that business activity is gingering up, than measures in the budget to tighten taxes on fringe benefits, even if the top marginal rate is reduced and thresholds raised as we suggest.

If incentives are removed from business leaders who pull the herd along with them, some will flag and many more stragglers will stumble in their wake. For Inland Revenue Secretary Mickey van der Walt even to have raised the question at this time in the business cycle is difficult to explain.

In any event, the *FM* has it from sound authority that even Van der Walt's revised proposals will not form part of this year's budget — if even of the next one.

Increasing foreign fixed investment in this country through the financial rand — despite the disadvantage of Reserve Bank screening — is a clear vindication of government's radical change in attitude last year to exchange control.

The attitude needs, however, to be given greater and more formal expression as part of this year's budget proposals.

Investors need more policy guidance. And what about the implementation of the next stage in the De Kock Commission's grand plan? Is it not time that the financial rand was opened to residents? If it were, interest rates would certainly rise and help reduce the capital drain.

More than any other of Horwood's previous budgets, this one is crucial. It cannot rely on any stability in the price of the country's main export as the others have done. Yet it has to be sufficiently bold and imaginative — and capable of adaptation — if a golden opportunity to bring great prosperity to this country is not to be lost.

It is a budget, moreover, that will be scrutinised by investors and voters alike for indications of the bona fides of PW Botha's reformist zeal — and especially for evidence of his commitment to a market economy.

A TASK FORCE OF TEN

Very quietly and without attracting much public notice, the Minister of Finance, Senator Owen Horwood, announced this week the formation of a new ten-man government committee that could profoundly influence SA's future economic and financial policy making and its efficacy.

It will also give the already powerful Dr Gerhard de Kock, chairman of the De Kock Commission into the Monetary System and Monetary Policy, further influence in the formulation and implementation of government policy.

For while Horwood will himself chair the committee, to be called The Committee for Financial Policy and Strategy, De Kock will be "director of the committee" — an additional task to his jobs as Economic Adviser to the Minister, Senior Deputy Governor of the Reserve Bank and chairman of the wide-ranging monetary commission.

The committee will draw around the table, and more directly into the broad policy-making process, those who are also responsible for the implementation of certain aspects of economic and financial policy.

The object is to achieve greater cooperation between monetary and fiscal policies in recognition of such economic relationships as the one that exists between domestic credit markets and those abroad via the exchange rate.

It will be a means of ensuring, too, that government moves towards the regeneration of the market economy are understood and implemented by the various departments on which they have a bearing.

For instance, there have been times in recent years when administrative measures taken by the departments of commerce and industry have not always reflected government thinking. The same applies to inland revenue, especially over the question of fringe benefits, and the Reserve Bank over domestic credit expansion and the exchange rate and exchange control.

Other committee members will be the Director-General of Finance, Dr Joep de Loor, the Secretary of the Treasury, a senior official of the Department of Finance, the Governor of the Reserve Bank, Dr Bob de Jongh, and one other deputy governor, the Economic Adviser to the PM, Dr Simon Brand, and his deputy, and the Registrar of Financial Institutions, Wynand Louw.

But the committee has powers also to co-opt other senior officials, in particular the Comissioners of Inland Revenue and Customs and Excise, the MD of the Land Bank, the secretary of the Public Debt Commissioners and the chairman of the working committee on the economic position of the farmer and agricultural finance in general.

To a great extent, the new committee will resemble the The Federal Open Market Committee in the United States.

Once it is functioning smoothly, its contribution to the more effective and efficient implementation of government's economic and financial policies — through greater co-ordination and agreement — should be enormously beneficial to growth prospects.

Consumers to continue splurge

(49)

RDM 29/2/80

By HAROLD FRIDJHON

THE South African economy should perform well during 1980 and the Stellenbosch Bureau for Economic Research does not expect that the slackening in the economic activity of our trading partners will affect us much in the short term.

Private consumption expenditure will probably be fairly buoyant and will induce fixed investment by the private sector.

Mr O D J Stuart says in the 20th consumer survey report that if this scenario is correct, real gross domestic product this year could be between 4,5% and 5% higher than in 1979 as a result of the consumer-led upswing.

Mr Stuart has good grounds for his opinion. Consumer optimism in January was at a five-year peak and there are signs that the upswing in the economy generally is gaining momentum, which in itself is boosting consumer and business confidence.

One reason for this optimism was probably the gold price which helped the current account balance of payments and led to higher liquidity, which in turn could lead to the stabilising of rates at prevailing low levels.

As interest rates determine to some extent the amount spent on consumer goods, low rates could stimulate private consumption expenditure. If to this is added the general expectation of reduced direct personal taxes — which means an increase in disposable income — the outlook for private consumption expenditure becomes all the more rosy, says Mr Stuart.

The survey shows that consumers not only found 1979 better than they had expected it would be, but they have high hopes for the immediate years ahead. It really appears as if the public is taking to heart Dr Gerhard de Kock's "prepare to meet thy boom".

Consumers in the main expect that their financial positions will improve this year after 12 months in which most people found that their positions were unchanged or had changed slightly for the worse.

Against this background it is not surprising that there is a marked increase in the number of people who believe that now is the time to buy consumer durables, like furniture and refrigerators. The percentage increased from 12% in 1978 to 22,6% in January.

What is probably the most significant feature of the survey is that more than half of the respondents gave positive answers to the question: Will you be able to save? A total of 21,6% said "yes" and 28,7% said "probably". This contrasts with the mood of two years ago when attitudes were more negative.

Businessmen reflect the mood of their customers.

Motor traders expect a further improvement in business; they finished the 1970s on a high level, which they expect to spill over into the 1980s.

Retailers in food, beverages and pharmaceuticals are very optimistic and have increased their orders for goods.

In the clothing and footwear trades, retailers have placed orders for goods; they consider that at present levels of activity their stocks are too low.

Businesses handling durables had a good fourth quarter in 1979, but they believe that in the first quarter of 1980 there will be a slight accumulation of stocks.

(49) Rapport 2/3/80

Tusenius se plan om ekonomie te red

GROOTSKEEPSE veranderinge sal aan die Suid-Afrikaanse ekonomie gemaak moet word om 'n ramp te vermy. Dit beteken dat politici ekonomiese realiteite in ag moet neem wanneer hulle die land se toekomstige konstitusionele raamwerk opstel.

Dit is die mening van dr. Robert Tusenius, direkteur van AKSA en professor aan die Nagraadse Bestuurskool van die Universiteit van Stellenbosch. Hy het 'n studiestuk opgestel oor hoe om Suid-Afrika se „ekonomiese tydbomme" te ontlont deur gebruik te maak van 'n ekonomiese struktuur met vyf lae binne 'n Assosiasie of Konfederasie van State.

Die stuk is onder meer aan alle ministers en parlementslede gestuur.

Hy sê Suid-Afrika se ekonomiese toekoms word deur veral vier groot probleme, wat byna as ekonomiese tydbomme beskryf kan word, bedreig:

● Hoë bevolkingsgroei. Na raming sal die bevolking in die komende 25 jaar gemiddeld met een miljoen per jaar toeneem. Dit beteken dat 1 200 werksgeleenthede per werkdag geskep moet word om strukturele werkloosheid te vermy.

● Snelle vooruitgang in arbeids- en kostesparende tegnologie. Dit laat die arbeidsinhoud per eenheid vervaardig daal, maar verhoog die vlak van vermoë wat nodig is.

● 'n Moontlike vergroting van die reeds onaanvaarbare groot gaping tussen die ekonomiese ontwikkeling en vooruitgang van verskillende gebiede en verskillende bevolkingsgroepe.

Die land word volgens die Nasionale Fisiese Ontwikkelingsprogram en Ekonomiese Ontwikkelingsprogram in sowat 50 gebiede opgedeel. Dit sluit die 4 bestaande metropolitaanse gebiede en 3 beplande metropolitaanse gebiede in, asook 8 groeipunte, 5 plattelandse myngebiede, 22 plattelandse nie-myngebiede, 7 nie-onafhanklike swart state en 3 onafhanklike swart state.

Die weklike en potensiële ekonomiese groei van hierdie gebiede wissel van baie hoog tot baie laag.

● Die gevaar van ekonomiese fragmentasie van die nasionale ekonomie en of natuurlike ekonomiese streke weens afbakenings en verskille van 'n politieke aard.

Hy glo hierdie vier probleme staan in die weg van die land se amptelike ekonomiese doelstellinge. Dit is: die behaling van aanvaarbare ekonomiese groei, die skepping van genoeg werkgeleenthede, aanvaarbare verdeling van die nasionale inkome, aanvaarbare geografiese verdeling van die ekonomiese bedrywighede, verbetering van die volk se welvaart, en die vermoë om buitelandse ekonomiese en politieke invloede te weerstaan. Prof. Tusenius wil verder die instandhouding en verbetering van die nasionale en internasionale mededingingsvermoë hierby voeg.

PROF. ROBERT TUSENIUS

Nuwe bedeling moet vyf lae hê

Hy sê die probleme kan oorkom word deur die huidige ekonomiese stelsel te verander in een wat uit vyf lae bestaan. Daardeur kan die deels teenstrydige vereistes van maksimum-indiensneming, maksimum-ekonomiese groei, maksimum-mededinging en maksimum-produktiwiteit met minimum-koste, verwesenlik word.

Die eerste drie van hierdie vyf bestaan uit:

● 'n Hoogs gesofistikeerde, hoogs gemeganiseerde, hoogs mededingende, hoogs produktiewe en dikwels uitvoer-georiënteerde ekonomie.

● 'n Minder gesofistikeerde, minder gemeganiseerde en minder produktiewe ekonomie met 'n hoogs ontwikkelde intermediêre tegnologie met mededingende loonvlakke.

● 'n Informele sakesektor. Dit bestaan uit individue of klein groepe individue wat 'n bestaan maak uit sakebedrywighede wat op 'n informele manier bedryf word.

Ongelukkig kan selfs die aktiewe aanmoediging van hierdie drie dele nie genoeg werk verskaf om strukturele werkloosheid te voorkom nie.

Dit is in Suid-Afrika waar dat meer as die helfte van sy bevolking bestaan wat aan 'n kommuniale, nie-mededingende, nie-kommersiële bestaantradisie gewond is. Daarom moet 'n verdere twee lae in die ekonomie geskep word:

● 'n Soort kommuniale sakesektor, wat bestaan uit groepe individue wat sake met 'n winsmotief op 'n gesamentlike grondslag bedryf.

● Groepe individue wat deur die Regering geborg of gesubsidieer word om meestal arbeidsintensiewe aktiwiteite te bedryf. Waar moontlik moet dit 'n sterk opleidingselement bevat.

Volgens prof. Tusenius dui ondersoeke deur AKSA daarop dat die enigste moontlikheid vir 'n vreedsame oplossng van die land se probleme lê in die rigting van 'n hoogs gedesentraliseerde Assosiasie of Konfederasie van State.

Só 'n konfederasie sal uit tussen ses en agttien deelnemende eenhede bestaan, afhangende van samesmeltings of verdelings. Elke eenheid sal sy eie belasting hef en hulle sal die sentrale regering finansier. Die hoogs ontwikkelde eenhede sal hulp aan die minder ontwikkeldes gee. Die Konfederasie sal een interafhanklike en geïntegreede ekonomie hê: die Suid-Afrikaanse Ekonomiese Gemeenskap.

Binne hierdie gemeenskap moet 'n vrye vloei van goedere en dienste en van geskoolde arbeid wees. Daar moet verder in die rigting beweeg word waar ondernemerskap, kapitaal en ongeskoolde en semi-geskoolde arbeid vryelik binne die gemeenskap kan beweeg.

Beperkings op nie-blanke ondernemerskap en kapitaal moet dadelik opgehef word. In die korttermyn moet dié beperkings egter steeds vir blanke ondernemers in nie-blanke gebiede geld. Geskoolde arbeid moet dadelik vry wees om tussen die verskillende deelnemende gebiede te beweeg, maar vir die huidige moet ongeskoolde en semi-geskoolde arbeid se bewegings steeds beperk word.

'n Ekonomiese struktuur wat uit vyf lae bestaan soos wat hierbo beskryf is, sal nie spontaan ontwikkel nie. Dit moet doelbewus ontwikkel en aangemoedig word. Hiervoor is fiskale, monetêre en fisiese maatreëls deur die sentrale, streeks-, en plaaslike regerings nodig.

In ooreenstemming met die beginsels van vrye ondernemerskap moet dit gedoen word deur die regte klimaat te skep. Werklike regeringsinmenging en deelneming moet met die uitsondering van die vyfde laag tot die absolute minimum beperk word.

Volgens prof. Tusenius sal vrye mededinging die sleutel tot die sukses van die stelsel wees. Daar moet nie net vrye mededinging tussen werkers en ondernemings wees nie, maar ook tussen die deelnemende plaaslike en streeksregerings. Elke eenheid sal met die ander moet meeding om ondernemings te trek deur verskillende voordele aan te bied.

Oor die lang termyn sal taamlik vrye mededinging, ook in die geval van lone en salarisse, tot baie hoë gemiddelde lewenstandaarde lei as kunsmatige hoë vergoeding vir 'n paar en hoë werkloosheid vir talle.

Hy sê politieke en ekonomiese probleme kan makliker opgelos word deur van 'n Konfederasie gebruik te maak as wat tans moontlik is. Dit is in teenstelling met die idee wat sê dat opdeling as sulks tot nadeel van die gebied se voorspoed sal wees.

Geen konstitusionele voorstelle kan egter werk as politici nie ekonomiese realiteite in ag neem by die beplanning van 'n toekomstige konstitusionele raamwerk nie. Dit sal eenvoudig rampspoedig wees as hulle dit ignoreer.

Prospects best in 20 years

(49)

RDM 3/3/80

Financial Reporter

ECONOMIC prospects for South Africa in 1980 are brighter than they have been at any time over the past two decades, says Mr Donald Gordon in his chairman's statement for First Union General Investment Trust (Fugit).

"The turmoil in world monetary conditions has worsened over the past year, and the problems appear to be as far away from permanent solution as ever. Accordingly, demand for gold, the ultimate store of value, is likely to remain at a high level, particularly in the face of a diminishing supply, and as a result, the price is most unlikely to fall back to the levels at which it traded during the latter part of the last decade," Mr Gordon says.

Although it would be optimistic and unrealistic to expect the gold price in the short term to remain at the level to which it has been pushed by heavy speculative buying, the price is likely to remain at a level which will enable South Africa to attain an annual growth rate in real terms for the foreseeable future of at least 5% without placing any undue strain on the balance of payments.

"The excellent company results for 1979 are certain to show further substantial improvement in 1980 as the economic upturn gains momentum. In addition, the easy monetary conditions and general liquidity which have existed throughout 1979 are not expected to tighten, at least until the second half of the 1980 year. The favourable climate for equity investment in the current year is therefore likely to continue."

Mr Gordon warns that the bull market is about to enter its fourth year, and the RDM index has now risen by 195% since April 1977.

He warns that the prices of many equities have discounted a substantial element of future earnings and dividend growth, and an investment strategy of great selectivity will be vitally necessary this year.

PARLIAMENT

Schwarz: Put the 'free' back into enterprise

RDM 7/3/80.

(49)

HOUSE OF ASSEMBLY. — South Africa's survival did not depend on military force alone but the need to create an economy in which all its people could participate, Mr Harry Schwarz (PFP Yeoville) said yesterday.

Mr Schwarz, opening the Third Reading Debate on the Part Appropriation Bill, said South Africa needed a total economic strategy to produce a caring society because the projection of capitalism without a social face was no answer to black economic grievances.

He opened his speech by referring to the election results in Rhodesia, and said the question that had to be asked was why Rhodesian blacks had voted for a party which advocated Marxist principles.

"Was it not because there was no projection of a credible alternative which offered them a solution to their economic grievances?"

In Africa, the word capitalism was associated with colonialism and white supremacy as it was seen in a 19th century context.

The distinction between old-style capitalism and 20th century free enterprise was not understood.

"The new concepts of free enterprise could give effective answers to Marxist appeals to the workers and masses of Africa."

Mr Schwarz . . . "charter for a caring society".

The reality of South Africa was that it had been and remained a mixed economy with State-owned public utilities and major industrial activities.

"Legislation affects industrial and business activity at every turn. The reality is that State action is designed to influence economic activity."

However, South Africa had structural and historic economic inequalities.

"Skills are not equally available without regard to colour lines. Education expenditure is unequal. Social benefits are not of the same level. Gaps of income are real and the quality of life varies greatly."

There could be no more fertile ground to exploit relative deprivation than the situation in South Africa. It was of no benefit to make comparisons with other African states as relative positions in Africa were not known or ignored.

"What is material is relative economic and social position in the community," he said.

To solve the problem, ways had to be found to close historical income and opportunity gaps by democratic economic processes.

"There will always be differences of income and wealth in democratic societies," he said. Some would work hard and some had greater ingenuity. Some inherited wealth and others had no desire for it.

"What is required, however, is to give equality of opportunity, or to follow Crossland's dictum, to create conditions which give equality in the opportunity to acquire ability and then to use such ability, not to prejudice an individual for reasons over which he has no control and not handicap him for racial, religious or other historically irrelevant attributes."

An answer needed to be found to this economic problem if South Africa was to survive. Every general would confirm that only 20% of the solution was military.

Mr Schwarz presented a 10-point "charter for a caring society":

- Commitment to a system where there are real incentives to enterprise and labour;
- Safeguards to private property and protection for savings;
- Full employment as the objective and planning with private enterprise to create the jobs to achieve it;
- Creating the necessary social services for the community to provide for the aged, the unemployed and the infirm;
- A society in which the environment is preserved, cultural values safeguarded and the objective is to ensure a reasonable minimum standard of the quality of life for all citizens;
- Equal educational opportunity and vocational training for all who desire it and can benefit from it;
- Machinery for equal pay for work of equal value;
- Laws to protect against exploitation and equality of bargaining power in the market mechanism;
- All forms of legislation and other provisions which act in a discriminatory manner based on race to be removed and full opportunity to seek advancement based on work and skill;
- The economic system to work within a democratic political system in which the individual is protected in his economic, social and political rights and discrimination by reason of belonging or adherence to a group is eliminated.

— Sapa.

What does it mean, Harry?

(49)
RDM 7/3/80.

THE ASSEMBLY. — Mr Harry Schwarz (PFP Yeoville) was making a subtle attack on capitalism as practised in South Africa and should explain his concept of social democracy, the Deputy Minister of Agriculture, Mr Sarel Hayward, said yesterday.

He was reacting to Mr Schwarz's 10-point outline for a "caring society".

What did Mr Schwarz mean by equality of opportunity, asked Mr Hayward.

"Does it mean a redistribution of power, wealth and land? We must know, because in a social system that means nationalisation."

There were many industrialists and people in commerce who wanted to know what Mr Schwarz's party meant and where they wanted to take the country with their social democracy.

Mr Bill Sutton (NRP Mooi River) said the concept of the middle class had to be propagated to black people to facilitate their involvement in the free enterprise system.

"The key is for black people to be able to own property and to be able to trade for profit in order to work their way up in the economy," he said.

Blacks would have to be shown that upward mobility was really possible. — Sapa.

Beware 2-way growth —bank

Star 7/3/80

47

Standard Bank adds its voice to the growing chorus of economists who are looking ahead to new prosperity.

However, the bank warns that the country cannot afford a rapid expansion of both the public and private [illegible].

"It [illegible] emphasis on [illegible] the Budget," the bank says in its latest economic review. "It is imperative that the public sector should [illegible] its growth in expenditure in order to leave room for the private sector to expand."

The windfall gains from the gold boom and other unexpectedly high revenues could be used to streamline the workings of the economy by removing obstacles — providing for [illegible] investment and greater employment, continuing tax reforms and by accelerating the movement towards a truly free market economy.

The course was set for an acceleration in growth last seen in 1974, the bank said, and there were few signs of the emergence of any of the bottlenecks that have choked previous periods of rapid growth.

Because of the growing current account surplus, high domestic liquidity and improved [illegible] capacities it should be possible for the economy to grow faster and for a more extended period than would otherwise have been the case, said Standard.

But as a consequence of the rapid rise in demand over a wide front — consumer, inventory, intermediate and also the first stage of investment demand — some industrial sectors may be overheating before long.

9/3/80 Business Times 49 320

Horwood's Budget could flatten that tax curve

By JOHN SPIRA

A SIGNIFICANT reduction in the vast disparity in tax paid by South Africa's varied income groups will be the most dramatic feature to emerge from Finance Minister, Owen Horwood's pending Budget.

This is the view of the majority of economists and tax consultants canvassed by Business Times this week.

Such a step would go some way towards redressing the glaring inequities of the country's tax system whereby some 20% of taxpayers (excluding blacks) pay only 7.4% of all tax paid by individual taxpayers, [illegible] pay 6.7% of such tax.

[illegible] from the economists [illegible] the expectation that meaningful tax reductions [illegible] to all individuals [illegible].

But in absolute and relative terms the major beneficiaries will be those falling into the higher income groups.

The consensus is that by flattening the tax curve in this way, the Minister will be reinforcing the official Government stand on encouraging expansion of the private sector through offering the individual more attractive incentives to make it to the top.

George Thomas, chairman of the FCI tax committee, comments that countless man-hours are frittered away in exploring ways and means of avoiding tax.

He adds: "By narrowing the gap between the corporate tax rate and the maximum marginal rate of [illegible], the Minister will slash the enormous amount of time spent on all the machinations involved when the individual taxpayer endeavours to wriggle out of the marginal tax bracket into the much lower corporate rate category."

He believes that some of the shortfall in revenue which would be incurred by the State following a reduction in tax receipts from high income earners could be recouped via an increase in estate duty "which, at 35%, is low".

In the longer term, he would like to see maximum marginal tax rates for individuals being set at the same level as corporate tax.

He sees more pay for the top echelon of the civil service as being one of the Government's top priorities.

Not only would this enable the civil service to keep and attract capable people, it would also make for a better interface between the civil service and the private sector.

Senbank economist, Leon Steenkamp, stresses that the State's desire to expand consumer demand will result in a Budget containing tax cuts of a magnitude in excess of last year's R360-million.

He envisages an end result which will be described as "rather more than mild stimulation".

Consumer confidence is vital at this stage of the economic upswing, says Mr Steenkamp, and any measures aimed at reducing individual tax and flattening the tax curve would go a long way towards achieving this end.

They would also help arrest the declining private savings trend of the past several years.

Other measures Senbank would like to see in the Budget include a reduction in loan levy on individuals and companies,

To Page 3

9/3/80 49 320

Flatten that tax curve?

From Page 1

an abolition of the import surcharge, more export incentives, greater incentives for private enterprise to expand housing and additional incentives for the promotion of training schemes.

A spokesman for the economic research unit of a major Johannesburg stock broking firm also predicts a meaningful reduction in tax for high income earners.

He believes, however, that the Minister will not give away "all that much", although he might project the illusion that he has done so.

"Two months ago, expectations over the Budget package were highly optimistic," he says. "More recently, they have moderated and we believe, therefore, that the concessions will be more or less in line with expectations.

"We feel that the Budget's impact on the stock market will be neutral to, perhaps, mildly bullish."

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS
17000 BACHELOR OF ARTS (HONOURS) YEAR : N/A
STUD NO SURNAME FIRST
1017952 [illegible] SHEILA JOSE
1207752 RUBIN VIVIENNE
* TOTAL NUMBER OF STUDENTS
DEAN

BRADFORD, H J

(49) RDM 10/3/80.

'Budget tax cuts needed'

THE inflationary effect of the railways budget could be minimised if the Minister of Finance, Senator Owen Horwood, makes tax cuts in his main Budget on March 26. Otherwise, the burden of rising prices will be felt by consumers, especially the lower income.

That is the conclusion of a preliminary analysis of the railways budget by the Rand Afrikaans University for the Association of Chambers of Commerce (Assocom).

But the RAU analysis says the overall economic results of the budget will not be too dramatic. In the past decade, the rate of increase in railway tariffs was lower than in other sectors. However, it is true that the tariff rises could lead to accelerated increases in some other sectors.

The 12,2% increase in the rate for basic foodstuffs will affect the spending pattern of the lower income groups, and could inspire demands for wage increases. As a result of the tariff rises, the basic price of foodstuffs could go up by between 5% and 10%.

Increased livestock rates would definitely mean increased meat prices for the consumer, taking into account the shortage of livestock and the low profit margin.

The full economic consequences of the railway budget could be calculated only after the March 26 Budget, the analysis said. — Sapa.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

15026 B.A./LL.B. YEAR : 2 15026

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~111062V~~	~~BARKER~~	~~MARY ANN~~	~~105104~~	~~LATIN I~~	~~3~~	~~(52)~~	~~1~~	~~111062V~~
116983F	DAMERELL	DAVID ASHLEY	604201	ROMAN DUTCH LAW I	ABS		1	116983F
~~137001P~~	~~FINE~~	~~DERRICK NIGEL~~	~~103201~~	~~COMP AFR GOVT AND LAW I~~	~~2-~~	~~(68)~~	~~1~~	~~137001P~~
			603202	ROMAN LAW & JURISPRUDENCE I	3	(55)		
			604201	ROMAN DUTCH LAW I	2-	(65)		
		~~DIANA ALICIA~~	~~105104~~	~~LATIN I~~	~~F~~	~~(36)~~	~~3~~	~~137345N~~
		DAVID GEORGE	105104	LATIN I	ABS		3	133987N
		~~PAUL PRIMICH~~	~~105104~~	~~LATIN I~~	~~ABS~~		~~1~~	~~110635F~~
		MARC ALAIN	107101	ENGLISH I (PRE-1980)	3	(59)	1	132210G
		~~PETER BRIAN~~	~~603202~~	~~ROMAN LAW & JURISPRUDENCE I~~	~~2-~~	~~(62)~~	~~1~~	~~119010J~~
		ANWAR	103201	AFRIKAANS EN NEDERLANDS II	ABS		7	134814X
			604201	ROMAN DUTCH LAW I	ABS			
		COLLEEN BENITA	602101	PUBLIC INTERNATIONAL LAW	3	(53)	1	110281W
			604201	ROMAN DUTCH LAW I	2-	(60)		
		~~EDWIN ANDREW~~	~~604201~~	~~ROMAN DUTCH LAW I~~	~~2-~~	~~(62)~~	~~1~~	~~139836W~~
		JOHN BRUCE	103201	COMP AFR GOVT AND LAW I	3	(51)	1	130539Q
			603202	ROMAN LAW & JURISPRUDENCE I	3	(52)		
			~~604201~~	~~ROMAN DUTCH LAW I~~	~~3~~	~~(56)~~		
		STEPHEN JOHN	603202	ROMAN LAW & JURISPRUDENCE I	UP	(54)	1	137806P
		~~MELANIE~~	~~105104~~	~~LATIN I~~	~~ABS~~		~~3~~	~~137243C~~
			604201	ROMAN DUTCH LAW I	ABS			
		MARIANNA	201405	STRUCT & INTERP OF ACCTS	F	(42)	1	117171K
		LYNNE CATHERINE	105104	LATIN I	ABS		3	135970U
			107201	ENGLISH II	ABS			
			603202	ROMAN LAW & JURISPRUDENCE I	ABS			
			~~604201~~	~~ROMAN DUTCH LAW I~~	~~ABS~~			
		DOUGLAS ANDREW	603202	ROMAN LAW & JURISPRUDENCE I	UP	(52)	1	133096V
		~~SANJIVA~~	~~103201~~	~~COMP AFR GOVT AND LAW I~~	~~3~~	~~(56)~~	~~7~~	~~134385W~~
		GADIJA	103201	COMP AFR GOVT AND LAW I	3	(52)	1	131836A
		~~ANTONY GIDEON~~	~~603202~~	~~ROMAN LAW & JURISPRUDENCE I~~	~~F~~	~~(49)~~	~~1~~	~~133011G~~

Call for control of inflation

NM (49)
11/3/80

JOHANNESBURG — The healthy development of the South African economy in the years ahead is the main challenge which faces not only the Government but also private enterprise, Mr J M Barry says in his chairman's statement of Barclays National Bank.

'Such development will rely upon the considerable strength of the South African economy through its mineral and other resources, its well-developed infrastructure and its reserves of manpower,' Mr Barry says.

'It is of vital importance for the economic and political future of South Africa that the rate of inflation should be controlled while advantage is taken of the favourable conditions which exist for the expansion of economic activity and the development of export trade.'

This should assist in the creation of job opportunities for the large and growing urban black population.

Education

'The achievement of these goals will require the allocation by the authorities of substantial sums of money for education and training as well as for housing.

It will also be necessary to stimulate confidence in the economy not only among members of the business and farming community in South Africa but also among our existing trading partners and our neighbours on the African continent.

'In short, such healthy development of our economy affords the best safeguard against the dangers inherent in unemployment and a high level of inflation which cause great hardships, particularly among the urban black communities.

1980 forecast

'The forecast for 1980 envisages an expansion of the group's business and an increase in profitability because of the favourable facts already mentioned and the prospect of improved trading conditions in the whole of southern Africa.'

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

13130 PERFORMERS DIPLOMA IN SPEECH & DRAMA YEAR : 3 13130

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL	
~~1000601~~	~~HOGG~~	~~HENRY CAMERON~~	~~11-317~~	~~DRAMA III~~	~~AHS~~ 5	~~1000601~~

* TOTAL NUMBER OF STUDENTS 1

DEAN

REGISTRAR (ACADEMIC)

By John Fensham

BANKER'S BANKER HOLDS THE ACES

Newsmaker

BANKERS are image men. Conservative, considered, sometimes stern, measured in dress, phrase and smile, they hoard levity the way they do their (and your) money, pessimism almost the hallmark of their trade.

It is difficult to get the 'feel' of bankers. They wear dark suits and dark personalities, the definitive nuances of character blurred by years of poker-faced negotiation, glossed by the jargon of economics, business, loans, interest rates and liquidity.

SUSPECT

When I walked into his austere office in Parliament Street this week, Dr Gerhardus de Kock, the banker's banker, fell effortlessly into this sombre pigeonhole.

As a journalist I was immediately suspect, seeking to probe the image. Dr de Kock was stiff, formal and polite, self-consciously handing me a stock curriculum vitae drawn from his files.

Just as stiffly, I asked him about the new, high-level committee announced by the Minister of Finance, Senator Owen Horwood, last month.

The committee will be chaired by Mr Horwood, but will be under the effective directorship of Dr de Kock and will have the job of advising the Cabinet on all aspects of South Africa's economic policy.

EQUILIBRIUM

Which means that long-term objectives such as economic growth, curbing inflation, labour provision and maintaining equilibrium in the balance of payments will be directed by Dr de Kock.

I questioned Dr de Kock, senior deputy governor of the Reserve Bank; former alternative executive director of the International Monetary Fund (IMF) representing South Africa, Australia, New Zealand, Swaziland and Lesotho; member of the board of governors of the International Bank for Reconstruction and Development and special economic adviser to the Minister of Finance.

The answers at first were slow to come, ponderously prepared and softly spoken. I found it difficult to reconcile this apparently awkward and mild man with the hard-dealing negotiator who secured a guaranteed gold price for South Africa against some of the world's top economists.

But they gathered pace, these replies, and he visibly relaxed, becoming animated, the exhilation of his galloping hobby-horse crashing the barriers of formality.

SKY THE LIMIT

'South African history is peppered with political disasters and economic windfalls,' he smiled, 'and right now we are in the kind of windfall period which can overcome any political obstacles.

'South Africa today is holding a very good hand of cards indeed and if we play them right, the sky's the limit.

'My job and the job of this new committee is to be the country's gambler and to decide exactly how to play these cards.'

Eyes gleaming with optimism, he moderates — or perhaps justifies — his confidence by pointing out that neither he nor Senator Horwood believe South Africa need depend on a continuing high gold price to become 'the economic miracle of the 80s.'

'LAUGHED'

He said: 'People laughed when Dr Piet Koornhof used that phrase some weeks ago, but it is true, it is possible. All we need is hard work and good judgment and we can overcome any political problems.'

The concept of economic co-operation in Southern Africa, with South Africa at the hub, the pragmatic realism of 'mutual need,' delight Dr de Kock to the exclusion of almost everything else, and attempts to steer him to other topics failed dismally.

'I remember the story of two primitive tribes in a state of outright war, who nevertheless sent trade emissaries to a certain clearing in the jungle.

'One group would move to the centre of a clearing, place their goods on the ground, and withdraw.

'The other group would then go in, leave their goods on the ground and take those of the other tribe.

'War was forgotten in their mutual need for the products of the other — and this is the story of Southern Africa.

'Mozambique has a Marxist Government, but this does not stop us from co-operating. What will happen in Zimbabwe now we don't yet know, but I can assure you that economic symbiosis will continue and could even overcome political differences.'

EXTRA MONEY

South Africa was almost unique in having a surplus on its current account, and this extra money could be used to radically improve living and working standards in the country, he added.

'I can see great opportunities for blacks, coloureds and Indians, with the manufacturing industry providing most jobs. And please don't think this is the false optimism of a patriotic South African.

'There is a constant stream of foreign visitors to this country looking at investment possibilities. They realise that a lot of the world's minerals come from the Republic. They know that South Africa is going to do well in the next 20 years.'

SECRET

Dr de Kock has the air of a man nurturing a fabulous secret. He smilingly hints that this year's Budget, due in about two weeks, 'is going to be one of the most-important in South Africa's history' and will reflect some of the deliberations of the new committee.

But he refused to give details, delighting not only in the secret itself, but in the keeping of it.

The formal details of his private life are known — he married in 1949, has two sons and one daughter, he plays golf and reputedly does much of his economic thinking and negotiating with a club in hand.

BOEREORKES

He is inventive and humorous enough to have paid his way through Pretoria University playing a concertina in a boereorkes.

The Governor of the Reserve Bank, Dr T W de Jong, is his uncle. The less formal details he keeps closely guarded, believing, perhaps rightly, that they are his own concern.

He is a practical man. Fingering the lapels of the conservatively striped suit he calls his 'banker's overall,' he says quietly:

'We are indeed fortunate in this country. We have riches; we have manpower; we have the leadership of men like Senator Horwood, who is rated by international financiers as probably the best finance minister in the world.

'Can we ask any better recipe for our future?'

JCC urges State spending

Financial Reporter

LARGE, but selective, increases in Government spending in this month's Budget are urged by the Johannesburg Chamber of Commerce.

Mr W S Yeowart, the JCC president, said at the half-yearly general meeting: "A significant vote must go into areas such as urban renewal, education and housing. There will be the funds for this, so there is no excuse for non-delivery.

"The realisation of some expectations is necessary for ongoing stability in South Africa. The black population are watching events closely, so also are our friends overseas.

"Much will depend on this session of Parliament."

Mr Yeowart suggested that the Budget might also include bigger transport subsidies for blacks.

"An Assocom delegation saw the Minister of Transport in December and recorded the business community's concern about the phenomena of bus boycotts and social unrest which accompanied recent increases in black busfares in certain areas.

"The delegation told the minister that in Assocom's view existing levies on commerce and industry must be phased out, that increases in fares ought to be gradual and that in the short term fare subsidies should be met from the consolidated revenue fund — that is, by all taxpayers.

"We understand that this proposed approach has found some favour in official circles."

Mr Yeowart said that the JCC welcomed the Government's new commitment to the free market, but believed there were areas where this was not being fulfilled.

"A classic example is the new import control policy announced in December last year. Importers are now faced with less flexibility and more restrictions. In fact, the new system amounts to a form of commodity control which is totally unacceptable.

"Similarly some of the exchange control procedures recently introduced not only place an additional administrative burden on business, but are seen as a tightening up of controls contrary to the De Kock Commission recommendations accepted by Government which called for a liberalisation of controls."

Mr Yeowart said that apart from the selected rises in public spending favoured by the JCC and also meaningful tax reforms, the Budget would also be of great interest over the taxing of fringe benefits.

Horwood paints a rosy picture

RDM 14/3/80

THE SENATE. — South Africa was experiencing economic expansion while growth rates around the world were shrinking, the Minister of Finance, Senator Owen Horwood, said yesterday.

But he said the future was unpredictable, and warned that South Africa would have to save its resources for a "rainy day".

Sen Horwood was replying to the Second Reading Debate of the Part Appropriation Bill, which provides for State expenditure of R3 640-million until the main Budget is approved.

The Minister said South Africa was financially fortunate.

The Rand was appreciating, unemployment was on the decline and the country's credit standing abroad was of the highest order.

But the times were unpredictable and South Africa would have to guard its resources.

The creation of more job opportunities remained a challenge

If South Africa could attain a real growth rate of five percent and maintain it for a few years, it should be able to wipe out unemployment.

"The long-term solution is to maintain a strong growth rate, and we are heading for it."

Declared Government policy of narrowing the wage gap contained built-in inflationary elements, he said.

"It is simply not possible to raise productivity to the same level as wage increases.

"This is one of the main reasons for the inflation we are experiencing."

Economic considerations aside, the Government would continue with its wage policy because it was "good policy". — Sapa.

Spending set for sharpest burst

(49) RDM 14/3/80

By HAROLD FRIDJHON

TOTAL real spending in the South African economy is almost certainly set for one of its sharpest rises in recent years, says the March issue of the Nedbank Economic Round-up. And recent official indications about economic policy show that the authorities will be careful not to add too greatly to the momentum that the economic upswing seems rapidly to be gathering.

The most prominent signs of the broadly based acceleration in economic activity in the last quarter of 1979 were:

- The 4% real increase in retail sales, and
- The 9% increase in manufacturing production which had lost its earlier patchiness.

This acceleration was sufficient to lift the overall growth rate for the year into the the 4% target range set by the Minister of Finance in his last Budget speech. The tax cuts, the repayment of loan levies and other demand-boosting measures resulted in the sharpest rise in real personal disposable incomes in five years.

As productivity is increasing rapidly — that is as production is rising faster than employment — the recent acceleration in wages and salaries is likely to continue, and with it the ability and willingness of consumers to spend in 1980.

Nedbank Round-up says the only component of domestic expenditure which is unlikely to rise significantly this year is current spending by the Government. Factors which will contribute to growth are inventory build-up and the certainty that private sector capital spending will rise. In addition there will be higher spending for black housing and amenities, expenditure on Sasols 2 and 3 and expansion by Escom.

Apart from trying to retain the policy of financial discipline, the authorities probably have two main reason for their cautious policy:

- Bottlenecks, particularly on the skilled labour front, may develop if the upswing accelerates too rapidly;
- The knowledge that the South African economy's upswing is happening against a world trend.

Although many exports should continue to do well these trends in other economies are bound to have an adverse effect on South Africa's export earnings at a time when imports will be rising more rapidly.

Looking at Budget prospects, the Nedbank publication says of the present fiscal year that revenue will probably be R1 000-million more than estimated and that expenditure may be R400-million over budget. But as less money than had been borrowed expected had been borrowed the cash balance will not be as big as many think.

"The arithmetic of the new fiscal year is uncertain. Firstly, it is likely that the Minister will forgo the remaining import surcharge. In a scenario of a gold price in the low range (say, $350) and Government expenditure budgeted to rise by 13% to 14% above the actual spending of the 1979/80 fiscal year, the aggregate amount left for 'concessions' is not substantially larger than the R770-million announced in March 1979," says the Nedbank Round-up.

Amber light flashes for industrials

S Times 16/3/80

49

By JOHN SPIRA

THE BULL market in industrial shares has not come to an end.

Amber lights are, however, becoming increasingly evident, with the result that industrials could enter a bear phase (albeit a shallow one) before the end of 1980.

This, in summary, is the majority view of investment managers of major institutions canvassed by Business Times this week.

Dennis Bieber, Old Mutual's general manager, says: "We do not believe that the current downturn in the market indices indicates the end of the current bull market and at the same time we believe that interest rates have still got some further downside potential.

"However, it should be appreciated that both the share market and the fixed interest market have been in one of the longest bull trends that South Africa has seen for a long time. We must, therefore, be approaching the end of these markets during the course of 1980."

J Heymann, Sanlam's assistant general manager, believes it unlikely that the industrial market has turned.

"We are looking for the turning point later in the year, when the industrial indices could decline by some 20% to 30% over a six month period," he says.

"Thereafter, we anticipate fluctuations with further exceptional rises or declines depending on how the economic and political factors affecting South Africa develop.

"The gold price will also react downwards but gold shares, after an initial reaction, are expected to hold up reasonably well.

"Interest rates will soften slightly in the very short term and then harden in a slow, but continuing, upward movement."

Jan Calitz, Southern Life's investment manager, also feels that the market has not turned, with the industrial market expected to remain in an uptrend "till at least the second or third quarter of 1980".

Gold shares will probably fluctuate widely "but unless the bullion price drops sharply from current levels, share prices are well under-pinned by very high prospective yields"

"Overseas investors seem to be taking a positive view on South African industrials for the first time in years.

"The current softer market

● To Back Page

Tribune 16/3/80

No Budget bonanza

49

HORWOOD WILL BE MAKING A FEW CHANGES, BUT FORGET THE HAND-OUTS

By
BEN TEMKIN

SOUTH AFRICA, in contrast to almost every other country, can look forward this month to a reduction in taxes — but it is probable that Minister of Finance Owen Horwood will be doing more to restructure the tax system than making generous hand-outs.

There seems little doubt that the top marginal rate of tax will be reduced, though whether it will come down to the 50 percent level is still a bit optimistic.

There is a high probability, however, that the current anomaly whereby taxpayers earning R32 000 to R40 000 pay tax at a marginal rate higher than those earning more, will be eliminated.

The anomaly arises through the system of abatements, the deduction being reduced as incomes rise. This would be an outstanding time to take advantage of current revenues and change the abatement system into one of rebates, fully deductable at all income levels.

At the same time the medical expenses and life insurance contributions abatement could be separated, thereby eliminating another peculiarity in the tax system.

It is very likely that Horwood will once again produce a Budget which emphasises growth from strength. The accent, therefore, will be on promoting the continuation of economic growth and possibly stimulating it further.

Apart from individual income tax cuts, it would seem that company taxes could well be reduced.

Whether that reduction will be to as low as 30 percent, as is hoped for in some authoritative circles, is quite another matter, but a cut would be in line with overall growth objectives.

Still on the hand-out side, social pensions almost certainly will be raised again — and it would not be surprising if more leniency were given on the matter of income from other sources and assets of pensioners.

In last year's Budget, Senator Horwood restructured the contribution side of retirement annuities and pensions, and it's unlikely that anything will be — or needs to be — changed on this front.

However, with very large amounts now able to be contributed by individuals to these funds, it would be realistic to increase the maximum tax-free amount available from such funds in total from its present R45 000. A good guess is that he will go to R60 000.

As a further part of the philosophy to encourage people and companies to provide for retirement, it is reasonable to expect some increase in the amount of the tax-free gratuity which a person can take within five years of retirement. This is now R15 000 and could well move up to R20 000 or even R25 000.

On the take-away side of the budget, cigarette smokers may think themselves hardest hit.

And while the minister is busy increasing excise duties on tobacco, he could well do something about alcohol as well.

Fringe benefits are under scrutiny. At worst, though, the Budget is likely to contain a note that legislation will be introduced in the current parliamentary session to clarify the taxation of these.

More probable is a note that investigation is continuing and that the necessary legislation will be forthcoming in due course — which probably means in 1981-1982.

It has, of course, to be appreciated that fringe benefits are not, in terms of the Income Tax Act as it now reads, free from tax. It's merely a question of clarifying how they will be taxed.

A capital gains tax is not yet imminent, but it will be interesting to see whether there has been any move to clarifying the taxation of profits on share-dealing instead of leaving it to the investor to have to show his intent. This would be welcome.

To return to the basic objective to promote growth from strength, there has to be caution on the inflation side.

Estimates of inflation this year by leading economists range from as low as 8 percent to as high as 15 percent. An estimate depends to some extent on how the rate of inflation is defined, but there are good reasons to believe, Heunis's budget notwithstanding, that industry could well come out with an inflation rate of less than double digits.

The removal of the present import surcharge will help to contain the inflation rate, while a lower company tax rate will put pressure on manufacturers to absorb part of their increased costs over the coming year.

One thing is certain about the Budget — it will be disciplined. State spending will not increase dramatically even if special attention is given to areas such as the teaching profession, and the gold bonanza will not be used as an excuse to indulge in an orgy of tax concessions or monument-building.

MINATION RESULTS IN FACULTY
BRARIANSHIP YEAR :
FIRST NAMES
MARY-ANN
MBER OF STUDENTS 1

This could be take-off time for economy

Tribune 16/3/80

49

By TONY HUDSON
Financial Editor

THE South African economy could well be entering a period of structural change such as occurred in 1961, says Willem Roets, editor of Trends.

He writes that the higher tempo of economic activity could be read as a "take-off" phase and that a number of factors point to this happening:

- Statistical evidence from indicators of the progress of the economy;
- The leading indicators show a typical head and shoulders (inverted) pattern which suggests that they will rise for some time yet; and,
- The high average price of gold will enable the Treasury to make some attempt to increase after-tax spending power.

Rooted

As the inflation problem is rooted in cost-push factors, increased consumption will improve unit costs through growth in sales.

Commodity exporters are now negotiating from a position of strength as result of lively overseas demand. This is because of hedging against price increases and scarcity risks as well as overseas economies performing better than had been expected.

For the first time Trends has taken an in-depth look at overseas economies.

Roets says that Germany is above the growth-line on trend and states that latest reports indicate concern over the hardening of the German mark.

The outlook for the USA, he says, is decidedly better than predicted six months ago and that the feared recession seems further away than expected.

Helped

This trend has been helped by the planned increase in defence spending, which is a major generator of economic activity in the US.

Roets says that while in the long run gold would seem to be on a rising course, the improved foreign policy, could well have a dampening effect on rapid price increases in gold.

He also says that the UK's problems are having surprisingly little effect on the country's economy and that the latest incidents could be a pointer to the fact that the problem is near solution and that prospects for the UK should improve.

Japan, says Roets, is nearing a point of recovery from a long period of activity decline, while industrial activity is well up. The country's problems seem to be centred in adverse foreign trade results.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

17000 BACHELOR OF ARTS (HONOURS) YEAR : N/A 17000

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL		
~~101795X~~	~~PERATER~~	~~SHEILA JOSEPHINE HOWARD~~	~~105703~~	~~LATIN HONOURS~~	~~2+ (70)~~	~~4~~	~~101795X~~
120776D	KUHN	VIVIENNE	109701	HEBREW HONOURS	3	4	120776D

* TOTAL NUMBER OF STUDENTS 2

(1) BRADFORD, H J ECONOMIC HIST. HONS 1 80%

DEAN

REGISTRAR (ACADEMIC)

Orderly gold marketing 'unchanged'

Argus 17/3/80

(49

SOUTH AFRICA'S gold marketing policy has become more flexible but the overall policy of orderly marketing had not altered, a spokesman for the Reserve Bank said today.

He was commenting on a Reuter report quoting Zurich bankers as saying that South Africa had sold hardly any gold in that centre this week.

The Minister of Finance, Senator O P F Horwood, said at the weekend that South Africa might consider holding back gold from the market if it was considered in the country's interest

The improvement in the balance of payments had enabled South Africa to follow a more flexible policy in gold sales, he said.

However, the Reserve Bank spokesman said the bank did not want to rock the boat and broadly speaking past strategy in marketing current production had not changed.

Historically the bank had always tended to build up the gold content of the foreign exchange reserves in times of balance of payments surpluses, he said.

The gold price jumped sharply in London today to 525 dollars on reports from Zurich dealers that South Africa had suspended gold sales since Friday.

Later it fell back at the fixing.

Gold dropped to just above 460 dollars in Hong Kong early yesterday.

Fixings in London were:

	Dollars an ounce	Rands a kg
Today 10 30 am	514,00	13 435,46
Yesterday 3 pm	481,50	12 585,94

STU13-9 EXAMINATION RESULTS IN

13020 BACHELOR OF ARTS

STUD NO	SURNAME	FIRST N						
~~134204Z~~	~~ADAMS~~	~~FADLUNESSA~~						
137452E	ALLIX	MARK LORAINE						
~~140746K~~	~~JORAIME~~	~~ANDREW MICHA~~						
120414K	CONRADIE	ELSABE-MARIE						
136497Q	DE VILLIERS	JEANINE KAREN						
136110W	ESAU	FAIKA						
136962X	ESSMANN	SONJA BRIGITTE						
~~114207C~~	~~FELLOWS-SMITH~~	~~ELIZABETH ANN~~						
113763F	FIELD	MAUREEN DAWN						
137811V	GARSON	CATHERINE MARY						
~~113790K~~	~~GRAZIANI~~	~~MARIO GUIDO~~						
113526Y	HARPUR	COLIN ANDREW LINDSAY	115104					
134419H	HAY-WHITTON	ALEXANDER MARK	105202	LATIN II	2-	(65)	1	134419H
098717B	HORWITZ	ROXANNE ALETHEA	114201	RELIGIOUS STUDIES II	ABS		1	098717B
139706E	HOUGH	COLLEEN DESIREE	911201	MATHEMATICS IIA M204	2-	(68)	1	139706E
133266E	KOSCIUCH	KAROL FRANCISZEK	107201	ENGLISH II	3	(55)	1	133266E
114692Q	MAVRUS	SUZANNE DOROTHY	107201 114201 115201	ENGLISH II RELIGIOUS STUDIES II FRENCH II	2- 2+ 2-	(63) (72) (63)	1	114692Q
139615F	MAZEL	ABRAHAM	117101	POLITICAL SCIENCE I	F	(47)	1	139615F
132828D	MEYER	LEONARD HENRY	106202	ECONOMICS II	3	(50)	1	132828D
133615J	MILLER	DARLENE RUTH	101103	AFR LANG INTENSIVE (XHOSA)	F	(38)	1	133615J
133140T	OLIVA DAY	DIANA EMMA	107101	ENGLISH I (PRE-1980)	3NX		1	133140T
133546J	UMAR	ABDUL RASHIED	106202	ECONOMICS II	3	(52)	1	133546J

2013/80 (47) 49 CT

Providing jobs is top priority — Wassenaar

SOUTH AFRICA'S top current priority should be to provide employment opportunities, the chairman of Sanlam, Dr A D Wassenaar, said in Cape Town yesterday.

He told the company's annual meeting that "unless we have speedy and imaginative action, huge socio-political problems could await us."

Dr Wassenaar said the economy was healthy, and the prospects of sound growth were the best in years. It was extremely important, however, that the current gold earnings should be seen "purely as a windfall to be utilized for the long-term benefit of South Africa in projects such as meaningful consolidation and development of homelands and further energy projects to make us as independant as possible from imported fuel."

He welcomed government action to make the economy freer and to offer the largest possible scope to private initiative.

"This shift of emphasis on growth in the private, rather than in the public sector, to my mind is one of the most significant economic developments in many years.

"In conjunction with this I welcome the great value government attaches to the extension of opportunities for in-depth and sustained consultations on matters of policy between the authorities and the private sector."

The new economic development programme approach was an important advance. It clearly focussed attention on the "most important impediments of our economy. The problem of unemployment, particularly among the black population, causes grave concern."

The recommended trends towards a more important role for the private sector, lower direct taxes, better utilization of manpower and an intensified export effort must be actively pursued.

"I myself think that we should go even further.

"I welcome the implementation of the recommendations of the Wiehahn and Riekert commissions aimed, inter alia, at raising the level of training of employees and to achieve increased mobility of workers between sectors, professions and regions.

"In this way we shall be able better to utilize our manpower as a production factor and, in doing so, promote the competitiveness of labour-intensive as against capital intensive production methods.

"Making available capital at a cost which better reflects the real position of supply of and demand for capital, will certainly help to improve the cost ratio of labour in relation to that of capital.

"In view of this, the further recommendations of the De Kock Commission are being awaited with great expectations. I hope particularly that they will lead to steps for establishing a broader and active capital market in South Africa.

"It is my opinion that the utilization of labour too, should be promoted by suitable fiscal measures. In this regard I propose that the tax benefit should depend not merely on the absolute size of the capital investment but should be related also to the number of employment opportunities created.

"Further, I believe that by stimulating enterprise a very important contribution can be made towards creating more employment opportunities."

It was imperative that impediments and administrative red tape should be removed and that small enterprise should come to its own.

More should also be done towards black family planning and by developing the homelands more rapidly.

"It is, further, vitally important to exploit the agricultural potential of the homelands as the basis of economic growth in these regions. In this way the maximum employment opportunities can be created with the limited capital available," Dr Wassenaar added. — Sapa

sing prices

30 — 80 Duros

STU13-9 15036 P.A./LL.B.
STUD NO SURNAME FIRST NAMES COURSE DESCRIPTION SYMBOL
EXAMINATION RESULTS IN FACULTY ARTS YEAR : 3 AS AT 29 02 80 PAGE 1
TIONAL LAW 2- (67) 5 1154740
RISPRUDENCE I3 (53) 4 1030696
RISPRUDENCE IUP (50) 4 094400
REGISTRAR (ACADEMIC)

UCT

Horwood's chance for a bold strike

(49)

RDM 20/3/80

By HAROLD FRIDJHON

WEDNESDAY is Budget Day and with the Minister of Finance's headline performance so near, the open season for Budget forecasting has drawn to a close. All the pundits have given their views of what they expect Senator Horwood to do, but few have said what they think he ought to do.

Opinion is that he will not deviate from his often-expressed policy of growth with financial discipline, and that he will take small steady steps forward into a conservative future.

But is this what South Africa needs in 1980?

With changes of tremendous significance taking place on our northern borders, with unemployment still one of the major ills afflicting the country, and with the balance of payments surplus this year expected to reach R2 500 million, surely the time has come for a little boldness?

This does not mean that Senator Horwood should go overboard as did one of his predecessors That is not possible, bearing in mind the calibre of his advisers and his capacity to accept advice. But if the economy is to take off this year — and it needs to — a little more jet propulsion will be required than he has employed in the past.

Last year's growth rate was around 3,7%. This year at least 5% must be the target – and it must not be flash-in-the-pan growth The 5% rate will have to be sustained for several years if any significant dent is to be made in the unemployment problem which is an aggravating factor in race relations.

The big fear about pushing growth too hard is that skilled labour bottlenecks start to manifest themselves and everyone gets into a tizzy One of the problems of the past has been that growth has been held back at times to match the availability of skilled (white) labour.

Unless we get rid of this attitude, we will inhibit growth as we have done in the past. On the other hand, if white workers, under the impetus of growth, feel secure in their jobs because they are indispensable, they will not be as bloody-minded as some of them are whenever black advancement is advocated

So how should Senator Horwood go about stimulating a little more growth than he is expected to do next week?

A few assumptions must be made The first is that he will not deviate from his policy of not allowing Government expenditure to run away, that the State's budget will not be increased by more than 14% to 15%. This will enable him to raise the wages and salaries of

peting with the private sector for scarce resources

When it comes to expanding black educational facilities, the start has to be made with the training of teachers and the provision of teacher training colleges. Schools are needed, but they cannot be built ahead of the trained people to staff them.

This means that there are real limits to what can be done in these two important areas.

Defence expenditure will no doubt rise sharply And in the present situation there is little that can be done about this

But Senator Horwood should be able to accommodate these requirements within the prescribed parameters. This means that at present rates of tax and a gold price of around \$400, he should have about R800-million for the so-called concessions if he budgets for a deficit before borrowing of about R3 000-million

Before examining the concessions, let us look at the deficit. He will probably finance this with loan levies of about R600-million, non-marketable debt R300-million, cash in hand about R300-million, the Public Debt Commissioners at least R1 200-million with the balance of R600-million coming from the capital market.

The first thing is that he should do is not reimpose the loan levy on private individuals and on companies This would put more cash in the public's pockets and give companies a little cash for the financing of their expansion programmes. The policy of having a little in hand for a mid year booster is nonsense. Let's start the year on a full throttle

This will mean that Senator Horwood will be short of R600-million for the financing of his deficit. Finance this in a non-inflationary way by drawing on the capital market for R1 200-million. An attractive rate will bring him support

If on top of the abolition of the loan levy the income-tax structure is remodelled and reduced by, say, 15%, consumption demand will get a tremendous boost. And with the inflation factor, a 15% tax cut is really an as-you-were concession

Senator Horwood can do it this year. The balance of payments will stand it. In fact, if he budgets for at least a 5% growth rate, the booming South African economy could attract investment capital from abroad and this, too, would give a further nudge to the balance of payments.

What is needed is just a little courage to take the tide at the flood, but I am afraid that this is wishful thinking On Wednesday we will probably again get growth with undue financial discipline

(49)

RDM 20/3/80.

Real growth of 3,7% in 1979

Financial Editor

SOUTH Africa had a real growth rate last year of 3,7%, according to preliminary figures from the Department of Statistics.

The figures are based on "gross domestic product at factor incomes" and are not exactly the same as the official calculations from the Reserve Bank.

Broadly, however, they tell the same tale and the Reserve Bank is likely to reflect this in the quarterly bulletin which should be published to coincide with Wednesday's Budget.

The 3,8% level is fractionally below the general assumption that realised growth last year would prove to be around 4%.

That discrepancy falls within the margin of statistical error or revision.

What is particularly important about the figures from the Department of Statistics is that they show a real growth in GDP of 4,1% (seasonally adjusted) in the fourth quarter of 1979.

That confirms the accelerating growth trend in the economy and gives weight to the hopes of 5% or more for 1980.

Although the overall growth in the economy last year was well up on the 1978 level of 2,3% — and the best since 1974's 8% — there was little positive from agriculture.

According to Statistics, real growth from agriculture was only 1,1% compared with a 3,1% growth in 1978.

The big impetus in 1979 came from mining (plus 5,6% against a 0,9% rise in 1978), manufacturing (6,4% from 4,5%) and transport (9,7% from 4,4%).

In addition, construction had a 1,5% growth after a negative move of 5% in 1978.

According to Statistics, the growth of both secondary and tertiary industries was on an upward path over the second half of last year.

In its last quarterly bulletin the Reserve Bank said: "The pace of the economic upswing which had slackened somewhat during the second quarter regained momentum during the third quarter.

"The rate of increase in the real gross domestic product of the non-agricultural sectors of the economy was considerably higher in the third quarter than in the preceding quarter and also exceeded the quarterly average for the first half of the year."

That momentum has been sustained.

Although some economists believe it would be possible to get a growth rate of 6% or more this year, others fear that physical bottlenecks, notably labour, would make this a threat to the already severe inflationary problems.

The Government view, or certainly that of the Reserve Bank, has been that it would be better to keep growth at the lower end and try to keep it going rather than to come unstuck by aiming too high.

Against that cautious approach, some businessmen — and some in Government circles — argue that the only hope of reducing unemployment is to get the economy on a growth path of 5,5% a year or more.

STU13-9

13010 BACHELOR OF ARTS

EXAMIN

STUD NO	SURNAME				
~~1620048~~	~~BURNE~~				
158955C	CARO				
1621952	CHAIT	CHERYL			
~~1539450~~	~~CLARKE~~	~~PENELOPE JILL~~	~~103202~~	~~SOCIAL ANTHROPOL~~	
157789K	COHEN	DAVID	104101 110101	ARCHAEOLOGY I HISTORY I	
156503M	COLLIER	LINDSEY JEANNE	911101 916103	MATHEMATICS I M1 ANIMAL BIOLOGY (	
~~153999D~~	~~COLLINS~~	~~BEVERLEY RUYNON~~	~~116120~~	~~DRAMA I~~	
153621E	COUCHER	ROBERT GEORGE RENESON	004101	PSYCHOLOGY I	
~~135?72X~~	~~COURTENAY~~	~~COLETTE~~	~~107101~~	~~ENGLISH I (PRE-~~	
153796V	DAVIS	CASSANDRA ELAINE	107101	ENGLISH I (PRE-	
~~140457~~	~~DELAHUNTY~~	~~ANNA TERESA~~	~~908101~~	~~GEOGRAPHY I~~	
162384E	DOMAN	MICHAEL EDWARD	106102	ECONOMIC HISTOR	
~~155931D~~	~~DU PLESSIS~~	~~MARCIA ELIZABETH~~	~~107101~~	~~ENGLISH I (PRE-~~	
158919N	DUNCAN	ANDREW SYMON	003101 004101	SOCIOLOGY I PSYCHOLOGY I	
156415R	ERASMUS	ARNO JACQUES ERASMUS	601101 910108	COMMERCIAL LAW STATISTICS IC(H	
~~162310Z~~	~~EVANS~~	~~GAVIN MARK READ~~	~~101103~~	~~AFR LANG INTENS~~	
161480X	FAFAK	GIULIETTA	107101	ENGLISH I (PRE-	
~~153863T~~	~~FARQUHAR~~	~~GILLIAN DEBORAH~~	~~115101~~	~~FRENCH I~~	
152866J	FARRELL	MICHAEL BRUCE	004101	PSYCHOLOGY I	
~~157359T~~	~~FINLAY~~	~~PAMELA JOAN~~	~~106101~~	~~ECONOMICS I~~	
			115102 115103	FRENCH INTENSIVE ITALIAN INTENSIVE	UP (58) UP (54)
~~159744K~~	~~FIORAVANTI~~	~~LUIGINA~~	~~214102~~	~~PHYSICS IB~~	~~UP (58)~~

UCT

FM 21/3/80

(49)

There's still hope of relief

After the gold euphoria evaporated this week with bullion dropping below $500 (from a January high of $850) next week's Budget might appear to some as if it is going to be a damp squib.

Certainly, the *FM*'s sounding of the business community this week suggests that expectations of fiscal relief in particular appear to have been modified.

For instance, Bob Aldworth, who heads Barclays, the country's largest banking group, expects "no fireworks" this Wednesday and, in fact, a neutral budget. Any concessions, he believes, will be very small.

Likewise, AECI's deputy chief, Ron Webb, expects a very cautious approach to tax concessions although he, along with many other businessmen, does not expect fringe benefits to come under heavy attack.

Nevertheless, there remains widespread belief that the personal tax gradient will be modestly flattened, which will reduce the devastation to salaries of fiscal drag.

Measures to improve and spread black education and attract skilled immigrants are also still expected to be generous. Few believe the import surcharge will be maintained. But the sobering fact of Robert Mugabe's victory in Zimbabwe and stalemate in SWA-Namibia has raised expectations of a sharp rise in defence expenditure.

Bankers are not optimistic that the initiative in monetary policy will be wrested from the Reserve Bank. As has been the practice, they expect a statement from the bank shortly announcing increases in the lending ceilings, for most banks are pressing vigorously against theirs.

They are not anticipating any enlightened action in exchange rate policy, but expect that exporters may be given further concessions to hold export proceeds abroad for even longer periods than before.

Because of the wide differential between short-term interest rates here and

P W Botha . . . leaning to the free market

abroad, which has uncomfortable economic consequences, a cut in Bank rate is not widely anticipated. But a token adjustment could be made in recognition of the gap between relatively high overdraft rates and the cheapness of corporate short term money.

Nor do insurance companies and pension funds expect a significant reduction in their prescribed asset requirements, although they could be pushed back to 1977 levels.

The institutions say this because they doubt that government will continue to restrain its spending to the extent of past years and in fact significantly roll back its participation in the business sector.

Consequently they expect an increased government borrowing requirement that will be financed by selling mainly long-term securities, so that any increase to the money supply from gold earnings will be partially neutralised.

With that in mind, their reasoning goes, government will not voluntarily reduce its captive market of borrowers. It is also pointed out that recommendations in this respect of the De Kock Commission are still way off.

In short, even if Prime Minister P W Botha and Finance Minister Owen Horwood had tried, they could not have created a more appropriate frame of mind among businessmen that would enable them to renege or at least compromise, without fear of rancour, on their earlier promises.

Indeed, there are some who believe that because of the division within the National Party, this is precisely what will happen. To curry favour with white workers, goes this argument, spending will rise and direct controls will be maintained, if not increased, to hold back price rises. Nor, some believe, can National Party ministers afford, at this stage, to actually reduce government's involvement in business.

Despite Botha's problems with the right wing of his party — and they are considerable — the *FM* does not hold the view outlined above.

It does not doubt the PM's sincerity in his desire to stimulate sound growth, encourage a return to a more market orientated economy and reduce government's role in it. Nor do we doubt his ability to do so.

Indeed, it could well be that the very party problems that some fear will deter him, could more likely be a spur to reinforce his policies ahead of a general election.

He must be aware that, just as his right wing is in revolt, so businessmen have begun to doubt his earlier commitment to free enterprise during this uninspiring first parliamentary session this year.

Moreover, government's commitment to sound growth, and the acceptance of the enlightened exchanged rate and exchange control recommendations of the De Kock Commission, suggest the process has gone too far to reverse it now.

Shed rightwingers

PW has little choice but to nail his colours more firmly to the mast and at least attempt to take the business community with him, even if he has to shed right wingers. If that be so, the Budget becomes this year a prime instrument of broad political policy.

And with men like Horwood and his three key advisers — Doctors Gerhard de Kock, Joep de Loor and Simon Brand — in charge of it, the clock is not going to be put back, although advance may be tempered with the pragmatism borne of subtle civil service diplomacy.

Apart from the fact that Budget proposals were most likely being formulated on the basis of a gold price well below $400 an ounce — even when the market price was pushing $800 — these men are unlikely to be unnerved by market fluctuations. Indeed, it could encourage them to greater reforms. They, after all, are the ones advocating a market economy.

Consequently, the *FM* expects that next week's Budget will not only include measures — such as exchange rate and monetary ones — that lay the basis for a new and broad economic policy initiative, but will also be the most important politically of the National Party's 30 years in office.

Tax cuts will, in our view, be at least as generous as last year's R700m-R800m concession and, while there could be a pronouncement on fringe benefits, there will be no effective increases in their taxation.

In keeping with government's earlier conservatism, state expenditure will be restrained, but we doubt it will be sufficiently held back to enable the extent of the tax cuts we believe desirable (see *FM* February 29).

There will be modest increases in social benefits, but fortunately not enough to satisfy some social democrats on the opposition benches, who are crying from the heart and forgetting to reason with the head.

The surprises could well be in the form of exchange rate and monetary policy pronouncements, of which a rand revaluation and the extent and financing of the government's borrowing requirement could play a key role. We expect a significant reduction in exchange controls.

Owen Horwood . . . he won't put the clock back

There could be further measures to improve the country's self-sufficiency in energy supplies and to finance homeland consolidation.

In short, this could be a Budget that not only extends the foundations for sound economic growth in the Eighties, but paves the way also for profound political developments. Far from being a damp squib, it could be a firebrand prelude to the most significant general election in the country's history.

NATAL BUSINESS Fm 21/3/80 (49)

Awaiting the boom

While the national business cycle is in an established upward phase, the boom in Natal, which has the second largest concentration of industry in the country, is still being anticipated -- although business activity is quickening.

A Natal Chamber of Industries' survey on business conditions in manufacturing industry in the last quarter of 1979 found more than half the respondents reporting higher sales and almost a third saying production was up.

"Anticipated expansion and new investment in industry showed a sharp increase, with 31,3% (9,6%) planning such development. Spare capacity is being taken up and only 14,4% of respondents needed more staff."

Buyer resistance

The chamber comments that "predictably a shortage of skilled labour is now starting to emerge with 33% of all respondents reporting this as a major limiting factor to increased output."

Activity in the property market has been intense but few deals at inflated prices have been reported. In the residential market, buyer resistance has been encountered at asking prices that are out of line. Some agents report that rapidly rising building costs are a deterrent to development and redevelopment.

Building activity has yet to take off and, indeed, the value of plans passed in Durban last year at R79,5m (R71,5m) shows no increase in real terms. Sales of bricks have improved but there are enough over to ease shortages in the Transvaal.

In the retail trade, business is more active but Beares' MD Alec Rogoff believes any major improvement will depend on further disposable income being placed in the hands of consumers. Aubrey Zelinksy, GM of Pick n Pay's Hyper by the sea, notes an increase in the ratio of non-food sales and estimates that turnover began to improve significantly from about last September.

The motor trade is a lot happier than a year ago although shortage of product, suggests John McCarthy, financial director of McCarthy Group, has caused some problems. Used car sales are buoyant.

The off-season hotels are doing "exceptionally well" and forward bookings are "excellent" says Bruno Corte, Southern Sun's Natal area manager. Occupancy rates are high and businessmen who used to come for the day are now staying overnight. Conference business and local tourism has helped turnover and the Argentinians are being joined by other foreign tourists in greater numbers. Hotels in the more popular country resorts are well booked over weekends and it is no longer taken for granted that a bed can be had without booking.

To some extent Natal's fortunes are those of the sugar industry and prospects for the new season starting officially in May are not good. Exceptionally dry conditions during the growing season, notably on the north coast and in Zululand, have cut production estimates and the crop may be as low as 1,7Mt (2,08Mt) which tends to counterbalance the benefits of a higher world price. Moreover the industry, saddled with a R50m debt from the past two seasons and rising costs, is in no position to indulge in any spending spree.

Heavy state spending on harbour works at Richards Bay and on its rail links is unlikely to have any immediate impact on the local economy.

In short, business is improving but it will have to get a lot better before there can be talk of a boom.

(48)

INDUSTRY

Still on the march

FM 21/3/80

The economic recovery has created a chain reaction in all sectors of the property market, notably in industrial townships. It's been quite a merry-go-round over the past 12 months with companies scrambling to improve location, image and operating space.

Latest company to secure a new home is Helios (Pty) which chalked up a meritorious 75% increase in turnover last year and is looking to a further sales hike of more than 50% in 1980.

To meet the challenge, it has just moved into the old Wiggins Teape (WT) premises in New Centre while WT has gone off to bigger and better things in Selby 4.

Helios has moved in as tenant of the Old Mutual, which bought the property for R725 000. The 10-year leaseback, with renewal options, carries a rate of 10% with 4% escalations. The negotiations were handled by John Penny (Pty).

Helios MD Alf Tromp says the move has improved space efficiency by about 50% — but it's not enough. Already, he says, there are plans to add a further two storeys to cater for increasing demand.

Much of the activity has come from the Minolta agency which Helios scooped a couple of years ago. Tromp says Fuji litho plates and Ryobi offset equipment, also comparatively new to the group, have been major contributors. At the same time, the drawing office supply division is improving by 20% to 25% a year.

So industry is still on the march — and it's good to see the property sector making the most of it.

49

RDM 22/3/80

Etheredge: Draw blacks into economy

THE president of the Chamber of Mines, MR D A Etheredge, said last night the challenge facing South Africa was to draw blacks fully into the economic system and allow them to share its rewards in proportion to their talents.

Addressing the annual meeting of the Geological Society of South Africa, Mr Etheredge said one of the country's most important tasks was "to convince a section of our white population that far from having anything to fear from change, their own economic welfare and, indeed, their physical security, requires changes to be made".

He said the reason South Africa had surged ahead of the rest of Africa economically was because it had had the skills to exploit its resources and a free enterprise system which had encouraged the process of development.

"But we can obtain another, somewhat different perspective of our performance if we compare ourselves not with other African countries but with a country, say, like Australia.

"Australia, similarly endowed with natural resources but with only half our population, has a gross national product more than twice as great as ours — some R94-billion in 1978 compared with R38-billion for South Africa.

"The reason for this is very simply that Australia's population as a whole is skilled — whereas only a small proportion of our population, mainly our whites, are skilled."

It was now common cause that South Africa had a serious skilled manpower shortage "which threatens to endanger our future economic progress and therefore also social and political stability.

"Stellenbosch University's Futures Research Unit has estimated that by next year there will be a shortage of more than 700 000 skilled workers, that is people with Standard 9 education or better, and that by 1990 this could rise to 1,3-million.

"Clearly, in such a situation, efficiency and productivity suffer and economic progress must inevitably suffer."

Until such shortages were overcome, severe strain would continue to be placed on the relatively small group of professional and technical people, managers, engineers, artisans, administrators and others.

Fortunately, he said, the Government was alive to the problem. He listed some ot the steps taken to solve it:

- The reports of the Riekert and Wiehahn commissions aimed at improving labour mobility and ending discrimination in the work place;
- The stated intention by the Minister of Finance to step up the allocation of funds for black education and training; and
- The launching of the Manpower 2000 campaign to heighten awareness of the problem and co-ordinate action. — Sapa.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS

13010 BACHELOR OF ARTS YEAR : 1

STUD NO	SURNAME	FIRST NAMES	COURSE
~~152163V~~	~~VAN NIEKERK~~	~~MURIEL DIANNE~~	~~107101~~
159757Z	VAN WAGENINGEN	ANNEMARIE	107101
~~155815P~~	~~VISSER~~	~~ANNELIZE~~	~~107101~~
153767N	WACHER	GUY STEVEN	115102
~~160780L~~	~~WESSELS~~	~~CHARLENE~~	~~107101~~
158400Z	WHITAKER	ANDREW	909105
~~115228Y~~	~~WHITING~~	~~ROBERT GEORGE CURZON~~	~~107101~~
157399L	WILLSHER	MELANIE GABRIELLE ROSANNE	115101
~~154408K~~	~~WOLFE~~	~~ANGELA KILWARDEN~~	~~004101~~ 004101 105202 107101
159697J	WOOD	NICHOLAS	107101
155858L	WYNGAARD	GAVIN WILLIAM ERIC	103202 ~~115101~~

* TOTAL NUMBER OF STUDENTS 137

DEAN

UCT

Up and down go hopes for the Budget

49

CON 22/3/80

Pretoria Bureau

NO SOUTH African Budget has aroused as much speculation as that which is to be tabled in Parliament on Wednesday by the Minister of Finance, Senator Owen Horwood.

The guessing game, particularly on teachers' salaries, has escalated in the past few days.

General expectations have been blunted by recent Ministerial announcements that the Minister will not have as much to give away as many taxpayers hoped.

It looked like a concerted effort to dampen down sky-high expectations resulting from the big increase in gold mining tax revenue and in Exchequer receipts.

On teachers salaries, the speculation has been surrounded by threats of teacher go-slow strikes unless the increases are satisfactory, and dire warnings about the Transvaal alone, if it all turns out to be a big let down.

Other hopes include:

- That the perks tax will be postponed for at least a year.
- That the high marginal tax rate, which hits hard at those with incomes above R30 000, will be lowered.
- That food subsidies will be substantially raised to counter the coming bread and maize price rise.
- That there will be general tax relief, with a possibility of the Government surrendering some of its massive take from the tax on fuel.

These add up to a formidable array of hopes, and none but an optimist could believe they will all be realised.

Another hope is that the Pretoria Afrikaans afternoon newspaper had a reliable source when it carried the headline this week: "Budget — Minister to give with both hands."

The big banks have also moved in with speculation that tax cuts amounting to between R800-million and R1 000-million are possible.

The Minister is cautioned by Standard bank and Senbank economists, however, not to be too open-handed for fear of firing inflation.

Senior Government workers said yesterday that because of the differentiation principle being applied, the increases could vary from say 9% to 20% on an average base of 12% to 13%.

It is accepted that the rises in the new Budget will more or less line up with those granted to Railway and Post Office workers.

The Government has indicated, however, that pay levels in certain critical areas where recruiting and staff retention difficulties have been encountered may have to be raised to a greater extent than in other areas.

The president of the Public Servants Association, Dr C M Cameron, said the association would be satisfied with average increases to match the Railways' 12,7%.

"By and large we have no claim to get more than is being granted to other public sector workers."

He stressed that the one month salary bonus was not regarded by the association as part of the salary increase.

"This is a separate issue. It is something we should have had years ago. In the private sector a one month pay bonus has virtually been a routine for many years."

Dr Cameron warned that the average increase — if the Minister announced an average increase — would not be universally applied.

"There are certain strategic areas which, pay-wise, must be made more attractive. So not all Government workers can expect to get the same percentage rise," he added.

Substantial pay increases were needed to stave off crises in three critical public services, police, teaching and nursing, the PFP's spokesman on finance, Mr Harry Schwarz, said yesterday.

He made an "eleventh hour eve-of-Budget" appeal to Senator Horwood to ensure that in the salary increases for public sector workers, the three categories would be given special treatment.

All three services, Mr Schwarz said, were in strategic areas, and it was strongly in the national interest that pay be raised to a level which would [illegible]

R28-BILLION INVESTMENT BOOM FOR SA

W/E Argus 22/3/80

(49)

CAPITAL projects costing R28 620-million are to be built by South African companies or State-owned industry over the next 15 years.

Most of the projects fall into three distinct groups — mining energy and import replacement. The high gold price enables mines to exploit lower-grade ores which would otherwise be uneconomic.

This list of projects, compiled by the Economist, shows new power stations, new coal mines to supply them and telephone network expansion to be the major beneficiaries of this investment.

MINING

		Cost rands millions
Anglo American	Western Deep Levels—new shaft system	715
	President Brand—new shaft	125
	South African Lands—new gold mine*	—
	Erfdeel/Dankbaarheid block—new gold mine*	—
Union Corp	Belsa uranium mine	250
	Beatrix gold mine*	400
De Beers	Diamond mine extensions	125
Amcoal, Genmin, Rand Mines	Coal mines for new power stations	1 000 +
Gold Fields	Doornfontein and Libanon mine expansions	93
Impala Platinum	Mine and refinery expansions	125
Rustenburg Platinum	Nickel/copper refinery	56
Anglovaal	Re-opening of Rand Leases	35

ENERGY

		Cost rands millions
General Mining/ Sentrachem	Oil and uranium from coal project*	1 000
Sentrachem	Ethanol plants	up to 600
AECI	Methanol, monoethylene glycol and polyol plants*	450
Electricity Supply Commission	Thermal and nuclear power stations	11 000
Sasol	Oil from coal plants and ~~collieries~~	6 237

IMPORT REPLACEMENT

		Cost rands millions
Sentrachem	Synthetic rubber and carbide plant	163
Styrochem	Polystyrene plant expansions	12
AECI	Low density polyethylene plant	150
Hoechst	Fibre plant expansions and other projects	150
South African Nylon Spinners	Nylon and polyester plant expansions	40
Southern Cross Steel	Stainless steel rolling mill	127
General Mining/Zahnrad-Fabriken	Gearbox and steering box plant	120
Industrial Development Corp	Diesel engine plant	307
Volkswagen	Engine plant and other expansions	46
Toyota	Extensions to comply with local content rules	40
National Process Ind	Hydrogen peroxide plant	3

OTHER INDUSTRIES

		Cost rands millions
Fedmis	Phosphoric acid plant	17
Highveld Steel	Pre-reduction kilns; oxygen plant	37
Sappi	Timber, paper and pulp expansions	550
South African Board Mills	Boxboard plant extensions	24
De Beers Industrial Diamonds	Industrial diamond manufacturing capacity	130
Checkers, OK Bazaars, Pick 'n Pay	Supermarkets	260
Post Office	Telephone network expansion	4 000
South African Broadcasting	Second TV channel	80
Black affairs authorities	Soweto electrification	153

* No final decision yet.

SA heading for spending spree as tax cuts loom

CT. 22/3/80

BY PAUL DOLD
Financial Editor

SOUTH AFRICANS are heading for their biggest spending spree in years with heavy tax cuts likely in the Budget boosting take home pay, while salaries rise strongly as firms compete for skilled staff.

With Senator Horwood's Budget only days away, economists believe he is in a position to grant some R800m of tax concessions and it virtually certain that much of this will be aimed at the ordinary wage earner.

These tax cuts will grant consumers some relief from the ravages of inflation and are vital if the economic upswing is to gather momentum.

Such a policy would help to distribute the gold boom as widely as possible and, secondly, contribute to a continuation of the government's growth through strength strategy.

The additional consumer demand generated by the tax cuts will lead to a big growth surge in industrial production helping to cut unemployment further. This would allow the government to maintain its policy of achieving economic growth through stimulation of the private sector, which is less inflationary than allowing a sharp rise in government spending. Thus it would seem likely that government spending growth will remain low.

The tax cuts are seen as a certainty given the huge surplus in the State's coffers and the need to boost consumer spending at a time when inflation in the short term at least may be mounting.

And there is little doubt that after salaries, particularly among white consumers, have lagged behind the inflation rate for the past few years wages will rise strongly this year.

Already firms are finding difficulty in recruiting trained staff and many will be forced to offer incentives and higher salaries. Job advertisements in the newspapers are soaring. A similar wage trend is probable in the public sector.

Real fixed investment is rising again as groups expand and go ahead with vast capital expenditure programmes buoyed by the highest confidence level in business since the boom of the sixties.

Horwood's Budget is expected to drop the 2,5 percent import surcharge which would help to fight inflation. The marginal tax rate may be cut to 50 percent from 55 percent and the 10 percent loan levy abolished. And a bigger allowance for married working women is also possible.

In addition, there will be the usual pension increases. Company tax may also be cut and training allowances to increase productivity increased.

It is to be hoped that the authorities will add to the food subsidies which, although they run counter to basic policy, are needed to give relief to the lowest income groups as inflation continues to increase.

The overall Budget is likely to be growth orientated but couched in more moderate terms than many analysts are expecting. There is no doubt that the upturn is already gathering pace and the authorities will no doubt be wary of applying too much stimulus due to the inflationary dangers. Horwood will no doubt stress that inflation is a major hazard.

The scenario which is developing will have a significant impact on retailers who can prepare for a boom. Retail spending is showing signs of rising and a trend of real increases (after allowing for inflation) can be expected.

The rise in spending is rapidly spreading throughout most retail sectors.

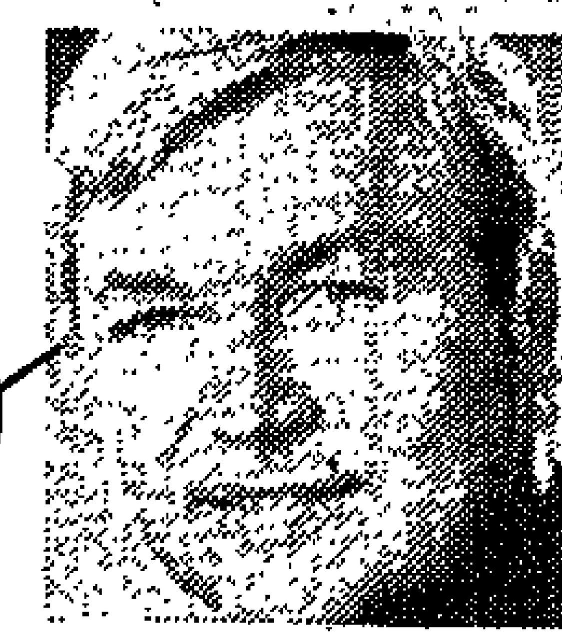
This is one of the factors behind the immense expansion of the retail chains who are investing millions of rands in opening new stores over the next few years aimed at taking a large slice of the cake. And the food retailers have sensed that the Budget will be very good news and are already engaged in a vicious price war.

Comment: By STEPHEN ORPEN

23/5/88

Free enterprise: Last chance to avoid the Machelian nightmare

49



"THE wolves are crying in the dark . . . The often negative propaganda campaign against communism must be abandoned, it is a waste of time. What is needed now is positive action. But please let it be now, or else . . . ".

Moses Leoka, promoter for the Johannesburg Stock Exchange of equity investment and free enterprise among blacks.

NO-ONE should be surprised that Mozambique's Samora Machel, long characterised as a rampant Marxist, should have confessed his conversion to a kind of capitalism this week.

Likewise, it is hardly surprising that South African whites should be delighted both by Machel's apparent somersault and by his alleged influence in selling the sense of free enterprise to Zimbabwe's Robert Mugabe — now troubled with labour unrest.

All-important is the question of South Africa's response to the new Machel-Mugabe line.

The evidence I have provides an answer which is both heartening and terrifying.

If we can grasp this last, golden opportunity to swing our black population solidly behind the free enterprise concept, we will secure the survival of enlightened capitalism in South Africa.

If we fail to meet this challenge — and it more formidable than most realise — then within 10 or 15 years we can be absolutely certain that we will face the danger of the same kind of mess, only on a larger scale, that has led Machel to abandon his love affair with a centrally-dictated, super-bureaucratic economy.

Given Machel's instinct for survival, it was inevitable that he should finally abandon his hard-line socialist dream, which was so patently a disaster, and put his passion behind a system whose basic economic success stared him in the face whenever he looked west — or south.

Likewise, it was inevitable that South African whites, conditioned in raw capitalism and force-fed anti-Marxist propaganda, should whoop gladly at the news of the *volte face* across their north and eastern borders.

But let us not run away with the idea that our own blacks will now formate meekly behind the free enterprise baton.

Conversations I have had this week with black leaders suggest that, at best, there is disappointment among those blacks able to comprehend what has happened. At worst, antagonism to the free enterprise system has been re-inforced.

The reason for the hostility is not hard to find. The blacks do not associate the new Machelian capitalism with South African capitalism.

South African "free enterprise" continues to be seen as a package comprising South African white privelege and a hard-line, white-imposed black socialism — for that is the only system most of our blacks have actually experienced at first hand.

Thus, what Machel and Mugabe are offering is seen as just another alternative (like what passes in Africa for Marxism) to white domination.

It is not seen as free enterprise *per se*.

From what I hear, the best efforts of organisations like the Free Market Foundation to preach capitalism among our blacks have proved useless, if not counter-productive.

These efforts, like others based on white initiative, are dismissed as no more than cunning new ploys to lure disadvantaged blacks deeper into the foreign and unfriendly land of buccaneering white profiteers.

What is the solution? There are two immediate steps to be taken:

- Organised black business must recruit a potent task

● To Page 3

(49) S-Times 23/3/80

Pennies from Horwood!

He's going to present the 'most popular Budget' since the war

[illegible]

IT IS going to rain "pennies from Horwood" on Wednesday when the Minister of Finance unveils "the most popular Budget since World War II", informed sources predicted this week.

High points of the 1980 budget are expected to be:

- The slashing of personal taxation as part of a major tax reform.
- The abolition of the loan levy on companies and individuals.
- Increased social pension payouts
- Reform of the taxation of married women as a solution to the skilled labour bottleneck.
- An average 15 per cent increase in public servants' salaries.
- A possible scrapping of import tariffs on a wide range of goods
- An expected small reduction in company tax.
- A further relaxation of exchange control in line with the De Kock Commission's recommendations.
- A substantial increase in Government spending on black housing and education.
- Major tax incentives to stimulate private black training and housing schemes.
- A further massive hike in defence spending

At the same time, however, Senator Owen Horwood is expected to announce plans to introduce legislation on fringe-benefit taxation

Private-sector bodies have been asked to submit their comments on this controversial issue before April 15 and it is now widely expected that legislation will be introduced before the end of the present parliamentary session — although it will only become effective during the next tax year.

Informed sources stressed yesterday that the proposed curbs were not regarded by the Government as a source of additional revenue, but as part of the Government's tax reform programme and a quid pro quo for the drastic revision of the marginal tax rate to be announced in the Budget.

They pointed out that distortions in the marginal tax rate meant that a man who in 1970 paid 10 per cent tax on a salary of R10 000 was today squeezed for almost a third of his salary of R30 000 although after inflation his income had not increased in real terms.

The lowering of the high marginal tax rate would have a flattening effect on the whole tax curve and bring relief to all income levels, although it would be felt most keenly at the middle management level I was told

The philosophy of the Budget was that it was essential to increase consumer spending to support the Government's growth policy

For this reason the loan levy, which was simply a form of forced saving would also be abolished.

The small decrease in company tax was regarded as a necessary psychological boost to investment.

It would appear from informed Budget predictions that Senator Horwood and his advisors who have imposed a rigid monetary and fiscal discipline on South Africa during the past few years, have stood firm against advice to produce a "neutral anti-inflationary" Budget.

Inflation, which is currently running at about 14 per cent, had not been caused by consumer demand and a neutral Budget would have little effect on it, sources said.

It was necessary to diagnose South Africa's present economic problem correctly and not to allow judgment to be clouded by fears of a repetition of 1975.

The present problem was not demand inflation but an embarrassment of riches mainly because of the enormous gold earnings

At an average gold price of $307 an ounce during the last fiscal year South Africa netted R6 000-million dolllars and ended te year with a R3 000-million surplus on the current account of the balance of payments.

Even if, as expected, the Minister estimates the average expected gold price at a very conservative figure, gold earnings will be very much higher than the year before.

"But the final figure could be even higher and the golden shower could turn into a flood" an informed source said this week

"We therefore have to decide what we are going to do if it doesn't stop raining and the dam overflows."

South Africa was in fact "threatened" by an enormous balance of payments surplus which would be of no use at all unless it was put to work to increase growth.

Inflation and an increasing growth rate would also mean that Government revenue would soar into surplus because of an expanding tax base unless Senator Horwood introduced major tax reform.

The problem was that although South Africa was awash with liquidity because of its gold earnings, it still faced its two major problems low growth and black unemployment

The gold bonanza had not been used for investment, neither had it filtered through to the man in the street who was still struggling with the effects of oil price-induced inflation

Increased Government salaries, which could be expected to spill over into the private sector, would simply put the average taxpayer marginally ahead of the inflation rate

Therefore a drastic revision of the tax rate was essential to increase his take-home pay.

The real bottleneck was the shortage of skilled labour and a large slice of the Budget would be devoted to solving it through tax incentives for training schemes and greatly increased expenditure on black education

Informed sources also predict that Senator Horwood will take a major step towards the full implementation of the De Kock Commission's recommendations and announce a drastic relaxation of exchange rate control and a firmer commitment to a "managed float" of the rand

The scrapping of exchange control would be designed to encourage overseas investors who at the moment found their low interest rate South African borrowings restricted by the Reserve Bank and were thus reluctant to invest in South Africa.

As a developing country, South Africa needed to do everything possible to attract overseas investment rather than frighten it away.

These opinions reflect an intense behind-the-scenes struggle in Government in recent weeks between the pro-growth men and the anti-inflation conservatives

"But you can't have a south-easter and a north-wester blowing at the same time and those people who believe that South Africa can have low growth and demand-inflation simultaneously have got it wrong "

From confident Budget predictions it would appear that the pro-growth men have won the day.

See Page 4.

Rich man's budget

The poor — no relief in sight

SUNDAY POST Special Correspondent

ON WEDNESDAY National Party Finance Minister Owen Horwood will stand between the leather benches of the Houses of Parliament in Cape Town and ration out to all the good little boys of white South Africa their annual treat of tax cuts, bonuses and civil servants' pay rises. To most blacks the whole affair will mean little more than ending up with the rough end of the stick once again.

The Government's piggy-bank has been boosted over the past few months by the effects of a booming gold price which has exceeded the expectations of even the most optimistic gold-dazzled South African. The sale of the metal on European markets will give the Government about R2 000-million in the 12 months which end on March 31. As things are going so far this year, with the gold price much higher than at the time of the last Budget, the Minister can afford to smile and pat his bulging pockets.

If all taxes, including income tax and general sales tax, are counted, then the Government's total income will be well over R11 000-million.

What exactly will it use it for? There are two options.

S Post 23/3/80 69

Firstly — and this is what is likely to happen later this week — Horwood will announce that top income tax rates are to be cut, and the level of income at which the top rates apply will be reduced. Supposedly, what this will mean is that the big income earners will pay less tax and will be able to spend it in the private sector, on new goods or on new factories, so boosting the economy and providing more jobs for the other people in the society. That's how the "free market" is meant to work.

These tax cuts will mean that Horwood will be giving away only about R750-million and he will still have over R10 000-million to spend in running the country.

In line with Prime Minister P W Botha's strategy to counter the supposed "total onslaught" against South Africa, Government spending on defence is likely to be increased sharply this year and could end up being over R2 000-million.

Unfortunately, however, those areas which really need help from the golden bonanza are likely to be neglected in Wednesday's speech. This is the second option facing Government — spend the money on a new social infrastructure in both urban and rural areas, improving health and education facilities, food supplies, housing and transport.

Housing, for instance, which Horwood last lashed out on almost three years ago when he allocated a special R250-million package to boost the building of houses, needs desperate help. Another R500-million would go some small way to getting rid of the appalling shortage of low-cost houses which the reign of M C Botha left behind.

And while Horwood's handing it out, what about transport. Trains and buses to and from cities such as Soweto and Langa are appalling.

Black education facilities, likewise, could do with a chunk of the cash.

And what about taking general sales tax off all foodstuffs — it's easily done, and would cost the authorities only about R400-million.

The South African Government can only spend its way out of trouble for a very short period while most of its financial power rests on the shoulders of those who do not receive the ultimate benefit.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 3

13010 BACHELOR OF ARTS YEAR : 1 13010

49

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~1609424~~	~~FOLLETT~~	~~MARGARET JANE~~	~~143202~~	~~SOCIAL ANTHROPOLOGY I(PRE 13~~		~~(51)~~	~~1~~	~~1609424~~
157568V	FRIEDLANDER	RAE DEVORA	107101	ENGLISH I (PRE-1980)	3NX		1	157568V
~~150296Q~~	~~GAKISCH~~	~~SONYA IRENE~~	~~115102~~	~~FRENCH INTENSIVE~~	~~F~~	~~(43)~~	~~1~~	~~150296Q~~
158290E	GARNETT	DIANNE SYBELLE	905101 911101	CHEMISTRY IA CH. 102. MATHEMATICS I M102	ABS ABS		1	158290E
154026V	GEFFEN	BENITA	109102	HEBREW INTENSIVE	F		1	154026V
154362K	GIANNAKAKIS	ASPASIA	115101	FRENCH I	UP	(55)	1	154362K
153981W	GILL	CHRISTEL KAROLA	117101	POLITICAL SCIENCE I	UP	(55)	1	153981W
155173R	GILL	JUDITH MARY	107101	ENGLISH I (PRE-1980)	3NX		1	155173R
159186D	GOSS	JOANNE ATHERSTONE	115101	FRENCH I	UP	(55)	1	159186D
158211U	GREEN	JANET FAY	004101	PSYCHOLOGY I	UP	(60)	1	158211U
153855J	GRUSSE	KIRSTIN CHARLOTTE GERDA	106102	ECONOMIC HISTORY I	ABS		7	153855J
162285X	HALLIER	SUZANNE COLLINGS	106103	ECONOMICS IA	UP	(50)	1	162285X
161662V	HANCOCK	EDWINA ANNE	107101	ENGLISH I (PRE-1980)	3NX		1	161662V
162109F	HARRIS	GWYNETH JULIA MARY	114101 ~~114120~~	RELIGIOUS STUDIES I ~~DRAMA I~~	F ~~UP~~	(49) ~~(50)~~	1	162109F
155641A	HART	TIMOTHY JAMES GRAHAM	004101 [illegible]	PSYCHOLOGY I	[illegible]	[illegible]		

What the Opposition wants

Create more jobs, help the poor and the aged

S. Tribune 23/3/80

69

HARRY SCHWARZ
Two great challenges

BILL SUTTON
He would be conservative

By Peter Mann
Political Correspondent

DON'T fritter away money earned through the gold bonanza. Spend it in solving major problems facing this country.

This is the advice given to Finance Minister Owen Horwood by Opposition spokesmen on finance.

But they fear that the man who has gained the wry nickname of "Owen Cohen" from his Cabinet colleagues because of his proven competence in holding the nation's purse strings may next week provide a popular election budget.

They feel this could be the last Budget before an election and that he might opt for giving everybody a little bit rather than dealing with major problems.

Senator Horwood would not be drawn on how he intends to spend the State's money.

The Opposition spokesmen outlined what they would do if they had to prepare the Budget.

Mr Harry Schwarz, chief spokesman on finance for the Progressive Federal Party, said: "We need to show we are a caring society and face our real problems. We have to make provision for the underprivileged sections of our community and our pensioners.

"The two great challenges of our future are going to be unemployment and poverty. My budget would deal with those.

"I would give tax incentives to employers who created new jobs. I would give tax incentives for the opening up of new labour-intensive industries.

"At present tax incentives are given on the purchase of new machinery. I would give them for new jobs.

"I would budget to turn unskilled labour into skilled labour.

"This would be a high priority. We have to train people to meet the challenges of the future.

"Then I would deal with social benefits. I would keep the cost of basic foodstuffs as low as possible. I would close pension gaps and sort out the means test," Mr Schwarz said.

And the New Republic Party's finance spokesman, Bill Sutton, said his budget would seek to re-establish national priorities with the balance weighted in favour of private enterprise.

He believes the Government has been practising a form of State capitalism which should be changed.

In his budget he would reduce the marginal rate of income tax to 50 percent. He would review the gold tax formula — pointing out that the price of gold is soaring way above the figure on which the formula was worked out.

"But I would be conservative. I don't like all this talk of a gold bonanza. I would husband the excess funds carefully. We may be in the fat years, but the lean ones could be waiting around the corner.

"I think I would budget on an average gold price of 425 dollars an ounce," Mr Sutton said.

He would also increase pensions by at least 15 percent to keep pace with inflation, and increase civil service salaries by 12,5 percent. He would pay civil servants a bonus of one month's salary on the same basis as the Railways.

Mr Sutton would increase the teachers' salaries by 15 percent and he would vote money to the provinces to give teachers a double bonus.

One of his major priorities would be to reduce the national debt and return high interest loans.

The New Republic Party would also help farmers and poorer people by subsidising maize prices for this year.

"The maize price is likely to rise by about R18 per ton this year. I would subsidise that entirely. It is staple food for poor people and many farmers use it as an input to feed their stock.

"This year is bridging year as we emerge from recession and the subsidy is necessary," Mr Sutton said.

But what kind of Budget are we likely to get? Both Mr Schwarz and Mr Sutton agree that the Government is budgeting for an election.

"This could be the last Budget before the election. So we are going to see a little bit for everyone. My real fear is that everyone will get something but there will be no real attempt to deal with our problems", Mr Schwarz said.

Mr Sutton predicted that because of a possible election the Government would produce a "popular budget."

What you could get from Wednesday's Bud

THE HORWOOD

[redacted]

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS

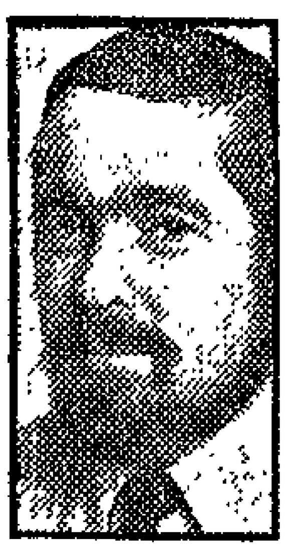
15016 B.A./LL.B. YEAR : 1

STUD NO	SURNAME	FIRST NAMES
~~153982X~~	~~STRACHAN~~	~~ANDREW KENNETH~~
[illegible]	VISSER	VIVIEN ELIZABETH

et

HAND-OUT

By
TONY
HUDSON



FINANCE EDITOR

(49) S.Tribune 23/3/80

DROP

**Reduce taxes
Increase pensions
Scrap surcharge**

BY

**Boost education
Scrap loan levy
Company tax cuts**

DROP

**Labour incentives
Transport subsidies
Raise Annuities**

ON Wednesday afternoon, Finance Minister Senator Owen Horwood is going to rise in the Houses of Parliament and dictate just how comfortably off you are going to be for the rest of the year.

People will be better off after the Budget... but by how much is anyone's guess.

But there is every indication that on Wednesday Horwood will:

- Reduce taxes for the man in the street by about the same amount as last year;
- Increase old age pensions;
- Do away completely with the import surcharge of 7,5 percent;
- Drastically increase spending on education and sub-economic housing;
- Do away with the loan levy which will reduce the maximum rate of marginal taxation from 60,5 percent to 55 percent.
- Increase the tax free amount invested in retirement annuities from R3 500 to either R4 000 or R4 500 a year;
- Grant subsidies to local authorities for increasing the efficiency of and expanding urban transportation systems; and
- Reduce company tax by dropping either the two percent surcharge or the four percent loan levy or even both.

The question is: just how generous is the Senator going to be with his concessions. Here, I am not very optimistic but the signs are that Horwood will adopt a cautious approach despite the fact that Government coffers are overflowing with cash.

There are several reasons for this. First and foremost, Government badly miscalculated the average gold price in 1974 with the result that the Treasury was faced with a deficit far higher than had been anticipated. And the recent antics of the gold price have no doubt given the Minister much food for thought.

As a result, the chances are that he will base his sums on an average of around 300 dollars an ounce, just to be on the safe side.

Second, a massive hike in defence expenditure is expected and third, he could quite justifiably want to build up reserves against an expected world depression.

On the tax front, the tables were redesigned last year for the first time in 20 years, and it is highly unlikely that he would fiddle with them again so soon. This would mean that tax cuts would come in the form of reduction or dropping of loan levies and surcharges.

On the other side of the coin, Horwood cannot afford to be too niggardly at a time when the economy is just getting off the ground and needs a fair amount of coaxing to really get up and go.

Two other areas that he should look at are industry and training.

South Africa needs to sustain a growth rate of over five percent a year to provide jobs for all those coming into the labour pool.

With this in mind he could well consider some form of incentive for industrial expansion, particularly in labour intensive plant.

Training is a problem at present and South Africa is critically short of skilled manpower and incentives could well be applied for those who provide and make use of technical training facilities.

Financial circles say that Horwood could possibly come up with some monetary policy changes and even possibly a rand revaluation. There could also be significant changes in exchange control regulations.

Although he will raise the subject of fringe benefits, it is highly unlikely that it will be any more than a general pronouncement, possibly on the date of introduction, which could be as far ahead as 1982.

A capital gains tax is not yet imminent, but it will be interesting to see if there has been any move towards the clarification of taxation on share dealing profits instead of leaving to the investor to show his intent on his tax returns.

There is also a possibility that to make up his revenue, smokers could well find themselves digging deeper into their pockets.

And while he's at it, he could just take a side swipe at boozers as well by putting up the excise duty on wine, malts and spirits.

On the expenditure side, there is no doubt that defence is going to be the heaviest item, with spending, say some sources, up R400 million on last year's R1 857 thousand million. In other areas, spending will probably continue to be rigidly disciplined and is unlikely to increase dramatically, although substantial increases for Government employees are on the cards.

Overall, Horwood will base his Budget on the principle of growth from strength, and those who expect huge hand-outs should remember Horwood's quotation from Machiavelli in last year's speech: "Severities should be dealt out all at once, that by their suddenness they may give less offence; benefits should be handed out drop by drop that they may be relished the more".

Dilemmas for Horwood behind riches

RDM 24/3/80

By HOWARD PREECE
Financial Editor

THE FACT that Senator Horwood, the Minister of Finance, will announce a big package of tax cuts in his Budget on Wednesday has tended to obscure some big problems facing him.

The main dilemmas are:

- How big an increase in State spending should be planned.
- Which Government departments should be allowed proportionately the largest spending rises.
- How much State borrowing should he allow for and what size Budget deficit after borrowing, if at all, should he appear to permit.

Inflation, or perhaps the expectation of the level of inflation, is critical to all these points.

Guessing the gold price is more of a lottery than a dilemma, but a critically important assumption has to be made.

Inflation as measured by the consumer-price index rose by over 14% in the 12 months to the end of February.

The CPI is not the same as the official "deflator" of the gross domestic product — eliminating price increases to measure real growth in the economy — but it tells a broadly similar tale.

Senator Horwood has said he expects a real economic growth in 1980 to be around 5%.

Now, let us suppose that he wants real growth in the public sector of less than the overall growth.

He might, therefore, favour a real growth of, say, 3% in State spending.

But what does he plan in money terms?

If he thinks realised inflation will turn out around 14% — and economists are widely divided in estimates — that suggests he would plan for a rise of State spending in money terms of around 17%.

But ministers of finance generally are highly reluctant to acknowledge their private estimates of inflation for fear (a) that it will seem a confession of failure; and (b) that it will compound inflationary pressures by stimulating wage and other demands.

Senator Horwood is more likely, then, to settle for a State spending estimate of around 14% which could prove minimal or zero in real terms and possibly risk holding back some growth momentum in the economy.

There are, however, those who would argue that the lower State spending is really kept the better.

But that begs other questions.

With the mildly amusing exception of Mr Brian Kantor, an economist at Cape Town University, there is widespread concern over the level of unemployment.

In the annual report from Barlow Rand the executive chairman, Mr Mike Rosholt, argued that it was difficult for the private sector "to assist meaningfully in the solution of the unemployment problem".

"The public sector must continue to lead in investing in labour-intensive projects, such as urban housing, infrastructural development and agricultural schemes in rural areas."

Mr Rosholt also called for "much heavier expenditure on education and training" — a view echoed this month by Mr Bill Yeowart, president of the Johannesburg Chamber of Commerce.

There are those who believe that a large increase in defence spending is vital.

The Government is under severe pressures to grant pay rises for teachers and others.

While, therefore, Senator Horwod might get applause for announcing a low increase in State spending, the cheers could turn to jeers later.

Paradoxically he is more likely to get in trouble the other way round on revenue.

The Minister of Finance is bound to take an exceptionally cautious attitude to gold.

He is also likely to underestimate revenue generally, another feature of inflation, and his Budget may well appear to be more stimulatory and arguably risky than is the true case.

That, again, could later restrict economic growth potential.

So do not think everything glisters.

GT 24/3/80

Bank backs down on form filling

(49)

By HAROLD FRIDJHON

JOHANNESBURG. — To its credit, the South African Reserve Bank has modified its regulations about using forms A and E which, since the beginning of February had to be filled in for every foreign exchange transaction of more than R50.

These forms not only threw an unmanageable work load on the commercial banks and other authorized dealers in foreign exchange, but they raised a tremendous resentment in commercial circles, as well as irritation among tourists who had to complete a foolscap sheet which required answers to many seemingly unnecessary questions, not the least of which was date and year of birth every time they wishes to cash a traveller's cheque for more than $80.

As a result of the changes, tourists may now cash their traveller's cheques without being caught up in a welter of forms and tangles of red tape. It's as you were. The banks now have to make omnibus periodic returns to the central bank for statistical purposes.

Forms A and E were designed to provide the bank with useful statistical information, but as one authority said: "They gave the impression that South Africa was tightening up exchange control instead of going along the road towards relaxation."

Under the previous regulations whenever a company, for example, wished to buy foreign exchange either to pay pensions or to remit dividends to foreign shareholders, a separate form had to be completed for every individual payment.

The Reserve Bank has now ruled that only one form will have to be completed for a batch of payments. This is a big saver of time at company level, not to mention time saved at the commercial bank — and possibly at the Reserve Bank.

Another big step forward is the revised regulation to governing the purchase of foreign exchange for the payment of imports. The previous regulation required the importer to exhibit to the bank all the documentation covering each transaction. Again a waste of the customer's and the bank's time.

This requirement has been wisely changed.

Major South African importers may now buy their foreign exchange without a sheaf of documentation. All they have to do is to provide the bank with a letter from the company's financial controller giving all the necessary details. But bureaucracy is not to be thwarted.

All the documents for all their import transactions must be retained among the company's records for two years so that they will be available for inspection by exchange control inspectors.

One of the problems arising from this regulation will be the defining of what is a major importer and what is a small importer.

This is one of the subjects about which the banks are still in discussion with the authorities in Pretoria. It is not the only subject, however.

I am told that the revised circular is ambiguous in many respects and bankers and the central bankers are still trying to agree on what has been written and what thoughts the Reserve Bank intended to convey.

UCT

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

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INSIGHT

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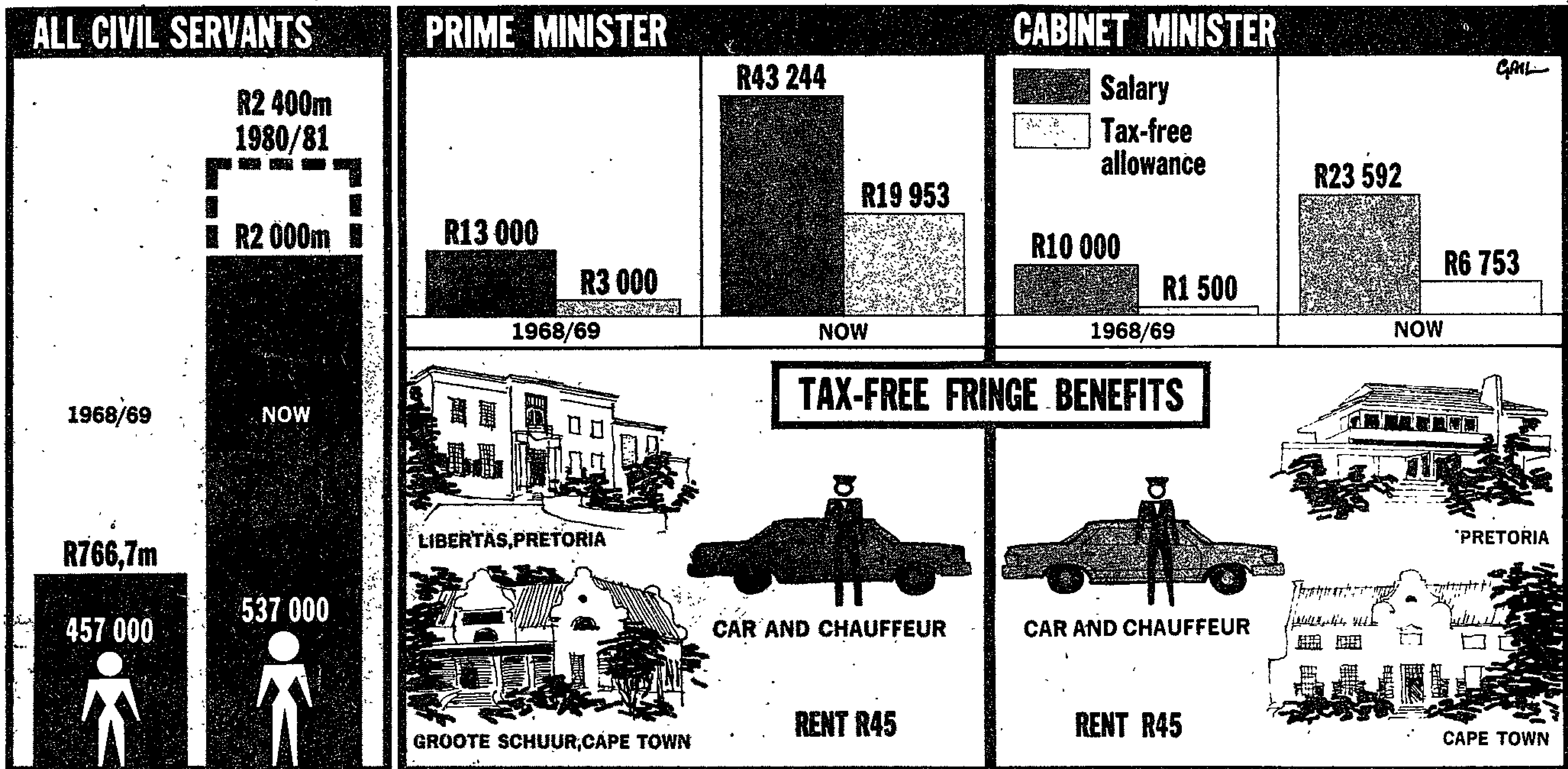
Cream off the State coffers

The South African bureaucracy just grows and grows. GERALD REILLY reports on the staggering cost to the taxpayer.



SOUTH African taxpayers, burdened for the past 32 years with financing the National Party's apartheid policy, have proportionately more legislators and bureaucrats ordering and controlling their lives than any other Western democracy.

Political scientists say we are governed to a gross extent, that the costs are high and soon — after the Budget has been tabled in the Assembly — it will go even higher.

The reason for this is the bizarre political system which has to provide for virtually four separate administrators for the four race groups the costly apartheid policy is designed to keep apart.

The system has now patently failed and for the hundreds of millions of rands in taxpayer's money squandered on maintaining the apartheid facade we have anxiety, uncertainty and the constant threat of unrest — and a Government which has so far failed to repeal any of the legislation which has been used for nearly a generation to discriminate against blacks, coloured people and Indians.

Merely to pay the wages of the 537 000 — 242 000 of them white — who work in the State and provincial departments costs taxpayers over R2 000 m a year.

Ten years ago the State departments employed 272 000 and the Provincial departments 185 000 — a total of 457 000. They earned a total of R766 690 000.

Political scientists point out that democracy is not cheap — in fact it is the costliest, clumsiest and most cumbersome form of government — and the kind we have in this country is certainly bought at a high price.

And this year's Budget — it will be tabled in the Assembly by the Minister of Finance, Senator Horwood, tomorrow — will have to provide nearly R400 m more for increased earnings for the Prime Minister, his 18-member Cabinet — six deputy ministers and huge increases for the new superbureaucrats — the directors-general of State departments — and more than half a million State and provincial department workers.

To pay the basic costs of the country's 165 members of Parliament — they include the Prime Minister, his ministers and deputy ministers — and the 51 senators costs in excess of R4m a year.

The Prime Minister earns a basic R43 244 with a reimbursive allowance of R19 953, cabinet ministers earn R23 592 with a tax-free allowance of R6 753 and deputy minister R19 272 with the same R6 753 allowance.

In the 1968/69 financial year the Prime Minster's salary was R13 000 with a R3 000 non-taxable allowance, cabinet ministers got R10 000 with a R1 500 allowance and senators earned R8 000 and a R1 960 allowance.

Durign the 1979-80 financial year total payout to the 51 senators was estimated at R854 200 and for members of parliament R2 598 800.

In 1968-69 senators earned R219 000 plus R132 000 in allowances — a total of R351 200 — and members of Parliament R607 000 with R450 000 in allowances — a total of R1 057 000.

To save parliamentarians from the embarrassment of voting themselves big increases — and from biting public criticism — the Government decided a few years ago to peg parliamentary rises to the extent of the increases given to Government workers.

Included in the real earnings of cabinet ministers must be the lavish perks of their office.

For instance, their gardens and homes are maintained by the Public Works Department — a free service — for their large houses in Pretoria and Cape Town they pay only a nominal rental, they have free cars with white chauffeurs and they have lavish entertainment allowances.

So the real value of a cabinet minister's earnings would be between R40 000 and R45 000, it is estimated.

In 1968/69 the ceiling for secretaries of departments was R9 000.

Today it is about R23 000 and the speculation is that the new super secretaries' ceiling will jump, according to informed speculations, to near R50 000.

Neither the Public Service Commission nor the Public Servants Association was prepared to release details of earnings in the public service.

Both said what the official earned was no business of anyone but the individual concerned.

It is claimed that senior public servants at managerial and executive levels should command the same salary peaks as those in comparable jobs in the private sector.

However, what is not taken into account is the watertight "fireproof" security enjoyed by all public sector workers, including heads of departments, a fine pension scheme and a big tax-free handout on retirement.

By contrast those who fill the tension ridden jobs at the top in the private sector sit uneasily in their plush high-backed chairs. How long they stay in those chairs depends on performance as harshly reflected in company balance sheets.

This is why the rate of top management changes in the private sector is high. It is hard to remember during the last 30 years when the head of a State department was fired.

So even the new Directors-General of departments will not work and operate in the same loaded environment as a senior executive in the private sector.

However, they are a key part of the Prime Minister's plans to streamline the public service into a smaller and more efficient administrative machine.

Whether the fact that the number of State departments is to be shrunk to 18 from 40 will make for cheaper administration is not yet clear.

Certainly the numbers working for the State and provincial departments are not to be reduced.

For instance the Departments of Commerce and Industry each had their own secretaries — Industries, Mr P F Theron and Commerce, Mr Tjaart van der Walt.

Both departments will now fall under a Director-General, Mr T A du Plessis.

But Mr Van der Walt and Mr Theron will remain on as Deputy Directors-General and the staff complements of the two departments will remain unaltered.

So greater efficiency is likely, but significantly cheaper public administration is not.

Put your money where your mouth is

Post 26/3/80 (Lt9)

THE Minister of Finance, Senator Horwood, is the country's centre of attraction today as he presents his annual Budget to Parliament.

Most blacks pay slightly more than an academic interest in what the minister says — or does not say.

After all, we remain the most taxed portion of the population while controlling a meagre percentage of the country's total economy.

Thus the disinterest.

However, that as it may be, it would be hoped that the events around the country in the past few years will influence the minister to accept that a greater slice of the country's budget needed to be channelled into some real worthy causes.

EDUCATION

Priority No 1 stands as education.

We need more schools.

We need more qualified teachers and we need to spend on black education what the Government spends on white education.

We need free and compulsory education.

All these things take some money and if the minister can cut down on the astronomical defence spending and channel some of that money into black education, then he would have contributed a wee bit into building bridges of understanding.

The other area that needs the critical scrutiny of the minister is housing.

HOUSED

Soweto only has a staggering waiting list of 15 000 families waiting to be housed.

If things run true to form, then they could still be waiting for a roof over their heads 10 years from now.

You have in the ex-postmaster general, Louis Rive, and Jan Knoetze two men who want to transform the quality of life in Soweto.

They need to be given the resources to achieve this.

In other words, the Government must put its money where its mouth is, if we have to believe the now boring litany of change

coming into the country.

Just give these two guys the money and see what they can achieve.

They both seem to have the commitment.

Black townships need an economic infrastructure of their own if they are going to afford to pay for the essential services.

The minister must persuade his colleagues to grant these townships freehold rights, thus removing one of the biggest stumbling blocks in generating economic activity.

At the moment, places like Soweto and other townships have to thrive on booze economies to be able to pay some of their essential service bills and the provision of sporting amenities.

In other words, it would be in the interest of the people in our community to drink themselves to death, before they can see some material improvement in the level of amenities!

RIDICULOUS

It is ridiculous that administration boards, which were introduced by the Government, must depend solely on rent increases to sustain them.

So Mr Horwood is going to have to do some amazing things today, if we are to believe that at last the Government realises that human beings — real live blood and flesh human beings — are living in black areas.

Otherwise we may just as well continue the Alice in Wonderland existence.

And that would be an irrelevant budget, so to speak.

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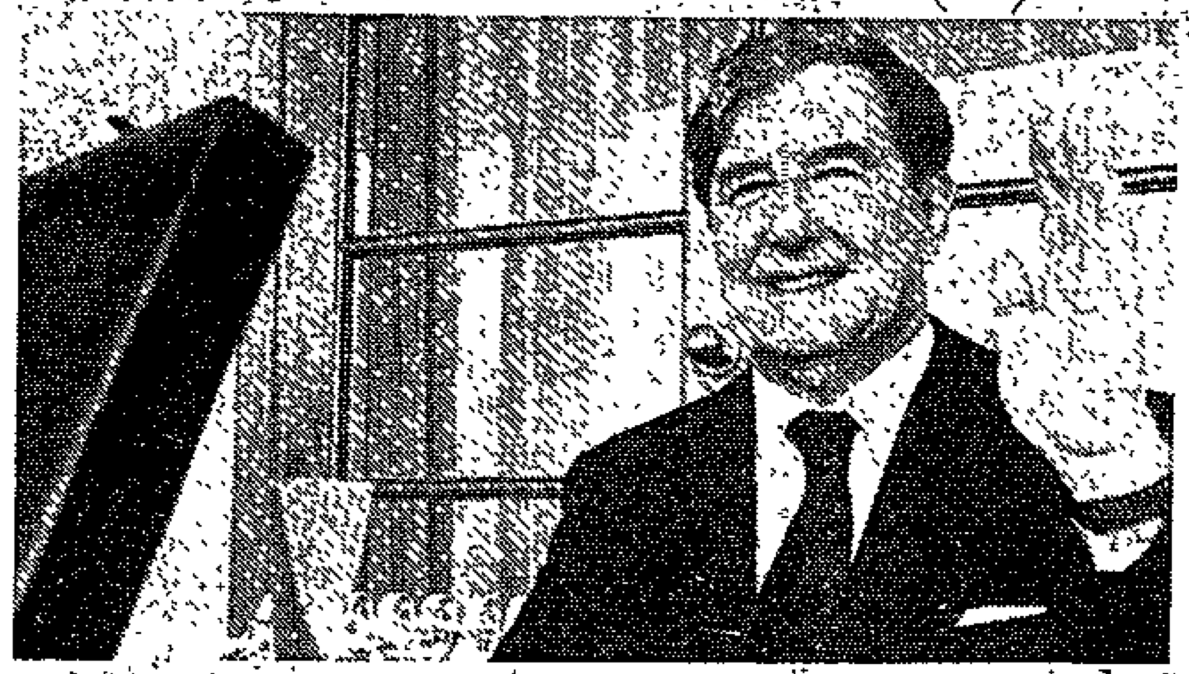
Expectations high for today's Budget



The Minister of Finance, Senator Owen Horwood, at his Rondebosch home yesterday with a copy of the Budget.

By GORDON KLING

SOUTH AFRICANS will learn the answers today to the multi-billion-rand question on the Republic's economy — how the government intends to dispense the gold bonanza — when the Minister of Finance, Senator Owen Horwood, presents his sixth national Budget.

And on the eve of the Budget, the Reserve Bank last night announced that it would raise commercial banks' credit ceilings from the end of the month by an additional six percent — a move which will make further finance available for expansion of the economy.

There is likely to be something for everybody in the Budget today as new boosts are provided to the burgeoning economy now growing at one of the fastest rates in the Western world.

Expectations, although slightly deflated by the current weaker gold price, remain high for a popular package of concessions to commerce, industry and the man-in-the-street, including:

- Cuts in personal and company taxes to boost consumer spending power and ease commercial financing burdens.
- Pay inreases for teachers and other public servants.
- Increased pensions.
- A further relaxation of exchange control regulations.
- Dropping the 2,5 percent import surcharge.
- Stepped-up expenditure on black education, training and housing, and on defence.

Senator Horwood's "growth from strength" financial policy can be expected to take one of its most important strides, possibly enunciating economic objectives of the concept of the constellation of Southern African states, and reaffirming the commitment to reduce state interference in free enterprise.

Economists have cautioned, however, that the state's coffers are not overflowing to the point where extravagant hand-outs are likely. But with a surplus of some R800 million, a repeat of last year's R1 billion worth of concessions cannot be ruled out, and dramatic surprises are expected.

- **Banks' credit ceiling raised: full report, page 14**
- **R1 000 m tax cuts expected, page 2**

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A fair slice of the Budget

49

RDM 26/3/80

BLACK unemployment and soaring food prices during the past two years have resulted in the spread of hunger in urban townships.

This is why black leaders, Opposition financial spokesmen, trade unionists and concerned people and organisations throughout the country say the cheapening of basic foods by bigger Government subsidies should be a priority in the Budget to be tabled by the Minister of Finance, Senator Horwood, today.

They also claim that money spent on bringing down the prices of food is a sound investment in security.

The issue of cheaper basic foods has become even more urgent because of the imminent threat of an increase in the two staple foods of the black people — bread and mealie meal.

The urgency is sharpened too, by the increasing mass of unemployed blacks in the urban areas. Although no accurate estimate has been made by the Government of unemployed, it is thought to exceed 1,5-million.

And as there is no immediate prospect of a significant decrease in the total — especially when it is taken into account that more than 200 000 new black workers come into the labour market every year — then the Minister of Finance would seem to have no alternative but to devote a slice of the gold tax bonanza to raising the level of food subsidies.

During the current financial year now drawing to a close, food subsidies totalled R124-million according to the Department of Agricultural Economics and Marketing.

This was made up of R70-million for bread, R50-million for maize products and R4-million for butter.

It is pointed out that the butter subsidy could be scrapped as there is a satisfactory alternative in margarine.

However, the farming lobby is strong, and it is unlikely that the Minister of Agriculture, Mr Hendrik Schoeman, would agree to dropping the subsidy on butter and adding it to swell the amounts available for other foods.

The President of the Trade Union Council, Mr Andre Malherbe, says he does not agree in principle with food subsidies, but he sees no alternative under current conditions.

"The trouble with food subsidies — on bread for instance — is that Harry Oppenheimer benefits to the same extent as the unskilled black labourer.

"But," he adds, "the need is great. There is hunger in the townships, and the Government has the funds to alleviate a distressing situation."

He agrees with other trade unionists that money spent on cheaper food would be money well spent. They in turn agree with a leading South African industrialist who said "if they don't eat, we don't sleep".

It is pointed out that cheapening basic foods is about the only way the Government can let the lower income groups share in the huge surplus the Minister of Finance is expected to announce in his Budget.

RAND DAILY MAIL, Wednesday, March 26, 1980

The vast majority of blacks — one authority puts the figure at 85% — pay no income tax, so if the Minister makes tax concessions — as he is expected to do — the benefit to them will be nil.

The president of the Garment Workers Union, Senator Anna Scheepers, says alleviating hunger should be part of Government strategy to protect the country against unrest and instability in the urban areas.

Senator Horwood is expected to say in his Budget whether the Government is prepared to subsidise bread to the extent that the price — 26c for a white loaf and 16c for brown — can be kept at current levels.

To do this, a Wheat Board spokesman says, about R200-million will be needed.

It is feared, however, that against a background of the wage and salary increases in the public and private sectors, and the fact that the price of white bread was adjusted two years ago and brown bread four years ago, that the price will be increased possibly from April 1.

If it is, the price of white bread could soar above 30c a loaf and brown bread to at least 25c.

White bread currently is subsidised to the extent of 8,5c a loaf and brown by 15c. Ten years ago the subsidy amounted to R1 490 000 amonth. This with the increase in bread comsump- [illegible] on a month.

past 15 years that the price of bread should be adjusted annually — and that the price should be allowed to rise gradually to an economic level.

The Government could also attempt to justify a big bread price rise by claiming that bread in this country is the cheapest in the world.

Latest figures show that in Bonn the price of a 900 gm loaf is 66c, in Brazil 73c, Brussels 96c, Beunos Aires 101c, Canberra 75c, Copenhagen 142c, London 67c, Rome 149c, Stockholm 170c, Paris 167c, Mexico City 44c, The Hague 67c and Tokyo 115c.

The General Secretary of the National Union of Clothing Workers, Mrs Lucy Mvubela, says as far as black people are concerned, the greatest Budget concession would be bigger food subsidies.

"The mass of the people in the townships just don't get enough to eat. They can't afford to because of the high level of unemployment and constantly rising food prices."

In May the maize price will be raised by at least 20% according to Government sources in Pretoria.

The South African Agricultural Union points to the soaring production costs of the past year, including fuel and fertilisers, to justify substantially higher food prices this year.

The director of the Saau, Mr Chris Cilliers, says the farmer is justified in loading all additional cost, including the recently increased railway tariffs, into the price of his

STAR 26/3/80

49

Budget stress is on growth

By Hugh Leggatt, Political Correspondent

The Assembly

It is "go for prosperity" as the Minister of Finance, Senator Horwood, announced that he aims to give the man in the street more money to spend.

He would match Government spending curbs with a policy that provided private business with the scope and incentive for rapid expansion, the Minister said in presenting his Budget to Parliament.

"The expansionary element of our policy is largely aimed at supporting the present recovery in private consumption and investment by increasing the real disposable incomes of individuals," he said. This meant that people should have more to spend in spite of price increases and changes in direct taxes.

In a hint that later in his speech he would reduce taxes, the Minister said tax revenues had exceeded expectations.

The "deficit before borrowing" was estimated at only R1 600-million instead of R2 800-million provided for in last year's Budget.

And there had been no need to draw on the stabilisation account to help finance the deficit.

"In fact, I expect the current financial year to end with a very useful surplus on Monday," Senator Horwood said.

Unbeatable

A continued emphasis on growth will be accompanied by an equally strong emphasis on the maintenance of strict financial discipline.

Page 3: Inflation still a problem

"There is no conflict. Indeed it is a major theme of this Budget that, as matters stand at present, growth and discipline form a virtually unbeatable combination."

There was a need to attain a more rapid recovery in economic activity in the areas of produc-

Watch for The Star's Big Budget Special

Today is Budget Day — and you can read all the latest news about Senator Horwood's package in The Star's Special Edition later this afternoon.

● Tomorrow The Star will carry a complete report on how the Budget proposals affect taxpayers.

Employment

The gold price would, he nevertheless believed, show an upward trend in the long term although there would be short-term fluctuations as in the past two weeks.

"If we succeed in applying the appropriate combination of fiscal and monetary policies along the lines I have outlined, I envisage that we can simultaneously attain a higher real growth rate, increased employment, a further strengthening of the rand, and higher net gold and other foreign reserves.

"In the absence of unforeseen developments, we might even add to this impressive list a gradual reduction in the rate of inflation — if not in absolute terms, then at least in relation to the inflation rates of our main trading partners."

RDM 27/3/80.

(49)

Taxes slashed

By HOWARD PREECE
Financial Editor

HUGE tax concessions totalling R1 510-million were announced yesterday by Senator Owen Horwood, the Minister of Finance, as he handed over the gold bonanza to private enterprise, in a Budget widely applauded by businessmen.

He scrapped the 10% loan levy on personal and company tax, cut the top individual marginal tax rate from 60,5% (with levy) to 50%, abolished the 7,5% surcharge on imports and gave some relief to black taxpayers.

But Sen Horwood also said that in spite of a bigger subsidy, bread prices would have to go up — by 4c for a brown loaf and 5c for white — and the general chorus of applause was tempered by some disappointment from pensioners, married women, exporters and the mining industry.

The key to the Budget, however, is that the Government plans to keep total State spending in 1980-81 to a rise of 14% to just over R13 000-million, a standstill in real terms after inflation is discounted, although some selected areas, such as Defence and Education, will get a big boost.

This means the benefits of the gold boom and the Exchequer share of the 5% real economic growth expected this year are being channelled to the private sector.

That follows the pledge last November by the Prime Minister, Mr P W Botha, that the new Government strategy would be geared to boosting private enterprise and reining back the public sector.

The tax concessions of R1 510-million have been made possible by gold — Sen Horwood conservatively estimates gold mining tax this year at around R2 500-million, R1 600-million more than his estimate for the 1979 Budget.

Pensions are going up, although not until October 1, by R12 a month for whites, R8 for Indians and coloureds, and R5,50 for blacks — but these will basically be eaten away by the 14% inflation rate.

For these groups there is, however, the consolation of special bonus payments of R30, R24 and R18 respectively in May — and the means test has been eased.

Teachers, nurses, policemen and other public servants are all going to get pay rises and also special bonuses — but it was not clear last night what the total package would mean.

The good news for upper income taxpayers — a married man, two children, with a taxable income of R20 000 a year will have his tax cut from R355 a month to R268 — was further boosted when Sen Horwood said there would be no clamp on fringe benefits until next year.

The effective rate of company taxation will be reduced from 46% to 42% by the scrapping of the loan levy.

Abolishing the 7,5% import surcharge will restrain price rises but will be little noticed in the shops with inflation running at 14%.

Exporters are disappointed that they got no special help, and the mining industry is grieved that its particular tax burden was not given extra relief.

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Post 27/3/80 (49)

I AM TO GIVE YOU MORE TO SPEND, SAYS HORWOOD

IT IS go for prosperity as the Minister of Finance, Senator Horwood, announced that he aims to give the man in the street more money to spend.

He would match Government spending curbs with a policy that provided private business with the scope and incentive for rapid expansion, the Minister said in presenting his Budget to Parliament.

"The expansionary element of our policy is largely aimed at supporting the present recovery in private consumption and investment by increasing the real disposable incomes of individuals," he said.

This meant that people should have more to spend in spite of price increases and change in direct taxes.

In a hint that later in his speech he would reduce taxes, the Minister said tax revenues had exceeded expectations.

The "deficit before borrowing" was estimated at only R1 600 million instead of R2 800 million provided for in last year's budget.

And there had been no need to draw on the Stabilisation Account to help finance the deficit.

"In fact, I expect the current financial year to end with a very useful surplus on Monday," Senator Horwood said.

"We have now been afforded the kind of opportunity for sound economic expansion which comes along very rarely in the life of a nation. We must use it wisely to make South Africa strong and prosperous."

It was not enough to sit back and let the upswing that had started take its course. "We can and must break new ground and move ahead."

It had to remain a fundamental aim of economic policy to ensure that South Africa fully used its growth potential.

The justification for a policy of growth from strength was even greater than last year.

"Indeed the policy can now justifiably be described as one of "more growth from greater strength . . .

"The economy is clearly moving in the right direction — what is required now is to ensure that this movement is sustained and that it gathers adequate momentum.

"This continued emphasis on growth will be accompanied by an equally strong emphasis on the maintenance of strict financial discipline. There is no conflict. Indeed it is a major theme of this Budget that, as matters stand at present, growth and discipline form a virtually unbeatable combination," the Minister said.

There was a need to attain a more rapid recovery in economic activity in the areas of production, employment, investment and imports.

The Minister warned the country not to lapse into a state of euphoria induced by the gold price.

He gave his absolute assurance that the authorities would not base their policies on over-optimistic assumptions about the gold price.

The gold price would, he nevertheless believed, show an upward trend in the long term although there would be short-term fluctuations as in the past two weeks.

Senator Horwood said his policy of curbing Government spending while promoting economic growth in the private sector was in full accordance with the Government's total economic strategy and the Prime Minister's new initiative in regard to the constellation of states in Southern Africa.

The Prime Minister had himself made this abundantly clear when he addressed business leaders in Johannesburg on November 22.

"If we succeed in applying the appropriate combination of fiscal and monetary policies along the lines I have outlined, I envisage that we can simultaneously attain a higher real growth rate, increased employment, a further strengthening of the Rand and higher net gold and other foreign reserves.

"In the absence of unforeseen developments, we might even add to this impressive list a gradual reduction in the rate of inflation — if not in absolute terms, then at least in relation to the inflation rates of our main trading partners."

LTS IN FACULTY ARTS AS AT 29 02 80 PAGE 2

YEAR : 2 13020

FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~SUSAN~~	~~114101~~	~~RELIGIOUS STUDIES I~~	~~3~~	~~(51)~~	~~1~~	~~133449N~~
RAND SYDNEY	102201 110201	AFRIKAANS EN NEDERLANDS II AFRICAN HISTORY I	F F		1	140639U
	101105	AFRICAN LANG INTENSIVE (SOT2-		(66)	1	133499H
ACHILLES	601303	COMPANY LAW	ABS		1	137501H
GEORGE	105104	LATIN I	F	(36)	1	139271G
MARY	103302 ~~104202~~ 110303	SOCIAL ANTHROPOLOGY II(PRE ~~ARCHAEOLOGY II~~ AFRICAN HISTORY II	2- ~~2+~~ 2-	(60) ~~(77)~~ (60)	1	052892K
LEON	106202	ECONOMICS II	3	(53)	1	121461Y
NDER GEORGE	107201	ENGLISH II	3	(57)	1	133333C
A VERLE	107101	ENGLISH I (PRE-1980)	3NX		1	155054C
ARD STEVEN	114101	RELIGIOUS STUDIES I	F	(44)	1	137998Y
DANIEL	004201	PSYCHOLOGY II	3	(58)	1	134302F
SA	004101 103302	PSYCHOLOGY I SOCIAL ANTHROPOLOGY II(PRE	2- ABS	(63)	1	135878U
~~N CLARE~~	~~004101~~ 101103 107101 110101	~~PSYCHOLOGY I~~ AFR LANG INTENSIVE (XHOSA) ENGLISH I (PRE-1980) HISTORY I	~~2~~ F 2- 2-	~~(63)~~ (25) (60) (61)	~~1~~	~~111532F~~
NE FULTNER	102101	AFRIKAANS	ABS		3	121723H
IETTA ANNE	110202	HISTORY II	3	(52)	1	102168C

NTS : 37

REGISTRAR (ACADEMIC)

[redacted]

Post 27/3/80

49

Bread is to go up

Tax rate down

BLACKS were given a rude shock when Finance Minister Senator Owen Horwood delivered his budget in Parliament yesterday — a massive increase in the price of bread.

Announcing the increases — four cents for a loaf of brown bread and five cents for a loaf of white bread — Senator Horwood said that if the price was fixed for a further 12 months, a total subsidy of R220-million would be required for bread alone.

POST REPORTER

However, in a budget described as a "something for everyone" budget, the Minister also announced:

- Pay increases for all public servants — including teachers and nurses.
- Increases in social pensions — R5,50 for blacks.
- Increased food subsidies of R10-m more for maize, R1,5-m for dairy products, R7,5-m for wheat flour and R51-m for bread.
- A higher threshhold at which blacks start paying income tax of R1 800 instead of R1 200.

Senator Horwood also announced that R944-million of which R244-m will go to black education and training will be spent this year.

While the budget will provide some relief for whites, it is clear that blacks will be particularly hard-hit because of the increase in the price of bread.

The increase means that a loaf of brown bread will now cost 21 cents, and a loaf of white bread 31 cents, which will bring these out of the reach of many blacks.

The increase for pensioners, too, is seen as much too low. It will not significantly alter the position of black pensioners, most of whom have to fend for themselves.

Nursing personnel will receive further improvements in the grade of sister and for lecturing staff and teachers will receive salary improvements on a notch-for-notch basis in the grade on an improved key scale.

Senator Horwood said that the improvements for teachers confirmed the Government's view that education was a distinctive profession and should therefore receive and develop a structure in its own right.

"Non-white personnel will receive salary improvements in accordance with the pattern for whites. In the light of existing salary relationships, relatively larger improvements had been granted to them," he said.

● See Pages 2, 11, 13.

Horwood . . . budget soured by bread rise.

Page 16 POST, Thursday, March 27, 1980

POST

TRANSVAAL

Telephone 27-6081

27/3/80 Post

Budget will hit us in the tummy

ONCE more, the budget delivered by Senator Owen Horwood has fallen far short of the expectations of the majority of the people of this country — the blacks.

The salary increases for teachers and nurses is most welcome, and it would be interesting to see just what the increase means to these people.

Once more, pensioners will get a paltry R5,50. Yet, with these same pensioners being dependent on bread, the price of a loaf will go up by four cents for brown and five cents for white.

The Minister's reason for the increase is that the subsidy would be much higher if the price of bread is held for another 12 months. Yet, in the same breath, the Minister has found money to spend on "homeland consolidation" — something which this country can ill afford.

This money could have been better used for providing the additional subsidy the Government required to hold the price of bread.

Also, from the more than R900-million the Government will spend on education, only over R220-m will go to black education and training. Anybody who knows his arithmetic will immediately see that there is something wrong with the government's mathematics.

We do not want to go into statistics here, but unless the Government starts taking black education seriously, the fuse will continue burning shorter.

In general, the budget is a favourable one for whites, who will get all sorts of tax concessions and reductions.

We would have expected, with the expected upturn in the economy, and the increased revenue from gold, that Senator Horwood would have been more generous to blacks. He has, unfortunately, let this chance slip by. We do not know what next year holds in store

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 2

13010 BACHELOR OF ARTS YEAR : 1 13010

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~1620048~~	~~BURNE~~	~~SUZANNE ELIZABETH~~	~~196103~~	~~ECONOMICS IA~~	~~F~~	~~(43)~~	~~1~~	~~162004H~~
158955C	CARO	SALLY-ANN	107101 116120 ~~114101~~	ENGLISH I (PRE-1980) DRAMA I ~~CULTURAL HISTORY OF W.E. I~~	F 2- ~~3~~	(40) (60) ~~(56)~~	1	158955C
162195Z	CHAIT	CHERYL	102101	AFRIKAANS	UP	(50)	1	162195Z
~~153965D~~	~~CLARKE~~	~~PENELOPE JILL~~	~~103202~~	~~SOCIAL ANTHROPOLOGY I(PRE~~	~~1UP~~	~~(60)~~	~~1~~	~~153965D~~
157789K	COHEN	DAVID	104101 110101	ARCHAEOLOGY I HISTORY I	2- F	(62) (23)	1	157789K
156503M	COLLIER	LINDSEY JEANNE	911101 916103	MATHEMATICS I M102 ANIMAL BIOLOGY (HALF COURSE	UP UP	(69) (54)	1	156503M
~~153999D~~	~~COLLINS~~	~~BEVERLEY ROYNON~~	~~116120~~	~~DRAMA I~~	~~F~~		~~1~~	~~153999D~~
153621E	COUCHER	ROBERT GEORGE RENESON	004101	PSYCHOLOGY I	UP	(56)	1	153621E
~~138572X~~	~~COURTENAY~~	~~COLETTE~~	~~107101~~	~~ENGLISH I (PRE-1980)~~	~~3NX~~		~~1~~	~~138572X~~
153796V	DAVIS	CASSANDRA ELAINE	107101	ENGLISH I (PRE-1980)	3NX			V
~~140457W~~	~~DELAHUNTY~~	~~ANNA TERESE~~	~~908101~~	~~GEOG...~~				W
162384E	DOMAN							E

STAR 27/3/80

(49)

Boom is on way, claim experts

South African industrialists and shopkeepers are preparing for a huge boom in development and in public spending in cash and credit in the wake of Senator Horwood's tax-slashing Budget yesterday.

But even as commerce and industry welcomed his unexpected gilt-edged largesse today, criticism mounted that the Budget favours the rich and neglects the poor and falls far short of meeting some of the country's most urgent challenges — the development of black urban areas, black wages and training, and the plight of pensioners of all races.

The first and sharpest reaction from Johannesburg blacks today was dismay at the increase in the bread price — of 4c for a brown loaf and 5c for a white from April 1.

Teachers and nurses, whose dissatisfaction with pay has brought crisis in Transvaal schools and hospitals, are viewing the Budget with caution despite Senator Horwood's promises of considerable boosts for them.

Their organisations are still studying his proposals before giving their final verdict and are awaiting fuller details from the Government and the Public Service Commission.

POLICE

Policemen should know by Wednesday next week what their pay increases will amount to.

Public servants are pessimistic because in spite of the overall huge cash handout, they do not expect increases of more than about 12 percent, which they believe will just keep pace with inflation and not provide real material benefit.

Dr C M Cameron, president of the Public Servants' Association, said the adjustments would only maintain the status quo.

More Budget reports on pages 3, 4, 5, 6.

The reaction of commerce and industry was generally reflected by Dr Conrad Strauss, managing director of The Standard Bank of SA and chairman of the Clearing Banks Association, who said it would at long last channel some of the gold bonanza to the man in the street.

It would help the economy exploit its growth potential and help neutralise inflation, improve company cash flows, stimulate employment, boost home ownership, accelerate training and smooth the way for longer term growth, he said.

But Mr Harry Schwarz, Progressive Federal Party finance spokesman, said the Budget had short-term benefits but was a "long-term failure" in that it did not do enough to meet the demands of new generations of work seekers.

Mr Bill Sutton, New Republic Party finance spokesman, welcomed it with caution. Black housing, hospitalisation and education remained the greatest political and social problems, he said.

Organised agriculture expressed concern that food subsidies have been

To Page 3, Col 4

No early Budget effect expected

For most people, yesterday's Budget will become a reality only over the next few months.

Pensioners, for example, will get their first increased pensions only in October, by which time a large part of the increases will have been negated by the increased cost of living, said Mr Les Ward, director of the Johannesburg Council for the Care of the Aged.

But special lump sum bonuses will be paid to social pensioners on April 1.

Civil servants — including teachers and nurses — will see the real effects of the Budget in their April pay-packets.

The new tax rebates will go into effect on July 1.

A more immediate impact of the Budget will be the increase on April 1 in the price of bread — by 4c for brown and 5c for white (excluding GST).

BY GEORGE!

"It's a better Budget than Britain's — if I may coin another quote."

(49)

Experts say boom is on the way

From page 1

increased for the rich and not the poor only.

Mr Jaap Wilkens, president of the SA Agricultural Union, said the best advantages for farmers were the removal of surcharges, the income tax structure, reduction of estate duties and the small concessions in deductions for employee housing.

He welcomed the R89-million for homeland consolidation, which came closer to the R100-million a year the union wanted.

Dr Nthato Motlana, chairman of the Soweto Committee of Ten, said the Budget gave no indication that the gap between black and white education would be closed, and expressed surprise that the Government had maintained differential tax tables for blacks and whites.

Mr G J Rousseau, Secretary for Education and Training, told The Star that about 80 percent of his department's R244,5 million budget (which last year was R181-million) would be spent on salaries.

Unions give Budget mixed reception

STAR 27/3/80 (49)

Trade union reaction to yesterday's budget ranged from "very fair" to "it doesn't go far enough."

Mr A Malherbe, president of Trade Union Council of South Africa, was pleased the marginal tax rate had been brought down and that the Government had postponed taxing fringe benefits.

He was disappointed that married women were still not to be taxed separately.

"Allowing the first R1 200 of a women's salary to be tax free is nothing meaningful," he said.

Mr Malherbe welcomed the salary increases for teachers, but felt pensions fell far short of what was needed. He also expressed disappointment that these were still apportioned on a racial basis.

Mr Malherbe said the measures to encourage and involve employers in in-service training were essential. He predicted companies would also take up the opportunity to make donations to training institutions and receive tax relief as a result.

Mr Wessel Bornman, for the Confederation of Labour, said he had expected more measures from the Minister to offset the 14 percent inflation rate. But generally, he said the Budget was "very fair, giving relief where it is most needed."

While he agreed that the country should not rely too much on the gold price, and that the defence budget was "absolutely necessary," he criticised the amount apportioned to the consolidation of the homelands, saying this was too much.

Mr Johan Benade, secretary of the Federal Consultative Council of the Railways Staff Associations, said: "It is a typical Horwood Budget — when you get to the end you don't know whether to laugh or cry."

He added: "In the present climate he has overdisciplined. South Africa is now in the unique position where it can experience and anticipate boom conditions.

"This Budget doesn't go far enough for the man in the street to exploit these unique opportunities."

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

14340 BACHELOR OF ARTS/HIGH.DIP.LIBRARIAN. YEAR : 4 14340

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL	
~~1138601~~	~~HANTREY~~	~~JENNIFER ANNE~~	~~144203~~	~~ARCHAEOLOGY II~~	~~F (41)~~	~~1138601~~
			111706	PRINCIPLES OF LIBRARIANSHIP3	(50)	5

~~* TOTAL NUMBER OF STUDENTS 1~~

DEAN

REGISTRAR (ACADEMIC)

* Cannot graduate H Dip Lib as she

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 2

15016 B.A./LL.B. YEAR : 1 15016

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~153982X~~	~~STRACHAN~~	~~ANDREW KENNETH~~	~~105104~~	~~LATIN I~~	~~F~~	~~(39)~~	~~1~~	~~153982X~~
156529Q	VISSER	VIVIEN ELIZABETH	117101	POLITICAL SCIENCE I	UP	(50)	1	156529Q
~~153547Z~~	~~WAINE~~	~~VINCENT CHARLES~~	~~004101~~	~~PSYCHOLOGY I~~	~~ABS~~		~~7~~	~~153547Z~~
			102101	AFRIKAANS	F	(28)		
			107101	ENGLISH I (PRE-1980)	F	(44)		
~~156838B~~	~~ZACHERL~~	~~SABINE RUTH~~	~~004101~~	~~PSYCHOLOGY I~~	~~F~~	~~(39)~~	~~7~~	~~156838B~~
157915X	ZACKON	JEFFREY	102101	AFRIKAANS	UP	(50)	1	157915X
			107101	ENGLISH I (PRE-1980)	3NX			

* TOTAL NUMBER OF STUDENTS 30

DEAN

REGISTRAR (ACADEMIC)

STAR 27/3/80

Training incentives

(49)

Every taxpayer is going to be better off—but social pensioners have little to smile about, says the budget committee of the Wits Graduate School of Business Administration.

The windfalls to taxpayers would increase economic growth by way of increased consumer spending, said a spokesman. Among the good points he noted were incentives for labour training and encouragement of small businesses.

But he said the pension increases were not enough to cope with the high rate of inflation.

UCT

Teachers confused over salary rises

~~322~~ 49 RDM 27/3/80.

[TE]ACHERS were in a state [of] limbo yesterday after the [salar]y rises announced in [the] Budget. They said the [announ]cement only height[ened] their "confusion and [dis]satisfaction".

[W]hile official teaching or[ganis]ations in the Transvaal [reser]ved comment until the salaries have been cal[culat]ed, several teachers [phoned] the 'Mail' seeking details.

[The] Minister of Finance, [Sen]ator Horwood, gave [the] examples of the rises [after] allowing for the big [tax] cuts:

● [An] unmarried "beginning teacher's take-home [pa]y would rise by R1 148 [a ye]ar (R95 a month);

● [An] experienced teacher, [marr]ied with two children, [would] take home an extra [R1 7]92 a year (R150 a month);

● A senior teacher, married with two children, would get R2 530 more annually (R210 a month);

● A teacher occupying a senior educational post, married with two children, would be getting R5 426 a year more (R450 a month).

Mr Peter Mundell, president of the Transvaal Teachers' Association, said on first appraisal the Budget, not only for teachers, seemed to be a good one.

He said while a rise of R95 a month for a new teacher might seem a good increase, one had to take into account that within the grade of "new teacher" there were several different categories.

"At this stage we only know what the Minister announced in Parliament. We do not know which salary scales these figures refer to so we are in the dark as far as trying to comment whether the rises are adequate," he said.

Professor H O Maree, president of the Transvaalse Onderwysvereniging, said he would not comment on the rises as he would like to "keep my options open until we know exactly what they mean".

He explained that the Minister's examples of salary increases could not be used as a yardstick to measure all rises.

One teacher complained that the examples given only served to confuse.

"If he imagined this would calm us down, he was wrong.

"The figures do not relate to any salary level we know and thus he has not even given us anything firm to hope for.

"At the moment it is just a jumble of meaningless figures thrown at us," she said.

An Afrikaans teacher at a Johannesburg school said the Budget for teachers had been "a let-down"

"How can we go home tonight and tell our families we have good news.

"We have fought for better salaries and I feel it would have been only courteous of the Minister to have researched the levels and then given us examples based on those and not just vague figures," he said.

● All the Budget news — Pages 7 — 10

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

17000 BACHELOR OF ARTS (HONOURS) YEAR : N/A 17000

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~101795X~~	~~FRATER~~	~~SHEILA JOSEPHINE HOWARD~~	~~105703~~	~~LATIN HONOURS~~	~~2+~~	~~(-70)~~	~~4~~	~~101795X~~
1207760	RUBIN	VIVIENNE	109701	HEBREW HONOURS	3		4	1207760

* TOTAL NUMBER OF STUDENTS 2

DEAN

REGISTRAR (ACADEMIC)

(1) BRADFORD, H J ECONOMIC HIST. HONS 1 80%

27/3/80
RAM

BUDGET AT A GLANCE

(4A) **INCOME TAX**
Being reformed. Tax rates being reduced. Top marginal threshold increased for married persons from R30 000 to R40 000; single from R22 000 to R28 000. Top marginal rate reduced from 55% to 50%.

MARRIED WOMEN
Tax-free allowance increased from R900 to R1 200.

LOAN LEVY
Abolished for private and all company taxpayers.

INSURANCE ALLOWANCE
Unchanged at R1 200 but.

MEDICAL ALLOWANCE
R1 000 a year for under-60s, R2 000 a year for over-60s.

PENSIONS
Old age, increased by R12 for whites, R8 for coloureds and Indians and R5,50 for blacks. Special bonus, payable in May R30 for whites, R24 for coloureds and Indians and R18 for blacks. Means test, assets raised to R10 200 and earnings from R984 to R1 392. Civil pensions increased from 10% to 20%, depending on date of retirement.

ESTATE DUTY
Primary abatement raised from R35 000 to R37 500 for surviving spouse and each child. Maximum deductions for insurance, Treasury bonds etc raised from R80 000 to R100 000. Maximum rate of 35% effective at R400 000 from R300 000.

BLACK TAXES
Reduced by 20% with threshold raised from R1 200 a year to R1 800.

TRANSFER DUTY
Exemption level raised from R20 000 to R30 000 for houses and flats; from R8 000 to R12 000 on land.

BREAD PRICE
Up 4c on brown bread and 5c on white.

IMPORT SURCHARGE
Abolished.

HOUSING
Tax deductions for employers providing employee housing. For farmers, raised from R4 000 to R5 000. For others, allowances raised from 25% of R3 000 to 50% of R4 000.

TRAVEL ALLOWANCES
No changes for adults going abroad (R3 000), but children's allowances up from R1 200 to R1 500. Holidays

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

15036 B.A./LL.B. YEAR : 3 15036

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~101834P~~	~~HACK~~	~~BRYAN CECIL~~	~~602101~~	~~PUBLIC INTERNATIONAL LAW~~	~~ABS~~		~~4~~	~~101834P~~
1154740	HARPER	GREGORY MARK	602101	PUBLIC INTERNATIONAL LAW	2-	(67)	5	1154740
~~114338F~~	~~JACOBS~~	~~DENISE ELLEN~~	~~604201~~	~~ROMAN DUTCH LAW I~~	~~1~~	~~(76)~~	~~4~~	~~114338F~~
1030696	LEWIN	DIANE	603202	ROMAN LAW & JURISPRUDENCE	I3	(53)	4	1030696
~~100344V~~	~~LOWE~~	~~BRIAN ANTHONY~~	~~603202~~	~~ROMAN LAW & JURISPRUDENCE~~	~~IUP~~	~~(56)~~	~~5~~	~~100344V~~
094440C	MAYO	HENRY	603202	ROMAN LAW & JURISPRUDENCE	IUP	(50)	4	094440C
~~102253V~~	~~WILLIAMS~~	~~MICHAEL DAVID~~	~~603202~~	~~ROMAN LAW & JURISPRUDENCE~~	~~IUP~~	~~(50)~~	~~4~~	~~102253V~~

* TOTAL NUMBER OF STUDENTS 7

DEAN

REGISTRAR (ACADEMIC)

UCT

cluding Indian Ocean island, up from R750 to R1 500 for adults and from R300 to R750 for children.

PUBLIC SERVANTS

Higher pay all round.

DEFENCE SPENDING

Up from R1 612-million to R2 074-million, including cash from the current surplus.

27/3/80 R.M.M

STU13-9		EXAMINATION RESULTS IN FACULTY ARTS		AS AT 29 02 80			PAGE 2	15016
15016 B.A./LL.3.		YEAR : 1						
STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~153982X~~	~~STRACHAN~~	~~ANDREW KENNETH~~	~~105104~~	~~LATIN I~~	~~F~~	~~(39)~~	~~1~~	~~153982X~~
1565290	VISSER	VIVIEN ELIZABETH	117101	POLITICAL SCIENCE I	UP	(50)	1	1565290
~~1535477~~	~~WAINE~~	~~VINCENT CHARLES~~	~~004101~~	~~PSYCHOLOGY I~~	~~ABS~~		~~7~~	~~1535472~~
			102101	AFRIKAANS	F	(28)		
			107101	ENGLISH I (PRE-1980)	F	(44)		
~~156838B~~	~~ZACHERL~~	~~SAHINE RUTH~~	~~004101~~	~~PSYCHOLOGY I~~	~~F~~	~~(39)~~	~~7~~	~~156838B~~
157915X	ZACKON	JEFFREY	102101	AFRIKAANS	UP	(50)	1	157915X
			107101	ENGLISH I (PRE-1980)	3NX			

* TOTAL NUMBER OF STUDENTS 30

DEAN

REGISTRAR (ACADEMIC)

UCT

'It's a failure'

Own Correspondent

CAPE TOWN. — The Progressive Federal Party criticised the Budget yesterday as a long-term failure which would not contain inflation or unemployment and did too little for the lower paid.

In the sharpest Opposition reaction to the Budget, Mr Harry Schwarz, PFP finance spokesman, also criticised the increased bread prices and said General Sales Tax should have been removed from basic foods.

Breakfast Quip

"The tax relief for married women is not enough for me to want to marry the likes of you."

(49) 27/3/80

Farewell to the loan levies

THE ASSEMBLY. — All loan levies on individuals and companies are to be abolished as from April 1 this year, Senator Horwood said yesterday.

He said it would be possible to meet the country's financing requirements without resorting to loan levies as such.

"There is no reason for the continuation of compulsory loans to the State if these funds can be substituted for on a voluntary basis in the form of Government stock issues in the domestic market.

"I therefore wish to propose that all loan levies on individuals and companies be abolished as from April 1, 1980."

The Government would lose R651-million as a result of the decision. The amount would largely be replaced by the issue of Government stock to the extent of about R600-million, Sen Horwood said. — Sapa.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 2

15016 B.A./LL.3. YEAR : 1 15016

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~153982X~~	~~STRACHAN~~	~~ANDREW KENNETH~~	~~105104~~	~~LATIN I~~	~~F~~	~~(39)~~	~~1~~	~~153982X~~
1565290	VISSER	VIVIEN ELIZABETH	117101	POLITICAL SCIENCE I	UP	(50)	1	1565290
~~1535477~~	~~WAITE~~	~~VINCENT CHARLES~~	~~004101~~	~~PSYCHOLOGY I~~	~~ABS~~		~~7~~	~~1535477~~
			102101	AFRIKAANS	F	(28)		
			107101	ENGLISH I (PRE-1980)	F	(44)		
		~~SABINE RUTH~~	~~004101~~	~~PSYCHOLOGY I~~	~~F~~	~~(39)~~	~~7~~	~~1560388~~
		JEFFREY	102101	AFRIKAANS	UP	(50)	1	157915X
			107101	ENGLISH I (PRE-1980)	3NX			

NUMBER OF STUDENTS 30

REGISTRAR (ACADEMIC)

UCT

RAND Daily Mail

THURSDAY, March 27, 1980

Popular, stimulatory and reformist

RDM 27/3/80

(49)

IT WILL BE a popular Budget, what with tax concessions, pay rises and even some modest increases for pensioners. One way and another there is something in it for everybody and, except for the higher bread price, no bad news for anyone.

But it is more than that. From an economic point of view it is a sound Budget. One had of course anticipated a stimulatory Budget in the wake of the great gold bonanza, so there are no surprises there. It is conservative, in the South African tradition: the stimulatory features stop short of deficit budgeting, and revenue has almost certainly been underestimated again so that Senator Horwood will end up with another substantial surplus. But it is a nicely balanced Budget and, what is particularly pleasing, it is reformist in character. At a 14% increase, Government expenditure has been kept static in real terms while the tax concessions amount to 4% real growth in demand. Such a redistribution of wealth from the public to the private sector amounts to budgetary confirmation of the Government's commitment to the free enterprise ideal.

For a comprehensive assessment, however, the Budget should be viewed within a triangular framework made up of the primary factors of growth, inflation and manpower resources. Will it provide sufficient stimulation for South Africa to reach — and sustain — the minimum 5% growth rate which the Economic Development Programme specifies if we are to prevent black unemployment from swelling dangerously? Can it do so while holding inflation sufficiently in check to prevent the increased wealth from simply being negated? And does it do enough to provide the skilled manpower needed to sustain such a growth rate?

The answers to the first two questions are probably yes. The economic upswing has given us a 3,75% growth rate for last year and this booster Budget should provide sufficient impetus to carry it over 5%. As for inflation, Senator Horwood has done what he can to curb it by holding down State expenditure and freeing imports. The full effects of the railway and postal tariff increases have still to be felt, but inflation should not get out of hand.

Manpower is another matter. For years this newspaper has urged that much more be done to build up our skilled manpower resources, but the response has been tardy. Already the chronic shortage is putting a brake on growth (as well as being an inflationary factor) and this can only get worse as the stimulation takes effect. Yet still the Budget fails to provide for the kind of crash programme that is needed.

Expenditure for black primary and secondary education goes up 24% to R148-million — far too inadequate, we suggest, when discounted for inflation and then measured against the enormous need. And expenditure on black vocational and industrial training, the real crunch area, goes up from R1-million to R2-million. Pathetic is the only word for it.

This is the Achilles' heel in our whole, beautiful economic setup and it is high time something imaginative was done about it.

1980: Horwood paints a rosy picture

(49) RDM 27/3/80

THE ASSEMBLY. — The State's revenue coffers were swelled by a R1 362-million Inland Revenue bonanza — 19,1% up on the original estimates, Senator Horwood, said.

The Budget's total estimated expenditure for 1980-81 would be up by 14% to R13 083-million, R1 603-million more than last year.

Reviewing the financial year 1979-80 Sen Horwood said Inland Revenue for the year was now estimated at R8 496-million. Customs and Excise collections at R1 301-million were, by and large, consistent with the original estimates.

"Total revenue receipts for the financial year, as contained in the revised revenue estimates I will table today, are expected to run to R9 797-million, compared to the original estimate of R8 416-million, an increase of R1 381-million or 16.4%."

Total spending for the past year had increased moderately by 2,3% to a total of R11 480-million, representing an increase of 15% of actual expenditure during the previous financial year.

Sen Horwood predicted that South Africa could in the period ahead attain a higher real economic growth rate, increased employment, a further strengthening of the Rand and higher gold and other foreign reserves.

"In the absence of unforeseen developments, we might even add to this impressive list a gradual reduction of the rate of inflation, if not in absolute terms, then at least in relation to the inflation rates of our main trading partners."

That would happen in a world which would, according to forecasts, experience a combination of slower growth, higher inflation and serious balance of payments problems.

It should be clear that the Government was in no way intending to abandon its well-known stance on financial discipline merely because the revenues and finance situation had eased.

"I am determined on grounds of good finance not to budget on this issue."

During 1979/80 there had in real terms been a most nominal increase in Government spending "and I am satisfied that we have successfully achieved our basic objective of economy in detail In respect of the Government's accounts."

Due to the relatively small unforseen additional expenditure compared to the large revenue receipts, the Exchequer deficit before borrowing for the financial year had decreased dramatically in comparison with the original estimate. It would therefore not be necessary to withdraw the R217-million from the Stabilisation Account as originally budgeted for.

The opening balance for the financial year was larger than anticipated, and the amount of loans raised abroad at R277-million was R77-million more than allowed for.

"Consequently it is now possible to borrow R612-million less in the domestic market than anticipated and still close the financial year with an estimated gross surplus of R296-million."

Sen Horwood said he would suggest that the surplus be allocated as follows:

- R160-million to the Defence Special Account;
- R40-million to the SWA/Namibia Administrator General;
- R16-million to black urban area development;
- R15-million in addition to the 1980 estimates allocation of R74-million to black states consolidation;
- R10-million to the Foreign Affairs Loan Fund for economic co-operation which finances projects in independent states;
- R15-million to project financing in dependent black states;
- R12-million to local authorities for future commitments in respect of decisions local authorities may take after the report of the Commission of Inquiry into their finances;
- R10-million to promote small business enterprises, and
- R18-million set aside should further relief from food price increases become necessary during the year. — Sapa.

Horwood praised for 'bold' Budget

(49) RDM 27/3/80

BANKERS & ECONOMISTS

AFTER a "quick glance" at Senator Horwood's Budget proposals, leading economists said yesterday the Budget would stimulate growth, mainly because taxpayers would have more to spend.

They warned, however, that although the provisions could have an initial dampening effect on inflation, a demand-pull type of inflation could develop towards the end of the year.

The deputy head of the economc research bureau at the University of Stellenbosch, Mr Attie de Vries, said the maintainence of financial discipline and holding State spending down to 14% — which equalled the inflation rate — was to be welcomed.

His only serious criticism was that the salary increases for Government workers, the ripple effect it would have in the private sictor, together with tax concessions, could lead to a steep rise in consumer spending.

This could in turn lead to a demand-pull type of inflation and speed up inflation rate, Mr De Vries said.

The changes in the tax structure, including the lowering of the high marginal rate from 55% to 50% and the raising of the ceiling at which it became operative to R40 000, should stimulate high-level productivity, he said.

The chief economist of Barclays Bank, Dr Johan Cloete, said the Budget would give a powerful boost to the economy.

With its big tax concessions the overall effect would be strongly stimulatory.

He believed, too, that the Budget proposals would broadly be anti-inflationary.

Dr Cloete estimated that the overall tax burden had been reduced by about 4%.

"The tax concessions are considerable. It should certainly, in the short term, have a mildly deflationary effect and stimulate growth," he said.

A spokesman for the merchant bankers, Hill Samuel, said a demand for increased credit was expected to flow from the Budget in view of expected consumer demand, coupled with fresh capital investment in new plant and equipment.

The Budget had given a clear commitment to the consumer to give additional momentum to the upswing in the economy. Commerce and industry would be forced to follow suit through increased investment in inventories and plant, the spokesman said.

The Trust Bank's senior general manager, Mr Chris van Wyk, said he was surprised by the boldness and largesse of the Budget.

Bearing in mind Sen Horwood's policy of fiscal conservatism, he said businessmen and consumers were surprised that he had given so much away.

Mr Van Wyk said the Minister had skilfully managed to boost overseas confidence in the economy. Sen Horwood had also shown a remarkable ability to control Defence spending within the broad theme of controlling public spending.

He said the import surcharge scrapping came as no surprise to the private sector. It would help accelerate the upswing in the economy, enabling a revival in fixed investment and consumer sales, such as motor cars.

Mr Van Wyk said he welcomed the Minister's seven-point plan to combat inflation, but added that it had to be accepted that there would be wage inflation in the economy resulting from the scarcity of skilled people, and public sector pay rises.

The Stock Exchange was set for further advances in the wake of the Budget, said Mr Allister Colquhoun, investment general manager of the UAL merchant banking and investment advisory group.

"There is every prospect that company profits will continue to show a trong uptrend. There is plenty of impetus for a rise in the stock market.

"Thus the Minister has used the funds available to him to maximum advantage, both to create the right climate for growth and to produce the right psychological effect on the man in the street, as well as the businessman," Mr Colquhoun said

The Budget Committee of the University of the Witwatersrand's Graduate School of Business Administration said the Minister had put together an excellent budget.

"It will stimulate consumer spending and really get the economy going. This in turn will help to reduce the country's major unemployment problem."

The Budget went some distance towards tax reform, which was sorely needed.

The committee felt, however, that the incentives for training were inadequate to really get industry "to go in for this in a big way".

MINING

The president of the Chamber of Mines, Mr D A Etheredge, said the mining industry was disappointed that Sen Horwood did not adjust the excessively-high rate of tax and lease payments which the gold mines were paying on revenue accruing from the higher gold price.

Another serious ommission was that capital allowances were not extended to encourage further expansion of the mining industry at a time when other factors were favourable for development.

Such steps would have been particularly appropriate at this time, when the industry had provided the major additional revenue for tax concessions, he said.

While not being in favour of subsidies from a general economic point of view because of the distortions they build into the economy, the financial support granted for food subsidies would help offset the effects of the high rate of inflation on the lower income groups.

The focuss in the Budget on anti-inflation measures and therefore the continued policy of "growth with discipline" had the full support of the mining industry, Mr Etheredge said.

The chairman of Rand Mines, Mr Tony Petersen, said the loan levy abolition would help the company finance its large capital programmes on its mines.

He said Durban Deep, Roodepoort, ERPM and Harmony gold mines would benefit, as well as the new Duvha coal mine. The import surcharge abolition would help the company to offset its heavy equipment imports and help offset high inflation from overseas.

AGRICULTURE

Organised agriculture, in recent years bitterly critical of the Budget as far as farmers were concerned, gave a qualified welcome to Sen Horwood's proposals.

The president of the South African Agricultural Union (SAAU), Mr Jaap Wilkens, said it was gratifying that requests made to the Minister by the SAAU had, to some extent, been met.

The change in the tax structure, especially at the higher levels, was also to be welcomed, as were estate duty and transfer duty concessions.

The R89-million for homeland consolidation was a good move, although it was less than the SAAU thought desirable.

What was not welcome was the increase in food subsidies, because they favoured the rich as well as the poor, Mr Wilkens said.

COMMERCE AND INDUSTRY

With a few qualifications, organised commerce and industry gave Sen Horwood a resounding pat on the back for a great Budget.

The president of the Association of Chambers of Commerce, Mr Bob Goodwin, said Assocom greatly welcomed the overall thrust of fiscal and monetary policy as reflected in the Budget.

It reinforced the role of private initiative and growth policy, he said.

"There is now a very good chance that a 5% growth rate may be reached and even exceeded during 1980."

Assocom welcomed the new tax structure, but would still have to analyse whether these tax changes would be adequate to offset the impact on certain groups of taxpayers, of persistent inflation and future fringe benefit taxation.

Assocom believed that the poli[illegible] growth from strength", as outlined in the Budget, would be one of the major weapons against inflation.

Mr W H Holtes, chief executive of the South African Foreign Trade Organisation (Safto), said that satisfying as the Budget might be to the average businessman, it certainly did not appear to hold specific benefit for the export community.

The Budget nowhere seemed to support the economic development programme, which was, after all, the Government's long-term economic policy instrument, and which singled out a massive growth in exports as the only effective method of containing unacceptably high levels of unemployment, he said.

"The credibility gap between the Budget and the EDP is a serious short-coming in the implementation of Government planning.

"Overall, the export sector must feel deeply disappointed that, after two and a half year's of promises of improved export incentives, these have not been implemented.

"The Budget seems to have missed an opportunity of using increased gold earnings to broaden the export base, a desirable goal which has been mooted at both official and private levels," Mr Holt said.

The president of the Federated Chamber of Industries, Mr Leo Borman, said Sen Horwood had presented another in a tradition of positive and imaginative Budgets supporting real growth in the economy.

Moreover, direct stimulation and some special relief for the less privileged sections of the community had been given.

"This, coupled with tax reforms, more than offsets the effects of inflation and growth on the tax base, which previously undermined the stimulation planned in the earlier Budgets.

"The tax cuts will encourage consumption and investment expenditure. They will also increase employment and growth potential in the longer term by giving the private sector the scope and incentive to grow," Mr Borman said.

STOCK EXCHANGE

The Budget was "remarkable" in that it was highly consumer-orientated and contained a number of generous concessions which would assist all sections of the community in coping with the rising cost of living, the president of Johannesburg Stock Exchange, Mr Richard Lurie, said.

He said that, while it may be classed as inflationary in the sense that "cost-pull" may translate into "demand-push", the State was being restricted to no increase in real terms in spending.

Mr Lurie added the Budget was a confirmation of the country's very sound financial position — Pretoria Bureau, Sapa Reuters

Here's what you'll save

(49) RDM 27/3/80.

Taxable income	Unmarried 1981	Unmarried 1980		No children 1981	No children 1980		One child 1981	One child 1980		Two children 1981	Two children 1980		Three children 1981	Three children 1980		Four children 1981	Four children 1980	
R	R	R		R	R		R	R		R	R		R	R		R	R	
1 200	—	20	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
1 400	—	40	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
1 600	9	60	(—)	—	7	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
1 800	28	80	(—)	—	21	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
2 000	48	100	(—)	—	35	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
2 500	96	170	(15)	—	70	(—)	—	28	(—)	—	—	(—)	—	—	(—)	—	—	(—)
3 000	144	231	(21)	40	110	(—)	—	63	(—)	—	21	(—)	—	—	(—)	—	—	(—)
3 500	192	297	(27)	80	165	(15)	—	102	(—)	—	56	(—)	—	7	(—)	—	—	(—)
4 000	240	363	(33)	120	214	(19)	20	142	(—)	—	94	(—)	—	42	(—)	—	—	(—)
4 500	288	434	(39)	160	264	(24)	60	204	(19)	—	134	(—)	—	78	(—)	—	28	(—)
5 000	336	506	(46)	200	319	(29)	100	254	(23)	—	194	(17)	—	118	(—)	—	63	(—)
6 000	432	677	(61)	280	446	(40)	180	374	(34)	80	308	(28)	—	234	(21)	—	165	(15)
7 000	552	875	(79)	380	587	(53)	280	508	(47)	180	434	(39)	80	352	(32)	—	275	(25)
8 000	696	1 100	(100)	500	750	(68)	400	657	(59)	300	574	(52)	200	482	(43)	100	398	(36)
9 000	864	1 350	(122)	640	939	(85)	540	833	(75)	440	734	(66)	340	627	(57)	240	534	(48)
10 000	1 056	1 628	(148)	800	1 155	(105)	700	1 036	(94)	600	921	(83)	500	798	(72)	400	653	(62)
11 000	1 272	1 938	(176)	980	1 399	(127)	880	1 265	(115)	780	1 135	(103)	680	996	(90)	580	869	(79)
12 000	1 512	2 288	(208)	1 180	1 669	(151)	1 080	1 520	(138)	980	1 375	(125)	880	1 221	(111)	780	1 075	(97)
15 000	2 376	3 575	(325)	1 900	2 640	(240)	1 800	2 444	(222)	1 700	2 259	(205)	1 600	2 052	(186)	1 500	1 854	(168)
20 000	4 200	6 083	(553)	3 420	4 818	(438)	3 320	4 560	(414)	3 220	4 303	(391)	3 120	4 002	(363)	3 020	3 722	(338)
25 000	6 336	9 042	(822)	5 200	7 260	(660)	5 100	7 207	(655)	5 000	6 890	(626)	4 900	6 534	(594)	4 800	6 187	(562)
30 000	8 752	12 067	(1 097)	7 220	10 098	(918)	7 120	10 098	(918)	7 020	9 979	(907)	6 900	9 563	(869)	6 820	9 147	(831)
40 000	13 752	18 117	(1 647)	11 900	16 148	(1 468)	11 800	16 148	(1 468)	11 700	16 148	(1 468)	11 600	16 148	(1 468)	11 500	15 785	(1 435)
50 000	18 752	24 167	(2 197)	16 900	22 198	(2 018)	16 800	22 198	(2 018)	16 700	22 198	(2 018)	16 600	22 198	(2 018)	16 500	22 198	(2 018)

In the case of single persons with taxable incomes of up to R28 000, tax is calculated in accordance with this table. Where the taxable income of a single person exceeds R28 000, the tax on the first R28 000 is calculated as above and at the rate of 50% on the excess. Rebates are then deducted and the 20% surcharge added.

● Over 60s table — Page 11

STU13-9 EXAMINATION RESULTS IN FACU

14210 B.A./PERFORMERS DIP (SPEECH & DRAMA) YEAR

STUD NO SURNAME FIRST NAMES

~~1523373 MACCOLA DUMILE~~

1523660 POGRUND JENNIFER SOLANGE

* TOTAL NUMBER OF STUDENTS 2

DEAN

It's historic . . . it will help all sectors

(49) RDM 27/3/80

THE ASSEMBLY. — Virtually all sections of the community would derive benefit from the Budget, Senator Horwood, said yesterday.

Presenting what he said he believed would be judged an historic budget, Senator Horwood said it had been designed to promote growth in the private sector and therefore in the economy as a whole.

The people to benefit would include all income tax and loan levy payers, married women, all pensioners, the aged, employees in the Public Service and statutory bodies, home-owners, farmers, small businesses and all consumers.

"In addition, there are special benefits for blacks in the form of improved training, education and housing facilities, improvements in the quality of life in black urban residential areas and the acceleration of homeland development and consolidation.

The increase in Government spending had been limited to only 14%, which, at the present rate of inflation, implied virtually no increase in real terms.

"Building on this foundation of spending restraint, the Budget provides not only for the abolition of loan levies which would have yielded R651-million, but also for tax concessions of R909-million — a total of R1 560-million."

The Budget should have expansionary effects on private consumer and investment spending and therefore on the rate of economic growth.

The tax concessions represented adjustments needed to prevent the combination of inflation and a progressive tax system from increasing the real tax burden on the community and thereby actually retarding economic growth.

"The Budget therefore promotes growth not through artificial 'stimulation' but by freeing the economy from the chains of fiscal drag and thereby providing the scope and incentive for the expansion of output and employment."

The Budget combined the encouragement of growth with the maintenance of financial stability and contained strong elements of built-in stability.

"While promoting growth, the Budget also contributes to the fight against inflation. It does so not only by maintaining financial discipline and a strong currency, but also by abolishing the import surcharge, providing additional funds for improved training and education, and through increased subsidies on food, transport and housing."

The Budget once again contained important elements of structural tax reform, including the lowering of and adjustments to income tax scales, the substitution of a new and comprehensive system of rebates for one of abatements, and a further adjustment of income taxes paid by blacks.

"SA is a country confronted by its own unique set of social and political problems. But if this Budget does one thing, it demonstrates to friend and foe alike the inherent strength of South Africa's economy and the exhilarating prospects it offers for rising standards of living to all sections of its population." — Sapa.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

17000 BACHELOR OF ARTS (HONOURS) YEAR : N/A 17000

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL		
~~101795X~~	~~FRAZER~~	~~SHEILA JOSEPHINE HOWARD~~	~~105703~~	~~LATIN HONOURS~~	~~2+~~	~~(70)~~	~~4~~
120776D	RUBIN	VIVIENNE	109701	HEBREW HONOURS	3		4

* TOTAL NUMBER OF STUDENTS 2

Economic Hist. Hons 1 80%

REGISTRAR (ACADEMIC)

UCT

THE NATION'S ACCOUNTS

THIS is the state of the nation: (49)

RDM 27/3/80

Government finance

Financial state of Exchequer account 1979/80 (R millions).

(A) State revenue account:		
Revenue:		
Surplus of previous year		247,6
Plus: Inland revenue (loan levy excluded)		8 495,9
Customs and Excise		1 301,0
Loans raised:		
Internal:		
Loan levy	510,0	
Stocks and bonds	1 040,2	
Public debt (commissioners) (net increase)	1 173,6	
Treasury bills (net increase)	231,4	
External:		
Loans	277,2	
		2 232,4
		13 276,9
Expenditure:		
Total estimated expenditure		11 480,0
Transfer to economic co-operation promotion loan fund		—
Transfer to special defence account		100,0
Loans redeemed:		
Internal	938,4	
External	167,3	
		1 105,7
Redemption of loan levy		141,0
IMF repayments		154,0
		12 980,7
Credit balance: March 31, 1980		296,2
(B) South West Africa account:		
Revenue		351,0
Expenditure		351,0
Deficit: March 31, 1980		—
(C) Credit balance of Exchequer account on March 31, 1980		296,2

RDM 27/3/80 (49)

'More growth from greater strength'

THE ASSEMBLY. — It must remain a fundamental aim of economic policy to ensure that South Africa would fully utilise its growth potential for 1980, Senator Horwood said yesterday.

In making this definitive policy statement, he said he could not, however, emphasise strongly enough the need to guard against the danger of lapsing into a state of euphoria about the economy, simply because the price of gold had risen to record heights in recent months.

"From the Government side, I can give the absolute and final assurance that the authorities will not base their policies on over-optimistic assumptions about the gold price.

"While I remain convinced that the gold price will show an upward trend in the long run, the events of the past two weeks have shown once again how widely it can fluctuate in the short term.

"At the same time, we must guard against the opposite danger of undue timidity and inertia."

Sen Horwood said South Africa's present economic strength was based upon much more than the increase in the price of gold.

"This is also the considered view expressed in a favourable report on the economy handed to me two weeks ago by a team of experts from the International Monetary Fund, in which particular emphasis is placed on the rewards South Africa is now reaping from its determined stabilisation policies over the past few years.

"Moreover, the higher gold price should surely be viewed as a favourable development which, if appropriately dealt with, increases the scope for economic growth, in South Africa.

"We have now been afforded the kind of opportunity for sound economic expansion which comes along very rarely in the life of a nation. We must use it wisely to make South Africa strong and prosperous."

He stressed that restraint on Government spending remained a keystone of the Government's strategy.

"As before, our growth policy will consist essentially of providing the private sector with both the scope and incentive for rapid expansion.

"Excessive increases in Government spending at this stage will soon bring us to the point where, in order to avoid living beyond our means as a nation, we might have to impose restrictive measures on our private sector expansion."

If that happened, he said the public sector would be guilty of "crowding out the private sector" — a well-known and feared phenomenon which the Government was determined to avoid.

"This policy of curbing Government spending while promoting economic growth in the private sector is in full accordance with the Government's total economic strategy and the Prime Minister's new initiative in regard to the Constellation of States in Southern Africa."

The Government's broad economic policy for the period ahead would remain one of "disciplined growth from a position of basic strength".

"The justification for such a policy is even stronger now than it was a year ago. Indeed, the policy can now justifiably be described as one of 'more growth from greater strength'.

"The events of the past year, together with the favourable effects of our broad financial policy, have increased not only the basic strength of the South African economy but also the scope for more rapid economic growth."

Fiscal and monetary policies in the period ahead would, therefore, be directed towards utilising this scope to the full and on a sound basis.

"The economy is clearly moving in the right direction. What is required now is to ensure that this movement is sustained and that it gathers adequate momentum."

This continued emphasis on growth would be accompanied by an equally strong emphasis on the maintenance of strict financial discipline.

"In present circumstances in South Africa there is no conflict between more rapid growth and continued financial discipline. Indeed, it is a major theme of this Budget that, as matters stand at present, growth and discipline form a virtually unbeatable combination."

There was a need to attain a more rapid and sustained increase, in real terms, in such areas of economic activity as production, employment, investment and imports. A mere recovery from a low level was not enough.

"We can and must break new ground and move ahead.

"We cannot sit back and simply assume that the upswing will gather adequate momentum without appropriate adjustments in fiscal and monetary policies. It must remain a fundamental aim of economic policy to ensure that South Africa will fully utilise its growth potential in 1980," Sen Horwood said. — Sapa.

The Minister of Finance, Senator Owen Horwood, packs his Budget briefcase before heading for the House yesterday.

Blacks hit at 'racially biased' Budget

(49) RDM 27/3/80

By MIKE LOUW and HARRY MASHABELA

THIS YEAR'S budget was racially discriminatory, leading black spokesmen claimed.

They reacted angrily to the announcement that pensions would be increased on a racially determined basis and the increase in the bread price.

Pensions for blacks would be raised by R5,50 a month, from R27,50 to R33, while those of coloureds and Indians are to go up by R8 a month, from R54 to R63. White pensions go up R12 to R109 a month.

And they said that pensioners would still find it hard to make ends meet despite the increases.

Mr Mpiyake Kumalo, chairman of the Katlehong Council said that althought the Budget included significant improvements for blacks, it still remained discriminatory and heavily in favour of whites.

He said yesterday's Budget was as racially discriminatory as those which have been passed to favour whites in the past.

Mr Kumalo said: "The Budget has entrenched racial prejudice instead of attempting to remove racial discrimination. Whites are still being favoured. The wage gap between whites and blacks is not being reduced."

There was no justifiable reason why pensions for whites should always have to be higher than other racial groups which earn a pittance, he said.

"Food subsidies would not make any difference to the ordinary black man because the increase of four cents on brown bread and five cents on white bread would not correspond with their pay.

Mr Kumalo said the Government should use more money for the improvement of all racial groups without applying discrimintory differentiation. This would improve racial relations with

"The Budget speech has confirmed our suspicion that if change would be made it would only be through the appeasement of the far right political spectrum."

Mrs Lucy Mvubelo, general secretary of the National Union of Clothing Workers, said the increase in the price of bread would seriously affect blacks because they earned less than whites.

The Government should use its profits from the booming gold price to subsidise prices in commodities, she said.

The chairman of the Soweto Chamber of Commerce and Industry, Mr Vela Kraai, said sales of bread would drop because most families could not afford to pay the increased prices.

Bread was a staple food for blacks.

Mr Shimane Kumalo, a social worker, said pensions were still below the Poverty Datum Line put up by various research organisations and that pensioners would still starve because of the high cost of living.

"This is blatant discrimination. The Government is doing nothing to help the unemployable. Ever since the economic depression in this country, more and more pensioners have resorted to illegal means of getting money in an attempt to make ends meet," he said.

Rev S Tema of the NG Kerk in Afrika said the Budget merely made black people aware of their lowly position and did not help them in any way.

"This Budget humiliates pensioners who, while regarding themselves as human as any other person, are being made to feel they are not as human as other people.

"We are sick and tired of these discriminatory reflections by a Parliament over which we have no say. It is therefore very difficult to welcome such a Budget," Mr Tema said.

* Cond Graduate H Dip Lib Lanc Failed BA

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS

14340 BACHELOR OF ARTS/HIGH.DIP.LIBRARIAN. YEAR : 4 AS AT 29 02 80 PAGE 1

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL
1138601	HARTLEY	JENNIFER ANNE	114202	ARCHAEOLOGY II	F
			111706	PRINCIPLES OF LIBRARIANSHIP3	(41) (50)

* TOTAL NUMBER OF STUDENTS 1

1138601 14340

REGISTRAR (ACADEMIC)

Focus will be on real growth

(49)

RDM 27/3/80

THE ASSEMBLY. — South Africa had been afforded the kind of opportunity for sound economic growth which came along very rarely in the life of a nation, Senator Horwood said yesterday.

That opportunity would have to be used wisely to make South Africa strong and prosperous.

He said it was necessary to draw a distinction between the financial and the real spheres of the economy.

In the financial sphere, there had been exceptional development, but real economic activity had not yet increased to its full potential. The Government's basic strategy would be to promote more rapid real economic growth.

"There is a need to attain a more rapid and sustained increase in real terms in such areas of economic activity as production, employment, investment and imports. A mere recovery from a low level is not enough. We can and must break new ground and move ahead.

"It must remain a fundamental aim of economic policy to ensure that South Africa will fully utilise its growth potential in 1980."

The expansionary element of the policy was largely aimed at supporting the present recovery in private consumption and investment by increasing the real disposable income of individuals.

Sen Horwood said that, despite salary and wage increases, there had actually been a fractional decline in the average real remuneration of workers in the non-agricultural sectors during the first three-quarters of last year.

Although the upswing had recently shown clear signs of acceleration, it had not yet gathered adequate momentum.

"The rate of real economic growth, although rising, is still below that of which the South African economy is capable under present circumstances."

Excess liquidity in the economy had not yet found itself into the pockets of salary and wage earners.

"If we succeed in applying the appropriate combination of fiscal and monetary policies along the lines outlined, I envisage that in the period ahead we can simultaneously attain a higher real economic growth rate, increased employment, a further strengthening of the rand and higher net gold and foreign reserves."

South Africa could also gradually reduce the rate of inflation, all this in a world which, according to the latest official forecasts, would in 1980 experience slower growth and higher inflation. — Sapa.

Of Peter, Paul and G B Shaw

(49)
(a) 27/3/80

JOHN SCOTT

IN THE HOUSE

THE ASSEMBLY. — A Budget like yesterday's didn't need funny quotations to make it more palatable.

But Senator Horwood had a long tradition to maintain.

He knew that Dr Eben Donges delivered Budgets in the guise of a baker, or a doctor or a ship's capatain, or whatever. Income tax was the yeast that made the loaf rise or the tar that stopped the ship sinking. That sort of thing.

Dr Nic Diederichs delivered, in turn, Langenhoven Budgets, Shakespearean budgets, Confucian budgets ("Confucius he say many hands make electric light work" — a good quote for an energy crisis).

Senator Horwood, in contrast, yesterday roamed freely through Bartlett's Quotations, familiar and unfamiliar and, if they didn't all quite fit, no matter. They all raised a chuckle and made Members, becoming, like the public, richer by the minute, even happier than they already were.

His first was an unattributed old saying: "If you don't get everything you want, think of the things you don't get that you don't want".

And barely had Members worked that one out when, referring to the uses he intended putting a R296-million windfall from the past year, Senator Horwood quoted Napoleon as saying: "As a general rule nobody has money who ought to have it."

There was a long gap before the next quotation, by Mr G K Chesterton, to boast of the 28% increase in food subsidies (but not big enough to stop the bread price rising like yeast gone mad).

"If a thing is worth doing, it is badly worth doing," Chesterton

To justify his conservatism in estimating gold mining revenues for the coming year, Senator Horwood quoted Halifax: "The best qualification of a prohpet is to have a good memory."

La Bruyère, apparently, said just the right thing about working wives who wanted to be taxed separately: "There are people who so eagerly and insistently desire some one thing that, for fear of missing it, they omit doing nothing that will spoil their chances."

And George Bernard Shaw said: "A government which robs Peter to pay Paul can invariably rely on the support of Paul". But having delivered himself of this quotation, to illustrate his intention of taxing fringe benefits, Senator Horwood quickly added he didn't intend robbing Peter, anyway. You see, Peter was never really entitled to tax-free fringe benefits in the first place.

In case anyone becomes het up about that statement, they should remember the words of Valery: "Our most important thoughts are those which contradict our emotions."

Other quotations flowed thick and fast, from Disraeli, Benjamin Franklin, Samuel Butler, Gissing and Halifax, for the second time: "Men should do with their hopes as they do with their tame fowl: cut their wings that they may not fly over the wall."

Who to quote to enliven an annoucement that the elderly will get bigger medical expense deductions?

"Hippocrates said," said Senator Horwood, "wherever a doctor cannot do good, he must be kept from doing harm."

Mr Chris Heunis swung round to see the reaction of Dr Munnik, Minister of Health. Dr Munnik grinned.

But perhaps the best quotation was Senator Horwood's own sentence: "I want now to enter the promised land, income tax." From then on it was all milk and honey . . .

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS

13030 BACHELOR OF ARTS YEAR : 3 AS AT 29 02 80 PAGE 2

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
133100Z	VILJOEN	ADELE	116317	DRAMA III	2-	(63)	4	133100Z
113116C	WARMENBURG	MOIRA MARIA	903307	GEOGRAPHY IIIB (HALF COURSE)P		(51)	4	113116C
096146G	WENGROVE	CAROL TESSA	110301	HISTORY III	F	(45)	5	096146G
096560G	WILLIS-SMITH	GRANT	902205	GEOGRAPHY IIB (HALF COURSE)ABS			4	096560G
103278J	WYNGAARD	GAIL ESTELLE	110301	HISTORY III	F	(43)	4	103278J
114463R	ZOELLER	CHRISTOPHER HANS	102101	AFRIKAANS	ABS		5	114463R

* TOTAL NUMBER OF STUDENTS 29

DEAN

'It demonstrates SA's strength'

(49) CDM 27/3/80

THE ASSEMBLY. — The most striking characteristic of the Budget was that it demonstrated the tremendous strength of the South African economy, the Opposition's chief spokesman on finance, Mr Harry Schwarz (PFP Yeoville), said yesterday.

Reacting to the Budget speech by Senator Horwood, he said it was easy though to make concessions while the State coffers were bulging.

"We will have to study the Budget as a wtole and not look only at the concessions which were made.

"The Budget will be judged on what it holds for the future of the country and whether it can create enough jobs.

"I doubt if the steps taken in the Budget are adequate to deal with the inflation problem," he said.

Mr Schwarz said the Budget appeared to make provision for greater growth through the injection of more money in the hands of the consumer, and the steps taken to stimulate growth in the private sector appeared to be good.

"I have to congratulate the Minister. There are certainly many people in South Africa who are a little richer at four this afternoon than they were at a quarter past two.

"It is disappointing though that the prices of brown and white bread had to be increased. I feel this could have been avoided.

"We will have to study the budget as a whole to see whether it can secure the long-term future and prosperity of South Africa," he said.

Mr Schwarz moved the adjournment of the Budget debate until April 14. — Sapa.

UCT

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS

14210 B.A./PERFORMERS DIP (SPEECH & DRAMA) YEAR : 1

STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRI
~~1523371~~	~~MAGODLA~~	~~DUMILE~~	~~111120~~	~~DRAMA I~~
1523660	POGRUND	JENNIFER SOLANGE	115101	FRENCH I

* TOTAL NUMBER OF STUDENTS 2

DEAN

We won't grab industry pledges Sebe

DAILY DSP 27/3/80 (49) ~~55~~ ~~105~~ ~~277~~

KING WILLIAM'S TOWN — An independent Ciskei would not nationalise industry, Chief Minister L. L. Sebe assured industrialists yesterday when he opened a plastics factory at Dimbaza.

He said he had often been asked by prospective investors about his attitude toward free enterprise if Ciskei became independent.

"The industrialist's real fear is that his industry will be nationalised, but my answer is that if Ciskei wanted to deal its economy a real death blow, the surest way will be to nationalise even one industry," said Chief Sebe.

That would spell the end of investment from South Africa and the Western world.

"But rest assured the Ciskei would not only be opposed to socialistic type nationalisation for those selfish reasons, but also because the Ciskei is ideologically committed to accomplishing a free enterprise system.

"We in the Ciskei do not sit in our cocoons insulated from the events which have dictated the paths of progress or regress of the independent nations on the rest of the continent.

"We are not unmindful of the stagnant waters in the loading bays of the once prosperous parts of Africa. We are not unaware of the fact that when the white man leaves an African state, he takes his money with him."

He said his people did not live in a fool's paradise filled with Marxist ideology.

"We have been quick to notice that Marxism seeks to fill man's mind and not his stomach," Chief Sebe said.

But his people were equally conscious of the enormous economic gap between blacks and whites in South Africa.

"To close the gap we need men of courage, both black and white, men ready to invest not only their bragging breath, but also their hard cash in the creation of a future in which we can join hands as brothers.

"Don't let us fool ourselves during this creative process. It is only when my people have as much to lose as the white man that they will be committed totally as a brother with the white man in defending this country," Chief Sebe said.

But, as long as his people were poor and hungry "they will be led by the first man who offers them the chance of a meal and to hell with the ideology.

"Hungry people have no time for politics and encouraging words. They want food," he said.

He asked when the white man in South Africa would realise the removal of a whites-only sign from a toilet or a park bench was not change.

"When will they realise the war in South Africa will not be won by bigger and better guns on the border but by bigger and better development in the black states?

"The Mozambique conflict has just ended, the Rhodesian dust has not yet settled, Angola still licks its wounds from a bloody conflict which tore the economic guts out of that country and what have the whites learned from all that?"

Whites had obviously not learnt the answer to lasting peace was to satisfy man's aspirations "or, if they have, they show few signs of doing anything about it." — DDR.

Mr G. Veller, a Dutch director of the plastics factory which opened at Dimbaza yesterday, hands a gift to Chief Minister L. L. Sebe.

Liberty call for rand freedom

WITH THE possible exception of a few Opec countries — none of which has South Africa's highly developed financial infrastructure — South Africa must be one of the most economically powerful and strategically placed nations in the world, says Mr Donald Gordon in his chairman's statement in the annual report of the Liberty Life group.

"It is, therefore, of serious concern that the South African authorities have allowed the external value of our currency to depreciate to a level which bears no resemblance either to our economic performance, potential or the relative purchasing power of the rand," he says.

"The South African economy is clearly poised for a powerful revival which could be sustained for a considerable period into the future provided the appropriate fiscal and political strategies are applied to consolidate the innumerable favourable factors which seem to be running in favour of the Republic."

He believes that the financial rand system as practised should be abolished and at most retained purely for stock exchange portfolio investment, "and not extended for the multitude of purposes for which it is currently being utilised".

"The financial rand system, in my opinion, has seriously detracted from the possibility of attracting real foreign capital inflow into South Africa and the policy of allowing foreign investors using financial rands to obtain South African assets on more favourable terms than local investors seems particularly inappropriate and unfair in the current climate prevailing in South Africa."

He says that notwithstanding the positive features, two main areas of concern for the South African economy are the "unacceptably high level of inflation and the apparent minimal level of capital inflow arising from foreign investment".

One of the major causes of inflation has been the soaring cost of imports caused largely by the rising cost of oil and the high rate of inflation imported from South Africa's trading partners. — Sapa.

Economic upswing speeds up

(A) WDM 28/3/80

By HAROLD FRIDJHON

THE economic upswing, which began towards the end of 1977 and which for 18 months moved forward at a slow pace, gained considerable momentum during the second half of 1979, says the South African Reserve Bank in it quarterly economic review.

The real gross domestic product increased by about 3,75% in 1979, but as a result of a further improvement in the terms of trade the gross national product rose at a rate of 5%.

Real economic activity in almost all sectors of the economy increased at a higher rate than in 1978, but particularly sharp rises were recorded in non-gold mining, manufacturing and the services sectors. There was even a real improvement in construction after three years of decline.

The real product of agriculture rose at a slightly lower rate than in the preceding year; gold mining decreased slightly; and commerce continued to decline in spite of an improvement in the second half of the year.

The more rapid economic growth was reflected in a higher rate of increase in non-agricultural employment in the first nine months of the year. This was particularly evident in the private sector; in the public sector employment rose at a slower rate.

The real rise in GDP last year resulted mainly from an increase in real domestic demand. Real gross domestic product increased more rapidly because of a higher rate of increase in private consumption expenditure, a positive change in fixed investment to a moderate rise, and a smaller decline in inventories. Real Government consumption expenditure remained approximately at its 1978 level.

The higher rate of real private consumption and the increase in real exports had the effect of reducing excess production capacity and providing an inducement to fixed investment.

A rise in the rate of inflation eroded the base for a higher growth rate. Although there was no evidence of demand inflation, wholesale and retail prices rose at markedly higher rates as a result of the higher prices of imported goods as well as those for domestic products and services.

Because of inflation the real remuneration of workers in the non-agricultural sectors dropped slightly in the first nine months of the year. Statistics are not available for the full year, but the bank says it would appear that the increase in real consumer expenditure was related to a rise in real disposable income brought about by tax cuts.

The R3 107-million record surplus in the balance of payments resulted from the increased net gold output and the rise in the value of merchandise exports, in spite of increases in imports and net service and transfer payments.

The surplus on current account was matched by a net outflow of capital which consisted of long-term and short-term funds, including fairly large repayments of liabilities related to reserves.

STU13-9 EXAMINATION RESULTS IN FACULTY ARTS AS AT 29 02 80 PAGE 1

14340 BACHELOR OF ARTS/HIGH.DIP.LIBRARIAN. YEAR : 4 14340

STUD NO SURNAME FIRST NAMES COURSE DESCRIPTION SYMBOL

~~113660L [illegible] JENNIFER ANNE 114202 ARCHAEOLOGY II (41)~~ 111706 PRINCIPLES OF LIBRARIANSHIP3 (50) ~~F~~ 5 ~~113660L~~

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~~TOTAL NUMBER OF STUDENTS~~ ~~1~~

~~REGISTRAR (ACADEMIC)~~

UCT

SA ECONOMY

49 FM 28/3/80

The political factor

The South African economy is on the verge of a boom that could be prolonged well into the Eighties. This is the message from a team of Pretoria University economists, headed by Professor Jan Lombard.

But, they warn, political change is a vital prerequisite.

Their view is set out in Mercabank's latest *Focus*, which analyses the impact on the economy of the gold bonanza.

The most important point to be made is that the bullion bonanza "may have generated a long cycle of general economic growth" that could extend well into the 1980s. The publication clearly illustrates the delayed relationship between the expansion in gold mining and growth in the rest of the economy (see graph). While gold's contribution to gross domestic expenditure (gde) began shooting up from 1976 onwards, gde excluding gold, in fact, fell by between around 1% and 3% during the three years to end-1978.

So, while SA's economic growth rate seems to have been tardy in responding to the massive injection of money following the bullion price surge, the message is that a solid foundation has already been laid to support sustained growth over a more prolonged recovery cycle.

Focus further draws attention to the dramatic turnaround in SA's foreign terms of trade (the weighted average value of imports divided by the weighted average value of exports) during the past year. In earlier years, the effective exchange rate of the rand was closely associated with changes in terms of trade, but the movement in the rand more or less ignored the trend in terms of trade during 1978 and 1979.

Lombard tells the *FM* that, despite the underlying strengths in the economy, the rand's failure to appreciate accordingly was (and still is) linked to a weak capital account.

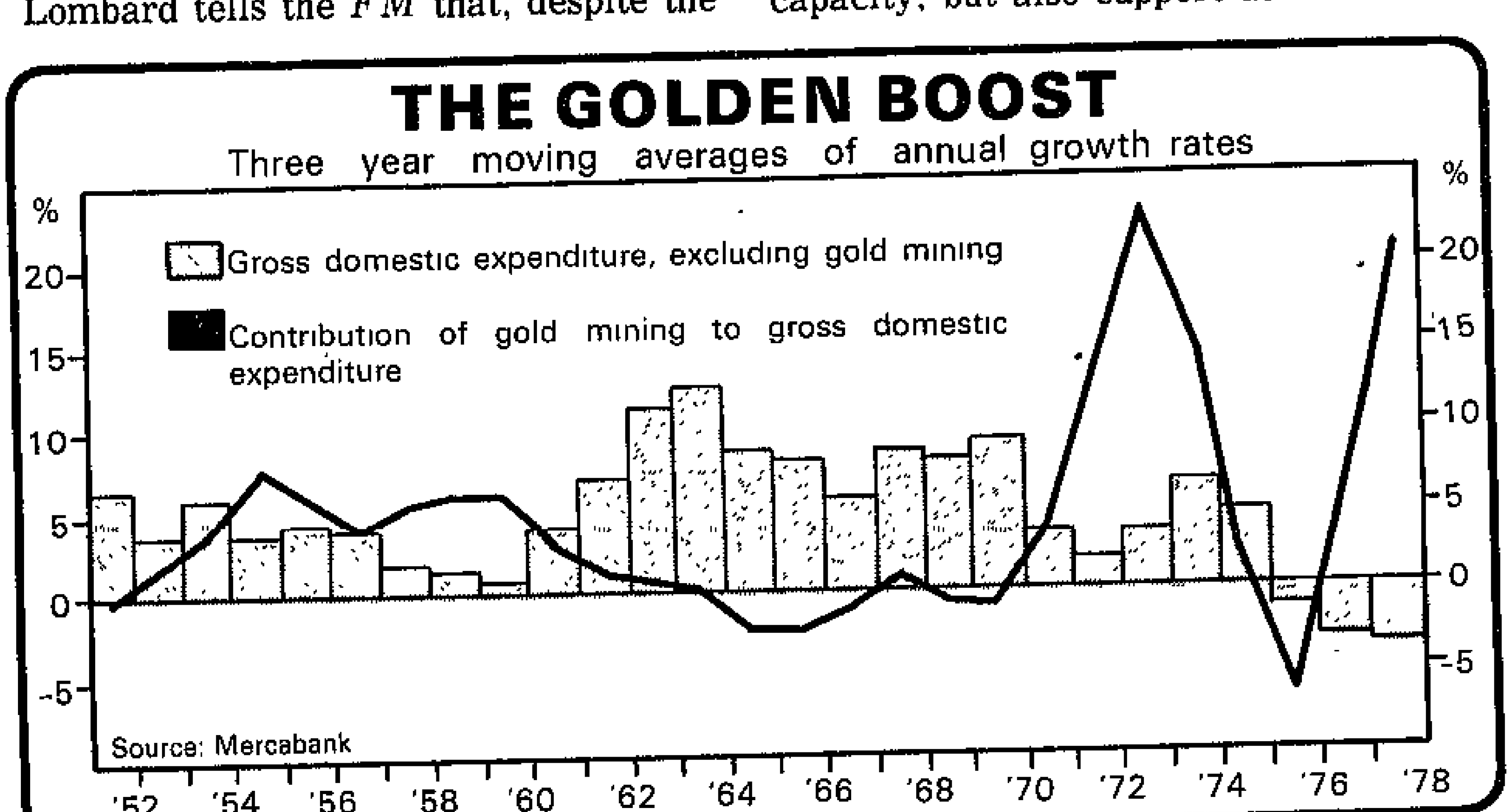
The country has been losing capital over a lengthy period for one, or both, of two reasons (excluding the obvious effects of short-term credit switching): more pessimistically, because of declining investor interest for political reasons; or, more optimistically, because of lower interest rates and insufficient yields on various categories of investment. Thus, says Lombard, political factors are patently the motivating force behind the introduction of FR, and explain the relative success of the system.

But, he warns, there is no question that overseas investors want to know whether or not political consensus is being worked towards in SA. "1980 is the year in which SA is expected to come to grips with the formulation of a new political dispensation," he tells the *FM*.

While noting that the gold price escalation has "also removed the monetary constraints on stable domestic growth," *Focus* insists that the economy "now requires a revival of productive investment to materialise." The graph on fixed investment clearly shows that, in real terms, fixed investment has remained more or less static since 1976. Says Lombard: "The revival should have come in 1978, but because businessmen shortened their horizons there was no incentive to build up fixed capital stock. But the most recent indications point to a certain amount of investment now taking place."

Adds *Focus*: "An increase in domestic investment at the present juncture would not only enlarge the domestic productive capacity, but also support domestic interest rates, attract long-term funds from abroad, discourage the outflow of short-term funds, and strengthen the exchange rate of the rand as well as its domestic purchasing power."

And a more optimistic political scenario, concludes Lombard, would mean SA could in future rely on rising expectations, particularly of blacks, and not only on export growth, to generate the necessary momentum needed for high, longer-term economic growth.



Prime Minister that the apartheid ideology was no longer working?

Mainly events outside SA — the fall of the Portuguese empire, Rhodesia. But, of course, there were the strikes in Durban where the government really reacted with a reasonableness which was not only unlike them, but was quite in contrast with their normal policy. Then there were the terrible events in Soweto in 1976.

I'm sure they must have come to the view that it was not possible for SA to fight a war on two fronts.

The Prime Minister clearly is trying to de-racialise SA, to shift the emphasis from race to class. Is this possible?

I hope he's trying to de-racialise SA, but race is a major question here and no solution which doesn't pay attention to it is going to work.

I do think, however, that it's important to try, so far as possible, to draw a distinction between racial problems and industrial problems, and to do that it's very desirable that trades unions should be black and white, mixed. You shouldn't have white trades unions and black trades unions, because this clearly is going to import racialism into the industrial scene in a much more dangerous way than it's been up till now.

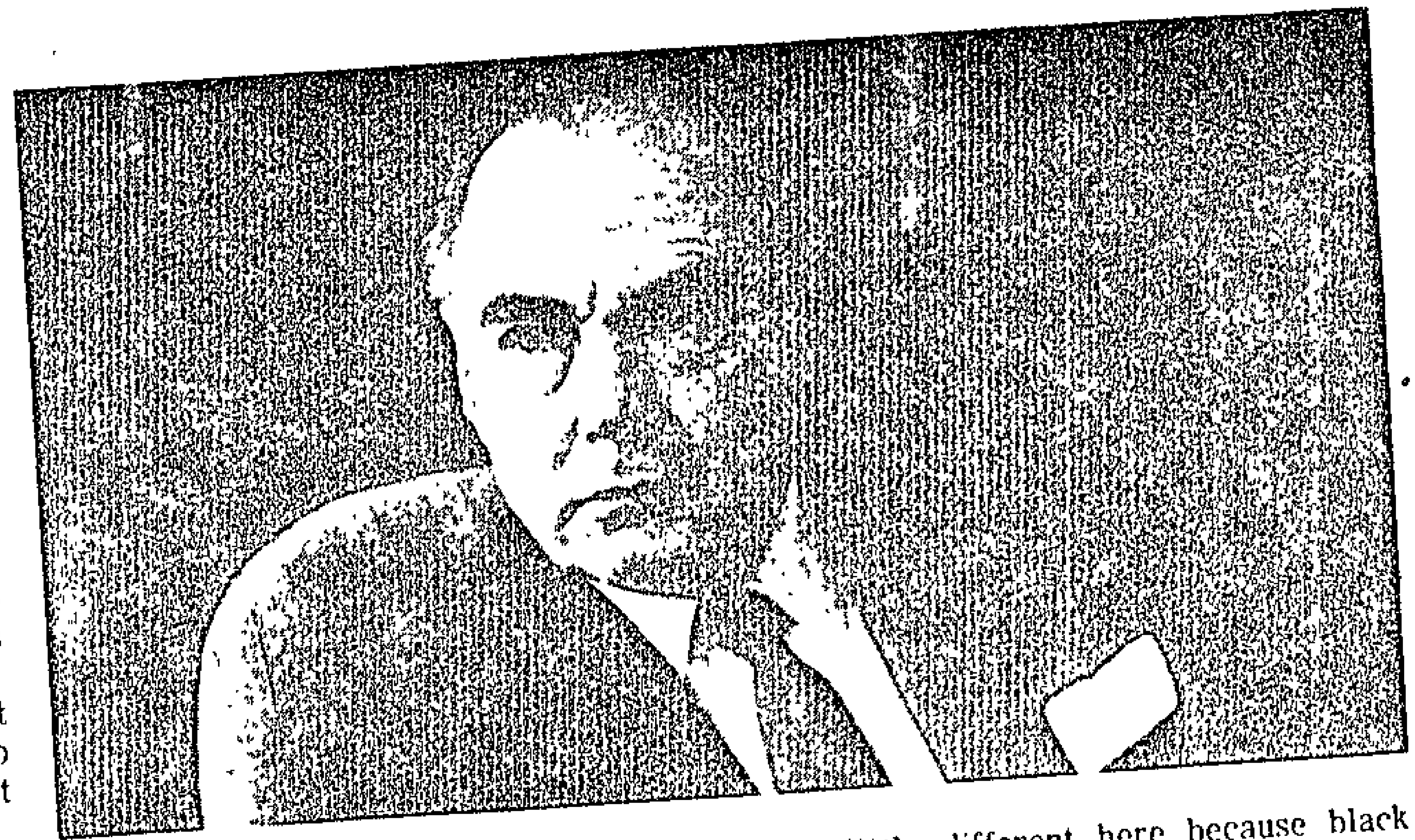
After making lavish promises last year Mr Botha seems to be back-tracking now under pressure from his right-wing supporters, but hasn't the process he has started become irreversible? Hasn't he opened a Pandora's box?

I personally think he has, and of course I very much hope he has. I don't think that one ought to be surprised or depressed because from time-to-time the Prime Minister makes a rather reactionary sort of speech.

After all, his party, in a sense, is like any big coalition party, and the job of a Prime Minister is to try to keep his party together. But I would say he has stuck his neck out so far away from conventional Nationalist policy that I think he's gone far too far to be able to get back without intolerable loss of face.

If Mr Botha is unable to reassure his supporters, won't there be a split in the National Party, and if he turns to English-speaking voters for support won't this change the whole character and structure of Afrikaner power? Dare any Afrikaner Prime Minister risk this?

He is risking it already by what he has done. Of course, he's hoping and no doubt believing that he can carry through his new policies without breaking his party. I would say his chances of doing so are pretty small, but I don't think it's good sense for the opposition to harp too much on that. One should be grateful for what the government is doing, and give it support. I think the more support it gets from the opposition in carrying through what I would call commonsense policies, the more likely it will be that there will be a



complete re-modelling of the South African political system and, in the long run, that is absolutely essential for the welfare of this country.

You seem to be saying that Afrikaner power, as we have known it for the past 32 years, is on its way out, and that one is getting back to the more generally-based white power in this country?

I think that is the case. I don't think that it's possible to carry through the policies which are being suggested by the Prime Minister and by people like Pik Botha and Piet Koornhof on the basis of maintaining the National Party as a monolithic expression of the ideals and ethos of Afrikanerdom.

You said recently that the era of protest politics in SA is over and that the era of power politics must begin. What did you mean by that?

I was thinking naturally from the point of view of the opposition with which I've always been associated. Until fairly recently, we had a time when the government was firmly proceeding with policies which were openly discriminatory on grounds of race and colour, and this was not denied. The opposition was very small and very weak and in parliament it was limited to the indomitable Mrs Suzman. Over those years there was very little that the opposition could do.

I think of the PFP, and the Progressive Party before it, as the real opposition, and there was very little they could do except cry out against the injustice of this system. I think now, with the realisation in the government that their policies have largely failed, with their promises to remove discrimination, that it is possible for the opposition to act in quite a different way. It can hope not only to cry out against injustice, but also to influence the manner in which injustice is removed.

Would you apply the same kind of reasoning to black leaders — that they, too, should become more involved in negotiations?

I certainly would say that. The problem is a little different here because black politicians have always been playing power politics rather than protest politics. Until very recently, the white government left them no way of playing power politics, except to aim at a revolution. I think that what is happening now is making it possible for black politicians to aim at power within an acceptable system and within a peaceful dispensation.

Will the gold mining industry and the government devote at least part of the proceeds of the gold bonanza to ameliorating the race problem?

I certainly hope they will and they certainly should. The industry itself should move faster than it has been able to do before towards improving black wages and black conditions of employment; and the government, which is getting an enormous bonanza, must also make use of it to attempt to solve this major problem.

There is a good deal of talk abo reducing taxation, and particularly tax ation on highly-paid people in business and there is some reason for this. But, the same time, the government spend money on black education and black housing, and on subsidising black townships such as Soweto so th they can make themselves more reaso able and decent places to live in — this very much more important than the duction of taxation in SA.

Do you think a gold-inspired boom strengthen or weaken apartheid?

I think any form of boom will wea apartheid. The whole idea that prosper in business is a sort of ally of apart strikes me as simply absurd, because fact is that as soon as you have prosper in business the effect is to increase vast number of black people who live the urban areas. And it is this flow black people to the urban areas and improvement in the jobs that these p do which makes the whole policy of ap heid, as it used to be understood by government, completely implausible completely impossible to implement.

24

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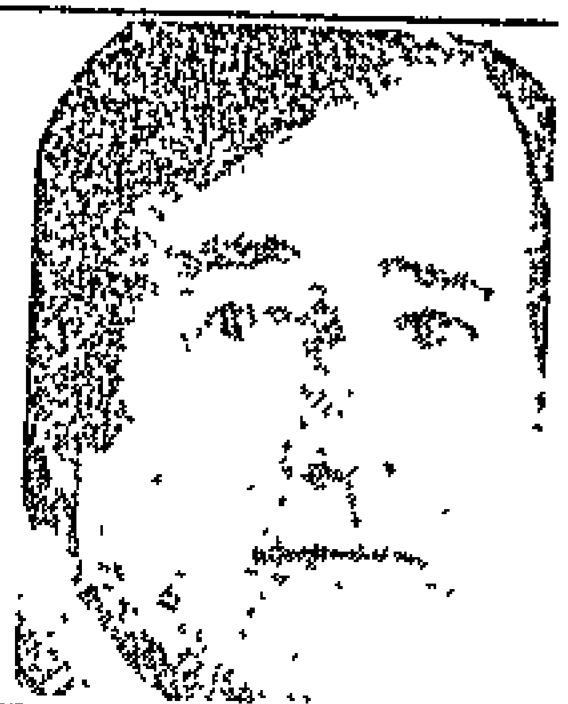
FM 28/3/80

HARRY OPPENHEIMER

Business and politics

Stanley Uys, London editor of SA Morning Newspapers, quizzed Anglo American chairman Harry Oppenheimer in Johannesburg recently on current events for the BBC. This is an edited version of their conversation.



Uys: **Would SA have been a different country today if the English-speaking business community had been able to exercise more influence on the course of events?**

Oppenheimer: I think so, but I wouldn't tie it to the business community. I think the reason for that is that the English-speaking people in SA have more connection with what is going on in the world outside

Can the free enterprise system prove to blacks that capitalism will work for them?

I am inclined to think that it can But it can't prove that unless all the apartheid regulations which get in the way of the private enterprise system are removed, and they are very far from being removed at the present time

Is there not a risk that, if the free enterprise system allies itself too openly and actively with apartheid, this will doom it finally in black eyes?

I don't believe the private enterprise system can ally itself with apartheid without destroying apartheid. I think this is the trouble the Prime Minister is up against at present He's still perhaps hopeful that it is possible to square this circle, but I don't believe it can be squared

Looking back on the Seventies, what would you say were the most important economic factors that persuaded the

HARRY OPPENHEIMER

Business and politics

44 154 FM 28/3/80

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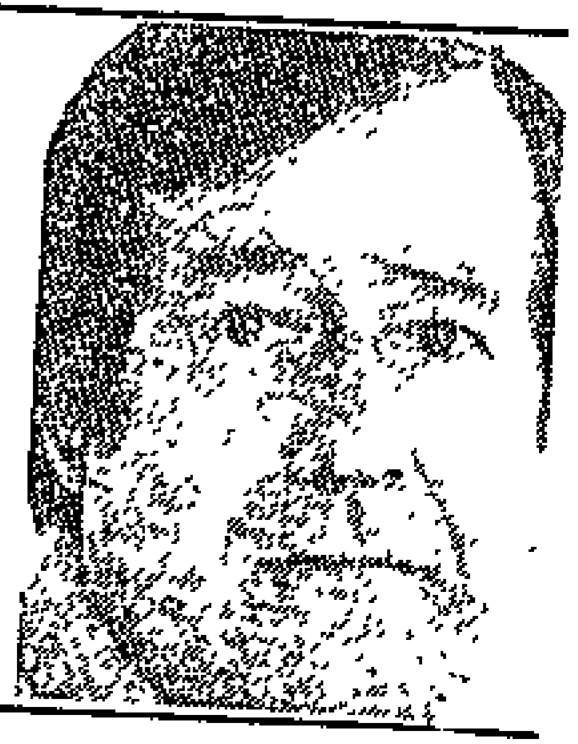

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Looking back on the Seventies, what would you say were the most important economic factors that persuaded the

CHAMBERS OF COMMERCE

Forging links

FM 28/3/80

Now that the SA-Taiwan chamber of commerce has come into existence, it is the seventh of this type of trade organisation. It set the *FM* wondering about their efficacy.

Safto chief executive Wim Holtes is adamant that they "offer an excellent opportunity for social interchange between members." It is difficult to assess how many trade contracts are directly attributable to a chamber's efforts, but he believes their value lies in securing introductions with prominent businessmen at home and abroad.

Safto's Holtes . . . the value is in the introductions

Three of the bilateral chambers quizzed by the *FM* claim the job is being well done. Deputy manager of the SA-German Chamber of Commerce, Herbert Weicke, maintains his chamber promotes commerce in both directions, embracing investment, know-how, information and assistance in establishing trade agreements. The chamber operates on a budget of R300 000 a year, employs a staff of 15, and maintains a file with the names of SA representatives for 6 000 German firms.

Clark Else, executive director of the US-SA Chamber of Commerce, is more diffident about his chamber's achievements. However, he notes that it has produced "tangible results" in maintaining and possibly expanding trade between the two countries. It was originally feared that US Regulation 175 (prohibiting the sale of US goods to the SA police and military) would inhibit growth in trade between the two countries. But this has not been the case, he says.

Hennie Wiehahn, chairman of the SA-South American chamber, says his organisation has succeeded in establishing valuable contacts, and has compiled a considerable dossier of information. Last October, the chamber organised a successful five-nation trade mission to South America, and later this year it has plans to organise a trade fair in Argentina.

The SA economic upswing, coupled with fewer import embargoes and a widespread lowering of tariffs, has encouraged demand, especially for consumer and luxury goods, he notes.

Four of the six existing chambers have been established since 1977. The US and Belgian Chambers date from 1977 and enjoy a total membership today of about 250 and 200 firms respectively. Last year saw the beginnings of French and South American Chambers, which claim support from 40-50 companies each. Both chambers have high hopes of expansion. In the past year, the Israeli Chamber has grown by 41 to a total of 293 supporters. The older-established German Chamber, founded in 1947, has a total membership of 650.

How effective the newcomers will be remains to be seen, but for the present membership is growing and no obvious disillusionment is manifest.

49

W/C ARGUS 29/[illegible]/80

~~47~~ ~~535~~

Bleak outlook for new jobs in Cape

Labour Reporter

THE Department of Environmental Planning and Energy's development strategy for the Western Cape, according to trade unionist and former city councillor Mr Norman Daniels, is a disaster for Cape Town.

'Already the Western Cape is the Cinderella of South Africa at the bottom end of the country.' Mr Daniels said.

No jobs

'We don't have job opportunities and no development is taking place. Now we get this sort of thing, which gives me an impression of utter futility.

'What we need here is more development, not less development,' he said.

A report by the department saw Atlantis as the obvious place for any new industrial development — and was accepted by the Cabinet.

The report said no job opportunities except service functions should be created at Mitchell's Plain.

It recommended no further coloured residential areas in the Peninsula.

No hope

Mr Daniels said he could see no hope of Cape Town becoming a really viable city if all development took place at Atlantis.

He described the proposed freezing of so-called coloured residential areas in the Peninsula as 'bloody nonsense.'

'It's a disaster', says union spokesman

'We have a growing population and a housing backlog. Are they telling the City Council not to do anything about it?'

If the plan were implemented, said Mr Daniels, the people of Mitchell's Plain would never find work near to their homes.

Fodder

'They will forever live in a dormitory town, having to find work in Cape Town or Atlantis. They will basically be labour fodder,' he said.

Mr A G Bramwell, president of the Cape Chamber of Industries, said in a statement there were a number of factors in the report which gave cause for concern. He said he was surprised that the report appeared to have been prepared without consultation with the private sector.

'The chamber is also concerned at the fact that the report opposes the creation of any further industries in the metropolitan region and on the outskirts of Mitchell's Plain,' the statement said.

Deterrent

Mr Bramwell said conditions in the report could make industries decide to establish themselves in other parts of the country.

This, the statement said, was in spite of the great need to attract industries to the Western Cape to provide employment to allow the Cape to keep pace with industrial development in the rest of the country.

Groei, stabiliteit nou moontlik, sê Lombard

(49) RAPPORT 30/3/80

DIE Begroting wat Woensdag ingedien is, maak dit moontlik om groei en prysstabiliteit in die Suid-Afrikaanse ekonomie te bewerkstellig, sê prof. J.A. Lombard, hoogleraar in die ekonomie aan die Universiteit van Pretoria.

En die vrye ondernemingstelsel gaan in die jaar wat voorlê aan hierdie twee norme getoets word. As private onderneming nie nou sy deel bydra nie, is sosialisme ons voorland.

Die mening dat die Begroting self inflasie sal aanblaas, beskou prof. Lombard as ongegrond. „As inflasie in Suid-Afrika moet voortduur, sal veral sakeondernemings die skuld daarvoor moet dra, en nie die Regering nie," sê hy.

Ten eerste sê prof. Lombard gaan die monetêre owerhede die geldvoorraad in die land nougeset onder beheer hou. Die enigste bron van geldskepping wat oopgelaat gaan word, is die uitbreiding van bankkrediet, omdat dit saamhang met ekonomies groei.

Hierdie kredietuitbreiding sal ook onder beheer wees omdat die kontantbasis daarvan nie veel sal kan uitbrei nie. Die begroting pomp geen geld in nie, en die Reserwebank is van plan om die betalingsbalanssurplusse te „steriliseer." Monetêre dissipline gaan dus streng toegepas word.

Ten tweede gaan die Regering sy eie vraag na produksiefaktore en ander goedere en dienste feitlik konstant hou. Die spesifieke toenames in verdedigingsbehoeftes word gesentraliseer deur afnames in ander programme met laer prioriteite.

Feitlik die volle toename in die ekonomie se groeipotensiaal in terme van arbeid, kapitaal en grondstowwe is dus beskikbaar vir aanwending deur die private sektor. Hy skat die ruimte op 6 persent per jaar.

Hierby moet gevoeg word die binnelandse groeipotensiaal in die aanbod van 6 persent, 'n potensiële toename van minstens 30 persent in die reële aanbod van goedere via invoer. Dit kan die totale binnelandse aanbod met sê 10 persent kan laat styg.

Dus kan binnelandse besteding in 1980/81 met minstens 16 persent reël toeneem. Met ander woorde, as inflasie onder 10 persent per jaar moet bly, kan besteding met minstens 26 persent oor die jaar toeneem voordat probleme ontstaan.

Die groot knelpunt is die omvang van geskoolde arbeid, wat met sowat 3 persent moet toeneem, en beslis nie oor die kort termyn uit die plaaslike bevolking, wit en swart, voorsien kan word nie. In die inflasie-konteks lei dit beslis tot loonstygings in sekere beroepe.

Maar, daar is geen goeie rede waarom sulke loonstygings in sekere beroepe moet lei tot algemene prysstygings nie. Die sakesektor as 'n geheel kan die sektorale stygings grootliks absorbeer voor dit by die verbruikersprysp atroon kom.

'n Paar redes waarom dit gedoen kan word, is die afskaffing van die bobelasting van 7,5 persent op invoer, die moontlike appresiasie van die wisselkoers van die rand, die afskaffing van die leningsheffing op maatskappye, en die daling in die vaste koste per eenheidsproduksie as kapasiteit beter beset word, sê hy.

FRANZ ALBRECHT

Só word u geld bestee

Staatspresident	,004
Parlement	,06
Eerste Minister	,04
Verdediging	15,26
Buitelandse Sake en Inligting	2,15
Samewerking en Ontwikkeling	6,34
Opvoeding en opleiding	1,94
Vervoer	1,89
Mannekragbenutting	,023
Polisie	2,5
Staatsdrukker	—
Binnelandse Sake	,16
Gevangenisse	,89
Landbou en Visserye	3,06
Handel en Verbruikersake	1,18
Nywerhede	2,42
Finansies	36,4
Gemeenskapsbou	3,26
Kleurlingsake	3,1
Indiërsake	1,17
Justisie	,47
Kommissie vir Administrasie	,14
Water, Bosbou en Omgewingsbewaring	2,12
Minerale en Energie	2,58
Nasionale Opvoeding	3,29
Openbare Werke	3,15
Statistiek	,17
Toerisme	,07
Gesondheid, Volkswelsyn en pensioene	5,96
	100,00%

Die persentasie wat elke Staatsdepartement van die totale begroting bestee, word hier aangegee.

Financial Mail

(49) FM 28\3\80

THE BUDGET

Going for growth

Owen Horwood has enjoyed a remarkably successful career as SA's Minister of Finance.

After his first budget in 1976 — of necessity a tough one — the *FM* commented that he had shown great political courage. His subsequent budgets revealed that he was a minister in charge of his portfolio, who knew where he was going and how he intended to get there.

This week in Parliament he demonstrated that he is still firmly on schedule, moving SA towards fundamental tax reform which will inexorably shift resources from the public to the private sector.

His tax concessions, adding up to a whopping R1,56 billion, are evidence that he means business in this shift of resources.

This is a process which the *FM* welcomes and wishes to encourage. It is our view that SA is well served by Horwood and his advisers, chief among them Gerhard de Kock, Joep de Loor and Simon Brand.

But it must not be forgotten that Horwood is first and foremost a politician and that the Budget is the ruling party's principal political weapon.

Horwood has seen to it, via R480m in salary concessions, that the civil service, in many ways the key to white political power, will have cause to look kindly upon the administration of PW Botha. Lower taxes will add to their joy.

The Minister chose a literary theme for his speech but had he resorted rather to the economists he may well have considered Adam Smith's view that "...the persons who have the administration of government (are) generally disposed to reward themselves and their immediate dependents rather more than enough."

Our other criticism concerns the allocation of resources to, on the one hand, defence, and, on the other, to the urgent needs of our black people.

The Minister can argue that he cannot enbroil himself in issues, such as the mobility of labour, which bear heavily on black opportunities to share in economic growth. These, he can claim with justice, are outside his portfolio. But in allotting vast sums to defence while relatively modest increases were granted in areas such as black housing and education the *FM* feels he is acting in a counter productive manner. (The 32% increase given to black education and training is not inconsiderable but in actual money terms does not meet the nation's needs.)

BUDGET '80

Our first line of defence lies with a contented, or at least hopeful, black population at home. Clearly, in a climate of strong economic growth, the prospects for our black people must improve; and, through his far-sighted tax reforms, Horwood is contributing more in this direction than any other finance minister in SA's history.

We feel he should have given less to the civil service and defence and more to black needs. In addition, via reduced company tax (aside from the removal of the loan levy), he could have provided even greater stimulus to growth.

Even after the individual tax concessions, all of this could have been financed if:

- The long-term borrowing requirement had been increased — it is almost half of last year's.
- Salary and wage increases to civil servants had been less.
- Even though they are difficult to forecast, earnings from gold had been calculated at rather more than an ultra-cautious bullion price of about $350 an ounce, which is what the estimates suggest was used.
- Defence spending had been kept within reasonable bounds. As we have argued before, a volunteer army would be both more efficient and cheaper. Instead, publicity conscious generals will have 12% more to spend this year than last, if the special defence account is included.

But let us not be small-minded.

Owen Horwood has come up with a 1980-81 Budget that attacks the central problem of modern corporate societies: fiscal drag. This pernicious process drags tax payers into higher brackets while their real incomes are eroded by inflation. And incentive is destroyed.

It is also heartening that there will not be any discrimination between public servants and business and professional men when fringe benefits are brought into the tax net next year.

The minister described his tax reforms as "historic." He's quite right and it will be fortunate for SA if we have him around for a few more years so that the course of our economic history can continue the virtuous cycle upon which he has set us.

Property: On the housing side, perhaps the most important measure is the pushing up of capital of the National Housing Fund to R225,2m — an increase of 20,2% on the current financial year.

Horwood declines to say whether this will go towards alleviating housing problems in all race groups, or whether whites will be excluded. In the opinion of property economist Peter Penny, "white South Africans are generally over-housed," and the money would be better spent on black-housing.

"This generally stimulated the building industry. It will also highlight the shortage of artisans" — and hopefully bring the white trade unions, which are presently preventing adequate training, to a sense of reality.

Moreover, Horwood disclosed that the Department of Community Development is at present investigating methods by which a part of the mortgage burden of the Housing Fund could be transferred to building societies, in order to enhance the return flow of capital to the fund itself. This would be, as Horwood says, "in the national interest."

Penny and other property experts warn it will lead inevitably to a reduction in the amount of building society funds available to whites. But they endorse the action.

Employee housing

In order to encourage employers to provide housing for their employees, Horwood announced increases in the tax deductible ceilings on building costs. The ceiling for farmers has been lifted by R1 000 — from R4 000 to R5 000. For other employers, it has gone up from 25% to 50%, with a maximum of R4 000 as against the present R3 000.

It is only fair to point out, however, that with building costs having risen by more than 20% over the past year, the concession merely helps employers maintain the *status quo.*

Prospective homeowners and property agents are bound to welcome government's decision to raise the present exemption from liability for transfer duty from R20 000 to R30 000 for a developed property, and from R8 000 to R12 000 on unimproved stands. This concession applies to individuals but not to companies. In future, the rate will be 1% on the first R30 000, and 3% on the balance. This means, in effect, a constant decrease of R200 on transfer duty for all homes above R30 000. This will mean a tax sacrifice of about R21,5m in a full year.

Skilled labour: Horwood could at least have given some details of what government is definitely planning to do, rather than just talk about what it might do.

Nothing was said about specific plans to alleviate the skilled labour shortage, which he said will become a major bottleneck. On the provision of funds for this purpose, he only said: "Government has for some time now been providing funds for the promotion of industrial training, both direct and indirect."

Even so, there has been a favourable response to the little he disclosed. Says Gavin Relly, Anglo-American's vice-chairman: "Any move towards giving a thrust to training must be welcomed."

Training concessions

And possible boosts are tax concessions on donations to training colleges and certain secondary educational institutions and a central training fund.

A central training fund would, says Horwood, "ensure that the financing of all training functions is co-ordinated." According to an FCI spokesman: "This is most welcome. A fund would help order priorities." Adds Relly: "If the fund is established, I hope that some of the funds will be made available to in-service train-

HOW THE TAX CUTS WORK

SINGLE 1981 (UNDER 60 YEARS)

Taxable income rands	2 000	5 000	10 000	12 000	14 000	16 000	18 000	20 000
Tax	—	174	822	1 242	1 758	2 370	3 072	3 822
Average rate %	—	3,5	8,2	10,4	12,6	14,8	17,1	19,1
Marginal rate %	—	9,6	19,2	24	28,8	33,6	36	38,4
Taxable income	22 000	25 000	28 750	35 000	40 000	45 000	50 000	60 000
Tax	4 620	5 904	7 662	10 787	13 287	15 787	18 287	23 287
Average rate %	21	23,6	26,7	30,8	33,2	35,1	36,6	38,8
Marginal rate %	40,8	45,6	48	50	50	50	50	50

Note: Maximum medical deduction of R750 has been claimed; primary and insurance rebates (R195) have been claimed (as deduction from tax).

MARRIED 2 CHILDREN 1981 (UNDER 60 YEARS)

Taxable income	2 000	5 000	10 000	12 000	14 000	16 000	18 000	20 000
Tax	—	—	365	705	1 125	1 625	2 205	2 825
Average rate %	—	—	3,6	5,9	8,0	10,2	12,2	14,1
Marginal rate %	—	—	16,0	20,0	24,0	28,0	30,0	32,0
Taxable income	22 000	25 000	30 000	35 000	40 000	45 000	50 000	60 000
Tax	3 485	4 545	6 525	8 745	11 135	13 625	16 125	21 125
Average rate %	15,8	18,2	21,8	25,0	27,8	30,3	32,2	35,2
Marginal rate %	34,0	38,0	42,0	47,0	49,0	50,0	50,0	50,0

Note: Maximum medical deduction of R1 000 has been claimed; primary, child and insurance rebates (R475) have been claimed (as deduction from tax).

WHAT YOU WILL PAY

Taxable income	Unmarried			Married No children			Married One child			Married Two children			Married Three children			Married Four children		
	1981	1980		1981	1980		1981	1980	R	1981	1980		1981	1980		1981	1980	
2 000	48	100	(—)	—	35	(—)	—	—	(—)	—	—	(—)	—	—	(—)	—	—	(—)
5 000	336	506	(46)	200	319	(29)	100	254	(23)	—	194	(17)	—	118	(—)	—	63	(—)
6 000	432	677	(61)	280	446	(40)	180	374	(34)	80	308	(28)	—	234	(21)	—	165	(15)
7 000	552	875	(79)	380	587	(53)	280	508	(47)	180	434	(39)	80	352	(32)	—	275	(25)
8 000	696	1 100	(100)	500	750	(68)	400	657	(59)	300	574	(52)	200	482	(43)	100	398	(36)
9 000	864	1 350	(122)	640	939	(85)	540	833	(75)	440	734	(66)	340	627	(57)	240	534	(48)
10 000	1 056	1 628	(148)	800	1 155	(105)	700	1 036	(94)	600	921	(83)	500	798	(72)	400	608	(62)
11 000	1 272	1 938	(176)	980	1 399	(127)	880	1 265	(115)	780	1 135	(103)	680	996	(90)	580	869	(79)
12 000	1 512	2 288	(208)	1 180	1 669	(151)	1 080	1 520	(138)	980	1 375	(125)	880	1 221	(111)	780	1 075	(97)
15 000	2 376	3 575	(325)	1 900	2 640	(240)	1 800	2 444	(222)	1 700	2 259	(205)	1 600	2 052	(186)	1 500	1 854	(168)
20 000	4 200	6 063	(533)	3 420	4 818	(438)	3 320	4 560	(414)	3 220	4 303	(391)	3 120	4 002	(363)	3 020	3 722	(338)
25 000	6 336	9 042	(822)	5 200	7 260	(660)	5 100	7 207	(655)	5 000	6 890	(626)	4 900	6 534	(594)	4 800	6 187	(562)
30 000	8 752	12 067	(1 097)	7 220	10 098	(918)	7 120	10 098	(918)	7 020	9 979	(907)	6 920	9 563	(869)	6 820	9 147	(831)
40 000	13 752	18 117	(1 647)	11 900	16 148	(1 468)	11 800	16 148	(1 468)	11 700	16 148	(1 468)	11 600	16 148	(1 468)	11 500	15 785	(1 435)
50 000	18 752	24 167	(2 197)	16 900	22 198	(2 018)	16 800	22 198	(2 018)	16 700	22 198	(2 018)	16 600	22 198	(2 018)	16 500	22 198	(2 018)

(1) The tax has been calculated on the basis that —
(a) The taxpayer is not over the age of 60 years;
(b) The taxpayer has no medical expenses or life insurance premiums; and
(c) the wife of the taxpayer has no income.
(2) The loan levy content of the amount payable in the 1980 tax year is shown in brackets.
(3) Single taxpayers pay 50% on each slice of taxable income above R28 000. Married taxpayers pay 50% on each slice of taxable income above R40 000.

to affect adversely the flow of funds into subscription shares "in the short to medium-term," although he concedes that, in the longer term, it must diminish.

Latest rates: With government's total financing requirements up by only 9,4% to R3 696, the country's available capital resources should not be strained unduly. This is immediately bullish for long-term interest rates.

Moreover, the fact that neither Horwood on Wednesday, nor Reserve Bank Governor Dr Bob De Jongh on Tuesday, made any mention of reducing prescribed investment requirements for institutional investors and pension funds, has dispelled a major cause of uncertainty in the capital market. This means investors should start supporting new capital market issues with considerably more enthusiasm than has been the case during the past three or four months.

Horwood's reliance on the Public Debt Commissioners for R1 650m in the 1980-81 year is just over 17% up on the R1 405m raised from this source last year. Bearing in mind that the PDC's assets have been growing at an average rate of around 20% a year, it should have absolutely no difficulty supporting the Minister's demands.

New gilts issues

Horwood intends raising R600m by way of new government stock issues (gilt-edged debt) in the new fiscal year. Capital market sources estimate that this amount is barely enough to satisfy the requirements of the institutional investors, let alone the banking sector.

Of course, the Reserve Bank will do its best to chase some of the surplus money by way of its debenture issue. But it is doubtful this will fully satisfy the shortfall on Part One asset requirements of institutions.

And the outlook for short-term interest rates remains decidedly bullish, despite the fact that banks will probably have to dispose of some R256m worth of liquid assets in April in order to comply with their new cash reserve requirements.

STU13-9	EXAMINATION RESULTS IN FACULTY ARTS			AS AT 29 02 80		PAGE 1		
15026 B.A./LL.B.		YEAR : 2						15026
STUD NO	SURNAME	FIRST NAMES	COURSE	DESCRIPTION	SYMBOL			
~~111062V~~	~~BARKER~~	~~MARY ANN~~	~~105104~~	~~LATIN I~~	~~3~~	~~(52)~~	~~1~~	~~111062V~~
116983F	DAMERELL	DAVID ASHLEY	604201	ROMAN DUTCH LAW I	ABS		1	116983F
~~137001P~~	~~FINE~~	~~DERRICK NIGEL~~	~~103201~~	~~COMP AFR GOVT AND LAW I~~	~~2-~~	~~(68)~~	~~1~~	~~137001P~~
			603202	ROMAN LAW & JURISPRUDENCE I	3	(55)		
			604201	ROMAN DUTCH LAW I	2-	(65)		
~~137345N~~	~~GADD~~	~~DIANA ALICIA~~	~~105104~~	~~LATIN I~~	~~F~~	~~(36)~~	~~3~~	~~137345N~~
133987N	GORE	DAVID GEORGE	105104	LATIN I	ABS		3	133987N
~~110635F~~	~~GRIESSEL~~	~~PAUL PRIMICH~~	~~105104~~	~~LATIN I~~	~~ABS~~		~~1~~	~~110635F~~
132210G	GROSS	MARC ALAIN	107101	ENGLISH I (PRE-1980)	3	(59)	1	132210G
~~119010J~~	~~HADDOW~~	~~PETER BRIAN~~	~~603202~~	~~ROMAN LAW & JURISPRUDENCE I~~	~~2-~~	~~(62)~~	~~1~~	~~119010J~~
139814X	ISMAIL	ANAAR	102201	AFRIKAANS EN NEDERLANDS II	ABS		7	139814X
			604201	ROMAN DUTCH LAW I	ABS			
110281W	JANSEN	COLLEEN BENITA	602101	PUBLIC INTERNATIONAL LAW	3	(53)	1	110281W
			604201	ROMAN DUTCH LAW I	2-	(60)		
~~139836W~~	~~JAY~~	~~EDWIN ANDREW~~	~~604201~~	~~ROMAN DUTCH LAW I~~	~~2-~~	~~(62)~~	~~1~~	~~139836W~~
130539Q	KIRKPATRICK	JOHN BRUCE	103201	COMP AFR GOVT AND LAW I	3	(51)	1	130539Q
			603202	ROMAN LAW & JURISPRUDENCE I	3	(52)		
			~~604201~~	~~ROMAN DUTCH LAW I~~	~~3~~	~~(56)~~		
137806P	KOEN	STEPHEN JOHN	603202	ROMAN LAW & JURISPRUDENCE I	UP	(54)	1	137806P
~~137243C~~	~~MARAIS~~	~~MELANIE~~	~~105104~~	~~LATIN I~~	~~ABS~~		~~3~~	~~137243C~~
			604201	ROMAN DUTCH LAW I	ABS			
117171K	MORTAKIS	MARIANNA	201405	STRUCT & INTERP OF ACCTS	F	(42)	1	117171K
135970U	MUNRO	LYNNE CATHERINE	105104	LATIN I	ABS		3	135970U
			107201	ENGLISH II	ABS			
			603202	ROMAN LAW & JURISPRUDENCE I	ABS			
			~~604201~~	~~ROMAN DUTCH LAW I~~	~~ABS~~			
133096V	MURRAY	DOUGLAS ANDREW	603202	ROMAN LAW & JURISPRUDENCE				
~~134385W~~	~~REDDY~~	~~SANJIVA~~	~~10[illegible]201~~					
131836A	SAMSODIEN							

Budget euphoria is now lifting

RDM 28/3/80

320

By GERALD REILLY
Pretoria Bureau.

THE euphoria generated by the Budget began to lift yesterday and uncertainty and dissatisfaction began to show in some areas, especially among public sector workers and blacks.

Although it is generally agreed that the R1 500-million tax concession punt will give a powerful boost to business confidence, consumer spending and the growth rate, a sober look at the Budget contents has convinced economists that the poorer section of the population has been left out in the cold.

The vast majority of blacks, it was pointed out, pay no taxes therefore tax concessions to them are meaningless.

Teachers, nurses and police are in the dark about details of their increases at least until next week.

Senior public servants said they would probably have to wait until the end of next week before they knew precisely what was coming to them. Meanwhile they stress that if increases are anywhere close to those apparantly granted to the Prime Minister they will be more than content.

This Budget marks the biggest Cabinet pay hikes on record and no effort has been made to justify them, public servants point out.

They also point to the extensive perks enjoyed by Cabinet Ministers with real earnings close to the six-figure mark.

The president of the Public Servants Association, Dr C M Cameron, said yesterday if public servants got percentage rises similar to those given to the Cabinet they would be very content.

Dr Cameron said the PSA did not expect to get details of increases in the service until later next week.

However, the more than 500 000 workers in the state and provincial departments will share R480-million — an average increase of about 12% — which means large numbers will get less than the average.

Teachers and nurses will also have to wait until next week to hear just how much their earnings are.

They have been given special treatment, but just how special it is, and whether it will satisfy the demands of the teachers and nursing associations, will only be known after a detailed study.

The PFP's finance spokesman, Mr Harry Schwarz, said police also merit special treatment. Crime rates were rising in urban areas and it was vital that pay was at a level which fo:

(49) FM 28/3/80

BUDGET

An enthusiastic reception . . .

With reservations, the JSE should be pleased with the Budget. After all, Finance Minister Owen Horwood did make concessions to the middle and lower income groups which should boost spending and impact on company profits. However, there is fairly widespread dissatisfaction regarding those things the Budget did not do.

On the positive side, tax concessions should help consumer spending and relieve pressure on companies to increase wages. Also, the substantial salary rises granted to public servants should have an impact on consumer spending, as well as on savings. Company profits will also be boosted by the abolition of loan levies and import surcharges. Though Horwood suggested that the lower import costs should be passed on to the consumer, the immediate effect should be to improve cash flows.

Another positive element is the reduction of the maximum tax-free investment in building society subscription shares from R150 000 to R50 000. This will probably shake funds out of building societies in favour of gilts and equity investments.

On the negative side, the R583m surplus state borrowings should result in a rise in interest rates as it soaks up excess liquidity. One analyst feels this is going to give the gilts market a knock. In the longer run, it could lead to a lowering of share prices.

Though the market enthused about the Budget and the favourable effects it would have on SA's economy and corporate profits, there were grumbles because there were no changes to the current stamp duties and marketable securities tax (MST). Stamp duty is charged at a rate of 1% where MST has been paid, and while the JSE has been making representations to government to have this abolished on arbitrage dealings, the Budget ignored the issue completely.

With so many local gold shares traded outside SA, the JSE is losing business in the arbitrage market, say brokers. Shortly after the Budget, overseas investment comment centred on the fact that the duty still remains.

However, one leading broker cautions on over-reacting. He says the issue is an ongoing topic and that it does not need the Budget as an opportunity to have the duty abolished. "The government is aware of the need to make the JSE a truly international market, and it could soon be possible to have a change in the stamp duty rules."

When the subject of a capital gains tax was introduced in the 1979 Budget, comment from the market favoured a definite ruling. The Minister, however, avoided the issue on Wednesday, but, as with fringe benefits tax, it is likely some final decision could be made in the course of the year. Some brokers regretted the fact that no positive news has been released on the subject, but this is likely to be swamped in the post-Budget favourable reaction.

Another area in which brokers in the mining sector have expressed some disappointment is that the 2,5% surcharge on all gold mining taxation has not been removed.

However, brokers point out that dropping the loan levy on gold mining taxes could have quite a significant effect on distributable earnings of some richer mines paying high marginal tax rates. Profit could be hiked by as much as 18% in some cases, brokers say.

Marginal mines will also benefit, but not so markedly. The mines' expansion programmes which are being planned in line with firmer bullion prices will also benefit as a result of the extension of the investment allowance period to 1982. However, Horwood has asked the Standing Commission on Taxation to investigate the feasibility of such allowances in a country sorely in need of labour-intensive production.

Stock Exchange president Richard Lurie is impressed by what he calls a "remarkable Budget." He sees it as being highly consumer orientated, which will obviously be a bull point for some sectors of the industrial market, though he warns of the development of demand-pull inflation as cash flows into consumers' pockets. Fortunately, he adds, the State has restricted itself to nil real growth in spending.

One broker initially calculated that Horwood is basing his Budget proposals on a $350 gold price. Last year, the average price was $305 and the current price is in excess of $500, so he appears to have the right idea, erring on the side of caution and, if necessary, will be able to make further concessions later in the year if bullion warrants it.

Peter Pittendrigh

Rustenburg's Robinson . . . holding producer prices