ECONOMY — 1991

JULY — AUG.

THE MONEY MARKETS by Andrew Gill

(49)

Gloomy figures underscore Stals's message on rates cut

BDay 1/7/91

THE light went out at the end of the tunnel for market participants last week as they took note of particularly ugly CPI and money supply figures.

Consistency from Reserve Bank Governor Chris Stals in the preceding weeks also helped to hammer home the point that no drop in official rates was likely for a considerable length of time.

A general 10-point climb in the three-month area was recorded and more paper was issued than there had been for several weeks.

Liquidity remained a problem for the Reserve Bank, however, as the "artificial" shortage dropped R400m to R1,85bn on Thursday despite a R500m tap on the day. It brought the amount of special TBs in the market up to R1bn, both of which carried over the month-end.

Apparently hundreds of millions of rands in dollar swaps unwound towards the end of the week, few of which were rolled over and special issues had to fill the gap. Also, tax cheques were not expected to drain the system over the weekend with today being the beginning of the new month.

Indications were that the month-end traditional squeeze would be little more than a hug with a further R300m in TBs maturing on Friday without a roll over.

Rates were expected to increase further in July, with thoughts of the next Bank rate cut on the back burner for a few months.

The liquidity that has prevailed over the past few months was blamed by the Bank on increases in the gold and forex reserves and a decline in government deposits with the Bank — ie, the big spenders.

Also, the lowering from 5% to 4% in the amount of cash reserves banks had to hold against short-term liabilities at the Bank was taking its toll, according to June's Quarterly Bulletin. Other factors were deficits on the forward cover book and the abolition of the 2% cash reserve requirement against medium-term liabilities, it said.

One of the major factors was dollar swaps. Monthly peaks in these ranged from R900m in January to R1,9bn in March and R1,4bn in April and May.

Further evidence that government was behind a large amount of the excess liquidity in the market was evident in the money supply figures.

Credit extension to the domestic private sector by banking institutions actually fell by over R1,5bn in April, compared with government's account which more than doubled over the same period.

A Reserve Bank spokesman was quoted as saying that the increases in money supply were partly due to the Bank's move to slap a ban on "undesirable funding practices" in the form of circulars 9 & 10.

This was a little confusing, considering the fact that the circulars had been put on ice and latest indications were that they would be revoked.

The revokal did not happen as expected last week but officials have not yet reversed (or given any indication that they will do so) the original reversal entered into at a meeting earlier in June, so we should expect it in the near future.

THE WEEK AHEAD by William Richards

Policy meetings dog the markets

BDay 1/7/91

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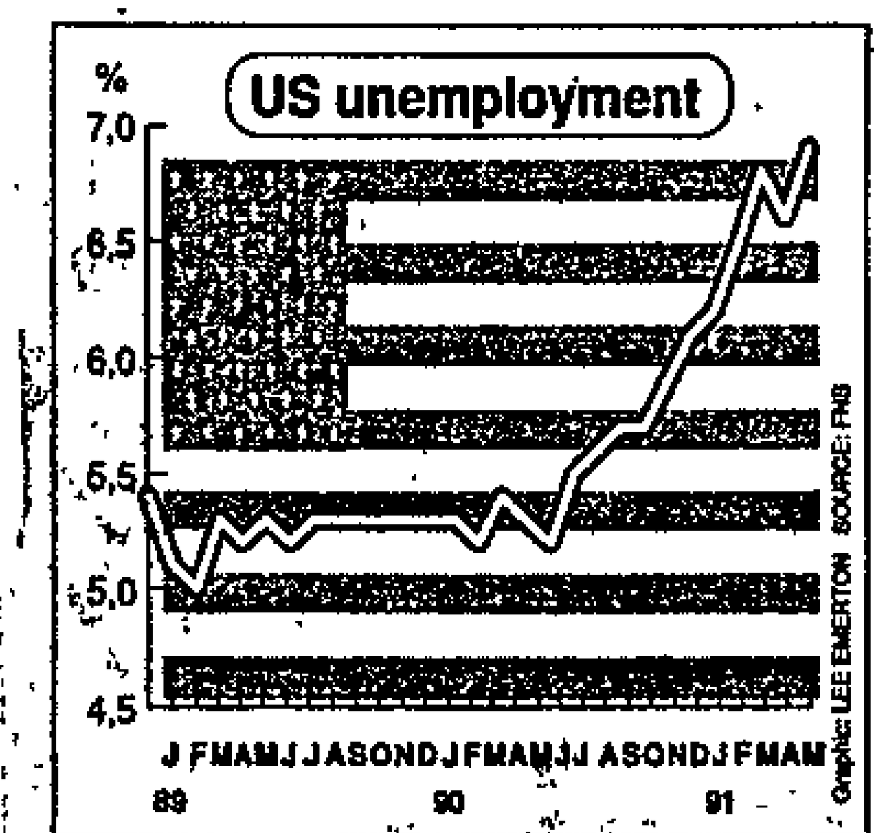
IMMINENT international economic policy meetings overshadow the major financial markets this week. Key exchange and interest rates were directly affected last week by similar meetings and the upcoming gatherings are, if anything, even more influential.

Trading in the world's key currencies was cautious and hesitant for most of last week after the previous weekend's impromptu get-together of the finance ministers of the big seven Western industrial countries. These G-7 ministers politely threatened to intervene in the foreign exchange markets to hold down the value of the dollar if the US currency's rise became "disorderly".



The other meeting that discouraged adventurous position-taking in currency or money markets last week was Thursday's policy-making assembly of the Bundesbank, the German central bank. In the event the Bundesbank declined to move key rates, but the possibility of a shift contributed to the week's subdued trading.

This week the story is strangely identical: two more top-level meetings are looming which also have the potential to change the financial environment completely. But even if either meeting actually changes policy or takes a new decision, the mere possibility that either could happen is set to cramp trading in the major markets this week.

Tomorrow the policy-making arm of the Federal Reserve, the American central bank, meets to assess the US monetary stance. And at the end of the next week the 1991 world economic summit takes place in London. Markets will, over the coming days, be constantly aware that each of these meetings can overturn existing assumptions at a stroke. Caution, then, should continue to be the watchword.

Unlike the Bundesbank's single-morning deliberations, the Federal Open Market Committee (FOMC) meets for two consecutive days. This means an extended period of uncertainty lasting into Thursday, at least, to see whether the Federal Reserve adjusts its open market operations and changes US monetary policy.

There are two conflicting schools of thought in US markets on the short-term direction of US interest rates: one, that economic recovery has begun and that the authorities will hold rates steady to avoid stoking inflation, and the other that the economy needs possibly one further stimulus from lower rates to ensure that it is firmly on the recovery path.

Another cut in US interest rates at a time when German and Japanese rates are steady would undercut the dollar's yield and threaten to stall its rally since the end of the Gulf war. The odds are that the Federal Reserve will leave rates unchanged pending the release of more statistical information on the economy's state of health.

The looming world economic summit in mid-month is the annual gathering of the heads of state and top financial officials of the G-7 plus — for the first time this year — the Soviet Union. The summit is likely to exert influence in the currency markets because of the G-7 ministers' recently stated assertion that they will, if necessary, authorise central bank action to hold the dollar back.

One of the Federal Reserve's favourite economic indicators, the employment report, comes out on Friday and may offer some fresh direction to the hesitant markets. The US unemployment rate is teetering on the edge of 7% and will be one of the last figures to reflect the recovery signs evident elsewhere in the economy. If the rate for June hits 7%, therefore, recovery could still be just around the corner as employment lags actual economic performance.

There are no key SA statistics due for release this week, but SA joins the major meetings trend when the ANC congress opens in Durban tomorrow. The congress has the potential to influence foreign perceptions of SA's prospects, and the impact of its resolutions is likely to show through into the level of the financial rand. The congress's posture towards sensitive issues such as sanctions and nationalisation is likely to be particularly closely watched.

US markets are closed on Thursday for the Independence Day holiday. On the same day, sterling's fortunes are in the balance in a by-election which will show how well the British government's vote is holding up.

Opportunities facing South Africa are mind-boggling, says Marais

Star 1/7/91 (49)

Finance Staff

CAPE TOWN — Addressing a meeting of the Tygerberg Chamber of Commerce and Industry in Cape Town, Dr Jan S Marais said that never during his time had he been happier with the trend of events and the opportunities now offered in South and Southern Africa.

However the vital proviso was that a free market-oriented and democratic nation be achieved.

He said that the first thing to admit was that in the aftermath of the more than four decades of the apartheid regime a whole new image must be created and a great "mess" of unemployment, lack of education and training, high inflation, hunger, large-scale crime and violence, high taxes and an overloaded bureaucracy must urgently be addressed.

He said that a basic requirement for a free market and a democracy should be to enlighten all the millions of people with highly politically emotionalised expectations that scrapping of apartheid and the right to vote would not alone mean a prosperous life tomorrow.

A prosperous life would only be achieved step by step.

Truths

He said that he had recently launched and publicised "21 Questions to South Africans" simply because, unless the facts were made known, disillusionment on a large scale could result in fuelling a new wave of violence.

Some of the vital truths according to these questions were:

- The whole nation would have to be indoctrinated and their minds programmed with the truth that prosperity can only be achieved through peace, study, training, birth control, massive investments, job opportunities and plain hard work.
- Higher living standards would remain illusory unless those sections of the nation with an unbelievably high birth rate can be educated in birth control and family planning.
- Apartheid alone can't be blamed for everything that is wrong. There were millions of oppressed and worse-off people in many countries where the word apartheid had never been heard.
- The economy needed simplification. A hard look at priorities and first essentials was necessary and it was highly questionable whether VAT, even though it might be the fairest and most scientific tax system, can be justified in the present circumstances.
- Leaders must spell out in practical detail an attainable fair-for-all vision for a future South Africa.

This approach would make it so much easier to sort out differences around a constitutional debating table.

- All media should be convinced that now is the time to convey to the nation at large the historical records of achievements versus disasters, with reference to the different political, economic and even religious systems.

The massive amounts of useless and even highly negative programming information daily being thrown at the public should be re-oriented towards practical, useful, inspirational and comparative information spread to create enthusiasm and a balanced viewpoint.

- To achieve high ideals, practical ways of breaking through to the millions in the townships and remote farms should be developed.

Dr Marais suggested as one of the highest priorities a series of practical, easily understood documents.

This was because millions would probably never be able to read, and many more who could read just did not bother.

But they all are, whenever possible, glued to radios and TVs.

Dr Marais said South Africa was different from practically any other country on the continent in many ways and had already certain distinct advantages:

- A unique nucleus of natural resources, an extensive infrastructure, modern technology, financial and marketing expertise.

It was readily acknowledged as the powerhouse of Africa.

- Apart from the largely untapped market of a population approaching 50 million, there was an untapped market in the other 20 or so Southern African states with a total population approaching 150 million, not to speak of the other millions of Africans farther north.

ions Even after sanctions and boycotts, South Africa's trade with Africa had developed rapidly and, according to estimates, already amounted to R10 to R15 billion.

Some 80 000 black businessmen had been visiting SA every year over the last few years.

- All the basics were in place for South Africa not only to remain but to become more and more the springboard and gateway for foreign investors and traders into Africa.

Dr Marais said that in his view the only workable constitutional system in omplex circumstances would be a federal/confederal approach; not a carbon copy of the Swiss system, but close to it.

He said that whatever fancy names and gimmicks might be pulled into the fighting arena by manoeuvring politicians, the ultimate and most logical solution would be such a constitutional system incorporating a comprehensive Bill of Rights and certain basic guarantees by the United Nations.

Dr Jan Marais . . . a whole new image must be created

Small men hold the big key

Star 1/7/91 (49)

Dr Ben Vosloo, who today celebrates 10 years at the helm of the Small Business Development Corporation, was at the spearhead of moves that ushered budding black businessmen into the economic mainstream when he took the lead in breaking down apartheid barriers. He explains why he believes the small businessman can play a crucial role in the post-apartheid era.

AT THE dawn of a post-apartheid era, the main debate now centres on what kind of political model looks best suited to the new South Africa — and which economic route to follow.

On one side stand the champions of a market economy approach, with an emphasis on free enterprise, individual initiative, entrepreneurship and efficiency.

On the opposite side stand the supporters of a command economy approach, with a commitment to egalitarianism, welfare services and social security based on Government intervention and control.

There are also many combinations and permutations between the two extremes of the sort of fully democratic system practised in Switzerland and the totalitarian dictatorships that ruled much of Eastern Europe until the recent collapse of several communist regimes.

One major problem is the way the current debate is bedevilled by a lack of consensus on the precise meaning of key terms in the political lexicon.

For one person, "profit" means a reward for effective economic action; for many others it carries connotations of exploitation or privilege.

For some, "socialism" means solutions to end poverty; for others it raises the spectre of a failing and declining economy and widespread misery.

The irony of the situation is that the protagonists of socialism hold that central planning is necessary to achieve a better deal for the masses.

This is due to the fallacy of identifying the ideology of "separate development" with the economic system of "capitalism" in the minds of people in the large Third World periphery.

The majority of voters in the new South Africa are not likely to be easily persuaded that central planning and totalitarian government — albeit "democratic centralism" — are inherently hostile to the spiritual and material welfare of the man in the street.

Hence we must expect a battle for the minds of people between the forces of individual freedom and enterprise on one hand and supporters of socialist central economic planning on the other.

We at the Small Business Development Corporation believe that the natural mediators between these conflicting views are South Africa's entrepreneurs.

Men and women who are engaged in the small business sector of the economy tend to be true free marketeers, though few would actually give themselves that label.

It is largely only the entrepreneurs, with positive hands-on experience of a free market at work, who can act as a bridge between those South Africans who find they do not really see eye-to-eye.

And it is only here that emotional issues do not cloud concepts by attaching moral values to them. For your average entrepreneur, the critical question is not whether a concept is ideologically acceptable, but whether and how it works in practice.

Without job-creation and economic growth, our society will be condemned to impoverishment. Basic needs such as housing and better education and health services will fade out of reach.

Like most countries in today's world we are likely to continue running a mixed economy that combines free market features and some government intervention But sharp questions will have to be asked about the nature of the mix — and the direction of the tilt.

In the final analysis it should be made clear that our hopes for the future do not lie in simplistic ideological rhetoric. They lie in a refocusing on the true nature of development at the grassroots level in towns, cities and regions.

Real economic development is a do-it-yourself process that can at best only be reinforced by sound economic policies.

It boils down to the rediscovery of the enterprising individual who creates job opportunities, who takes risks, who breaks new ground and who plays an innovative role in the economic life of a country.

The way to build a happy and prosperous nation does not lie in centralised bureaucratic planning and control but in unleashing the creative potential of the entire population.

The media in South Africa has a crucial role to play to ensure that the debate on our future political-economic order is an informed debate and that all the relevant facts and arguments are made known. □

Consumer spending declines, says BER

49 CT 2/7/91

By ARI JACOBSON

THE impact of the economic downturn rippled through to slow sales in all the major areas of trade and commerce for the quarter to June, said the latest Bureau for Economic Research (BER) survey.

The bureau said wholesalers, retailers and motor dealers all reported poorer sales and a sharper deterioration in business conditions in the period under review.

The survey said the economic crunch had finally come home to the consumer in this period — with retailers experiencing an absolute decline in volume sales, for the first time since the start of the downturn in the second quarter of 1989.

In this phase of the economic cycle consumer confidence is at a level slightly lower than neutral, it said.

But the survey was more optimistic about the third quarter when the pace was expected to be lifted.

It added that consumers had cut back on credit demand which "substantiates the view that consumer spending is reacting to the negative economic environment".

The Stellenbosch-based research department said inflationary expectations still remained high and would be "a phenomenon to monitor very closely especially with the introduction of VAT".

Forecasts of a slowdown in consumer spending — would see a rise of a mere 1% in 1991 — from the previous year's level "constrained by an economy with very little growth prospects for this year".

"It is clear that sales of durable goods will decline and it seems as if growth will be only marginal in the services and non-durable sectors."

In addition, confidence would influence the pattern of consumer spending — which could lead to further negatives for the consumer.

The bureau concluded that tight monetary policy with persistently high interest rates and (low, possibly negative) real disposable incomes would provide less discretionary income for consumption expenditure.

Star 2/7/91

Govt, unions and business get together

By Shareen Singh

At a meeting in Johannesburg yesterday, trade unions and business and Government representatives formed a steering committee to facilitate continuing joint discussions on the economy and labour issues.

The meeting focused on the process of talks and defined common objectives. It was attended by an employer body — the South African Consultative Committee on Labour Affairs (Saccola) — as well as Cosatu, Nactu, Minister of Manpower Eli Louw and Director-General of Manpower Joel Fourie.

Cosatu spokesman Neil Coleman said yesterday's meeting was aimed at getting the ball rolling.

In this regard, the parties agreed to set up a joint steering committee, including Geoff Schreiner for Cosatu/Nactu, Anton Roodt of Saccola and Mr Fourie.

This committee is expected to meet on July 10 but the next round of tripartite discussions was not expected to commence until late August, Cosatu said.

Star 21 11

Delicate trade-off facing authorities

Fiscal policy should concentrate on promoting productivity and efficiency rather than pursuing socio-political goals says Amalgamated Banks of SA (Absa) chairman Herc Hefer.

In his annual review released yesterday, Mr Hefer adds that the latter is not achievable if not supported by economic fundamentals.

He warns that after years of isolation, South Africa's foreign exchange position is in a tenuous position and that at the current level foreign exchange reserves can finance only two months of imports.

Domestic economic activity has to be promoted carefully to avoid a sudden rush of imports. The prospects for employment will therefore remain gloomy, unless wage demands are moderated to well below the inflation rate, Mr Hefer says.

"South Africa's long-term growth is crucially dependent on competitive exports and thus relatively low unit labour costs."

Mr Hefer says credit demand in the private sector is expected to rise in keeping with the inflation rate during this year, but could well accelerate to about 17 percent in 1992. The cost of credit, however, is expected to change little in real terms in the near future.

Working on an average inflation rate of approximately 14,5 percent in 1991 and 12,0 per cent in 1992, the prime rate should average some 20 per cent and 18 percent for those years respectively. Conservative cash flow management therefore remains crucial in business planning, Mr Hefer says.

Although both the international and South African business cycles are expected to have bottomed, Mr Hefer cautions that the coming few months may be difficult for business, particularly those concerns with a high gearing ratio and depending on gold exports.

Considering the stage of South Africa's economic development, Mr Hefer points out that the demand for collective goods, mainly education, health and security, is bound to remain high.

"In this respect the authorities have to make a delicate decision on the trade-off between government expenditure and private investment".

To create sufficient employment for a rapidly growing population requires large fixed investments, which, Mr Hefer says, will materialise if the government reverses its current policy of dissaving.

"If the government sets a good example in proper housekeeping, one can expect inflation to fall to structurally lower levels and private households to save more." (49)

Mr Hefer notes that central government savings, in turn, can be stimulated if government expenditure is curtailed to a level not exceeding, for example, 25 percent of the gross domestic product, compared with the current level of 28 per cent.

If the government is unsuccessful in exercising fiscal discipline, the Reserve Bank's task of reducing the inflation rate to structurally lower levels, will be virtually impossible.

"In such an event, South Africa will be saddled with the familiar problems of any Third World country: high inflation, low savings, insignificant investments, weak economic growth and severe unemployment," Mr Hefer says.— Sapa.

Herc Hefer . . . "Coming few months may be difficult for business."

UN study sees zero world growth this year

Star 3/7/91 (49)

NEW YORK — A UN economic survey predicted zero growth in the world economy as a whole this year with output in the Soviet Union and Eastern Europe plunging by 10 percent alone.

But the study, released yesterday, said production was expected to rebound in 1992 by two percent.

The gloomy forecast, in the 240-page "World Economic Survey 1991", said no one factor caused the slump but a combination of anti-inflationary measures in industrialised countries and high debt in developing nations contributed to the decline.

The Gulf crisis also had an impact but far less than anticipated outside the Middle East because the rise in oil prices was short-lived, the study said.

It recommended that wealthy countries stimulate their economies and raise another $150 billion a year in funds.

This would help meet "their own social problems as well as the needs of international development, reconstruction in Eastern Europe and the protection of the environment," it said.

The survey showed a severe drop in growth among former communist nations struggling to change their economic systems. The worst decline was in former East Germany, followed by Bulgaria, Poland, Romania, Hungary, the Soviet Union and Czechoslovakia.

"And these estimates are on the low side," said P Goran Ohlin, UN assistant secretary-general for international economic and social affairs. "There is no precedent for the transformations they are attempting."

The report said a safety net of health care, unemployment pay and other benefits was needed to maintain political support for continuing radical changes.

In the developing world, the growth rate slowed 10 percent for the third consecutive year and in Latin America and the Caribbean output actually fell.

Prices for commodities, except for oil, reached their lowest level since the 1930s, measured in terms of their purchasing power, of imported manufactured goods.

It did not expect relief to be quick and said Eastern Europe and the Soviet Union were likely to drain resources from developing countries. Most Western nations have pledged not to divert funds from the Third World but budget restraints may force them to do so.

The study said that many industrial nations feared that any growth above two to three per cent a year would be inflationary and must be curbed.

"As long as this view prevails, these nations cannot serve their historic role as an engine of world economic growth," the survey concluded.— Sapa-Reuter.

'Wealth-sharing first'

CT 3/7/91

JOHANNESBURG. — Redistribution of wealth must take place before a bill of human rights can be implemented, Pan Africanist Congress secretary-general Mr Bennie Alexander said here yesterday.

Speaking at the congress of the conservative National Students' Federation, Mr Alexander said a new constitution could only be negotiated at a democratically-elected constituent assembly.

The PAC would only attend a meeting which had on its agenda the modalities of a constituent assembly, said Mr Alexander. — Sapa

Cosatu team for economy talks

W/Mail 5/7-11/7/91

By DREW FORREST

THE Congress of South African Trade Unions is to send a 50-strong team — including representatives from all affiliates and regions — to the historic first round of talks on the economy with employers and the state next month.

Cosatu, a heavyweight Saccola delegation and state representatives, including Manpower director general Joel Fourie, met in Johannesburg for preparatory talks this week. Manpower Minister Eli Louw also put in a brief appearance.

It was agreed that a joint document would be drafted setting out the aims of the talks, that documents on substantive issues would be exchanged after Cosatu's congress and that negotiations would start in August.

Deadlines will be set for settlement on specific issues, and it was agreed that funds would be raised to facilitate the process.

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At this week's meeting, Cosatu indicated that its main focus would be job losses and retrenchments, macro-economic policy, including privatisation and commercialisation, short-term mechanisms for work creation and social issues such as pensions.

Cosatu wants to involve all unions and it is likely that other employer bodies, including the National African Federated Chamber of Commerce and Industries (Nafcoc) and the Foundation for African Business and Consumer Services (Fabcos), will be invited. The Manpower Department has agreed that other state departments may have to be drawn in.

It is understood that Independent Mediation Service director Charles Nupen is likely to act as a facilitator.

Stage set for recovery in '92

CT 5/7/91. (49)

By AUDREY D'ANGELO
Business Editor

THE stage is being set for an export-led recovery in 1992 — with growth helped by fiscal stimulus, says Rob Lee of the Board of Executors (BOE) in his Investment Outlook for July.

But, although the Reserve Bank is coming under increasing pressure to reduce interest rates, he thinks it "should, and will, resist the temptation to add monetary stimulus until inflation and money supply trends improve".

He says BOE fund management "remain optimistic about economic growth prospects from next year onwards and feel that corporate earnings growth will ultimately justify the current demanding rating on the industrial index."

However, he warns, "the market is now discounting earnings which are quite far down the line and is therefore vulnerable to short-term setbacks.

Underlying prospects for the gold mining industry are slowly improving and gold shares have the potential to move higher in due course."


Rob Lee

Meanwhile, "inflation and money supply data continue to push the likely timing of the next cut in bank rate towards year-end or even into next year.

"Capital market rates have risen sharply as a result. From this level long bonds should outperform returns on cash in the course of the next six to 12 months."

Discussing pressure on the Reserve Bank to reduce interest rates, since the anti-inflation policy is apparently not working anyway, Lee says: "On balance our view is that this would be the wrong time to be panicked into premature relaxation on the interest rate front."

Among reasons for this, he says, are indications that the world economy will move into a higher growth phase next year.

"This will boost economic growth in SA through higher exports, particularly as one can expect a gradual increase in commodity prices as well.

"Analysis of the underlying supply and demand factors in the gold market suggest that events are slowly moving in favour of gold, and that 1992 may see a moderate increase in the dollar price of gold."

Pointing out that it is becoming easier for SA to rollover foreign debt commitments, alleviating the major constraint on economic growth in the last six years, he warns: "It is important to note that an abandonment of fiscal and monetary discipline will very significantly reduce the potential for foreign capital inflows, both from the private sector and from organisations such as the IMF and the World Bank.

Discussing the apparent failure of the Reserve Bank's anti-inflation policy, he says: "Inflation typically responds with long and unpredictable lags to restrictive economic policy measures, particularly when the principle thrust of these comes through high real interest rates.

"This lag has been particularly long and frustrating in this cycle because of the large petrol price hike caused by the Gulf War and more fundamentally because the level of wage increases has remained at high levels well into the downswing.

"This latter factor in turn shows how deeply embedded inflation expectations have become in the SA economy.

"Furthermore the cost reductions inherent in the exemption of VAT on capital and intermediate goods will be reflected in the consumer price index only in the first few months of 1992.

"Once interest rates start coming down this itself helps to reduce recorded inflation because mortgage rates have a significant weighting in the consumer price index."

PAC Viewpoint
by BARNEY DESAI

A REVISED 41-page discussion document entitled "Towards a Democratic Economic Order" has just been published reflecting current discussions within the PAC about its economic mission. The document outlines policy on such questions as (1) Redistribution of wealth and resources; (2) Economic development and growth; (3) PAC policy on Nationalisation and (4) PAC policy on foreign investment.

Economy in Azania at the behest of State and all its people

(49) CIT 5/7/91

THE document asserts that "the PAC is a national liberation movement and in its nation-building programme the Land Question is obviously central: it cannot be avoided or dodged." The policy statement, in addressing the question of the dispossession of the African people of their land, raises the following policy options for redistribution:

1. Confiscation, which involves grabbing the land without compensation.
2. De-commodisation and redistribution and allocation of land use. Under this option land shall cease to be a commodity to be bought and sold on the market.

"Under this policy option land would be redistributed for use by all Africans, by the PAC's definition, which is not based on colour, creed or place of origin but on loyalty, self-recognition and identification and recognition by others.

'The PAC does not intend to redistribute wealth to a dominant African elite. A socialised economy is the aim.'

"The size of each unit will be determined by intended use; the degree of landlessness among the citizens; the requirement to achieve economic efficiency and effectiveness in the use of land; the need for environmental protection or reversal of environmental degradation; the needs of the future generation. According to this option, justifiable compensation, based on individual merits, to those whose land will be taken, shall be guided by the current size owned, the current use of the land, the quality of the land, by the added demonstrable invested capital and so on.

"Compensation for land will be in interest-bearing Government bonds. Every citizen of Azania shall have access to land on a leased entitlement and the right to pass this lease to their children but not to sell the land itself."

The third option for the PAC is the use of the tax structure with incentives to land owners to sell the land to the State and disincentives to keep the land beyond a certain size. Some elements of the second option might operate here, for instance, the issue of the compensation method.

The policy options and associated evaluative criteria are under intense discussion within the structures of the PAC.

Growth

"It is reported that four big corporations own 80,7% of the country's wealth.

"Some 83% of whites earn more than R16 000 a year, while only 5% of blacks are in the same position.

"As few as 5% of South Africans own 88% of the wealth and the vast majority of them are white.

"Blacks own less than 2% of assets; depending on the region, between 30% and 70% of black children are underweight, some 7,4 m blacks occupy only 400 000 units, with an average of 16 people per unit.

"Up to 40% of the employable community is unemployed or underemployed and more than 95% of the unemployed are black. About 65% of black households earn incomes below the breadline."

The document has a strong and detailed analysis on unemployment and job creation.

"The PAC maintains that with respect to scarce resources and existence of extreme wealth differentiation between the haves and have-nots, the country is in a war-like situation. A Marshall Plan of some sort is necessary and desirable. The active involvement of the State is an absolute necessity ... the State shall, however, not operate without due consultation and involvement of organised social, economic and political stake-holders in the country."

The policy document envisages entrepreneurial involvement whereby the State is a producer and distributor of specific offerings to the final consumer. (2) The sponsoring of enterprises operating outside the control of the State. (3) Support directed to the private sector, co-operatives, worker controlled corporations and so on. (4) Involvement in multi-organisation, in joint ventures with corporations from the private sector, co-operatives and so on.

The PAC is very aware that the market (defined in terms of sources of initiatives and choices, rather than impersonality of economic forces) needs organised countervailing forces against the dysfunctional effects of its operations; such forces shall be the State, independent and strong worker participation, a strong consumer movement and a strong national movement for liberation and development. Countervailing forces are also required against the dysfunctional effects of the operations of the State. These would include: (1) Multipartyism. (2) An independent workers movement and an independent and strong movement of entrepreneurs.

Nationalisation

The PAC, says the document, is not obsessed with the idea of nationalising private-sector corporations. It is the economic behaviour of economic institutions that is more important than their mere ownership by the State.

"Emphasis should be made that it is not the PAC's intention to redistribute wealth and associated resources through a process of transferring it from a small dominant wealthy elite, or class, or national group to a small dominant elite, bureaucrats and so on, of the currently economically disadvantaged African population. A socialised economic system is the objective. From the ideological position of the PAC, the State is the people (popular forces, needs, interests and prioritisation) rather than a collective of bureaucrats."

The PAC sees redistributive methods (discussed in detail in the paper) as being more important than mere nationalisation.

Investment

The PAC eschews a situation whereby foreign capital controls critical and strategic sections of the national economy. National interest should always be paramount. The PAC's intentions are to minimise the foreign-debt trap that has become a nightmare for almost all developing countries.

Initially, the PAC will solicit and invite financial and material assistance from foreign governments and non-governmental bodies. The PAC will encourage foreign investment selectively and for strategic purposes. These would include, (a) investment orientated to technology-transfer, (b) joint ventures with the currently disadvantaged Africans so as to give them a speedy economic fillip, (c) joint ventures with private existing firms and/or the State.

The attraction and retention of foreign investors' confidence will be achieved by the PAC government honouring agreements and having them guaranteed, promoting stable labour relations and embarking on extensive manpower development that will ensure skilled manpower availability. Its economic programmes would ensure the extention of its domestic market, thus creating conditions for higher return to investors.

☐ Barney Desai is national publicity secretary of the PAC.
**Towards a Democratic Economic Order. R10 from PAC, Box 68, SALT RIVER 7925.*

FIXED CAPITAL INVESTMENT FM 5/7/91

THE KICK-START ILLUSION (49)

The news this week of a sharp increase in the number of rights issues being planned in the face of buoyant share prices is hardly a novel phenomenon — but nonetheless a welcome one, for two reasons.

If they draw a reasonable response from investors, the issues will be a tangible sign that companies are preparing to make new fixed capital investments. That will, in turn, create more opportunities, especially in the form of jobs, and increase the supply of goods and services at a time when aggregate demand is still ahead of the economy's ability to supply.

Provided that sound fiscal and monetary policies are maintained — and it has to be said that they could both have been sounder — the outcome should also be an eventual reduction in inflationary pressures. The impact will not be dramatic but the beginning of a dynamic process that is characteristic of market-driven economies.

The other reason that new rights issues are to be welcomed is that they vindicate the role of the share market as an active agent of resource allocation and new investment.

The criticism that the share market is merely a casino on which the nation's savings simply chase paper assets to the detriment of new investment has never had much credibility among those who are reasonably informed about free-market economics. But as the process is inevitably slow during a recession — especially when inflationary pressures have not yet been adequately curbed and there is substantial spare manufacturing capacity — it is denigrated by those who favour government intervention.

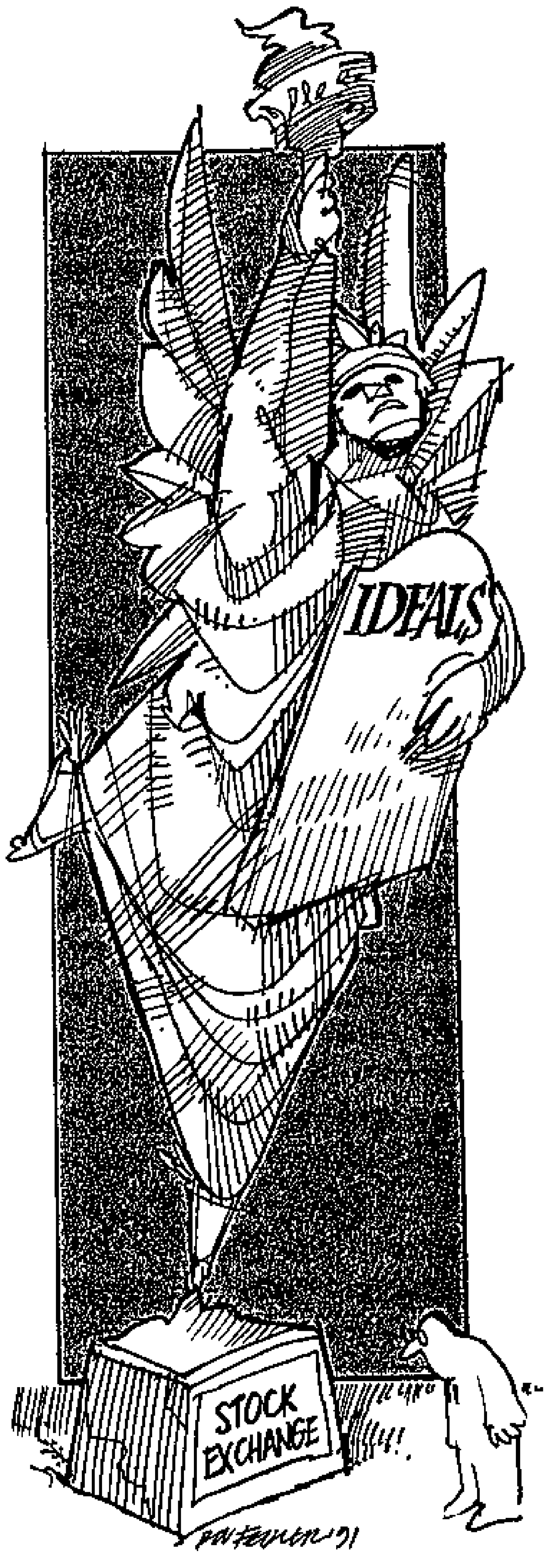
There are few in eastern Europe and the Soviet Union today who would accept government intervention to steer investment as a serious prescription for economic policy. They know from hard experience that, taken to extremes (which is usually what happens when intervention is seen to be failing), such a policy not only curbs personal liberties but progressively erodes the ability of an economy to provide the basics needed for the preservation of civilised standards of living.

In contrast, the paper chase on the stock market, which so outrages romantic interventionists, is the beginning of a process of resource allocation that will most likely provide the highest level of sustainable economic growth. Even if the proceeds of the planned rights issues are used to reduce or refinance debt, it remains a process along the road of more efficient resource allocation.

In due course, provided there is political stability, a sound money policy to stabilise the general level of prices and reduce inflationary expectations, and real interest rates to encourage savings, the dynamics of the market economy will lead to increasing fixed-capital investment.

What is critical to sustaining that process now is that it should be left to gain its own momentum. While there are still signs of excessive consumer demand (in relation to the ability of the economy to supply), efforts to kick-start an investment boom will simply aggravate inflation. If inventories had been higher, and capacity utilisation less, there might have been some reason to do so. In present circumstances a kick-start is far too slap-happy an approach to economic policy.

Everybody is acutely aware that small undertakings are going out of business in these austere times because of a combination of error, misjudgment and incompetence. They are unlikely to be saved by a kick-started economy now or by 2% off the prime rate. The chances are that if this were to happen, many more small companies would disappear after the inflationary surge.



When any government abandons sound money policies and allows inflation to rip — as this government has done for more than 15 years — it effectively takes out a heavy mortgage on the future. Repaying that mortgage is painful in any economy. And the longer inflation has been allowed to entrench itself, the longer and harder is the cure. It was certainly worse for the British and the Americans in the early Eighties.

In any normal Western country, the National Party government, even if it had been broadly representative, would have been voted out years ago on its inflation record alone. While it has changed its views radically on apartheid and socialism, and has made progress in reversing those policies, with inflation it still isn't cutting the mustard.

Stabilising prices in an economy as inflation-ridden as this one requires not only unquestionable political commitment, but a credible and sustained campaign to persuade ordinary people that the sacrifice they are being asked to make now will be finite and worth it. A change of policy is not what is needed. But present policy needs to be given both economic substance and political reality.

Justification by faith alone is not enough. The State President, Finance Minister and Reserve Bank Governor have to be out there proselytising.

And that they are not doing. ■

A prescription geared to work — by SA's chief finance doctor

AG 6/7/91

FRANS ESTERHUYSE,
Weekend Argus Political Correspondent

RESERVE Bank governor Dr Chris Stals says inflation *can* — and *must* — be brought down to a lower level.

And he stands by a restrictive monetary policy as the most effective remedy.

In response to questions from Weekend Argus Dr Stals said reducing interest rates by creating more money was not the answer.

"High inflation will be as bad for growth as high interest rates — if not more dangerous."

He warned that the expected new economic upswing would not be sustainable "unless we can also maintain internal and external — that is, balance of payments — financial stability".

Dr Stals provided some of the answers which Finance Minister Mr Barend du Plessis and his Deputy Minister Dr Theo Alant were unable to give to some tough questions submitted to them on economic issues affecting every South African.

But when it came to issues approaching political aspects of the country's economic crisis — even the crucial issue of violence and its effect on the economy — Dr Stals declined to express an opinion.

Mr Du Plessis declined to reply to Weekend Argus's questions, saying he was too busy before starting a month's holiday — during which he would be unavailable. Dr Alant said he could not give answers without having them approved by Mr Du Plessis.

☐ **CHRIS STALS:** Inflation can — and must — be curbed

One of the questions put to Dr Stals was on whether he expected an economic upswing as early as the beginning of next year. If so, why, and would it be big enough and sufficiently sustained to result in the increase needed in the country's growth rate?

The question was based on remarks by Mr Du Plessis in parliament, when he said he could confidently predict South Africa's next economic upswing would begin at the end of the year or the start of next year.

Inventories depleted

Dr Stals replied: "A new economic upswing will start sooner or later as inventories are being depleted and production capacity is being absorbed by the continuing rise in private sector consumer expenditure and rising public sector current expenditure.

Some further improvement in the balance of payments — rising exports or a net capital inflow into the country — may also support a new phase of economic expansion. Improvements in the political and social environment will also contribute to better economic prospects.

"Nobody can predict the beginning of the expansionary phase with any accuracy. A new upswing will not be sustainable unless we can also maintain internal and external financial stability."

Dr Stals was asked what steps, if any, were being taken by the government to initiate an economic recovery.

He replied: "Please direct this question to the government and not to the Reserve Bank."

On inflation, Dr Stals was asked: *Is there any hope of bringing inflation to the target of single figures. Or should we, as the ANC has suggested, learn to live with 15 percent inflation?*

He replied: "Inflation can and must be brought down to a lower level. It will need a much more restrictive monetary policy — for example with money supply targets of zero growth to match the growth rate in real economic activities and with a higher level of interest rates — if we should want to do this quickly.

"The Reserve Bank prefers to do it gradually and has therefore decided on a medium-term approach on monetary policy. The problem of 'learning to live with 15 percent' inflation is unfortunately that inflation tends to feed on itself.

"The 15 percent will not stay at this level but could easily become 150 percent unless we persist with a restrictive monetary policy. It is therefore essential to aim for a real reduction in the inflation rate."

What are the prospects of lowering interest rates which business claims is overkilling the economy?

Won't take lead

Dr Stals said: "The Reserve Bank has no intention of taking the initiative and to reduce interest rates artificially, especially not if this would require the creation of money at a growth rate in excess of our existing guidelines.

"But interest rates may decline for other reasons, for example decline in the demand for bank loans, a decline in the rate of inflation or a big inflow of capital from abroad."

He said it was disappointing that the consumer price index was still increasing at a rate of more than 15 percent. But he saw this as confirmation of the correctness of the Reserve Bank's conservatism in holding on to restrictive policies for the time being.

HANS FALKENA: The wise rich getting richer and the poor poorer

State spending curb the key to taming inflation

ST Times 7/7/91 (Buss Times) (49)

By CURT VON KEYSERLINCK

THE Reserve Bank can continue indefinitely with punitively high interest rates, but if there is no drop in State spending there will be no end to inflation.

This is the view of United Bank chief economist Hans Falkena.

"High interest rates are making businesses scale down their use of credit," says Dr Falkena.

"This is understandable because a business has to make profits and is therefore obliged to reduce costs.

"But making profits is not the Government's prime objective. It is not as easily scared off borrowing by high interest rates. If it were, the Reserve Bank's measures to reduce inflation would work."

He reasons that high interest rates without fiscal discipline by the Government may be counter-productive. He says the Government's tendency to carry on borrowing while the private sector is reducing its debt has two effects: it keeps up the pressure to increase the money supply — which sustains inflation — and it increases government spending as a percentage of gross domestic product.

In theory this is not necessarily inflationary, but in practice it usually is.

Over the decades government spending rose from 15% of GDP to 27,5% last year.

This year the extent to which the Government must borrow to cover its expenditure — its deficit — is likely to rise from 2,7% to 3,4% of GDP. Since real growth in the economy will be less than either of these figures, the Government's share in the economy will necessarily increase and is likely to reach 29% this year.

Sustained

SA's deficit spending is above the 2% to 3% considered acceptable for developing countries by the International Monetary Fund.

Another consequence of high deficit spending is the huge cost of debt servicing it brings.

"To contain inflation, the Government should finance its capital spending with loans and its current expenditure with tax revenue," says Dr Falkena.

"But it is financing current expenditure with loans. This increases money supply, which in turn sustains inflation.

"It means in effect that this expenditure is being financed by 'inflation tax on the ignorant and the poor.'

"Inflation hurts the poor more than the rich. Somebody should try to explain this to the ANC and the trade unions. They do not know what side their bread is buttered on because they advocate high deficit spending and other inflationary measures.

"Rich people should be making money out of inflation because they can afford to buy property, equity and a variety of retirement annuity and investment schemes which yield returns well above inflation.

"It is only the poor, who have no money to invest, or the ignorant rich who do not invest wisely, who get poorer.

Revenue dismisses calls to drop VAT on Krugerrands

Bday 8/7/91

GILLIAN HAYNE

GOVERNMENT's argument that it could not justify taxing white bread while allowing an exemption for Krugerrands is treated with sympathy but disbelief by gold dealers.

SA Gold Coin Exchange chairman Eli Levine said since the first mention of VAT on Krugerrands, sales of the coins from the Rand Refinery — one of the two outlets of new Krugerrands — had dropped 95%.

SA Association of Numismatic Dealers vice-president Eddy Absil said by placing VAT on Krugerrands, Revenue would be "demonetising" the unit. Demand would drop, leading to a general decrease in the demand for gold. This would jeopardise the struggling industry, and harm workers.

He added that if South Africans did not support their own gold market they could not expect the world market to buy gold.

Inland Revenue chief Trevor van Heerden said it was an overreaction to say VAT on Krugerrands would jeopardise the gold industry as sales of gold coins formed a very small part of the industry.

He added that sales of gold coins had dropped dramatically over the past five years, and not only since the announcement of VAT on Krugerrands.

The argument that VAT would affect the export market was also inaccurate as exported Krugerrands would be zero-rated.

He said there was no chance of the treatment of Krugerrands changing before the introduction of VAT on September 30.

But a Reserve Bank spokesman said it was still waiting for a directive from Revenue on the treatment of new Krugerrands.

"Second-hand" Krugerrands — those bought anywhere except from Rand Refineries or the SA Mint — will be subject to VAT. But, as Levine pointed out, with gold coins defined as "second-hand goods", dealers buying coins from individuals would be able to claim a notional input tax credit on the price paid.

Thus, although Krugerrands sold by the Rand Refinery or SA Mint would have to carry the full 12% VAT charge, the values of second-hand coins would not be affected by VAT.

Assuming a coin was worth R1 000, the dealer would be able to claim an input tax credit of R107,14. He could sell the coin on for R892,86 plus 12% VAT (R107,14) thus maintaining its price of R1 000.

Absil said Krugerrands, like shares, were traded on the JSE. As shares were exempt from VAT it would be inequitable to tax what was in effect just another investment vehicle.

By law Krugerrands were legal tender. The fact that VAT legislation specifically excluded Krugerrands from the definition of money was totally wrong, he said.

THE MONEY MARKETS by Andrew Gill

Some red faces over unexpected shortage

Bday 8/7/91

(49)

THERE were a few red faces in the corridors of the Reserve Bank early last week after an oversight resulted in an excessive shortage appearing out of the blue.

The problem, you see, is that they had forgotten platinum mines paid tax in June. This apparently accounted for a large amount of the money drained through tax cheques.

As a result the shortage clambered to over R3,5bn — its highest level since last October — and left a few people wondering whether Reserve Bank Governor Chris Stals had decided to exterminate the inflation bug in one fell swoop.

The week is probably best relegated to memory as an enormous booboo by the protector of the internal and external value of the currency.

To cap it all, they managed to roll over R600m in special TBs in the two days that the tax cheques came through — better luck next time! The mess is expected to result in a slowing of the Bank's recent activity in issuing special TBs and undertaking dollar swaps.

If the Bank is looking at a shortage of about R2bn, a fair amount of maturities have to filter through before more issues are made.

Gold and foreign reserve figures could have suffered from the Reserve Bank's consistent use of dollar swaps. Friday's figures showed a sizeable 10% decline in forex reserves, part of which analysts said was due to the swapping.

The Bank's balance sheet shows another significant movement. In June, deposit-taking institutions deposits at the Reserve Bank fell 22% (R346m) to R1,2bn. The falls are likely to have occurred as a result of the lower reserve requirements that have been phased in since March which are due to be completed towards the end of the month.

This was, however, largely ~~countered~~ by the amount of discounted bills at the end of June, up by a fairly large R281m (12%) during the month.

Another liquidity boon mentioned in the Bank's Quarterly Bulletin was forward cover losses. In the balance sheet, other assets (largely forward cover losses) grew by R328m in one month to top R13bn.

Other than the oversight, another deadly quiet week was had by all, with dealers looking enviously at their capital market colleagues who managed to move rates down on whispers of Japan dropping sanctions.

Some market players are wondering whether Bank officials are having a general bout of amnesia because of the still-elusive circular 11. Two weeks after being told that circulars 9 & 10 were to be scrapped, treasurers are still waiting.

Unions to oppose 'wasteful economy'

Argus 8/7/91

(49)

By SHARON SOROUR, Labour Reporter

THE role of the trade union movement in a developing South Africa was to defend the democratic rights of workers, said newly-elected secretary-general of the ANC Mr Cyril Ramaphosa.

Speaking in Durban during an *Agenda* debate on TV1 last night, he said trade unions were "surging forward in many ways" to announce their role in a developing South Africa.

Redistribution of wealth had been created by workers themselves and the movement had to ensure the country's economy was run in a beneficial way.

"The government has run the economy in a wasteful way and the trade union movement will fight against this," he said.

Mr Cyril Ramaphosa

Mr Ramaphosa, who relinquished his leadership of the National Union of Mineworkers to take up his ANC post, said the country's wealth had been limited to a minority of South Africans.

"This wealth must be unlocked before redistribution can begin," he said.

Mr Ramaphosa said productivity was a priority of workers.

"Productivity is not reaching optimum level in South Africa because people have not been properly trained and have not been allowed to assume their proper role where they are employed.

"In the new South Africa there should be a programme of affirmative action, for men as well as women."

Women were among the most exploited and oppressed workers, he said, and the trade union movement wanted to assure women this would end.

In 10 years SA could be doing well, if . . .

HUGH ROBERTON
Argus Foreign Service
in WASHINGTON

ARGUS 8/7/91
49

ONE of America's most widely respected political and economic analysts, Mr Francis Fukuyama, believes that a decade from now South Africa would be doing well if it could emulate Brazil but that, given the ANC's present plans, the country would be more likely to parallel the constant economic crisis and long-term stagnation of Peru.

Writing in the conservative political journal The National Interest, Mr Fukuyama, author of the acclaimed but controversial book *The End of History* and *The Last Man*, adds that if the ANC's more radical policies on wealth and land redistribution were implemented, the Peruvian scenario could be merely a way station on the road to becoming another Zambia, Zimbabwe or Tanzania.

Mr Fukuyama is a former deputy head of the US State Department's policy planning division, and a consultant to the Rand Coroporation, and reached his dismal prognosis after a recent visit to South Africa.

His article analyses the historic and economic factors which led to President De Klerk's dramatic reform announcement on February 2 last year and suggests three possible scenarios for a future South Africa.

The first, and most optimistic, would be that South Africa would be like Germany where the developed part of the country would peacefully absorb the less developed part and, while suffering a temporary drop in living standards, would ultimately bring the poor part up to the level of the wealthy.

The second, and least optimistic, would be the Lebanon scenario, in which the current township violence would spread and become the future of the country as a whole as it became partitioned into different ethnic or racial communities which had taken up arms to protect themselves.

The third was the Latin American model where decline would be not so much political as economic, with "massive increases in public spending followed by hyperinflation, leading to a situation like that of Brazil (if one is optimistic) or Peru (if one is not)."

Mr Fukuyama dismisses the German scenario as "the one most clearly out of the question" and points out that even a rich and powerful country like Germany, with one language, ethnicity and culture, was having difficulty integrating rich and poor segments.

"It is a widespread misconception, fostered for many years by the apartheid regime but believed by many blacks, that South Africa is a relatively rich First World country that has simply failed to share the wealth adequately with its black population. It is in fact a middle-income developing country with a per capita income on the level of Mexico or Poland, and an absolute GNP about the size of Argentina or Indonesia."

He also dismisses the Lebanon scenario, even though he points out that it is suggested by the township violence and by the fate of Mozambique and Angola, and argues that South Africa's economy, in which the interests of black and white are intertwined, and the changed international scene in which foreign intervention is unlikely, militate against South Africa becoming another Lebanon.

"If a future South Africa will resemble neither Germany nor Lebanon, and its economy remains too strong for it to sink into African poverty in the short run, the question then becomes which Latin American country it will take after. For if it seems just possible that South Africa can skirt a political maelstrom of instability and violence, it is hard to see how it can avoid a long-term economic deterioration.

"The starting point for this deterioration is the evident need for the redistribution of wealth within the country. To a much greater degree than in other developed countries, it is possible to say that the rich in South Africa got their wealth at the expense of the poor and that it is important to remedy the situation.

"The problem is that any large-scale attempt to right these wrongs over a short period of time would be self-defeating in that it would wreck the economy, and thereby undermine the basis for wealth creation that is the only hope for black South Africa itself."

Mr Fukuyama adds: "It is here that the evolution of the ANC's economic thinking over the next few years will be critical. Both the ANC and the SACP have asserted that they want to preserve a mixed economy, but the precise mixture of public and private could spell the difference between muddling through and total disaster.

"Were the ANC to attempt to implement its current economic programme today, it would begin by massively increasing public spending on precisely those social services that were so lacking for blacks in apartheid South Africa. The ANC has a rather naive belief in how much foreign capital it can attract, based in part on overzealous promises by Western sympathisers.

"Like others around the world, its leaders are believers in the Cargo Cult of the 1990s, the mythical 'Japanese investor' or American foundation that will bring capital to South Africa once its industries have been 'democratised'. In fact, financing would have to be largely internal, coming in part from higher taxes on individuals and corporations, and in part from larger government deficits and higher rates of inflation.

"The ANC would seek to use the public bureaucracy and the parastatals to boost black employment, in the first instance for its own political supporters. In doing so, it would simply be following the unfortunate example of the Afrikaners after 1948, whose success would be very hard for a much larger black community to duplicate."

Mr Fukuyama argues that it would be hard to overstate the potential economic disaster if whites began leaving South Africa in large numbers, and he said the greatest dilemma for the new government would be to persuade whites to stay.

"However unfair the current degree of white property ownership, and however insulted and injured the black population has been by the apartheid system, the future economic prosperity of South Africa will depend to a very large extent on whether the whites can be persuaded to stay on.

"The same sort of bitter irony also characterises the Soviet Union and Eastern Europe, where former communist managers and party bosses are ending up as the entrepreneurs and businessmen of the region's marketising economies. While it does not seem fair that people who prospered under the previous oppressive system should do so again in the new one, such an outcome is perhaps inevitable for the foreseeable future, since they are the ones with the know-how and connections necessary to make the economy work."

Mr Fukuyama repeatedly expresses concern about the ANC's lack of economic expertise an its strong continuing attachment to socialism. "As with the communists, much of the ANC's economic thinking appears to have been placed in a deep freeze for several decades." Much of its thinking "does not reflect knowledge of economics so much as the moral conviction, quite understandable in South Africa's case, that property is unjustly distributed.

"The liberal economic revolution now sweeping Eastern Europe and Latin America, which maintains that wealth must be created before it is redistributed and favours privatisation and liberalisation of trade policies, has passed the ANC by. While Mexico, Brazil and Argentina are busily selling off state companies and negotiating free trade pacts, the ANC is steadfastly opposed to the further privatisation of South African parastatals, which are regarded as family heirlooms or, less gracefully, as milk cows for future public sector employment once a black government is in power."

He concludes that South Africa would be "doing very well indeed if, a decade from now under a black government, it could emulate Brazil which, despite a state of perpetual economic crisis, has nonetheless managed to sustain a record of growth.

"But Brazil would seem to represent the very upper limit of economic possibilities, while Peru, with its constant economic crisis and long-term stagnation, may be a more probable model given current ANC plans."

Sowetan 8/7/91

(49)

'Marshall Plan needed in SA'

SOUTH AFRICA needs a "Marshall Plan" to rectify the inequality between the "haves and the have-nots", the Pan Africanist Congress says in a policy document titled "Towards a Democratic Economic Order".

In a statement released in Cape Town summarising the document, the PAC maintains that, because of "scarce resources and the existence of extreme wealth differentiation between the haves and the have-nots, the country is in a war-like situation".

The policy document deals with the PAC's economic thinking and outlines policy on: redistribution of wealth and resources; economic development and growth; policy on nationalisation; and policy on foreign investments.

On redistribution, the document suggests its contribution to future peace and the development of one nation with minimum scars inflicted by one section on another and the resulting repercussions with respect to the future economic well-being of the country need to be considered.

The statement says the country's wealth is vested in four companies; Anglo American, Rembrandt, SA Mutual and Sanlam.

Consumer movement

While 83 percent of whites earn more than R16 000 a year, only five percent of blacks are in the same position.

"The PAC is aware that the market needs organised countervailing forces against the dysfunctional effects of its operations, and such forces shall be the State, independent and strong workers' participation, a strong consumer movement and a strong liberation and development national movement," the statement says.

Foreign investment

The document also says the PAC is not obsessed with nationalising private-sector corporations. "The behaviour of economic institutions is more important than their mere ownership by the State.

"It is not the PAC's intention to redistribute wealth and associated resources by transferring it from a small, dominant, wealthy elite or class or national group to a small, dominant elite from the currently economically disadvantaged African population."

The PAC document says it will encourage foreign investment selectively and for strategic purposes. - *Sapa*

SA economy set to rebound in 1992, says James Capel

B Day 8/7/91 (49)

JOHN CAVILL

LONDON — SA's economy will rebound with real GDP growth of 3,9% in 1992, and the financial rand discount will shrivel from 12% to 3%, say leading London stockbrokers James Capel.

James Capel has been voted the UK's second-best investment research firm by a poll of institutional fund managers.

This week it published the first of a new monthly review of SA "in recognition of the fact that institutions are rapidly moving to the position where the SA equity market (currently 1,5% of world market capitalisation) will become an acceptable part of global portfolios".

Capel's macro-economic projections say that after a fall of 1,3% in GDP in 1990, SA will remain in recession this year with a further fall of 0,1%.

But as world economic activity picks up in 1992 and commodity prices rise SA will enjoy a "gearing effect on GDP".

Growth, however, will see a fall in the trade balance surplus from R11,5bn in 1990 to R10bn this year and to R2,5bn in 1992.

Capel foresees little change in the inflation rate, which is forecast to average 14,5% this year and 14% next.

It projects the commercial rand falling to $0,33 by the end of 1992 while the financial rand rises to $0,32, virtually wiping out the discount.

"The international rehabilitation of SA is beginning to be reflected in the levels of the majority of sectoral Johannesburg share indices," says Capel.

"The country is still in the grip of an extended recession and most companies will struggle to show a meaningful increase in earnings this year. A notable exception is the retailing sector."

Capel says retail shares have already risen sharply, and "perhaps the best ploy is to now look at those companies which stand to benefit most as the reconstruction of SA gathers pace" — such as the building sector and firms active in developing trade with sub-Saharan countries.

With the commodity cycle expected to bottom out this year, mining houses and gold shares are recommended, and among industrials, Capel tips Iscor, Barlow Rand, Premier, SA Breweries, Safren, Kersaf and Tongaat-Hulett.

Capel forecasts long-term growth of 5% a year for the rest of the decade if SA "manages to get it right".

Rosier outlook with real GDP growth for SA

CT 8/7/91 (49)

From JOHN CAVILL

LONDON. — The SA economy will rebound with real GDP growth of 3,9% in 1992 and the financial rand discount will shrivel from 12% to 3% says the latest forecast from leading London stockbrokers James Capel — voted the UK's second best investment research firm by a poll of institutional fund managers.

This week Capel published the first of a new monthly review of SA "in recognition of the fact that institutions are rapidly moving to the position where the SA equity market (currently 1,5% of world market capitalisation) will become an acceptable part of global portfolios".

Capel's macro-economic projections say that after a fall of 1,3% in GDP in 1990, SA will remain in recession this year with a further fall of 0,1%. But as world economic activity picks up in 1992 and commodity prices rise SA, "very much a resource-based economy", will enjoy a "gearing effect on GDP".

Growth, however, will see a fall in the trade balance surplus from R11,5bn in 1990 to R10bn this year and to only R2,5bn in 1992.

Capel foresees little change in the rate of inflation which is forecast to average 14,5% and 14% this year and next. And it projects the commercial rand falling to US33c by the end of 1992 while the finrand rises to 32c, virtually wiping out the discount — although Capel does not predict the restoration of a unitary rand.

"The international rehabilitation of SA is beginning to be reflected in the levels of the majority of sectoral JSE share indices," says Capel which, however, remains bearish on platinum.

"The country is still in the grip of an extended recession and most companies will struggle to show a meaningful increase in earnings. A notable exception is the retailing sector."

But Capel says retail shares have already risen sharply and "perhaps the best ploy is to look at those companies which stand to benefit most as the reconstruction of SA gathers pace" — such as the building sector and firms active in developing trade with sub-Saharan countries.

With the commodity cycle expected to bottom out this year mining houses and gold shares are recommended (but not platinums) and among industrials Capel tips Iscor, Barlows, Premier, SAB, Safren, Kersaf and Tongaat-Hulett.

Star 9/7/91

Business facing new challenges

(49)

Business concerns will have to take definite note of the totality of change that could occur on the political, economical, social and community fronts after the adoption of a new constitution for South Africa, Mr Hendrik Sloet, chairman of Saambou Holdings told the Durban Sakekamer yesterday.

Mr Sloet said that such firms will have to satisfy a need with a high quality product at a competitive price.

"As long as the Afrikaans companies do this and comply with their social responsibilities, I see no problems for them. It will then also not be necessary to change their culture and image haphazardly".

In the new South Africa, businesses's self appraisal will have to be directed at a delicate balance between striving for a profit and the social needs of the community.

"To a certain extent they will have to strive for an old and a new culture, with an underlying aim of improvement in service quality and innovative thought", Mr Sloet said.

He identified five fundamental responsibilities in the establishment of a future business culture, including that directed at the employees in which education plays an important role.

He also did not regard it correct or imperative to constitute a work-force that was a precise reflection of the country's population profile, as this was contrary to the principle of a non-racial society. Merit should be the most important consideration.

A company also had a responsibility towards its clients and satisfying their needs, and should also set an example to the emerging new consumer community.

In addition there was a responsibility towards suppliers, shareholders and the community as a whole. The objective must be to improve quality of life in general.— Sapa.

Look to markets for economic growth, says World Bank

B/Day 10/7/91 (49)

SIMON BARBER in Washington

SHOUTING "fire!" in a crowded theatre is one of the few forms of expression not protected by the First Amendment to the US constitution, unless, of course, a fire has actually broken out. SA law and custom evidently impose no similar restraint on the discussion of the country's economy.

Okay, things are grim. The theatre is structurally unsound, lacks seats for a sizeable proportion of its patrons and has been appallingly managed. But this does not mean SA's economic straits are so dire as to be the functional equivalent of having all the armies of Africa poised on the border.

Such extreme imagery is worse than irresponsible for it suggests a cure even more poisonous than the malady. War implies state intervention on a gigantic scale and the concentration of power into the hands of an all-powerful cabal of decision-makers.

Happily, the World Bank has just produced an antidote in the form of its latest annual development report. After mulling the failures and successes of the past 40 years — though not, alas, SA specifically since it started becoming respectable too late for inclusion — the bank has come to a very refreshing conclusion: markets, not the state, are the key to rapid economic development.

We have at last understood, says the report, that "trade, markets and entrepreneurship are crucial determinants of progress . . . governments need to serve enterprise, large and small, not supplant it".

They can do this in four principle ways, first and foremost by getting the macroeconomics right and not treating them as an embarrassment to be given lip service in the manner of the ANC's 1990 working paper on economic policy. Without fiscal and financial responsibility and stable, undistorted prices and exchange rates, everything else breaks down. Too rapid growth in government spending leads to "large deficits, inflation and the crowding out of private investment". Better to streamline and to look carefully at the "division of economic tasks between the government and the private sector" than to print money.

Second, foster a competitive environment at home. No protection or featherbedding, please. If you must adopt industrial policies favouring one sector over another for strategic reasons, at least let price signals tell you when you have blundered — as, almost certainly, you will. Otherwise, do not do it. But do privatise state-owned industries. Private managers with their shareholders' assets on the line tend to be more efficient and adaptive than bureaucrats betting taxpayers' money.

The world's most successful economies got that way through "the rigours of competition". "Systems of industrial licensing, restrictions on entering and exiting markets, inappropriate codes for bankruptcy and employment, inadequate property rights and price controls" all act as brakes on progress. As do regulatory mechanisms that function at the discretion of corruptible officials rather than on the basis of clear and well-established rules.

State interventions should be limited to making competition more open and efficient. That means developing "public institutions of high quality" rather than as employers of last (or, perhaps in the ANC's as in the NP's case, first) resort, as well as making wise, productivity-orientated investments in infrastructure. It also means ensuring a sound legal system through which property rights are both "clearly defined and conscientiously protected". Land reform is fine, so long as is done is such a way as to make the land more productive with rural credit, research and extension provided where possible by the private sector.

Third, join the global economy and abandon import substitution fantasies. Productivity is the name of the game, and preferring more expensive domestic inputs to cheaper imported ones is a sure way to lose it. By contrast, "reductions in trade protection often raise the incomes of the poor by supporting labour intensive activities".

Foreign investment, foreign education, technical assistance, the licensing of patented processes and the transmission of knowledge through exposure to foreign goods markets and through imports of capital, equipment and other inputs all serve to make an economy more productive and competitive. "The effect of import competition on firms in Chile and Turkey — and the effect of greater competition in export markets on firms in Brazil, Japan and the Republic of Korea — confirm the global economy's decisive contribution to efficiency."

Fourth, the state must "invest in people", especially in terms of education, health care and population control, but also by providing a "safety net" for the truly needy. This is the one area in which the bank feels markets do not operate so well, but which is nonetheless essential to their efficient functioning. Care should be taken that such investments are properly targeted and spent. It is no good spending 5% of GDP on education if schools do not teach. Big bang capital expenditure can go to waste if provision is not made for recurrent costs. And heavy subsidies for higher education should be reduced in favour of primary schooling. Similarly, the focus should be on basic health care rather than on "expensive curative systems".

If each of these four sets of commandments are followed, they tend to produce results that are greater than the sum of their parts. One of the report's most fascinating findings is the relationship between education levels and the extent to which a government adopts price-distorting economic policies. In a study of 60 developing countries between 1965 and 1987, the bank found that those with distorting policies and low education levels enjoyed annual GDP growth rates of 3,1%. Those with either higher education levels or fewer distortions grew at 3,8%. However, those that got both right saw their economies expand by 5,5%.

The bank's prescriptions may be sneered at by the worshippers of redistribution. To them the bank responds: market reform and redistribution go hand in hand. "The trade-off between growth and equity, which helped to entrench anti-growth polices in socialist economies and anti-equity policies in conservative ones, has been discredited by the many economies that consistently outperform the rest on both counts: Costa Rica, Indonesia, Japan, Korea, Malaysia, and the Scandinavian economies."

Greater equity — and greater political tranquility — naturally flow from a more efficient, more productive, more market-orientated, less distorted economy. On the other hand, efforts to redistribute or satisfy political constituencies, either through income transfers, public employment creation or other such methods tend to have quite the opposite effect. They often entail highly distortionary policies and "a vicious cycle of harmful interventions (which) entrenches special interests" — as SA well knows. Market reforms, by contrast, "can tilt the distribution of income in favour of the poor" and thus actually "broaden the base of political support for difficult changes".

In short, get the economics and the division of labour between state and marketplace right and the political imperatives will generally be taken care of in the process. Economic success breeds and perpetuates democracy. Failure does not.

Washington Letter
by SIMON BARBER

(49)

CT 10/7/91

World Bank report lights SA's path to prosperity

SHOUTING "Fire!" in a crowded theatre is one of the few forms of expression not protected by the First Amendment to the US constitution — unless, of course, a fire has actually broken out. South African law and custom evidently impose no similar restraint on the discussion of the country's economy. To the contrary, it seems almost *de rigeur* among certain members of the political and rent-seeking classes to describe the current state of play in the most panic-inducing terms.

All right, things are grim. The theatre is structurally unsound, lacks seats for a sizeable proportion of its patrons and has been appallingly managed. But this does not mean that South Africa's economic straits are so dire as to be the functional equivalent of having all the armies of Africa poised on the border.

Such extreme imagery is worse than irresponsible for it suggests a cure even more poisonous than the malady. War implies state intervention on a gigantic scale and the concentration of power into the hands of an all-powerful cabal of decision-makers.

Happily, the World Bank has just produced an antidote in the form of its latest annual development report. After mulling the failures and successes of the past 40 years — though not, alas, South Africa specifically, since it started becoming respectable too late for inclusion — the bank has come to a very refreshing conclusion: markets, not the state, are the key to rapid economic development.

We have at last understood, says the report, that "trade, markets and entrepreneurship are crucial determinants of progress . . . governments need to serve enterprise, large and small, not supplant it".

They can do this in four principal ways: first and foremost by getting the macro-economics right and not treating them as an embarrassment to be given lip service in the manner of ANC's 1990 working paper on economic policy. Without fiscal and financial responsibility and stable, undistorted prices and exchange rates, everything else breaks down. Too rapid growth in government spending leads to "large deficits, inflation and the crowding out of private investment". Better to streamline and to look carefully at the "division of economic tasks between the government and the private sector" than to print money.

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Go global

State intervention should be limited to making competition more open and efficient. That means developing "public institutions of high quality" rather than as employers of last (or, perhaps in the ANC's as in the NP's case, first) resort, as well as making wise, productivity-oriented investments in infrastructure. It also means ensuring a sound legal system through which property rights are both "clearly defined and conscientiously protected". Land reform is fine, so long as is done is such a way as to make the land more productive with rural credit, research and extension provided where possible by the private sector.

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Growth vs. equity

If all of these four sets of commandments are followed, they tend to produce results that are greater that the sum of their parts. One of the report's most fascinating findings is the relationship between education levels and the extent to which a government adopts price-distorting economic policies. In a study of 60 developing countries between 1965 and 1987, the bank found that those with distorting policies and low education levels enjoyed annual GDP growth rates of 3,1%. Those with either higher education levels or fewer distortions grew at 3,8%. However, those that got both right saw their economies expand by 5,5%.

Now the bank's prescriptions may be sneered at by the worshippers of redistribution, a cult which, either sincerely or as a matter of expedience, seems these days to include just about every pundit in South Africa. To them the bank responds: market reform and redistribution go hand in hand. "The trade-off between growth and equity, which helped to entrench anti-growth polices in socialist economies and anti-equity policies in conservative ones, has been discredited by the many economies that consistently out-perform the rest on both counts: Costa Rica, Indonesia, Japan, Korea, Malaysia and the Scandinavian economies."

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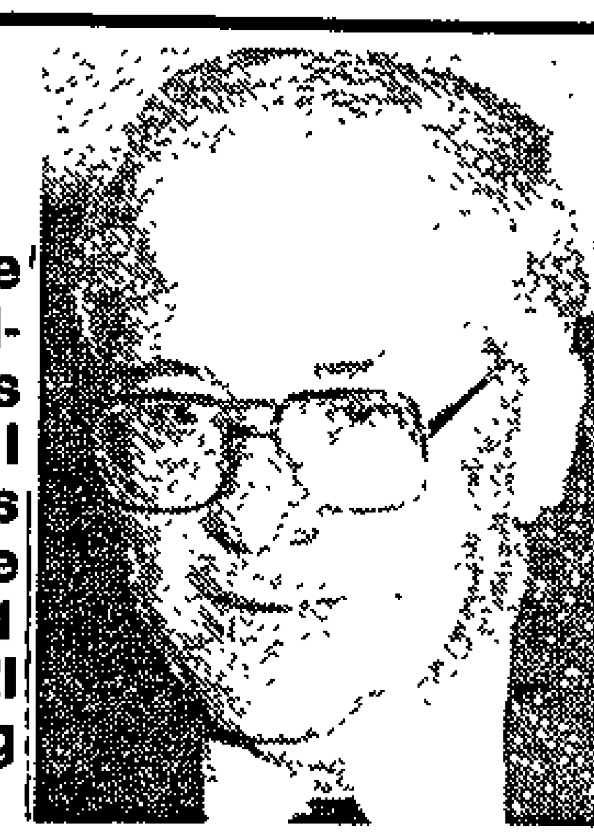
Failure does not.

Small business is here to stay

Sowetan 11/7/91 (49)

FOCUS

Dr Ben Vosloo, the man at the helm of the Small Business Development Corporation, believes this is the time of the small businessman. Here he puts his case. Over the past 10 years the SBDC has granted loans of R1,1 billion to more than 30 000 small business entrepreneurs, creating 280 000 jobs in the process.



EVERY successful economy that is based upon free enterprise depends ultimately upon the entrepreneur. For it is the individual entrepreneur's drive, imagination and effort that creates wealth and makes an economic system that is dynamic, profit-based and innovative.

Over the previous decade there has been a remarkable turnabout in the status of the entrepreneur. Not very long ago the idea of the individual entrepreneur as the key actor in generating wealth was regarded as something of an historical curiosity, harking back to the early days of capitalism, and long since supplanted by large corporations and giant government departments that ran upon a diet of planning and control.

It is interesting to see how quickly that perception has given way to the idea of the entrepreneur as the principal actor in any successful economy. The emphasis has shifted from bureaucratic control to the importance of maximum individual freedom as the basis for economic success.

The natural habit of the successful entrepreneur is the competitive small and medium enterprise (SME) and comparative economic studies continue to show that it is the owner-managed small and medium firm that generates the majority of new jobs; and it is these firms that are the engine of economic growth.

It is interesting to note that the SME phenomenon is not a passing phase within the large economies of the world. Small and medium enterprises have remained remarkably resilient and active within these economies and have not fallen prey to their larger brothers' acquisitive zeal.

Successful

With 99,36 percent of European Community businesses currently employing less than 100 employees and 91,34 percent less than 10 it is clear that Europe is following in the footsteps of Japan, the world's most successful example of a SME-based economy.

Since the EC launched an SME development programme in 1986, this sector has been largely responsible for the decrease in unemployment figures in the EC, while big businesses actually contributed to an increase in unemployment.

In my view small business will remain an integral feature of the economy. Changes in the basic conditions under which economic life is conducted in the modern world are busy creating a very favourable climate for small and medium businesses.

The first important development is information technology. At the flick of a switch one may gain sophisticated information about the market and indeed gain access to that market via the use of computers and information technology. You do not have to be a large corporation to have access to this technology, or to make use of it effectively.

To develop the business skills of potential entrepreneurs and equip them to use modern technology effectively, the SBDC has since 1985 introduced several short and relatively inexpensive training courses. A Mentor advisory programme has also been developed to utilise the skills and expertise of retired businessmen and women to advise and train entrepreneurs and their staff on their business premises. Currently 225 "mentors" are taking part in the countrywide programme, making business expertise very accessible to entrepreneurs.

Second in importance is the significance of market niches that offer something different from the standardised products resulting from mass production. It is small companies that have the flexibility to fill these market niches. It is the small firm that has the ability to adapt quickly to changed conditions, where big firms are often slow to move and suffer as a result.

Thirdly, the deregulation that has taken place in South Africa over the past few years favours small business. This is not only because the burdens of an over-regulated economy weigh disproportionately upon small business over big business, but also because commitment to competition reduces barriers to entering the market - which is very favourable to small business.

Reform

Finally, for all its weaknesses and needed reform, South Africa has a free enterprise system; and a free enterprise system holds out the most creative and dynamic force that any civilisation has ever discovered: the creative power of the free entreprising individual.

Potential entrepreneurs must take advantage of these opportunities. That depends on them studying different markets and searching out appropriate niches and acquiring the skills necessary to run a successful business.

SA economy 'threatened'

49 CT 11/7/91

JOHANNESBURG. — Aids could seriously harm the economy and so also threaten political stability in South Africa, says the SA Institute of Race Relations.

In the latest issue of the institute's "Social and Economic Update — a special issue on Aids", researcher Mr Robin Hamilton says it seems apparent that Aids will affect every sector of the economy, "and if it proves to be a constraint on economic growth it may retard or reverse efforts to redress the socio-economic inequalities".

Mr Hamilton cites a senior research fellow at the University of Natal, Mr Alan Whiteside, as estimating that between 1,3 million and 7m people will die of Aids by the year 2000.

According to Mr Whiteside the first to die will be the urban elite, leading to a manpower loss.

Mr Hamilton says this could be exacerbated by the emigration of professionals as well as by the drying up of immigration to South Africa. Shortages of skills will then lead to dramatic wage rises.

He says that the Old Mutual expects, as early as 1995,a decline in business confidence and a massive diversion of resources to medical care and other welfare spending because of Aids.

He notes that the World Bank has indicated that as the direct cost of Aids is only 20% of the true cost, the cost to the economy could be between R32 and R78 billion in the year 2000.

Two local studies reveal that by April last year 87 701 donations to blood transfusion services had tested positive for HIV.

Dr Coen Slabber, director-general of National Health and Population Development, is quoted as saying in January this year that 315 000 South Africans would be HIV-positive by the end of the year.

He said many more were at risk in Africa than in Europe, as predominantly infants and sexually active adults between 15 and 49 years of age would be affected.

Whereas in Europe the predominant number of cases involved homosexual and bisexual men and intravenous drug-users, in Africa the highest incidence of the disease occurred in heterosexual men and women, with a rising number of cases in children and babies.

The publication notes that many Africans viewed Aids as a "white man's disease" aimed at reducing African population growth, while in the white community Aids was considered to be a disease restricted to blacks and homosexuals. — Sapa

The turning point

(49)

CT 11/7/91

. . . but business confidence lags

By AUDREY D'ANGELO
Business Editor

AS the JSE industrial index soared yesterday — on expectations that US sanctions would be lifted — the business mood in Cape Town was more cheerful than the SA Chamber of Business (Sacob) monthly confidence index implied.

Sacob's business confidence index (BCI) for June remained at the May level of 88,8%, the lowest since December.

But its manufacturing confidence index showed more optimism, with most manufacturers expecting sales and production to rise in the coming 12 months.

Alan Lighton, director of Cape Town Chamber of Commerce, said positive economic indicators, developments in sport and the lifting of sanctions had created a feeling that SA had reached the turning point.

"There are still negative factors. Cash is extremely tight and business conditions very difficult.

"But the downward trend in business confidence is bottoming out. There is a feeling that there is light at the end of the tunnel and the upturn will come at the end of this year or the beginning of next year."

Colin McCarthy, executive director of the Cape Chamber of Industries, said the mood of members was more positive than Sacob's BCI implied, with most of them expecting an improvement in the coming months.

But he warned that the lifting of US sanctions by President Bush would not mean an overnight surge in trade with SA.

Pointing out that each separate US state would have to lift sanctions and that there would be opposition to this, McCarthy said that in any case "people are not screaming to do business with SA.

"And the US is only just coming out of recession which may mean that demand will not be high."

He thought the lifting of US sanctions would have mainly a symbolic effect, although it would open doors to exporters to go and sell.

Sacob economist Keith Lockwood also thought the lifting of US trade sanctions would have "an impact that is more symbolic than real".

He said financial sanctions, including those by the International Monetary Fund (IMF) were still in place.

This meant that an upturn in the SA economy would bring it to the point at which "we shall start hitting balance of payments (BoP) constraints and the Reserve Bank will have to dampen it down."

On the other hand, Lockwood continued, the present level of reserves indicated that it would take a year before this point was reached. He doubted whether IMF sanctions would still be in place a year from now.

Lockwood says in the Sacob manufacturing survey that manufacturers remain fairly optimistic that conditions will improve in the medium to longer term "despite evidence from other sectors that the recession is continuing to deepen.

"It seems likely that factors such as the recent improvement in the gold price, the increasing number of countries that have announced the lifting of sanctions, and expectations of a revival of the world economy have served to bolster the prospects for the sector in the coming months."

In most parts of SA, however, manufacturers expect to have to lay off both skilled and unskilled workers to stay profitable in the next few months.

The Western Cape is an exception. "Evidence that the consumer goods and export markets have held up fairly well in the recession is provided by the fact that, on a net basis, manufacturers in the Western Cape, who cater mainly for these markets, expect a relatively small decline in the employment of unskilled persons and no change in the employment of skilled labour."

Business takes subdued view

B Day 11/7/91

ANDREW GILL
and BRENT VON MELVILLE

COMMERCE and industry reacted soberly to the lifting of the Comprehensive Anti-Apartheid Act (CAAA) yesterday, saying US state and local sanctions and unfavourable market conditions would remain major stumbling blocks in any drive to recapture US markets.

Since the Act was imposed in 1986, SA exports to the US have plunged by about $745m (R2,1bn at the current exchange rate) to $1,3bn. Regaining this market is expected to take years.

Any major investment drive by the US is also expected to be slow in materialising because of the remaining local sanctions and uncertainty about SA's political and economic future.

The repeal, however, could give a significant boost to business confidence and was seen as an important step in the readmission of SA into the global business arena.

"Hopefully this will lead to the early lifting of the Gramm and Evans amendments which restrict balance of payments support by the IMF and funding by the Export Import bank respectively," the SA Chamber of Business (Sacob) said yesterday.

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However Sacob senior economist Ben van Rensburg said while the lifting of sanctions had probably reduced the traditional lags between world economic activity increases, and improved export performances, it was unlikely the SA economy would benefit from rising foreign earnings before February or March next year.

Nedbank economist Edward Osborn said the secondary effects of the repeal could possibly be more important with many countries following the US lead in dropping sanctions. Japan has indicated it would drop sanctions once the US had done so.

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Subdued

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With open trading now possible there would be a disintegration of the discounts on SA goods and an evaporation of boycotts, he said, hopefully giving SA's fruit, horticultural and wine industries a boost.

SA Foreign Trade Organisation (Safto) GM Ann More said the lifting of the CAAA indicated a further normalisation of international trade with SA and would have positive spinoffs particularly for exports of SA food products, clothing and textiles.

She cautioned however that there were still many state and municipal restrictions governing business with SA and those would take considerable time to dissolve.

American Chamber of Commerce executive director Wayne Mitchell welcomed the lifting and said it was sure to have a positive effect on business confidence and the medium- to long-term financial investment from the US would go a long way towards the development of SA coupled with an upswing in the economy.

Interest by US investors was expected to include the mining and tourism industries and high priority areas such as food, clothing, basic consumer goods, small appliances and housing.

He said nearly half the US firms with no direct investment in SA had retained licensing, distribution, franchise or buyback agreements which would facilitate their return to SA. These companies included Coke, Pepsi, General Motors (now Delta), Xerox and Bausch & Lomb.

Too soon to scrap finrand — Stals

B Day 11/7/91 (49)

GRETA STEYN

THE attitude of SA's foreign creditors would be a crucial factor in any decision to scrap the financial rand, Reserve Bank Governor Chris Stals said yesterday.

His comments came as the narrowing gap between the finrand and the commercial rand spurred foreign creditors to take their money out of the SA through the finrand.

The debt deals put a brake on the rapid fall in the gap between the two currencies, wiping out the finrand's initial sharp gains yesterday.

In a volatile day's trade, the currency surged to R3,11 to the dollar at the opening from its R3,18 close on Tuesday but weakened to end virtually unchanged at R3,17.

Creditors with debt caught inside the standstill net have been reluctant until now to take their money out through the financial rand. Their reluctance stemmed from the high "price" of a wide discount to the commercial rand.

But as the gap slipped below 10% for the first time this week, the option became more attractive.

Stals said: "We cannot begin to discuss abolishing the finrand before we have a clear idea of our foreign creditors' reaction to the narrow discount. We have only seen tentative indications."

Large scale use of the finrand mechanism to leave the debt standstill net would

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Finrand

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put downward pressure on the financial rand and could cancel the gains made in recent weeks.

Stals said it would take time before creditors' attitudes became clear.

Most of the "standstill dollars" inside SA had been on-lent on a three-month and six-month basis and many creditors could not respond immediately even if they had wanted to.

Their response would become clear only if these short-term loans matured while the discount was still narrow.

Some analysts said the sharp fall in the discount reflected commercial rand weakness rather than finrand strength. It was evidence of the battering the rand had taken at the hands of a rampant dollar.

But Stals said the finrand would have weakened in line with the commercial rand if that was the case.

"The narrowing of the gap between the two currencies is proof of consistent strong demand for the investment unit," he said.

Recession 'has not yet bottomed out'

11/7/91

PAUL ASH

THE economy had not yet reached the lower turning point anticipated by Sacob, chief economist Ben van Rensburg said yesterday.

The business confidence index (BCI) for June remained static at 88,6 which showed that the economy had not reached a turning point.

The long-awaited upturn in SA's economy would probably not occur until the end of the year and businessmen were urged to keep fighting in anticipation of improved prospects in early 1992, deputy director-general Ron Haywood said.

Sacob was looking for growth in the business sector but Haywood believed the recession had yet to bottom out.

Van Rensburg said factors affecting the economy included the Reserve Bank's strict monetary policy which dampened economic activity to fight inflation.

An upturn in the world economy could influence local economic prospects and the lifting of sanctions would allow the return of major trading partners who would support an economic upturn, he added.

Domestic political events also had a significant effect on business confidence.

Sacob was hoping the anticipated upturn would be export-led, although it believed that while the lifting of many sanctions has probably reduced the lag between world economic activity and improved export performance, the SA economy was unlikely to benefit from rising foreign earnings before February 1992.

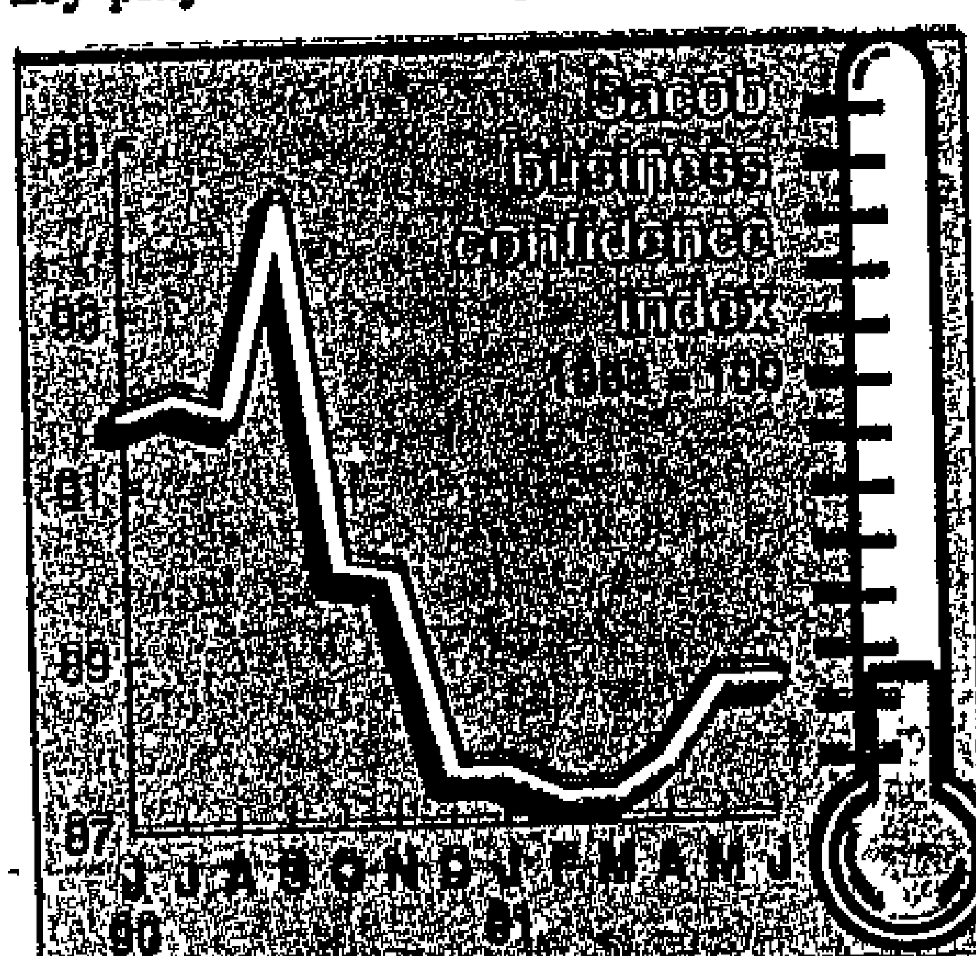
The organisation was encouraged by results of the manufacturing sector survey which showed most manufacturers were optimistic that business conditions would improve in the short to medium term.

Most manufacturers anticipated sales and production volumes would increase in the next 12 months but were still cutting back on stock levels in the light of continuing tight monetary policies and uncertainty over the timing of an economic upswing.

Employment levels of skilled and unskilled workers would also probably continue to be cut to maintain profitability.

Sacob said a slight majority of manufacturers expected to increase investment in plant and equipment over the next year but investment in new capacity was expected to decline in the short term as a result of the impending introduction of VAT.

The survey showed the Maritzburg region was the most optimistic with 70% of manufacturers there expecting an increase in sales volumes. Haywood said manufacturers in Cape Town and Maritzburg were optimistic due probably to the export potential of both regions. The Cape Town-based clothing industry and Maritzburg's wood furniture industry would be key players in this regard, he said.



Graphic: FIONA KRISCH Source: SACOB

Star 11/7/91.

Sacob calls for social accord

By Sven Lünsche

The SA Chamber of Business (Sacob) yesterday stressed the need for a social accord for government, business, labour and political organisations before embarking on a National Growth and Development Strategy (NGDS).

Dr Ronnie Bethlehem, JCI economist and chairman of Sacob's Economic Affairs Committee, said at a press briefing yesterday that political circumstances in SA precluded the Government from drawing up a NGDS on its own.

Emphasising the importance of a national strategy to boost economic growth and reduce unemployment, Dr Bethlehem said such a strategy "must be commonly owned if it is to succeed in SA today".

"A social accord would constitute an understanding reached by government, organised business, labour, political organisations and communities on what needs to be done to get the economy growing again."

(49)

Dr Bethlehem said a social accord on the economy would also contribute in an important way to advancing progress in political negotiations.

Turning to the NGDS, he said the strategy needed to take account of the market nature of the global economy and SA's dependence on that economy.

SA borrowers come in from the cold

(49)

Star 11/7/91

After years of financial isolation South Africa returns to the international bond markets

LONDON — South African borrowers have been making a steady but low-key return to the international bond markets.

So far, activity has been restricted to the private bond markets of Germany and Switzerland.

However, the country's gradual rehabilitation with international investors should soften the austerity enforced on its economy by more than five years in the financial wilderness.

Few details are made public by either the borrowers or the banks concerned, although such private placements have never been formally banned under sanctions.

Fragmentary evidence suggests that the level of borrowing by South African companies and government bodies has been increasing since 1988 and has accelerated sharply this year.

Many bond issues made in the early 1980s are being successfully refinanced.

Redemption

In the first half of this year, South African borrowers had 10 international bond issues falling due for redemption, totalling $600 million equivalent, according to figures compiled by the Centre for the Study of the South African Economy and International Finance at the London School of Economics.

The centre estimates that about half of this amount has been refinanced.

A breakthrough came in May, when Eskom, the state electricity utility, placed a $50 million bond issue with a group of international investors.

The proceeds of the issue were not used to refinance a maturing debt. It marked the first time that "new money" had been raised by a South African borrower since existing loans were locked in under the debt standstill of 1985.

Swiss banks

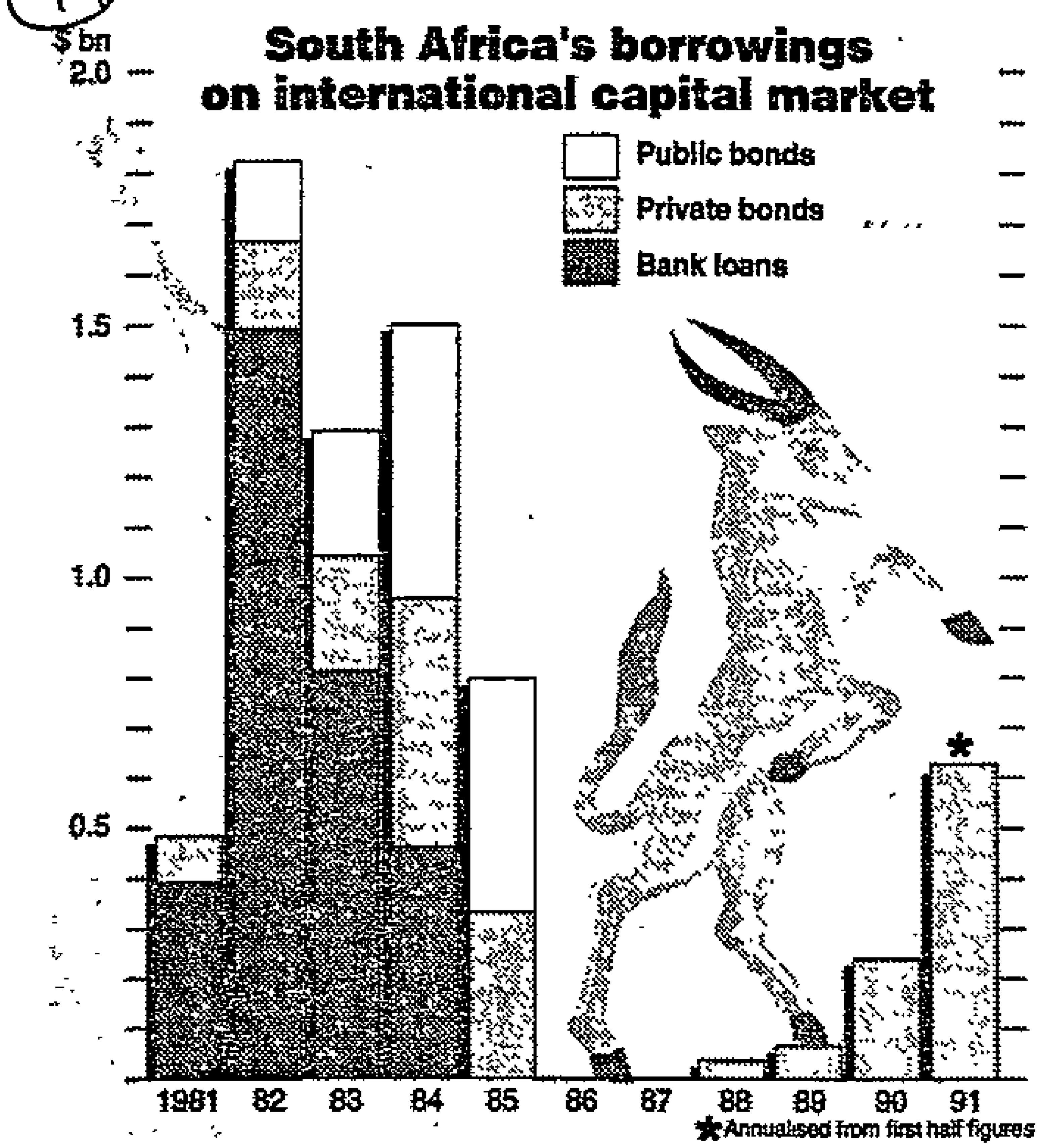
"South African is undergoing a gradual rehabilitation which began in late 1988, but it is still a long way from the levels of borrowing which characterised the early 1970s and the early 1980s," says Jonathan Leape, director of the centre.

In addition to privately-placed bond issues, there is also evidence of small-scale bilateral lending by Swiss banks in the late 1080s.

Swiss central bank data suggests lending in the region of $50 million in this period. However, there is no way of knowing which banks lent to which South African borrowers.

There have also been a small number of trade-linked financings. The largest identifiable such operation this year was a $60-million loan from the Export-Import Bank of Taiwan to the South African Industrial Development Corporation.

The facility was signed by the Taiwanese foreign minister during a visit to South Africa in January. But, though export credit cover is avaiable from several countries, the lead does not appear to have been followed by other governments.



Commercial banks are unlikely to resume lending until existing loans are freed and provisioning requirements are eased. For example, Bank of England guidelines suggest that UK banks make provisions of about 20 percent against loans to South Africa.

Hence, the international bond market offers South African borrowers the best chance of raising long-term international finance. The appetite of continental European retail investors, who were big buyers of South African paper in the 1970s and early 1980s is reviving.

In April Credit Suisse added a selection of rand-denominated South African government bonds to its "buy list".

According to South African stockbrokers, the level of buying of government bonds by overseas investors is closely link3d to political stability. This is backed up by the data collected by the Centre for the Study of the South African Economy.

"The experiences of 1976 and 1985 suggest that a sharp escalation of township violence or disintegration of political negotiations between the government and opposition would swiftly cut off the supply of international loans," says Mr Leape.

Deepening economic or political gloom could quickly de-rail the process of rehabilitation in the international debt markets. As yet, the South African economy shows no sign of recovering from a recession which has lasted for more than two years.

"Available statistics are, as yet, not indicating any turnround in the near future," says the South African Reserve Bank in its latest quarterly bulletin.

However, access to international finance could be an important pre-condition of economic recovery. The moratorium on new international bank credits which came into effect in 1985 forced the Government to run a current account surplus, pushing the economy into recession.

New inflows of foreign capital would allow the government to run a current account deficit, stimulating economic growth.

Foreign borrowings still do not come cheap. Eskom's Dm120 million ($65,5 million) four-year private placement completed in March pays an interest rate of 10,75 percent. By comparison, around the same time Mexico was borrowing in D-marks over five years at an interest rate of 10,5 percent.

But pricing is getting progressively easier, according to Mick Davis, finance director at Eskom. The company's $50 million placement of bonds in May was offered a yield of 2,4 percentage points more than US Treasury securities.

This was a 0,4 percentage point improvement over the interest rate paid by the South African Government on a three-year bond issue the previous month.

Other borrowers include Transnet, the railways group, which placed Dm50 million of four-year bonds in June, and the Department of Post and Telecommunications, which arranged a four-year Dm150 mil lion private placement in May.

BHF Bank, which lead-managed both deals, was reluctant to give details. However, an official commented that most of the bonds in the second deal were placed with retail investors looking for high-yielding assets, rather than big investment institutions.

Mr Davis confirms that the Eskom bonds had been placed with individual investors.

The lack of institutional participation limits the amount of fresh money which can be raised. If South African borrowers are to make bigger, public bond issues, then pension funds and insurance companies will have to participate.

In turn, it is unlikely that institutional participation will increase until international sanctions are lifted.

"Our being able to launch a public issue depends on the way investors perceive the risk of South African borrowers, the external view of the sanctions question and the direction of bond prices at any given moment," says Mr Davis.

— Financial Times.

Growth dependent on IMF decision

Star 11/7/91

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By Sven Lünsche

The failure of the US to lift financial as well as trade sanctions could well put a lid on South Africa's next economic growth phase.

Economists noted yesterday that while US President George Bush had scrapped the Comprehensive Anti-Apartheid Act, both the Gramm Amendment, which forces the US to veto IMF balance of payment support to SA, and the Evans Amendment, which restricts SA from US bank's trade financing, would stay in place for some time.

"As the economy is moving out of recession, access to foreign funding could make the difference between an annual growth rate of 1,5 percent over the next two to three years and growth of three percent," SA Chamber of Business (Sacob) economist Dr Ben van Rensburg said yesterday.

By restoring normal relations with SA the IMF would send an important signal to foreign commercial and merchant banks that new loans and other financing facilities for SA companies were in order.

Until then overseas banks were likely to limit their dealings to the provision of trade credit financing.

Dr van Rensburg said at the presentation of Sacob's Business Confidence Index (BCI) that the economic recovery could be expected by the beginning of 1992.

However, unless foreign exchange reserves were strong enough or SA has access to overseas financing facilities, the Reserve Bank would be forced to put a lid on economic growth, he said.

"Removing those financial sanctions could take quite a number of years," Dr van Rensburg said.

However, there is no doubt the signal send by President Bush will make it easier to reschedule debt repayments to SA's foreign creditors.

JCI economist Dr Ronnie Bethlehem said financial sanctions had cost SA about R30 billion over the past seven years because the Reserve Bank had to keep a lid on the balance of payments to meet debt payments and prevent a massive capital flight.

Dr van Rensburg said that even without access to overseas funding, economic conditions were likely to favour good growth from 1992 onwards.

His positive outlook was based on a number of factors:

- Prospects of stronger growth among SA's major trading partners towards the end of the year could result in an export-led recovery.
- A strong trade balance, which had boosted SA's gold and foreign exchange reserves by around fifty percent over the past year and would allow more scope for imports to rise relative to exports than had been the case previously.
- The recent lifting of trade sanctions had increased access to new markets and improved opportunities for new business ventures.
- The recent firmer rand gold price had reduced the pressure on many gold mines and the prospect of further mine closures.
- An expected sharp increase in capital and intermediate good acquisitions after the introduction of VAT in October.

Dr van Rensburg stressed, however, that business confidence at present was still uncertain — the BCI in June remained unchanged at 88,6 — "providing renewed evidence of depressed conditions that currently exist.

"It now appears that business is treading water, waiting for the next cyclical upswing to begin.

"In the meantime domestic political events and developments in major world economies will be of major importance to the business mood," he said.

FM 12/7/91 (49)

FM 12/7/91
FOREIGN INVESTMENT (49)

DRAWING UP A CODE

Foreign investment codes are often a telltale sign of a Third-World country. Newly independent countries eagerly draw them up, believing this to be the way to attract the right kind of foreign investment.

But onerous investment codes that limit foreign ownership of local companies, restrict the repatriation of profits, and burden overseas firms with lots of pointless regulations have worked to keep investment out of Africa. Zimbabwe's complex and forbidding regulations, for example, have done their best to discourage investors. Namibia, on the other hand, formulated a fairly liberal code that should encourage investors.

Now, with the prospect of a new government taking over in three years, South Africans are looking at an investment code. "SA has neither an investment strategy, nor a policy on which one could be based," says Institute for a Democratic Alternative for SA (Idasa) executive director Alex Boraine. "This needs to be addressed urgently."

So Idasa is organising a four-day summit next month to debate "An Investment Policy for a Post-Apartheid SA." Business leaders, politicians, government officials, trade unionists and economists will gather at Mabula game lodge in the northern Transvaal on August 22-25 and, like Idasa's economic summit in Bellagio, Italy, in April, this conference will be by invitation only.

It is the idea of Transkei University rector Wiseman Nkuhlu, who will chair the proceedings. Under the tentative format, a panel will discuss a series of papers presented by local interest groups. The panel includes: Frederik Van Zyl Slabbert (Idasa), Sam Zondi (Zululand University), Kehla Shubane (Wits Centre for Policy Studies), Clive Thompson (UCT Labour Law Unit) and Rudolf Gouws (Rand Merchant Bank). A decision on whom to invite from other countries will be made soon.

The conference is backed to the tune of US$60 000 by the Washington-based Center for International Private Enterprise. This will cover about a third of the cost with the rest coming from local businesses and possibly other foreign organisations.

Founded in 1983, the centre is part of the US Chamber of Commerce. It encourages entrepreneurship and business participation in the political process, especially in developing countries. Director John Sullivan says the conference fits the centre's objectives: "Foreign investment is an important part of a vibrant, growing economy, essential to a successful transition in SA."

Boraine stresses that there are no plans to develop a prohibitive investment code like those that failed so dismally elsewhere. But, some participants are bound to favour at least a few restrictions.

One of the invited, Alan Hirsch, who is assisting the ANC's investigation into foreign investment and is a member of the Cosatu-aligned Economic Trends Group, says that, though restrictions on foreign investment are unpopular, some may be necessary.

"Foreign ownership of the (broadcast) media is not allowed in the US, while foreigners can't own SA general banks. These issues have to be considered. An investment code needs to be part of an overall economic policy, so a concrete policy would be premature at this stage. The ANC and Cosatu are doing extensive research on foreign investment, which will be completed next year."

While all appear to agree that the sanctity of investments and repatriation of profits must be guaranteed, the areas for potential disagreement are many. DP MP Brian Goodall, also invited, says the top company tax rate should be reduced to 40%. He adds: "Exchange control and ad hoc tariffs also need attention." But the ANC wants higher taxes, tighter exchange control and to maintain tariffs.

Don't forget high-tech

Many of the conference participants would also expect investors to create employment, export part of their production and transfer technology from abroad. National African Federated Chamber of Commerce president Sam Motsuenyane would encourage investment in agriculture and housing while not neglecting high-tech industries.

UCT's Thompson favours a voluntary investment code to ensure that labour's bargaining rights are respected by newcomers. But he says unions advocate an enforceable code that would outline the obligations of employers in bargaining, training, health, safety and the disclosure of information; SA law is open-ended on these points.

One question that probably won't be debated is whether SA needs a special investment code. As Goodall points out, a stable economic environment is recognised as a prerequisite for investment, local as well as foreign. So if the goal is to attract the most investment, and create the most jobs, then the policy is obvious: no exchange control, minimal or no tariffs, low inflation, low taxes, a minimum of regulations, a good infrastructure, and more education and training. An investment code that goes much beyond this is more of a social code and will serve to put off some investors. ■

And now a message from the Swedes [...]

(49) ~~214~~ ~~304A~~ w/mail 12/7 – 18/7/91.

Sweden's socio-economic policies may work in the icy north. But are they appropriate for South Africa?

By CHRISTER PETTERSSON

LAST year top economists from Sweden gave a crash course to African National Congress leaders on the Swedish model and its possible benefits. ANC leader Nelson Mandela himself has described the Swedish approach as "very tempting".

Meanwhile, Swedes themselves are giving up some of their most prized welfare policies, like the state-sponsored medical aid scheme and commitment to full employment. Unemployed Swedes have up to now been supported by trade union-run unemployment schemes directed to meet demands in the labour market.

The state itself is no longer allowed to soak up the jobless, as it used to when Sweden was one of the most solid economies around. With just one percent growth last year and one of the largest public sectors in the West, state spending has reached its ceiling and the ruling Social Democratic party had to do something drastic.

The final blow, urged by Organisation for Economic Co-operation and Development economists, came a few months ago when Finance Minister Allan Larsson announced a harsh 25 percent cut in state bureaucracy.

The tax system has also been reformed.

So a question mark hangs over the Swedish model. Does it still exist?

What is clear is the glue that once kept capitalists and workers together in a consensus-oriented state where economic growth and a just distribution of wealth walked hand-in-hand is no longer as strong. One of the most successful socio-economic models during the post World War II period is in crisis — a crisis largely accepted even in Social Democratic power circles.

The Swedish economy is suffering from recession with unusually high inflation at 11 percent and social welfare costs consequently cut back. This time the measure is not seen to be temporary as during the 1970s and 1980s crisis but a general shift in social democratic ideology. Critics say the party is not the staunch defender of working class interests it used to be. Its emphasis and general constituency have moved towards the centre ground.

These days the arch defenders of the welfare state are mainly the Swedish Left Party, which is the reformed Communist Party and dissatisfied worker-oriented Social Democrats in an unholy alliance with Greens and, to some extent, farmers.

They are worried that the death of the Swedish model was declared recently when Prime Minister Ingvar Carlsson's government handed in Sweden's formal application to join the European Community.

That means, say critics, the government will have to adapt to EC welfare standards, which means to let some five to 10 percent of the population stay unemployed — instead of today's 1,8 percent which together with Switzerland is the lowest in the world. Others believe inflation will increase unemployment anyway and that Swedish multinationals voted for the EC long ago by moving their investments into Europe. Some, like power engineering giant Asea, have even moved their head offices.

The main force prodding [...] joint the EC is fear. Swedis[...] tional product. buying [...]

wages were far ahead of Europe 20 years ago. Today there is no such difference — most countries in Europe have caught up and some, like Switzerland and Holland, are ahead, according to a survey by a Swedish business weekly.

[...] will af- [...] stem re- [...] are still

many benefits left that most mainland Europeans — not to mention the Third World — wouldn't even dream about.

Deregulation — for example with more freedom to chose between state, private and co-operative creches — is fashionable at the moment but it is all still within secure welfare parameters.

In fact, the hegemony of the Social Democrats' welfare system, injected into the blood of every Swede from cradle to grave over the past 60 years, is the main gain that won't easily be given up. Swedes, including conservatives, are largely in favour of a common social responsibility and are no longer used to turning a blind eye to society's poor and marginalised, even if there are differences about how wide the security network should be.

Thus Swedes do not fear that there will be a revolutionary change if Swedish Conservative Party leader Carl Bildt becomes prime minister after the elections in September.

Even if Bildt himself is in favour of Thatcherite policies, his coalition partner in a possible bourgeois government, the Liberal Party, won't digest too radical cuts in what remains the Swedish model.

When it comes to, for instance, state intervention in the economy, many Swedes are against it and are pro-privatisation these days. This is not disturbing in the Swedish context as only some seven percent of the economy is in the hands of the state — compared with South Africa at around 40 percent.

For South Africa looking for direction to sort out the apartheid mess, it's more the sentiment and the value system than a blueprint of the Swedish model that is desperately needed. No South African government is likely to be able to afford to repeat Scandinavian welfare policies.

But the notion of settling differences in negotiations involving state, capital and labour is probably worthwhile looking into. The Social Democratic state's main objective is to diminish conflict in society by co-opting and absorbing disturbing complaints. Participation, not exclusion, is the name of the game in the country that invent-[...]

At the seminar in December the Swedish experts pointed out labour market policy, state housing policy and, to some extent, fiscal policy as some areas where ANC-aligned leaders could benefit from the Swedish experience.

However, the model is approaching retirement age and Swedish aid, both to the ANC and the Southern African Development Co-ordinating Conference states, cannot be taken for granted any longer.

●Christer Pettersson is the Southern Africa correspondent for *Veckans Affärer*, a Swedish business weekly.

Upswing expected to start next year

B/Day 12/7/91

(49)

SHARON WOOD

A BALANCE of payments-led economic recovery was likely in about nine months, Rand Merchant Bank economist Rudolf Gouws said yesterday.

Until then, the economy would remain in a relatively mild recession.

Speaking at an Institute of Directors economic seminar, Gouws said declining terms of trade, the imminent weakening of export volumes, continued tight monetary policy and pressure on disposable incomes would prolong recessionary conditions throughout the year.

Export volumes had been levelling off and would remain weak until the end of the year because of the uncertain world economic climate and falling world commodity prices.

But import volumes would probably also be down as a result of lower consumption expenditure and reduced fixed investment, Gouws said.

Sanctions

With the improvement of foreign perceptions, SA no longer needed such large current account surpluses, he said.

The reasons behind the expected recovery in the first quarter of 1991 were the psychological impact of the lifting of sanctions, an international economic revival, a capital account improvement, a more stable financial environment and mild fiscal stimulus.

Consumption expenditure by government was a longer-term concern but in the short term it would boost the economy, Gouws said.

Meanwhile, another development which points to a turnaround in the economy in the first quarter of 1991 is the mild improvement in the Reserve Bank's leading indicator.

During January and February this year the leading indicator showed tentative signs a recovery.

In February, the indicator rose by about two percentage points month-on-month and it is expected to improve again slightly in March.

The leading indicator includes 22 economic indicators sensitive to changes in business conditions.

Historically, movements in the leading indicator have preceded an economic turnaround by about six to nine months.

A recovery in the domestic economy in the first quarter next year is in line with general economic forecasts.

Sacob economist Keith Lockwood told the conference capital expenditure growth, following the implementation of VAT, could trigger a slight revival in the economy in the fourth quarter.

But this would not be sustained if strict monetary policy and a restrictive fiscal stance were continued during the year.

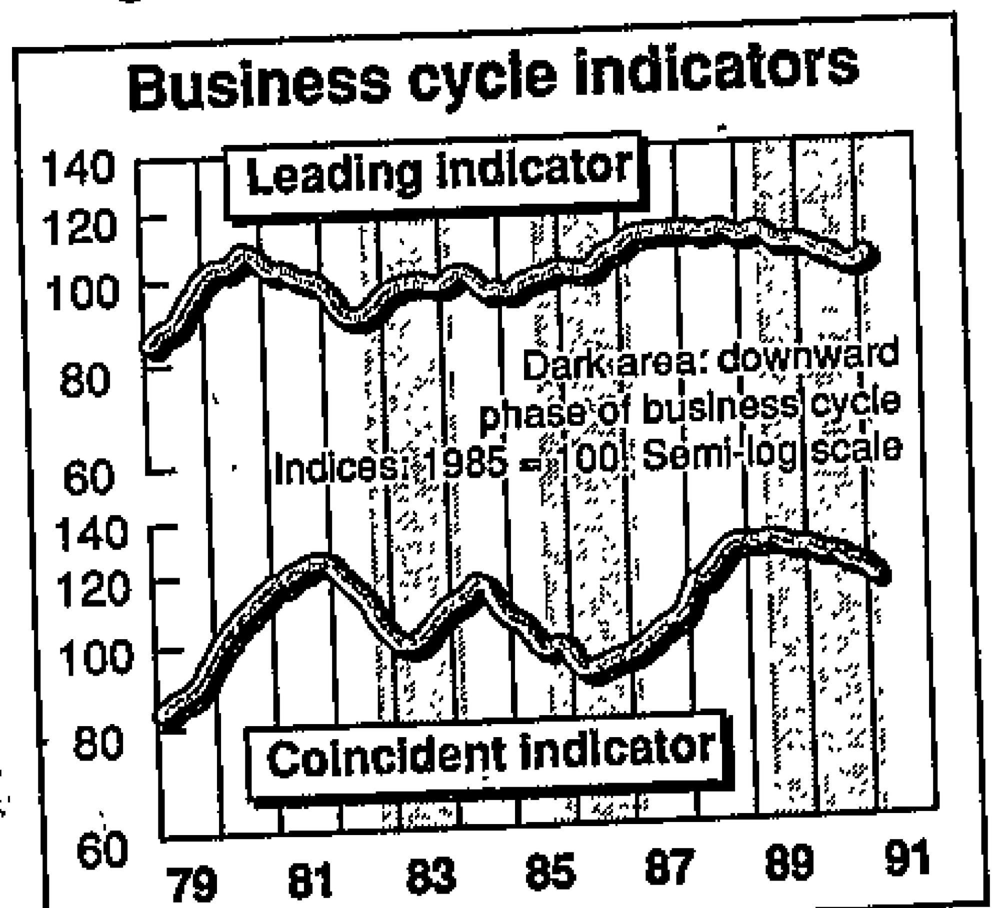
A sustained economic upturn would depend on growth in exports, he said.

This in turn would depend on growth in the world economy.

At present, confusing and conflicting signals were being received about when the world economy would expand.

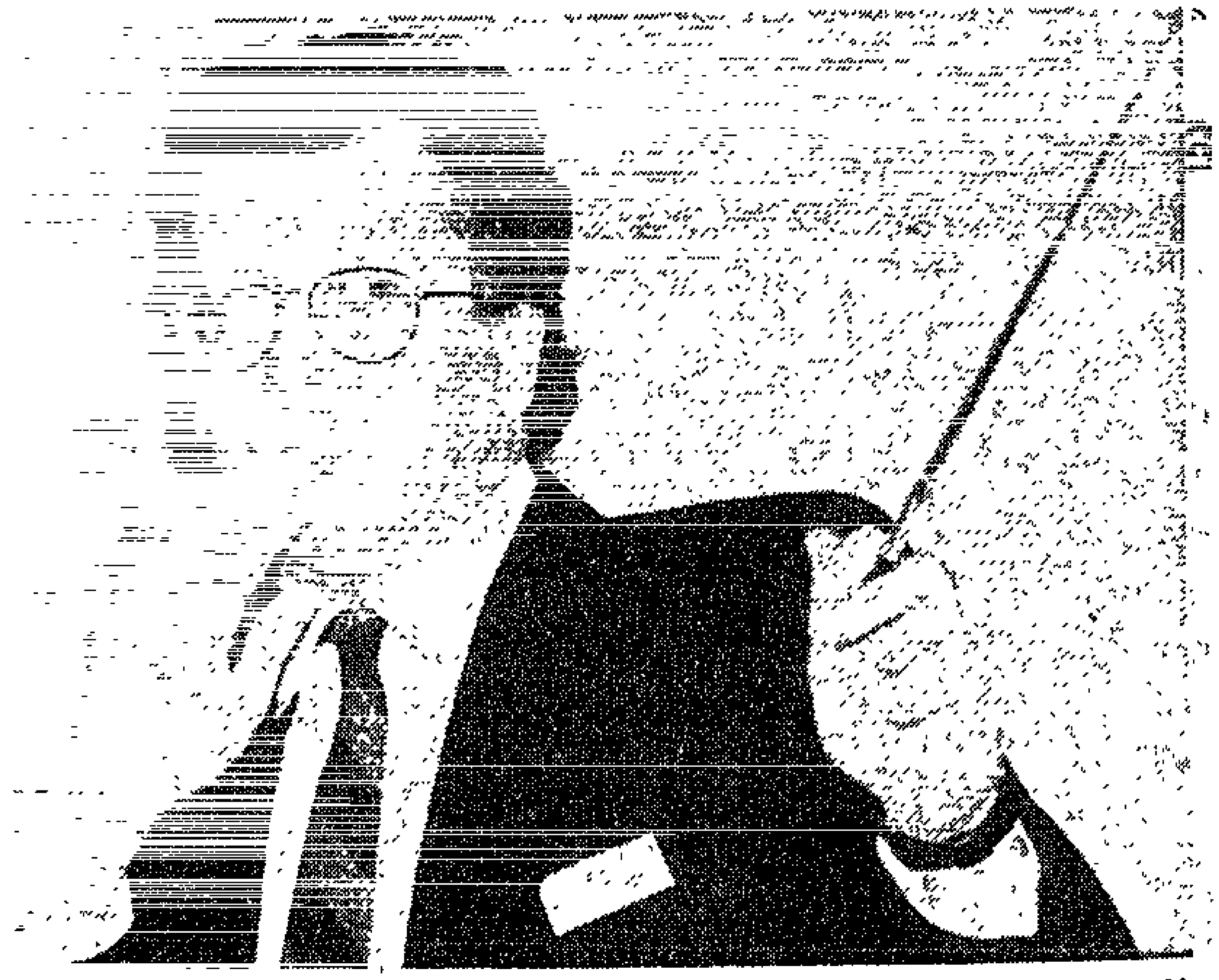
SA exports usually lagged a turnaround in the world economy by about six to nine months.

But the time lag could be reduced by the lifting of economic sanctions, he said.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Institute of Directors vice-chairman Glynn Herbert listens ... the institute in Johannesburg yesterday. Gouws expects the



Bank economist Rudolph Gouws addresses an economic seminar hosted by
to persist for at least the rest of the year. Picture: ROBERT BOTHA.

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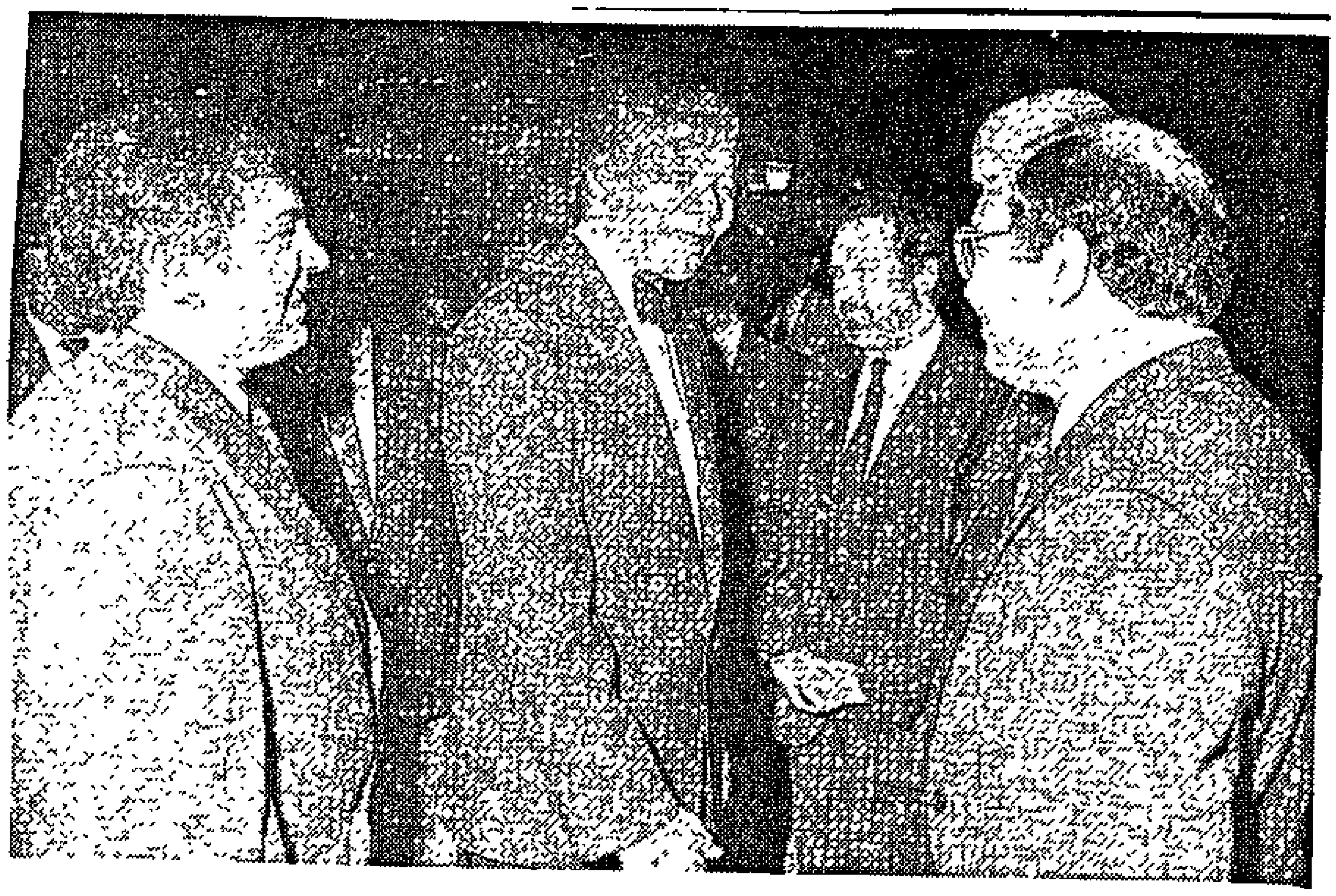

Picture: ROY WIGLEY, Weekend Argus.

GREETING: ANC president Mr Nelson Mandela is flanked by businessman Mr Antonio Gouveia and Portuguese parliamentarian Mr Luis Manuel Costa Geraldes at a dinner at a luxury Cape Town hotel.

ARGUS 13/7/91 (49)

Mandela's plea to business leaders to stay in new SA

CLIVE SAWYER

Weekend Argus Reporter

MR NELSON Mandela has made an urgent plea to business leaders not to flee South Africa because of fears about its economic future.

However, the ANC is committed to restructuring the economy to correct imbalances of wealth and privilege caused by apartheid and will nationalise major industries to do so.

Mr Mandela addressed a group of four Portuguese parliamentarians who represent expatriates and South African Portuguese business leaders at a dinner at a Cape Town luxury hotel last night.

He said that the ANC did not advocate nationalising small businesses, but could not let the monopoly of major resources rest with a few multinationals.

"History has shown that every country that has gone through a traumatic experience, as we have with apartheid, has not been able to avoid some measure of State participation."

Reaffirming that economic sanctions should not be lifted until "liberation", Mr Mandela said that groundwork for future foreign investment could be laid now.

Work was proceeding on the establishment of a United States development bank in South Africa following a go-ahead from the ANC National Executive Committee, he said.

At the end of his 103-minute speech, Mr Mandela drew polite applause. The audience stood and a few clustered around him for autographs.

US fears SA 'begging bowl'

Ci Pres 14/7/91 (49)

By LUCAS DE LANGE

THE Americans have a habit of wrapping their political decisions in a highly moralistic package which fits American self-interest.

When US president George Bush announced his decision to lift trade sanctions against South Africa, he stressed that he had told ANC prsident Nelson Mandela that it was "the right thing to do".

One must ask: Right for whom?

Filtering through from the American establishment in recent months, a new concern has been manifesting itself – a genuine fear that South Africa's economic situation is going to deteriorate to such an extent that we may become just another African basket case.

The last thing the Bush Administration would like to see, is another begging bowl.

With a growing number of States in Latin America, Africa, Eastern Europe – and even the Soviet Union – exerting constant pressure for aid in a world short of capital, another candidate from southern Africa would be most unwelcome. Especially one that has succeeded in arousing emotions in Black-White American politics.

Using its economic might to help South Africa avoid becoming another basket case makes good sense. The scrapping of the Comprehensive Anti-Apartheid Act will undoubtedly create new opportunities for South African exporters, while foreign investors will show a greater interest in South Africa.

But be careful – it's a tough and highly competitive world out there and there is no such thing as a free lunch. In fact, South African political and business leaders would do well to soberly consider certain factors that played an important part in the background to the Bush decision.

The attitude of establishment Americans towards South Africa is probably well-defined in an article by respected US economic and political analyst Francis Fuyukama, after a recent visit to South Africa.

Writing in the journal *The National Interest*, this former deputy head of the State Department's policy planning division said he found it hard to overstate the potential for economic disaster in South Africa.

His article suggests three possible scenarios. The first is one in which South Africa would follow Germany's example, where the developed part of the country would peacefully absorb the less-developed part and, while suffering a temporary drop in living standards, would eventually raise the poorer section to the level of the richer part.

The second possible scenario seen by Fukuyama is that South Africa would deteriorate into a Lebanese-type situation. In this scenario, the township violence would spread and become part of the future of the country as a whole, because it has been partitioned into different ethnic or racial communities. In such circumstances, each of these communities would possess arms to protect themselves.

The last scenario is the Latin American model, where the decline would be mostly economical into some kind of poverty-stricken banana republic.

"It is a widespread misconception," he states, "fostered for many years by the apartheid regime, but believed by many blacks, that South Africa is a relatively rich First World country that has simply failed to share the wealth adequately with its black population."

The starting point for a new government could be the redistribution of wealth. "The problem is that any large-scale attempt to right these wrongs over a short period would be self-defeating in that it would wreck the economy.

"It is here where the evolution of the ANC's economic thinking over the next few years will be critical."

Fukuyama warns that a major problem a new government will have to face is to persuade the whites to stay. A serious deterioration in the economic situation will undoubtedly convince many whites that they should take their expertise where it is more marketable. He believes that it would be hard to overstate the potential for economic disaster should large numbers of whites leave the country.

It is against this background that the favourable reception of the De Klerk government's efforts to have sanctions lifted must be seen. Many people in the ANC feel the Bush decision came much too early. But one may well ask whether it really had so much to do with what De Klerk and Mandela – although on opposite sides – had to say about the matter.

The reality is that sanctions are becoming part of our history. But another reality is that their disappearance will not make all that much difference to our economic situation. Assessments towards the end of the week showed that very few experts expect anything dramatic to happen.

Foreign investment will not simply appear on the horizon. Until perceptions overseas change about the country's stability and our willingness to increase our productivity, very little will change in the everyday lives of ordinary South Africans.

Fortunately, we are not all that desperate for foreign investment. South Africa can finance an important part of its future growth, provided we can rebuild business confidence and stop the slide in workers' productivity.

council meeting was the last before a
ek summer break and, German infla-
ving hit an 80-year high of 3,5% in June,
uries favoured a hike in German rates.

well set to emerge from a short and shallow recession, and they are likely to attract fresh support to the dollar once the economic summit disbands on Wednesday. Central banks may be reluctant to try and stand in the way.

THE MONEY MARKETS by Andrew Gill

B/day 15/7/91.

Major events, but not a stir

IN THE week when sanctions crumbled, the finrand soared, the JSE roller-coastered and capital market rates dropped, the money market managed to maintain its state of suspended animation.

Its biggest reaction over the week, and probably the month, was a five-point drop in 90-day BA's to 16,80% following news of the scrapping of some US sanctions. Over the past two months the rate has not broken out of its 16,80% to 16,90% range.

To make things worse, the dearth is expected to continue for a long time to come, with little or no hope of volatility.

NCD rates at the six-, nine-, and 12-month level are at exactly the same point, indicating a stale outlook for prime rate and quiet times in the months ahead.

The excess liquidity that prevailed over the past two months, however, started disappearing and the Reserve Bank saw fit not to roll over the maturing special TB's through the week.

According to the Bank, the amount of TB's and special TB's currently in the market amount to R1,84bn, which makes up a large part of the R2,6bn shortage.

Also, with dollar swaps taking further cash out the system, a large portion of the shortage is seen as artificial.

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However, current conditions are far less flush than they had been and analysts believe the removal of special issues and dollar swaps will not result in a surplus, as it would have done three weeks ago.

Tax cheques, which are traditionally bigger in June, apparently have been a major reason for the tighter conditions. Also, because of school holidays, more notes are out of the system.

One of the problems at the beginning of the month when the shortage climbed to R3,6bn had been the unexpected frugality of the homelands. They normally draw their payments the day they become available but this month decided to leave them with the Bank for a while.

Another "happening" during the week was the Bank's handing over of the responsibilities of the Land Bank tender to the Land Bank.

This apparently became possible because the Land Bank improved its infrastructure through the acquisition of a Reuter screen. The Reserve Bank is said to be happy with the new arrangements because it can no longer be accused of using the Land Bank tender as a policy tool.

INVENTORIES FM 5/7/91

CHANGING CHANGE (49)

The strength of expenditure last year was masked by a massive rundown in inventories towards the end of the year, related to the impending war in the Middle East. A government decision to postpone oil imports between October and December, when the price of oil reached a high of over $40 a barrel, and to rely on oil stocks already in the country was largely responsible for the fall.

The result was a seasonally adjusted annualised surplus of R9,7bn on the current account of the balance of payments and an inventory decumulation in constant 1985 rands, at an annualised rate of R5,3bn.

A resumption of oil imports (along with other events, such as the purchase of a macro jet aircraft by SAA and a fall in volume and

continue →

price of exports) cut the current account surplus to only R1,5bn in the first quarter of 1991 and slowed inventory decumulation to only R1,6bn.

The reduced rate at which inventories were being drawn down contributed to a rise in gross domestic expenditure (GDE) of 4,3% on a seasonally adjusted basis. Annualised, this amounts to an increase of 18% — staggering growth if not for the role played by inventory changes.

To understand the significance of GDE growth, one must examine its components (see table).

When consumption spending by private and public sectors is added to gross spending on domestic fixed investment, the total represents final domestic demand. Thereafter, inventory changes and a residual item are figured into the sum to arrive at a further total which is gross domestic expenditure. Leaving aside, for the moment, the role of the residual, which is a balancing item and may be either negative or positive, the level of GDE is higher than final demand if inventories have grown in the period and vice versa.

The increase in the tempo of de-stocking effectively constrained the rise in GDE in the fourth quarter. And when the postponed spending on imports took place in the first quarter of 1991, slowing the rate at which inventories decumulated, it boosted GDE.

It is clear then that the rate of increase in GDE between the two quarters does not indicate any sudden change in economic fundamentals. It illustrates, rather, the continuing strength of spending. If there had been no suspension of oil imports, national accounts data would have presented an entirely different picture for 1991.

The difference would not have been reflected in GDP — which is the total of GDE and the trade balance. The change would have come in the relative growth in these two aggregates. GDE which is domestic spending would have been higher and net trade would have been lower. The significance of this is that:

- ☐ Domestic spending involves an exchange of assets within the economy; while
- ☐ External spending on domestic products brings additional assets in the shape of higher foreign reserves.

An indication of the underlying strength in spending comes from the first quarter growth in final demand which is not affected by the inventory changes — a (seasonally adjusted) 0,9% and an annualised 3,6%.

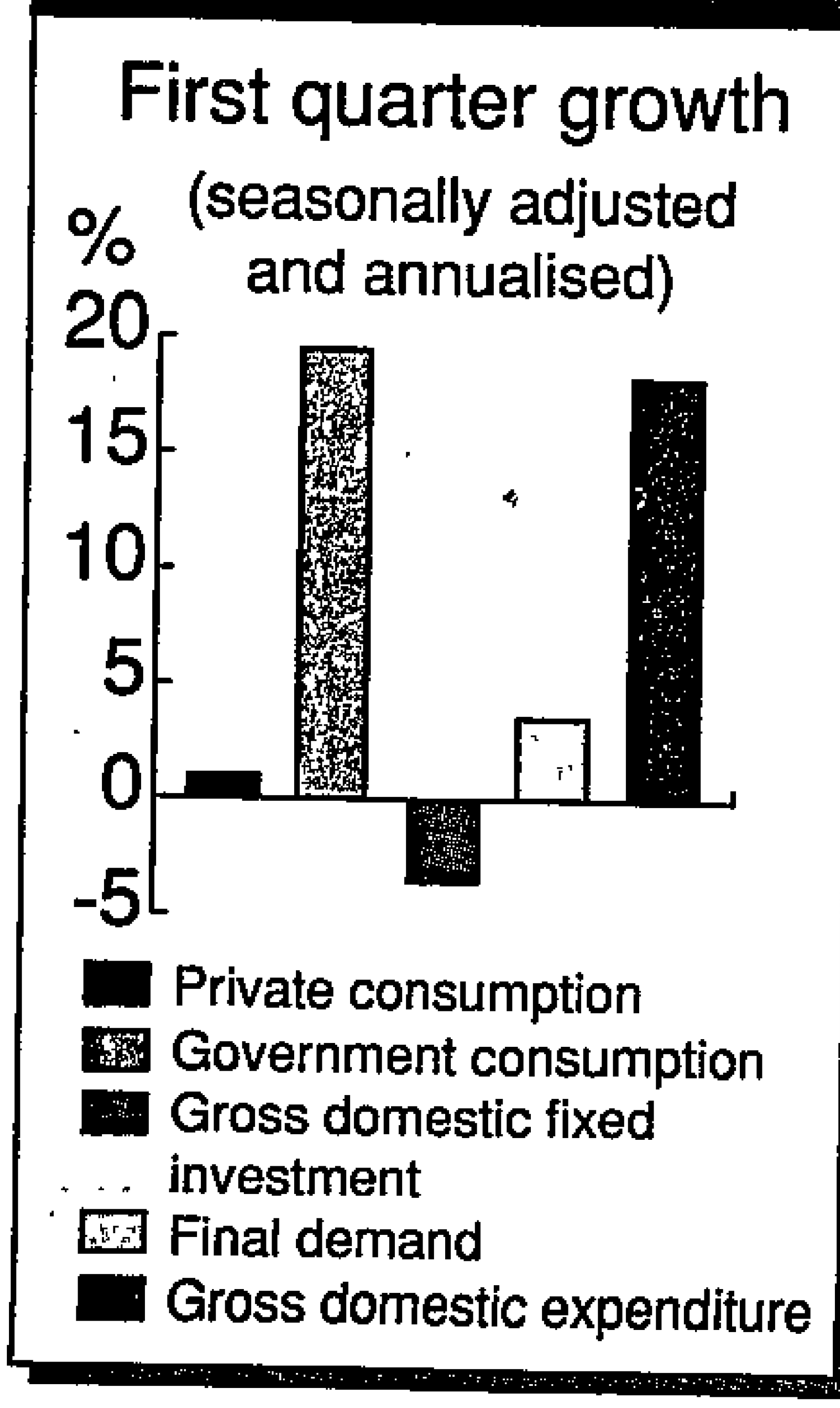
Much of the impetus came from government consumption (which rose a seasonally adjusted annualised 19,7%) in the quarter, while private consumption spending continued (1,1%) and gross domestic fixed investment declined at a slower rate (-3,5%). (See graph.) ■

FIGURING IT OUT

Gross domestic expenditure (GDE) Rbn (constant 1985)

	Quarter 4 1990	Quarter 1 1991
Private consumption	75,9	76,1
Gov consumption	24,6	25,7
Gross domes fixed invest	25,5	25,3
Final demand	126,0	127,1
Change in inventories	−5,3	−1,6
Total	120,7	125,5
Residual item	−4,7	−4,5
GDE	116,0	121,0

No spent force



SA's destiny is back in the hands of its own people

(49)

7/91 BDay 1/7/91

SIMON BARBER in Washington

EXPLICITLY or implicitly, the external constraints on SA's reconstruction that were subject to the craven perversity of the US Congress have fallen away. What looks like continued obstacles — the restrictions on access to the IMF and the US Export-Import (Exim) Bank, plus the much brouhaha-ed "sanctions" imposed by US state and local authorities — are obstacles only as long as South Africans choose to treat them as such.

If SA starts to get its economics and politics right, IMF and Exim financing will soon become available without any changes having to be made to US law. At the same time, state and local authorities will be obliged to issue waivers to their selective purchasing statutes (as some are already doing) if they wish to do business with established banks and suppliers. For, likely as not, those banks and suppliers will be doing business with SA.

SA's future is now, more than ever, in the hands of South Africans. Foreigners no longer provide any credible excuse or crutch for failure. Abject leadership, moronic ideology and the self-inflicted wounds of the past are the only real sanctions left, and they are all homegrown.

It is up to government, in both its present and future manifestations, to take decisions and adopt policies that will let markets operate most efficiently to create and spread wealth on a sustainable basis. That, as the World Bank convincingly demonstrates in its latest annual world development report, will require a combination of sophistication, open-mindedness and courage not currently on great display among SA's ruling elites.

Foreign investment — the Cargo Cult of the 1990s as Francis Fukuyama has called it — is not going to save the day. Believing that is quite as puerile as the ANC's continued incantations on sanctions.

Renewed and healthy inflows of foreign capital and technology are indeed conditions for SA to achieve growth with equity, but they are not the only ones and are themselves conditional on much else besides: above all, a clear, credible and long-term commitment from SA's rulers, whoever they may be, to placing a higher priority on sound macro- and micro-economic management than on short-term political interest and advantage.

Investors, foreign and domestic, will be prepared to bet on SA's future — to risk present loss in expectation of future reward — if government is prepared to bet with them.

Government can bet in a number of ways. It can be fiscally responsible while allocating resources in areas — education, public health and infrastructure — that increase the efficiency of the marketplace. It can divest itself of all its politically expedient but economically unproductive encrustations, in particular its vast jobs-for-the-boys bureaucracies. State-owned enterprises can be returned to the private sector however much the political opposition screams. Price-distorting policies can be phased out: protection, subsidies, price controls, discriminatory tax structures, biased regulatory mechanisms and artificial exchange rates must all go.

Such steps require courage of an order as great, if not greater, than President F W de Klerk's agreement to negotiate the National Party out of exclusive power: racial socialism has created a mighty array of entrenched interests and rent-seekers all of whom will inevitably suffer intense withdrawal symptoms when obliged to compete on a level playing field. Those wishing to take over the warm spot in the featherbed will have to be faced down, too.

Like apartheid itself, most of the distortions that continue to strangle the SA economy were imposed to make the marketplace do what it would not otherwise have done. Left to itself, the market would have punished the appalling Nat government through massive capital flight. Instead, businesses and banks simply did what they could: those in a position to withdraw their stakes did so, those that could not refused to wager any more capital, imposing on the country an embargo more devastating than any dreamt up in the US Congress. Between 1980 and 1989, according to the World Bank, gross domestic investment fell by 4,5% annually. Need more be said?

One of the reasons the IMF exists is to help countries make the transition from bad to good government by making available standby credits to restore the market's confidence while the restructuring process is under way. In SA's case, access to such facilities, and the seal of approval it applies, will do several highly desirable things.

Most importantly, it will enable SA to re-tool and thus render more productive its stagnant economy. The certainty that the IMF stands ready to top up SA's foreign exchange balances will enable the Reserve Bank to release more dollars and Deutschmarks and pounds so that business can borrow and buy new machinery from abroad.

It will also make possible the scrapping of the two-tier exchange system and a reduction of the prohibitive tax on imported capital goods. Both have helped make SA's manufacturers uncompetitive in world markets and have thus crippled employment. Employers have been obliged to offset high capital costs by cutting labour ones.

Greater productivity will, in addition, help reduce inflation by restoring the balance between available goods and money supply. That in turn will enable an easing in interest rates and the effective tax they place on productive activity. Combined with good policy, the IMF can thus help SA move from a vicious economic cycle to a virtuous one.

However, the IMF cannot help if the government and its would-be replacements remain wedded to follies that the marketplace chastises. If the various parties cannot create a climate for investment and regeneration, the IMF does not have it in its gift to do the job on their behalf. It cannot force investors to invest. It can assist only those who demonstrably wish to help themselves.

This is a far more important fact than the Gramm Amendment, which, ultimately, is only a restatement in American law of the IMF's own basic principles. It says, in effect, that the US should oppose any IMF assistance to SA until SA has met the preconditions the fund should have itself imposed had it done its job properly the last time SA came by, for support in the early Eighties.

The IMF was not chartered as a cheap credit window for inherent losers. "A country practising apartheid", as SA is referred to in Gramm, is a country that self-evidently is not making the fundamental market orientated reforms IMF credits are designed to facilitate.

That has now changed, irreversibly. All that remains is for SA to convince the IMF's largest shareholder, the US, that the change is irreversibly towards a goal whose attainment could usefully be supported by fund credits. In concrete terms, that means getting full-blown constitutional negotiations under way so the world may judge whether the new SA intends to govern itself sensibly.

Lest any have been carried away by recent events, let it be remembered that the jury is still very much out on that question. Good governments, one might note, do not as a rule empty their jails by way of ostentatious gesture. It demonstrates a rather terrifying lack of self-control.

Nonetheless, if the omens are decent, the Bush administration will quietly inform the IMF that it will back a commitment to provide standby credits to SA should they be asked for. The administration will be well within its rights to do this under the Gramm Amendment. It will entail no change in US law or even, until SA actively applies to make a drawing, any public statement.

The IMF will then pass word that its executive board is ready to be of service, and advise SA's financial authorities to start taking the necessary steps to reflate the economy.

(49) ARGUS 16/7/91

SA to be drawn back into world economy

LONDON. — The Group of Seven is set to draw South Africa back into the world economy as the best means of creating a successful, non-racial state.

British officials said yesterday that a declaration to be issued by the G7 summit today would back international help to boost South African economic growth.

Leaders of the United States, Japan, Germany, Britain, Canada, France and Italy are to endorse commercial and eventually government-backed investment.

"They are making clear their concern for the foundation of a new non-racial South Africa," a British official told a briefing at the close of the first day of the three-day summit.

The statement would be an acknowledgement of last month's scrapping of the last apartheid laws, he said.

"They hope that (reform) will not be undermined by mounting social problems and declining economic prospects for the majority of the population," he added.

The G7 would undertake to assist South African government efforts by directing aid to "areas where the majority have long suffered deprivation — education, health, housing and social welfare".

Investment in economic growth would follow.

G7 would prefer the bulk of the investment to come from private industry and business but it recognised that "somewhere down the line" it would have to consider help from international agencies like the World Bank and International Monetary Fund (IMF).

● United States President Bush said last night he wanted to conclude a strategic nuclear arms treaty with Soviet President Mikhail Gorbachev in London this week to clear the way for a Moscow summit late this month.

Mr Gorbachev is to meet Mr Bush and other G7 leaders tomorrow after the end of the summit.

How to distinguish between old and new missiles is the only remaining issue separating the two superpowers from a Strategic Arms Reduction Treaty cutting their long-range nuclear arsenals by 30 per cent. — Sapa-Reuter.

Anglo chief pleads for market economy

49

ARG 17/7/91

JOHANNESBURG. — South Africa has no option but to stay with, and foster, a market-orientated economy, says Anglo American Corporation chairman Mr Julian Ogilvie Thompson in his annual statement.

He says the greatest challenge facing South Africa lies not in the devising of a new constitution, however important that may be.

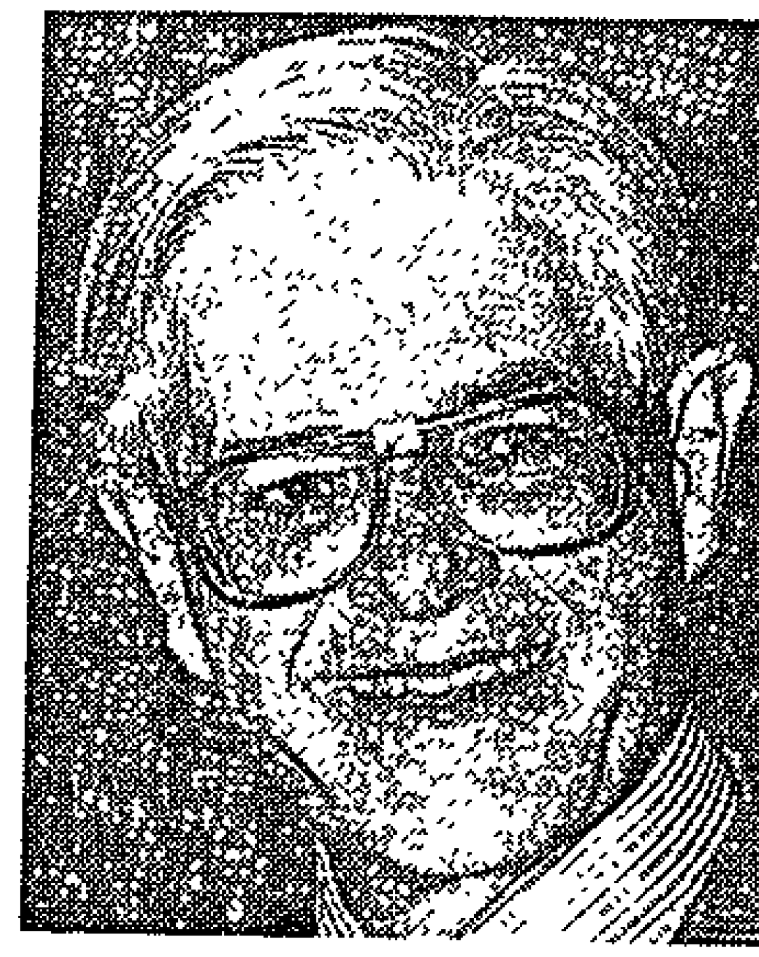
"The key is not political, but economic — how to grow the economy in such a way that the problems of poverty and inequity are successfully addressed."

He goes on to say that South Africa's development into a tolerant, pluralistic democracy will greatly depend on economic growth, particularly in the long term. This will mean that a large enough surplus will have to be generated to meet the country's social objectives, without starving the process of growth on which all progress depends.

For this, he says, realism, unclouded by emotion or utopianism, is important.

"Inequities abound, the gap between rich and poor is great, but contrary to popular belief, the gap is not greater than in some other countries at a similar state of development."

Mr Ogilvie Thompson says



Mr Julian Ogilvie Thompson

growth rate targets of four, five or even six percent a year, are well within reach, particularly in view of the expected upswing in the international economy and South Africa's increasing re-admittance to that economy.

"Just six years at a growth rate of five percent, will create jobs for 2,5 million people and an additional R55 billion in state revenue — in 1991 money — without raising taxes."

He concludes that the poverty and inequity present in South Africa can be addressed, provided the country's new leaders do not act out of poverty of thought.

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Sowetan 17/7/91 (49)

Big 7 vow to restore SA growth

LONDON - The world's seven major industrial nations pledged yesterday to aid South Africa to restore growth and create greater opportunities for its majority black population.

According to a draft political declaration, the leaders of the Group of Seven countries said South Africa needed economic assistance, including access to foreign capital markets, to pursue these aims.

"There is an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity," said the declaration from a London summit.

The G7, which comprises the United States, Japan, Germany, France, Britain, Italy and Canada, said: "In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation: education, health, housing and social welfare.

"We will direct our aid for these purposes," it said.

The G7 said it hoped negotiations on a new constitution leading to a nonracial democracy would begin shortly and would not be disrupted by what it called a "tragic upsurge of violence".

"All parties must do all that is in their power to resolve the problem of violence," the declaration states. - *Sapa-Reuter.*

● See Pages 4 and 6

Govt must encourage exports — Anglo chief

B/Day 17/7/91

(49)

MATTHEW CURTIN

GOVERNMENT had to create a business environment in SA which encouraged investment in export-oriented capital projects able to compete on equal terms with overseas competitors, Anglo American chairman Julian Ogilvie Thompson said yesterday.

SA urgently needed a resumption of investment activity "with a strong bias towards export markets". That bias was vital if economic recovery was to be sustained. If tied to a boom in domestic consumption, it would lead to another balance of payments crisis and recession.

In his chairman's statement, he said: "It is for government to make the playing field level, in terms of international criteria, and it is then for the private sector, responding to market signals in a way that bureaucrats and academics cannot, to identify and invest in ventures that can survive in what has been called today's borderless world."

The "stultifying impact" of high corporate and indirect tax rates, double digit inflation and high interest rates on investment had recently been recognised by government. Investment in SA, he said, had "not only been too low, its quality has suffered from too much spending on projects aimed at strategic self-sufficiency and import replacement not adequately subjected to the tests of the marketplace".

Latest legislation, "mitigating the effects of high inflation by allowing higher and earlier depreciation allowances for new investments that meet certain criteria with respect to the beneficiation of materials largely for export", took the process, which started with the 2% cut in the nominal company tax rate this year, the phasing out of import surchages, and provision of VAT credits on inputs, "one step further".

However, ad hoc reform, steering investment one way and then another, was not the full answer. A new tax dispensation as well as social stability, an end to sanctions, access to international capital funds, and an end to "stop-go" economic policies were crucial factors.

Ogilvie Thompson said World Bank studies and SA's own economic fortunes had shown massive state spending did not promote sustained economic growth. Instead it financed dependency rather than self-reliance, and institutionalised proverty rather than alleviating it.

As for Anglo's performance for the year to end March 31, he said the 17% fall in equity accounted earnings to R2,6bn was the result of the domestic recession and weak prices for gold and other commodities in world markets. The contribution to earnings from gold fell to 11% from about 33% three years ago.

Projected 1991-1994 capital expenditure stood at more than R6bn for the gold, coal and industrial sectors of the group, with an additional sum earmarked for the R3bn Columbus stainless steel joint venture with Gencor.

Big 7 boost for SA

CT 17/7/91

(49)

From IAN HOBBS

LONDON. — The leaders of the world's seven richest nations said yesterday that economic growth and access to "all foreign borrowing" was crucial to stability in the new South Africa.

The dramatic statement, which clearly sounds the death knell for sanctions, was interpreted as a certain indication that President George Bush will soon use his executive powers to give South Africa access to International Monetary Fund (IMF) and World Bank loan facilities.

The anticipated end of financial sanctions will be the key to a new era of economic growth and grounds for political stability during the process of constitutional negotiation.

The G7 group — the US, Japan, Britain, Germany, France, Canada and Italy — sprang a surprise by producing a significant statement on South Africa in a political communique yesterday.

Diplomats said Britsh Prime Minister Mr John Major, backed by Mr Bush and German Chancellor Mr Helmut Kohl, had forcefully argued in favour of boosting economic growth in South Africa.

It is understood that Canada alone among the G7 countries prevaricated on general sanctions.

The agreed communique, described by one senior Western diplomat as a "a necessary kick in the pants" for sanctions, emphasised the need for prosperity and stability reaching the poor through economic growth — and the danger of violence undermining a new non-racial South Africa.

● IMF to help with BoP
— PAGE 14

The key paragraph declared: "South Africa needs to pursue new economic investment and other policies that permit normal access to all sources of foreign borrowing. In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation (in) education, health, housing and social welfare."

Welcoming the "positive developments" of the dismantling of the pillars of apartheid, it hoped the de facto elimination of apartheid would follow.

On the undertaking by the G7 nations that aid would be directed to relieving deprivation in education, health, housing and social welfare, British Foreign Secretary Mr Douglas Hurd said most countries already had their own programmes, pointing out that Britain, for example, had about 300 aid projects in South Africa.

He emphasised that the importance was "to restore growth, now not later, if South Africa after apartheid is to have a chance of offering jobs, housing and schooling to black South Africans who have been deprived of them hitherto".

● Both the South African government and the African National Congress yesterday welcomed the G7 statement and agreed that discussions in South Africa on a new constitution should be pushed forward as fast as possible, UPI reports.

Minister of Foreign Affairs Mr Pik Botha said in a statement in Pretoria that he considered the G7 declaration to be "positive and encouraging".

ANC spokeswoman Ms Gill Marcus said the ANC welcomed the G7's call for aid for social problems as long as it did not legitimise the South African government.

"This aid is welcome as long as it is not done in such a way as to extend a new lease on life to apartheid," she said last night.

Reserve Bank is doing right thing, says Anglo chief

(49)

Star 17/7/91

By Magnus Heystek
Finance Editor

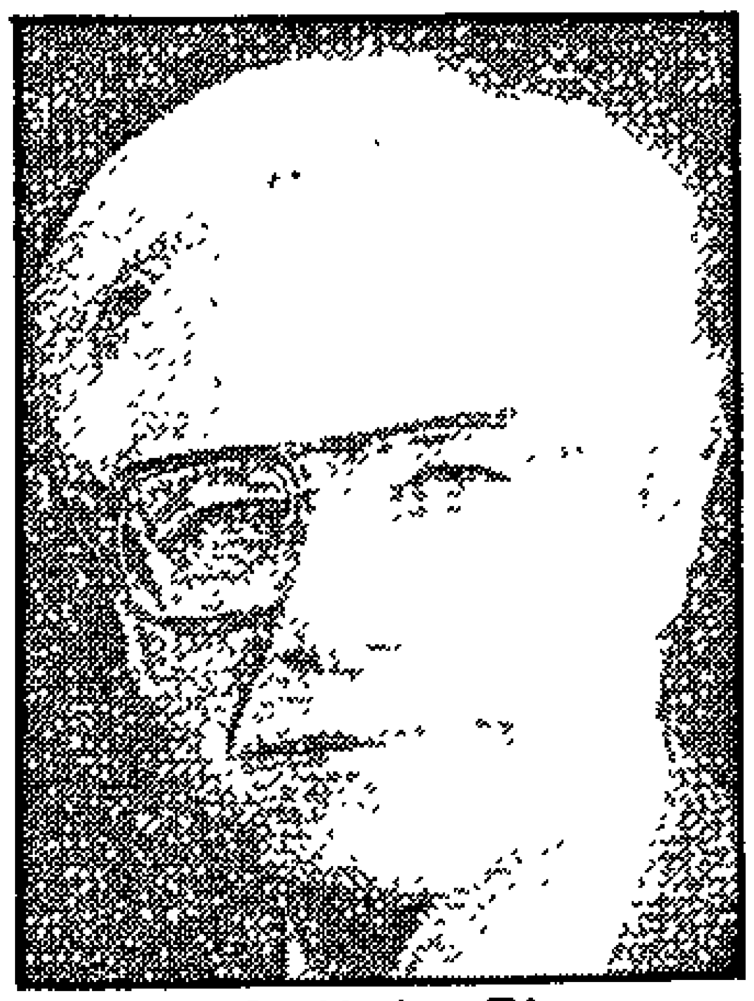
The chairman of Anglo American Corporation, Julian Ogilvie Thomson, has come out in full support for the tough monetary stance by the Reserve Bank.

This differs sharply from other leading businessmen who have been calling for a reduction in interest rates in an effort to stimulate growth.

Writing in the group's annual report, he says: "Resorting to growth by way of monetary expansion would not fall within the bounds of responsible economic management."

Commenting on improving economic fundamentals, including the abolition of trade and financial sanctions and the likelihood of capital inflows, he says this does not justify the calls for a pronounced relaxation in fiscal and monetary policies now.

"The wide swings in domestic demand in South Africa over the past two decades, associated with poor and deteriorating growth performance, high inflation with consumption increasing at the expense of saving, investment and future growth demonstrate beyond doubt the futility of such measures.



Julian Ogilvie Thompson . . . the destruction of all gains that have been achieved

"Far from alleviating poverty in our society, they have increased and prolonged it," he says.

Asccording to Mr Ogilvie Thompson, anti-inflationary policy takes several years to exert its full impact, and impatience with high real interest rates, while understandable, is therefore misplaced.

"If policies aimed at achieving single-digit inflation have so far done no more than contain it at the mid-double-digit level, that is no argument for a resigned acceptance of a 14 to 15 percent rate — and for relaxing monetary policy accordingly.

"The outcome, unquestionably, would be a surge in inflation to much higher levels, the destruction of all gains that have so painfully been achieved over the last few years, and the erosion of our potential for growth," he says.

Elsewhere in the report, Mr Ogilvie Thompson reveals that Anglo is planning capital investments of some R6 billion in the major sectors of its business — gold, coal and industry — in the period 1991 to 1994.

The figure could be significantly higher should the Columbus stainless steel plant, a joint venture worth an estimated R3 billion with Gencor, get the green light.

Mr Ogilvie Thompson says a positive announcement about the venture can be expected by the end of the month.

The Columbus project, he says, could make South Africa a major player in the the stainless steel industry, earning about R2 billion in foreign exchange when completed.

The stainless steel industry is one that adds value to a high degree.

In the case of Columbus, this could be by about 50 times in terms of the chrome content of the stainless steel produced.

The plant's initial capacity would be 300 000 tons a year, rising to 400 000 at some stage and would use state-of-the art technology.

It would employ 5 000 people during commissioning and 1 500 on a permanent basis when it is completed within just over three years.

Foreigners have growth role to play, says Stals

By Sven Lünsche

Star 17/7/91

Economic growth should preferably be triggered by the greater participation of foreign investors, Reserve Bank Governor Dr Chris Stals said yesterday.

"This is the real message of the lifting of sanctions," he told the annual congress of the Western Cape Agricultural Union in Cape Town.

"Foreign participation will bring with it not only the impulses required for a new expansionary phase, but the foreign exchange we need to support the balance of payments.

"It makes it possible for South Africa, with sound financial and economic management, to experience economic growth with financial stability."

Dr Stals said the slow collapse of international sanctions had raised the question whether the economy was ready for the challenges now being offered.

"We have been hiding behind the sanctions excuse for the past few years and it was easy to blame our economic woes on the policies of other countries," he said.

"The ball is now in our court and we must create an economic system that provides maximum benefits for all."

Dr Stals said the end to sanctions enabled foreign businesses to make their decisions freely on whether to invest in South Africa or in other areas.

There was increasing evidence that investors were making use of that opportunity.

"More and more foreigners seem willing to overlook the political volatility and are asking about the possibilites for economic and financial investments.

"But we must ensure that our trade partners and potential investors are offered an attractive economic environment to make this happen," Dr Stals said.

He admitted that recent political reforms had played a major part in the recent improvement in the balance of payments.

London summit urges access to foreign loans

Big 7 boost for economy

Star 17/7/91.

By Jean-Jacques Cornish and Sven Lünsche 49

South African leaders yesterday hailed a commitment by the world's seven major industrial nations to assist the country's economic recovery.

In particular they responded warmly to the call that South Africa should be granted access to foreign capital markets to achieve strong economic growth.

The call for urgent international measures to restore economic growth in South Africa came from the summit meeting in London of the world's seven richest nations.

Leaders of the so-called Group of Seven (G7) — Britain, Canada, France, Germany, Italy, Japan and the United States — cited in a declaration yesterday "an urgent need to restore growth to help reduce inequalities of wealth and opportunity" in South Africa.

Pledging to direct their aid to making up the shortfalls caused by apartheid, they expressed the fear that the social and economic imbalances were contributing to the violence and undermining the foundation for a new, nonracial South Africa.

"The need to restore growth is now, not later," said British Foreign Secretary Douglas Hurd while delivering the declaration.

"If South Africa after apartheid is to have a chance, it must be able to provide jobs, housing and schooling for those who have not yet benefited from the reform process."

Mr Hurd said South Africa needed to "pursue new economic, investment and other policies that permit normal access to all sources of foreign borrowing".

He added: "In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation.

Chris Stals.

Douglas Hurd.

"We are not saying how they should gain access to funds. We know that there will be discussions between the United States and South Africa, so we did not go into detail."

Reserve Bank Governor Dr Chris Stals said the call by the G7 could speed up the restoration of normal links with the International Monetary Fund and other offshore funding organisations.

Foreign Minister Pik Botha told Sapa that the G7 governments clearly recognised the urgent need for economic growth in South Africa as well as access to international financial resources.

Restricting South Africa's access to overseas financing was the most serious blow of the sanctions campaign because it had forced the authorities to put a lid on economic growth to protect foreign-exchange reserves.

Anglo American chairman Julian Ogilvie Thompson said yesterday that foreign banks would take their lead from the IMF.

"In the meantime the IMF's delay has the unfortunate effect of continuing to starve the country of new capital for desperately needed development," he said in his chairman's report.

But Dr Stals added that the recent scrapping of sanctions by many countries and the support by the G7 were significant moves in restoring South Africa's links to the financial world.

"There is now much more emphasis on South African business leaders and politicians to create a stable economic and political environment to attract foreign investment," he said.

According to normal practice at the annual economic summits of the G7, there were no details for proposed action.

But the fact that SA had been mentioned at all was greeted as a welcome sign by the SA Chamber of Business.

Its chief economist, Dr Ben van Rensburg, said it showed that South Africa was not taking a back seat to Eastern Europe in terms of international economic support.

"It is also positive to note that there are no strings attached to the aid by the G7," he added.

● More reports — Pages 4 and 15

Violence 'must be resolved'

G-7 pledges aid to rebuild SA economy

BDay 17/7/91 (49)

LONDON — The world's seven major industrial nations yesterday pledged to help SA restore growth and create greater opportunities for blacks.

A draft political declaration by the leaders of the Group of Seven (G-7) said SA needed economic assistance, including access to foreign capital markets, to pursue these aims.

"There is an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity," the G-7 said at its annual summit.

The G-7, consisting of the US, Japan, Germany, France, Britain, Italy and Canada, said: "In addition to its own domestic efforts, SA also needs the help of the international community, especially in those areas where the majority have long suffered deprivation: education, health, housing and social welfare."

"We will direct our aid for these purposes," it said.

The statement said SA needed to pursue new economic, investment and other policies that "permit normal access to all sources of foreign borrowing".

The G-7 said it hoped negotiations on a new constitution leading to a non-racial democracy would begin shortly and would not be disrupted by what it called a "tragic upsurge of violence".

"All parties must do all that is in their power to resolve the problem of violence."

Foreign Affairs Minister Pik Botha said yesterday he considered the G-7 declaration a positive and encouraging statement.

The G-7 clearly recognised the urgent need for economic growth in SA as well as access to international financial resources, he said.

Government also agreed with its sentiments that negotiations on a new constitution should commence as soon as possible. Botha agreed with their call on all parties in SA to do all in their power to resolve the problem of violence.

British officials said earlier yesterday that investment and economic growth would follow G-7 aid to SA.

It said the G-7 would prefer the bulk of the investment to come from private industry and business, but it recognised that "somewhere down the line" it would have to consider help from international agencies like the World Bank and IMF.

Meanwhile, the G-7 yesterday agreed to hold annual meetings between its rotating chairman and the Soviet Union's leader.

US Secretary of State James Baker also said there was "no chance" Soviet President Mikhail Gorbachev would leave the summit empty-handed.

But he insisted there was no guarantee of US-Soviet agreement on a strategic nuclear arms reduction treaty and a Moscow summit despite president George Bush's vow to try to work out final details this week.

● See Page 4
●Comment: Page 8

The SACP has rejected the prescription of nationalisation as part of the programme of the party. We did so because on balance it meant different things to different people. We opted instead for the process of socialisation which may or may not involve the transfer of legal ownership in whole or in part of enterprises during the post-transformation period.
I don't think the question of legal ownership is the key factor, even within capatilism. The people who actually run an control enterprises - medium or large ones anyway - are not the owners. The ownership question befuddles the issue. South 18/7-24/7/91

(Interview with Joe Slovo, general secretary of the South African Communist Party) 49

Why are people advocating nationalisation in your opinion? Who are the players?
They simply believe it is a mechanism to redistribute wealth. The players are the unions and the ANC. I question the degree to which the ANC is really committed to the policy of nationalisation. I believe the ANC believes it has to redistribute wealth in order to establish its credibility in society.
So you think it is a negotiating position - take a hard line, and let go of it slowly in exchange for something else? And what if they are serious?
That is my perception. Then we have some serious discussions to do. I firmly believe that in order to redistribute wealth you have to try and increase the size of the economic cake. SA is not a wealthy country. We have been hammered by sanctions. And we have to recoup that and all the jobs it cost us.
(Interview with Kennedy Maxwell, past-president of the Chamber of Mines)

Excerpts from **NATIONALISATION: BEYOND THE SLOGANS** *by Keith Coleman*

Total package 'could double'

Foreign aid set to surge, say diplomats

(49)

BDay 18/7/91

BILLY PADDOCK

DIRECT and indirect aid to SA from six of the world's major industrial nations and the EC could almost double next year from the R450m committed this year, diplomats representing these nations said yesterday.

Following the pledge to help SA revive growth and create opportunities for blacks by the leaders of the Group of Seven (G-7) on Tuesday, the diplomats said their governments would continue to plough money into projects they had identified.

Japan is the one G-7 member which does not channel aid to SA.

Most of the R450m committed and the largest proportion that had been spent was on education and housing, they said. Other areas earmarked for aid were health and social welfare.

The diplomats were unanimous that there was an urgent need to restore growth to the economy to reduce inequalities created by apartheid.

One said that while aid efforts were having a good effect, what SA's economy really needed was access to IMF and World Bank loans.

The US and UK diplomats and the EC representative estimated aid from their governments and the EC collectively would increase from the current R450m to R730m next year.

The total aid package would double next year if Germany, France, Canada and Italy increased their aid spending in line with increases expected from the US, Britain and the EC. The four were not able yesterday to supply an estimate of their likely SA aid budgets for next year.

An EC spokesman said R130m was spent last year through its programme and a further R200m was earmarked for this year. He said decisions to increase aid were taken annually but he thought the sum would increase again next year possibly by a further R35m.

US Information Services public affairs counsellor Kent Obee said President George Bush, on announcing the lifting of CAAA sanctions, had said the US would double its R170m aid commitment to SA projects, mainly in the field of education and housing.

He said more than half the current aid to SA was being spent on education and the US was looking at other possibilities. Some members of the embassy were in the US to discuss further aid, he said.

German embassy spokesman Fritz Diehm said he did not have the exact figures of 1991 German aid to SA but it would certainly be more than the R32m direct and a further R32m through the EC programme.

He said this had increased by 7% on last year's figure and while it was expected that there would be a further increase next year, resources were limited and his government was committing large amounts of money to the rehabilitation of the former East Germany.

Germany also supplied aid through non-governmental organisations and the embassy was still busy drawing up a complete breakdown of the amounts and where

□ To Page 2

Aid

BDay 18/7/91 (49)

□ From Page 1

they were being allocated.

A British embassy spokesman said his government was involved in about 300 different projects and was spending about R50m this year, mainly on education, housing and social welfare. This sum excluded aid through the EC and the 1 200 scholarships the British government administered. He said there had been a rapid increase in aid to SA with a tenfold increase since 1986.

It is understood British aid could rise by another R40m in 1992.

The Canadian embassy said it expected its government to increase substantially its aid from the current R23m once SA reform was accepted as irreversible.

The French and Italian embassies also spoke of substantial increases, but they would only know the details later this year.

Italian second secretary Alessandro Cortese said his government allocated about R5m in aid, but this would increase "because we are busy planning a lot of new projects".

He said an Italian Foreign Affairs Department delegation would arrive in SA in August to evaluate and study various proposals.

A spokesman for the French embassy said it was supplying about R6m in aid to various education, housing and rural development projects and he expected that more would be forthcoming.

BUSINESS

Sacob plans new 'social accord' for economy

(49)

WMail 19/7-25/7/91

A 'social accord' among business, labour, political organisations, government and civics is a means of providing for redistribution and economic growth, believes the South African Chamber of Business.

WEEKLY MAIL REPORTER

THE South African Chamber of Business (Sacob) last week unveiled its plan for a Social Accord to provide for economic growth and redistribution.

The accord is the idea of Ronnie Bethlehem, chairman of Sacob's Economic Affairs Committee.

The crumbling economy and the unemployment explosion, Sacob says, demand a national strategy for economic growth and redistribution in South Africa.

"But," says Bethlehem, "there is no way in which we can implement a national development strategy unless it is commonly owned."

For Bethlehem, a social accord would provide a "commonly owned" forum for all the different interests in South Africa to arrive at consensus on such a national development strategy.

Ronnie Bethlehem

The social accord differs from a social contract — Bethlehem believes that a social contract is "too rigid and binding to work in a rapidly changing world".

He says: "A social accord would constitute an understanding reached between all major players — government, organised labour, business, political organisations and civics." Mini accords at industry and regional levels have already worked, believes Bethlehem.

He cites the recent mining summit and the Ergo/NUM wage negotiations as examples of successful labour accords.

Debra Marsden, of the Consultative Business Movement, says development forums at regional levels have also worked. The Middelburg Forum was born from an electricity cut-off in the township of Mhluzi.

The local civic association asked Middelburg Steel and Alloys, a Barlow Rand subsidiary, to step in and assist the community with payments. MSA agreed but attached the clause that all parties in Middelburg should get together to discuss the town's development needs — thus the Middelburg Forum was born.

Local businesses, the Congress of South African Trade Unions, African National Congress, police, local regional services councils and the Conservative Party-controlled town council are all represented at the forum.

The Eastern Cape Funding and Development Forum has also been established to discuss the region's development needs. Marsden says attempts have been made to keep it as non-partisan as possible — thus the ANC, Pan Africanist Congress and Azanian People's Organisation sit on the forum. In addition, representatives of the private sector and government also belong to the forum.

And Sacob acknowledges that restructuring is inevitably going to entail redistribution to redress imbalances between black and white. This thorny issue could also be negotiated through a social accord.

The accord, believes Bethlehem, could also have a positive effect on political negotiations. Its direct effect on negotiations could be to bring together, in this forum, the very same parties who will be instrumental to political negotiations. Informal discussions between the ANC and Sacob on a social accord have already taken place, according to Bethlehem.

Its indirect effect, says Bethlehem, is that "it could help improve economic performance, reduce the pressure on the unemployed and so also reduce negative socio-political feedbacks".

G7 assistance doesn't quite touch the G-spot

(49) (88)

By REG RUMNEY

IT may be good news, but jubilation about the message of support from the Group of Seven (G7) nations for South Africa's economy is a bit premature.

The G7 said South Africa needed economic assistance, including access to foreign funding.

The powers which make up the G7 have in effect given the green light to loans from the International Monetary Fund (IMF) and the World Bank.

True, the announcement has more than symbolic meaning. Other things being equal, it may encourage much-needed new private-sector investment in South Africa.

But the announcement does not mean immediate access to new loans as IMF and World Bank funds are still effectively blocked by the United States.

WMail 19/7-25/7/91

More important than access to IMF credits for balance of payments (BoP) stabilisation, a recovery of the rather sickly world economy is crucial. Without healthy growth in our trading partners South Africa cannot hope for an upturn, which is now forecast by some for the beginning to the middle of next year.

It is 18 months or so into a boom we may need access to IMF funding to tide us over an expected drop in the surplus of the current account of the BoP as imports outstrip exports, as South African Chamber of Business chief economist Ben van Rensburg has pointed out.

There should also be caution about taking up foreign loan money anyway.

Arch-critic of the international financial set-up, Institute for African Alternatives director Ben Turok warns that IMF loans are onerous, and do not allow rescheduling.

He reminds that the burden of debt servicing has devastated large parts of the Third World. This is something about which South Africa, as part of Africa, should be aware.

Nedbank's economic unit has warned that World Bank loans, which are longer term than IMF funding and for development, and not related to the BoP, should be directed towards projects offering long-term growth potential, and not be squandered on financing projects of national prestige.

The increased economic assistance proffered by the G7 may be disappointing.

According to a report in *Business Day* the amount now granted to South Africa in aid is R450-million, and this could double in the wake of the G7 anoucement. That is small beer in terms of South Africa's economy.

Nedcor chief economist Edward Osborn points out that aid itself has to be handled carefully to avoid the kind of aid dependency that African countries have fallen into.

Govt spending puts pressure on deficit

(49)

CT 19/7/91

From GRETA STEYN

JOHANNESBURG. — Government could be heading for a deficit well above the budgeted 3,4% of GDP, with latest figures showing spending to be running above targets while revenue is lagging behind.

Exchequer figures to be published in the Government Gazette today will show spending for the April-June period was almost 21% up on last year — a much higher rate of increase than the budgeted 13,7%. Revenue is running well below the 11% increase budgeted for the year.

Pressure on the deficit from both the spending and revenue side could see government end the fiscal year with a higher deficit than 3,4%. The IMF benchmark for fiscal health is a deficit of 3%.

But finance director general Gerhard Croeser said yesterday he believed that it was too early to sound the alarm.

"Our projections show spending is running at only 0,4% above budget, or about R400m for the fiscal year. That is no reason to be worried about overspending," he said.

He was reluctant to comment about the revenue situation, but noted that "statistical noise" was distorting the picture. Last year saw a revenue bonanza in the first few months as tax concessions came into effect only in July. Increases in the first three months were low because of a high base.

Revenue rose by 10% in the April-May period, against a budgeted rise of 11% for the full year. The June figure will be released today and will also be below the budgeted increase.

"It is not abnormal for revenue to be sluggish in the first half of the year. The big tax paying months, August and February, are in the second half," Croeser said.

Bankorp economist Emile van Zyl predicted revenue would not reach the budget targets: "The figures so far indicate the budgeted rise of 27% in personal income tax is unrealistic. Government is over-estimating the effects of fiscal drag".

United economist Pierre Morgenrood said VAT could come to the rescue.

Another economist said "statistical noise" was also a factor on the spending side. Last year saw abnormally low government spending in the first three months, which means high increases this year are off a low base.

The latest figures will show that spending in June was R5,4bn. This is down from April's massive R8bn and May's substantial R7,6bn.

Soviets 'laying foundation for economic ties'

B/Day 19/7/91 (49)

DURBAN — The USSR was not ready for economic relations with SA but would begin to lay down the basis for ties, Soviet diplomat Alexei Makarov said in Durban yesterday.

He added that political change was not yet irreversible and it was too soon to lift sanctions.

Speaking at a forum held by the Institute for a Democratic Alternative for South Africa (Idasa), Makarov said the Soviet Union "must lay down the basis of future economic relations now, not later".

There were many spheres in which the Soviet Union and SA could co-operate economically.

The Soviet Union was particularly interested in gaining access to modern technology in mining, processing of mineral ores, geological reconnaissance, metallurgy, the processing of diamonds, ship building, agriculture and food production.

Makarov, who is the head of the USSR Interest Section based in Pretoria, said the scientific field might be an important area of co-operation. "SA has a good technological base, while the USSR has well established scientific schools. This merging could be productive for both."

Trade in products would be hampered because the Soviets did not yet have a convertible currency.

Impose

Makarov said that until economic reforms in the Soviet Union were completed, there might be many obstacles to co-operation.

Referring to SA's political future, he said the Soviet Union would not impose "recipes or solutions for the country. These should be found within the country."

The Kremlin regarded President F W de Klerk as a "sober and pragmatic politician. A man set on bringing changes to SA towards a democratic solution."

At the same time, it stood on the side of the "democratic forces" as the Soviet Union was prepared to support all parties or organisations whose aim it was to eliminate apartheid and bring democratic change to the country.

Commenting on the SA Communist Party, Makarov said his country still maintained good relations with the SACP, as the Soviet Union was prepared for "good relations with anyone we agree with". — Sapa.

and National Housing, appoints the following persons to serve in the Council for the Co-ordination of Local Government Affairs for a term ending 31 December 1991:

KaNgwane Government	*Secundi*
Mr L. Mavuso (Department of Interior)	—
KwaZulu Government	
Minister E. S. C. Sithebe (Department of Interior)	Dr F. T. Mdlalose.

H. J. KRIEL,
Minister of Planning, Provincial Affairs and National Housing.

(19 July 1991)

dering van Plaaslike Owerheidsaangeleenthede, 1983 (Wet No. 91 van 1983), aanstel as lede in die Raad vir die Koördinering van Plaaslike Owerheidsaangeleenthede vir 'n termyn eindigende 31 Desember 1991:

KaNgwane Regering	*Sekundi*
Meneer L. Mavuso (Binnelandse Sake)	—
KwaZulu Regering	
Minister E. S. C. Sithebe (Binnelandse Sake)	Dr. F. T. Mdlalose.

H. J. KRIEL,
Minister van Beplanning, Provinsiale Sake en Nasionale Behuising.

(19 Julie 1991)

NOTICE 656 OF 1991

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SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of June 1991

	1991-06-30	1991-05-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	9 910 465 117,00	10 111 635 208,00	(201 170 091,00)
Deposits:			
Government	5 607 634 423,40	4 639 640 653,45	967 993 769,95
Provincial administrations	556 788 281,03	552 995 909,32	3 792 371,71
Deposit-taking institutions	1 217 821 787,24	1 563 925 417,07	(346 103 629,83)
Other	102 831 812,53	95 366 227,43	7 465 585,10
Other liabilities	8 959 563 297,39	8 590 172 656,43	369 390 640,96
	R26 434 936 581,70	**25 633 567 934,81**	**801 368 646,89**
Assets			
Gold	4 970 051 161,04	4 439 751 567,65	530 299 593,39
Foreign assets	2 469 176 802,20	2 743 778 612,99	(274 601 810,79)
Total gold and foreign assets	**7 439 227 963,24**	**7 183 530 180,64**	**255 697 782,60**
Domestic assets:			
Discounted bills	2 676 920 000,00	2 395 450 000,00	281 470 000,00
Loans and advances:			
Government	—	—	—
Other	1 052 371 578,54	1 087 942 237,88	(35 570 659,34)
Securities:			
Government	942 479 215,34	970 857 420,84	(28 378 205,50)
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	13 200 952 780,58	12 872 803 051,45	328 149 729,13
	R26 434 936 581,70	**25 633 567 934,81**	**801 368 646,89**
Rand per fine ounce	950,06	904,53	45,53
Gold holdings in fine ounces	5 231 302	4 908 352	322 950

C. J. SWANEPOEL,
General Manager.

Pretoria, 5 July 1991.

LEADERSHIP FM 19/7/91 (49)

Cyril sets the tone

He's a pragmatist who needs to sharpen up on Marx and economics

The advent of Cyril Ramaphosa as the African National Congress's secretary-general, and one who is ostensibly near centre on the political stage, has evoked widespread interest in the man and his ideas. And understandably so. For, if our measure of his ambition and ability is correct, the prosperity of more than 30m people will depend critically upon them.

At 38, he is representative of those younger men who will one day lead the ANC beyond the confines of merely being a "liberation movement." So businessmen and investors, in particular, want to know — as precisely as possible — the degree of his socialism.

And if he is after all a pragmatist, as the evidence suggests, will he nonetheless be constrained in his actions by militant followers with dangerously high expectations and outdated collectivist dogma?

Ramaphosa has been greeted by sympathisers and detractors alike as good for the ANC in that he has already shown the leadership and negotiating skills the congress needs if it is to become the "well-oiled machine" Nelson Mandela has said he wants it to be. For it is in credible leadership, coherent policies and organisational ability that the ANC most needs to be endowed.

Now that its National Executive Committee (NEC) has been through the fire of an election, it needs someone with Ramaphosa's solidly proven attributes to progress beyond the politics of confrontation and towards a fully fledged alternative government. Foreign funding, too, is increasingly likely to be dependent on the congress's success in projecting an image of competence and commonsense.

So the secretary-general's post is bound to take on greater significance at this stage of the ANC's political life; and it would be surprising if Ramaphosa were not part of its negotiating team in the coming multiparty venue that will begin the debate on a new constitution.

Ramaphosa himself describes his new job as having "manifold functions":

☐ To co-ordinate the ANC's administrative activities on a national basis — which will be a mammoth task;

☐ To ensure that proper records are kept; and

☐ To co-ordinate the activities of the NEC so that decisions that are taken are implemented and properly reported.

To these tasks the bearded former trade union leader will bring charisma, a grassroots following and tested skills honed in the tough bargaining environment of the mining houses. He is articulate, hard-working and — the quality most frequently observed — a consummate negotiator, which could mean that if he asks for one rand he shouldn't be offered more than 20c.

He is also an avowed Marxist, though it is well worth examining exactly what this means to him. How does he reconcile his image as a working-class hero with his reputation for being a snappy dresser, the owner of a BMW — and keen on trout fishing?

"People should judge me by what I do and the work I've done," he retorts. The record indeed suggests that what Ramaphosa does well is strike accords. In any case, his bourgeois tastes are irrelevant, he says, adding that he bought the Beemer when he was an articled law clerk 12 years ago, is proud to have maintained it for so long, and in any case now drives a Toyota. As for fishing, "what are we saying about fishermen all over the world who lead some of the most desperate lives?"

So he also has a sense of humour, as well, perhaps, as the upper-crust inclinations of a future commissar.

But, essentially, understanding Ramaphosa inevitably means coming back to that

> **"Government should be able to intervene to give direction to the economy"**

word: pragmatist. "That's my problem," he once confessed, "that I am a pragmatist, not an idealist." But it also belies his claim to being a Marxist.

Those who know him say we can now expect the negotiating process to be cut by 12 months. That would be refreshing.

Ramaphosa is at present winding down his activities in the NUM, though he would like to continue acting as some kind of consultant to the union because "I owe it to the miners."

Under his leadership, the path-breaking profit and performance-linked wage agreement at Ergo was forged during a time of dire straits for the mining industry. Earlier this year he led the Soweto People's Delegation to negotiate an electricity and rent arrears agreement with the Transvaal Provincial Administration. And this process was taken further in talks on local government structures with the new Witwatersrand Metropolitan Chamber in April. He is keen on mass electrification.

Significantly, these initiatives were opposed by Moses Mayekiso, who is head of the Civics Association of the Southern Transvaal (Cast), and who is also general secretary of the metalworkers' union, Numsa, and a high-profile member of the SA Communist Party

Ramaphosa got his way — and the constituency support. This helps to explain the popularity of his election to the ANC's governing committee.

His rivalry with Mayekiso goes back to the time Ramaphosa left his former Black Consciousness-inclined home in the union federation Cusa, where he had been legal adviser, to form the NUM under the Fosatu umbrella in 1982. The rival miners' union in Mawu was then led by Mayekiso, and the issue of the day was that of access agreements to recruit membership.

What transpired is instructive. Ramaphosa came to believe that the existing method of surreptitiously penetrating an industry and then presenting management with a fait accompli was time-consuming and could fail. So he went directly to Anglo management on the access issue, was granted that access — and NUM membership shot from 22 000 to 50 000 in a year. Mine team leaders were targeted as key personnel to enlist in this drive.

Within 12 months he had outflanked his rivals and demonstrated that there would be room for only one black union in mining.

He was able to take the political tide and see what was going to work. In formulating policy, Ramaphosa has an acute sense of what will achieve the desired end. In that light, his publicly proclaimed allegiance to socialism needs some qualification. He has also seen first-hand the ruin it brings.

For all that, he still claims to remain a Marxist: "We don't share the view of those who say that socialism has collapsed completely in eastern Europe and the Soviet Union. It is rather the method of application that was wrong . . ." This, of course, is a familiar refrain among romantics with a lifetime of support for the Communist Party. And it begs the question: if the Russians with all their resources and cultural attributes could not get it right, why should anyone believe the ANC will succeed here?

Reflecting this line, Ramaphosa adds: "Those countries were able to achieve optimum heights in terms of winning for the people a number of essential benefits that should be part and parcel of life. For instance, the question of employment. In the then-socialist countries, unemployment was unheard of; health care was one of the best you could get; the participation of people in the running of enterprises was, at a theoretical level, quite ideal — but they did not put it into practice in the way they should have."

The point is, of course, that none of this could be sustained. When asked about his visit to Moscow in 1989, he admits: "It was a shock in a number of ways. I went at a time they were beginning to experience enormous economic problems . . You cannot go to any of these countries and not be surprised by the level of economic decline."

He can recognise economic decline. That much is clear. But is he fully aware of its causes and what the alternative must be if SA is to generate, let alone redistribute, wealth? Businessmen who know him confess to doubts about Ramaphosa's practical understanding of the dynamic of a market economy.

This is what one had to say: "In some respects there is a parallel with the development of trade unions — the need we had for an organised channel of communication, strong union leaders to bring the members along For that you need people of Cyril's calibre. He is a consummate negotiator, and it's in the ANC's interests, if negotiations with government are to succeed, to have such a person. He understands the fundamental lesson of negotiation — that it involves compromise.

"But while we all think he's a great guy, he doesn't understand wealth-creation. For instance, when he was asked about the issue on TV (on *Agenda*) he brought up that hoary old chestnut, electrification."

Last week — under consistent pressure from business — Ramaphosa issued a statement that categorically denied he had ever been a member of the SA Communist Party. But what of the policy of nationalisation, which the NUM supports?

Ramaphosa responds: "The decision of the NUM is that in terms of achieving the objectives that we believe are necessary for growth, there should be certain enterprises that should be identified for public ownership . . . Government should be able to intervene by giving direction to the economy, by taking ownership of certain enterprises in the economy, by managing others, and so forth. And all that should be to achieve certain strategic objectives.

"If it turns out that by taking a particular enterprise you are not going to achieve those objectives, you should not do it. There's going to have to be a process of research and study of whether the taking into State ownership of a particular enterprise is actually going to win the objectives we want. Nothing will be taken into State ownership without thorough research and analysis, including what is currently under State ownership."

Is this not a little disingenuous? Ramaphosa knows that popular feelings willy-nilly support nationalisation. Clearly the ANC will examine this "option," but whether it is exercised or not will depend on whether the ANC's leadership can bring itself to admit that it has never, anywhere, succeeded. And then to explain to its followers why this is so

(Clarity on ANC economic policy, based on guidelines presented at its recent conference, can be expected "within six months," according to Ramaphosa.)

Ramaphosa is also not completely clear — perhaps not even in his own mind — on the principle of private ownership as crucial to a successful modern economy.

"I accept it without any form of reservation," he says, then goes on to lodge a reservation: "I also accept the fact that you need to have public ownership of certain means of production. In that respect, we locate those two objectives in a mixed economy, which the ANC has set out as the foundation of its economic policy."

But a mixed economy has no place in anything that Marx ever advocated. Simply put, he adumbrated, using a spuriously scientific technique, a process whereby inevitably the rich would become richer and fewer, and the poor even poorer and greater in numbers. The outcome would be a revolution from which a people's dictatorship would emerge with the State owning the means of production and in which each worker would contribute according to his ability and receive according to his needs.

Marx was no moralist. He described a historical process that he claimed was inevitable. And everywhere it has subsequently been shown to be in ruins.

There is sufficient evidence to indicate now that successful democracies are invariably based on private ownership and the allocation of resources by the market. Government's allocation of resources too often leads to a loss of personal freedom as failure impacts upon failure. Ramaphosa disagrees.

"No. I think successful democracies should really be judged by the way that people as a whole are given the opportunity to participate from grassroots level up to the highest decision-making structures of any country . . The type of democracy we want to see engendered in this country goes way beyond that we have seen in practice in capitalist countries. It is the type of democracy in which civil society organisations are fully empowered to get to grips with issues of the day, and able to feed all they are debating into the highest structures of government."

He is as ambivalent on the efficacy of the market. "I remain convinced that the free market is not solely able to solve the ills that beset a number of countries. It will not be able to do so in our country You need to have a mixed economy that mixes what the market is able to do best — and also takes into account what State-run corporations are able to deliver to the people as a whole."

Ramaphosa interviewed by *FM*'s Amarnath Singh . . . *at the helm*

That sounds agreeable but it defies close intellectual scrutiny State corporations are able to deliver nothing to the people more efficiently than private corporations are able to.

Those who have reservations about his grasp of economics should remember that he is adept at using advisers, has shown he is more attuned to the pragmatic solution than to ideological deadlock, and has before him evidence that mounts by the day of the sterility of the collectivist dogma.

Feeding policy

As secretary-general, and therefore part of the top six of the ANC, Ramaphosa will be part of the national working committee directly involved in overall ANC policy formulation and direction. If, through his pragmatism, he has reservations about issues such as nationalisation, this should be reflected soon in official ANC policy, if that is not already the case.

Ramaphosa sees himself as much as a politician as a unionist. "Just by being an official of the ANC also means that you are a politician. And my abilities as a politician are going to be finally seen in action, rather than based on what I say . . ."

Last year in a special interview published on September 28, Mandela told the *FM* that he was not a socialist. However, as recently as 1985 (according to a report in the *Mail on Sunday*) the ANC president said to one of his visitors in prison, Lord Nicholas Bethell, "personally, I am a socialist."

We are not sure whether that is Mandela's ambivalence or a change of mind. We hope it is the latter.

And that Ramaphosa's equivocation on Marxism can be taken in much the same light. If we are wrong, the Harold Macmillan phrase about "never having it so good" will apply to the majority of people in this country, regardless of race, right now And they certainly won't ever have it as good again. ■

TOP SALARY CUTS FM 19/7/91

(49)

For shame, a little less

Most South Africans believe that the Japanese have done some things right since the war. Those who support the free market find ample evidence in Japan's post-war economic record to support their argument that its success stems from allowing markets — rather than government — to allocate resources. Those on the extreme Left or Right believe that Japan's experience proves precisely the opposite: that State intervention brought economic reward.

We have no doubt about which side is right. But that is beside a point about Japan that we believe ought to be brought to the notice of those in the Union Buildings. It is that last week Japanese Finance Minister Ryutaro Hashimoto announced he would take a salary cut of 10% for three months to expiate his responsibility for securities industry scandals.

That is hardly financial *harakiri*. It has about it rather a chivalrous touch that we feel justified in recommending to Finance Minister Barend du Plessis and to the Johannesburg Stock Exchange's Tony Norton. Of course, the scandals in Johannesburg have been nothing like those in Tokyo. Nor do we suggest that either of our two worthies had a connection with them other than through their respective supervisory roles — somewhat more distant in Barend's case than Tony's.

How they would endear themselves to the public if they were to announce, say, a 5% cut for the market scandals, and in Barend's case another 5% cut for failing to curb the rate of inflation. Perhaps Chris Stals at the Reserve Bank would like to chip in too.

And what a useful principle it would be for the bureaucracy in general. Do you remember Bart Grové — who presided over the railways when it lost millions in the foreign exchange market? Maybe he would like to forgo a bit of income in recompense. And the junior Nat Minister who was stung into apologising for apartheid — maybe he, too, would like to demonstrate his remorse in more tangible form.

We could go on and on, but we won't. The list would be too long. We just want to make the point that it would make official incomes a little less sticky downwards and introduce an element — though a token one — of commercialisation where it could be most visible. That is, if government is serious about commercialisation. ■

Govt deficit target in jeopardy

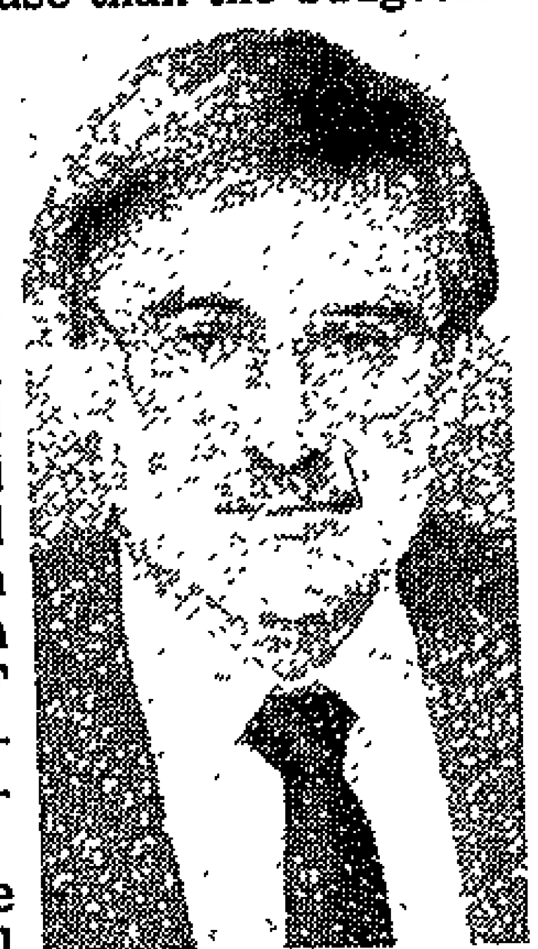
June spending over budget as revenue lags

B/Day 19/7/91. (49)

GRETA STEYN

GOVERNMENT could be heading for a deficit well above the budgeted 3,4% of GDP, with latest figures showing spending to be running above targets while revenue is lagging behind.

Exchequer figures to be published in the Government Gazette today will show spending for the April-June period was almost 21% up on last year — a much higher rate of increase than the budgeted 13,7%. Revenue is running well below the 11% increase budgeted for the year.



● CROESER

Pressure on the deficit from both the spending and revenue side could see government end the fiscal year with a higher deficit than 3,4%. The IMF benchmark for fiscal health is a deficit of 3%.

But Finance director-general Gerhard Croeser said yesterday he believed that it was too early to sound the alarm.

"Our projections show spending is running at only 0,4% above budget, or about R400m for the fiscal year. That is no reason to be worried about overspending," he said.

He was reluctant to comment about the revenue situation, but noted that "statistical noise" was distorting the picture. Last year saw a revenue bonanza in the first few months as tax concessions came into effect only in July. Increases in the first three months were low because of a high base.

Revenue rose by 10% in the April-May period, against a budgeted rise of 11% for the full year. The June figure will be released today and will also be below the budgeted increase.

"It is not abnormal for revenue to be sluggish at this stage of the year. The big tax-paying months are August and February," Croeser said.

Bankorp economist Emile van Zyl predicted revenue would not reach the budget targets.

"The figures so far indicate the budgeted rise of 27% in personal income tax is unrealistic. Government is over-estimating the effects of fiscal drag," he said.

United economist Pierre Morgenrood said VAT could come to the rescue. International experience has shown that revenue from VAT is often much higher than first projections indicate.

Another economist said "statistical noise" was also a factor on the spending side. Last year saw abnormally low government spending in the first three months, which means high increases this year are off a low base.

The latest figures will show that spending in June was R5,4bn. This is down from April's massive R8bn and May's substantial R7,6bn.

☐ To Page 2

Spending

B/Day 19/7/91 (49)

☐ From Page 1

But it seems virtually impossible to avoid some spending overrun, as a result of the "strategic stockpile fund" announced in April. The Finance Department acknowledges this will "theoretically" push up total expenditure by R1bn to bring the overall increase in spending to 15,1%.

Although Croeser recently said government had only small amounts left to raise from the capital market, dealers are still less keen on RSA than on Eskom stock.

Despite concerted efforts to close the interest rate differential, government's long-term bond is still trading at a 30 point differential to Eskom.

(49)

ARG 20/7/91

High interest rates 'strangling economy'

TOM HOOD

Business Editor

AN INCREASE in profits that will exceed the country's inflation rate is forecast by the chairman of Lenco Holdings, Mr Douglas de Jager.

However, speaking at the AGM of this Cape clothing, footwear and packaging conglomerate on Friday he voiced his "deepest concern about the continuing high interest rates which are strangling what remains of the South African economy without thus far in any way lowering the inflation rate."

"If economic recovery has to be export-driven, then we desperately need lower interest rates to stimulate capital investments in our industries, and a devaluation of the rand.

"I cannot see how, if these steps are not taken, we can compete successfully in the international arena. Wages for one are too high relative to our export parity.

"If we want the economy to recover, we will have to make it happen, not sit back and wait for the day when high interest rates would finally have brought inflation down.

"For by then thousands more would have lost their jobs, civil unrest would have escalated with the rise in unemployment, and we would have killed off those young entrepreneurs whose combined flair and initiative are so crucial for a resurgence of what is left of the economy."

The big groups had the financial resources to wait out the recession but the young entrepreneurs did not. If the risks for them were not reduced, they would either go under or move to economic environments in which their talents could prosper.

"We need in South Africa a change in economic policy as dramatic and far-reaching as that on the political front. We have as yet seen little if anything of such an initiative. If it does not come, and come soon, the country will, as the Governor of the Reserve Bank himself recently predicted, be ungovernable in a few years time."

Mr De Jager said in the first quarter of the new financial year, the group performed satisfactorily against budget, despite view that 1992 will be a very difficult year.

In pursuance of our desire to extend the wardrobe concept in our clothing operations, we acquired Cravateur Tie Company from Arwa as of March 1, and we are very happy to welcome, as our partners in this venture, Rosa and Mojzesz Wistyn, who have built this company into the market leader in tie manufacture in this country. Cravateur will enable us to produce fashion accessories designed to complement our menswear ranges.

The take-over of Cravateur follows on the acquisition of a 50 percent stage in Elzbieta Rosenwerth Couture during the past financial year, which provided us with the services of a top fashion design studio for House of Monatic. These design capabilities will be used mainly for the development of Lady Carducci to pre-eminence in the market place.

At last! SA economy set for sharp rebound

49

ARG 20/7/91

CLAIRE GEBHARDT

Weekend Argus Correspondent

THE South African economy is set to rebound next year with real GDP growth of close to 4 percent — and this time the recovery could be twice as long as previous 18-month cycles.

This dramatic reassessment of the outlook for the country overtakes previous dismal predictions of years of negative growth.

What changed the picture?

Fundamentally, the lifting of US sanctions and the prospect of no shortage of foreign capital in the months ahead.

More bullish still is the fact that if the country were to show strong growth over the next 12 to 18 months, International Monetary Fund assistance could be forthcoming.

The proviso remains, however, that deterioration of the political situation and the spectre of a future socialist government could see overseas perceptions change overnight.

Reserve Bank senior Deputy Governor Dr Pierre Groenewald said that to qualify for an IMF loan South Africa would have to be running a balance of payments deficit.

However, if the country could demonstrate that there was a push for fixed investment, that jobs were being created and that halting upward momentum and growth would have serious economic and political consequences, an application for a loan could be favourably received.

Under these circumstances R16billion in four credit tranches would be available, depending on the seriousness of the balance of payments situation.

He denied, however, that the IMF team due to arrive on Tuesday was a prelude to such a loan.

IMF assistance would make foreign investors more willing to extend loans to the country.

More importantly, this would mean that the country could live with a zero surplus on the current account.

For six years SA country had been forced to run massive credit account surpluses, using domestic savings to repay foreign debt.

These resources, channelled into the domestic economy, could provide an immediate stimulus to development.

The brevity of the past upturns of about 18 months prevented SA from making major inroads into unemployment.

The 1986/88 upturn was aborted because of balance of payments problems brought about by the debt moratorium and rampant inflation.

Dr Groenwald stressed that in the foreseeable future monetary policy would continue to dampen growth "as long as inflation stays in the 14 to 15-percent range".

But in spite of this constraint, economists believe that the booming JSE is foreshadowing an extended and stable economic recovery.

Cause for optimism, after 29 months of recession, is the country's strong balance of payments, greater ANC realism on nationalisation and wealth redistribution, and the hope that political change will encourage overseas investment, and boost tourism and property prices.

Add fixed-investment decisions held back by VAT, pent-up social spending funds, positive accumulation of inventories and rising commodity prices on the back of a world economic recovery, and the outlook becomes rosier.

The country is also poised to switch away from local industry protection to one of beneficiation of raw-materials, which could lead to great export growth.

Fiscal incentives to get projects such as the R3-billion Columbus stainless-steel venture off the ground are expected to be announced within days.

The outflow of capital is being reversed too, giving an important stimulus to new growth.

Other positive factors include an agricultural season that should yield better harvests next year, and the chance that the gold price could take an upturn as the US reflates its economy.

SA owes the UN a whopping R171-m

(49) (Sts)

NEW YORK. — South Africa owes the United Nations a whopping $61,2 million (about R171 million).

In addition, according to a new report on the status of contributions to the world body, South Africa is the only member state not to have contributed a share to the two-year working capital fund.

The Republic is the second biggest debtor after the United States, but its arrears pale by comparison. Washington owes $709,5 million (about R1 986 million).

Argus 20/7/91

South Africa will certainly have to pay at least a proportion of its debt in order to reclaim representation in the General Assembly.

Among the Republic's debts are $84 000 (about R235 000) for the UN verification mission in Angola (following the agreement to withdraw Cuban troops) and $1,54 million (about R4,3 million) for the operation that brought Namibia to independence.

What economic policy?

(A) (19) MG 20/7/91

PAN AFRICANIST CONGRESS OF AZANIA

Towards A Democratic Economic Order

Just what are the economic policies — now — of the African National Congress and the Pan Africanist Congress? The redistribution of wealth, resources and land as part of a fundamental restructuring of the country's economy form the cornerstone of both and both highlight the need for this redistribution to be co-ordinated by a national development strategy or "Marshall Plan" with active involvement by the state. MAGGIE ROWLEY, Deputy Business Editor, reports on the two economic manifestoes.

AFRICAN NATIONAL CONGRESS Department of Economic Policy

Discussion Document: ECONOMIC POLICY

SIMILARITIES between the economic policies of the PAC and ANC far outweigh their differences.

The PAC document is slightly more nationalistic but it is to the ANC's credit that its document is clear and concise, inviting debate from both its membership and the wider public and, as intended, designed to draw widespread reaction

The PAC document on the other hand is written in a style which at times borders on obscurity and is peppered with jargon.

While certain areas such as the unemployment problem and how this should be solved are handled extensively, the style and language threaten to make it less accessible to those without a tertiary education.

The ANC economic discussion document issued to promote debate within its ranks stresses "growth through redistribution" The subsequent Economic Manifesto presented to the national conference earlier this month has dropped the term but the general thrust of the organisation's economic policy remains unchanged.

☐ REDISTRIBUTION

Redistribution, it argues, can provide a kick-start for growth in that a new housing programme would create employment and generate income With other redistributive measures, this would expand demand for basic goods.

Stressing that redistribution would need to take place within a framework of responsible fiscal and monetary discipline, the ANC says redistribution programmes would need to be accompanied by measures to not only promote employment but make beneficiaries productive They would have to stimulate growth.

Rejecting both an unfettered free market system and a "commandist" central planning system on the other, the fundamental framework of the ANC economic policy is that of a mixed economy based on the principles of "democracy, participation and development".

Co-operation between the state, private companies, financial institutions, trade unions and other non-government organisations would be fostered by a "developmental state", leading and co-ordinating a national economic strategy with longer-term developmental objectives taking priority over short-term sectional interests.

Both the ANC or the PAC claim not to be obsessed with nationalisation and both appear to have toned down their stance on this issue.

However, the ANC is opposed to moves to privatise public utility corporations, and is adamant these should remain part of the public sector.

In addition, it would consider incorporating in the public sector enterprises in other sectors which are considered strategic to promoting development. This would be done in one of three ways — either through nationalisation, purchasing through the market or the establishment of new state enterprises.

☐ JOB CREATION

The ANC's policies would be aimed at encouraging and supporting a more dynamic and efficient private sector which would be expected to make a greater contribution to national economic development including job creation

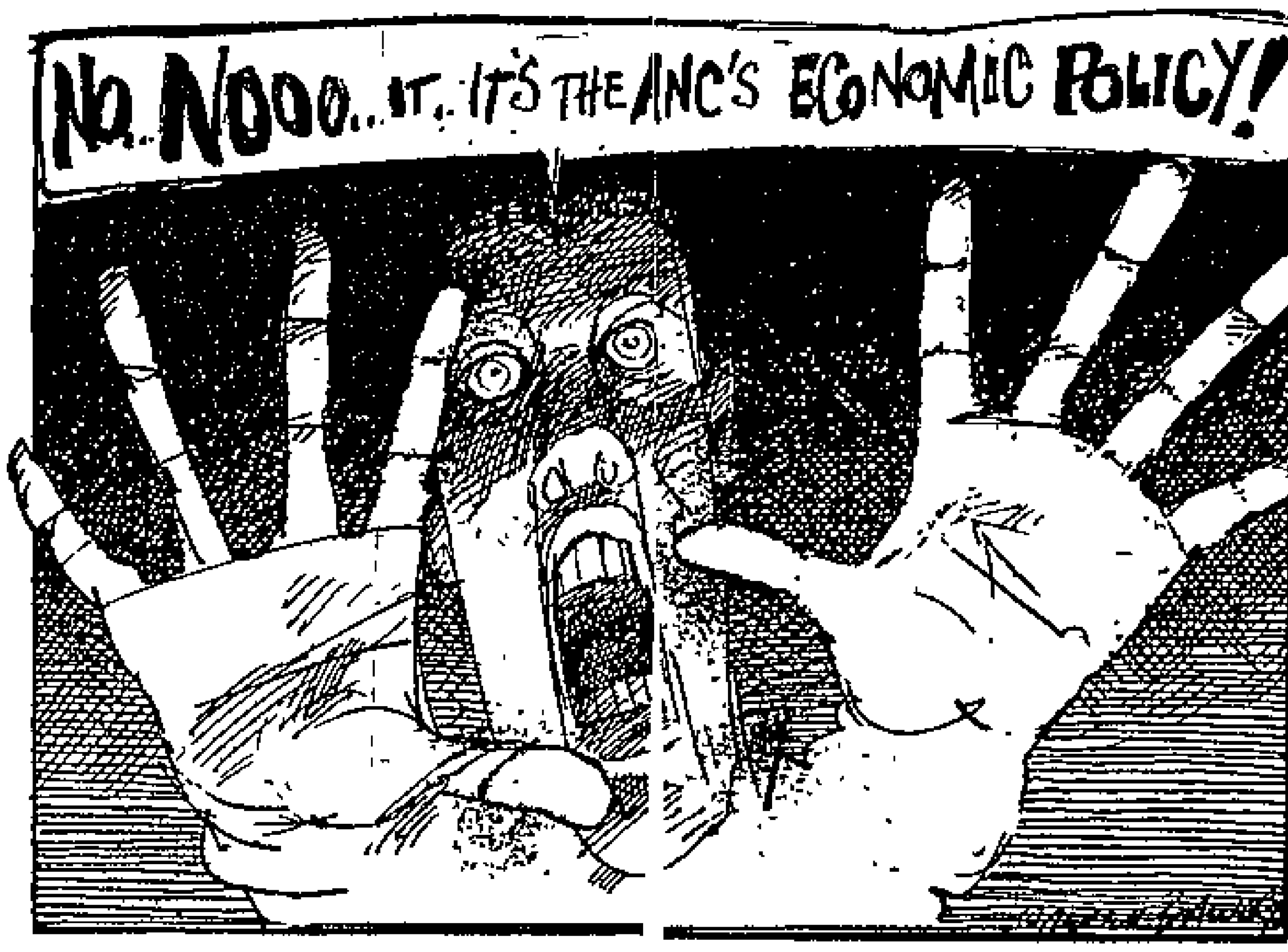
However, the continuing trend in recent years towards conglomeration is not seen to be compatible with a "democratic economic system" and while the ANC is not opposed to large companies, it would undertake a major inquiry into the impact of the conglomerate structure to encourage a more "equitable and efficient" private sector ownership pattern

Attention would be given to rectifying race and gender imbalances in business and to encouraging small business. Anti-trust and anti-monopoly legislation would be considered to promote greater private sector efficiency

The future is seen to lie in becoming a manufacturing nation and transforming the economy from its reliance on mining exports.

A new growth path would of necessity require a strategy of industrialisation. Policy would be aimed at meeting basic needs, increasing employment, enhancing technological capacity and ensuring South Africa emerged as a more significant manufacturing exporter

In the mining industry, the ANC says a plan for the optimal extraction of gold in the national interest would have to be formulated in consultation with producers and trade unions A new system of taxation, leasing and financing with measures of public ownership is advocat-



☐ RURAL DEVELOPMENT

Also to receive attention would be a programme of rural development including land redistribution to increase employment in the agricultural sector and provide both exports and food for domestic consumption.

The state must have the right to acquire land for redistribution with priority given to those who suffered dispossession by removal.

A variety of forms of land tenure would be encouraged with guarantees for wages and conditions of workers with special attention being paid to the needs of women, the landless and the underemployed

All land characterised by "heavy indebtedness, absentee ownership or under-utilisation" would be considered for redistribution.

☐ PENSIONS

An ANC government would accept ultimate responsibility for the provision of welfare, and state pensions would be equalised immediately. A national retirement scheme underwritten by the state and a compulsory, comprehensive unemployment scheme involving workers, employers and the state, would be introduced

Like the PAC, an ANC government would seek to promote mutually beneficial trade relations with all other countries giving special attention to co-operation among developing countries particularly in southern Africa.

Foreign investment would be encouraged on terms consistent with the ANC's development goals "particularly in activities leading to increased employment and the development of local technological capacity and capability"

A law on foreign investment would be needed to govern the rights and obligations of foreign investors obliging them to follow acceptable labour practices and reinvest part of their profits to promote continued growth

In return foreign investors would be given guarantees of the security of their investment and the right to repatriate part of the profits

☐ TAXATION

The ANC says while the ending of apartheid should yield material benefits, these would not be sufficient to meet all needs and taxation would be important for mobilising additional resources for redistribution and growth

The ANC supports shifting more of the tax burden away from individuals to corporations and applying principles of progressive taxation It would also consider the introduction of new taxes including a capital gains tax, a capital transfer tax and property and land taxes

Changes in expenditure patterns and priorities in the state budget would be a major instrument for redistribution.

The ANC makes special mention of the need to address gender equality highlighting the fact that a disproportionate part of poverty and inequality has fallen on black women who have been subject to systemic gender oppression.

The PAC says its policy is best described as "being redistributive, restorative, reproductive, accumulative, entrepreneurially supportive (individuals, collectives and state), human needs orientated and equi-beneficial"

Without spelling it out, the PAC advocates a mixed economy seeing the state, co-operative ventures and private initiatives as all having an important role to play

☐ NO RETRIBUTION

In its 41-page discussion document, the PAC emphasises redistribution of wealth and resources would not be on the basis of retribution for past injustices and wealth would not be redistributed from one elite group to a new one However, it points out, it would not be possible for redistribution to be executed without the currently economical advantaged group of society "losing something".

Like the ANC, the PAC points out that market forces on their own are not enough to end the existing economic and social inequalities and redistribution cannot proceed without taking into account the need for economic development and wealth creation.

Regarding the nationalisation of private corporations, the PAC says it is the "economic behaviour of economic institutions" that is more important than their mere ownership by the state However, if individual companies chose to defy other redistribution measures and associated behaviours under a PAC government, they would be considered for nationalisation.

Nationalisation might also be used as a policy against monopolies. However the PAC says "it might make little sense" in nationalising private monopolies to turn them into state monopolies

As with the ANC, the redistribution of land is a central concern of PAC policy and it is presently examining different policy options in this respect

☐ OPTIONS

The first of these options includes the confiscation of land without compensation

The second option involves the "de-commodisation and redistribution and allocation of land for use" Land would cease to be a commodity to be bought and sold. Rather each citizen would have access to land on a leased entitlement and would have the right to pass this lease to their children but not to sell the land itself Land would be redistributed with the size of each unit determined, among other things, by the intended use Existing owners would be compensated, according to certain criteria, and this compensation would take the form of interest-bearing government bonds.

The third option involves the use of a tax structure with incentives to landowners to sell land to the state and disincentives to keep land beyond a particular size.

The PAC maintains that due to scarce resources and the existence of extreme wealth differentiations between the haves and the have-nots, the country is in a "war-like" and "post-war-like situation" and the active involvement of the state is of absolute necessity

☐ EXPORTS

"The conventional market of western Europe if it has to exist, has to find its place within the dynamics of initially heavy state involvement."

However, it stresses it would not prevent this market from existing and the size of the place for market forces would increase as the country moved to "normal conditions"

The PAC sees the manufacturing sector and initially the building and construction industry as being the engine power for development

The agencies for the manufacturing sector would be the "state, multi-organistions formed through joint efforts of the state, private larger business corporations formed by the individuals, collectives and workers' corporations, multi-organisations formed without the participation of the state and individual firms from the private sector"

Where an economic venture or sub-industry is considered critical due to its linkages with the rest of the economy and/or export potential, such as the motor industry, and where demands for technology skills and finance are beyond the capabilities of most individual firms, "national multi-organisations" with or without participation would be encouraged.

☐ FINANCIAL INSTITUTIONS

A PAC government would play a major role in the financial sector including insurance and pension funds However this role would not come as a result of destroying existing actors.

It also envisages a revised tax structure and system which would act as a mechanism for the redistribution of resources from the haves to the have-nots and increase public revenue to enable the state to provide social, economic and physical infrastructures supporting economic development and meeting basic needs

Central economic planning activities would not seek to cripple the private sector through punitive actions, damage economic growth or eliminate entrepreneurial initiatives

However the state would give "preferential treatment" to African (black) entrepreneurs with regard to purchasing policies and in the supply of goods and services. Assistance would be given to existing and potential African entrepreneurs and an Entrepreneurial Promotion and Development Fund would be established

The private sector would be expected to provide venture and development capital to African entrepreneurs through a variety of agencies and to fund entreprenuerial promotion and development institutes

Through legislative avenues and/or "possession of powers, of moral persuasion", financial institutions would be pressurised to redesign asset portfolios to include loans to the state and African entrepreneurs

Policyholder funds in mutual associations would be used to encourage redistribution of wealth through the state's appointment of senior managers or directors and worker representation in policy decision-making by influencing and directing the policies of companies in which they have controlling shares.

☐ HOUSING

Like the ANC, the PAC stresses the need for better use of land not only for housing and industrial purposes but also for creating employment in the agricultural sector.

The PAC advocates land redistribuiton to smaller African producers and massive investment in land reclamation and reversal of land degradation The size of remaining commercial farmers "should be determined by the extent of landlessness experienced by African people for residential and productive activities and by the economics of producing different produce"

Like the ANC, the PAC sees the engine power for economic development lying in the manufacturing sector and initially the building and construction industry.

Regarding foreign investment, the PAC says it strongly opposes foreign control and ownership of strategic sections of the economy but would encourage selective foreign investment for strategic purposes including investment orientated to technology transfer and joint ventures with currently disadvantaged Africans.

Measures to attract and retain foreign investors would be taken with a PAC government honouring and guaranteeing agreements

Rates throttling SA's economy

(49) CT 20/7/91

By AUDREY D'ANGELO
Business Editor

SA URGENTLY needs a new economic policy as continuing high interest rates send unemployment soaring and "strangle what remains of the economy" without bringing down the inflation rate, Lenco Holdings chairman Doug de Jager said at the annual general meeting yesterday.

Similar opinions were expressed later in the day by directors in the Pepkor group.

Wellwood Basson, MD of Shoprite, said he was afraid that unless monetary policy was changed soon the economy would go into "a nosedive from which it cannot recover."

Tony Houghton, acting chairman of Pep Stores (Reef), said at its agm that high unemployment had impacted on sales and stock thefts and burglaries had increased.

De Jager said at the Lenco agm: "Looking ahead one can only voice one's deepest concern about the continuing high interest rates which are strangling what remains of the SA economy without thus far in any way lowering the inflation rate.

"If, as is so often said, our economic recovery has to be export-driven, then we desperately need lower interest rates to stimulate capital investments in our industries — and a devaluation of the rand.

"I cannot see how, if these steps are not taken, we can compete successfully in the international arena. Wages, for one thing, are too high relative to our export parity.

"If we want the economy to recover, we will have to make it happen — not sit back and wait for the day when high interest rates will finally have brought inflation down.

"For by then thousands more would have lost their jobs and civil unrest would have escalated with the rise in unemployment.

"And we would have killed off, figuratively speaking, those young entrepreneurs whose combined flair and initiative are so crucial for a resurgence of the economy."

De Jager warned: "The big groups have the financial resources to wait out the recession. The young entrepreneurs don't.

"If the risks for them are not reduced they will either go under or move to economic environments in which their talents can prosper."

De Jager said SA needed a change in economic policy "as dramatic and far-reaching as on the political front."

If this did not come soon the country would become ungovernable in a few years' time.

Country must be placed on a new growth path

Mandela spells out business strategy

Star 20/7/91

(49)

NELSON MANDELA: "We recognise that growth is crucial".

ANC President Nelson Mandela says the ANC is well aware of the need to address economic questions in a manner that does not pit the need to address social desparities against ensuring economic growth.

"If we define economic growth narrowly, as increasing GDP output, this approach will not in itself be useful unless it is located within a national development strategy."

Mr Mandela told businessmen who attended the Finance Week's Breakfast Club yesterday that an economic strategy should address both socio-economic development and poverty.

"Together with you, we recognise that growth is crucial. We believe there must be a reworked industrial, mining and agricultural strategy that should aim in the first instance at meeting basic needs and creating jobs."

Mr Mandela was careful to avoid references to nationalisation, but he said that the focus on redistribution "might not be

SVEN LUNSCHE

a sufficient condition for generating growth, but is certainly a necessary condition for growth".

With regard to the mining industry a plan needed to be developed for optimal extraction of gold in the national interest, in full consultation with the leading producers and trade unions, he said.

"In conjunction with this, a new system of taxation, leasing and financing will need to be developed with measures of public ownership where appropriate."

Unemployment

Mr Mandela expressed concern at the recent wave of retrenchments and he said unemployment and job creation needed to be considered simulataneously and in the context of a new growth strategy that encourages investment, "which is currently locked into speculative activity.

"We suggest a strategy which focuses in the first instance on basic goods, such as housing and linked not only to providing shelter but also to reviving the economy."

Apart from housing, other questions which should be addressed immediately were education, land reform and provision of basic welfare for the very poor.

In reference to the current tight monetary policy Mr Mandela said there was a need for macro-economic stabilisation.

"Such matters as reducing inflation are crucial if the economy is to grow and attract investment in the future, but this will best be achieved through placing South Africa on a new growth path and not by merely tinkering with monetary policy in a period of recession."

Mr Mandela also appealed to the business community to support the ANC's call for a binding set of agreements aimed at ending the violence in the townships.

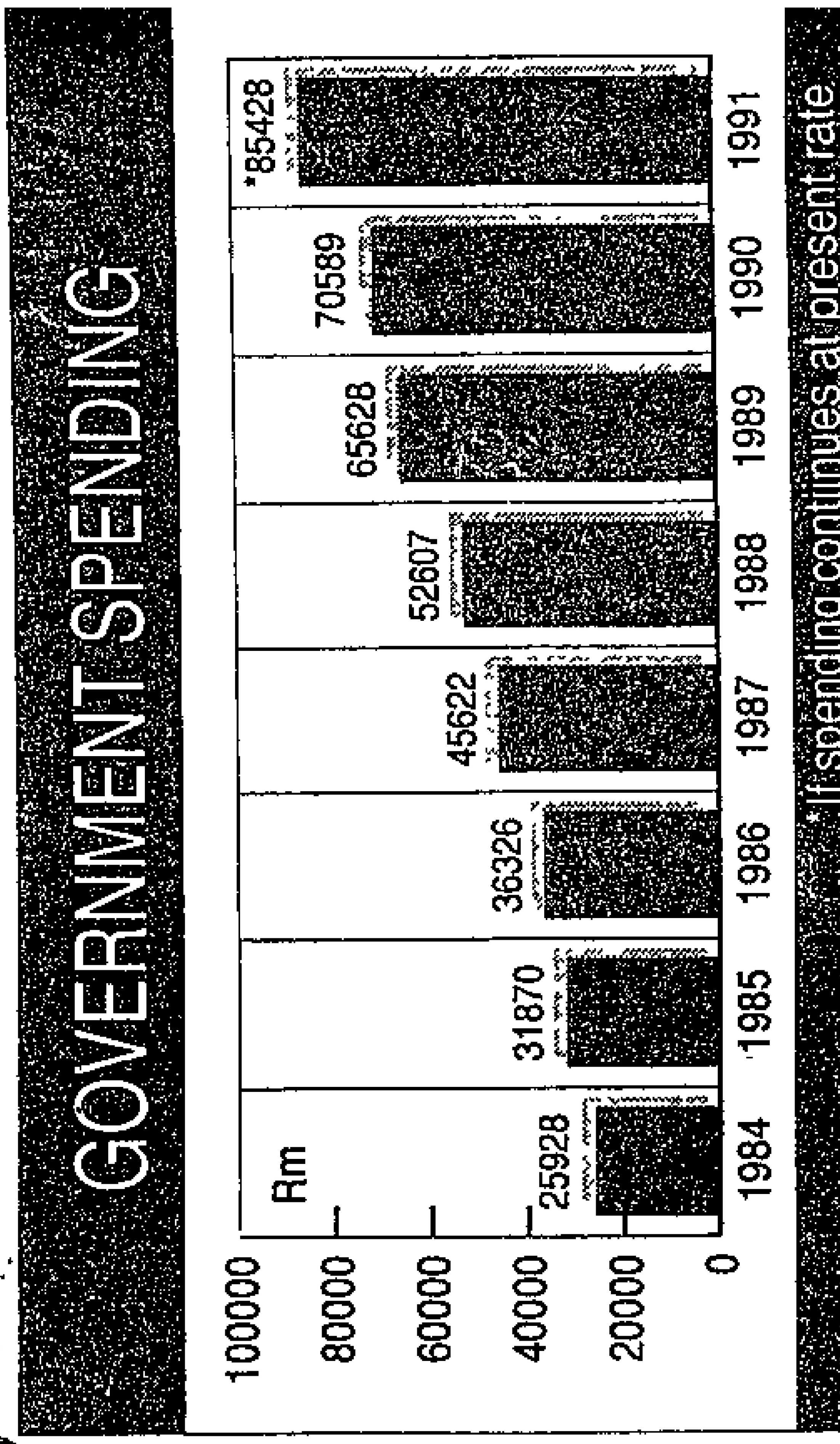
"For there to be any real progress in the economic domain we all know that there has to be political stability — the violence must end."

"I urge you to join us in demanding that the government use the powers at its disposal to bring the reign of terror to an end."

State spending at danger level

S/Times 21/7/91 (Bus Times)

By CURT VON KEYSERLINGK



EVIDENCE is mounting that the Government is losing its grip on the economy and that conditions associated with ANC rule could soon prevail unless drastic steps are taken.

Most alarming is the acceptance in some official circles that the deficit before borrowing — the amount the Government must borrow to cover the shortfall between revenue and expenditure — will soon be 5% of gross doimestic product.

This year it is likley to exceed the targeted figure of 3,4% — up from 2,7% last year.

An ANC policy document advocating a 5% deficit before borrowing to finance social upliftment drew scathing criticism from mainstream economists because of its ruinous boost for inflation and its debilitating effect on business confidence. It would also increase the State's share of economic activity.

The International Monetary Fund recommends not more than about 3% for long-term economic health.

Interest

Director-General, Finance, Gerhard Croeser admits the 5% possibility.

He says: "Ideally the deficit should not hit this level and it is too early to say if it will. But the Government would be able to raise the cash because the money market has nowhere to put its funds."

His assertion is not reassuring and appears to be based on the premise that the funds would be available because the outlook would be so grim that the private sector's demand for credit would be minimal.

Mr Croeser points out further difficulties of high deficit before borrowing. Greater State borrowing would lift interest rates and increase the cost of servicing the debt. At the same time, total State debt would increase.

He says debt-servicing costs amounted to about 11% of total State expenditure in the early 1980s. It has since risen to about 15%. Such a large amount devoted to paying interest is undesirable when there are so many many other demands on the Treasury.

Mr Croeser admits that State borrowing is already higher than it should be. The Government would prefer not to borrow money to pay for current expenditure — as is now happening.

"We are forced to do this by new spending priorities," he says. "For example, we cannot escape the pressures to achieve parity in State pensions for various races and are phasing this in.

"Out efforts to cut tax have also not gone as well as we originally hoped. Income tax has to be reduced, but there is a trade-off between doing this and the demands for increased spending.

"The Government has committed itself to reducing the top marginal income tax rate to 40% before the next election. But I cannot see how it can be done."

One reason for reducing personal tax is that the higher share of the total burden is carried by individuals. For example, in the early 180s gold mines contributed 10% of tax receipts. Now the figure is 1,5%.

"There are also sound reasons for increasing indirect taxes," says Mr Croeser. "But it is impossible because it is politically unpalatable."

He says that the latest figures on State spending — an increase of 21%in the June quarter on the corresponding three months last year — are not disturbing. Although actual spending exceeded budget by R400-million the variance amounted to only 0,4%.

He says that for technical reasons, spending was relatively high and revenue relatively low. The figures should look better later in the year.

Staff

Econometric director Azar Jammine is not so optimistic. He says: "Before we had to keep spending more to finance apartheid. Now we are spending more to pay for upliftment.

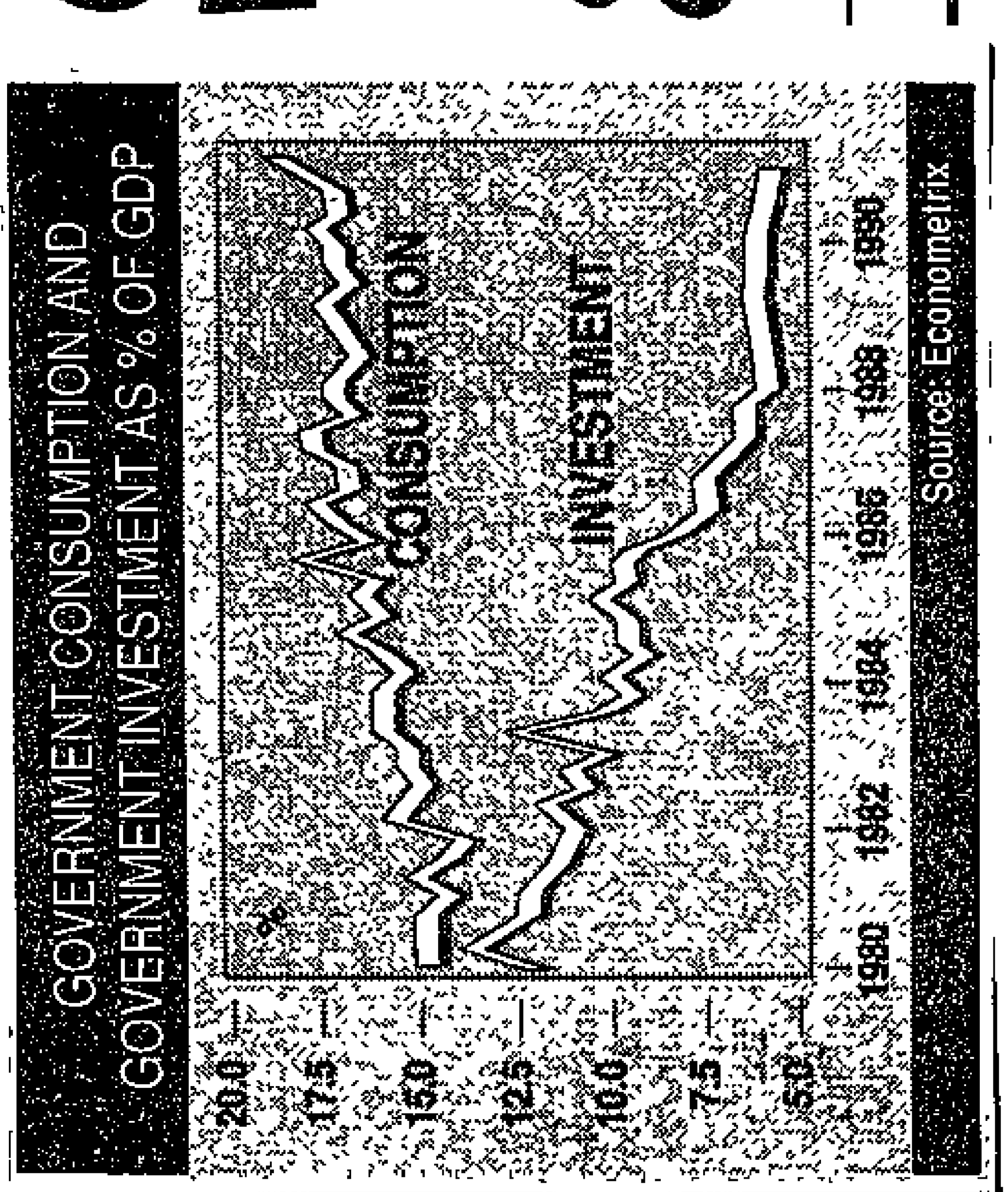
"The Government is setting a terrible example for the ANC because it is doing just what it wishes. it will soon increase its share of the economy from about 29% to the ANC's target of 35%.

"What frightens me is that staff members employed by central government rose by 4% to 560 505 over the last year.

"What is worse, total remuneration to governemnt employees rose by 28,4%. Even adjusting for the extra numbers, this means that the average wage of public servants rose by 25,7% — more than 11% above inflation.

Mr Croeser says many of the new staff members are teachers, nurses and policemen and their wages had to be increased.

"The increase was budgeted for. But we would have preferred a lower figure," he says.



Stimulation out for now, says economist

BDay 22/7/91 (49)

LINDA ENSOR

CAPE TOWN — Active stimulation of the economy was out of the question for the moment, but a less restrictive monetary policy and mild adjustment of interest rates would become possible later in the year, Sanlam chief economist Johan Louw said in the life assurer's latest Economic Survey.

He said there were indications that the general liquidity situation was becoming easier and that during the second half of the year this tendency would be strengthened by a more sluggish demand for credit and an improvement in net foreign reserves.

Capital

Louw questioned whether government's attempts to reduce the inflation rate were relying too heavily on high interest rates to control demand for goods and services.

"While one section of the population does not appear to be much concerned by high interest rates, other groups are being affected very badly — the bread is literally being taken out of their mouths. The high interest rates are also having a material effect on the affordability of housing for many people."

Louw added that the high cost of capital could have an inflationary effect in the long term as it did not promote fixed capital investment.

He said monetary measures alone would not succeed in forcing the inflation rate down to that of SA's most important trading partners without seriously inhibiting the economy. And interest rates would not curb private consumer spending sufficiently as consumers simply added the interest to budgets and continued buying.

"We nevertheless think it likely that the inflation rate will decline to about 12% by the end of 1992.

"The price SA will have to pay then for the further lowering of the inflation rate by a percentage point or two will have to be weighed up against the danger of a continued depressing effect on the economy, a deterioration in the already serious unemployment situation and the disruptive results this could have for the process of political reform."

Without an export-led recovery it was necessary for the new economic growth phase in SA to be strengthened domestically, Louw said.

Ideally this should be done in a way that would create growth and job opportunities without an accompanying noteworthy increase in imports, or balance of payments problems could result.

'Further support to real spending ability'

Rosier outlook for 1992 — OM

(49)

CT 23/7/91

By AUDREY D'ANGELO
Business Editor

PROSPECTS for 1992 have improved, says Old Mutual chief economist Dave Mohr in the Economic Monitor for July.

His colleague, Rian Le Roux, points out that hostility towards SA prevented it from sharing the benefits of economic upturns among its major trading partners in the 1980's.

"During the long economic revival in the US from the end of 1982 to the middle of 1990 SA experienced three recessions.

"Now, in the light of normalisation of SA's economic links with the rest of the world and the improving economic fortunes of our major trading partners, future prospects here are brighter.

"Foreign investor confidence in the domestic economy has improved significantly as reflected in recent trends on the capital account of the balance of payments, the higher value of the financial rand and renewed interest in SA equity."

Le Roux says that against the background of improved international growth, the gradual lifting of sanctions creates a more favourable climate for existing and prospective exporters.

Decline in rates

Company profits will benefit from an expected decline in interest rates, a more stimulatory fiscal policy and the introduction of VAT, which will reduce the cost of investment.

"In time these positive factors should translate into better salary adjustments, longer working hours and an increase in job opportunities, which will increase the spending power of households.

"Should inflation decline moderately in 1992, as expected, this would lend further support to the real spending ability of consumers."

Le Roux says the domestic economy "had to absorb various large shocks during the '80s which, though traumatic, nonetheless gave rise to a number of imprtant and sound structural adjustments.

"Now, with the normalisation of our position in the international economic community, most of these shocksa cvan be transformed into positive stimuli, the value of which cannot be underestimated."

'Enormous opportunities' ahead for SA

49

CT 23/7/91

Business Editor

THE ending of sanctions is "bringing enormous opportunities — people have not fully realised them yet", says Rob Lee of the Board of Executors.

Speaking to the Association of Corporate Treasurers at the Woodstock Holiday Inn yesterday, Lee said a number of factors would result in an upswing in the economy next year.

He expected the banks' prime lending rate to be down to 16% by the third quarter of next year — but he thought it possible there would be no cut at all in interest rates this year.

The Reserve Bank should resist pressure from business people to relax monetary policy prematurely, because if the upswing began with the inflation rate still at 15% it would move rapidly to 20%.

However, Lee said, although inflation should move down to 12% early next year he thought it unlikely it would reach single figures. Inflationary expectations were too firmly entrenched — it would take about 18 months of tight monetary policy to cure this now, and clearly this would not happen.

Discussing world economies, he said it looked as though the recession in the US had ended and recovery of some kind had started.

The UK and Continental European countries would follow suit.

But he was concerned about the behaviour of the Japanese stock market, which had been very weak for the past two months.

It was getting very close to an important support line. If this broke it would ripple through to all the other stock markets and delay prospects of recovery.

"I don't think it will — but it is something to watch very carefully," he warned.

Gold 'speculative'

Discussing gold, he said it was delicately poised. It was trading in a very narrow band and could move sharply in either direction. "It is a very speculative situation."

But, he said, he was "still very optimistic about the outlook for the SA economy in 1992 and 1993.

The gold price was likely to be rising "not very dramatically, but the rising trend will help.

"Sanctions are lifting — and people are underestimating how good that is."

SA had become very inward-looking and people had not fully grasped how important the end of sanctions was and what enormous opportunities were opening up.

Discussing calls from business people for interest rates to be cut now, Lee said that fiscal policy had aleady been relaxed substantially.

And significant stimulation of the economy was coming from Government spending, from low-cost housing and electrification schemes and from exports.

All these things were enough to boost the economy. Lower interest rates now would make the upswing less sustainable. "Inflation would soon move up to 20% and the authorities would have to put the brake on."

Lee said that although VAT would have a once-off effect on inflation, in the succeeding months it would result in substantial cost savings for manufacturing industry. And in recessionary conditions a lot of this saving was likely to be passed on to the consumer to stimulate sales.

He expected inflation to be as low as 12% in the first half of next year and the Reserve Bank would then be justified in cutting interest rates ...

All in SA must come clean about horrors of the past

BDay 23/7/91.

49

SIMON BARBER in Washington

AS THE reeking edifice of apartheid collapses, those at its core are starting to emerge like woodlice from a burning log to seek redemption by telling of what went on inside.

They cannot be stopped, nor should they be. Rather, the process of confession and atonement should be institutionalised. If South Africans are to have a decent future, they must now be exposed to the full horror of their past. The ghastly arcana of the 40-year National Party imperium must be laid bare remorselessly if history is not to repeat itself under new management.

All South Africans must see, in every last harrowing detail, what autocracy breeds; the corruption, the lies, the arrogance, the immoral alliances, the squandering and theft of national treasure, the destruction of lives, and yes, the terror. Let full, dispassionate disclosure become a national project.

And let the secrets of the opposition phalanx be known also, for those too will be an object lesson in how the placing of ends over means, both by the state and its enemies, have debased and corrupted even the most saintly. The fruits of extremism, by whomever practised, must be made plain that all may see and recoil.

The alternative is to let the truth seep out drop by drop. The disclosures of police funding for Inkatha may be followed by tomorrow's headline news that a respected clergyman in the anti-apartheid movement participated in kangaroo courts that effectively sentenced men and women to death.

Piecemeal revelations by a Press whose new-found freedom may be only temporary are not enough. At best, the public will grow inured and cynical, persuaded by the daily drumbeat of sensation that what has been happening for so long is standard operating procedure and that there is no better way. To despair is to succumb to more of the same.

Dispensed in little bits, often without proper context, the truth is also subject to politicisation and readily packaged as hate-inducing propaganda for one undemocratic faction or another.

The ANC has every right to express outrage at the latest disclosures and to accuse the government of lying through its teeth. It is entirely justified in wondering whether the government is sincere about negotiation. But it has no right to demand that its own atrocities be overlooked in the process. Reconciliation requires that all come clean.

The movement is clearly overjoyed that it has been able to capture the "moral high ground". From its new vantage it believes it will be able to exercise more leverage over the government in negotiations while discrediting a principal dissenter and his following. Tactically speaking, it is probably correct in this analysis.

The exposure of the state's mendacity and double dealing, and the discrediting of Chief Mangosuthu Buthelezi (though why did Inkatha need the money for rallies if, as is constantly alleged, it had always been in Pretoria's pay?) are hugely embarrassing to many who have risked much to stand up for De Klerk and what they believe to be the best interests of a future SA democracy.

President George Bush has been made to look a fool for having determined that the conditions of the Comprehensive Anti-Apartheid Act (CAAA) had been met. If half the stories now appearing are true, the government's "good faith" in agreeing to negotiate must be seen as highly questionable; the contention that it has opened up the political process to full and free participation is unsustainable. Glasnost is not compatible with dirty tricks, let alone with lethal ones.

Foreign Minister Pik Botha's admission that his department had a slush fund to counter sanctions renders imbecile Bush's assertion that the dismantling of formal apartheid thus far had less to do with sanctions

☐ BUTHELEZI

than with the government's enlightenment. There is nothing enlightened about turning an apparently sincere opponent of sanctions into the political equivalent of a streetwalker.

From this and more the ANC can only benefit in its pursuit of power. The kindness that the Bush administration and Congress, both Republicans and Democrats, recently showed Buthelezi is now meaningless. Washington was at last beginning to understand that there were more than two sides to the SA equation and to grant official recognition to a third. Now we will be lucky if the majority of congressmen listen to more than one.

The more Americans see of the crude, subterranean gangsterism that operates within the SA government, the more they will simplistically heed the blandishments of the "victim" ANC, ignoring the grim potential that lurks in its ranks as well. Those who have had the guts to worry about the SACP alliance, the thuggery of the comrades or the unholy sources of some of the ANC's own income, will scurry away. Who can complain about township defence units under present circumstances?

As for the notion that the ANC and Inkatha should benefit equally from the $10m Congress set aside last year to "promote democracy", forget it. If last week's agreement between House Africa sub-committee chairman Mervyn Dymally and his Republican counterpart Dan Burton has not already been tossed down the memory hole, it soon will be.

Liberty flows from sound economics. Having run the SA economy into the ground over the past four decades, the government and its creatures have now effectively obliged the rest of the world to let the ANC continue running it into the ground, thus ensuring that for the mass of South Africans freedom will be . . . an empty shell.

Burnt on the repeal of sanctions, Bush will unlikely feel in much hurry to signal the IMF that the US will support an SA credit application. The administration's commitment to the Gramm Amendment, which obliges the US to veto such an application unless it meets certain conditions, was until now a political aspirin thrown to the sanctioneers to help them get over the demise of the CAAA. Today, it is much more binding. If the ANC says no IMF loans to Pretoria, the Congress will concur, and with Congress not only the president but the international financial community as well.

SA's economic recovery will have to wait until the ANC has obtained more of its unilateral negotiating demands — demands in which major foreign powers will, for their own political reasons, be considerably more likely to acquiesce than heretofore. The prospects for the 40-million unemployed will not improve, further fuelling the violence.

There is no point competing to get back the "moral high ground". De Klerk's hands may be clean, but that is little consolation if the rest of the world has lost confidence in the government he leads. Better to begin by admitting that in SA there is no such thing as "moral high ground" any more. The place has been reduced by years of gross misrule and abuse of power to a vast moral swamp in which common criminals cannot even be identified as such any more but are let loose to rampage.

The swamp can be cleared only by opening the record on all sides so all may see and learn from what has happened, and perhaps forgive, understanding at last that the alternative is too ghastly to contemplate.

White cash to aid the poor 'a myth'

Star 23/7/91

The uncomfortable reality for those who believe poverty can be relieved by a redistribution of wealth is that the "haves" simply don't have enough to improve the standard of living of the millions of "have-nots", according to Market Research Africa's 1990 Sociomonitor.

Its survey shows that about 20 percent of South Africa's urban white population have a net worth of less than R10 000. And more than half the white population have net assets of under R100 000.

MRA chairman Clive Corder said: "The reality which has to be faced by those politicians who believe they can relieve the poverty of their supporters by a redistribution of wealth is that South Africa is a relatively poor country.

(49)

"But a fair proportion of the population are extremely materialistic and like to display their well-being, even though their cars, houses and boats are not their own.

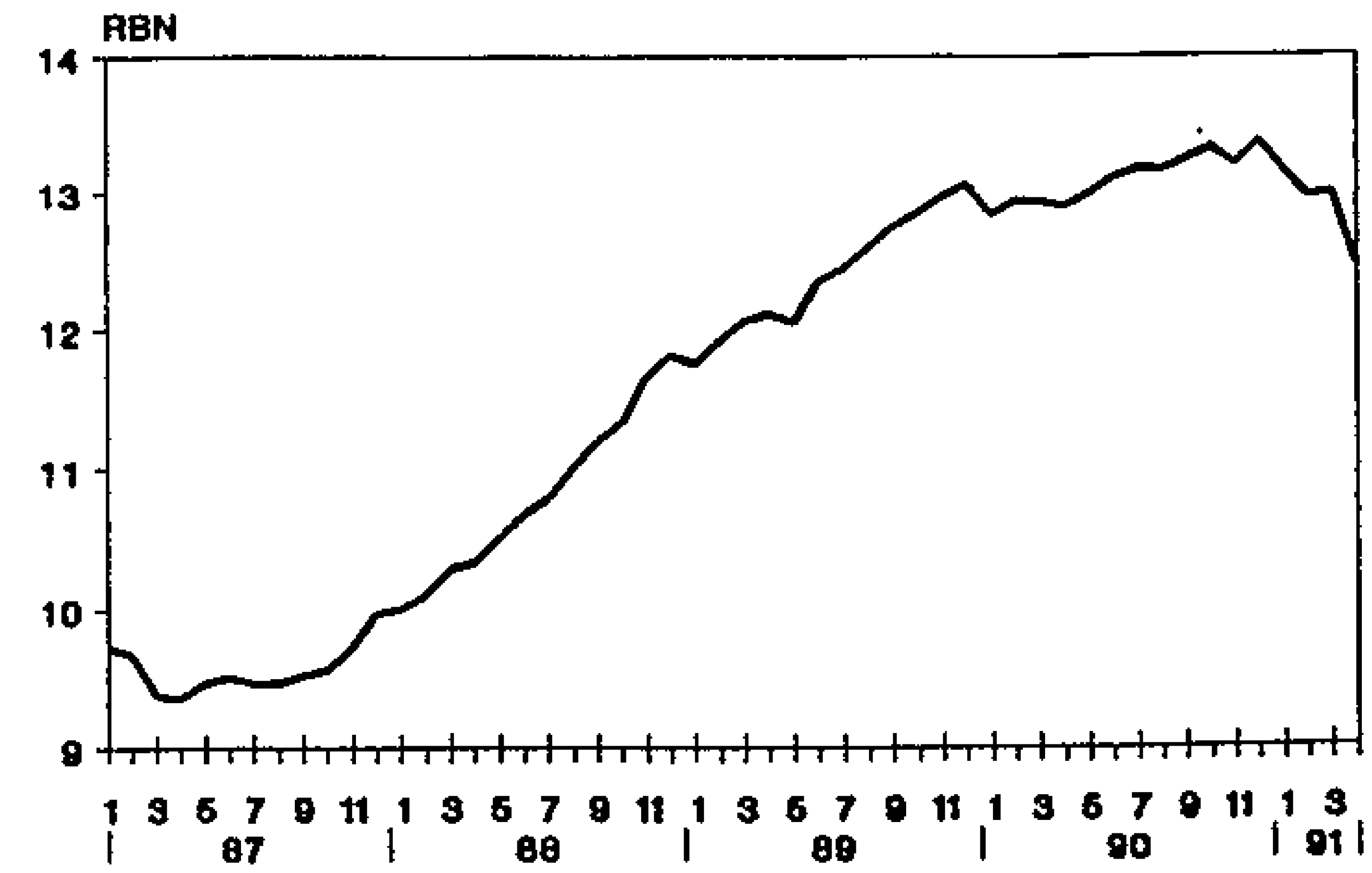
"This leads to the impression that all whites are well-off." — Sapa.

Economists see scope for revival

49

By Sven Lünsche Star 23/7/91

HIRE PURCHASE AND LEASING CREDIT
(CONSTANT 1985 PRICES)



There is scope for a cut in interest rates, although the inflation rate is set to remain at the 15 percent level until the end of the year, Old Mutual's economists say.

They write in the group's latest Economic Monitor that prospects are improving and that there is potential for a relatively firm revival next year.

"However," says chief economist Dave Mohr, "the underlying demand for credit has fallen sharply over the past few months, which should allow for some flexibility in terms of lower interest rates."

This is reflected in the fact that the rate of increase in hire-purchase and leasing finance has slowed significantly since early this year, and that growth in these two forms of credit utilisation has fallen in real terms. (see graph).

Demand

"Interest rates should thus fall moderately during the second half of this year and in 1992 as slower demand for credit persists."

Mr Mohr says that conditions in the money market also favour lower interest rates.

The shortage in the money market has narrowed sharply in the wake of the significant rise in the Reserve Bank's net gold and foreign exchange reserves, indicating substantial downward pressure on short-term interest rates, Mr Mohr says.

Although the underlying forces favour lower interest rates, there is no indication that the inflation rate will fall appreciably from its current high level of around 15 percent.

"To the contrary," says economist Rian le Roux, "the introduction of Value Added Tax in October may result in a significant increase in the Consumer Price Index (CPI).

"This means the inflation rate could still be around the 15 percent level by the end of the year."

Mr le Roux says particularly worrying has been the sustained sharp increase in food prices, which in May were on average 17,5 percent higher than a year ago.

"Given the still firm underlying inflationary pressures in the economy, an excessive relaxation of monetary policy would be imprudent... and positive real interest rates should be maintained in the long run."

He is more optimistic, though, about the overall performance of the economy, "which is showing potential for a relatively firm revival, despite the current recession".

"If stability and a sense of realism can be maintained with regard to the domestic reform process, the prospects appear decidedly brighter."

Mr le Roux says the significant improvement in foreign investor confidence in the domestic economy is reflected in recent trends on the capital account of the balance of payments, the higher value of the financial rand and renewed foreign interest in South African equities.

The gradual lifting of sanctions would also create a more favourable climate for exporters, and improved business confidence should result in a greater willingness to expand production capacity through fixed investment.

Various leading indicators reveal a number of positive signs.

He notes that gold and foreign exchange reserves have improved significantly.

Motor sales in the first five months of the year were higher than in the same period last year and share prices continue to reach new highs.

Commenting on the outlook for gold, Mr Mohr says the worst could be over for the metal in the short term, but that a major renewed bull market is unlikely.

The perceived inflationary international environment could help prevent a major slide in the gold price in the near term, and the metal could even make further mild gains as global growth improves.

Environment

However, the international economic environmemt is still characterised by low world inflation, less risky alternative investments and a large overhang of gold stocks above ground.

"It is estimated that these stocks presently equal around 60 years of primary mine production," Mr Mohr says.

"Given the severe underperformance of gold over the past decade, there is a real risk that disenchanted holders may use any sign of price strength as a selling opportunity," he cautions.

Bank expects a sharp turnaround

(49)

B\Day 24\7\91

GRETA STEYN

THE Reserve Bank expects a sharp turnaround in SA's economic fortunes next year, with at least 1% real economic growth.

These bullish expectations follow six consecutive quarters of falling GDP. No real growth is expected this year, following a 1% fall in real GDP in 1990.

Reserve Bank deputy Governor Jaap Meijer, asked to comment on predictions that SA could enter a boom with growth of about 4% next year, said that assessment seemed too optimistic.

"But a number of factors augur well for the economy in 1992, while the negatives have diminished. The bottom line is a mildly positive outlook for next year," he said.

Positive factors included expectations of a turnaround in running down of inventories. A R3bn fall in real inventories last year was one of the major factors putting a damper on spending and growth. Inventories were run down by a further R537m in the first quarter of this year, the Bank's latest Quarterly Bulletin said.

Inventories are low and there is little scope for further falls. This means an upturn in demand will generate an increase in output, rather than a further running down of inventories. Real investories are at 18,7% of GDP, compared with levels of more than 19% up to 1990.

Meijer said exclusion of capital goods from sales tax when VAT replaced GST on September 30 was a positive factor for fixed investment spending. Fixed investment has been falling since the fourth quarter of 1989.

"An upturn in world economic growth and the lifting of sanctions will help SA's exports, but there won't be any fireworks on that front," Meijer said.

The Bank had expected positive growth of at least 1% next year before the announcement that sanctions were to be lifted, he said. It was difficult to quantify what the effect of this development would be. Its contribution was not only the potential of increasing export volumes, but also lay in "psychological effect".

Meijer was hoping nature would play its part in ensuring a healthy agricultural performance. The first quarter saw a small increase in real agricultural production.

He said a Bank study done some years ago had shown that an end to capital outflows implied at least 2% real growth, while an inflow could see this reach 4% or more.

Heightened labour productivity, less industrial action and more savings could see even higher growth figures in "the new SA".

RB expects 1% growth rate in 1992

CT 24/7/91

From GRETA STEYN

JOHANNESBURG. — The Reserve Bank expects a sharp turnaround in SA's economic fortunes next year, with at least 1% real economic growth.

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Money supply growth slows

By AUDREY D'ANGELO
Business Editor

MONEY supply growth slowed in June after an unexpectedly steep rise to a revised 15,82% in May.

Preliminary figures released by the Reserve Bank yesterday showed year-on-year growth in the broadly defined M3 in June at 14,66%.

The downward move revived hopes that the Reserve Bank's target of between 8% and 12% growth in M3 might be achieved before the end of this year, justifying a cut in interest rates.

Economists pointed out that the figures were still distorted as a result of the Deposit Taking Institutions Act (DTI).

Mike Daly of Southern Life said the apparent rise in money supply figures as a result of this was "not really valid".

Allowing for this, the trend on a three-month annualised basis was still downward and showed that money supply growth was adequately under control.

Pointing out that hire purchase credit extended by banks was "falling sharply in real terms", Daly said that money supply growth would be in the target range by the end of this year.

Boland Bank economist Louis Fourie said he thought money supply figures would "linger round their present range" for a while but the underlying trend would be downwards.

"We are moving in the right direction but I think it will be a few months before we reach the Reserve Bank's target range."

The director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, said: "We are coming down slowly but we are still above the target set and that militates against any cut in interest rates."

Glenn Moore of Personal Trust, pointing out that the May figure had been revised upwards from a preliminary 15,14%, commented: "That is always a bad sign. We are still above the target range and that is not good news at all.

"When you are growing your reserves, which are the money base of the economy, the increase flows straight through to the money supply."

Moore pointed out that it would be harder to control growth in money supply during an upturn than in a downturn.

Keith Lockwood of the SA Chamber of Business said that although the year on year figures for June were "quite far out of the target range" the underlying gowth in money supply, taking the seasonally adjusted M3, worked out at 8,1%.

"In actual fact the growth in June on a month-on-month basis is very low."

He was confident that money supply growth would be in the Reserve Bank's target range in two or three months.

Lockwood said he did not expect a cut in interest rates until after the impact of value added tax had been assessed.

There could be confusing signals. Producer prices could come down but prices paid by the consumer could go up. The monetary authorities would have to decide which to follow.

'Slush fund' drags share values down

CT 24/7/91

(49)

JOHANNESBURG. — Investors have been unnerved by news of state "slush fund" payments to Nelson Mandela's political opponents which have provoked fears that remaining economic sanctions would last longer than expected.

Concern about the payments scandal dragged share values down yesterday, sending the Johannesburg Stock Exchange's overall index plunging 71 points to 3 453 — a further drop from its all-time high of 3 541 set last Friday.

Friday's gains has been encouraged by the dismantling of trade and investment sanctions by the United States this month and similar moves earlier in Europe.

The JSE all-gold index dipped further to a close of 1 347 from Monday's 1 410 finish and the industrial index to 3 981 from 4 042.

Gold shares suffered added pressure from weaker world bullion prices, dealers said, which saw heavyweight Vaal Reefs close R9 down at R228 and Freegold R1,35 lower at R27,15.

Mining financials had Anglos R3,25 weaker at R118,75 and Gencor 35c easier at R14,30.

Among other leading minings, diamond share De Beers ended the day R2 lower at R87, but platinums were relatively steady.

Rustenburg platinum shed 25c at R74 but Impala closed unchanged at R63.

Industrial leader Barlows lost R1,25 at R45,25 and Richemont 80c. SA Breweries shed R1,50 at R54,50.

Capital market rates held at their day's highs at yesterday's close following Monday's steep upswing in a jittery market, dealers said.

The benchmark Eskom 11% 2007/2009 closed at 16,25% after surging to 16,21% on Monday from Friday's 16,02%.

Volume on Monday jumped to R2,37bn. — Sapa-Reuter

Foreign reluctance 'will fuel violence'

B/Day 24/7/91

THEO RAWANA

THE reluctance of foreign investors to invest in SA was increasing the risk of violence and support for a centrally controlled economy, Urban Foundation CE Sam van Coller said in Johannesburg yesterday.

Speaking at the launch of the National Black Distributors' Association, Van Coller said SA was trapped in a pattern of low economic growth.

"Developing countries need access to foreign capital to grow. For a mix of political and economic reasons, SA has not had access to overseas capital in recent years and this, more than anything, has stifled the economy," Van Coller said.

While the political constraints on economic growth were fast disappearing, the economic constraints were not.

"Because of violence and uncertainty about future economic policies in particular, foreign investors are, by and large, not prepared to risk investing in SA at present.

"The longer the economy continues to perform poorly because of (their) unwillingness, the greater the chances that violence will increase and the greater the pressure on extra-parliamentary political leaders to talk in terms of a substantial role by government in any future economic policy under a new constitution," Van Coller said.

Until SA could break out of this circle, the economy would continue to perform poorly and unemployment and poverty would increase.

Van Coller said the impact of a new constitution on the SA business environment would depend, first of all, on the political climate within which the constitution was born.

"Because of the diverse nature of the SA population, there has always been an inherent potential for enormous conflict in our society. SA's traditional response has been for one group to prevent all other groups from participating in the political arena.

(49)

Co-operation

"That has now changed and the political arena is being opened to all. It is thus to be expected that we must go through a period of intense political competition as different groups at all levels in our society seek to gain control of power and resources," he said.

However, there were important opportunities in an open political environment for conflicting groups to recognise their interdependence and establish pockets of co-operation.

It was encouraging that support for the extreme positions of a centrally planned and controlled economic system on the one hand or a totally free market system on the other, appeared to be on the decline.

Violence scaring off investors — Van Coller

(49)

Star 24/7/91

Foreign investors were not putting money into South Africa because of the violence and uncertainties of future economic policy, Urban Foundation chief executive officer Sam van Coller said yesterday.

Speaking at the opening of the Black Distributors Associa tion in Johannesburg, Mr van Coller said South Africa's lack of access to foreign capital had also stifled the economy.

"While political constraints are now fast disappearing, economic constraints are not."

The longer the economy was hampered by the unwillingness to invest, the greater the chances were that violence would increase.

South Africa had become a society without the essential values necessary to hold it together in a pattern of stability.

Mr van Coller cited the increases in crime, conflicts among interest groups, increases in teenage pregnancies, alcoholism, suicide and divorce.

"Apartheid did everything possible to stifle economic growth in South Africa.

Conflicts

"It prevented market forces from operating, it shut out opportunities and thus removed any incentive for people to improve their own circumstances.

"It wasted resources not only in duplicate bureaucracies but also in duplicate facilities, it separated the capacity of the developed world from the needs of the to-be-developed world.

"It generated intense conflicts that stood in the way of levels of co-operation that are necessary to move forward. It excluded South Africa from the wider — and for others, much more open — world, thus restricting access to technology and trading opportunities.

"It drove away a substantial number of skilled South Africans when our pool of skills was not enough to meet the country's development needs."

If by the time a new constitution came into being, conflicting interest groups had learnt that through constructive negotiation, and not power-seeking, they could benefit their particular interest group, SA would "have some glue to hold it together", Mr van Coller said.

"Most leaders accept the need for effective markets aided by both public and private-sector interventions.

"They agree there will have to be dual economic strategies both to stimulate the formal economy and to bring the poor into the wealth-creation arena rather than leaving them on the outside." — Sapa.

SA gets poor risk rating by US firm

Sowetan 25/7/91 -

(49)

WASHINGTON - A company which specialises in forecasting risks for American businesses around the world, and which is widely consulted by banks and multinational corporations, has given South Africa a poor risk rating for the next five years.

By HUGH ROBERTON
Washington Bureau

Political Risk Services says the chances of turmoil in the country between now and mid-1996 are "very high" and forecasts mounting trouble for President FW de Klerk in trying to reconcile the differences between competing black groups.

In its latest survey the company also forecasts a "moderate" degree of turmoil in Zimbabwe in the next five years, with inflation there soaring to 25 percent, and it predicts that President Kenneth Kaunda of Zambia will be ousted in open elections later this year and will be replaced by a pragmatic civilian government under the leadership of Mr Frederick Chiluba, a trade unionist.

Political Risk Services, which sells a 50-page report on South Africa for about R825, says De Klerk's inability to stop fighting between the ANC and Inkatha, and the growing restiveness of whites, will challenge his efforts to forge a peaceful transition to multiracial government.

While the South African Government continues to propose and implement major reforms, "the possibility of a stalemate over the terms of the transition and growing organised opposition among whites threaten a peaceful evolution," the report says.

It adds that "increasingly militant statements by ANC officials over continued violence and the Government's role in it indicate the unlikelihood of getting a consensus among black groups".

Report

The report says there is only a 40 percent possibility of a "reformist National Party" being the government in 18 months' time and only a 40 percent chance of a "pragmatic ANC" coming to power in the next five years, although it does forecast a new government within the next five years.

Inflation in South Africa will grow to 18 percent between 1992 and 1996, while the growth in the real gross domestic product will be only 1,8 percent in the same period.

Zimbabwe, by contrast, will have an inflation rate of 25 percent between 1992 and 1996, with a 4 percent growth in its real gross domestic product, and there is a "moderate" chance of turmoil in the long term.

Commenting on President Robert Mugabe's plans for buying white-owned land for redistribution to blacks, the report says: "With the economy continuing to weaken and the youthful and urban population growing, the loss of foreign investment and white agricultural managers could hasten economic deterioration and undermine a stable and pragmatic government."

In Zambia, continuing economic decline coupled with pressure for democratic elections had forced Kaunda to schedule elections for October.

"He may postpone the elections or use repressive techniques to ensure his victory, but the possibility of widespread violence makes such actions unlikely.

"Open elections will most likely produce a victory for the opposition Movement for Multiparty Democracy and lead to a pragmatic civilian government under the leadership of a popular labour leader, Frederick Chiluba," the report says.

Political Risk Services does not forecast events in Mozambique, Angola or Namibia at this stage.

Govt is foiled in bid to boost stock

BDay 25/7/91 (49)

ANDREW GILL

GOVERNMENT's attempt to bring its capital market rates in line with other gilts has been blocked by a fundamentally bearish market and investor uncertainty over the Budget deficit.

The marketer of government stock, the Reserve Bank, last year moved to become a market-maker in the same way as Eskom had done.

Eskom has become known as "the buyer of last resort", making sure its paper is always tradeable.

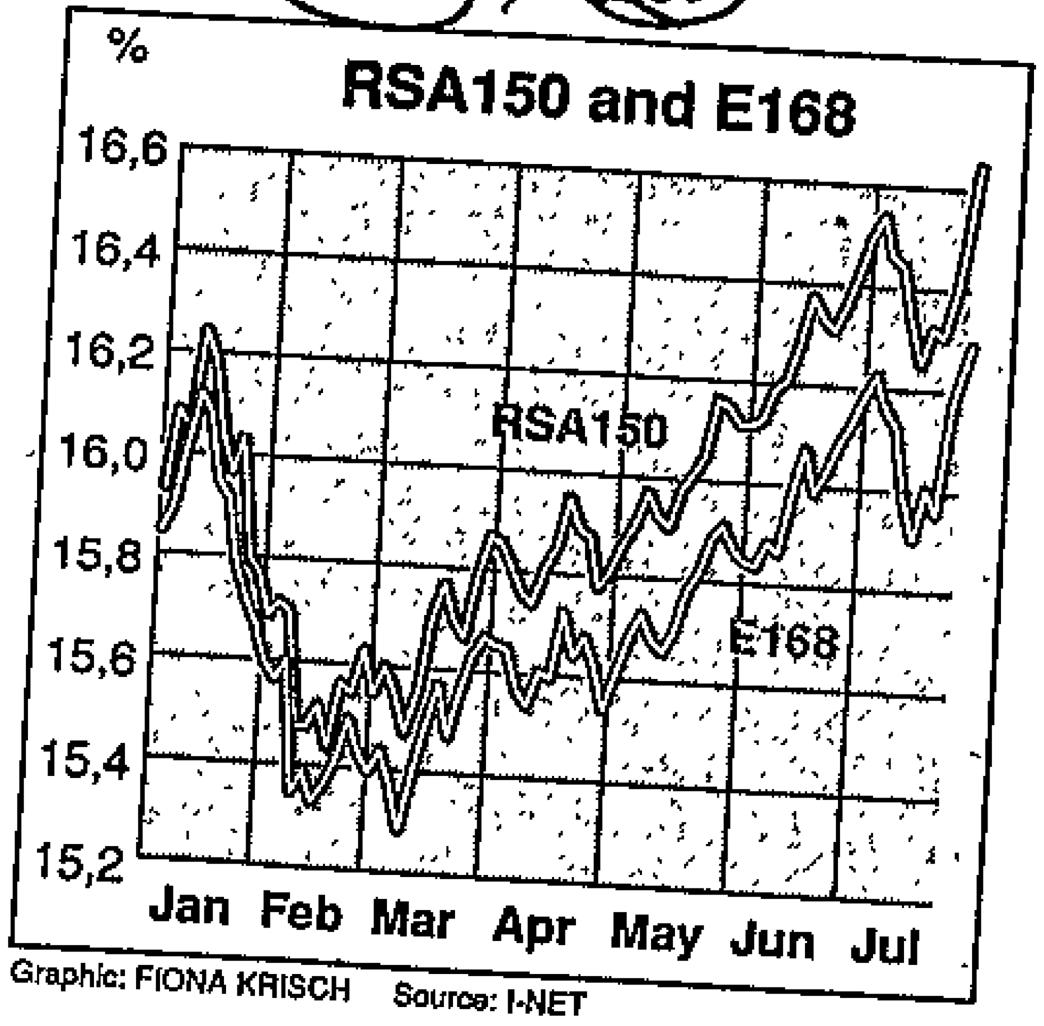
However, because of the much larger size of government's borrowing commitments relative to Eskom's, it has become difficult for the Bank to make significant inroads when large sellers are present.

The differential between the two has climbed to more than 35 points from February's seven-point low.

The Eskom 168 ended at 16,290% yesterday. Government's R150 closed at 16,635%.

Analysts said Eskom's funding requirements had shrunk, resulting in the stock becoming more scarce. Government stock had become more available as its funding requirements grew.

One of the mechanisms the Bank uses to



Graphic: FIONA KRISCH Source: I-NET

make government stock more attractive is the options market. Turnover has averaged R1,2bn a month from an average R0,3bn a month in the first half of 1990.

Some analysts suggested the growth in the market had forced the Bank to buy back far more stock than had been expected with investors exercising sell options.

Investor nervousness, already exacer-

☐ To Page 2

Stock

BDay 25/7/91 (49)

☐ From Page 1

bated by the revelations of secret government funds for Inkatha, was compounded by Finance Department director-general Gerhard Croeser's reported comments that a 5% deficit before borrowing was possible, but that it was still too soon to tell.

The analysts said the average rate at which government funded itself last year was 16,39%, at least 15 points above Eskom.

ROBERT GENTLE reports the bill to the taxpayer for the Inkatha revelations could run into millions of rands because it has sent interest rates on government stock soaring.

Capital market traders, working on the recent rates surge, estimated that at current rates government would have to pay between R20m and R25m extra for every R1bn of new borrowings through its benchmark R150 stock.

They said the figures would probably be higher because rates were likely to harden even further once borrowing started.

The 12% interest on the R150 meant a further R3m every year, approximately, in interest payments until maturity in the year 2005.

Simpson McKie gilts trader Marilyn Visser said these figures were "not unreasonable".

Analysts vary in their estimates as to just what proportion of the recent rates surge was due directly to the Inkatha scandal — as opposed to government overspending.

Some traders said the rise was only partially Inkatha-driven, others that it was totally Inkatha-driven.

PROPERTY TAXATION

SOFTLY, SOFTLY

FM 26/7/91 (49)

Talk that an ANC government might target, among other assets, fixed property — especially second homes, in its proposals to tax wealth — has set the cat among the pigeons.

It could explain why there has been a sudden flurry of interest among property owners in rationalising their holdings, which is one way of the wealthy avoiding becoming milch cows for any socialist-inclined government.

Estate agents caution, however, that the time is not yet ripe for them to rush out and sell the family holiday cottage or second home at Hermanus or Plettenberg Bay. Any attempt to introduce a capital gains tax, they point out, is likely to be severely constrained by the need to maintain a high level of stability and growth for the economy in the years ahead.

More particularly, introducing a capital gains tax is one surefire way of killing confidence and new investment in any economy. Certainly, people like property economist Erwin Rode and the UBS's Hans Falkena seem satisfied that there is no reason to panic — at least for now.

Even ANC tax adviser Lieb Loots, whose comments on the need for some form of wealth tax may have prompted the scare, sees problems with implementing an effective tax on fixed property. He readily admits that targeting second homes for special tax treatment (as distinct from municipal taxes which are already payable on most of them) would be difficult to implement and almost certainly encourage owners to indulge in tax-avoidance schemes.

"People would do all in their power to bypass such taxes by, for example, transferring a property into the name of a spouse. The result is that it would simply create the need for a large and costly administrative infrastructure. This would nullify any advantages derived."

But that doesn't, he says, mean property should be exempt from some sort of additional taxation. "Some would argue that the whole tax system needs reforming so that ordinary salary earners aren't, as they are now, excessively burdened by taxation. And the collection of property tariffs would be part of any overhaul."

Tax reform, he argues, should have two objectives: to establish a system which is perceived to be fair by both wealthier people, who bear the brunt of taxation, and poorer people who do not, and to establish efficient methods of generating State revenues which are also conducive to economic growth.

"The problem would be how to compensate for the loss of revenue in a tax regime which, for example, lowered the top marginal rate and reformed company tax. The principle is to have a more-or-less balanced tax net spread over many areas, rather than a few taxes bearing the brunt of revenue needs.

"In the context of perceived fairness and the efficient generation of revenue I would probably suggest reforms which replace the present flat rate tax with a compensatory mechanism such as a progressive property tax."

Fixed property could be valued on the same basis as now but perhaps at more regular intervals. A moderately progressive tax would then define, for example, three brackets — up to R100 000; R100 000-R500 000; and R500 000-plus. The owner would, on a graduated scale, pay a percentage in the rand on that value in tax.

"This should meet ANC concerns about wealth redistribution. At the same time it need not be implemented in a way which would either act as a disincentive to property owners or lead to an inefficient bureaucracy. In fact, no additional bureaucracy will be needed. Theoretical literature and research on tax systems suggest that this kind of tax, if correctly structured, is fairly efficient and desirable because it doesn't, for instance, influence decisions on where or how one saves and invests.

"The present dispensation, in contrast, encourages institutional rather than other savings, with the result that insufficient capital is channelled into areas like venture capital. A progressive property tax would not have this effect," Loots asserts.

Predictably, there are many who take the contrary view. Econometrix's Azar Jammine says the ANC has talked about targeting second homes — particularly those not lived in — for special taxation. But he insists such a policy is "totally anti-capitalist" and would undoubtedly lead to a stagnation in the residential property market. "Fortunately, the ANC seems to have backtracked on the issue," he adds.

He has some sympathy for the concept of a broader capital gains tax as a means of reducing the burden of taxation on income. Like Loots, he argues that the net effect of the current taxation system has been to create a "paper chase of financial assets on the stock exchange and, to a certain extent, to facilitate excessive commercial property development to the exclusion of housing."

Sapoa president Derek Stuart-Findlay stresses that Sapoa must "emphasise the importance of the free-market system and freehold ownership of property in the wealth creation process, and anything which impedes that process will affect investment generally as well as investment sentiment."

Adding his support, property economist Neville Berkowitz notes that "any taxation of property is negative for property. An

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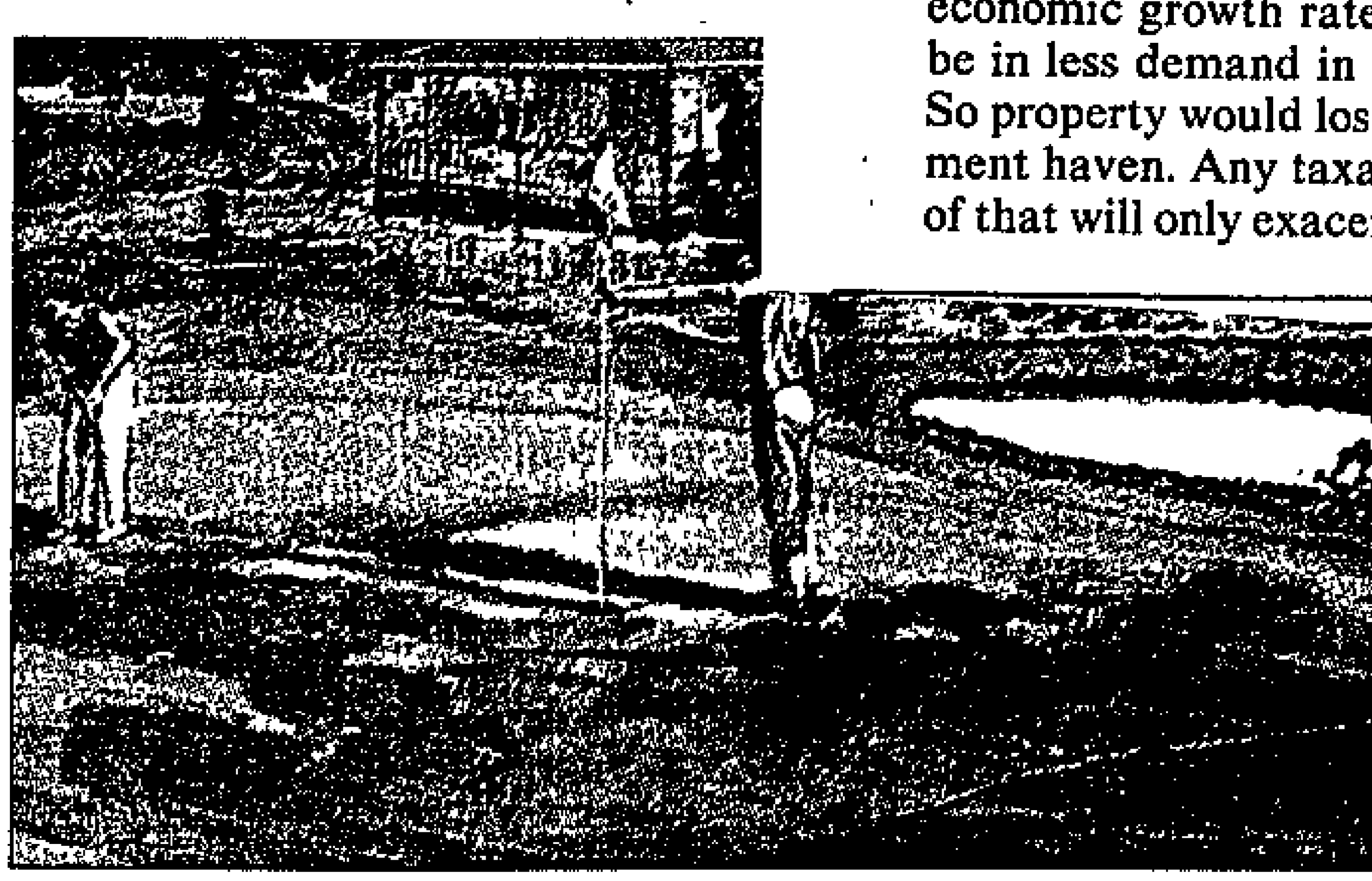
A CHIP OI

Development and marketing has st on the second phase of the pr R80m, 75 ha, Selborne golfing near Pennington on the Natal Coast.

Grinaker Property Development phase one, comprising 17 luxury ings, was a sellout, despite the rec and high mortgage rates. Corporate



PROPERTY FM 26/7/91 (49)

ANC government implies a socialist economy and within that ambit property becomes a lot less desirable from many points of view because that, in essence, means taking from the rich to give to the poor as a process of wealth redistribution.

"In that scenario one perceives a lower economic growth rate and property tends to be in less demand in low-growth economies. So property would lose its lustre as an investment haven. Any taxation of property on top of that will only exacerbate the situation." ■

are ensured by maintaining a generic design theme for development.

The project was conceived by sugar and cattle baron Denis Barker after he visited classic golfing estates in the US.

continue

No winds of change in economy as yet - UF

Sowetan 26/7/91

By JOSHUA RABOROKO

WHILE political constraints were disappearing, the economic restraints were not, the chief executive of the Urban Foundation, Mr Sam van Coller, said yesterday.

Speaking at the conference of the National Black Distributors Association on the effects of a new constitution on business, he said violence and uncertainty about economic policies had put foreign investors off South Africa.

He said: "The longer the economy continues to perform poorly because of this unwillingness, the greater the chances that violence will increase.

"This means there will be greater pressure on extra-parliamentary political leaders to talk in terms of a substantial role by central government in any future economic policy under a new constitution.

"We must anticipate, therefore, that until South Africa can break out of this cycle, the economy will continue to perform poorly and, given the high rate of population growth, unemployment and poverty will increase."

However, he said there was probably a more fundamental and much more serious dynamic at work in South Africa and that was the long-term and continuing social disintegration of society.

"The symptoms are there for us all to see. They include an increase in brutal crime, the state of war that exists between society and its children, violent conflicts between different interests groups and, in particular, between the haves and have nots, increases in teenage pregnancies, alcoholism, suicide and divorce.

He had no doubt that a new nonracial South Africa would see that these serious obstacles to economic growth started to disappear and would bring important social and economic gains.

The impact on a new constitution on the business environment would depend firstly on the political climate.

The negotiation of mutually beneficial agreements between employers and trade unions was essential.

Other opportunities existed for housing developers, civic associations and home loan institutions to break the housing log-jam by reconciling their different needs and interests, for large and small business to achieve both greater efficiencies and more equitable distribution of business activity.

He urged members of the association to participate in the process of change.

The launching of the association was one of the many examples of the growing sense of self-reliance among blacks as their struggle for political freedom came nearer the end.

Boom times beckon for SA economy

W/Mail 26/7 - 1/8/91

(49)

Financially hard-pressed South Africans can take heart: the worst of the recession seems to be over. REG RUMNEY reports

THE South African economy should turn the corner next year and then accelerate down the straight.

Consensus among many economists is that after more than two years of mild recession, South Africans should see the start of an upswing in 1992, and a true boom in the year after.

Moreover, having weathered various shocks in the past two years the economy should be in a better position to take off.

It may be difficult to believe that the worst is over, but First National Bank chief economist Cees Bruggemans points out the hurt is always felt most at the bottom of the recession.

For this year as a whole, economists are pessimistic. They believe the main measure of what the country produces, gross domestic product (GDP), will show once more a decline in real terms, that is adjusted for inflation, or a marginal increase. Last year real GDP declined by one percent.

It must be remembered that the population is growing at a rate of around 2,5 percent a year. So any rise below that 2,5 percent means the "per capita GDP" or production per head of the population goes backwards.

But many economists now foresee growth in GDP upwards of 3 percent in the next two years.

Bruggemans predicts growth gathering speed from this year's zero to 2,5 percent next year, to 3,5 percent in 1993 and possibly 4 to 4,5 percent in 1994.

There are a number of signs that the economy is about to bounce back from the ropes.

According to Old Mutual economist Rian le Roux, in the latest *Economic Monitor*, positive signs are that gold and foreign exchange reserves are much improved, motor car sales in the first five months of the year were higher than in the same period last year, and until the revelations of the "Inkathagate" scandal, share prices continued to reach new highs.

Aside from such signals there are compelling underlying reasons why the economy should revive — at least for a short while.

One is that inventories — that is stocks of goods — have been run down to historically low levels. This means a much smaller portion of final demand for goods will be met from existing stocks. So production and employment will benefit quickly from increased demand for goods.

Private consumption has been going great guns, but it seems the recession is finally putting a damper on spending.

For the whole of the period from the beginning of 1989 to the first quarter of this year private consumption expenditure (PCE) and public sector consumption expenditure has been positive.

However, Mohr points out in per capita terms that PCE has now declined by 2 percent.

Retail sales are negative, year-on-year. Retail sales were, by April, 4,5 percent lower (adjusted for inflation) than at the end of the third quarter of 1990. Spending on services will probably continue to grow, however.

Buoyed by government spending — in part to meet demands for greater social spending — final demand should expand this year, though at a lower rate than it has, Le Roux believes.

Inflation is still high at around 15 percent, and there are no signs that the Reserve Bank wants to stimulate the economy by dropping interest rates sharply — but given the role of government spending in pumping money into the economy that won't be necessary.

Nonetheless, Sanlam's economics department believes that later this year there will be a move towards a slightly less restrictive monetary policy, with a small drop in interest rates.

In theory, consumption eventually leads to fixed investment, but a consumption-led boom could peter out. By introducing measures such as generous tax incentives for beneficiation projects the government seems to want to accelerate fixed investment. Bruggemans considers the fixed investment cycle is due to turn anyway, and will kick in.

For the upturn not to be a flash in the pan, an increase in exports is also vital.

Export volumes, according to Frankel Max Pollack chief economist Mike Brown, were six percent up in the first six months of this year, but need to be 20 percent up next year.

Here the lifting of the Comprehensive Anti-Apartheid Act in the US and the pending lifting of European Community sanctions must play a role.

It is true, recent events have in part deflated some of the rise in business confidence the lifting of sanctions caused.

More important for our own upturn is that our major trading partners, the Western economies, recover or stay well.

A normal agricultural year would also be helpful, at least in stemming outflows of foreign exchange, but this is in the lap of the gods.

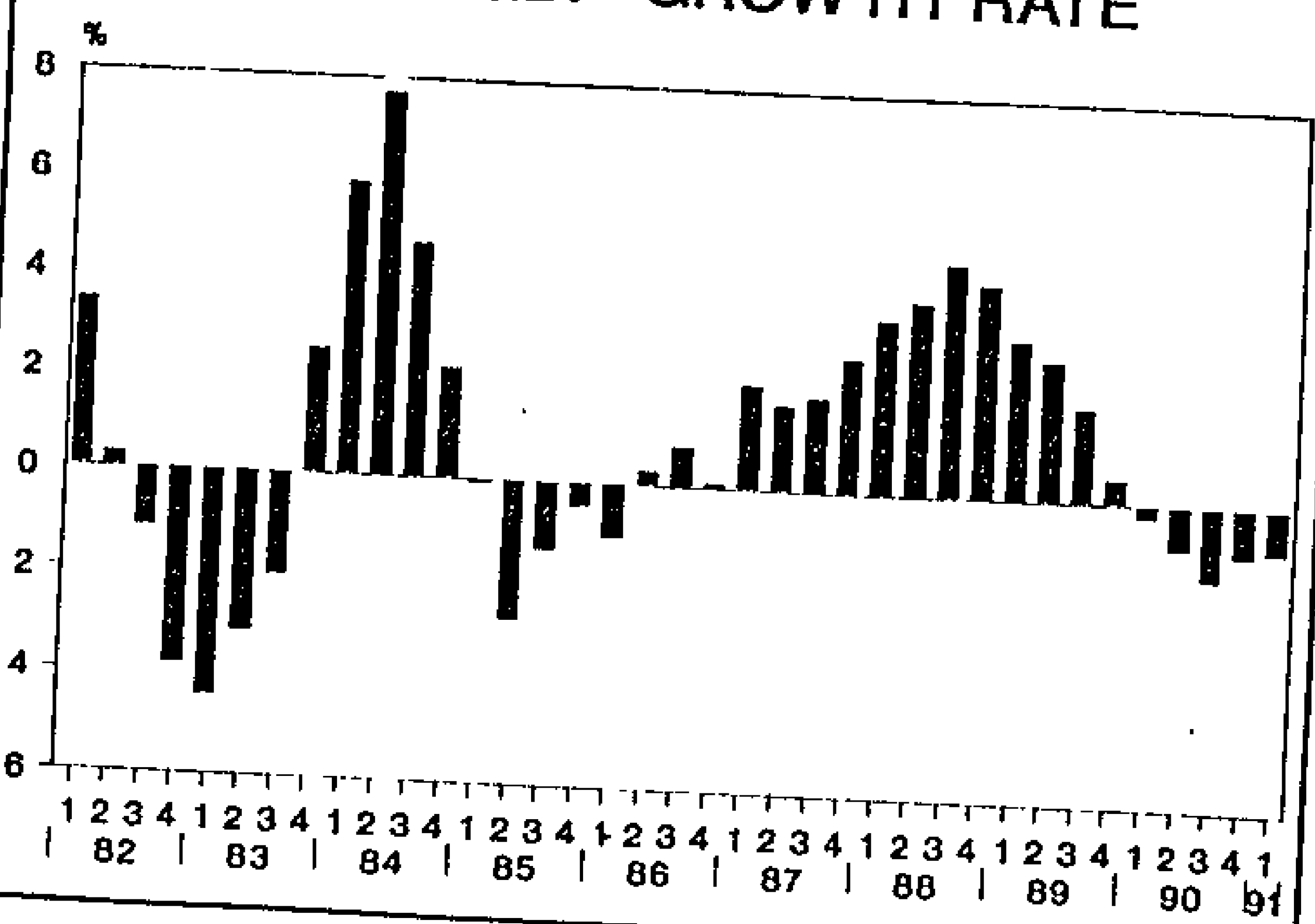
What could go wrong? South Africa's balance of payments is still under pressure because of the need to repay foreign debt. Without an inflow of investment (or an end to the outflow) we could run out of foreign exchange for imports that typically surge past exports as the boom runs.

For capital to come in, the International Monetary Fund stamp of approval is all important.

Brown reckons the IMF will advance money to tide us over temporary balance of payments problems, but it will lend only to an efficient economy which is running into problems through growth. So we have to run a much hotter economy, with a reasonable degree of growth coming through in the next 18 months.

Sanlam remarks: "... South Africa can no longer afford the exceptionally disappointing rate of expansion that has characterised the past decade. A greatly increased growth rate is vital in the light of the disturbingly high unemployment figure and the fact that a vibrant economy is necessary as a cornerstone for political and social reform."

REAL GDP GROWTH RATE



Ready for an upturn ... South Africa's real gross domestic product figures have been languishing in the negatives for a number of years

Indicator augurs well

49 CT 26/7/91

JOHANNESBURG. — A recovery in the economy may come more quickly than expected, with the Reserve Bank leading indicator rising by 2,0% in March for the third consecutive month.

Economists say the three consecutive increases in the leading indicator are sufficient to say an uptrend is under way.

They say this should be followed by a recovery in the economy in between six and nine months — a relationship established from previous business cycles.

To date the economy has been generally expected to turn in the first quarter of next year.

However, the improvement in the leading indicator suggests that a recovery may occur before the end of the year.

The leading indicator rose to 105,8 in March (base year 1985 = 100) from 103,4 in February.

The coincident indicator, which reflects present economic conditions, eased by 0,2% in March and continued the slight downtrend that has occurred this year.

Simpson McKie economist Graham Boyd says the leading indicator shows a revival of activity in some economic sectors.

"This is narrowly focused at the moment, but it points to a broader improvement — there may be positive growth later this year."

SACP won't have everything its own way

W/Mail 26/7–1/8/91

(49)

BEYOND APARTHEID: Labour and Liberation in South Africa *by Robert Fine with Dennis Davies* (Ravan, R39,95)

FUNDAMENTAL change faces the nation. The shape and content of this change, however, depends on which strategies and politics come to dominate among the working class.

It's a real treat, then, to be able to read a serious study of an earlier period of struggle and crisis for the ruling class which is neither an empty "horrors of apartheid"-type book nor a heroic mythology of the main currents in the anti-apartheid movement.

Beyond Apartheid is an in-depth study of the period which formed modern apartheid — centred on the crucial periods 1939-1948 and 1948-1964.

The second half provides a valuable antidote to any idealisation of the African National Congress. They are shown tumbling from one tactic to another — pulled along either by resistance from below or out of fear of being outflanked by another political tendency.

It's the first half, however, which is most interesting. Along with Baruch Hirson's *Yours for the Union*, this book forms part of a vogue among leftwing historians for the study of 1940s South Africa. But Fine studies the 1940s to illuminate two of today's key issues.

Firstly, he shows that it's not inevitable that the mainstream ANC/South African Communist Party current will have everything their own way. They have been seriously challenged by other tendencies in the past and the 1940s were particularly embarrassing for a communist party which claimed sole leadership of the working class.

As a SACP trade union organiser told the 1940 party conference, the Trotskyists in Johannesburg can call a meeting of 10 000 Africans, but the Party can't. The Party has not the most elementary conception of how to organise trade unions.

More centrally Fine wants to give an account of why such an aggressive workers' movement, including a strong current concerned with independent working class organisation, should have been cracked by the ascendant National Party and then subsumed by middle-class-led nationalist organisations in the 1950s and 1960s.

To start with, he makes a very useful point in setting perspective. During World War II the black working class expanded dramatically. So too did the level of struggle, culminating in the defeated 1946 miners' strike. But this expansion took place from a very low level.

Therefore, while the mobilisation of this period gave rise to semi-permanent union organisation for the first time, it was also still riddled with weaknesses. The latter half of the 1930s and 1940s represented the beginning of the era of modern industry in South Africa and the beginning of the making of the modern black industrial working class. The black industrial working class was in its infancy. It did not step onto the stage of history, as it were, ready-matured.

Aside from objective problems, Fine's key object is to study the political failings of the left, which ceded leadership of the working class to the nationalists. He starts correctly by identifying the central role of the SACP in this process.

The orthodox nationalist leadership at this time was incapable of misleading, never mind leading, the working class, as it was steeped in a conservative strategy of pleading for concession from above.

Meanwhile the SACP was performing a tumbling act with its own strategy — from Popular Front to an anti-war position, in obedience to the Hitler-Stalin pact, and then back to the Popular Front in support of the war effort.

The common thread, however, was to subordinate independent working class struggle and the fight for socialism to the nationalist strategy of fighting apartheid without using the tools of the class struggle.

How did the SACP, following the twists and turns dictated from Moscow, manage to build enough respect in the working class movement to carry this out? Fine argues their success lay in the absence of any coherent strategy on the part of the Trotskyists and other leftwing currents.

The Trotskyists could very efficiently expose their SACP when it veered to the right, yet they were repeatedly thrown off-balance by the Stalinists' periodic twists to the left.

Fine argues that the Trotskyists failed because they didn't effectively integrate the struggle for socialism with the solution of the national question. As a result, the Trotskyists eventually followed the Stalinists into the arms of the nationalists, or abstained from any real struggle. They failed, in other words, to take note of Trotsky's general prescription: "The proletarian party can and must solve the national problem by its own methods. The historical weapon of national liberation can only be the class struggle."

So far, so good. But when Fine tries to argue for policy which could have filled in for the left's failings, he comes unstuck himself.

We are treated to an abstract account of white workers' economic struggles, which is supposed to indicate the potential of black and white working class unity. But any abstract trade union perspective which seeks to paper over the fundamental rift between black and white is necessarily going to have very little to say about fighting for political rights for blacks.

Fine does concede that the few white workers organised in non-racist unions displayed a "schizophrenia" — supporting the union but not its politics. But then he says that the failure to break the barriers between black and white in the workplace and thus build a socialist current around working class unity explains the rise of nationalism.

This is entirely wrong. African nationalism springs from the oppression of blacks, not from their failure to achieve some abstract unity with poor whites.

To be fair, Fine does constantly criticise currents on the left, both of today and earlier, which failed to take note of political questions in the name of working class unity. Nevertheless, his solution to the problem still veers towards the notion that unity springs spontaneously from workers' joint antagonism to the bosses.

These criticisms are called for because *Beyond Apartheid* is a very good book which can be useful in the struggle today. And because it is so good, it is also worth criticising the book's failure to argue coherently for a path forward today. Fine's only clear call is for the winds of democracy to blow through the movement. But who isn't making that call today?

Rehad Desai

Government spurs aim for investment-led relief

SVEN LUNSCHE

JOHANNESBURG.—After a decade of neglect, the Government is pursuing a wide range of policies to boost investment spending in the hope of an investment-led recovery.

ARGUS 26/7/91 (49)

A report by brokers Frankel, Max Pollack, Vinderine shows that recent government policies have already resulted in capital projects worth more than R26 billion.

Over the past decade the investment rate has been poor, lingering at levels well under 5 percent of Gross Domestic Product.

"However, the Government, through its own initiatives and incentives, appears to have embraced the approach of using capital spending on new projects as a major catalyst for economic revival," says Frankel, Max Pollack, Vinderine economist Mr Mike Brown.

The approach had been to utilise direct and indirect measures.

The indirect investment approach through tax and monetary policies had had little impact, Mr Brown said, because the company tax rate had only been lowered from 50 to 48 percent, and the tight monetary policy had produced few benefits for savings or investment.

"However, a far more sympathetic view is being taken on tax incentives required to get new productive capacity off the ground."

These measures included zero ratings for capital and intermediate goods when VAT was introduced in October and the revised export incentive package to lift export capacity of projects.

"The incentive packages should go a long way to reducing the cost of capital, thereby promoting the viability of major export-oriented projects," Mr Brown said.

Beneficiation would get the major boost from these measures and Mr Brown said beneficiation projects worth R12,1 billion had already been announced.

Other export-oriented projects worth R5,4 billion had begun in tourism, while R8,6 billion had been spent to raise existing commodity export capacity.

A further element in the strategy was aimed at capital spending on social investments facilitating internatal stability. The Government itself or parastatals were the major spenders and up to R13 billion had so far been earmarked for social developments.

Inkatha scandal jeopardises loans

Star 26/7/91.

49

By Neil Behrmann

LONDON — The scandal surrounding government funding of Inkatha is creating uncertainty about the long-awaited first public South African loan issue since the 1985 debt moratorium.

A South African Deutschemark issue is due to be placed in the Northern Hemisphere in September or October, say bankers and an announcement is imminent.

There is no official confirmation at this stage, but the lead manager for the issue is believed to be Deutsche Bank and the rumoured amount of the issue is Dm100 million to Dm200 million (R250 million).

The Inkatha scandal, however, is a major setback for South Africa in international financial markets, say bankers.

Banks will be wary of underwriting any South African issue, unless President President FW de Klerk acts decisively to repair the damage.

They fear that they will be forced to delay the public issue.

Such is the damage to the Government's credibility that SA will need to move swiftly towards an interim government, says Jonathan Leape, head of the London School of Economics Centre for the Study of the South African Economy and International Finance.

South Africa has raised \$342 million (R1 billion) so far this year, mainly through private placements.

While international borrowings are 37 percent higher in real terms than amounts raised in the whole of 1990, and impressive when compared with virtually zero borrowings in the years 1986 to 1989, there are no grounds for complacency, he says.

Borrowings amount to only 0,2 percent of gross domestic product. This is on a par with the inflows of 1977, the lowest amount raised in any year before the 1985 standstill.

In order to return to the levels of international borrowing achieved in the period 1972 to 1976 when the inflows averaged at 2,6 percent of gross domestic product annually, South Africa would need to borrow \$2,8 billion a year, says Mr Leape.

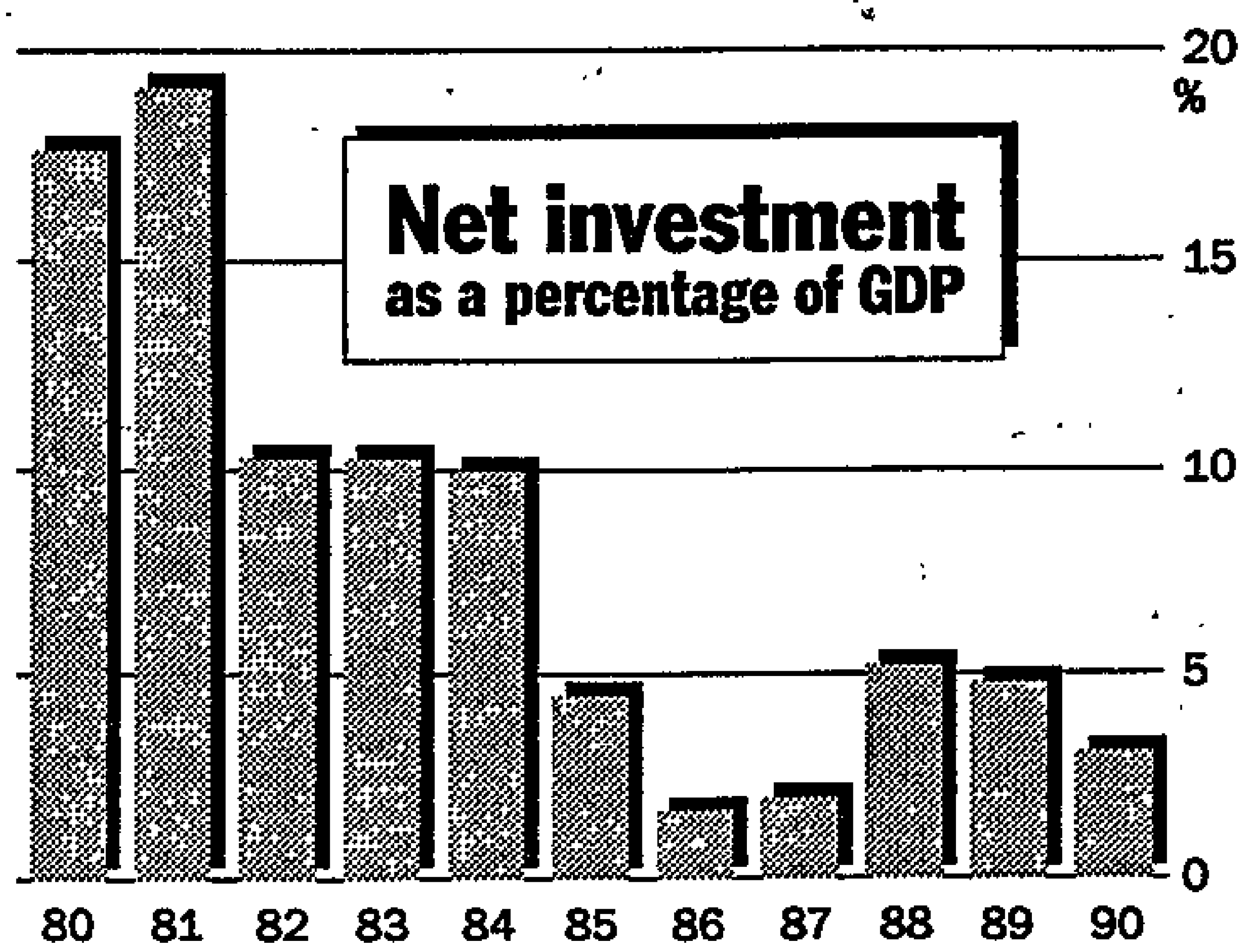
This is almost ten times the amount achieved in the first half of 1991.

Even in the improved conditions this year, borrowers succeeded in rolling over less than half of the bond debt that matured.

Borrowing costs continue to be high, with the yield on issues between 2,4 percent to 2,8 percent above US government bonds.

Banks have sold South African issues mainly to retail investors.

"International institutions are yet to play a significant role,' says Mr Leape.



Govt encouraging investment spending

Star 26/7/91

49

By Sven Lünsche

After a decade of neglect, the Government is pursuing a wide range of policies to boost investment spending in the hope of an investment-led recovery.

A report by brokers Frankel, Max Pollack, Vinderine shows that recent government policies have already resulted in capital projects worth over R26 billion.

Over the past decade the investment rate has been poor, lingering at levels well under five percent of Gross Domestic Product (see graph).

"However, the Government, through its own initiatives and incentives, appears to have embraced the approach of using capital spending on new projects as a major catalyst for economic revival," says Frankel, Max Pollack, Vinderine economist Mike Brown.

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In this case, says Mr Brown, the Government itself or parastatals are the major spenders and up to R13 billion has so far been earmarked for social developments.

Economic upturn near forecast

(49)

B/Day 26/9/91

SHARON WOOD

A RECOVERY in the economy may come more quickly than expected, with the Reserve Bank leading indicator rising by 2,0% in March for the third consecutive month.

Economists say the three consecutive increases in the leading indicator are sufficient to say an uptrend is under way.

They say this should be followed by a recovery in the economy in between six and nine months — a relationship established from previous business cycles.

To date the economy has been generally expected to turn in the first quarter of next year.

However, the improvement in the leading indicator suggests that a recovery may occur before the end of the year.

The leading indicator rose to 105,8 in March (base year 1985 = 100) from 103,4 in February.

The coincident indicator, which reflects present economic conditions, eased by 0,2% in March and continued the slight downtrend that has occurred this year.

Simpson McKie economist Graham Boyd says the leading indicator shows a revival of activity in some economic sectors.

"This is narrowly focused at the moment, but it points to a broader improvement later this year.

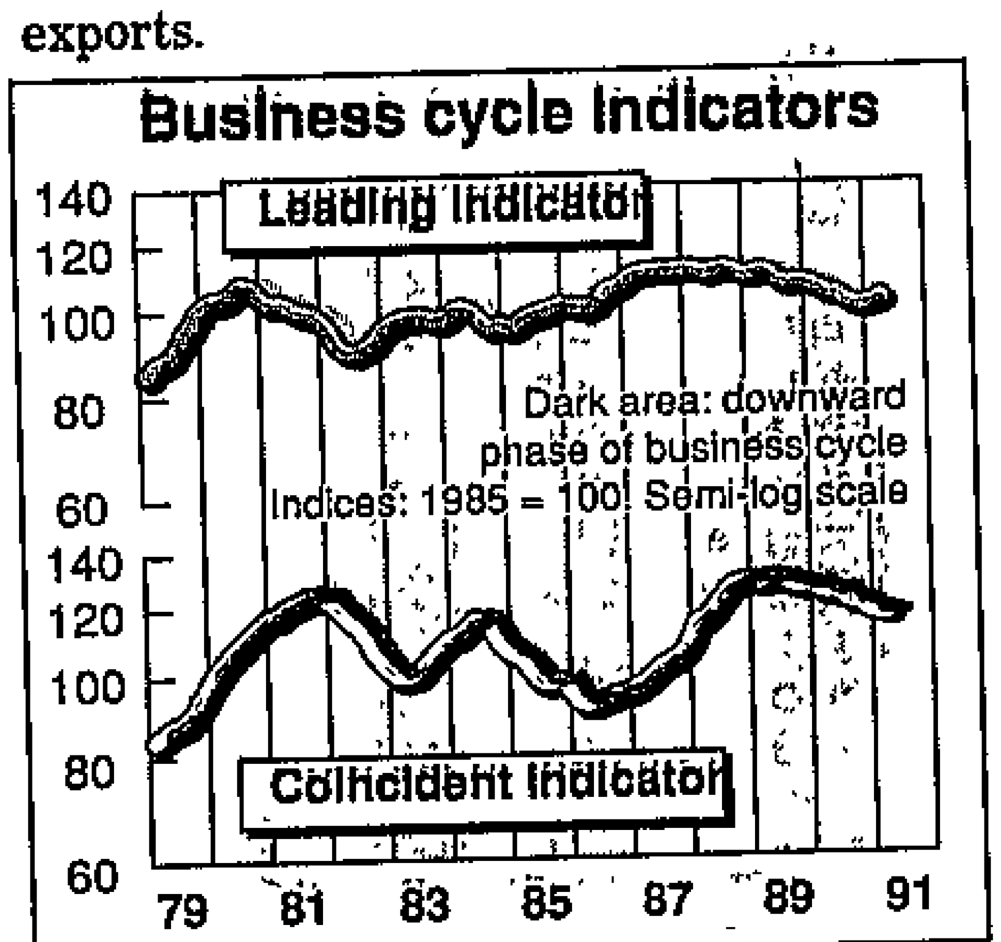
"It is possible the economy reached a trough in the second quarter and there may be positive growth later this year," he says.

Recent growth in share prices on the JSE has been a big factor behind the improving leading indicator and Boyd says that in the past share prices have tended to be a "good, if somewhat overexuberant, indicator of economic trends".

But political stability is essential for a proper, broad-based, economic recovery and in this respect the political events of this week are of some concern, he says.

The Reserve Bank's leading indicator incorporates 22 different indicators which are particularly sensitive to changing economic conditions.

These include industrial share prices, new companies registered, gold production, non-gold mining production, building plans passed, annual change in the M1 money supply aggregate, inventories, new vehicle sales, the price of gold and exports.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

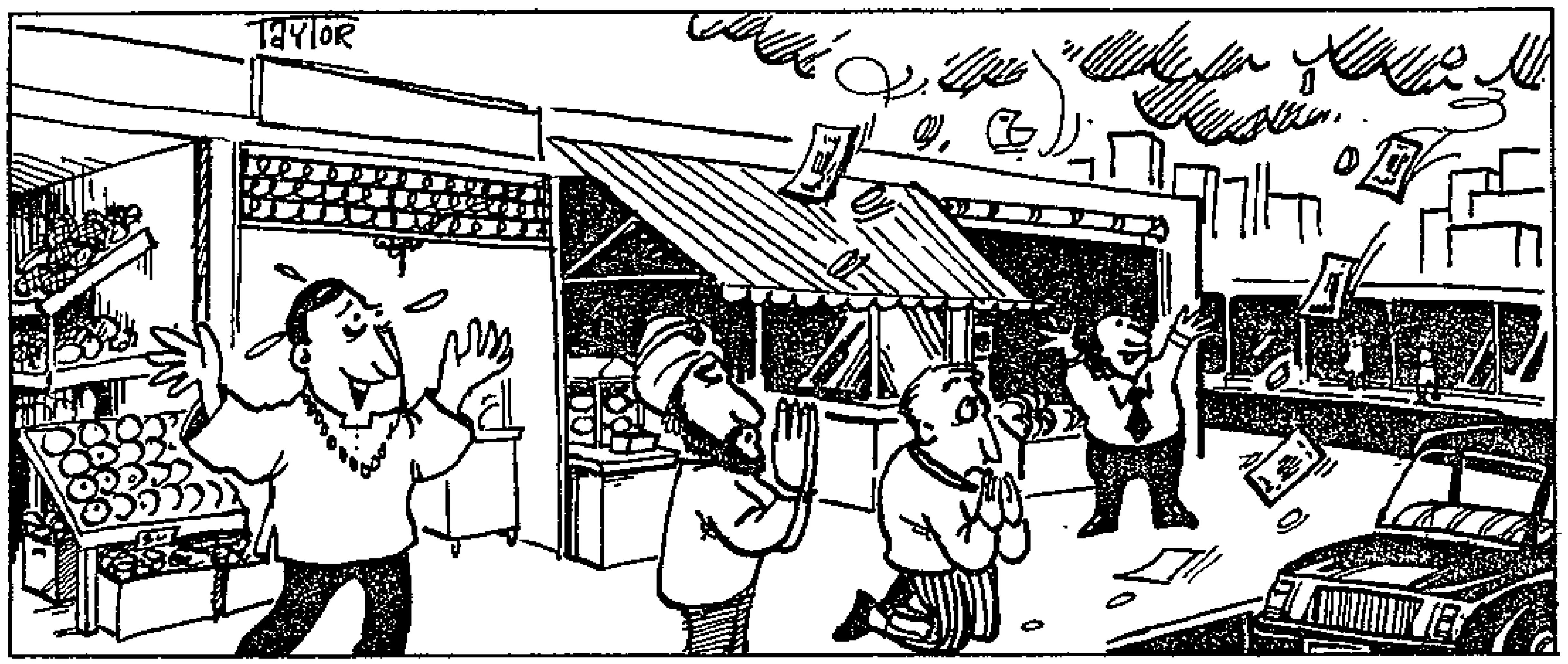
Outlook for upturn brightening — Stals

Star 27/7/91

(49)

DEREK TOMMEY

THE Governor of the Reserve Bank, Dr Chris Stals, has answered a question many businessmen are asking: When will the economy start picking up?



Dr Stals said yesterday he expected things to start looking better later this year when manufacturers and retailers began restocking, expanding and replacing production capacity.

However, he ruled out reducing interest rates to stimulate the economy.

He said that in order to do this the Reserve Bank would have to create even more money. But with inflation and the growth in the money supply still high, this would only aggravate inflation.

Dr Stals said the local economy was different from stagnant economies elsewhere in Africa.

It had probably reached the bottom of the business cycle and was moving towards the recovery stage.

He said inventories had been declining for more than 20 months and the present level of stocks was relatively low.

Business would soon have to start rebuilding stocks, which should lead to some recovery towards the end of the year.

Another stimulatory factor was the continued high level of consumer spending, which had grown throughout the recession.

Some manufacturers were approaching the stage where they would have to increase capacity to meet demand, he said.

Another factor was that much equipment was wearing out or becoming obsolete and needed replacing.

But more than this was needed to get the economy moving strongly ahead. A difficult question to answer was where the necessary additional stimulus would come from.

The Reserve Bank would prefer it to come from an improvement in the balance of payments, he said.

This could arise from growth in exports or an inflow of investment capital.

Its second choice for stimulus would be an increase in domestic investment arising from improved local confidence.

The third choice would be a scheme similar to that proposed by Bob Tucker, formerly with the Perm, to get things moving by building large numbers of houses for lower-income groups.

● His hopes that the main boost to the next upturn would come from an improvement in the balance of payments seem likely to be fulfilled.

Although accurate figures are not available, most large manufacturing companies are gearing up for export markets.

Developments at the FSI conglomerate seem typical of the manufacturing sector as a whole.

Jeff Liebesman, chairman and chief executive of FSI, said this week that all the company's subsidiaries, other than retailers, were gearing up for export.

Form-Scaff, which makes scaffolding, and National Bolts, were already well established overseas.

The group now intends exporting hosiery from its Burhose factory and tyres from its Gentyre investment.

Reinhard Kunstler, MD of BMW, said last night his group would export more than R100 million worth of cars and components this year, while the motor industry as a whole is forecasting exports worth R1 000 million this year and double this figure next year.

Further evidence that businessmen were looking for export markets came from Ben Smith, deputy general manager of the IDC's industrial finance division.

He said that in the past three months 37 companies had applied for the IDC's special nine percent export finance.

So far, eight applications for a total of R69 million had been approved. The money was expected to generate R392 million in exports and create 260 new jobs.

The balance of the applications for a total of R125 million was still being considered, he said.

BOOKS

Critical look at nationalisation options

BDay 29/7/91 (49)

NATIONALISATION — BEYOND THE SLOGANS, by Keith Coleman (Ravan, R26,50)

ANY BOOK on nationalisation which can boast commendations on its back cover by both SACP general secretary Joe Slovo and JCI director Ken Maxwell must have something going for it.

Coleman — described as a strategic-planning consultant — achieves this notable feat by, firstly, taking seriously ANC/SACP/Cosatu views and claims on why nationalisation must be considered among the options for post-apartheid economic strategy.

The business community has tended to react to these claims with a combination of hilarity and anxious disbelief. Coleman does not, and that is why Slovo is more than willing to endorse the book as an important contribution to the debate.

Secondly, however, the author, while taking the ANC alliance's policy positions seriously, is anything but uncritical of them. And that is why a director of one of the candidates for nationalisation (if one takes literally the Freedom Charter's pronouncements on the subject) can also give the book an only partially qualified endorsement.

Ultimately the book is a dispassionate textbook on the theory and mechanics of nationalisation, rather than a work of advocacy. In addition to its focus on the South African situation, it examines nationalisation experiences in a diverse group of countries, like Mexico, Cuba, Chile, Peru, Britain and Zambia, to draw from them lessons on why nationalisation "works" in some circumstances but not in others, and what this means for our own economic policy-making.

The author is critical of the reasons pro-nationalisation groups put forward for their policies. Their reasons for advocating nationalisation are, he argues, primarily political rather than economic.

"If the proponents of nationalisation wish to win more support for their aims they will have to become more specific about what it can achieve outside of purely political targets. Until then they will be accused of being naive and unrealistic," the book argues.

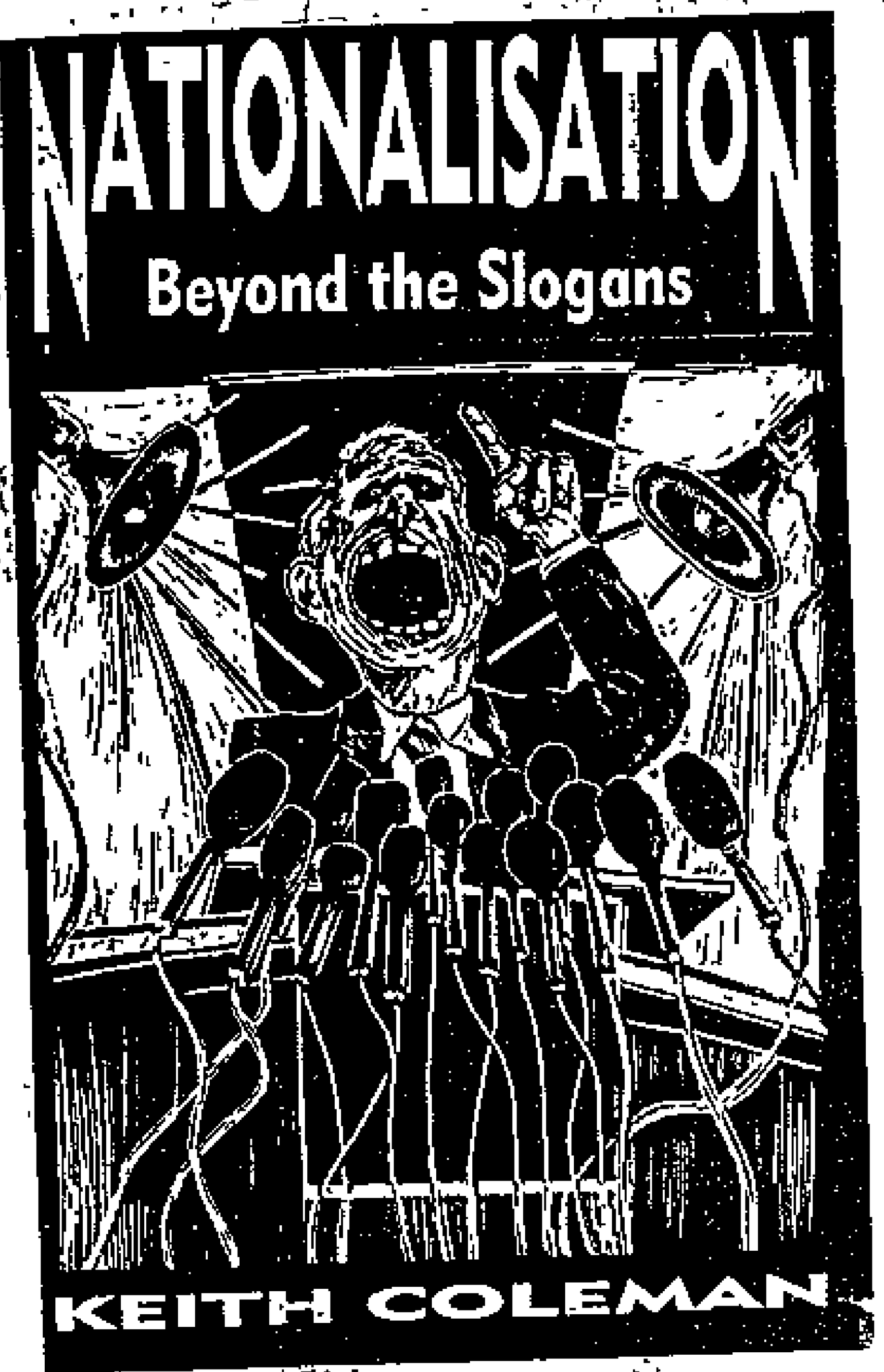
It examines criteria for selecting targets for nationalisation in SA, choices between partial and total nationalisation, and how much it would cost the state to nationalise various parts of the economy given different methods of valuation. (Because of the corporation's pyramid structure, it would cost the state only R420m — compensating at full market value — to gain control of the Rembrandt Group, Coleman argues).

It examines the different forms compensating payment could take — cash, equity, debt and bonds, for example. The book also looks very closely at different forms of corporate structure, with particular reference to worker participation, that could follow nationalisation.

Coleman considers also the effects different forms of nationalisation would have on, for example, capital flight, and the possible benefits of private sector competition for nationalised industries.

One weakness of the book — a problem for all writers of politico-economic works in this fast-moving South African age — is that it misses the most recent subtle shifts in ANC alliance policy away from nationalisation.

As a book about the mechanics and techniques of nationalisation, important macro-economic factors are not examined. Why is it that nationalised industries generally performed better, and definitely played more important social roles, in the fifties and sixties? Could it be that, so long as large-scale basic, often infrastructural, industry was the backbone of the largest economies, those were suited to state control at the time, whereas high tech industry of the eighties and nineties are not? What does that say about SA's Eskom, the public transport sector and even the contruction industry?



These are some of the questions that could be examined in detail in the next foray into the subject, which is certainly not dead yet.

ALAN FINE

THE MONEY MARKETS by Andrew Gill

Players spending their time creating fantastic scenarios

BDay 29/7/91

AN EXPECTED month-end shortage, little changed from current levels, promises another relatively easy and very quiet week which should see banks cruising through the heavy squeeze that a new month often brings.

Little or no asset creation and a tinge of nervousness over the Inkathagate scandal scuttled the faintest hope of changes in conditions, with only call rates showing any upward movement in line with the higher shortage.

Many market players are now looking to a cut in official rates towards the end of the year at best, and activity and rate ranges reflect this.

Pragmatism, however, often fails to prevail. Some sectors of the market are speculating about a prime rate cut in the next month on a more-than-just-a-rumour basis. As one player says, there is little else to do than create relatively fantastic scenarios.

On the other hand, this week's inflation data managed to scare some participants into pushing the next rate cut forecast forward by a couple of months.

February next year could well see the next percentage point decline in prime, some say. The forecast stands in the face of a long and crippling decline in many sectors of the economy.

(49)

The leading indicator for March showed its third successive jump, this time by 2%, prompting speculation about a renewed upswing a quarter earlier than expected, possibly in October.

All these factors serve as a strong base for hypotheses on the economy but they are unlikely to have an effect on rates.

There is no scope for increased official rates and a mainstream belief still holds that prime will be due for a cut only very late in the year. Also, market rates are holding at well-discounted levels, leaving no room for significant manoeuvre.

Rates are no longer being dictated by the shortage but rather by hints from Reserve Bank officials as to where monetary policy is headed. This has been demonstrated by the past month's shortage levels ranging from R3,6bn to R1,2bn as rates hold in a stagnant 10-point range.

Again, minimal expectations for any change in the monetary message in the coming months are expected to drown volatility.

Govt deficit funding 'possibly R1bn'

B/Day 29/7/91 (49)

SHARON WOOD

GOVERNMENT would need to raise just less than R1bn in additional funding if its expenditure continued to increase, Finance director-general Gerhard Croeser said yesterday.

The rest of the financing requirements would come from the R1,2bn contingency reserve provided in the Budget.

Croeser rejected a recent report that he had admitted government deficit before borrowing could reach 5%.

He was "quite sure" that while government's spending needs had increased, there would not be a higher deficit this year.

Croeser's remarks conflict with estimates in the capital market, where traders reckon government will need to borrow anything from R1,5bn to R4bn.

Croeser said he expected expenditure and revenue to right themselves.

Technical reasons had caused lower growth in revenue in the second quarter. A transfer payment of R1bn to the Customs Union had taken place in June instead of July, and revenue growth was low because it came from a high base last year, he said.

Croeser said expenditure was "only a small amount over cash-flow projections and departments might not have spent all the money they had drawn from the Exchequer".

But if government had to raise about R1bn, it would use the capital market to fund a higher deficit.

SA slump over by year-end — Syfrets

49 CT 30/7/91

By AUDREY D'ANGELO
Business Editor

THE recession may be over by the end of this year — in spite of Inkathagate, and the falling gold price, says the head of research at Syfrets, Matt Brenzel.

He expects a slow and steady recovery for the economy, and for the gold price, without fireworks.

He also thinks it unlikely that there will be any further dramatic rise in the JSE industrial index. He pointed out yesterday that the market had already discounted the improvement in the economy.

Discussing the effect of Inkathagate, Brenzel pointed out that "the market was fairly buoyant" yesterday after taking "a bit of a knock".

He said his perceptions were still fairly positive unless Inkathagate seriously affected the negotiation process.

"We have got to take the long-term view. We can't look at the situation from month to month. All the parties involved now want a settlement."

Brenzel says in the current issue of Syfrets investment newsletter, Money Matters: "The present recession may be over by the end of the year. The SA economy has proved to be more resilient than expected and positive developments on the political front, internationally as well as domestically, are good news for investors."

He continues: "If the political negotiation process can be set in motion soon and violence contained, a 3% increase in the GDP can be expected in 1992, after decades of creeping poverty and stagnation.

"But the monetary and fiscal medicine necessary for this recovery is bitter and won't put much money in the pockets of the man in the street for quite a while.

"High real interest rates and a neutral stand by the tax authorities have resulted in even more unemployment and businesses battling for survival."

Brenzel expects the economy to be kick-started through:

- Massive housing programmes — 400 000 serviced stands and 200 000 low-income houses are needed over the next five years. This plan will also create about a million jobs.
- Electrification for every black household.
- A national plan to educate and train the youth, starting at pre-primary level.

The second leg of the social programme consists of refocusing the economy:

SA's future growth linked to its exports, says Alant

B/Day 30/7/91

SEAN VAN ZYL

THE future growth of the SA economy depended on beneficiated product exports, requiring massive investment in new plant and technology, Deputy Minister of Finance and National Education Theo Alant said at a presentation last night.

Alant, who delivered an address at a Kessel Feinstein reception, said SA's economic growth would be determined largely by its ability to produce manufactured goods for sale on world markets at competitive prices.

To achieve this, SA would require massive investment in updated plant and technology.

Furthermore, Alant said the SA economy had "great opportunity" available through newly expanded export markets. However, he warned that SA could not rely on its raw materials which he said were "bound to fall" in relative value in the new age of high technology.

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He said government was well aware that the country's constitutional progress hinged strongly on the economy's ability to "satisfy the reasonable material aspirations of the populace".

Alant said government's moves to cut company tax, the phasing out of marketable securities tax and improved taxation systems for the life assurance and mining industries were designed to support business.

Nationalisation: 'ANC will move case by case'

B/Day 30/7/91

49

ROBERT GENTLE

ANC economics head Max Sisulu has defended nationalisation as a platform of ANC economic policy and said the failure of socialism in Eastern Europe had "no value" when applied to SA.

In an interview published in the July 5 edition of the French financial daily La Tribune de l'Expansion, Sisulu said: "(Nationalisation) would mainly concern public services like roads, water, electricity and hospitals. We would look at the rest on a case-by-case basis."

Sisulu's remarks go against recent pronouncements by ANC leaders indicating a move away from nationalisation as a viable alternative to capitalism.

ANC president Nelson Mandela said in a July 18 interview with The Star that the ANC was not dogmatically attached to nationalisation or state intervention and that it had "perhaps overstressed" these issues in the past.

Sisulu said the failure of socialism in Eastern Europe had "no value" when applied to SA.

"The fact is that decades of apartheid have brought SA blacks nothing but poverty and injustice. We don't have to take any lessons from anyone."

Springboard

Asked how the ANC would finance its economic programme, Sisulu spoke of an initial allocation of budgetary resources in order to unblock funds rapidly.

He singled out areas like "apartheid administered" education and defence as examples where this would be possible.

The SA economy was in "full decline", he said, with GDP falling at about 2% a year in the last few years. Unemployment was running at 40% while 7-million blacks were without shelter.

The ANC believed that the solution to the problems of poverty and inequality lay in a redistribution of resources, revenues and power, and the restructuring of the economy.

Sisulu dismissed the notion that the informal sector could serve as a springboard for economic development, calling it a "survival economy" which contributed little to GDP.

Asked whether the SA financial markets should be restructured, Sisulu answered: "Absolutely. A reform of the financial markets is necessary so that investment goes into economic development, not speculation as is the case now."

Similarly, foreign investments — which had done nothing more than reinforce apartheid — should be regulated, he said.

While foreign investment was important, it was "insufficient" to relaunch the economy.

Budget overrun may thwart hopes of lower interest rate

Bloday 3/7/91 LINDA ENSOR (49)

CAPE TOWN — A reduction in short-term interest rates is unlikely to occur much, if at all, before the year-end because it is possible that the budget deficit target may be overrun significantly, Board of Executors (BoE) senior portfolio manager Rob Lee says in the latest Investment Outlook.

He says state revenue and expenditure patterns seem to indicate the possibility of such an overrun.

"A marked deterioration of the fiscal discipline imposed in recent budgets would have serious implications for the long term inflation outlook. Concern on this score will reinforce the Reserve Bank's determination to hold interest rate at current levels until progress is made in reducing inflation and money supply growth."

Reserve Bank governor Chris Stals also discouraged hopes of a rate cut before early 1992, reports AP-DJ.

Stals told Bloemfontein businessmen yesterday that "attempts to boost the internal demand for money artificially would hamper the progress that has been made already towards greater financial stability".

Government spending rose 20,6% in the first three months of the fiscal year over the same period in the previous year, while revenue was only up 0,6%. Lee says it is clear the budget deficit will exceed the targeted figure of 3,4% of GDP and could reach 4,5%.

Key areas of the South African economy have shown recent indications of weakening. However, the recovery should start towards the end of the year, with 1992 and 1993 being years of relatively rapid growth.

Lee says the US economic recession has come to an end and a recovery in economic activity is under way.

In Southern Life's Economic Comment for the third quarter, chief economist Mike Daly says that real consumer spending for the first quarter remained quite strong and that "the consumer may yet emerge from the recession relatively unscathed".

Special accounts will get 'only R42,6m' this year, says Du Plessis

B Day 31/7/91. (49)

GRETA STEYN

ONLY R42,6m would be spent on special secret projects in the current fiscal year, Finance Minister Barend du Plessis disclosed yesterday.

He told journalists these were projects of an ad hoc nature that did not form part of "normal" recurrent secret spending. Of the R380m budgeted for the secret services account, only R15,7m was being used for special projects — and not the full amount as had been assumed in recent reports.

The bulk of the budgeted amount would finance the National Intelligence Service's (NIS's) normal spending. A further R26,9m from the special defence account would also be used for special projects. The total amount being spent in the current fiscal year was "not unreasonable", he said.

He said criticism of the 16% increase in the secret services account to R380m was unwarranted. A large portion of the R380m was for a building for NIS, while the exchange rate had made overseas operations more expensive. NIS salary increases also had to be financed from this account.

"The real increase of about 2% cannot be regarded as unjustified or excessive."

Du Plessis would act as the President's "eyes and ears" on secret projects requiring Finance Department funding, he said.

While he did not have the power to "veto" his colleagues, he had recently been given the power to approach President F W de Klerk if he questioned the desirability of a secret project for which his department had to provide finance.

Asked why he had not reported the Inkatha funding to De Klerk, he replied that there had been a lack of detail in the application of anti-sanctions operations. More detail would be required in future.

The SA government had six secret funds, Du Plessis said. The six funds were the secret services account, the special defence account, the information services account, the foreign affairs special account, the SA police's secret spending and the NIS. Of these only the secret services account and the special defence account featured on the Budget, with amounts of R380m and R4,17bn respectively.

The secret services account, administered by the Finance Department, provided funds for four other accounts.

He emphasised that government's accounting would distinguish clearly between special covert projects and normal secret spending encountered all over the world. He said the definitions used to distinguish might be questioned, but "asked for patience" in this regard.

"The Auditor-General has given us a certificate to confirm the correctness of this structure."

The Auditor-General would scrutinise the accounts again at the end of the year to ensure that the strict definitions of the two forms of spending were followed. Deviations would be made public immediately.

He added the Finance Minister now had to disclose any irregularity to Parliament, even if it meant keeping details secret in the national interest. In the past, it could be argued the national interest required the irregularity to be kept under wraps.

● Picture: Page 3

Weak economy saps dollar's strength

B|Day 31/7/91 (49)

SHARON WOOD

WORLD economic tides are slowly shifting against the dollar, threatening to wash away any hopes of a major revival in the currency.

Dampened enthusiasm about the much-publicised US economic recovery combined with the likelihood of an interest rate hike in Germany could work against the dollar in the short-term.

US indicators released last week showed lacklustre economic growth, and fears have emerged that the US economy might move into recession again — forming what analysts call a "double-dip" or a "W-shaped" recovery.

Union Bank of Switzerland expects a seesaw US economy for the time being, rather than a steady uptrend in economic growth.

The dollar has lost momentum over the last few months and some analysts expect it to undergo a substantial retreat, perhaps to DM1,60.

The more pessimistic outlook for the US economy tempered the already subdued enthusiasm for the dollar in forex markets and there was little movement in the US currency against the other major international currencies.

The dollar gained 0,1% against the yen during the week but lost 0,9% against the Deutschmark and 0,2% against sterling.

The release of worse-than-expected inflation figures for Germany has heightened expectations of an increase in interest rates when the authorities come back from their summer break.

Bundesbank president designate Helmut Schlesinger expressed his concern about the inflation rate, which at 4,5% is the highest Germany has experienced since 1982.

An interest rate rise would work in favour of the Deutschmark, particularly since the economy is still steaming ahead despite the heavy burden of paying for Germany's reunification.

Economic conditions are not as bad in eastern Germany as expected, according to analysts. Industrial output is improving and jobless figures are not as bad as predicted, probably because workers in the region are commuting to the west.

FNB analysts say the bearish tone of the dollar against the Deutschmark is becoming stronger and they forecast a range of DM1,6725-1,6940 to the dollar during the week.

On the bright side of international forex markets, the British economy showed signs of recovery. This bodes well for sterling's value against the dollar, but it may not fare as well against the Deutschmark if a German interest rate hike materialises.

Japanese markets were dominated by uncertainty over developments in the stock exchange scandal which resulted in a slightly weaker yen against the dollar this week.

FNB analysts expect the yen to range between 137,08-139,00 yen during the week.

Events on the domestic front are far from rosy.

The financial rand took the brunt of plunging investor confidence in SA in the wake of the Inkatha funding scandal, losing about 15c during the week.

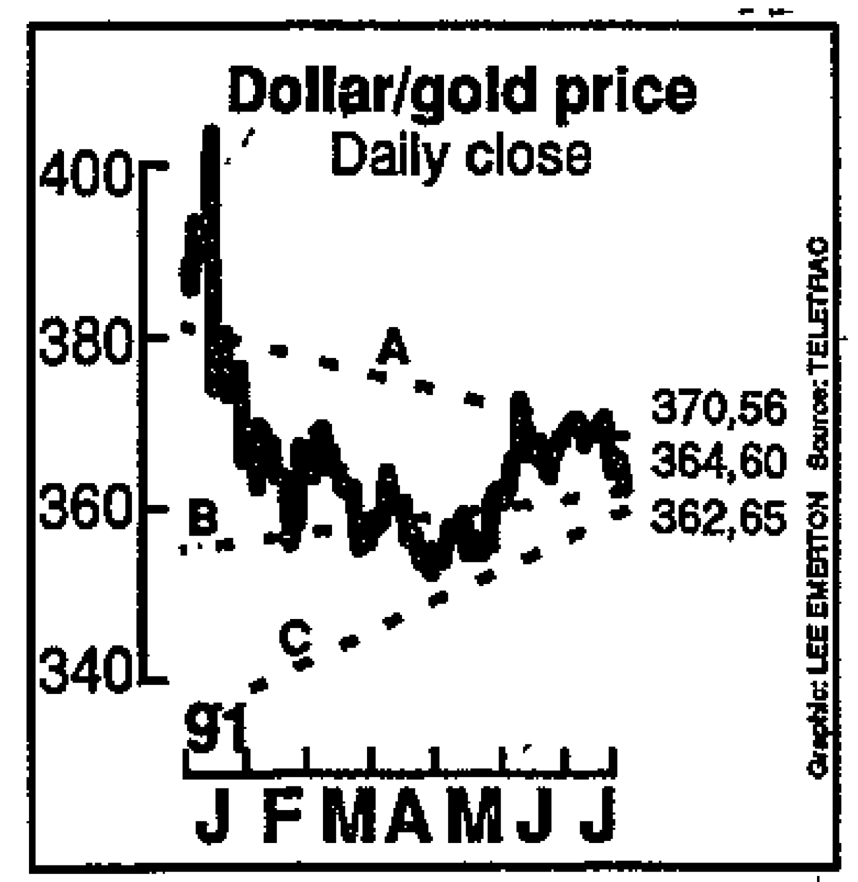
The precious metals market took a beating, with the prices of gold, platinum and silver falling to low levels.

Expectations of a mild upward trend in the gold price were disappointed as gold fell to $363,70 on Monday.

A summer lull prevails on the gold market after the price failed to push through the strong $372 resistance level, says Union Bank.

Gold breached its support level of $364,60 (B), shown on the graph, and is now moving towards a lower support level at $362,65 (C).

FNB analysts say gold is now likely to test even lower levels, perhaps falling as low as $354,80.



REVIEW

Recognise your debts, envoy says

B/Day 31/7/91

CAPE TOWN — US ambassador to SA William Swing has called on privileged South Africans to recognise that they owe a debt to society.

Writing in the Syfrets investor newsletter Money Matters, he underlines responsibilities he believes individuals and the corporate sector should accept.

These are: to contribute to the macro-economic debate, to look beyond the "bottom line" through social responsibility programmes, and to help "level the playing field" through commitment to "affirmative" action.

He said the end of apartheid did not guarantee the beginning of democracy or an economy based on sound economic policies.

The catastrophic socialist experiments of Eastern Europe and Africa did not necessarily preclude a future SA government from adopting statist approaches to the economy.

Unless a market-based system could produce economic growth and equity, pressure would increase for excessive levels of government intervention to meet black expectations of improved living standards.

Many blacks associated capitalism with the injustices of an apartheid-based economy.

SA's vast economic imbalances would not be met by simple redistribution of existing wealth or tinkering with national fiscal policies, but through sustained economic growth and re-ordering national priorities.

Change needed to be felt in the boardroom and on the shop floor. — Reuter.

Economic upswing already underway — FNB

(49) CT 1/8/91

JOHANNESBURG. — The SA economy appears to have bottomed out in the first half of 1991, preparing the way for a new upswing which may already be underway, First National Bank economist Cees Bruggemans said.

He predicted real GDP growth this year of 0-0,5% and 2,5% in 1992, after the economy shrank by 0,9% last year.

"Preliminary indications for the second quarter of 1991 do suggest a cyclical turn to be underway, with GDP possibly already increasing after six consecutive quarters of decline," he said in an economic review.

Certainly, there are now more and more industrial companies suggesting a bottoming to be underway in their businesses, but still only a small minority are actually reporting renewed growth of order books.

He told a news conference that prime rate, currently set by major banks at 20%, could fall by one percentage point by the end of the year and fall to 17% in the second half 1992.

"The recessionary conditions in large parts of the private sector; the rising level of foreign reserves; the controlled credit lending behaviour; and the encouraging outlook for subdued private sector wage settlements next year, together present a picture which should allow the Reserve Bank to find the scope to lower interest rates further over the next 18 months without jeopardising its longer-term external and internal objectives," he said.

The Bank's index of leading indicators reached a low point last December and has since been moving higher, he said.

These changes have been preceeded and accompanied by a fairly vigorous upturn in final demand, or personal and government consumption spending, plus fixed investment.

While fixed investment has been falling steadily for some time, mainly due to cutbacks by government, personal consumer spending increased steadily right until March, while government consumption spending increased even more rapidly.

Rising demand, in the face of still falling supply, can only be met out of inventory, he said, adding this was certainly the case last year.

He said the turnaround may come as a surprise at a time of widespread anguish in large parts of the economy, especially in the private sector.

However, he said, business cycles do not always turn just because entrepreneurs are becoming confident to invest more or because consumers feel ready and able to spend more.

Lombard: SA has 5% growth potential

CT 1/8/91

From LESLEY LAMBERT

JOHANNESBURG. — The post-apartheid South African economy had the potential to grow at a sustained rate of 5% a year, former Reserve Bank senior deputy governor and Pretoria University professor Jan Lombard said yesterday.

But this would require a renewal of capital inflows, rapid implementation of the micro-economic reforms recommended by the late Wim de Villiers and an improvement of international terms of trade, he told the Midrand Chamber of Commerce yesterday.

The rate of new capital would automatically double up once capital started flowing back into the country and the sustainable rate of output growth would increase to about 2,5% even if productivity did not improve, Lombard said.

If the process of micro-economic reform was quick, subsequent improvements in productivity could push the rate of sustainable growth up to at least 4% a year. This, coupled with an improvement in SA's international terms of trade, could boost it to a sustainable 5%, he said.

But this growth would be meaningless if it did not accompany income distribution and job creation.

The major challenges which the economic reforms would have to address were mass employment and competitiveness in foreign export markets.

● BRENT VON MELVILLE reports that Sacob director general Raymond Parsons said yesterday business could expect an economic upturn within the next six months.

Speaking at the opening of the Sandton Business Exhibition yesterday, Parsons suggested that positive factors were now outstripping negative factors.

He stressed that SA should not expect more than 1% growth next year.

He said if SA wanted sustained, broadly based economic recovery it was essential to have political stability.

Economy finally showing signs of picking up

By Sven Lünsche Star 7/8/91 (49)

The upswing in the economy may already be under way, says First National Bank (FNB) economist Dr Cees Bruggemans.

"Preliminary indications for the second quarter of this year suggest a cyclical turn to be under way, with GDP possibly already increasing after six consecutive quarters of decline," Dr Bruggemans said at the presentation of FNB's Economic Review.

He said the economic upswing had been preceded and accompanied by a fairly vigorous upturn in final demand, represented by personal and government consumption spending plus fixed investment.

Of the components of final demand Dr Bruggemans said personal consumer expenditure had increased steadily until March, while Government consumption expenditure had increased even more rapidly.

He added that while consumer demand for credit had stabilised, government spending had shown a marked increase.

"Government spending appears to be one of the single most important forces behind the upturn in final demand over the past year."

He added, however, that weak retailing conditions and the switch from GST to VAT might continue to confuse perceptions for quite a while, "but should not in the end deflect much from the underlying cyclical turning that seems to be under way".

Financially, Dr Bruggemans said, conditions appeared to be steadily improving, in line with monetary objectives.

"Despite still hefty foreign debt payments, the foreign reserves are rising steadily and this should continue for the remainder of the year."

Furthermore, both money supply and producer price inflation growth rates were beginning to slow down.

While CPI numbers were still high, "August and September have the potential for lower year-on-year increases".

"Furthermore, economic recovery should, in the course of next year, ease the rate of unit cost increases, in turn lessening upward inflationary pressures which can be characteristic of recessionary conditions.

"These developments should make it possible for the inflation rate to drop by up to one percent a quarter in the course of next year," Dr Bruggemans said.

Growth of 10% possible

By Des Parker 49 Star 1/8/91

DURBAN — The economy can grow at 10 percent a year once there is a political settlement, says Anglo American gold and uranium division chairman and chief executive Clem Sunter.

He said at the Association of Black Accountants of Southern Africa annual dinner in Durban this week that the country was richly endowed with resources and "natural entrepreneurial talent".

However, the political situation, with its attendant problems, such as violence and the breakdown of community life — as well the tendency to put politicians at the centre stage of national life — undermined the country's potential.

"Politicians in the winning nations are nothing more than facilitators, referees. They are not there to command and direct because that drives people into their shells and destroys their creativity".

Sunter puts SA growth rate at 10 percent

(49)

ARG 1/8/91

DES PARKER

DURBAN. — South Africa's economy can grow at 10 percent a year once there is a political settlement, says Anglo American gold and uranium division chairman and chief executive Mr Clem Sunter.

Mr Sunter made his name in the late-eighties as the future scenario guru with the business giant, though nowdays he is quoted more often expounding on the fortunes of gold-mining.

Back on his crystal ball-gazing hobbyhorse, he said at the Association of Black Accountants of Southern Africa annual dinner in Durban the country was richly endowed with resources and "natural entrepreneurial talent".

However the political situation, with its attendant problems, such as violence and the breakdown of community life — as well as the tendency to put politicians on the centre stage of national life, undermined the country's potential.

Mr Sunter criticised the news media for concentrating "upward of 90 percent" of its energy on the sayings and doings of politicians.

"In the richest nations in the world, such as Switzerland, the people don't even know who the State president is; they just get on with making watches and skiing.

"Italian politics are a fiasco, but it makes no difference to the winning nature of their economy. Politicians in the winning nations are nothing more than facilitators and referees. They are not there to command and direct because that drives people into their shells and destroys their creativity."

Lombard maps a path to 5% growth

B Day 1/8/91

(49)

LESLEY LAMBERT

THE post-apartheid South African economy had the potential to grow at a sustained rate of 5% a year, former Reserve Bank senior deputy governor and Pretoria University prof Jan Lombard said yesterday.

But this would require a renewal of capital inflows, rapid implementation of the micro-economic reforms recommended by the late Wim de Villiers and an improvement of international terms of trade, he told the Midrand Chamber of Commerce yesterday.

The rate of new capital would automatically double up once capital started flowing back into the country and the sustainable rate of output growth would increase to about 2,5% even if productivity did not improve, Lombard said.

If the process of micro-economic reform was quick, subsequent improvements in productivity could push the rate of sustainable growth up to at least 4% a year. This, coupled with an improvement in SA's international terms of trade, could boost it to a sustainable 5%, he said.

But this growth would be meaningless if it did not accompany income distribution and job creation.

The major challenges which the economic reforms would have to address were mass employment and competitiveness in foreign export markets.

"Important relative costs and prices in the South African economy have become badly distorted over the past two decades, profitability differentials for investment are badly out of line, too much capital intensive investment has been made over the past decades and too much has been spent on uneconomic public expenditure programmes," Lombard said.

Government intervention had made some businesses too cheap and others too expensive compared with what a more open market economy would have dictated, while tax concessions had destroyed the neutrality of company taxation, he said.

Structural deficiencies in the economy were reflected in the persistently high rate of inflation, he said.

A vital "kick start" to the economy would come from developmental institutions and new export-orientated projects, he said.

BRENT VON MELVILLE reports that Sacob director-general Raymond Parsons said yesterday business could expect an economic upturn within the next six months.

Speaking at the opening of the Sandton Business Exhibition yesterday, Parsons suggested that positive factors were now outstripping negative factors.

Stability

He stressed that SA should not expect more than 1% growth next year.

He said if SA wanted sustained, broadly based economic recovery, it was essential to have political stability. "In this context the political controversy surrounding 'Inkathagate' could have done major damage to SA's economic prospects had it not been dealt with expeditiously."

He said the exclusion of capital goods from VAT on September 30 would be a positive factor for fixed investment spending.

Parsons said that as inventories had reached a low level — having declined by R3bn last year and a further R537m in the first quarter of 1991 — any upturn in demand would result in improved output, rather than a further depletion of stocks.

Govt spending 'caused economic turnaround'

B/p ay 1/8/91 (49)

SHARON WOOD

THE economy "turned decisively" in the middle of this year as a result of buoyant government spending, First National Bank economist Cees Bruggemans has said.

At a presentation of the bank's quarterly Economic Review yesterday, Bruggemans said it was now "confirmed that the economy bottomed out in the first half of the year, with a turning point in June or July, and the upturn has commenced".

The turnaround had been caused by "remarkably robust" final demand, stimulated specifically by government spending, and the power of the stock cycle.

Graphic: FIONA KRISCH Source: FNB

"Government spending appears to be one of the single most important forces behind the upturn in final demand over the past year," he said.

The other two components of final demand, private consumption expenditure and fixed investment, would probably improve slightly during the second quarter.

After plunging last year, the level of inventories had apparently started to turn in the first quarter and thus the "stock cycle was no longer a depressant but a stimulant to the system", he said.

The extent to which government was stimulating the system was shown by the low government balance at the Reserve Bank, which in June had almost halved compared with early 1989.

This indicated "government was pumping money into the financial system at quite a rate".

Government spending levels since 1980 showed "government is never subject to recession but always subject to boom," he said.

Bruggemans warned that falling retail sales and the slight distortion VAT could cause in short- and long-term private investment spending could "continue to confuse perceptions".

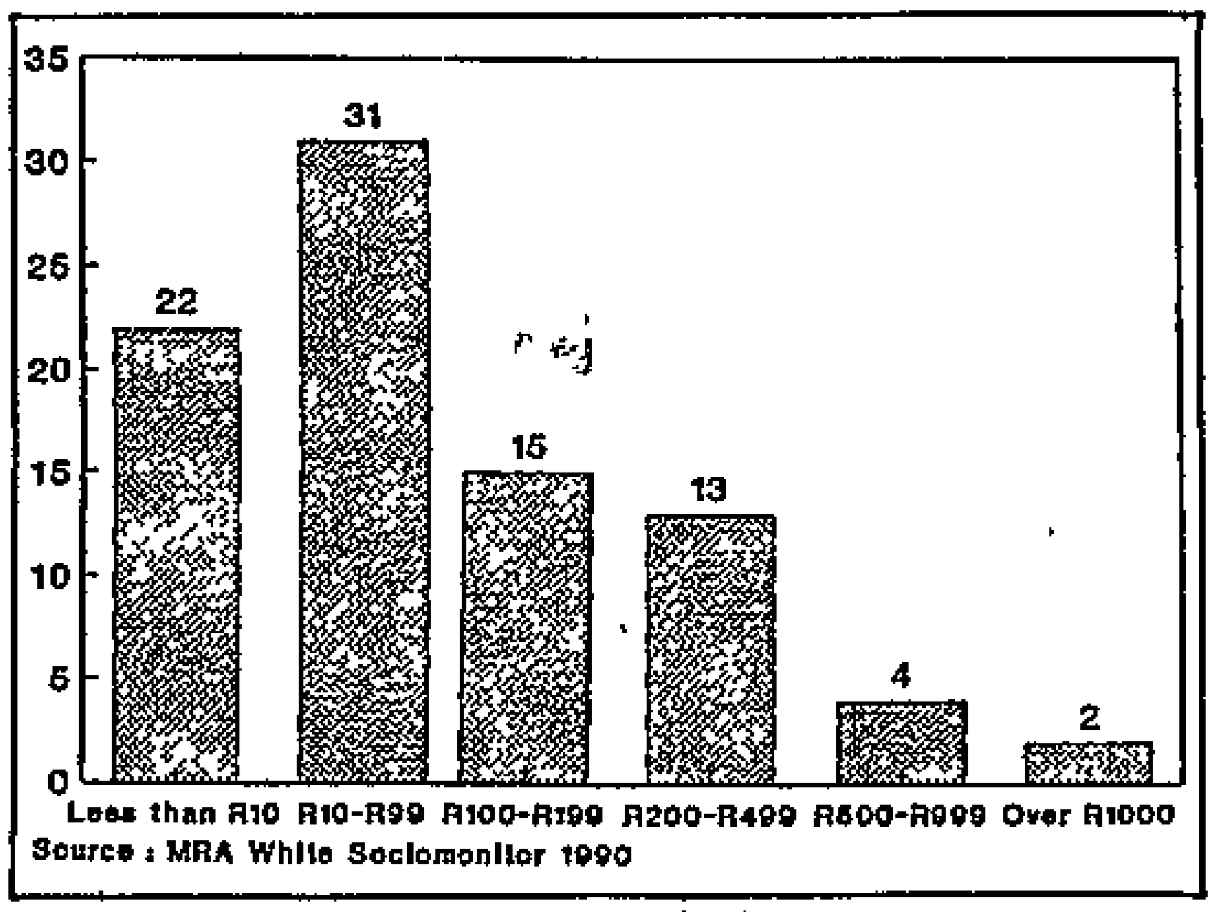
But these "should not in the end deflect much from the underlying cyclical turning that seems to be under way".

BUSINESS

SA's whites are grasping at straws

W/Mail 2/8- 8/8/91. 49

A recent research report argues that redistribution of wealth is impossible because whites in general aren't that wealthy anyway. Unfortunately for whites, reports **REG RUMNEY**, it just isn't that simple



For what it's worth ... The net worth of most urban white adults in South Africa (measured in thousands of rands) ranges between R10 000 and R99 000. Only two percent of whites are true millionaires — with a net worth (assets less what they owe) of more than R1-million

IT'S clear from the alacrity a survey of white wealth was latched on to last week that whites are touchy about their possessions. Many will have found it comforting that we are so poor there isn't enough of our money to go round if it is redistributed.

And many will have warmed to Market Research Africa (MRA) managing director Clive Corder's theme that materialistic whites in many cases don't own the cars they drive, the houses they live in and the boats they sail. Their goods are actually owned by the institutions, and the overt display of wealth hides the reality that whites are generally not well off, he concludes.

What's wrong with this thesis? Plenty.

Surveys extrapolate from a sample, so are arguably not as certain as census results. But let's take it at face value: the MRA 1990 Sociomonitor survey found that only six percent of the white population, excluding the farming and rural community, have a net worth of more than R500 000 Fewer than two percent (1,7 percent) are rand millionaires.

One in every five urban white adults has a net worth of less than R10 000, the survey found, and more than half the white population have net assets under R100 000. Around 13 percent of those asked refused to answer.

Expressed another way, the survey found that 34 percent of those polled have assets of R100 000 or more This is hardly poverty. More importantly, poverty and wealth are relative. Relative wealth within a country is most important to that country's citizens.

So if the MRA's survey was attempting to show how rich (or poor) whites are, it should have taken a sample of urban blacks as well.

Moreover, the survey asked respondents to state their net asset value — the value of assets minus the amount owed. The way respondents answered this was not questioned. So if a respondent took the historical cost of his house, and subtracted the amount outstanding on his bond, he would come up with a markedly different answer than if he had taken the much higher market value.

University of the Western Cape economist Pieter le Roux reckons the market value of homes in white areas is on average around double the original bond. He also notes that when cars are not owned, for instance, this is commonly done for tax reasons. Moreover, one needs an income flow to qualify for credit.

Le Roux points out one course of redistributive action, advocated for agriculture, is to call in the loans to inefficient farmers and give them to efficient farmers. This too is a form of redistribution. Similarly, if a government was serious about simply redistributing wealth it could nationalise the banks and reallocate the debt.

The consequences might be disastrous, of course, as the international community once again isolated South Africa (for different reasons this time). And this is probably why no organisation is seriously advocating dispossessing whites.

Economist Peter Moll, writing in *The Weekly Mail* last year, did a few sums in simple redistribution and found that the extremely poor would benefit from a one-off injection of cash through straight redistribution of wealth — but the economy would suffer in the long term.

This brings us to the real problem — the inequalities of income, not wealth, and the problem of restructuring the economy to benefit those who are worst off.

One of the measures of inequality is the "Gini coefficient". A Gini of zero equals complete equality, a Gini of one complete inequality. South Africa's Gini was 0,57 in 1980, as measured by Stephen Devereux, in line with other less-developed countries, but was worse than developed countries, which ranged from 0,3 to 0,4.

But take into account the huge (and difficult to measure accurately) problem of structural unemployment in South Africa, and you get an even gloomier perspective on poverty and wealth. Mark Addleson of the University of Witwatersrand Business School has stressed that probably half the population lives in subsistence conditions in rural areas

According to Devereux's seminal research the poorest 40 percent of all South Africa's breadwinners earned a mere 3,9 percent of personal income Moll says in his book *The Great Economic Debate* that by 1976 this had risen to 6,6 percent, and by 1980, 7,6 percent. Extrapolating on the basis of available wage figures gives a figure of about nine percent for 1990 — the 1991 census will bring more certainty. This puts us in the company of Peru, Brazil and Mexico.

All this doesn't mean that nationalisation is the outright and obvious course. Various forces will come into play in the new South Africa, particularly the differing interests of the urban and the rural population. The MRA survey does underline — for anyone foolish enough to have thought otherwise — that redistribution, or restructuring the economy for that matter, is not a simple task.

But the existence of inequalities does mean there will be political pressure on any new democratic government to make at least some gesture towards redistribution. What form this will take is still being debated, but whites should not try to insulate themselves with such flimsy interpretation of statistics.

Few firms willing to take the 'high road' to survival

W/mail 2/8- 8/8/91.

By GAVIN EVANS

SEVENTY percent of South African companies are pessimistic about the future and have chosen the "low road" path to survival — corporate takeovers rather than capital expenditure plans, extreme caution regarding social responsibility programmes and a fear of innovation generally.

This is the conclusion reached from a research study involving detailed interviews with more than 60 of South Africa's leading businessmen from 24 industrial sectors conducted earlier this year by New Products Laboratory.

NPL director Tony van der Schyf said the survey was originally not intended for publication and was conducted to obtain the views of top companies on anticipated trading conditions in the short term.

"But the results were so startling and disappointing — showing, in short, that South Africa's businessmen have a bad attitude — that we decided to release the results."

The 30 percent of company chief executives adopting the "high road" approach were primarily from private or unlisted public companies — meaning that they were less vulnerable to the whims of large numbers of nervous shareholders.

"Among most of the businessmen interviewd there's a focus, for example, on insurance and pension funds, acquistitions and mergers, a scepticism about the role of unions, a marked reluctance to introduce innovative management strategies, and a strong sense of digging in and hoping for an upturn in the economy.

"Part of it is the recession and the uncertain political climate, but there's a more general resistance to change which is extremely worrying. One gets a real sense that South Africa's businessmen have lived of the fat of the land too long, and will not be in a position to compete globally. There will have to be major attitude changes if they want to survive."

The survey states 70 percent of interviewees were pessimistic on the country's short-term prospects, and 25 percent remained negative about conditions beyond 1992.

There was unanimous agreement that real future growth would would have to come from increased market share, new products and new markets, and an acceptance of the need for innovation — though a concern that not enough was being done in these respects.

Picture: RICHARD BELL ... home in the ... raped by two men.

(49) CT 2/8/91

US aid offer

From SIMON BARBER

WASHINGTON. — A team of congressional staff members is heading for South Africa this weekend to brief the ANC on a huge Marshall Plan type of aid programme designed to form the foundation of US policy towards South Africa for the next decade.

The plan, known as the SA Democracy Aid Initiative, is outlined in a letter US Congressman Stephen Solarz is preparing to send to President George Bush once he has finished collecting signatures from a broad bipartisan coalition.

It calls for the US, the Europeans and Japan to commit themselves to a kind of Marshall Plan for South Africa involving "development assistance, as well as trade benefits and investment incentives" as soon a new government is elected.

The "multi-billion-dollar" package would also be made conditional on the new government adopting policies "characterised by commitments to economic liberalisation and growth of the private sector".

In the interim the US would take the lead in establishing an SA Development Bank that would "serve as a credible vehicle" through which the industrialised democracies would provide "direct assistance in achieving a stable transition to a fair and prosperous economy".

Also in the near-term the US would expand its existing aid programme, which concentrates on education, to help meet black housing shortages.

The letter notes that the House Foreign Affairs Committee has already asked the Agency for International Development to "allocate substantial funding" over the next two years to "the development, construction and financing of low-cost housing" through non-governmental trusts.

Mr Solarz worked with the Reagan administration to formulate a similar initiative for the Philippines after the overthrow of President Ferdinand Marcos.

□ **Varsities hail US move on funding**

See PAGE 4

Transmission of the proposal is being hampered by the ANC, even though Mr Solarz says it has been greeted with enthusiasm by individual movement leaders, including the president, Mr Nelson Mandela, and Mr Thabo Mbeki and Mr Chris Hani.

With some passion, Mr Solarz told ANC US representative Ms Lindiwe Mabuza on Wednesday that "never in my 17 years in Congress" had he been confronted by a political movement that did not jump at the prospect of obtaining billions of dollars for its country.

Ms Mabuza protested that the ANC needed more time to "deliberate", even though, as Mr Solarz pointed out, she and the ANC leadership had known of the plan since at least April, when Mr Solarz broached it at the Aspen Institute conference in Cape Town.

As she ended her discussion with the congressman, widely regarded as the Democratic Party's most influential spokesman on foreign policy, she commented bitterly: "That man is really getting on my nerves."

ANTHONY JOHNSON reports that the ANC had no immediate response yesterday to charges that the organisation was dragging its heels in responding to the package proposal.

Mr Solarz said during an Africa subcommittee hearing of the House of Representatives this week that the ANC had been sent a letter outlining the plan over the month ago — but had failed to respond.

"What is so difficult about saying 'yes' to billions of dollars in aid — especially if it will be channelled to a post-apartheid government?" the Michigan congressman is reported to have said.

The ANC's director of information, Dr Pallo Jordan, said yesterday that the proposal "would have gone through our international department. We are checking with Washington DC".

A spokesman for the Department of Foreign Affairs in Pretoria said he could not comment on the proposal to as only the Minister, Mr Pik Botha, was authorised to comment on sanctions-related issues. Mr Botha will be back at the office only on Monday and could not be reached yesterday.

● Possible US development aid and investment in South Africa could be compromised as a result of the recent disclosures about secret government funding, the Democratic Party MP for Houghton, Mr Tony Leon, said yesterday.

Mr Leon, who recently returned from a visit to the US, said he had been unprepared for the enormous esteem in the highest circles, such as senators and congressmen, which Mr F W de Klerk had enjoyed in the US.

Ramaphosa: businessmen must stay

Star 2/8/91

49

By Kaizer Nyatsumba
Political Staff

The ANC's economic policy, to be finalised within the next six months, will be "fair and just" and the business community will be happy with it, according to ANC general-secretary Cyril Ramaphosa.

Addressing the South Africa-Britain Trade Association in Johannesburg yesterday, Mr Ramaphosa said the ANC did not want local and international businessmen to pull out of the country at a time when they were most needed, and the organisation would keep this in mind.

He said economic success in the country could be attained if companies committed themselves to the future.

Companies which were now planning to pull out of the country were guilty of "economic treachery".

These companies were leaving at a time when they should be applying pressure on Pretoria to change.

Mr Ramaphosa said this view did not contradict his organisation's calls for the maintenance of sanctions.

The ANC, he said, while it called for the maintenance of sanctions to put pressure on Pretoria, also realised that those foreign companies already operating in the country could play an important role in getting the Government to change.

Mr Ramaphosa said the ANC looked forward to the time when South Africa's present trading partners, of which Britain was the second biggest, would invest in a democratic South Africa.

There would be an investment code which would make it easy for foreign companies to invest here.

He said South Africa's economic future was "clearly intertwined" with that of southern Africa and that an ANC government would play an important role in the region.

Mr Ramaphosa also called on the international community to maintain sanctions and reimpose those which had already been lifted.

Sanctions, he said, should be used to get the Government to agree to an interim government and a constituent assembly.

Ramaphosa courts business

49

DARIUS SANAI

BUSINESSMEN need not pack their bags and leave SA in fear of future ANC policies, the organisation's secretary general Cyril Ramaphosa told the SA Britain Trade Association (Sabrita) yesterday.

In one of the most conciliatory speeches on economic policy delivered by an ANC leader, Ramaphosa said that economic success in SA depended on the commitment of the business community.

He said the ANC's economic philosophy would be finalised before the end of the year and the business community would be pleased with the results.

Ramaphosa ruled out blanket nationalisation and punitive measures against big business as a means to redistribute wealth.

But he added that some nationalisation of private companies was inevitable as the ANC "would still need to respond to the needs of the people to restore peace and harmony in SA".

He said that the ANC's economic policy would be the "fairest, the most just and the most equitable" system available to SA, geared to continue the economy's position as the most succesful in the region.

The ANC and its allies had learnt from the mistakes of eastern Europe, the Soviet Union and other African countries, and the resulting economic framework would be unique to SA, he said.

He criticised the "economic treachery" of Anglo American and other companies which were exporting capital, saying the SA economy needed all its assets if it were to succeed.

2/8/91 Bus Day

FM 2/8/91 (49)


Eskinazi


Lombard

ECONOMIC OUTLOOK (49)

FM 2/8/91

Cap to growth

The major challenges facing post-apartheid SA will be to provide employment for a growing number of economically active people and to compete on world markets with value-added products. At present, we cannot meet either objective. Though sanctions are falling away, industry is hampered by structural weaknesses that were described by former Reserve Bank Senior Deputy Governor Jan Lombard to the Midrand Chamber of Commerce this week.

"Important relative costs and prices have become distorted over the past two decades; too much of our resources has been spent on uneconomic public expenditure programmes that produced little or no sustained employment and income opportunities."

He argues that policy interventions made many kinds of businesses too cheap and many others too expensive "compared with what a more open market economy, able to face open international participation, would have dictated. The neutrality of company taxation on enterprise has been shattered by too many particular tax concessions."

He suggests cost-push inflation has its roots in the conditions of pricing and wage determination in the product and factor markets and the effect of taxation on these.

Lombard identifies two important underlying weaknesses. One is that a corporate tax rate of 48% is out of line with SA's trading partners. Says Ernst & Young's Ray Eskinazi: "The corporate rate is 33% in the UK, 34% in the US, 35% in the Netherlands, 37,5% in Japan and 34% in France."

The other is that business planning has been bedevilled by the uncertainty that flowed from a series of ad hoc changes to the tax structure and tax practices. Loss of confidence, because of chronic political unrest, was exacerbated by a lack of certainty regarding industrial policy. This inhibited new investment, thereby reducing efficiency and increasing costs. Simultaneously, of course, it constrained job creation.

Says Nedbank economist Kevin Lings: "A decision to undertake new investment is based on the relationship between expected future return and the cost of capital funds. If investors perceive an unacceptable risk factor, investment will be subdued."

One of the many damaging results of this sequence was a "disappointing performance" by manufacturing, on which growth essentially depends. Employment in manufacturing, up 5,2% a year in the Sixties, rose at annual rates of only 2,5% in the Seventies and a negligible 0,2% in the Eighties.

Remedial action, says Lombard, was first taken only towards mid-1984, when SA was faced with a balance of payments crisis. Corrective measures coincided with the start of a capital outflow which Lombard says totalled R30bn over six years. This policy brought temporary relief to the foreign exchange reserves but suspended the chances of domestic industrial growth and deflected attention "from the need to attend to the serious decline in the cost-effectiveness and productivity of the engine of production."

Lombard suggests that, when the drain on domestic savings through the capital account of the balance of payments is stemmed, there will be "macro-economic scope for expansion." Real resources will double the rate of new capital formation and the rate of sustainable growth in output should rise to something like 2,5% a year.

However, he says, if micro-economic reforms are speedily carried out, the improved productivity of investment should push sustainable growth to at least 4%. ■

Still some shudders

FM 2-18/9/91

(49)

SOUTH AFRICA'S ECONOMIC CRISIS *edited by Stephen Gelb (David Philip, 266pp, R35,95).*

This book comes from the Economic Trends Research Group, which consists of economists, economic historians and social scientists who claim to be progressive in outlook — a claim which is not unfounded in the case of most of them. Set up in 1987 with eight members, the group had grown to 21 by late 1990. Eleven of these contribute to the volume under review, which was written to help the Congress of SA Trade Unions (Cosatu) assess the overall effect of sanctions.

Sanctions do not form a major theme of the book and are seen by the contributors as having played a relatively unimportant role in SA's economic crisis. The financial blockade set in motion by the IMF in 1983 has hit our economy harder than embargoes on the movement of goods. Only Chapter Six, which deals with coal mining, treats sanctions fairly comprehensively and ranks them only third among factors making for the decline of the industry. We can of course only guess what obstacle, if any, they may still place in the way of economic recovery.

Like most symposiums, this is a good book to open in the middle. You may be one of those bad citizens who insist on beginning books at the beginning. If so, do not allow the Marxist noises made by the editor in the opening chapter to deter you from reading on.

Stephen Gelb, perhaps because he knows what Cosatu would be prepared to swallow, does not demand that capitalism should be abolished outright, flawed as it is, but that an enlightened government — and only governments which have not yet taken office can be counted on to be enlightened — should intervene to make it work better.

As to the contention of Gelb that apartheid has not been the essential cause of economic decline, this is not easy to reconcile with contribution number four. Here it is shown that both the IMF and private bankers first turned against further lending to SA because the political insecurity arising from apartheid made it a bad economic risk. Like contribution number three, which deals with the balance of payments, number four combines criticism with empirical objectivity.

Chapters Seven and Eight are concerned with manufacturing and present sobering pictures of the difficulties of getting an export-led recovery under way. Success must depend on following the example of Asian countries — Taiwan, South Korea and Singapore — where government has played a major role in assisting with finance and R&D. Yet, even with the right kind of government help, success cannot be guaranteed because of the likely rise of protectionism in the West.

Chapter Eight recounts the sad tale of how the machine-tool industry, after growing dramatically until the early Seventies, declined in the face of competition from Asian countries; the reasons for this are explained. There follows the rather less sombre story of the telecommunications equipment industry, in whose development the government was concerned.

These chapters do much to create the impression that government can with advantage offer incentives to particular industries and furnish certain services to industry, such as the provision of economic intelligence. Basic to all such intervention is the forswearing by government of all claim to know better how to manage an industrial enterprise from day to day than managers themselves. To offer service and to speak from the supposedly commanding heights of the economy are of course clear contraries.

Chapters 10 and 11 deal with the related problems of unemployment and decentralisation of industry. Decentralisation, it is claimed, has not been uniformly unsuccessful; moreover, to some extent government did not so much lead as reinforce a trend in this field — one which invites "... the development of urban and regional planning mechanisms which promote the benign while curbing the malignant effects of the market."

In the case of unemployment, the problem presented is of such magnitude that one feels grateful for the mere existence of bold spirits who are willing to offer solutions. For all that, I can't help shuddering at the confidence with which a policy of *Keynesianism-plus* is advocated.

I have left till the end of this review Chapter Three, "The State, Capital and Growth," which as it gathers momentum shows genuine ability to integrate political and economic analysis.

Once again I quote: "Government's commitment to a negotiated settlement and the restructuring of South African political life have laid the basis for a number of different paths of economic development and political stabilisation. At present the organisations of the dominant classes are responding to the changing needs of the game more rapidly and flexibly than those of the popular classes. The onus now rests heavily on organisations of the dominated classes, in particular the African National Congress, to respond flexibly to the new political conditions . . . the problem they face now is how to formulate an appropriate alternative social vision that is perceived to encompass the totality of South African society."

Radford Jordan

Rembrandt: R7,5 bn of SA assets

49

ARGT 3/8/91

TOM HOOD

Business Editor

THE Rembrandt empire disclosed this week that it has amassed R7,5 billion of solid assets in South Africa and built up goodwill worth R6 billion.

In addition, its 20 000 shareholders own shares whose market value has climbed to about R13 billion.

But Dr Anton Rupert, head of the Rembrandt empire, modestly conceded that the goodwill attributed to the Stellenbosch-based group was several hundred million rand above this figure.

That R6 billion-plus was not his own calculation — that's the valuation of the share market on a company which, after share splits over the past 40 years, saw its share price hit a record R25 this week.

Speaking at the annual meeting in Stellenbosch, he agreed that net asset value (NAV) after adjustment of property values is about R10,50 a share.

The shares are now trading at about 2,25 times the NAV so that, with 522 million issued shares, the goodwill factor is about R6,3 billion.

Dr Rupert was replying to questions from the chairman of the SA Shareholders' Association, Mr Issy Goldberg, who pointed out that the Rembrandt giant had R7,5 billion of assets in South Africa alone.

Net profit of the operating company, Rembrandt Group, was a staggering R865 million after tax for the year to March 31, equal to 165c a share.

The price-earnings ratio was about 14, which bore a very good relationship to some of the other blue chips, some of which were trading at 20 times earnings.

"This company is still good value," said Mr Goldberg.

With the latest dividend at 30c (25c last year), the dividend yield was a meagre 1,2 percent.

"Shareholders cannot grumble because the capital improvement over the years has made the small shareholder a rich man when he comes to sell," he said.

The relationship between the controlling company, Rembrandt Beherende, and Remgro was such that one Rembr Beh share was worth 65 percent of Remgro and it traded acordingly, Mr Goldberg said.

Dr Rupert in his annual report referred to "the delusion of greatness".

In the past year prominence had been given in the Press and in political debates to business concentrations, with the Rembrandt group referred to several times.

"Whenever success, based on innovation, quality and dedicated labour and supported by a business philosophy of shared prosperity leads to growth and progress, the entire community profits," he said.

For the record, Dr Rupert mentioned:

- With the exception of the original company "we would have virtually no share of more than 50 percent in any company".
- "We have never acquired any shares where we were not first appproached by other parties to do so. The main reasons why we have been appproached have been either to prevent unfriendly take-overs or to enable the management of a particular concern to do its planning over a longer period.
- "We normally, and on invitation only, nominate no more than two or three directors on other boards of directors.
- "We give advice only where it is appropriate and welcome.
- "We have about 20 000 direct shareholders among whom are insurance companies and pension funds which own large sections of our shares. This means the company actually belongs to millions of policyholders and pensioners."

Dr Rupert added: "As champions of small business — as has been proved by the more than R35 million the group has invested in the Small Business Development Corporation — we realise nevertheless that big business has a very important role in the economy. The secret of a successful economy lies in the right mixture of big and small.

ANC back huge aid plan

CT 5/8/91

Own Correspondent (49)

JOHANNESBURG. — The ANC has given the go-ahead to a multi-billion-dollar aid programme aimed at rebuilding a post-apartheid economy.

ANC spokeswoman Ms Gill Marcus said yesterday that there had been talks "at the highest levels" with the US backers, and that the ANC was in favour of the programme.

US Congressman Stephen Solarz, who is putting together the aid package, complained last week that he had been unable to get ANC approval for the plan.

ANC head of international relations Mr Thabo Mbeki was quoted in the Sunday Times as saying a new SA Development Bank, spearheaded by the Rockefeller Foundation, had been established.

ANC 'realism' welcomed

B/Day 5/8/91

THE Johannesburg Chamber of Commerce and Industry has welcomed what it calls "the more realistic attitude towards the importance of the economy" shown by ANC secretary-general Cyril Ramaphosa last week.

The chamber was encouraged that Ramaphosa recognised the necessity of economic success in SA, which could be achieved only if companies committed themselves to the future of the country, JCCI CE Marius de Jager said in a statement.

"The chamber, though, is concerned about how the ANC fails to see that the use of boycotts, stayaways, and politically motivated strikes, is as much 'economic treachery' as business planning to pull out of SA. Labour stability is one of the prerequisites for such a commitment, and it is incomprehensible to us that the ANC continues to use the instruments of the economy for political purposes and maintains its call for sanctions."

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The JCCI looked forward to the publication of the ANC's economic policy and hoped it would address the issue of economic stability.

He said recent labour agreements had made it clear that one of the goals of the unions was to maintain employment, which was "irreconcilable with the maintenance of sanctions". — Sapa.

ANC gives the nod to US aid plan

B Day 5/8/91

(49)

Business Day Reporter

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● Comment: Page 8

OM bullish on prospects

Star 26/8/91

(49)

Finance Staff

South Africa is heading for higher economic growth in the Nineties than in the Eighties as negative political factors hampering the economy are removed, says Rowland Chute, Old Mutual's assistant general manager (investments).

He sees the economy bottoming out over the next six to 12 months, with gross domestic product (GDP) growing 2,5 percent to three percent next year; against the estimated current rate of around zero.

"With sanctions lifted and renewed access to foreign capital, the authorities are likely to feel comfortable with running a small deficit in the current account of the balance of payments for the first time in years.

"This means we should have a longer period of economic growth — there will be no need to cut short the upswing because of balance of payments restraints."

In the year to June, Old Mutual invested R3 billion in equities.

It had begun to buy heavily in the depressed stock market last year at a time when many competitors were switching to cash.

Mr Chute says that equities should continue to provide the best real return to investors in a changing South Africa where inflation will remain a problem.

Old Mutual's view is that South Africa will follow growth-oriented economic policies, and that growth in the Nineties will boost corporate earnings and be bullish for the stock market.

Mr Chute says Old Mutual had chosen equities as the major investment channel because they offered flexibility, which fixed-interest investments did not.

"If you buy a 20-year long-term stock with a yield to maturity of 16 percent, that is fixed. The only bull factor is if the interest rate declines.

"If you buy into a well-managed corporation, the management is constantly adapting to the changing socio-political environment in which we are living.

"That is very important when we are going through these ups and downs. You want to take advantage of change."

Mr Chute belives gold has seen the worst.

The supply-demand situation is improving. But he believes there will be only a gradual rise in the price.

"With strong international confidence in the banking system, the odds are stacked against a sudden surge in the metal's price," he says.

Ray of hope amid the African gloom

(49) Sowetan 6/8/91.

FOCUS

Sowetan Africa News Service

DEVELOPMENTS in South Africa offer a glimmer of hope in a continent enveloped by gloom and doom.

The spillover of a negotiated settlement here to other countries in southern Africa will be substantial in terms of relative peace, security and reduced military expenditure, says former Nigerian military leader General Olusegun Obasanjo.

Writing in *Africa Forum*, a new magazine aimed at the African elite Obasanjo, the magazine's publisher, says there is convincing evidence that current leadership on both sides of the "apartheid divide" can bring about a new society of peace, tolerance and prosperity.

"There is a realisation that Mr Nelson Mandela and Mr FW de Klerk need each other," he says.

SA is the cover story of the magazine's latest issue and a number of experts give their views on developments in the Republic, including three South Africans - Mr Thabo Mbeki of the ANC, Dr Frederick van Zyl Slabbert, director of Idasa, and Mr Kevin Davie, editor of *Executive*, a Johannesburg-based business magazine.

"The most daunting problem SA must face," Obasanjo says, "will be how to bring about justice and equality without destroying the economy.

"The structure and content of the economy is strong and resilient and could cope, given prudent management."

Obasanjo says De Klerk has, in words and in deeds, reached a point of no return.

"De Klerk is a shrewd politician; he understands power and he may not want to be deprived of access to it. Yet there is a need, and an urgent one at that, to establish a permanent structure which gives confidence to all sides.

"Legitimacy is crucial to any new constitution. It is therefore necessary for an overwhelming number of the constituent assembly for the new constitution to be elected and be seen to be the real representative of the people.

"But if initiative for the process of negotiation is not shared between the negotiators, negotiation can degenerate, or be frustrated, into ultimatum and/or surrender.

Pupils

"In the SA context, success must be apparent on all sides for them to be able to satisfy their individual constituencies. This will not be easy and it will ultimately depends on the realisation that Mandela and De Klerk mutually need each other."

Obasanjo says one issue which deserves urgent attention is the rehabilitation of the so-called "lost generation" - black pupils who've dropped out of school since the student uprisings of 1976.

"They form a potentially dangerous group if they are not productively re-integrated into society," Obasanjo says.

Professor Adebayo Adedeji, the outgoing executive secretary of the UN's Economic Commission for Africa, says in an article entitled *Nirvana or Armageddon*? that the most central economic concern is whether SA will, after apartheid, continue to do "business as usual", and whether a majority government will allow business to be run.

"Taking the Zimbabwean example, an exodus of whites out of South Africa after apartheid and majority rule could have a detrimental impact on the SA economy for quite some time," he writes.

Adedeji says the post-apartheid economic policy agenda should aim, among others, at reducing poverty and inequalities, increased spending on education and training, social services and the remodelling of the entire public administration from enforcing apartheid to implementing anti-apartheid policies and programmes.

He says, however, that it is questionable whether SA will find the resources and the will to implement such a gigantic agenda.

"Yet it is also obvious that if the above agenda is not tackled, post-apartheid SA might find itself torn apart in total turmoil from within its many social, political and economic contradictions.

"One has just to hope that, whatever the economic agenda that will face post-apartheid SA, the policymakers will have the will and that the economy will retain enough resilience and strength to go through the transition to economic stability."

Slabbert says neither the National Party nor the ANC has evolved a coherent strategy or policy to cope with the kind of transition to which they have committed themselves.

The NP has for years presented a policy of white domination, while the ANC countered with a policy of struggle against domination.

Both policies ill prepared the respective sides for the kind of transitional demands they now have to cope with.

Slabbert says this was evident at the ANC's consultative conference in December "where they appeared to vacillate between insurrectionary rhetoric and adversarial mass action on the one hand, and exploring the dynamics of serious negotiation on the other.

"In the same vein, De Klerk in his end-of-the-year address, came across as judge, jury, prosecutor and defendant on the trials and tribulations of transition."

Slabbert says the dilemma is, however, understandable and is compounded by the fact that there is no clear cut historical precedent for the kind of transition they are trying to bring about.

Transition

If a democratic outcome is to be successfully negotiated, Slabbert says, it would at least be necessary to:

* Negotiate conditions for transition as well as the outcome of transition;
* Create opportunities for multiparty participation in government during transition as well as participation in transformation, and;
* Include civil society in the process of negotiated transformation and enable it to contribute to the growth of a democratic culture.

Davie says apartheid has been Africa's equivalent of the Berlin Wall, and now that it is crumbling, Africa and South Africa are discovering one another at staggering speed.

uncertain.

Chidzero calls for Africa to set up monetary union

Star 6/8/91 (49)

HARARE — Zimbabwe's Finance Minister Bernard Chidzero has called for an African economic community and monetary union to make the continent a power to be reckoned with in the global economy.

He told the closing session of a meeting of African central bank governors that the single European market and proposed monetary union within the European Community threatened to stifle Africa's traditional markets.

"Africa remains fragmented with economically weak regional groupings like the Economic Community of West African States (ECOWAS), the Southern African Development Coordination Conference (SADCC), the Preferential Trade Area (PTA) and the Maghreb Union, to mention just a few.

"The establishment of the African Economic Community would ... render Africa an economic force to reckon with in the global economy much to the benefit of her economies," he said.

"The establishment of a monetary union is by no means an easy task and hence has no overnight solutions. However, it is a direction in which Africa inexorably has to move and efforts at both national and regional levels have to continue," he said.

Chidzero said Africa's debt burden threatened the international monetary system because the continent was exporting capital to developed countries, through debt servicing.

The governors said in a communique at the close of the meeting that little progress had been made in arresting the protracted and deepening poverty in several African countries.

The governors said some of the preconditions for monetary integration were the increase of trade among African countries, cross-border investment, the flow of labour among African states and encouraging joint ventures. — Sapa-Reuter.

Economy showing few signs of recovery

Finance Staff Slev 6/8/91

(49)

The array of widely differing studies on the state of the economy continues, with Rob Lee, investment fund manager for the Board of Executors (BOE), arguing that there are as yet few signs of an economic recovery.

His economic analysis in BOE's latest Investment Outlook contrasts markedly with that of First National Bank which only last week said the economic recovery was already in progress.

Mr Lee says there are some areas of economic activity that "have only recently been taking something of a dip".

Weakening consumer spending by both lower and high income groups has hit retail sales in particular, Mr Lee says.

"Increasing unemployment and some decline in the level of wage settlements (notably in the gold mining industry) is clearly putting pressure on the spending patterns of lower income groups, while the cumulative effect of sustained high interest rates and fiscal drag hit higher income earners."

It was also too early for any significant boost to exports "from what is still only a incipient economic recovery in the world economy, with many industries still mired in recessionary conditions".

Weakness

The only element of demand showing any strength is government spending, while it is also likely that the reduction of inventory levels is coming to an end.

"Overall, though, the picture is one of recession continuing in the key areas of economic activity.

"We expect this weakness to continue for several more months, and from the point of view of securing a sounder foundation for ultimate recovery this is probably a necessary trial to endure.

"We need a few more months of rising foreign exchange reserves and lower money supply growth, and clear signs of success in lowering the inflation rate, if the next economic upswing is to achieve the exciting potential that more favourable internal and external circumstances are gradually creating."

'SA economy showing few signs of recovery'

49

ARG 6/8/91

Business Staff

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"Overall, though, the picture is one of recession continuing in the key areas of economic activity.

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"And from the point of view of securing a sounder foundation for ultimate recovery this is probably a necessary trial to endure," Mr Lee writes.

"We need a few more months of rising foreign exchange reserves and lower money supply growth, and clear signs of success in lowering the inflation rate, if the next economic upswing is to achieve the exciting potential that more favourable internal and external circumstances are gradually creating."

State revenue and spending patterns indicated the potential for a significant overrun of the Budget deficit target, he added.

A market deterioration of the fiscal discipline imposed in recent Budgets would have serious implications for the long-term inflation outlook.

"Concern on this score will reinforce the Reserve Bank's determination to hold interest rates at current levels until further progress is made in reducing inflation and money supply growth.

"A reduction in short-term interest rates is unlikely to occur much if at all before the year-end."

Business confidence remains hostage to political outlook

Star 7/8/91.

49

By Sven Lünsche

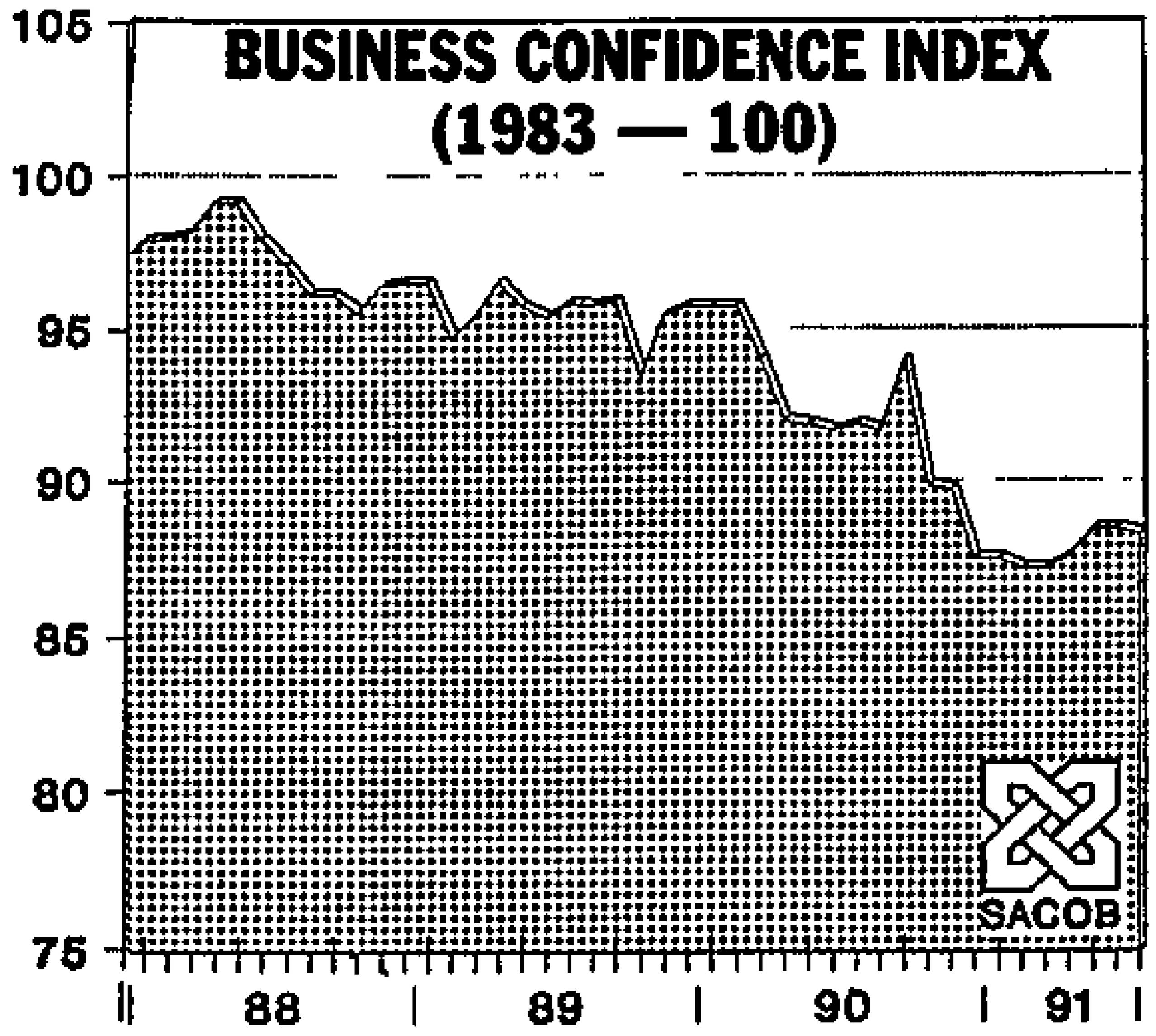
Business confidence continues to be hostage to political developments although there is mounting evidence that the economy has bottomed out.

The SA Chamber of Business's (Sacob) reported yesterday that the Business Confidence Index fell slightly in July by two percentage points to 88,4 from 88,6 in June.

But Sacob added that the "minor extent of the decline and the fact that many of the sub-indices showed an improvement tends to support the view that the economic downswing has now bottomed out".

"Nevertheless," adds Sacob's chief economist Dr Ben van Rensburg, "the recent Inkathagate scandal has once again served to emphasise the vulnerability of the political climate.

"It is clear that, until negotiations give rise to a new constitution that will enjoy the support of the business community, and a truly representative government, the business mood will continue to be hostage to developments on the political front."



However, in other spheres prospects for the economy are improving, notably on the external front, where the recent lifting of sanctions and the mild recovery in the world economy "means that SA is well placed to take advantage of the opportunities that may arise on world markets".

The high rate of inflation continued to depress business confidence and it seemed clear that the monetary authorities would not relax the reins on monetary policy until meaningful progress has been made in the fight against inflation.

The manufacturing industry is clearly at the forefront of those who belive that the economic downswing has now bottomed-out, says Sacob economist Keith Lockwood, who conducts its survey of confidence levels in the industry.

"The level of optimism about sales and production prospects in the coming twelve months is now at its highest level since February 1990, indicating a broader consensus that a new upswing in near at hand," he says.

But he cautions that short-term activity levels had failed to show any significant improvement in recent months, and it was doubtful that the upswing had already begun.

The more optimistic sales expectations are also not expected to flow through to increased employment opportunities, with employment of both skilled and unskilled workers expected to decline over the coming years.

Business Report

'Economic boom in southern Africa'

49

CT 7/8/91

LUSAKA. — The World Bank has held out the prospect of an economic boom in southern Africa with the advent of an apartheid-free South Africa and peace accords with rebels in Angola and Mozambique.

World Bank representative in Zambia John Innes said in Lusaka at the weekend that given South Africa's determination to dismantle apartheid, the southern African countries could soon intensify efforts to integrate their economies.

South Africa, as the region's economic giant, would form the nucleus for economic growth, Innes said at the Zambia Agricultural and Commercial Show Society's annual dinner, which was attended by international exhibitors, including representatives of 30 South African firms.

He advised that governments in southern Africa should continue to improve their infrastructure, as well as research and higher prices for agricultural produce.

"With South Africa entering the arena of free trade with the rest of Africa, the trend will change dramatically which will require efficiency and pragmatism."

Commercial Farmers Bureau chairman Ben Kapita supported Innes saying farmers should be given the chance to market their produce at the right price.

He said South Africans should help develop Zambian agriculture with their expertise in farming. Zambia had very rich soil and great potential.

Zambia presently farmed only six million hectares of its total 42m ha of first-class farmland soil.

viduals wanting to know

More SA businesses going under

49

CT 7/8/91

JOHANNESBURG. — The upward trend in insolvencies, liquidations and civil debt has continued during the first five months of 1991, figures released by the Central Statistical Services show.

And, says Luke Doig, senior economist for Credit Guarantee, hardest hit has been the retail and wholesale sector.

Doig says that an analysis of the figures shows the upward trend in liquidations slowed in June after growth in the five months to May, when the figure fell to 150 liquidations from May's 182.

He says the figure for the fourth quarter of 1990 was 355 liquidations, which rose to 399 in the first quarter of this year before registering 482 for the June quarter.

Doig adds the trend is also reflected by the level of civil debt, which has risen to record levels with a total of R236m in April and R216m in May alone.

Insolvencies at 869 showed a hefty increase of 25% in the three months to May.

Govt spending halts slide to deep recession

Own Correspondent

JOHANNESBURG. — Government spending is halting a slide into deep recession and disguising the battering the private sector has received.

Private sector economic activity plunged by 5,2% in the first quarter of the year — far worse than the relatively mild 0,9% fall in total economic activity reported in the Reserve Bank Quarterly Report.

Private sector activity is calculated by excluding government consumption expenditure from the Reserve Bank figures measuring economic performance. It includes fixed investment, exports, private consumption expenditure and inventories.

The reason for the large disparity between performance in the overall economy and the private sector was a large 19,5% rise in government consumption expenditure in quarter one.

Private sector activity was depressed by a 21,7% fall in exports and a 3,5% drop in gross domestic fixed investment in the first quarter.

(49) CT 7/8/91

All rates of change are quarter-on-quarter (seasonally adjusted and annualised) and measured in constant 1985 prices.

The recession in the private sector has been consistently deeper than the general economic recession since mid-1990.

Private sector activity fell by 2,4% in quarter three as opposed to an overall 1,5% drop, and by 3,6% in quarter four compared with a slight 0,3% fall in the overall economy.

Compulsory company liquidations rose by 21% in the first half of this year from the same period last year.

Credit Guarantee senior economist Luke Doig said: "These figures dovetail perfectly with the stringent monetary policy and the regime of high interest rates which has endured for longer than expected".

Strategy 'could boost growth rate'

B Day 7/8/91

PETER GALLI

THE SA government had embarked on a new industrial strategy which, coupled with the economic upswing, could boost the country's growth rate in the next two years from an expected 2%-3% to 4%-5%, Finance Minister Barend du Plessis told the Conference on Trends in Steel Structures for Mining and Building in Johannesburg yesterday.

The strategy was based on the assumption that financial stability with a lower rate of inflation was needed for a durable expansion of the manufacturing sector; and that expansionary forces must not lead SA into a balance of payments crisis that would mean cancelling a still undeveloped expansionary phase.

"Government regards the industrial strategy for the next few years as one of its main pillars for meeting the many economic demands of the country. The pending cyclical recovery must be boosted by a few special incentives, by sound monetary and fiscal policy and especially by foreign participation."

Implementation of government's new strategy had already seen a new tariff protection policy, a revised export incentive scheme, a major review of the existing regional industrial development programme, a new tourism development strategy, revision of the tax structure and switchover to VAT, Du Plessis said.

"Foreign participation must be encouraged, not only because of the balance of payments needs, but also because of our need of the skills and technology of foreign participants."

At the conference banquet last night, the Mossgas Offshore Project was awarded the South African 1990 Steel Construction Award.

(49)

State spending masks recession

B\Day 7/8/91. (49)

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SHARON WOOD

Government will probably underpin economic activity again during the second quarter. Statistics released by the exchequer recently show a 21% rise in government expenditure in the second quarter, well above the budgeted 13,7%.

Economists are divided on the state of the economy. Some say it turned at mid-year, while others believe the turning point will only occur towards year-end or next year.

Statistically this recession is relatively mild when compared with previous recessions, but economists say some sectors have been particulary hard hit.

Compulsory company liquidations rose by 21% in the first half of this year from the same period last year.

Credit Guarantee senior economist Luke Doig says the figures reveal the wholesale and retail trade sectors are faring the worst.

"These figures dovetail perfectly with the stringent monetary policy and the regime of high interest rates which has endured for longer than expected," he says.

But growing calls for lower interest rates to ease the burden on the private sector are unlikely to be answered. Reserve Bank governor Chris Stals remains firm in his commitment to maintain the high level of interest rates despite a seemingly expansionary fiscal policy.

More SA firms going to the wall

(49) ARG 7/8/91

Business Staff

JOHANNESBURG. — Liquidations, insolvencies and the level of civil debt continued to surge in recent months as the high level of interest rates took their toll.

"The rising liquidations dovetail perfectly with the stringent monetary policy and the regime of higher interest rates, which has endured for longer than expected," says Credit Guarantee economist Luke Doig.

He believes the economy will get worse, as the indications are that most sectors of the economy are labouring under high interest rates.

Central Statistical Service figures show that in the second quarter of this year liquidations rose to 482 from 399 in the preceeding quarter and 355 in the last three months of 1990.

However, the monthly June figure of 150 liquidations was down on the May figure of 182 liquidations.

Mr Doig says companies in the retail and wholesale sector had been particularly hard hit by the stringent monetary policy.

A similar trend was reflected in the level of civil debt, which had risen to record level in the first five months of this year, with a total of R236 million and R216 million in April and May respectively.

Reserve Bank and govt are locked in a historic tug-of-war

B/Day 7/8/91. **GRETA STEYN** (49)

CHURCHILL once said he could understand almost anything, except economics. But he did know that shooting the chief of the Bank of England would be a good thing.

In SA no shots have been fired, but there is strain between government and the Reserve Bank, between fiscal and monetary policy.

Fiscal and monetary policy are straining in opposite directions. Government spending has been running above budget at 20% and will almost certainly end the year higher than the budgeted 13,7% increase. With revenue lagging, a larger deficit than 3,4% of GDP seems on the cards. Conservative economists at the time of the Budget already described that as too high.

At this stage in the fiscal year, there is no evidence that the appointment of Amie Venter as Minister of State Expenditure will improve control. It smacks of a move to let Treasury off the hook if anything goes wrong. It is not clear that Venter controls the purse strings. Efforts to obtain comment from him on what the extra R1bn in spending announced in April would mean for the Budget were unsuccessful and Treasury had to provide the answers. The danger is that passing the buck will see a worse performance than if the status quo had been retained.

Government faces ending the fiscal year with charges of both profligacy and bad budgeting, especially if its revenue estimates are wrong. It is also in danger of being forced to renege on its promise of lower taxes, as it might not have the revenue.

There was virtually no increase in revenue in the three months to June compared with last year. The budgeted rise is 11%. Even taking into account technical factors, the year did not get off to a good start. Economists say the 27% increase budgeted for personal income tax is wishful thinking during an economic downturn.

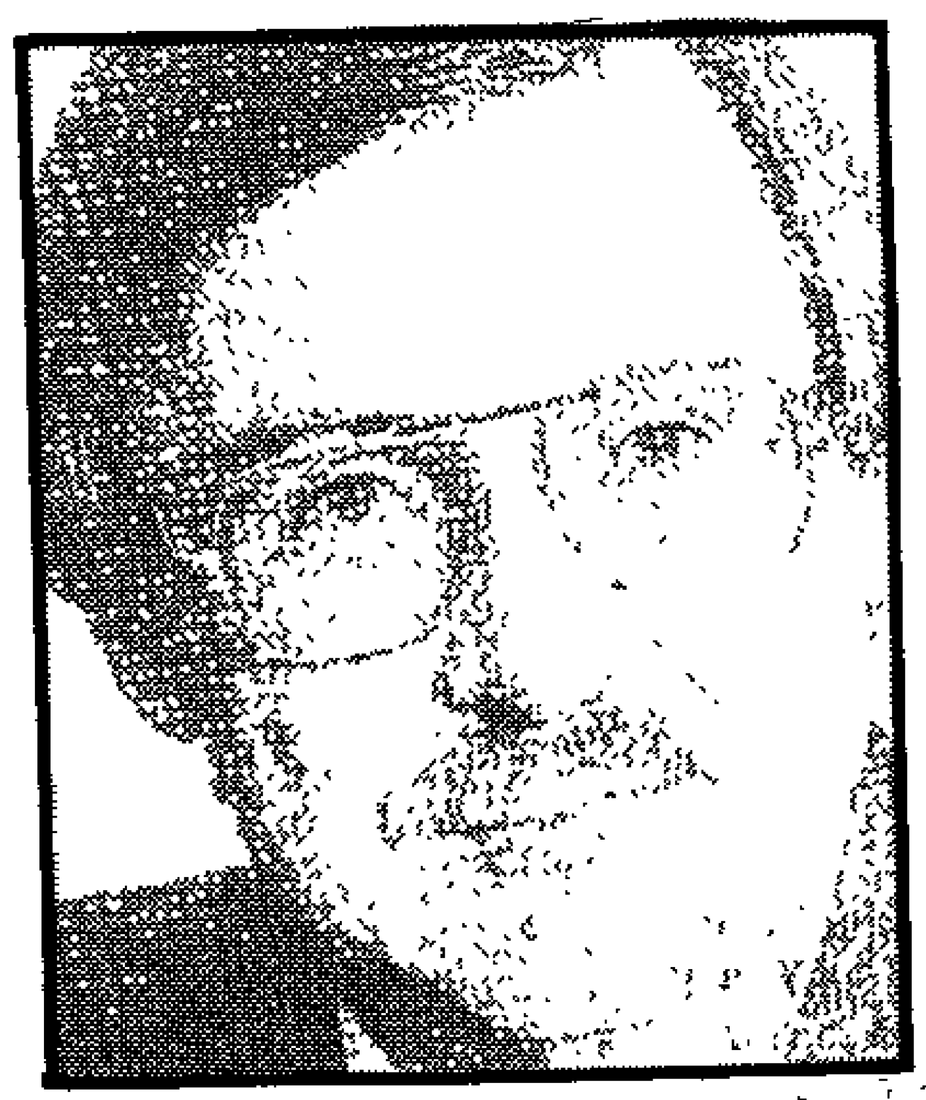
Even if VAT comes to the rescue, with a higher-than-budgeted rise, the estimates for other taxes would still be evidence of bad budgeting.

VAT is proving to be a politically unpalatable tax. The R220m poverty safety net to make up for hardships after VAT seems a paltry amount, compared with R380m spent on secret services this year and R100m spent on the Namibian election in 1989/90. And it is not just the very poor who will be unhappy. Government faces criticism over VAT from both conservative economists and from Joe Soap. There is little appreciation in the street for the overall expansionary thrust of fiscal policy.

Monetary policy is pulling in the opposite direction by remaining restrictive. Reserve Bank Governor Chris Stals has proved much tougher than most economists and business people predicted. When government announced an extra R1bn in spending at the height of the violence this year, the Bank remained steadfast in its duty to protect the internal and external value of the currency. Interest rates remained high.

But then inflation has also been high, refusing to show any real progress from the start of the "war" against spiralling prices. Ironically, a major factor in restraining inflation has been static mortgage rates. Among negative factors, food prices have been singled out as the main culprit and a Board of Trade and Industry investigation launched. Another favourite scapegoat has been the trade unions, with Stals calling labour costs the "malignant disease" in the SA economy.

Monetary policy too, therefore, faces a test. As liquidations rise and unemployment increases, Stals stands accused of having prolonged the recession while failing in his bid to beat inflation. Whatever the scapegoats — food or trade unions — the fact is that monetary policy has not succeeded in bringing about a material reduction in inflation.



□ CROESER

But Stals has to fulfil the Bank's mission to protect the value of the currency. He could argue — and he would probably be right — that inflation would have been higher were it not for the prolonged period of restrictive policy. He has repeatedly said that the central bank's concern is not with stimulating growth and employment. Its role is to create a stable financial environment so that growth, when it happens, will be sustainable.

Monetary policy is, in theory anyway, above democracy. The American economist Galbraith summed up the approach that monetary policy is a law unto itself: "Control should be by bankers or experts or possibly by God but never by the government of the day."

Herein lies the root of any strain between government and the Reserve Bank. The Bank is supposed to ignore political considerations and get on with the job of protecting the currency. Government cannot take such a dispassionate view.

Stals criticised the Budget deficit as too high and Deputy Governor, Jaap Meijer, went further in saying too little had been done in the name of supply-side economics. The Bank has not followed that up with further public criticism of fiscal policy, but is known to be concerned with the present state of affairs.

Finance director-general Gerhard Croeser's response is that fiscal policy is not expansionary, if "core" spending excluding debt servicing is taken into account. Government's interest bill is budgeted at R12,9bn this fiscal year — higher than the budgeted deficit of R10,1bn. Interest payments are forced spending. They also represent transfers between government and the private sector and many economists would argue these are not real spending.

Croeser also feels the current level of interest rates should be debated. "Do we really need a real interest rate of about 6%?" he asks.

Finance Minister Barend du Plessis is less forthcoming. Asked whether he agreed that the level of interest rates could be open to debate, he responded by reiterating that the temptation had to be resisted of "pump-priming the economy through unsound policies to achieve short-term goals". He also called for "continued vigil in the fight against inflation". But he did not want to discuss these oft-stated policies in the light of the current level of interest rates or government spending.

During the years of the "total onslaught", deficits in excess of 4% of GDP were not unusual. The same government that ran up those deficits cannot now ignore poverty, wealth inequality and unemployment in favour of excessive fiscal discipline. The implementation of VAT adds to the pressure.

That is why the burden of fighting inflation has fallen on the Reserve Bank, since it is supposedly above politics.

It is a nasty job but somebody has to do it. This "freedom" from political considerations also made it possible for Stals to attack organised labour in a way a politician could not do.

If monetary and fiscal policy are straining in opposite directions, it is because government sometimes marches to the beat of a different drummer. As Churchill's comment showed, this is a problem that has faced economic policymakers for years, and probably will continue to do so for years to come.

Strings in US aid for SA

By HUGH ROBERTON

WASHINGTON - Whatever might be said against the United States Congress, it remains one of the most sensitive barometers of public opinion in the US.

So when it takes a position on South Africa, it tends to reflect what most Americans feel and think.

Congress as a whole took a position of passive indifference when President Bush lifted sanctions last month, and if any confirmation were needed that this reflected public sentiment on the issue, it came, surprisingly, from Mr Randall Robinson, probably the most zealous of the many anti-apartheid activists at work in America.

At the end of a long denunciation of those in Congress who he claimed were responsible for letting Bush get away with such a malevolent deed, he noted that their lack of concern for South Africa was part of a broad and deepening pattern.

It was indeed. But lest a roar of hoor-hoors should rise from the legions who oppose sanctions, an emerging paradox of huge importance to all South Africans needs to be aired. Sowetan 8/8/91

Sanctions

It is that sanctions, or the threat of them, may yet prove to be the most potent guarantee of democratic government and a free enterprise economy which could be hoped for by those in the white minority who fear black majority rule.

Let me explain. A move is under way in Congress to create a multibillion dollar aid programme for South Africa which would be big enough to finance an historic turning point in the country's development. The money would only become available once a new and freely elected government is in place.

The ANC, and Randall Robinson, have reservations about it - and perhaps with some reason. No US Congress is going to finance a government in South Africa which plans the sort of radical social engineering so dear to the hearts of unrepentant Stalinists and Marxists (and, for that matter, advocates of apartheid).

And no US Congress is going to pour money down a drain of Marxist experimentation and nationalisation. Above all, it is unthinkable that a US Congress in the post-Cold War era would bankroll a government which abrogated the rule of law, tampered with the constitution, denied people their rights and generally misbehaved on the uninhibited scale of successive apartheid regimes.

In short, the multibillion dollar aid programme, a Marshall Plan for South Africa, would have strings attached.

Naive

"Neocolonialism," shout some in the ANC, "where is the liberation we have fought for?" "American imperialism," shout the US civil rights activists, "such strings are unacceptable."

But just as fascism had a tough time after the collapse of the Third Reich and the end of World War 2, it would be naive of South African Marxists to expect an unchanged world after the collapse of the Soviet empire and the end of the Cold War. And perhaps this week's discussion on the US aid proposal is just what was needed to concentrate their minds on certain inevitabilities in the new South Africa.

One is that the country will not survive without massive foreign investment and foreign aid. Another is that, in the new world order, such investment and aid can only come from the Western democracies and, as even the Soviet Union has discovered, this will entail conditions and obligations.

While a degree of state intervention in the economy almost certainly would be accepted as a means of mending the mutilations of apartheid, there would be firm and unambiguous limits.

Transgression of those limits, moreover, could be dealt with by much the same pressures which the ANC and Randall Robinson were able to invoke against the South African regime in 1986 and it would be surprising if US conservatives - and perhaps even some liberals - did not try to build precisely such a mechanism into the aid package.

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Govt under fire from IMF mission

(49) CT 8/8/91

From GRETA STEYN

JOHANNESBURG. — Government came under fire from the recent IMF mission to the country for departing from long-term economic strategies for political reasons.

Sources said economic policymakers had expected the points of criticism in the IMF's draft report on the economy. The report, which is updated annually, will be finalised in Washington.

They said that despite the criticism, the overall thrust of the report was positive, with the IMF actually stating it had been "impressed" by some developments.

On the plus side, the IMF praised the Reserve Bank's tight monetary policy. It also reiterated its belief that financial sanctions were harming the SA economy.

The IMF's main question was on the sustainability of certain economic measures. The "kick-start" package, of which tax breaks for exports is a major feature, was criticised. Specific criticism was also levelled at the politically inspired decision to sell the strategic stockpiles to finance social upliftment. The R220m poverty safety net was also described as a short-term, unsustainable measure.

The IMF wants government to show greater commitment to its overall long-term economic goals. These include reducing the size of the public sector and increasing its efficiency, privatisation, equal treatment of taxpayers, limiting tax concessions and simplifying the tax system.

However, the organisation echoed this year's Budget speech in saying that the key issue facing SA was balancing welfare augmentation with the no less urgent need for faster economic growth.

The IMF mission to SA was accompanied by heightened expectations of new foreign finance. But even if the law that will cause the US to veto any SA application for finance goes, SA can apply only once its current account has slipped into deficit. World Bank finance would require a reclassification of SA's position to a recipient country as opposed to a donor.

But even though there will be no finance forthcoming from the two organisations for quite some time, government wants them to become involved in SA's economic development. It is not forced to follow their advice but has decided to be guided by them.

'Cyclical upswing' for SA economy

(49) CT 8/8/91

Own Correspondent

DURBAN. — The SA, far from being on the brink of breaking down, was in fact at the beginning of another cyclical upswing.

Professor Gert de Wet, of the University of Pretoria's Department of Economics, said yesterday at the Fedhasa national congress in Durban that South Africa "could look forward to a healthy rate of economic growth next year and an even healthier one the year after; production, employment and expenditure will all increase."

However, he cautioned, there would be no simultaneous relaxation of monetary and fiscal discipline, as the country's balance of payments constraints and lack of foreign capital meant that present policies had to be maintained.

"If we keep present constraints, we can expect a modest drop in interest rates and an inflation rate of perhaps 12% or 13%. If we relax interest rates we'll pay the price later with an inflation rate of 20 or 25%, and increased unemployment.

"We are simply going to have to learn to live with high interest rates."

If the economy were not dampened by high interest rates, he added, there would be a drop in the value of the rand and interest rates would rise anyway.

'Environment comes first'

49

LINDA ENSOR

CAPE TOWN — It was time that SA realised that economic development and the environment were inextricably linked, Medical Research Council's Dr Yasmin von Schirnding said yesterday.

Von Schirnding, who has just returned from an international environmental conference in Sweden, said while SA was gaining acceptance internationally there was a danger that the country could soon face environmental sanctions. B Day 8/8/91

She said one of the main conclusions of the conference was the necessity to strive for sustainable development rather than short-term economic goals.

"The environment needs to be planned for to ensure that development does not take place at the expense of the ability of future generations to enjoy the benefits of the quality of life we are presently enjoying."

Von Schirnding is planning to discuss the findings of the conference, organised by the World Health Organisation (WHO) and the United Nations Environment Program, with Health Minister Rina Venter and organisations such as the ANC and the PAC.

Steel stocks up despite exports and SA demand

B Day 8/8/91.

BRENT VON MELVILLE

STEEL stocks are still increasing despite inroads into export markets by SA steel producers and reports by Iscor that domestic demand had been holding up better than expected over the past several months.

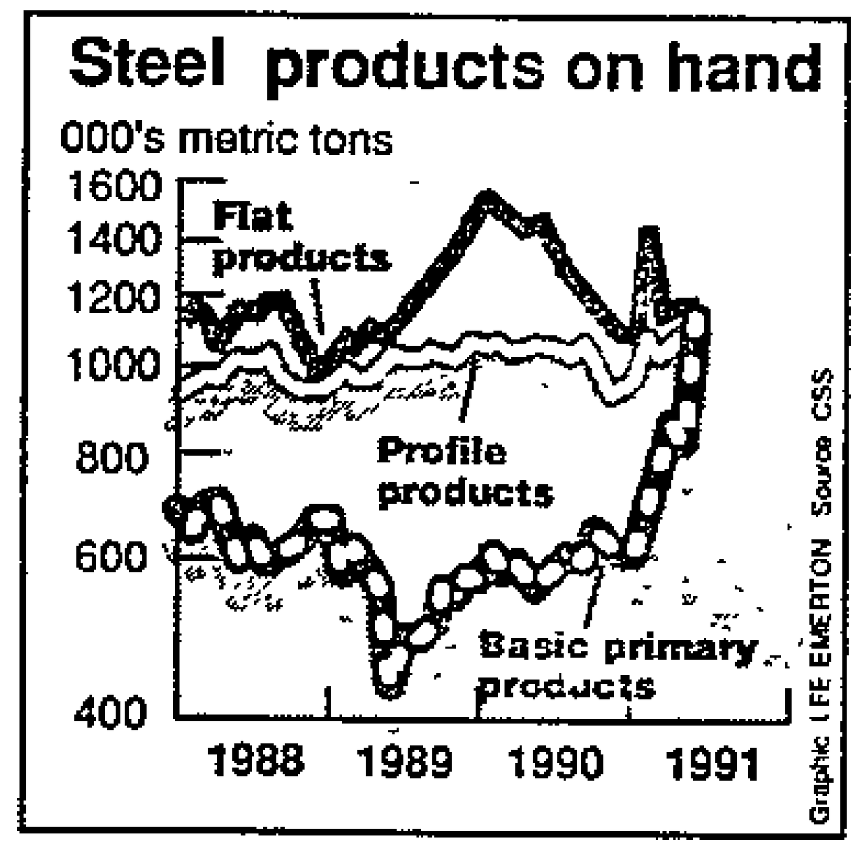
Latest Central Statistical Service (CSS) figures indicate that stocks of primary steel products for May this year showed a 12% increase from the comparable period last year.

The largest increase in stocks was recorded for basic primary products, which jumped 105% to 1,2-million tons (May 1990: 573 670 tons) while profile products increased 5,2% mainly due to an increase of 26% in stocks of wire rod and wire.

The only decrease was in stocks of flat products, which showed an 18,7% decline. However, the decline came off a high stock level recorded last May of 1,8-million tons.

Flat products are produced by Iscor and Highveld Steel & Vanadium (Hiveld), and are used mainly in the motor industry and durable consumer "white" goods (such as large household appliances).

One steel analyst suggested little could be read into the decline in stocks of flat products — which are



differentiated into slabs (stocks of which dropped 18%), plates (down 16,5%), sheets (down 19%) and tin plate (down 23%). It was likely stocks would again show increases for June and July "particularly in view of the problems with the motor industry".

"Generally the domestic steel market is still in the doldrums and producers are struggling with excess stocks of steel. The durable goods market is depressed and steel merchants are curtailing orders."

There had also been some overbuying ahead of this year's second hike in the basic steel price, following January's 16,5% rise.

Slowing economy hits civil engineering

B Day 8/8/91

GERALD REILLY

PRETORIA — SA's economy has slowed down so much that the civil engineering industry finds itself in a parlous situation with many companies facing bankruptcy, says C D Roux of Con Roux Construction.

Roux told the 11th Annual Transport Convention at the CSIR in Pretoria on Tuesday that the industry's current crisis stemmed from a number of factors.

These included completion of the current toll road building programme and the general reduction in road expenditure, as well as a reduction in construction by Eskom.

Also, regional services councils had switched from providing new services to subsidising existing ones.

The gravity of the situation was illustrated by labour figures. In 1970 employment was 73 000. By 1975 it had increased to 130 000; and by 1986 had declined to 85 000.

"Apart from normal staff turnover, a staggering 164 000 workers have come and gone because of the ravages of gross domestic fixed investment in construction fluctuating between 3,8% and 8,9% of GDP."

Roux said as SA's acceptance by the rest of Africa increased, there would be a growing market for civil engineering in sub-Saharan Africa.

Roux said infrastructural development had to at least keep pace with population growth.

However, this was not happening in SA, particularly in the field of road construction and maintenance.

"And the chickens will come home to roost within five years if warnings are ignored."

"Neglect of an asset of about R53bn would have serious repercussions, which would affect socio-economic development and stability," he said.

Barend calls for an 'economic partnership'

Star 9/8/91

By Sven Lünsche

Finance Minister Barend du Plessis said yesterday a partnership between business, labour and the government was essential to create a stable economic and financial framework to attract large-scale investments.

Opening the new South African headquarters of German optical firm Carl Zeiss in Randburg, Mr du Plessis said leaders in those three areas should "assess the need to create such an accord as soon as possible".

In particular he appealed to the labour movement "to dedicate itself to increasing the total economic cake instead of taking an ever bigger part of a smaller cake".

He also called on the trade unions to play their part in "breaking the stranglehold that inflation has on the economy" and welcomed the recent wage accords in the mining industry.

Turning to the role of the business sector he said that there could not be risk-free investment and business would have to assume part of the risk that was involved in investing in the current period of transition.

"The government itself needs to create a stable economic framework through sound fiscal and monetary policy," Mr du Plessis said, adding that foreigners would not flock to a country in which total tax payments were threatening to rise from current levels of around 25 percent of GDP.

The chairman of the Carl Zeiss Group, Dr Horst Skoludek, said the R7 million investment in the new head office was a sign of the group's commitment to the country.

He said group turnover since it started up business in South Africa 70 years ago, had grown to over R60 million a year.

'Partnership needed for stable economy'

Business Staff ARG 9/8/91 (49)

JOHANNESBURG. — A partnership between business, labour and the government was essential to create a stable economic and financial framework to attract large-scale investments, Finance Minister Barend du Plessis said here.

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Fm 9/8/91

FIXED INVESTMENT

Opportunity knocks

(49)

When the JSE booms, can real growth be far behind?

The JSE Industrial index is pointing an urgent finger upward. With corporate profits still falling and economic activity at low levels, it has risen 35% since the start of the year and more than 50% since October (see graph). This surge has sent the average p:e ratio to around 13.

A study of international p:e ratios over the past five years, says Martin & Co's Carmen Maynard, shows a close correlation with economic prospects. "In low-growth, high-inflation countries, such as Argentina and Mexico, you get p:e ratios in single digits. In high-growth, high-inflation economies like Chile and Turkey, the ratios rise into the early teens. And, in southeast Asia, where there is high growth and low inflation, this ratio is over 20." After two decades in the first category, market ratings seem to be telling us that SA is moving to the second.

Is the JSE telling us, then, that we are on the threshhold of a post-apartheid boom?

The answer depends on how activity on a stock exchange is interpreted. From a socialist perspective it is nothing more than a pointless paper chase, with little relationship to events in the real economy. And at times there are certainly elements of truth in this description — when the vital link between capital raising and investment in productive assets is broken or damaged. It could be argued that this is a case in point: exchange control is keeping funds bottled up in the country, inflationary expectations are directing them into equity and a serious loss of confidence inhibits real investment.

But this situation belongs to the past. Having shed the shackles of apartheid, we are rapidly moving into an unknown future. What we make of that future may depend on whether entrepreneurs take the opportunity offered now, to raise money at an after-tax cost of 7%-8% and invest it in future growth.

This opportunity must be viewed against a backdrop of ageing capital stock and a level of fixed investment that barely exceeds net depreciation.

For a decade, South Africans have stubbornly consumed their seedcorn. The ratio of total real gross domestic fixed investment to GDP dropped from 28% in 1982 to 18,2% in 1987. It recovered to 19,1%, 19,7% and 19,6% in subsequent years — dismally low levels. In 1990, total real fixed investment was only 76% of the level nine years earlier.

Says the Bank of Lisbon's *Economic Focus*: "Net investment, which excludes provisions for depreciation, has shown an even more dramatic drop from around 18% of GDP in 1980-1981 to around 5% or less, over the three years to 1990."

The sector, outside of agriculture, that has experienced the most serious erosion of capital stock is manufacturing. Fixed capital stock fell from R47,9bn in 1983 to R47,2bn in 1990. As a result, the average age of equipment in private manufacturing has increased by nearly 30% since 1984.

When the long-awaited upturn takes place and distributors attempt to restock their sharply depleted inventories, they will be ill-equipped to meet demand.

Capacity utilisation in manufacturing is presently around 82% — not excessively low compared with the Eighties. Since 1983, it has been higher only three times — 84,5% in 1989, 83,6% in 1988 and 82,8% in 1984. Moreover, much of the plant is outdated and tives, says Ernst & Young's Ray Eskinazi. "Incentives create as many problems as they solve; they involve discretion, which is undesirable, and they benefit one sector at the expense of the others. It has been found the simplest way to stimulate investment is a lower tax rate." At 48%, SA has a significantly higher nominal tax rate than countries with which it competes.

This fact and the inflationary environment are the biggest constraints on profitability and, consequently, on further investment.

Fortunately, we may no longer be helplessly trapped in spiralling inflation. Though the old bugbear of government's increasing share of the economy remains, the trap may have been sprung by an agreement negotiated with the National Union of Mineworkers. By accepting the principle that wage increases should correlate with wealth created, a major trade union is assisting in creating an environment in which non-inflationary growth can take place. (Nominal growth can be achieved easily enough — by the kickstart strenuously advocated in many quarters. And inflation can be controlled via the money supply. The trick is to achieve both.)

If this sets the tone for settlements in other industries, the next economic recovery will not immediately self-destruct under the pressure of inflation. Fixed investment can surge ahead.

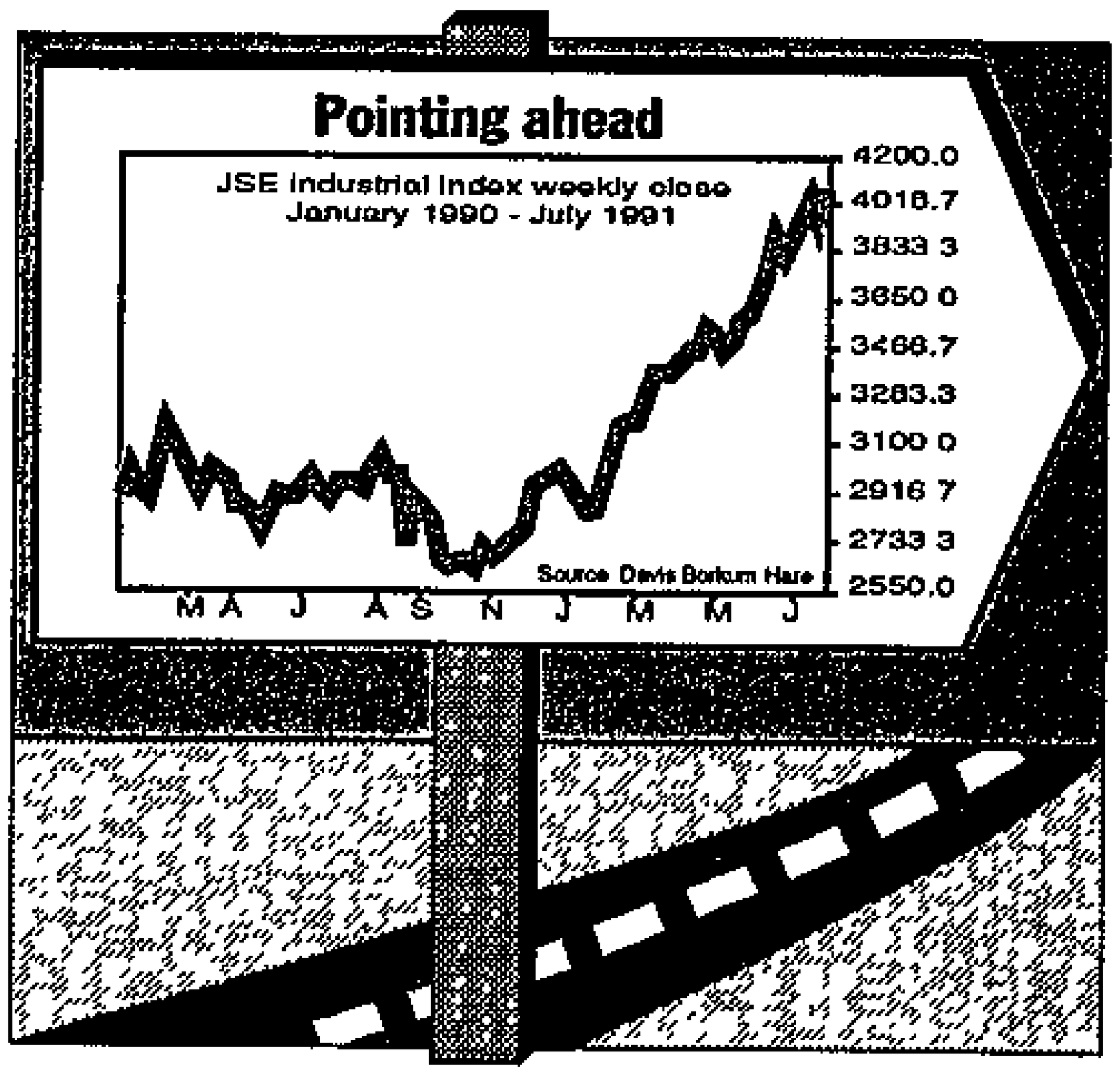
Still to be resolved is the rate of taxation. It is tempting, when faced with enormous shortfalls in areas such as education, housing and health, to fall back on what seems an obvious solution — taking, in various ways, from the rich to give to those disadvantaged by apartheid. That would appear to be the equitable way to run the new SA.

But life has never been fair and, if the solution to poverty was that simple, it would have been eradicated in socialist countries. Legislation may be introduced to redistribute wealth — but no government can enforce wealth-creation. Capital and initiative are needed and these will flow where opportunities offer. If the economy is to grow, we must allow capitalists those opportunities.

Government has a role to play in providing certain social and economic infrastructure. All it needs to fulfil this role is sufficient funding. Experience in other countries has shown it is more effective to raise these funds via a moderate tax rate over a broad base of thriving businesses and individuals than to extort it from a shrinking tax base.

It is possible for government spending to increase while the proportion of government spending to GDP shrinks — if the economy grows fast enough. This should be the goal of present and future economic policymakers.

Emerging politicians must not waste time tilting at the ghosts of the colonial past. After 10 years of turmoil, SA business must be well aware that if workers are alienated from their environment and disaffected from the system, they will undermine it. And if they are inadequately housed, fed and educated they will be unproductive. And as the labour force is largely responsible for consuming the product — exports account for only 25% of GDP — business has a vested interest in the wellbeing of the workers.



With the experience of others to guide us, we have all the benefits of hindsight. Forcible redistribution of wealth — through nationalising productive resources or excessive corporate and marginal taxes — is counterproductive and unnecessary. The dynamic growth of a market economy will do it more effectively.

What is needed now is not so much a leap of faith as a leap of logic. ■

Bonanza for city investors

(41)

ARG 10/8/91

EIGHT hundred Cape Town investors have seen their initial R250 investment in one shop grow to R7 650 and each has pocketed more than R1 800 in dividends.

They bought the intial 51 percent of Pep Stores Peninsula in 1973, Pepkor holding the other 49 percent to comply with the Group Areas Act.

However, the ending of the Act now allows Pepkor to hold 100 percent of the shares and these shareholders could become even richer if Pepkor offers to buy their stake.

Market speculation is that cash-flush Pepkor is considering this possibility — a cautionary announcement by a merchant bank has advised Pep Stores Peninsula shareholders that "discussions are taking place which, if successfully concluded, will have a material effect on the price of the ordinary A shares".

The announcement warns shareholders "not to consider disposal of their shares, pending a detailed announcement which will be made as soon as possible".

This shareholders' success story, almost on the lines of investors making fortunes in Dr Anton Rupert's Rembrandt empire, was related by Mr Christo Wiese, chairman of the Pepkor retail giant this week.

To involve more people of colour in the free market sys-

TOM HOOD
Business Editor

tem and to create a greater pool of management skills Pepkor founded a public company — Pep Peninsula — in 1973 in which the coloured community would have a 51 percent stake and Pepkor 49 percent, he said.

"Initially it was an uphill battle to get 800 coloured people who were prepared to invest an average of R250 each in the new company," he said. Reason for this was that at the time there was a great deal of ignorance and suspicion about shares in the coloured community. Investing in shares was regarded to be about as safe as playing the horses.

Today Pep Peninsula was valued at more than R12 million. The value of the original R250 investment had grown to R7 650, while dividends paid to date amounted to more than R1 800.

It has grown to 33 stores with annual sales about R72 million.

A similar public company — Pep Reef — was launched in the PWV area, with members of the black community as partners, and this runs eight stores.

"Not only did Pep Peninsula and Pep Reef create the opportunity for more people to share in the free market system, but it also created more jobs in the coloured and black communities," said Mr Wiese.

"Job creation is to me one of the greatest responsibilities weighing on the South African business sector today. We regard it as a top priority. So much so that in the past few years Pepkor has been able to create about 1 000 new jobs a year, bringing our total staff complement to more than 19 000.

"I am, to be honest, equally proud of our job creation achievement as of the profits generated annually for shareholders."

Mr Wiese said to survive in a new South Africa, companies will not only have to look inward to their own staff, but also accept responsibility for the society in which they operate.

"No company is an island, no one operates in a vacuum. As a company we are inextricably part of the fortunes and aspirations of our community. It is a simple truth we cannot escape.

"Because our customers are from the lower-income group, hardship is often part of their daily life. We have never been able to ignore the dire straits in which many of them find themselves and from the start of Pep we have through our hundreds of shops spread throughout South Africa tried to assist in alleviating their needs."

He said he believed the first responsibility a business had towards the community was to survive, for jobs followed profit.

KEN OWEN ON SUNDAY

SI Times 11/8/91

49

A NICELY malicious story avers that when Mr Barend du Plessis became Minister of Finance he had no hope of curbing government spending because he still called half the Cabinet "oom"; now half the Cabinet call him "oom", and he still can't control spending.

The story, no doubt, is apocryphal — more likely, the entire Cabinet called the fearsome President Botha "baas" — but it does illuminate a mystery of change: the tenacity of old ideas, old habits, old sins. *Plus ca change, plus c'est la même chose.* The more things change, the more they remain the same.

Consider a different example: blacks and civil rights lawyers are fighting, against fierce opposition from many whites, for a law to forbid race discrimination. The argument is conducted in anachronistic terms, imported from the United States and Britain, of discrimination against black people.

But a moment's reflection must surely convince most whites that it is they, not the blacks, who will soon require protection against race discrimination. Whites should all be clamouring now for anti-discrimination laws to protect them against a powerful, governing, and perhaps vengeful black majority.

Another example: a survey published in recent days suggests that whites, by and large, have very little wealth to be redistributed. Half of them have net assets of less than R100 000, usually representing only the inflated value of homes bought long ago. Among the richer of them, of course, is fat cat Mr Joe Slovo whose R250 000 house is said to be free of mortgage.

The wealth redistribution lobby is undaunted. Like Mark I Nats, who believed that apartheid had to be made to work even if it was impossible, they insist on redistributing wealth even if it doesn't exist. Their view of the future rests entirely on taking Mr Slovo's house — and mine, too, I suppose — and dividing it among the poor.

Indeed, they cannot envisage a future that does not replicate white rule, white rule in blackface, as it were. They look not only to redistributing the suburbs, but also to getting their hands on Sasol and Armscor, Mossgas and Transnet, the Union Buildings and the Houses of Parliament, and above all, the money-printing machine at the Reserve Bank.

It's no use arguing that these institutions of the state are the very instruments by which whites themselves have been impoverished. If that were true, they reason, why would a clever man like Mr Barend du Plessis cling so desperately to the old ways, the old ideas, the old sins? Why did the Nats cling to Iscor, only to sell when the ANC seemed likely to inherit it?

THE answer, to any sensible man equipped with a determined ignorance of economics, is plain: government, under the Nationalists, became a vast machine for distributing patronage to its friends and followers. The ANC has been taught, by the example of the Nats, that it must acquire the instruments of patronage if it wants to shift wealth from its enemies to its friends.

What is puzzling is not the determination of the ANC to gain control of the government, with its institutions intact, but the inability of the Nationalists to use this last, diminishing chance to demonstrate the transforming — indeed, revolutionary — effects of rapid economic growth. Mr Du Plessis knows what he should do, but somehow the Nats just go bumbling along as they did before, hardly aware that their world is turning upside-down.

Consider farming: one of the causes of high food prices is, as everybody admits, the ridiculous cost of land. The cost of land is kept high by easy credit. The least productive farmers have now borrowed so much that they can never repay their debts. So why not let them go bankrupt?

The effect would be to remove from the land the incompetent, uneducated coffee-on-the-stoep farmers, and make that land available, at fire-sale prices, to more competent farmers who could then produce cheaper food. The government has been edging towards this decision for years, but it still baulks: it just can't bring itself to shut down the bureaucracy that steers credit to farmers.

TAKE a simpler example: the dirty tricks budget of R380-million has brought the Nationalists nothing but disgrace, contempt, and failure. Yet that money, given to Dr Jan Steyn, would house another 50 000 families, and perhaps reduce the squatting problem to manageable proportions. Anyway, why preserve a dirty tricks department to hand over to the ANC? Sheer inertia, that's why.

To be fair, the government has made some progress in cutting back the military establishment, which has been the biggest dispenser of patronage. We have spent astronomical sums for good but over-priced items like the G-6 howitzer, which we no longer need, and even greater sums on inferior equipment like the Kudu aircraft, known to pilots as a "converter" — all it does is convert energy into noise.

Military spending was so huge, and so wasteful, that it did more than sanctions to bring the Nationalists to their knees. The ANC would, if it were astute, erect a statue to the Terrible Twins, General Magnus Malan and Mr PW Botha, for inflicting so much damage on the economy that apartheid collapsed.

Lately, there has been some trimming of defence spending, and there is talk now of a defence budget of two percent of GDP, which is appropriate for a country that can't find a credible enemy within a range of 5 000 miles. But beware: the international arms lobby is working flat out to persuade us to re-equip an army we don't need.

Besides, the ANC lusts after implements of democracy, like tanks and machine guns, to protect us, mere tax-paying voters, against the bearers of traditional weapons. It's not so easy to shut down an army when even your enemies resist it.

In short, the way things are going the Nationalists will hand over to the ANC the whole apartheid patronage machine, from arms contracts to pass offices and land rental agencies, so that black bureaucrats can behave in future as white bureaucrats behaved in the past.

The Nationalists have abolished pass laws, group areas, separate amenities, official land-grabbing departments, even the democratic elements of provincial government, but it has not reduced the size, the cost or the venality of government.

PRESIDENT De Klerk may have stopped Mr Pik Botha from dishing out money for dirty tricks, but nothing, it would seem, can stop him from pouring millions into the bantustans where apartheid duplicated the venal system of patronage which it created in Pretoria. Less government or more, the cost always rises.

There is an irresistible force at work here: it is the tenacity of bureaucracy. Whoever rules, whatever the policy, the system survives. The Czar's secret police survived to become Stalin's police; Mozambique carried the ponderous methods of Portuguese colonialism into post-colonial society; in the new South Africa, the finance minister will call Mr Nelson Mandela "oom".

Plus ca change . . .

Economy not breaking out of 'deep recession'

Star 12/8/91.

49

By Tom Hood

Dr Conrad Strauss, who was last week named to take the helm of the giant Standard Bank group, says he sees no signs of economic recovery from the "deep recession" coming in the second half of this year.

Dr Strauss, who will take over as chairman from the retiring Henri de Villiers in January next year, has a realistic view of the economy after 13 years as managing director of Standard Bank Investment Group (Stanbic).

"Things are tough" he said at the presentation of Stanbic's interim results, adding that "interest rates are not likely to drop below the inflation rate, despite the tight economic conditions".

"You don't see evidence of the tight monetary policy on the inflation rate until about six quarters after money supply growth has dropped below the rate of inflation.

"We have had four quarters below the inflation rate and there should be another two to go before there is a significant benefit coming through in the inflation rate."

Conrad Strauss . . . If the authorities were to go for quick-fixes we would enter an era of potentially uncontrollable inflation.

International markets were not very buoyant, so unless there was a recovery in international business "it will be very difficult for us to pick ourselves up by our own bootstraps".

Desite the tough impact of the recession he supports the Reserve Bank's objectives in following a tight monetary policy and maintaining a reasonably strong rand.

In a recent address, Dr Strauss said: "To shift towards expansionary fiscal and monetary policies now would eliminate virtually all chance of creating a sound and resilient economy by the time SA makes the final transition to a fully fledged democracy.

"If the authorities were to go for quick-fixes to 'buy' political stability with cheap money and increased government spending we would enter an era of potentially uncontrollable inflation."

He added: "It is time we started emphasising the real economy of the country and paid less attention to politicians.

"It is not fiscal policy that will bring the country right but an improvement in workers' productivity, better management and a stable social environment."

Though a modest banker at the time, he spoke contrary to trendy economics 20 years ago when he warned businessmen that some white markets were near saturation point and marketing men should set their sights on the fast-growing non-white markete.

While the country basked in the wealth of its gold mines 24 years ago, Dr Strauss, then the bank's economic advisor, raised eyebrows by saying the gold-mining industry had reached a stage where technological limitations and a price ceiling might force production to cease in about 30 years.

With Dr Strauss as MD, the Standard Bank group became the largest banking and financial service organisation in the country, with an outstanding record on both market share and profitability.

It was overtaken in top spot only by the recent merger of Allied, Volskas and United into Amalgamated Banks of South Africa.

Dr Strauss, now 55, began his career with Standard as a management trainee. He has extensive exposure to and experience in the many facets of the organisation's operations both locally and internationally.

He was born in Upington on January 17, 1936, and after a farm upbringing he matriculated at Paarl Boys High. He majored in economics and political science at Rhodes and followed a three-month agricultural diploma in the Cape with an MS degree at Cornell University, New York.

After a spell at Standard Bank as a management trainee, he was appointed economic adviser, later becoming general manager responsible for corporate planning. He undertook two senior regional postings before his appointment as managing director in 1978.

Slovo speaks his mind over nationalisation in South Africa

49

Sowetan 12/8/91

By ISMAIL LAGARDIEN
Political Correspondent

THE South African Communist Party would not be prescriptive about nationalisation if it came to power.

It will work with trade unions and "management at enterprise level" to create a form of participation and control by actual producers.

These are the ideals of the SACP as expressed by the general secretary of the party, Mr Joe Slovo, contained in the book *Nationalisation: Beyond the Slogans*, written by Keith Coleman.

"The SACP has rejected the prescription of nationalisation as part of the programme of the party. We did so because on balance it was a much abused and over-used cliche, which meant different things to different people.

Opted

"In old thinking it connoted the transfer of legal ownership from private hands to the state.

"We reject that as the kind of dispensation which results in the basic transformation in the interest of the people, on its own.

"We opted instead for the process of socialisation which may or may not involve the transfer of legal ownership, in whole or in part, of enterprises during the post-transformation period," Slovo says in the book.

The SACP prefers the State to engage itself in the economy in a way which empowers it to give direction to it in the interest of the people whom the present system has failed to empower.

Through legislation or regulation it is possible for the State to control big corporations without actually owning them.

Law

"Obviously the State exercises regulations over the whole economy; and by law it can provide prescriptions interfering directly or indirectly with production — like this State has done.

"The problem I have is that we are always looking for one prescription — nationalisation or no nationalisation.

"There are mixed forms. Which is why nationalisation in itself is a counter-productive word. It means so many things at so many levels — some negative — so I prefer not to use the word at all," he writes.

The book is published by Raven Press.

Economics of the left, sans socialism

BDay 12/8/91.

(49)

COMMANDING HEIGHTS AND COMMUNITY CONTROL, by Patrick Bond (Ravan Press, R9,95)

THIS book is apparently a response from the left to the spate of Free Market Foundation-sponsored books. When it comes to extremism, Bond certainly matches up to his free market opponents. But does he contribute to the debate?

The book devotes much space to an analysis of the crisis the SA economy faces. It then offers "solutions" to the crisis, and a separate chapter deals with the core of the solution: community control.

In the analysis of the problem, the focus is on the crisis of capitalism. Curiously, there is no mention of the crisis socialism faces after the collapse of Eastern Europe. Socialism is not mentioned in this book. Strange, since it argues for worker control of the means of production.

Bond has assumed away the socialist crisis by arguing "real socialism" has not yet been implemented. The analysis of the reasons for SA's economic crisis, and the solutions presented, are flawed because Bond fails to make his assumptions explicit. Whereas the free-marketeers love their label, one wonders why Bond attempts to explain economic crisis from a left perspective without referring to socialism.

The main reason for the crisis, Bond argues, is overaccumulation of capital. He explains: "At the root of overaccumulation is the continual improvement of machinery and other productive forces. Too many goods are produced, workers are replaced by machines, and competition between capitalists becomes ruinous."

Sound familiar? One does not need an in-depth knowledge of Marx to know that he argued technological advance and capital accumulation were key factors leading to the collapse of capitalism. Curiously, Bond makes no mention of Marx.

The failure to mention socialism or to point out that the analysis of the crisis is Marxist raises the question of who the book is aimed at. Is it aimed at people who would recognise the arguments, or is Bond indulging in an obviously hopeless attempt at camouflaging his "true colours" while selling an ideology? Does he believe it will be more palatable without the discredited labels? A book that revolves around the crisis of capitalism cannot hope to get away with omitting references to Marx and to socialist models.

The overaccumulation argument is forced. Excess capital investment might exist in some sectors, but often reflects overoptimistic expectations of growth. It is a symptom of economic stagnation, rather than a primary cause. (Corporations like Eskom are examples of "state capitalism" rather than intervention in the free market. Bond's capitalism is Leon Louw's socialism.)

Bond possibly omitted mentioning Marx because Marx argued overaccumulation would lead to a declining profit rate, and hence the collapse of capitalism. There is no evidence in SA of a declining profit rate, and Bond would have had some explaining to do on that score.

Some of the solutions proposed by Bond are quite alarming. He says SA's \$20bn in foreign debt is "apartheid debt" and a democratic government should default or threaten to default. He calls on homeowners to exert power over the country's sophisticated financial institutions. Bond boycotts (no pun intended) can give them leverage. The Reserve Bank should be ordered to maintain interest rates at a low enough level to help borrowers at the expense of creditors. Speculation must be halted. Nationalisation is a key solution.

Mainstream economists could be tempted to respond to these ideas with the same horror and wry amusement that the ANC's mention of nationalism evoked. But don't dismiss this book. It contributes to the debate by showing the extent of radicalism that still exists, despite the apparent rapprochement between the main players.

This is underscored by the glowing reception received from the Alexandra Civic Organisation. Mzwanele Mayekiso is quoted on the back cover as saying: "This book will help in the search for new models and workable solutions to the problems facing working-class people in SA."

GRETA STEYN

Isolated incidents 'no deterrent to investors'

31 Pcw 13/8/91 (49)

ROBERT GENTLE

ISSUES such as the Ventersdorp violence and the Inkatha funding scandal were "mere details" in the larger picture of reform in SA and would not deter mainstream foreign investors.

This was said yesterday by Kevin Carter, director of Old Mutual's UK-based assurance subsidiary Providence Capitol, during a presentation on the long-term outlook for world investment.

"People at the margin will panic, not the mainstream," Carter said.

Overseas investors had always known that reform in SA was not going to be "like a Sunday school picnic", and that setbacks would be encountered.

However, barring some major upset like State President F W de Klerk reversing the reform process, foreign interest would continue. "There is an amazing amount of goodwill towards SA in the international investment community," Carter said.

Despite the risks associated with a new SA, the country stood at the threshold of a major growth and wealth creation phase of the type the US went through early this century.

SA was undergeared, had world class businesses, financial services, manufacturing and management. "There is no reason why SA cannot deliver," Carter said.

Edinburgh-based fund manager Martin Currie may soon be launching a unit trust which will invest in SA equities, says a report in the Daily Telegraph.

About 55% of this Emerging Markets Fund will be invested in South East Asia, with the remainder divided between South America (20%), SA (15%) and Eastern Europe (10%).

"Emerging markets stand to gain the most from the revival in the global economy," said fund manager Tristan Clube.

They accounted for only 5% of global stockmarkets' capitalisation and less than 1% of globally invested portfolios.

"We expect both these figures to rise."

test action had been ANC had been given in in other incidents.

... in a statement yesterday that President F de Klerk provoked violence in Ventersdorp in an effort to escape the Inkathagate funding scandal.

PEA

Opinion leaders 'opt for mixed economy'

B|Day 13|8|91. Own Correspondent (49)

ALMOST 75% of SA "opinion leaders" favour a mixed economy with less state control in a future dispensation, according to a survey conducted by the University of Stellenbosch's Centre for South African Politics.

Only 1,3% of the 2 106 respondents supported full state control, while 2% supported a full free enterprise economy.

The figures are a sample of a more comprehensive report based on the viewpoints of leaders in virtually every sector including agriculture, labour, business, media, the legislature, extra-parliamentary politics, the church and academic institutions.

The survey was undertaken last month.

Among other findings were that 2,6% of the black respondents were "in favour" of apartheid and 7,9% were "neutral". Of the Asian respondents, 2,3% were "strongly in favour" of apartheid, 7% were "in favour" and 7% were "neutral".

A massive 48,6% of the whites polled were "against" apartheid while 13,9% were "strongly against" it.

Rand set for continued decline

49

CT 14/8/91

By AUDREY D'ANGELO
Business Editor

THE rand — which reached an all-time low of R2,90 against the US dollar early last month before edging up again — will continue to depreciate against it in the next 18 months, says Boland Bank chief economist Louis Fourie.

But, he says in his August Economic Review, the improvement in the balance of payments (BoP) and continued tight monetary policy mean that the decline of the rand will be more gradual than in the past five months.

He expects it to have strengthened to \$2,80 to the \$1, from last night's \$2,86, by year-end "while it should depreciate by not more than 5% to \$2,95 during 1992.

"On a trade-weighted basis it is foreseen to depreciate by from 3% to 4% up to the end of 1992."

However, Fourie warns that socio-political troubles are a risk to the BoP, although he thinks the possibility of a change in trend is limited.

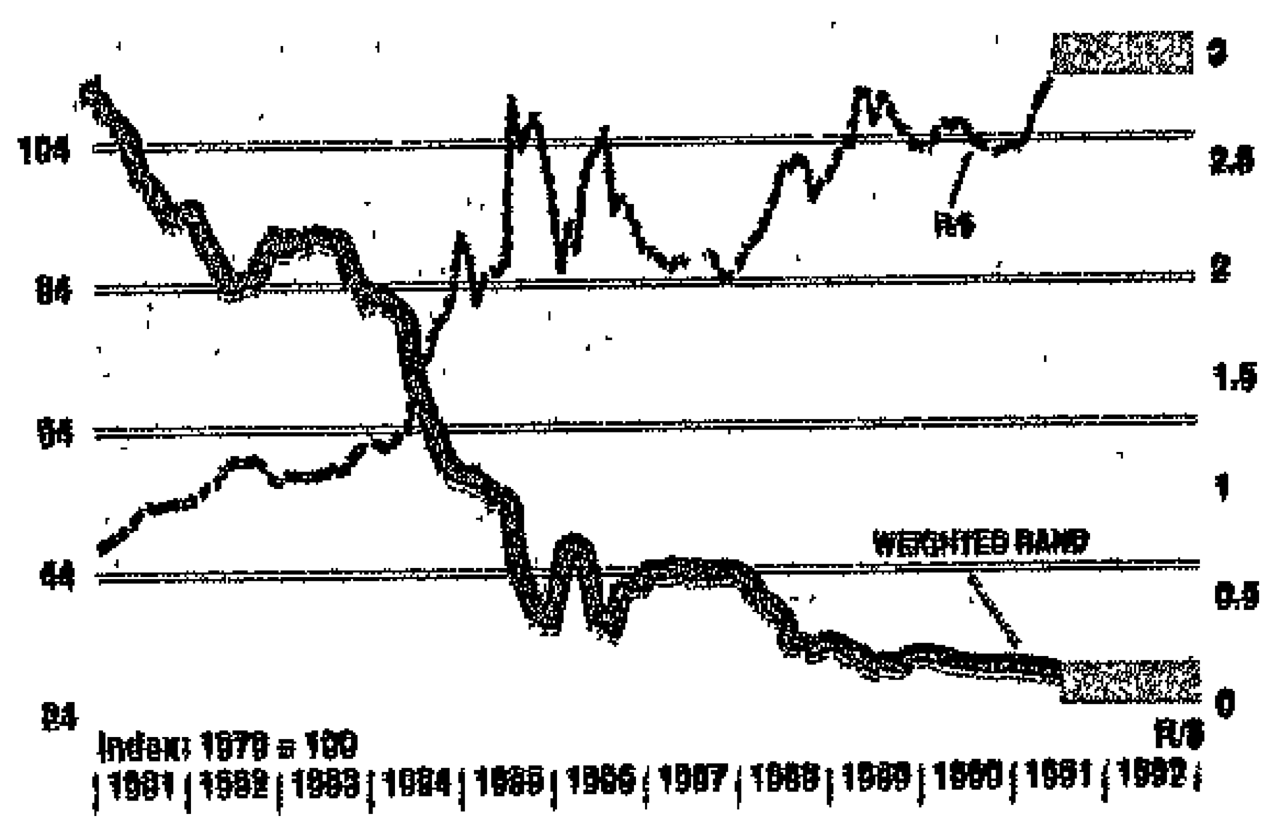
He expects the financial rand to stay in place until SA has normalised its relations with the International Monetary Fund and the World Bank "and the domestic political process has reached greater stability."

Discussing the outlook for the rand, he says four factors have to be taken into account.

These are the outlook for the dollar, developments on the SA Bop, the domestic monetary policy stance and SA's inflation rate compared with that of the US.

"The major force underlying the depreciation of the rand since February 1991 has been the postwar confidence in the American economy and the subsequent uptrend in the dollar."

OUTLOOK FOR THE RAND



But, without evidence of a meaningful revival in the US economy, "a realistic view of the US recession gained the upper hand, causing the dollar to weaken by some 7% to DM 1,74 in the month to early August."

The outlook for SA's BoP remains "fairly favourable", with indications that import volumes will be under pressure for the next 12 months and SA's foreign debt crisis may be drawing to a close.

Discussing monetary policy, Fourie expects no "notable relaxation" without a lower inflation rate.

And as the differential between SA's inflation rate and those of its major trading partners has not narrowed, "the foreign competitiveness of SA's exporters will have to be supported by a continued depreciation of the trade-weighted value of the rand over the medium term."

Little hope for lower interest rates — economist

ARG 14/8/91

(49)

JOHANNESBURG. — South Africa is definitely at the bottom of its current cyclical downturn but businessmen are going to have to learn to live with high interest rates, says Professor Gert de Wet, Department of Economics at the University of Pretoria.

He warns that with South Africa's balance of payments constraints and lack of foreign capital present policies have to be maintained.

So there will be no relaxation of monetary and fiscal discipline even when the upturn arrives.

Addressing the annual Fedhasa congress in Durban, Professor De Wet said the only way Dr Stals could lower interest rates was to create money.

"If we keep present constraints we can expect a modest drop in interest rates and an inflation rate of perhaps 12 or 13 percent.

"If we relax interest rates we'll pay the price later with an inflation rate of perhaps 20 or 25 percent and more unemployment.

"We are simply going to have to learn to live with high interest rates," he said. — Sapa.

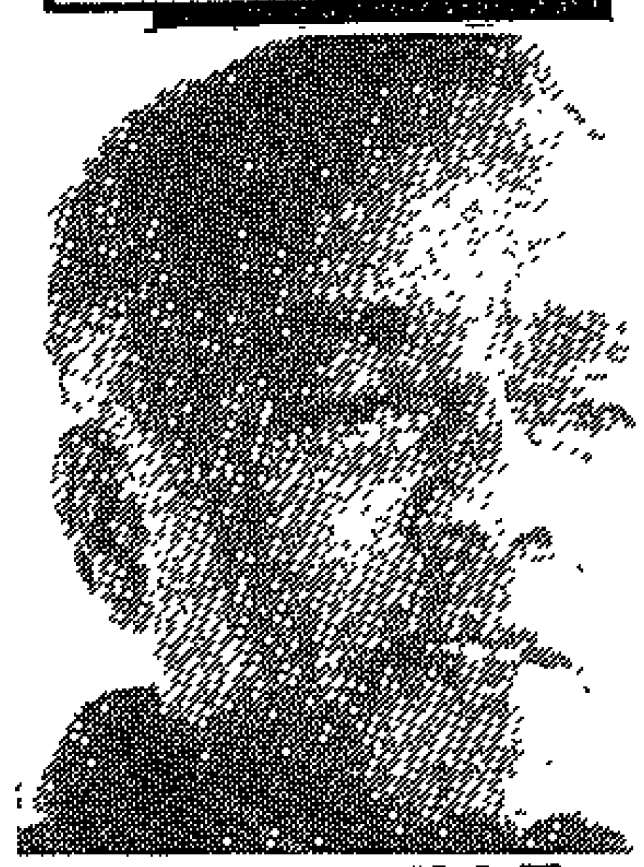
Racial capitalism in South Africa

49

So where's the new SA?

Sowetan 15/8/91

FOCUS



By NEVILLE ALEXANDER - Chairman of Workers Organisation for Socialist Action

APARTHEID, according to some people who take themselves very seriously, is dead. Consequently, if logic has any meaning, we are now living in post-apartheid South Africa.

And yet, any ordinary black worker will tell you that this "new" South Africa is exactly the same as the old South Africa.

Anyhow, all this is such patent nonsense that we ought not to irritate your readers with a serious discussion of the notion that apartheid is dead.

Reason

But there is reason to consider the fashionable idea of "post-apartheid South Africa" carefully since our people are being duped to believe that we are about to see the end of racial inequality.

Why are the "old" and the "new" South Africa identical? Why is there no difference between the two? The answer is terribly simple.

Both are founded on the system of racial capitalism. In this system the normal class inequality (eg between workers and bosses) that is brought about by the capitalist system in its chase after profits tends to take the form of racial inequality.

Poorest

That is to say, in South Africa the poorest workers are mostly black while the ruling class and the overwhelming majority of the upper middle class are white.

This kind of system is the result of the peculiar development of capitalism in South Africa, which came out of colonial conquest, the dispossession of the African people of their land and other forms of wealth, slavery, indentured labour, migrant labour, the pass system, compounds, locations, labour bureau, etc.

Racial capitalism

While the house of racial inequality, segregation or apartheid was being built, the colonial and neo-colonial builders erected a scaffolding of discriminatory laws. They began with the Act of Union (the South Africa Act) of 1909 which made provision for a whites-only "Parliament".

Then, starting with the Native Land Act of 1913, the master-builders of the apartheid state added one piece of legislative scaffolding after another in order to make sure that social inequality, the cause and the result of capitalist profit, would remain largely racial in form.

This process has continued until the present.

However, as with any other building, once it stands firmly on its foundations, once the roof has been hammered on, you take away the scaffolding. Otherwise this scaffolding gets in the way of normal living. This is what has happened with the racial laws.

For this reason Mr FW de Klerk can strut around like some great enlightened hero, pulling down not the house of racial inequality (apartheid) but merely the scaffolding of discriminatory laws.

System

If you want to see how the system does this, all you need to do is to study what happened in the USA from the late fifties onwards. That scenario will be our future. And, let me tell you, as one who has just returned from a nine-month visit to the USA, it is not necessarily a pleasant prospect at all!

A three-fifths society?

If post-apartheid South Africa goes the way of the USA, we shall see perhaps a few hundred thousand black middle-class people, professionals, academics and skilled workers, being "lifted up" into the white establishment while the overwhelming majority of black people (the working class, employed and unemployed) will remain trapped in the ghetto.

Illiteracy

A large proportion of them will tend to form an "underclass" of marginalised, demoralised people oppressed and exploited by the capitalist economic mechanisms, by drugs, by crime and by the repressive organs of the "nonracial, democratic" capitalist new South African state.

In all probability, we would become a three-fifths society, one where two-fifths of the population is expendable while the rest live in relative comfort.

We need only draw attention to some of the more obvious facts such as at the end of the last year, there was a housing shortage of some three million units (based on an average family of six people), an illiteracy rate of between 30 percent and 40 percent and an average unemployment rate of about 40 to understand that De Klerk and his team of converts from racism to nonracialism will change very little for the vast majority of our people by simply repealing the laws of apartheid.

Inequality

It is not enough to take down the scaffolding, we have to break down the house of racial inequality. Apartheid is not simply a set of discriminatory laws. It is the latest form of the system of racial capitalism in the second half of the 20th century.

It is that system that has to be destroyed if we and the next generations are ever to hope for a decent life where equality of opportunity can be realised.

Let us stop fooling our people by accepting De Klerk's definition of apartheid.

Reform calls for strong economy - Sanlam man

Sowetan 18/8/91

By JOSHUA RABOROKO

SOUTH Africa can no longer afford the poor economic growth of the past decade, says Sanlam's chief economist, Mr Johan Louw, in the latest survey.

A strong growing economy is needed to support political and social reform, and to create jobs.

Although long-term planning is being done, deterioration has to be stopped now, he says.

Upswings in the economy have traditionally been export-led. But it seems that this time the country's trading partners have growth problems of their own. And a drastic recovery of the gold price is unlikely.

Although the lifting of American sanctions is significant, Louw does not expect meaningful expansions in South African exports soon. One retarding factor is the high local cost structure.

Therefore it seems, says Louw, that a new growth phase has to be supported internally. In this regard he expects fiscal policy to be mildly expansionistic in the coming year.

But it is a pity, he says, that the expenditure of money earmarked for the upliftment of the disadvantaged, is being delayed by factors such as the continuing violence an insufficient infrastructure.

Problems

(49)

Sanlam's plea is for special efforts to spend this money faster. "If people were to see something was being done, it would undoubtedly help to eliminate dissatisfaction," Louw says.

The consistently high inflation rate is another major stumbling block.

This a reflection of structural problems in the South African economy, making it difficult to force the inflation rate down to the levels of our most important trading partners without seriously inhibiting the economy.

Louw is expecting the inflation rate to remain high this year, but to drop to about 12 percent by the end of 1992. At that stage further downward movement should be weighed up against the negative results for the economy, increased unemployment and the disruptive results for political reform.

On interest rates, he says these alone are not succeeding in sufficiently reducing private consumer spending. While one section of the population take little note, others are affected so badly that it may remove the bread from their mouths.

For many people housing is also becoming too expensive, due to high interest rates.

Whereas active stimulation of the economy is still out of the question, he believes South Africa to be moving towards a situation allowing a somewhat less restrictive monetary strategy - and a mid-drop in interest rates.

He is expecting the bank rate to be reduced by one percentage point in the last quarter of the year, and banks to lower their prime overdraft rate to 19 percent.

EAC (49)

Reformation

Two academic economists are among the 50-plus members appointed to the newly constituted Economic Advisory Council: Philip Black of the University of Cape Town and Geert de Wet of the University of Pretoria. Barlow Rand CE Warren Clewlow, chairman of the old council, retains this position and Iscor chairman Marius de Waal remains vice-chairman.

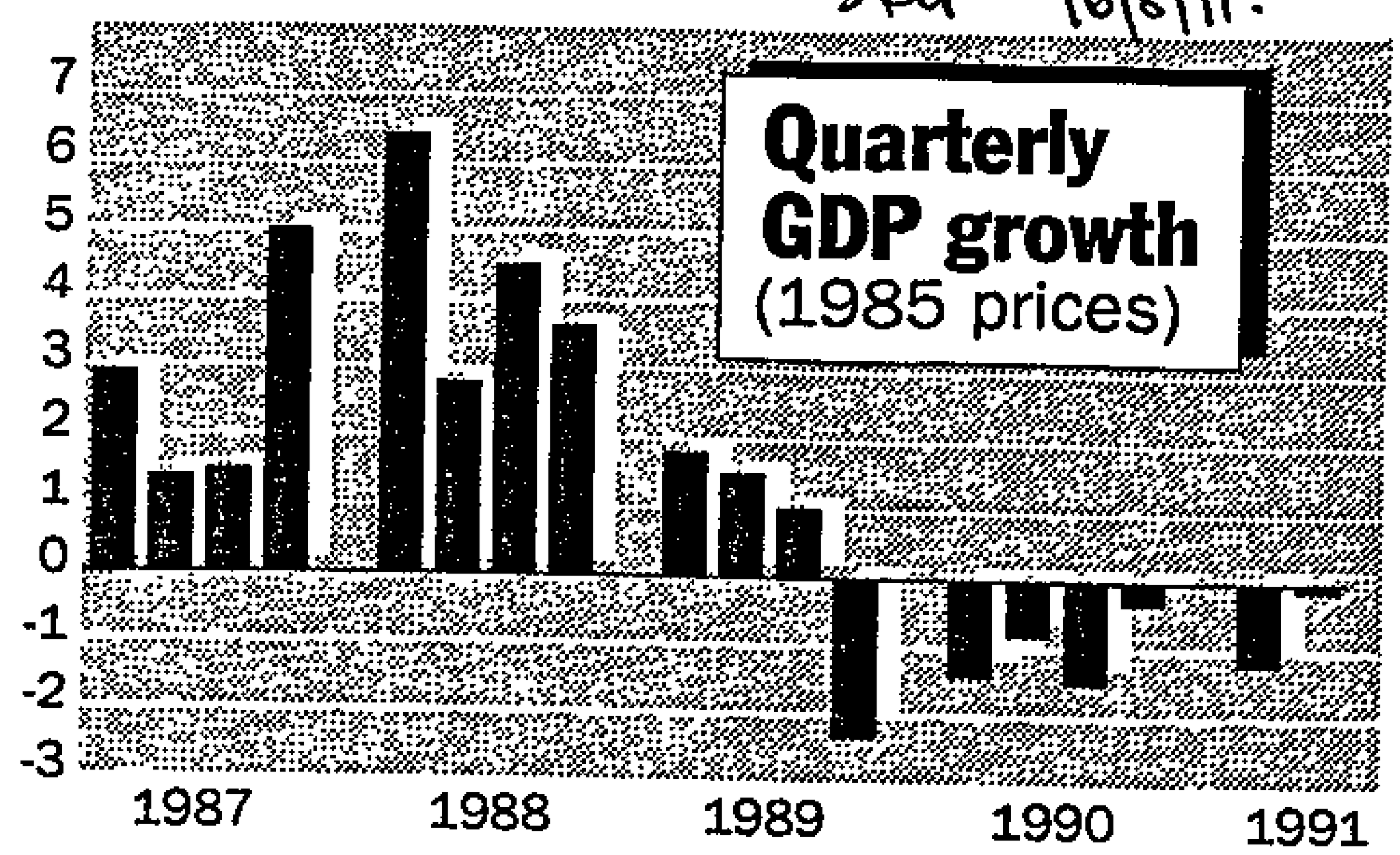
Unlike the old council, which had no representatives of organised commerce and industry, the new one includes SA Chamber of Commerce (Sacob)'s Raymond Parsons and Pierre Olivier of the Afrikaanse Handelsinstituut.

Invitations were extended to the National African Federated Chamber of Commerce and to labour organisations Congress of SA Trade Unions and the National Council of Trade Unions, to nominate representatives. The unions are still considering the invitation and provision has been made for further appointments.

The advisory council will appoint an executive committee. Given the size of the total council, it's likely to become the effective power centre. ■

Recession is still in place

Star 16/8/91. (49)



By Sven Lunsche

The economy declined by only 0,1 percent in the second quarter this year surprising most economists who had expected a larger fall in the wake of the slump in consumer spending.

However, Mike Brown, economist at Frankel Max Pollak Vinderine, warns that the figure should not be interpreted as a sign that the recession had bottomed out completely and he expects a further decline in the third quarter.

Figures released by the Central Statistical Service (CSS) yesterday show that Gross Domestic Product (GDP) at constant 1985 prices slipped to R131,6 billion in the second quarter from R131,63 billion in the first quarter.

Compared with the second quarter of last year, however, GDP was down by 0,8 percent, which Mr Brown says is a more accurate reflection of the state of the economy as both private consumer spending and fixed investment have been fairly flat over the past few months.

Exports up

A larger fall in GDP in the second quarter was prevented by three factors, a large rise in government spending, a substantial slowdown in the reduction of inventory levels by private business and the rise in exports.

While Mr Brown expects a further decrease of about 0,3 percent in the third quarter, positive GDP growth should resume thereafter. "There has been a lot of pent-up investment spending which should be released once VAT has been introduced," he says.

A breakdown of the CSS figures show that the only sector to record real growth was agriculture, up 7,3 percent.

In the non-agricultural sector real production of manufacturing and construction declined by 2,4 percent and 8,6 percent respectively. The mining industry recorded an increase of 0,3 percent compared with the previous quarter's fall of 3,4 percent.

This is the seventh successive quarterly GDP decline, which makes it the longest post-War recession.

Workers 'must lead'

(49)

Sowetan 16/8/91

SOWETAN RADIO METRO TALKBACK

By KENOSI MODISANE

RACIAL disparity can only be destroyed if workers took control of the economy in South Africa, Dr Neville Alexandra said yesterday.

Speaking as guest on the *Sowetan*/Radio Metro Face the Nation show, Alexandra said: "Trade unions must first unite and be independent of political parties."

Alexandra, who is chairman of the Workers Organisation for Socialist Action, added: "Our purpose is to work for the establishment of a mass socialist movement which will benefit the mass of black workers in a future South Africa.

Asked if foreign investors would not be scared off if workers took control of the economy, Alexandra said: "The question of foreign investment will always stay in the forefront because of the investors' interest - who are obviously capitalistic.

"But we must move away from a system where the key means of controlling the economy and wealth of the country are in the hands of private persons if we wish to achieve equality in South Africa.

"People should decide the kind of system they want to live in."

Alexandra, who has just returned from the United States on fellowship, added: "It is not true that the South African Communist Party is the only group representing workers.

"We at Wosa are not prepared to tie ourself to any major liberation movement."

Nafcoc meeting to focus on economy

Sowetan 16/8/91 (49)

Business Reporter JOSHUA RABOROKO previews the important Nafcoc conference which starts this weekend.

THE present debate on the economic and political future of South Africa underscores momentous challenges facing the country.

For instance, the unbanning of the major resistance movements presages a period of political, economic and social transformation.

People and organisations across the social, economic and political spectrum are also wrestling with vital choices which could alter the course of history.

One such organisation is the National African Federated Chamber of Commerce, which tackles the impending economic transformation and black economic empowerment at its 27th annual conference at Sun City near Rustenberg, starting on Sunday.

Under the theme "The new South Africa: Opportunities for black economic empowerment", about 1 500 delegates are expected to adopt a new constitution which the chamber believes will be essential to its future development.

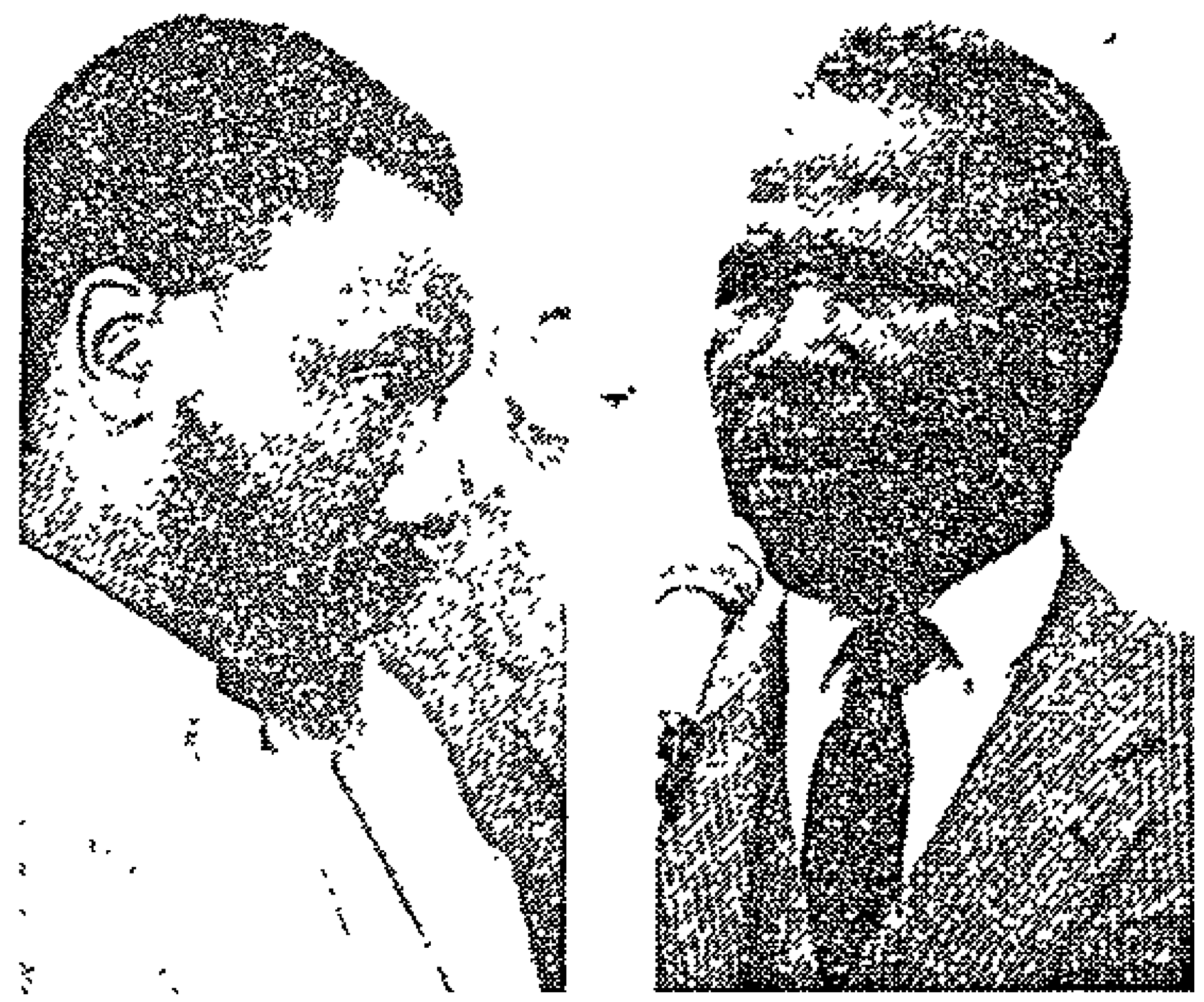
One of the most important resolutions to come from previous Nafcoc conferences was one urging an economic conference involving all key players to map out a clearly defined economic policy proposal.

In accordance with the resolution, the Nafcoc council decided to establish an economic commission whose research functions and responsibilities centred not only around the organisations of workshops, conferences and collating data, but also commissioned specific studies into various aspects of the economic and sociopolitical *milieu*.

Seminars

During 1990 the Nafcoc economic commission was responsible for organising a successful conference in Transkei; and also an important workshop on the land issue in Johannesburg towards the end of the year.

During 1991 several workshops were held, at which specific attention was given to other sectors of the economy. Such workshops were attended by representatives from ANC, PAC, Azapo and the Black Consciousness Movement.



ANC's Cyril Ramaphosa and PAC's Clarence Makwethu will deliver keynote speeches.

The main objective in arranging such workshops and seminars was to enable Nafcoc, in the long run, to formulate an appropriate and sound macro-economic policy framework that enjoys the widest public support in the country.

Nafcoc executive director Mr Mofasi Lekota said that the theme of the conference was in line with the findings of the commission, which would make recommendations to the members.

It was important that members look at the opportunities for black business after restrictive laws, including the Group Areas Act, the Land Act, and other laws regarding blacks, are scrapped.

The conference will be addressed by various speakers from different schools of thought and it is hoped that far-reaching decisions, including the future economic policy that will be operational in the post-apartheid South Africa.

ANC secretary-general Mr Cyril Ramaphosa will open the conference, which has been urged to organise and enable black business to participate fully in the current debate on the framing of an appropriate economic policy for South Africa.

Other keynote speakers include PAC president Mr Clarence Makwetu, Azapo president Mr Pandelani Nefolovhodwe, University of Cape Town vice-chancellor Dr Mamphela Ramphele and Dr Ali Mazrui, director of the Institute of Global Studies at the State University of New York (Binghamton).

Sanctions

An important highlight of the conference will be the presidential address to delivered by Mr Sam Motsuenyane.

Apart from the economic empowerment issue, the conference would lay groundwork for the chamber's post-sanctions role in trade with other countries, especially with neighbouring African states.

Lekota said: "We foresee an important issue will be co-operation with other southern African countries in trade and development and the formulation of strategies to increase the asset base of our members and the GDPs of the country and region.

"Nafcoc recognises the urgency of the need for foreign investment, once the sensitive issue of sanctions has been resolved, to enable the country to carry the financial burden of the problems of a post-apartheid South Africa.

He said restructuring has enabled Nafcoc to double its membership to more than 100 000 in the past year.

The 27-year-old chamber has decided to shift from accepting only regional organisations as members to such national bodies as the 400 000-member African Council of Hawkers and Informal Business.

It has also broadened its membership by embracing the building and the taxi industries and indications are that it will venture into other sectors of the informal business, such as the stokvels and burial societies.

The chamber will also prepare the ground for its mission to sell the new South Africa to the rest of Africa.

Nafcoc has also relaunched an educational committee to look into the crisis in black education.

Mofasi said the aim of the committee was to train blacks to become not just job-seekers, as in the past, but job creators who used their entrepreneurial skills for the benefit of the community.

Delegates will also discuss the violence that has gripped the country and affected most businesses.

"The bloodbath in the townships is disturbing and needs serious attention by leaders of the warring groups. Let us stop this violence," Lekota appealed.

Plans are also afoot to merge Nafcoc with the Foundation of African Business and Consumer Services and the whites-only South Africa Chamber of Business. Meetings, fully backed by the ANC, have been held in this regard.

To this end Nafcoc has open its membership to all people who subscribe to the principles enunciated in its business charter - the key element being removal of racial discrimination in South Africa.

Downward trend in GDP stemmed

49 CT 16/8/91

By AUDREY D'ANGELO
Business Editor

THE downward trend in SA's gross domestic product (GDP) — which had lasted for 18 months — was arrested in the second quarter, according to figures released yesterday by Central Statistical Services.

These show that the growth rate was almost static from April to the end of June. It fell by only 0,1% compared with a fall of 1,2% in the first quarter.

However, the only real growth was in the agricultural sector. Its growth rate rose by 7,3%.

The decline in the non-agricultural sector as a whole slowed to 0,4% from 1,7% in the first quarter.

But growth in the manufacturing sector fell by 2,4% in real terms and in the construction industry by 8,6%, showing that the recession was by no means over.

The mining industry increased production by 0,3% compared with a fall of 3,4% in the first quarter.

Sanlam chief economist Johan Louw and First National Bank chief economist Cees Bruggemans said yesterday that these figures indicated that the recession had bottomed out, although they stressed that there would be no quick recovery for the economy.

But Old Mutual chief economist David Mohr warned:"If you exclude farming from these figures, there does not appear to be any signal of bottoming out.

"The falling growth in manufacturing and construction show the underlying weakness of the economy."

Louw said the figures as a whole were "somewhat better but it is very obvious the economy is still in a recession. It does not look as though we will move out of it before the end of the year — especially with interest rates staying at such a high level."

Warning that there were "still rough times ahead", Louw continued: "Our latest guess is that the consumer price index for July will have moved up to 15,4% from 15,2%.

"We see it staying at that level even in August. We think there will be a dip in September but the introduction of value added tax (VAT) in October will send it up to 16%."

Louw said the rise in agricultural production did not necessarily mean lower food prices.

Bruggemans said the end of the decline in GDP did not surprise him at all.

SA must be wary of carpetbaggers bearing foreign aid

BDay 16/8/91

EDWARD OSBORN

(49)

LORD BAUER, one of the world's leading development economists and an arch-critic of foreign aid, has said "God did not create the world in two parts, one developed, the other undeveloped".

What he meant was that countries have emerged from poverty to prosperity without aid or donations. Aid is not a precondition for growth or the elimination of poverty.

Indeed there is an appalling record of misuse of aid. Aid intended for the benefit of the population and in particular the poor, has too often gone straight towards propping up bad governments.

Foreign aid results, too, in a syndrome of dependency. Where the aid has failed in achieving growth, more and more is requested.

Too often foreign aid has gone into projects that are inherently uneconomic — prestige projects usually designed to underpin the popularity of the ruling party. Often the aid has taken the form of concessional soft loans, and massive foreign debt has accumulated without contribution towards either the servicing or redemption of those loans, flowing from projects. They become a continuous drain on the country's resources.

The very availability of aid is itself corrupting in that it leads to the misallocation of resources, and either neglect of or lax attitudes towards economic appraisal and standards. Projects are judged on their prestige rather than on their necessity and economic benefit.

But perhaps the saddest part about foreign aid is that it is not entirely altruistic. There is competition among donor countries to demonstrate their beneficence, and castigation of those, like Japan, which have until recently been somewhat laggard in their efforts.

In practical terms development aid is very much a form of export promotion. Nearly two-thirds of capital and commodity aid, and even a higher proportion of technical assistance, is tied, in the sense that the supply of the goods and services have to come from the donor country. The benefits go directly to the domestic industries, consultants and bankers of the donor country.

Trade patterns become distorted. The freedom to choose the goods and services required for development is disrupted and, furthermore, the recipient country becomes tied to the donor country for repeat orders and services, regardless of the suitability of the products.

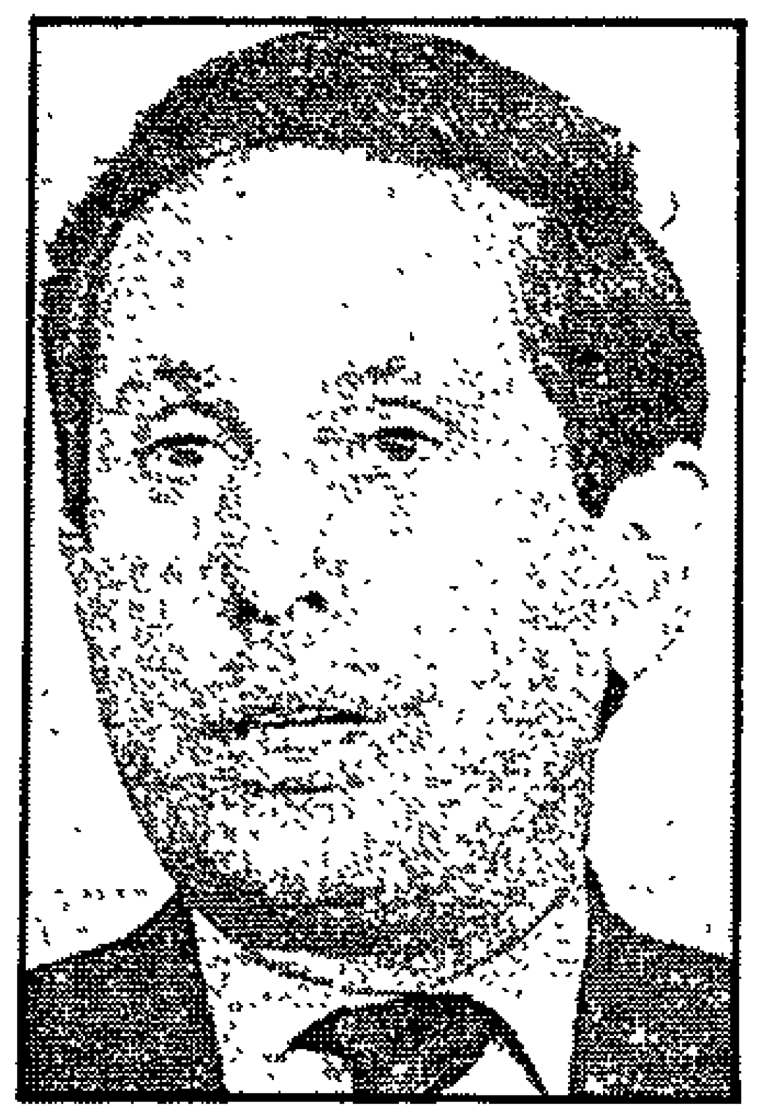
A further weakness is the tendency on the part of donor countries to limit their aid to capital projects without regard to the capacity of the recipient country to maintain and run the projects. Many such projects have been abandoned in Africa because of a lack of skilled operators, and perhaps a lack of funds for the purchase of materials and fuels. This situation arises because the kudos are attached to the capital project itself rather than to such mundane aspects as training of technical and administrative staff.

Marshall aid was the first instance of international foreign assistance. This was wholly successful because of the unique combination of muscle, determination and intelligence on the one side and altruism on the other. Since then foreign aid has grown tremendously through the multilateral agencies, such as the World Bank and the International Finance Corporation, and bilaterally between donor and recipient countries.

Foreign aid is by nature an interference with international and domestic market forces, which, as already seen, can be baleful. On the other hand it can be advantageous, for example in the removal of foreign currency bottlenecks.

It is difficult to assess whether foreign aid has been successful overall in its promotion of economic growth. There are a number of cases — Korea, Taiwan, Greece and Israel — where it undoubtedly has played a critical role in getting a country on to a growth path. But the position is not clear cut for sub-Saharan Africa.

Despite the billions of dollars of aid poured into the continent, there has been a serious decline in national income and a spread of poverty. Nevertheless, there is the nagging thought that matters may have been worse in the absence of aid.



☐ US Congressman Stephen Solarz

Foreign aid, in its guise as a redistributor of resources, receives its ongoing justification from the great wealth differential between North and South. But it is boosted from time to time when massive reconstruction is necessary, or decolonisation occurs or, as in the case of SA, there is to be a transition to a more internationally approved order.

The international gravy caravan moves from country to country as it comes under the international spotlight, and there is a flurry of intensive carpetbagging by governments, consultants, and salesmen. In the mistaken belief that there is something for nothing, or at least without economic cost, countries will grab as much of the aid going as possible, and they know that they have to do it quickly, as the caravan will be moving on to the next oasis of attention.

It would indeed seem curmudgeonly and foolish if SA were not to accept the foreign aid being promised it, but we should be very careful about the terms and conditions associated with the aid.

In the first place, there should not be a loss of sovereignty in the area of economic policy. The recently proclaimed Solarz plan of congressional aid has reached the pinnacle of arrogance in attaching conditions "characterised by commitments to economic liberalisation and growth of the private sector".

Such aims are laudable, but they are not relevant for the intended uses of the aid transfers. It is also breathtaking crassness to disregard existing development structures in SA and call for a new SA Development Bank as a "credible vehicle" for channelling the assistance.

Secondly, there would appear to be no real need for SA to have project aid and commodity aid entailing a tied supply of goods and services. SA's balance of payments is, and should remain, sound. If for any reason there is a temporary balance of payments problem, there should be access to IMF credits to fall back on. There is no justification in terms of a foreign currency dearth for a distortion of foreign trading patterns and freedom of choice.

Thirdly, SA should not succumb to offers of soft loans, as this would entail a complete disregard for the iron discipline of the process of setting priorities and dispassionately assessing the economic value of projects. Furthermore, there is neither virtue nor advantage in building up foreign indebtedness, to which the related projects can make no contribution in terms of servicing projects or redemption, because they are economically sterile.

SA is in a far better position to determine its own development needs and structures. It must not be hassled into undertaking foreign assisted projects to suit donors simply because aid is being pushed at the country.

Fourthly, far more would be achieved for the domestic economy and for the creation of job opportunities and reduction in poverty levels if the aid were transformed into the opening up of trade opportunities in the would-be donor country. But unfortunately this would quickly run foul of protectionist lobbies.

So, finally, if aid flows must take place then they should be channelled through SA institutions and structures into spheres of enduring value for SA. This, undoubtedly, will be humanitarian aid, pre-eminently to education, technical training, housing, and health. They all contribute to enchancing the human capital of the country and, coincidentally, the technical assistance and aid flows would help to ease the burden on the state budget.

☐ This article appears in the latest Nedbank Guide to the Economy to be published today. Osborn is head of the Nedbank Economic Unit.

Economic power issue

The Argus Correspondent (4) ARG 16/8/91

DURBAN. — Economic transformation and black economic empowerment will be the main issues at the 27th annual National African Federated Chambers of Commerce conference next Monday. African National Congress's secretary general Mr Cyril Ramaphosa will open the conference at Sun City in Bophuthatswana, Nafcoc announced.

The conference will also lay the groundwork for the chamber's post-sanctions role with other countries.

The theme of the conference will be *The New South Africa: opportunities for black economic empowerment.*

WAGES AND ECONOMIC GROWTH FM 16/8/91 49

Slicing the pie — not pie in the sky

Targeting money supply growth is generally seen as a way of containing inflation. More precisely, it is a mechanism for restraining the rise in nominal demand.

"This is as much as governments can do," says Simpson McKie's Graham Boyd. "What they can't do, is determine what proportion of growth in nominal demand is the result of real growth in output — and how much is attributable to rising prices."

Put another way, policymakers may set one side of the equation, but the relative increase in components of the other side (rising productivity + rising prices) depends on factors outside their control. What is clear, though, is that for any given growth in nominal demand, the lower the rate of inflation the greater the rise in real demand.

This is why the tentative move to link pay rises to profits and/or productivity has much potential for real growth. Recent settlements between the Chamber of Mines and National Union of Mineworkers and, to a lesser extent, National Association of Automobile Manufacturers of SA and National Union of Metal Workers of SA (Numsa), established an important principle: that there is a connection between output and an increase in real income.

Once this is acknowledged, wages become flexible downwards (in real terms), which allows more scope for real productivity. The effect is fewer retrenchments, lower increases in unit labour costs and greater export competitiveness.

The mechanism for achieving the link is, of course, fraught with difficulties. This is illustrated by the different agreements.

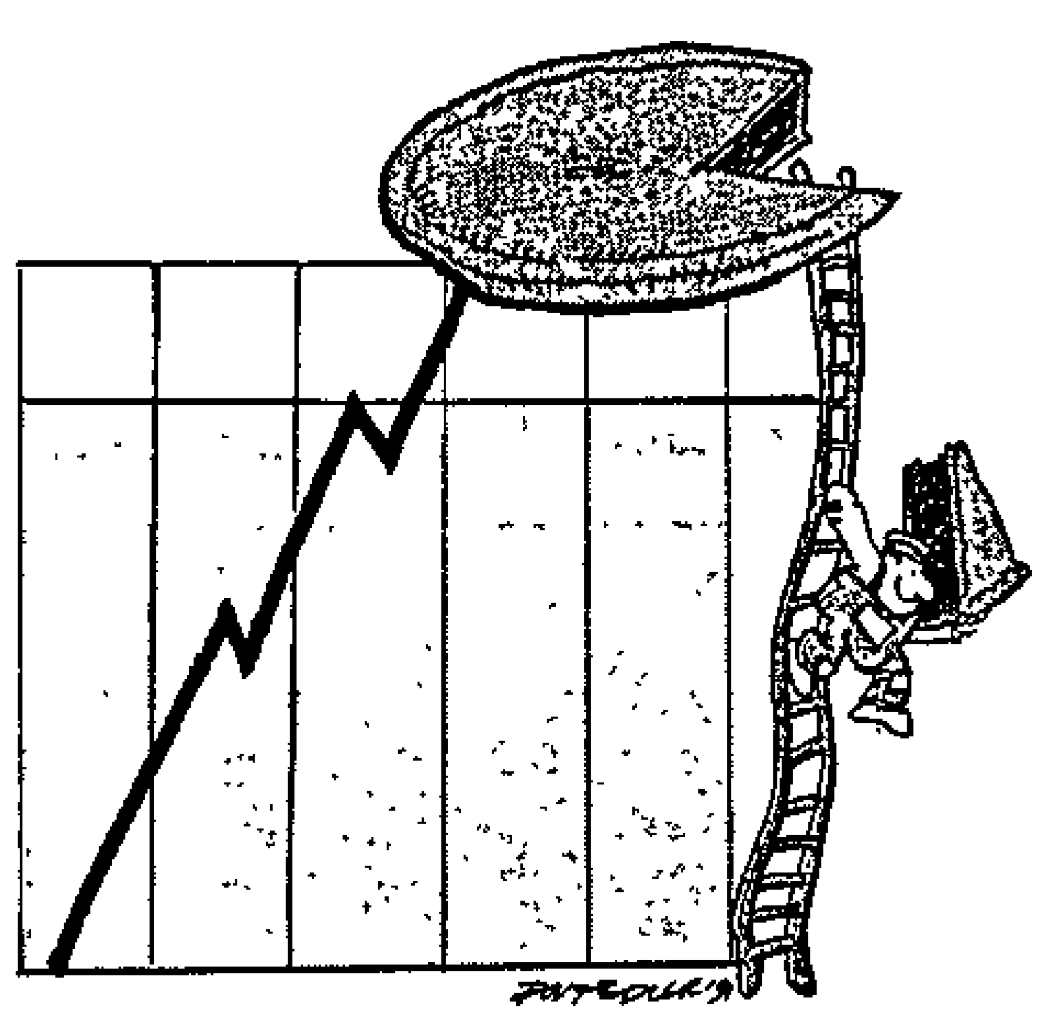
In the case of the metal workers, the agreement is that, provided certain productivity targets are attained, there is to be a moratorium on retrenchments. So little more than a principle has been established.

In the case of the gold mines, the price of the commodity provided a convenient peg for the settlement and the agreement could be better tailored to the needs of the situation.

Though productivity incentives are to be negotiated on individual mines, a major ingredient in the formula is the price of gold — for every R500/kg that the metal moves above a trigger of R33 750/kg, 1% is added to workers' basic increase of 5% for the year. (The limit is an additional 7%.)

"Significantly," says Chamber senior economist Francois Viruly, "the union has acknowledged the distinction between profitable mines and those in trouble" — the gold bonus applies only on mines where the ratio of profit to revenue is 5% or more.

But a range of problems has been revealed by an ILO survey of incentives, says Andrew Levy & Associates' Pat Stone. "Critics argue that output of modern industry doesn't depend only on the contribution of workers but on the capacity of machines and the organisational skills of management. The ILO found that factors that favour the use of incentive schemes in developing countries include the low degree of mechanisation that characterises the production process."



So far the concept has not been widely implemented.

In most EC countries, there is no explicit link between profit or productivity and wage settlements, says Matthias Boddenberg of the SA German Chamber of Commerce. "But all parties know the state of the economy. This sets the tone for negotiations."

In Japan, says US labour lawyer Bill Gould, profit-sharing takes place "theoretically, because of the large amount of compensation paid in the form of bonuses. But it is not at all clear that they are directly correlated to profitability."

In the US, he says, though the bonus phenomenon is increasing, the link between profit and bonuses "is even less clear." Nevertheless, research indicates there is a relationship between profit-sharing and productivity. "This isn't definitive or conclusive but there are a number of positive examples where productivity has been enhanced."

Whatever the problems, there is a strong case for exploring the potential of such agreements.

Difficulties may well be perceived rather than real. "There was a case in the US," says Gould, "when the rank and file of workers at Chrysler voted down profit sharing because of their suspicions, when in fact it would have benefited them."

Employers too have reservations which may be rooted in short-term decisions. Says Gould: "Corporations are more interested in sharing profits when there are none."

For such wage agreements to have macroeconomic benefits, they would have to be introduced widely and through both legs of the economic cycle. However, trade unions may prove tepid.

Says Numsa's Bernie Fanaroff: "We don't accept the link between productivity and low wages. To improve efficiency and competitiveness, a range of remedies is required, including training, reorganisation of production, more research and development."

Business, too, can only maximise the benefits if workers' skills improve. Says Steel & Engineering Industries Federation (Seifsa) chief economist Michael McDonald: "Our capital is enormously under-utilised: the main reason is lack of skilled labour."

He suggests that this is the point in the economic cycle when employers should be directing efforts into training. That they are not may be a short-termism.

Another perceived obstacle on the part of employers may be the need for full disclosure to unions — a principle accepted in EC countries. This effectively involves unions in management decision.

But if labour bodies and employers could overcome reservations about the system, they would benefit in a variety of ways, not least in a more efficient allocation of resources, says Econometrix's Azar Jammine.

In SA, blighted by inflation for the best part of two decades, such wage agreements would go a long way towards realising economic potential. ■

EXCHANGE CONTROL FM 16/8/91

Softly, softly

The Reserve Bank aims to plug loopholes, in foreign exchange regulations, enabling importers of computer software and other intellectual property to export funds illegally.

It is understood that some importers have over-invoiced when buying software abroad. Reserve Bank GM Foreign Exchange John Postmus says the Bank expects to devise an improved mechanism for controlling these imports within a few weeks.

Commercial banks have already been told that the Bank must be informed of foreign exchange requests from software importers *before* such transactions can be authorised. Frequent importers can apply for blanket foreign exchange approval, provided they supply documents to support the values attached to the products, says Postmus.

He acknowledges it is difficult for the Bank to verify the values importers attach to software products. One option is the use of independent valuers, similar to those used by the Bank to check declared values of other imported goods, like capital equipment.

Continue -17

No room for cut in rates

Star 17/8/90

(49)

SVEN LUNSCHE

The recent consumer and producer price increases have left no room for a reduction of interest rates in the near future, says senior deputy general manager of the Reserve Bank, Dr Jaap Meier.

Dr Meier said in an interview yesterday that despite a continued drop in economic output "we cannot see a reason for easing monetary policy as yet".

He was commenting on economic growth figures, released earlier this week which showed that gross domestic product in the second quarter this year fell for the seventh quarter in succession, although the decline of 0,1 percent was marginal.

Dr Meier said there was evidence that the economy had definitely bottomed out. The Reserve Bank's leading indicators had been going up for the first few months of the year, which was a pointer to an economic recovery towards the end of this year or early 1991.

He said that the fall in GDP in the second quarter had been limited by higher government spending and a lower reduction in inventories, which partially offset the continued contraction in private consumption expenditure.

Third World 'must provide good govt'

(49)

LONDON — Third World regimes must respect human rights and provide "good government" if they want Western economic aid, says Britain's Overseas Development Minister.

Writing in the Sunday Times of London, Lynda Chalker said taxpayers "were repelled" by aid going to corrupt, oppressive regimes.

"For 20 years, smart opinion dubbed any criticism by Western countries of the political systems of developing countries as 'neo-colonialist'. Like much of the conventional wisdom of the period, this was claptrap.

"Errant regimes can no longer cloak their authoritarian tendencies in Marxist jargon or look to a superpower to bail them out." Star 19/8/91

She defined good government as sound economic and social policies, government accountability and respect for human rights.

Britain had cut off all but humanitarian aid to Sudan, Somalia and Burma. — Sapa-AP.

Govt spending 'will be within budgeted figure'

By Sven Lünsche Star 19/8/91.

(49)

The government is confident that its expenditure levels will not exceed budgeted targets in the current fiscal year.

And it added some value to its claim when the Department of Finance announced in the latest Government Gazette that total government spending for the first four months of the 1991/2 fiscal year was up by 14,2 percent on the same period last year — total expenditure for the year is budgeted to rise by 15,1 percent to R85,985 billion.

Economists were pessimistic that the government would manage to maintain its spending to targeted levels after expenditure increased by 35,5 percent and 23,9 percent in April and May respectively on the same months last year.

However, total exchequer issues were only 0,9 percent higher in June and in July were almost seven percent lower than on the same months last year.

Thus in the first four months of the year government expenditure amounts to R26,048 billion, which is 30,2 percent of the total budget for the current fiscal year.

Gerhard Croeser . . . revenue collections are running substantially behind targets.

Commenting on the figures the director general of Finance, Gerhard Croeser, said in a statement: "The government is fully determined to keep state expenditure strictly under control and thus within the budget.

"As the government is also committed to its programme of economic restructuring and to the long-term fiscal goals of income tax relief and a reduction of the budget deficit before borrowing, it can be taken that the expenditure level of R85,95 billion will not be exceeded."

However, revenue collections are running substantially behind targets.

Total revenue in the first four months showed an increase of only 1,5 percent to R20,908 billion, against the budgeted 11,1 percent rise for the full year.

In April and May total receipts were 6,7 percent and 9,2 percent higher than in the same months last year, but revenue plunged by 16,3 percent year-on-year in June and rose again by 8,5 percent in July.

Mr Croeser says the decline in June could be ascribed chiefly to arrear customs union payments for fiscal 1990/91 and to advances to subsequent customs unions payments.

He adds that the low growth in tax revenue so far this year was also the result of a relatively high tax base in the first four months of the previous fiscal year, as changes to income tax legislation only took effect in July 1990.

He was confident that revenue for the full fiscal year would not deviate significantly from budgeted levels, although the introduction of VAT and the subsequent deferral of spending on capital and intermediate goods, had adversely affected GST collections.

Turning to the budget before borrowing Mr Croeser said the gap between revenue and expenditure totalled R5,14 billion so far this fiscal year.

He was, however, confident that the adjusted deficit before borrowing for the whole year would be maintained at R9,168 billion, excluding a one-off capital expenditure programme of R1,95 billion.

As a percentage of GDP this was in line with the internationally recommended level of three percent.

Striking a balance between economic and political reform

BDay 19/8/91

CHARLES SIMKINS

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POLITICAL economist John Sheahan observes that economic policy in support of democratisation must meet two conflicting requirements. On the one hand, economic growth requires the ability to limit claims which would seriously damage efficiency or outrun productive capacity. On the other hand, policy must deliver sufficient fulfilment of politically aware groups' expectations to gain and hold their acceptance.

Both external economic circumstances and internal political conflicts are capable of rendering impossible the striking of a viable balance between these requirements, with the result that the process of democratisation aborts. The position is complicated in countries which have long histories of import substitution resulting in high levels of protection but which now need to reorient themselves in order to promote exports.

In such cases, the timing of structural adjustment and increases in domestic demand pose tricky problems of economic management. The overall objective must be to permit the most rapid and broadly based rise in domestic demand while maintaining external balance, subject to the constraints arising from the domestic labour market's structure.

Part of successful management must involve the greatest possible exploitation of the new willingness to co-operate induced by the democratisation processs itself. Adroit proposals are needed which reduce initially high risks and increase incentives to support economic growth among the principal parties at each stage in the process. Intelligent international support allowing constraints to be relaxed at crucial junctures is also important.

It is sometimes supposed that the transformation of an authoritarian regime into a democracy is a fragile process, for the success of which a range of necessary conditions has to

In particular, it is argued both that a democracy has small chance of survival if it does not deliver social and economic improvements for the population at large, and that democracies are unable to administer the economic medicine required by crisis conditions.

But a study of Latin American countries since 1982 found that democracies not only handled economic crises as effectively as authoritarian regimes; they also achieved a far better record of avoiding acute crises in the first place.

The puzzle turns out not to be the fragility of democracy, but its vitality. On the one hand, democratic governments that displace highly repressive or widely discredited authoritarian regimes may count on special reserves of political support and trust to carry them through economic crises. On the other, elected officials may understand the self-defeating nature of enhancing their legitimacy by delivering material payoffs to the bulk of the population, even at the cost of financial disaster.

In SA one of the more encouraging features of the economic evolution in the past few years is that, although real per capita incomes declined, the distribution of income improved to households in poverty did not increase between 1985 and 1990. It probably declined slightly despite a drop in real per capita incomes.

The burden of the decline has been borne by the relatively well-to-do, if not by the very rich. But this trend is unlikely to be sustained in the face of further economic decline.

On the contrary, the prospects for the poor will be served by rapid economic growth; far from there being a conflict between growth and equality in SA, the two processes will reinforce each other, especially given appropriate policies.

In the light of the importance of a widespread improvement in standards of living to the sustenance of the process of democratisation, it is in the interests of all parties who desire a negotiated settlement to support developments which increase growth.

But where is this growth to come from? All the contemporary evidence suggests that the balance of payments is critical. It is possible to argue in theoretical terms that there ance of payments constraint. But there is no policy purchase to be had from a static comparison between our present situation and a superior one. A path from the one state to the other has to be specified.

There are two difficulties in doing so. Firstly, the path to a better state depends on what other countries are doing — as the existence of the GATT system testifies. Secondly, since the process has to be supported politically, the distribution of the costs of adjustment born by domestic actors has to be taken into account. Either the costs have to be imposed unilaterally by the exercise of political power, or compensation has to be negotiated. Interest group battles over the determination of the various aspects of balance of payments policy are central.

Another major determinant of macroeconomic policy in recent years is the desire of the state not to make itself vulnerable to international political pressure through loss of control over external balances. This would have meant risking the loss of control over the timing and extent of concessions.

Monetary policy, for instance, has been discussed mainly in terms of domestic variables, notably the rate verse developments on the short-term capital account must always have been a major consideration. Here, analysis of domestic interest groups does not help at all; it will take favourable developments on international markets or purposeful risk reduction to permit a more expansionary policy.

A further issue involves efficiency gains from improved taxation and expenditure policy. So far, discussion of the economic role of the state has consisted largely of old-fashioned arguments over size and ownership, which have been driven by (often imaginary) conceptions of political interest.

But a determined effort to raise popular living standards will require quite a different approach. Its principal component will be a restructuring of government expenditure, particularly that relating to social services, urban infrastructure and rural development, in order to create new opportunities for formerly discriminated against or excluded groups. There are more gains to be had from restructuring the expenditure side of government economic activity than from changes on the revenue side.

At the political level, SA needs a deeper analysis of fundamental concepts — power in its various aspects, the nature and dynamics of transition, the incentives facing various actors and their strategic choices, the real scope and prospects for legality and, above all, whether steering capacities are being lost or gained by the political system.

The quality of the terms on which the new public order is created will depend on the efficacy with which the private sector can function and evolve. For this reason, and because it requires rather more than animal spirits, it is the quality of what goes on in the public sector that is the test of the degree of civilisation achieved in any society.

☐ **This is an extract from Prof Simkins's inaugural lecture last week. He has been appointed to the Helen** [illegible] **Economy**

Govt puts brakes on its spending

SHARON WOOD (289)(49)

GOVERNMENT managed to halt spiralling expenditure in July but revenue lagged again, widening the deficit to R5,14bn from April to July.

Economists said the figures showed that government was taking the expenditure problem seriously and had "put on the brakes". B Day 19/8/91.

Expenditure was contained to a 14,2% rise from April to July — below the budgeted 15,1% rise. Expenditure fell by 7,0% in July after increasing by 0,9% in June.

Thus it slowed from the "exceptionally high" rises of 35,5% and 23,9% in April and May this year.

The figures released by the Finance Department on Friday show revenue inched up by 1,5% from April to July. This is significantly below the expected 11% rise.

Total collections plunged by 16,3% in June and were expected to rise by about 8,5% in July.

Customs Union payments of R444,5m were the reason for the slide in revenue in June and growth came off a high base last year, said Finance Department deputy

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Spending B Day 19/8/91.

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director-general Estian Calitz.

If the customs unions payments were excluded from the figures, revenue would have risen by 11,5%.

"The comparatively low growth in tax revenue does not in itself therefore give cause for concern that revenue for the full financial year will significantly deviate from the budgeted level," he said.

Calitz said the introduction of VAT would influence expenditure patterns and would adversely affect GST collections.

The slowing in spending quelled recent fears in the market that government was losing control of expenditure and that larger government financing needs would place pressure on the capital market.

Calitz said the Finance Department did not expect to have to finance a wider deficit this year and spending and expenditure would meet their targets by March.

A Standard Bank economist said government had put on an "emergency brake" after the year started with spending looking as though it was out of control.

"We will have to see over time whether they can continue to contain spending."

THE MONEY MARKETS by Andrew Gill.

Flush month-end facing Reserve Bank's treasury

BDay 19/8/91

THE Reserve Bank is about to tackle one of the flushest month-ends in a long time as maturing government stock, special TB's and dollar swaps, as well as hefty government interest payments, test the resolve and resources of the Bank's treasury.

No doubt every effort will be made to mop it up, but a wayward shortage could crop up once or twice.

This week will see the maturity of three special TB tenders, one for R800m on Tuesday, one for R500m on Wednesday and another for R500m on Thursday. This R1,8bn will be partly compensated by GST outflows, but "mega" dollar swaps entered into by the Bank are also coming up for maturity.

About R2bn in government stock is maturing at the month-end but 75% has been rolled over in a new three-year issue. About R500m is expected to be left, creating more liquidity problems.

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Topping this, government interest payments of R1,5bn are coming into the system on August 31.

Leaving the system is mining tax payments but this figure is unlikely to be large. Also provisional tax payments will flow out.

The possibilty of the outflows in any way compensating for the inflows is minimal. Some concerted rolling is expected of current special issues and dollar swaps, which stand at about R2,7bn.

A new special TB issue over month-end, combined with dollar swaps, is a strong possibility. However, the market is already effectively in surplus with about R900m in dollar swaps still to mature and the R1,8bn in TB's.

Governor Chris Stals is unlikely to let the shortage dip too low and risk giving the wrong message after last week's shocking producer inflation figures.

It was the first time in weeks that an indicator moved rates, with NCDs on the longer end came right back to where they had started the previous week.

54 appointed to economic council

Star 21/8/91 (49)

CAPE TOWN — The names of 54 appointees to the new State President's Economic Advisory Council were released yesterday, but representatives of two major union groupings and the National African Federated Chambers of Commerce (Nafcoc) were not among them.

President de Klerk said in a statement that organised commerce, industry and labour had been invited to submit names from which a representative of these organisations would be appointed.

"In this connection, the invitation to Nafcoc, the Congress of South African Trade Unions and the National Council of Trade Unions is still being considered by these organisations, and depending on their response, further appropriate appointments to the Advisory Council will be made in due course," he said.

Mr de Klerk said Warren Clewlow would chair the new council. The three-year term of office of the former council, which had given valuable advice on the formulation of Government policy, had expired on June 30.

As before, the council was being composed to provide for broad representation from the private sector. The contribution of the various sectors in the economy to the gross domestic product had been the broad guideline for sectoral representation.

"Following representations received recently and in an effort to place even greater emphasis on the interests of smaller businessmen, provision is now being made as well for representation from organised commerce and industry, while the representation from organised labour has been expanded further with the possibility of appointments from umbrella employees' organisations," Mr de Klerk said.

In addition, the council was being augmented by representatives from the public sector and provision was being made for the appointment of two economists from academic circles.

The custom established in 1990 that the council's executive committee hold regular discussions with the State President and members of the Cabinet would continue.

Those already appointed to the council are:

Mr Clewlow (chairman); M T de Waal (vice-chairman); Professor P A Black; E le R Bradley; Dr S S Brand; P H N Bremer; D C Brink; L N Celliers; G P Croeser; M H Daling; J du Plessis, Professor G L de Wet; Dr J K Evenwel; J D Fourie; J J Fourie; R M Godsell; Dr A S Jacobs; J M Kahn; Dr M Katz; D L Keys; H E Kluever; N J Kotze; M J Levett; R Lubner; J A Mabuza; M Mahanyele; M N Maponya; Dr J B Maree; Dr L P McCrystal; Dr A T Moolman; Dr S J Naude; R A Norton; J Ogilvie Thompson; P A Olivier; R W K Parsons; R A Plumbridge; E Samson; M A Sander; C M L Savage; P M Searle; Dr C L Stals; Dr J A Stegmann; P Steyn; Dr C B Strauss; P E I Swartz; J K Tromp; A S Vahed; Dr P J van der Merwe; P J van Rooy; C G van Veijeren; Dr W P Venter; Dr W B Vosloo; C H Wiese; J J Williams. — Sapa.

Key leaders join advisory council

(49) (480)

B/Day 21/8/91.

LESLEY LAMBERT

PRESIDENT F W de Klerk has appointed leading businessmen to the State President's Economic Advisory Council (EAC).

However, representatives of two major union groupings and Nafcoc are noticeably absent among the names of the 52 appointees.

Business heavyweights such as Gencor chairman Derek Keys, Old Mutual chairman Mike Levett and Sanlam CE Pierre Steyn were among new names announced yesterday.

Invitations have been sent to Nafcoc, Cosatu and Nactu. They are considering the invitations and are expected to respond next month. Indications yesterday were that Cosatu could refuse the invitation.

The EAC advises De Klerk on economic issues and is regarded as the most influential economic forum in the country. Earlier this year, it approved the Industrial Development Corporation (IDC) report on economic restructuring.

Other leading new members include IDC chairman Koos van Rooy, Sacob director-general Raymond Parsons, tax expert Michael Katz, AECI MD Mike Sander and outgoing Board of Trade & Industry chairman Lawrence McCrystal.

Barlow Rand executive chairman Warren Clewlow and Transnet and Iscor chairman Marius de Waal have been re-appointed as chairman and vice-chairman, respectively, for the new three-year term.

The EAC contains a strong contingent of private sector members. It is also widely represented by economists, academics and public sector leaders.

Among the heavyweights whose terms were renewed for another three years are: Reserve Bank Governor Chris Stals, Finance Department director-general Gerhard Croeser, Eskom chairman John Maree, SAB chairman Meyer Kahn, SBIC group MD Conrad Strauss, Volkswagen chairman Peter Searle, Gold Fields chairman Robin Plumbridge, Development Bank of Southern Africa chairman Simon Brand, Wesgro MD Elizabeth Bradley and Sankorp CE Marinus Daling.

Provision has been made this year for greater representation of organised commerce and industry, while the representation from organised labour has been expanded further with the possibility of appointments from umbrella employees' organisations.

De Klerk indicated that the role of the EAC would remain unchanged in the new term of office, with the executive, comprising the chairman, vice-chairman and eight elected members having regular discussions with the Cabinet.

Bank Rate likely to stay high after Soviet drama

(49)

TIM COHEN

POLITICAL developments in the Soviet Union will probably prompt Reserve Bank governor Chris Stals to maintain Bank Rate at its current level, Sacob director-general Raymond Parsons said yesterday.

Parsons told about 100 members of the Johannesburg Chamber of Commerce and Industry that his reading of the economic evidence was that Stals was likely to sit tight.

BDay 21/8/91

Although it might have been possible to argue up until Monday that Stals had some room for manoeuvre to make a token reduction in Bank Rate at his major annual address on August 27, that option now seemed to be closed.

"My own assessment of the USSR situation is that if it does have a serious negative impact on the world economy, the recession in SA may be slightly prolonged and the expected upturn a little delayed."

The events in the USSR also underlined the importance on "getting the economics right" in terms of political reform.

The Soviet economy had been Gorbachev's Achilles Heel and economic management during the political transition in the Soviet Union had been poor.

He said it may well have been better for Gorbachev to have accepted the radical 500-day economic reform programme last year.

"Small ad hoc changes appear to have antagonised too many people," he said.

The Russian experience again emphasised why good economic performance was needed to underpin political change in SA as well, Parsons said.

"A strong economy must go hand-in-hand with political progress and the risks of the transition must be properly managed."

SOWETAN BUSINESS

Business steps into peace plan

Sowetan 22/8/91

Concern over outcome of negotiations

(49)

By JOSHUA RABOROKO

BLACK business has been invited by the Minister of Constitutional Development, Dr Gerrit Viljoen, to present its views on the proposed negotiations for a future democratic and nonracial South Africa.

This was said at the National African Federated Chamber of Commerce's 27th annual conference held in Sun City near Rustenburg.

In his presidential address, Mr Sam Motsuenyane said while his organisation had previously favoured in principle the objective of a negotiated settlement of the country's present political dilemma, "We have at the same time also raised serious reservations and concerns about the unpredictability of the outcome".

Danger

He said the greatest danger to peace and stability could arise if and when the negotiations failed to achieve their intended purpose, about which there could be no guaranteed measure of certainty.

"In the memorandum to the Minister, Nafcoc emphasised the sensitivities inherent in the negotiation process, and in the light thereof urged the Government to reconsider its objections to the idea of an interim government and the creation of a multiparty constituent assembly, supervised by business brokers and not by the present Government itself," he said.

"Under the prevailing circumstances, it appears as if this would be the only way to ensure the participation of the ANC and other black political organisations in the envisaged negotiations.

Violence

"The only negotiations that will have a reasonable chance of success are those that focus specifically on the limited option of how an interim government of a constituent assembly should be constituted."

The conference was also told that, apart from participating as a member of the peace-facilitating committee comprised of church and business leaders, Nafcoc has had formal and informal discussions with various political organisations during the year.

Mr JJ Lesolang and other delegates to the 27th annual conference of the National African Federated Chamber of Commerce held at Sun City on Monday.

Every effort was being made at present to restore peace and stability to a troubled South Africa.

The constant danger that would continue to face it during the delicate transition towards a true democracy was a possibility of losing control of the process and in that event, plunging the country into a situation of anarchy and increased violence.

Referring to the socioeconomic prospect in South Africa, Motsuenyane said it must be conceded that the complete lifting of sanctions and other punitive measures directed against the country because of the apartheid policy would not be done abruptly and without due caution.

The EEC countries, the United States and Japan had taken the lead in lifting sanctions against trade and flow of new investments.

But, he said, there was no anticipation of a massive inflow of foreign investments into the country until some reasonable certainty about the country's stability was clearly established.

He said recent revelations of secret Government-funded Inkatha projects had evidently dealt a severe blow, not to the peace process per se, but also to the credibility of the Government and that of Inkatha.

He said the economy was going through a period of recession which was characterised by massive unemployment, poor business performance on the part of many large and small enterprises, a low rate of savings, high inflation, and continually rising costs in the price of consumer goods.

Against that background, Motsuenyane added, it was quite clear that economic prospects would not be bright for the rest of the year, although a slight economic upturn was expected to take place during the last quota of the year.

Motsuenyane outlined Nafcoc's future projects, including a black insurance company, a shopping centre, job creation centre and the revamp of the Masikela/Mavimbela Bursary Funds

Speakers at the 27th annual conference of the National African Federated Chamber of Commerce included, from left: Mr Joe Hlongwane, Mr Max Tlakula, Mr Matome Maphonya and Mr SHL Matebese.

UNIT TRUSTS

GENERAL EQUITY FUNDS

	Buyers	Sellers	Yield
Allegro	109,53	120,26	5,27
BOE Growth	135,15	126,29	4,62
Fedgro	116,86	109,11	11,22
Guardbank Growth	2243,92	2101,38	5,66
Momentum	227,77	212,95	5 92
Metfund	176,04	164 03	4,79
NBS Hallmark	880,40	822,30	6,94
Norwich NBS	338 33	315,99	7,90
Old Mutual Investors	2679,44	2498,91	4,81
Safegro	125,42	117,33	6,75
Sage	2300,40	2147,97	4,60
Sanlam	1607,58	1501 87	5,24
Sanlam Index	1268,66	1184,84	4,92
Senbank General	117,19	109,28	N/A
Southern Equity	172,38	161,11	5,51
Standard	1066 69	1002,77	7,75
Syfrets Growth	243,75	228,20	5,77

New tax deal seeks social good and economic discipline

B/Day 22/8/91

BAREND DU PLESSIS

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THE intended introduction of a broad-based VAT at a rate of 12% on September 30 released a flurry of objections, criticisms and even threats.

Many of the reactions reflect a true concern for the lot of many South Africans who are struggling. Unfortunately, the situation is also being exploited by groups wishing to promote their own political aims.

Government has great sympathy with the destitute and will do everything in its power to render assistance. However, maintaining a sound macro-economic structure should also not be jeopardised in the process.

Unfortunately the proposals for changes to the VAT systems are not all equally practical, nor will they benefit those who are held as the ones who should be benefited.

The government seriously considered several possibilities:

☐ That the VAT system be abandoned and the present system retained. This would be extremely detrimental to the SA economy. It implies that SA industries will never be placed on the same competitive footing as those of other countries which do have VAT systems;

☐ Postponing the VAT implementation date. With the amount of preparation already done in the public and private sectors, this would have undesirable administrative and cost consequences. It would also further delay investment decisions; and

☐ Introducing a variety of VAT exemptions and zero-ratings to assist the poor. This would place VAT on the same dangerous road as GST. It has been decided that adjustments should be made in such a way as to maintain as far as possible the integrity of this tax system and to extend targeted assistance in such a way as to achieve immediate results.

Firstly, VAT will be introduced at 10%. The loss of revenue in 1991/92, compared with the budget-based 12%, is estimated at R1,35bn.

Secondly, to further soften the effect of VAT and the recent rise on food prices on the needy, all social assistance schemes will be subject to a once-off adjustment from October. In most cases, this adjustment will amount to approximately R10 a month. Details hereof, and also of other steps to be taken by the authorities to ensure that the benefits reach the intended recipients and that double payments are avoided, will be announced soon by the National Health and Population Development Minister. Some R150m will in this way accrue to almost 2,4-million individuals.

Welfare organisations will also be able to reclaim VAT on their inputs to the extent that they are financed out of state funds or donations by the state. These enhanced allowances will cost the state an additional R150m which will be financed out of the contingency reserve.

Thirdly, government has decided to raise by 10% the means test for patients who qualify for treatment at the lower tariffs at state hospitals. This means that more people will qualify for subsidised medical services. The medical needs of approximately 80% of people are catered for in state and provincial hospitals and in clinics operated by the state and local authorities.

These institutions will not have to register or collect VAT on the medicines which they supply and the services they are providing. The hospitals remain liable for payment of VAT on their inputs.

The effect of this is that the majority of South Africans will not have to pay VAT on the medical services they receive.

Further, it has erroneously been suggested that medical schemes and funds will charge VAT on the nominal fees received for medical services provided, but will be entitled to claim all the tax on inputs relating to the medical services and medicine. This was not the intended effect and an amendment will be introduced to make all the activities of these funds exempt from VAT.

Representations have been received that medical services be zero-rated. This has been thoroughly considered. In the light of the wide-ranging effects which zero-rating or exemption would have on, among others, the pharmaceutical trade, as well as the substantial contribution which government already makes in respect of medical care for underprivileged, government does not see its way clear to make any further concesssions in this regard.

Fourthly, representations have been received on behalf of the trade union movement that contributions by members to trade unions be exempt from the tax. Arguments have been advanced that they are in fact benefit funds. To place the matter beyond doubt, it has been decided to except from the tax the contributions to all employee organisations.

Fifthly, certain problems have been identified in connection with transitional rules relative to the erection and sale of dewellings and residential land which have necessitated limited relief of approximately R50m being made available as a transitional measure.

Finally, all denominations of gold coins, including the Krugerrand, will be taxed at the zero rate.

Government is aware that these measures will place great pressure on the income side of the Budget. Three measures to alleviate this will be implemented.

Firstly, the lowering of the VAT rate is primarily intended to give relief to the less affluent portion of the population. However this reduction will also apply to the prices of less essential goods that are subject to excise, such as liquor, tobacco, motor, vehicles and TV sets. It has been decided to increase slightly the rate of excise duty on all such goods. Details will be announced in due course.

Secondly, in view of the rising international fuel price and the fact that fuel in SA is still relatively under-utilised as a source of treasury financing, the price of petrol is to be increased with effect from August 24 by 13c a litre and that of diesel by 8c. The additional revenue for 1991/92 is estimated at R630m. Low income commuters will be exempt from VAT.

It is realised that the increase in fuel levies will give rise to higher transport costs in respect of which the state continues to subsidise low income users. An appropriate adjustment in these subsidies can be accommodated within the contingency reserve.

Thirdly, paraffin, used to a large extent by the poor, is not subject to the fuel levy. The lower VAT rate also lowers the tax on this product.

It is realised that these measures will give a moderately expansionist character to the Budget. It will further strengthen the rising tendency in expenditure by government.

These developments will assist in lifting the economy out of the current condition of structural stagnation. However, from the nature of the expenditure it should not put noticeable pressure on the current account of the balance of payments.

Although, because of the decline in real private consumption expenditure, there is no danger that there will be overspending in SA, caution will nevertheless have to be exercised against a too rapid acceleration in domestic expenditure.

In line with the active pursuit of co-ordinated monetary and fiscal policy, these changes in fiscal policy have been thoroughly cleared with the Reserve Bank, and the Bank president concurs with the new policy mix. Government accepts, however, that these steps may necessitate the continuation of a restrictive monetary policy because of the somewhat high budget deficit before borrowing of 3,8% of GDP, compared to the 3,7% notified last Friday.

☐ **This is an edited version of Finance Minister Du Plessis' statement delivered yesterday.**

Billions to boost economy

DEREK TOMMEY (49) ARG 22/8/91

JOHANNESBURG. — Billions of rands are to be injected into the economy in the coming months in a bid to create tens of thousands of jobs and ease black unemployment, says Minister of Finance Barend du Plessis.

He made the announcement in Pretoria yesterday while disclosing that VAT would be reduced from 12 percent to 10 percent.

The government would be spending R1 billion on buying land and investing in black education.

This money was from last year's Budget, of which only R300 million had been spent.

The sum had been topped up to R1 billion again. The benefits would be felt shortly, he said.

In addition, a private development trust had R2 billion to invest.

He said the Urban Foundtion had approved 108 low-cost housing projects, the first of which would be signed in the next two weeks. Some R7501million would be spent on these projects over the next 2½ years.

Other projects involving R1,5 billion were also in the pipeline.

These should bring benefits by way of job creation, and improve the quality of life in under-developed areas, particularly in squatter camps.

Mr Du Plessis said the government would spend R1 billion over the next few months on a host of projects providing tens of thousands of short-term job opportunities.

The money, coming from the sale of strategic oil stocks, would be used primarily to ease the plight of the poor.

Dr Dawie de Villiers, Minister of Public Works and Economic Co-ordination, would give fuller details shortly, he said.

Giving reasons for the decision to reduce VAT, Mr Du Plessis said South Africa was in the longest recession since the World War 2.

The economy had been expected to pick up at the beginning of this year. But the war in the Middle East had postponed the upswing.

He said it was not possible to finance through borrowings the R1,4 billion lost to the Treasury by the reduction in VAT.

If the government had borrowed this money, interest rates would have risen further.

Government expenditure this year would remain unchanged at the estimated R86 billion — an increase of 15,3 percent on last year's figure.

However, estimated revenue would fall short because the increase in excise duties and the petrol levy would bring in only R890 million.

As a result, estimated total revenue would drop from R76,9 billion to R74,4 billion.

The shortage before borrowing would increase from R11,1 billion, or 3,7 percent of estimated GDP, to R11,6 billion — equal to 3,8 percent of GDP.

The adjusted shortage before borrowing, after taking into account R1,95 billion from the sale of oil stocks, would be R9,7 billion (R9,2 billion).

In announcing that excise duties would be increased on liquor, tobacco and luxury goods, Mr Du Plessis said the government was also considering changing the basis of excise duty from volume to value.

He said that in the present system excise duty on a bottle of wine selling for R6 and on one selling for R60 was the same.

The Commissioner of Customs and Excise would shortly discuss this with manufacturers of affected products.

Mr Du Plssis had some good news for holders of Krugerrands.

He said that all denominations of gold coins, including the Krugerrand and any other coins the Reserve Bank regarded as legal tender, would be zero-rated for VAT.

He said the changes in VAT could put the income side of the Budget under pressure.

This could affect the Government's aim of cutting company tax and the maximum marginal tax to 40 percent over the next three years.

The government had considered abandoning and postponing the introduction of value added tax , Mr Du Plessis said

But these options were rejected for a variety of reasons, including the fact that it would be extremely detrimental to the South African economy over the long term, he said.

Mr Du Plessis said VAT could also not be postponed because of the amount of preparation which had already been done in the public and private sectors and because of the disruption it would have caused.

Government spending is under control — Venter

GERALD REILLY

PRETORIA — State Expenditure Minister Amie Venter last night dismissed claims that fiscal indiscipline was rife in government. B|Day 22|8|91

Speaking at the opening of the Pretoria International Show, he said prophets of fiscal doom had claimed early in the financial year that state spending was heading for a 30% overshoot. This criticism was based on expenditure during April, which was 35,5% higher than in April last year.

"Suffice it to say that technical reasons, such as redemption of short term loans were mainly responsible for this high percentage," he said.

Venter said drawings had now flattened out and were only 0,9% higher in June than in June last year, while in July they actually decreased by nearly 7%.

He said government was committed to keeping expenditure within the amount voted by Parliament. Efficient government spending was vital for the success of a new SA.

Greater economic growth and job provision by the private sector was the only way in which SA could in the long term tackle poverty.

To create a climate for growth government had committed itself to combating inflation and inflationary expectations.

A further stimulus was the reduction of 2% in company taxation as a first step on the road from 50% to the goal of 40%. Venter said there had been a clear shift of emphasis in the current financial year in state spending and a greater part of total budget had been channelled to social services.

Professor lauds free enterprise

49

Sowetan 22/8/91

ECONOMIC freedom is the key to unlocking entrepreneurial potential, New York University economics Professor Israel Kirzner said in Johannesburg yesterday.

The free market is an institution that fosters unending business discovery, he said in a speech at a Free-Market Award luncheon.

"There always exist untapped opportunities around the corner, and the way to inspire society to notice and enjoy these opportunities is simply to open up markets freely to all potential entrepreneurs," he said.

Free-market economics inspire daring new ventures through entrepreneurial vision, initiative and drive. They also caution entrepreneurs against dangerous and economically harmful courses of action. - *Sapa.*

Give back our land, Elandskloof's people tell NGK

South 22/8 – 28/8/91 (48)

The Abolition of Racially Based Land Measures Bill, adopted by parliament in June, officially ended over 300 years of racial division of land. However, REHANA ROSSOUW discovered in Citrusdal last week that black people are still being forced off 'white' land:

IN THE West Cape town of Citrusdal, a tiny community is facing — and resisting — its second forced removal in three decades.

They have been served with eviction notices — with an August 31 deadline — by the owner of the farm Allendale, where they have been squatting since their farm Elandskloof was sold to white farmers by the Ned Geref Kerk (NGK) in 1960.

But they are refusing to move on August 31 — unless it is back to Elandskloof.

The people of Elandskloof trace their history to 1861 when the NGK bought a piece of land on which a church and school had been built by the descendants of free slaves who were living under the protection of the church.

By the early 1890s the farming community living on the mission station had expanded, necessitating the purchase of additional land.

They petitioned Queen Victoria successfully and a further 2 826 morgen of land surrounding the farm Elandskloof was granted, with the proviso that it should be used for mission purposes and that the people paid the cost of land surveying.

The community thrived for 60 years until the NGK decided in 1960 to sell Elandskloof, informing the community that they would be given three months to leave.

Minutes of church meetings suggest that the decision to sell was related to complaints by white residents and farmers of Citrusdal that the Elandskloof community was influencing the local labour market by demanding higher wages.

The reason given by the church for selling the land was that the area was being farmed uneconomically, inefficiently and unscientifically.

The church offered each legal resident R200 to aid them in resettling, ignoring the fact that few viable alternative sites were available.

The farm was then sold to brothers Piet and Johan Smit, with the title deed amended to exclude the clause "for missionary purposes".

The community were locked out of their church and school, their crops were burnt, their homes destroyed and their domestic animals poisoned.

Last week a community delegation met NGK officials to ask them to "correct what they have wronged".

Church officials agreed to assist them in staying the order to vacate Allendale, but refused to intervene in their claim to Elandskloof.

"It is the church that did us this injustice, and they should repair the damage they caused," said Mr Niklaas Dirks.

"I was born in 1925 on Elandskloof and since then I have maintained my faith in the Lord. But the white leaders of the church denied us coloured members our rights.

"So all that is left in my heart for the NG Kerk is bitterness and hate."

Mass meeting

Last Saturday the community held a mass meeting in Citrusdal to highlight their campaign against the August 31 deadline. Main speaker Dr Allan Boesak said the story of Elandskloof was the story of South Africa where black people were dispossessed of their land to make way for white farmers.

"It is a story of pain, of theft and of destruction of communities throughout the land," Boesak said.

Attempts to contact the owner of Elandskloof, Mr Johan Smit, and the moderator of the NGK for comment were unsuccessful.

The NGK was a signatory to the Rustenberg Declaration in November 1990, acknowledging its sin in accepting apartheid.

It further accepted that "as a first step towards restitution, the church must examine its land ownership and work for the return of all land expropriated from relocated communities to its original owners".

'No need to lose faith in socialism'

Brian Bunting

BRIAN BUNTING, retired editor of African Communist, theoretical journal of the South African Communist Party, gives his personal opinion of the Gorbachev years. Bunting, who was also once a Communist MP before he was expelled from parliament by the Nationalist Government, returned to Cape Town earlier this month after almost three decades in exile: South 22/8/-28/8/91. (49)

THE FALL OF President Mikhail Gorbachev has plunged the Soviet Union and the world into a crisis whose outcome is impossible to determine.

We do not yet have enough information to enable us to pass judgment about what is going on.

We are assured by those in power in Moscow that the reform and international policies associated with Gorbachev will be continued and, in fact, that he himself, when he has recovered his health, will be able to resume his duties. We shall see.

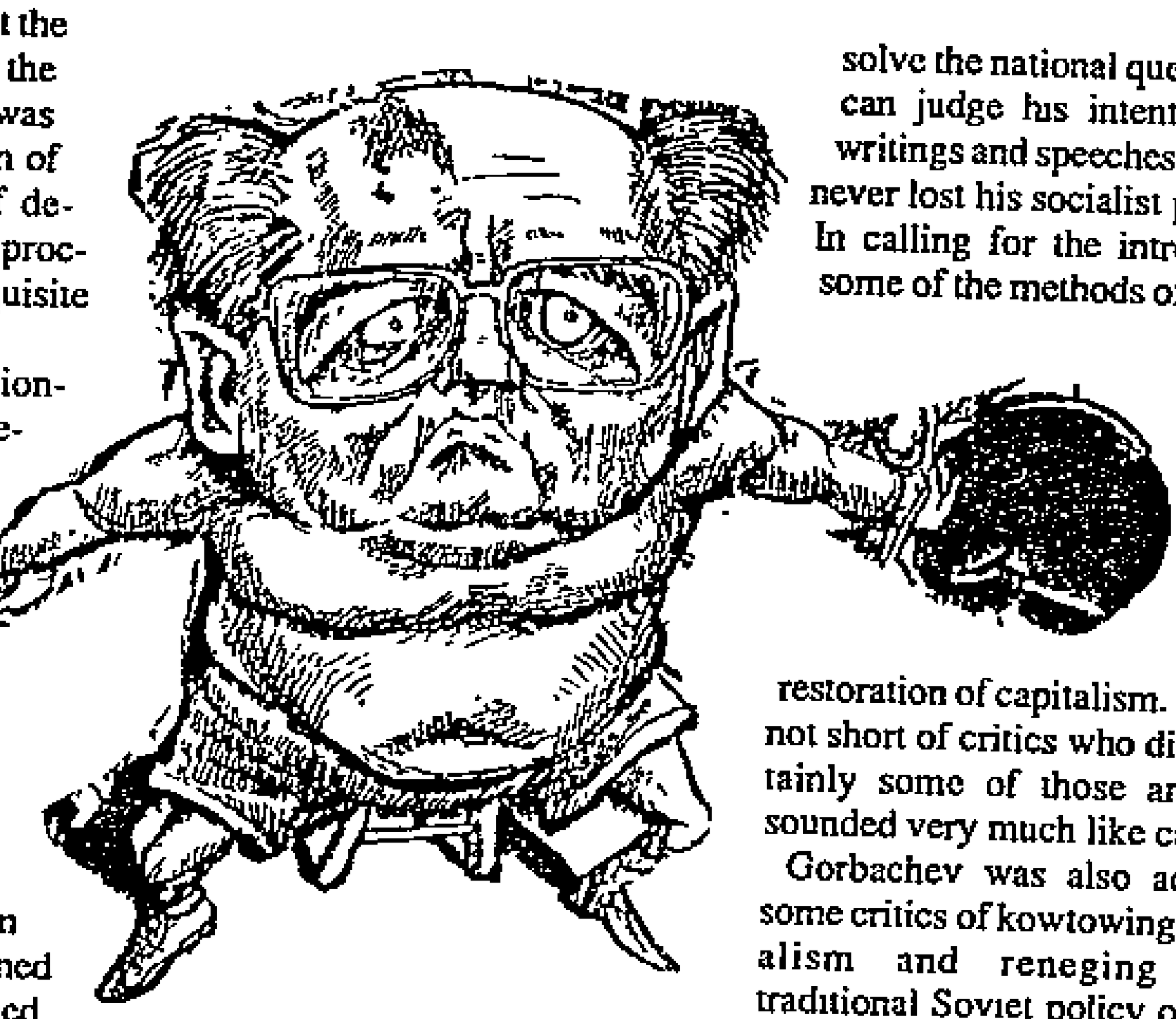
Meanwhile, there can be no doubt that the situation in which the Soviet Union finds itself is one of great concern to socialists and progressives everywhere.

The years of Gorbachev's tenure as general secretary were marked by two main policy trends The first was to reduce international tension and eliminate the threat of nuclear war, the second was to secure the advancement of Soviet society through perestroika and glasnost.

There can be no doubt that in both spheres he had remarkable successes to his credit. Largely through Soviet initiative the threat of nuclear conflict has receded, many local wars have been ended, some swords have been beaten into ploughshares. At home the media flourished in an atmosphere of tolerance they had never experienced before.

Gorbachev was convinced that the Soviet economic decline during the years of so-called "stagnation" was largely due to the heavy burden of armaments and the absence of democracy in the Soviet political process. He tried to create the requisite space.

He brought about a new relationship between party and state; created new parliamentary institutions providing greater opportunities for the Soviet people to take part in framing and implementing policy; and was working for a new relationship between the centre and the republics designed to ease and ultimately, he hoped,



solve the national question. If one can judge his intentions by his writings and speeches, Gorbachev never lost his socialist perspective. In calling for the introduction of some of the methods of the market system, he did not believe he was paving the way for the restoration of capitalism. But he was not short of critics who did, and certainly some of those around him sounded very much like capitalists.

Gorbachev was also accused by some critics of kowtowing to imperialism and reneging on the traditional Soviet policy of supporting liberation movements world wide.

We in South Africa did not experience this Both the African National Congress (ANC) and the South African Communist Party (SACP) continued to receive support whenever it was requested, despite the sometimes odd pronouncement of one or other Foreign Office official.

Delegates to the recent ANC conference in Durban will remember the inspiring fraternal message delivered by Soviet Party representative Vladimir Shubin.

Gorbachev was a consensus man, walking a tightrope in his endeavour to draw the broadest coalition of forces behind his initiatives, and inevitably he was forced into compromises.

Some regarded his compromises as a betrayal of the ideology of socialism.

Above all, the economic situation did not improve. Goods remained scarce, queues continued to form. Abroad imperialist rampage continued unabated, notably in the Gulf war.

Whatever happens in the Soviet Union, we in South Africa have no need to abandon our policies or our faith in a socialist solution for South Africa. Above all, we must resist the attempts by the imperialists and their South African allies to exploit the Soviet crisis to the disadvantage of our liberation movement

Scenario team see dark visions in their crystal ball

By Patti Waldmeir

South Africans, like every other nationality on earth, are given to believing in miracles.

Faced with South Africa's ec onomic decline over the past decade and the prospect of worse to come, faced with social disintegration and the existence of a huge underclass, many South Africans none the less believe the country will emerge with a post-apartheid government committed to multi-racial power-sharing and sensible economic policies.

That would indeed take a miracle — or rather a series of miracles — says Pierre Wack, the French head of Royal Dutch Shell's scenario planning team, who has helped to make projections of South Africa's development.

Scenario planning is the mapping out of a country's political, economic, and social future under various conditions.

Thousands of South African businessmen, politicians, trade unionists, political activists and bankers have seen the scenario prepared by businessmen, economists and academics.

It was paid for by two of the country's largest financial institutions, Nedcor, the diversified financial group, and the Old Mutual insurance company.

Government officials took part in drawing up the scenario, whose dire predictions will have lent added urgency to plans for negotiating a new constitution.

Not surprisingly, the scenario has provoked considerable debate.

Prepared by a team which also included representatives of the private sector and the African National Congress (ANC), the exercise has provided a useful focus for the dialogue of the deaf between South Africas communists and capitalists

It highlights structural weaknesses in the country's economy, chronicles a deeply troubled society, and pinpoints the political risks of transition from authoritarian government to democracy.

Mr Wack and others dissect the economy, Mamphela Ramphele, the South African social scientist, offers insights into black society, and Professor Bruce Scott of Harvard Business School provides international examples of political and economic transformation.

Social upheaval

The theme is that politics is the least of South Africas problems.

Political liberalisation is proceeding apace. But a negotiated transition to democracy is threatened by poor economic performance and social upheaval. Unless South Africas society and economy are transformed before democracy is put in place the transition to democracy may never take place.

Professor Scott argues that almost every succesful political transformation in history has taken place against a background of rising incomes.

In South Africa, however, real gross domestic product per capita has fallen by 1,1 percent annually for a decade.

The team estimates unemployment at 5,5 million, or 40 percent of the potential labour force, and forecasts that by the latest date for new elections (early 1995), 7,8 million will be employed and 7,2 million will be out of work.

The roots of South Africas economic problems, the team argues, lie in a policy of import replacement which led to stagnation in manufacturing output.

During the 1980s, when successful economies worldwide invested heavily in technology, South Africa lagged behind.

Its ratio of investment to GDP fell from 21 percent in 1960 to 19 percent in 1990, compared with 40 percent in Japan.

Against this background the team projects two possible growth paths for the next five years:

Zero average real growth over the period, or at best three percent (the central bank's best estimate is two percent for 1991-95).

The lower estimate would mean real per capita GDP would continue to fall, the higher figure would halt the slide, leaving per capita GDP stagnant. Neither would be sufficient to close yawning racial gaps in spending on health, education and pensions, for instance.

Zero growth would permit a 2,5 percent annual increase in social spending, and three percent growth would mean 10 percent more could be spent a year. But to equalise social spending between races would require more than twice that — a 24 percent annual increase.

The team concludes that, under what it calls the business as usual scenario, economic performance during South Africas political transition (1991-95) would be totally inadequate and would fail to stem further rapid social disintegration.

The scenario also examines the country's social problems..

Political liberalisation (including the 1986 abolition of the so-called pass laws, which kept blacks out of cities) has meant rapid urbanisation which has strained social services.

Unrealistic expectations have been raised by the prospect of black political power.

The alternative proposed by the team — the so-called changing gears scenario — has a touch of the miraculous about it as well.

It involves a two-stage transition to economic strength:

First, huge spending on black housing, electrification, training and job creation, then a radical reorientation of the South African economy toward an east-Asian model of export-led growth.

Phase one would kick-start an economy now in recession: 400 000 serviced housing sites would be provided annually for the next five years (three times the 1990 figure), 200 000 low-cost homes would be built a year.

One million houses would be electrified a year (only 35 000 are planned this year), the private sector must provide post-primary skills training (perhaps through the imposition of a skills development tax), a job corps must be created, if necessary through a levy on business and the wealthy.

The combined effect of these measures would be to provide evidence of visible redistribution of wealth to blacks, create jobs, provide a route to black capital accumulation, stimulate demand for local manufactures, stabilise communities, and im prove the quality of black life.

Skill training

Phase two calls for South Africa to abandon high tariffs and other forms of protection, devalue the rand, adopt a centrally-directed industrial strategy to promote exports, develop its human potential through skills training.

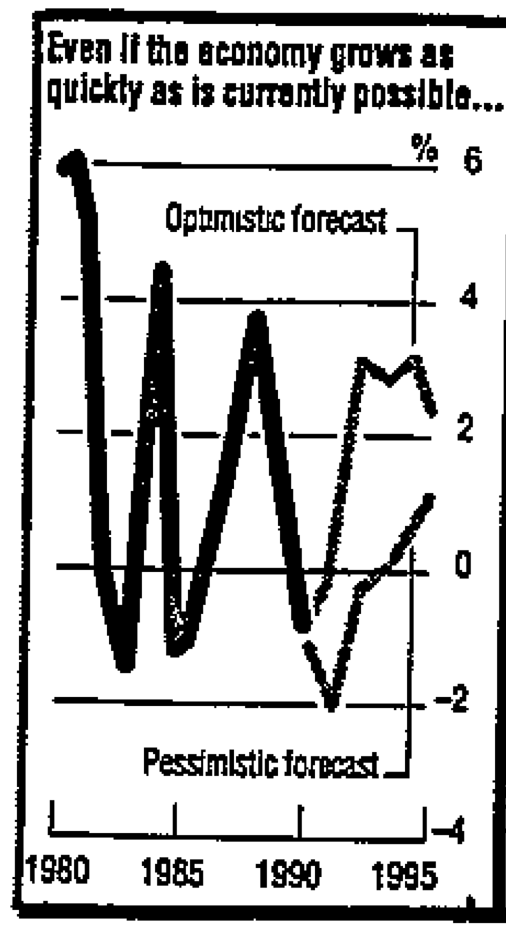
The aim would be to boost economic growth to pick up where phase one growth leaves off, in 1994

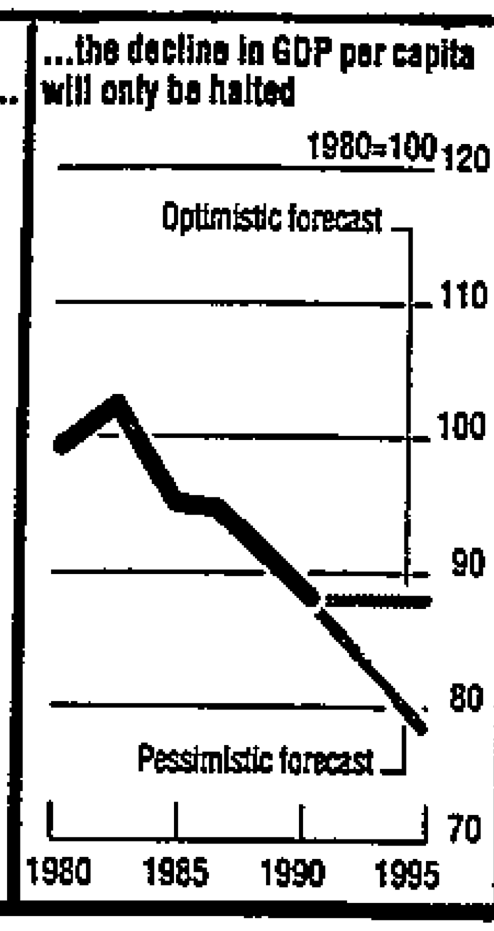
The effect, the team believes, would be growth of 4 percent in 1992, 5,5 percent in 1993, 4,5 percent in 1994 and 6 percent in 1995.

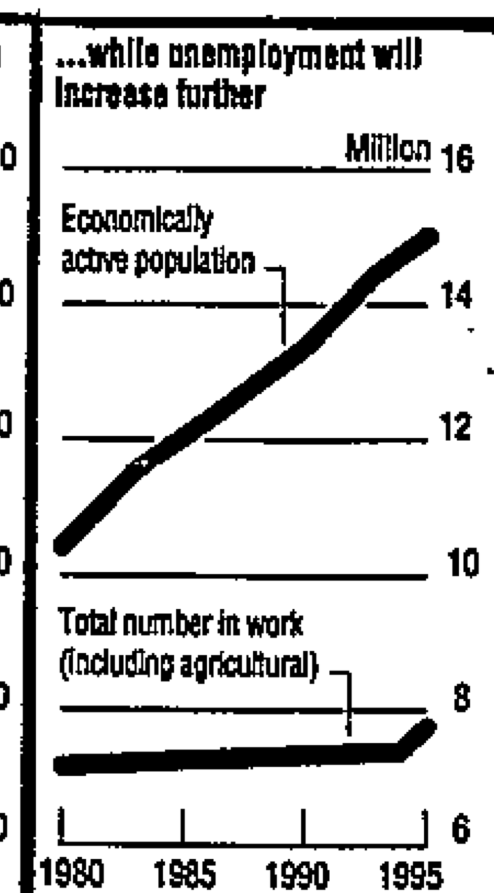
Inflation would be 16 percent by 1995, and the current account $2 billion in deficit.

The scenario team races through this proposed cure, which ends up looking both vague and simplistic

After a two-and-a-half-year spurt of growth, South Africa could be left with high inflation and balance of payments problems, and without the benefits of an economic restructuring that would certainly take longer than two-and-a-half years to complete. — Financial Times







South Africa's best-case scenario

Real % change	1992	1993	1994	1995
Gross domestic fixed investment	11	11	12	8
Gross domestic expenditure	5	7.5	5.5	4
Exports	1.5	4	7.5	12
Imports	5	11	12	8
GDP	4	5.5	4.5	6
Current account balance $bn	0.6	-1.1	-2.0	-2.0
Capital flow $bn	-	5.5	2.0	2.0
Inflation	12%	13%	15%	16%

The team of economists, businessmen and academics who have compiled the Nedcor-Old Mutual scenario of South Africa's future argue that unless the society and economy are transformed the transition to democracy may never take place.

Star 23/8/91 (49)

Behind the scenes .. Bob Tucker, former managing director of the Perm, part of the Nedcor group . . .

. . . and Mike Levett, chairman of Old Mutual. Nedcor and Old Mutual paid for the scenario study.

Govt's last-minute move costs retailers 'millions'

B/Day 23/8/91

MARCIA KLEIN and WILLIAM GILFILLAN

THE reduction of the VAT rate to 10% had cost SA's commerce and industry millions of rands, spokesmen said yesterday.

While they welcomed the change, they said its late arrival would cost the industry a large amount of money to change the systems that many had timeously put in place.

Checkers MD Sergio Martinengo estimated that the implementation of VAT had cost the group about R1,5m, including changing of systems, stationery and equipment and additional working hours.

While he welcomed government's decision to lower the VAT rate, he said the fact that the announcement came at such a late stage meant "high cost implications for the supermarket industry".

He said Checkers had begun preparations for the implementation of VAT. "The changes that will now have to be made in terms of dual pricing labels, point of sale, stationery and computer systems will bring about an estimated additional cost of R250 000 which will be absorbed by Checkers."

But, Pick 'n Pay marketing director Martin Rosen said the changeover to VAT would be moderate. This was because all stores would be operating scanning facilities by the time of VAT's introduction.

He added that VAT had speeded up the group's decision to move all stores over to a scanning operation. Any change to price would merely entail a change in the shelf label, he said.

An industry spokesman said retailers which had high volume and high turnover rates "would probably not be too far down the road in terms of pricing their merchandise".

Explaining

Woolworths financial director Ray Schur said the change to VAT had cost the company "a fortune initially, and Barend has just added to the cost".

Woolworths' preparation included having a VAT committee, which had been running for nine months, dual ticketing all merchandise, having in-store signs explaining VAT and sending customers leaflets on the new system. "In the next five weeks we will have to change everything", he said. Woolworths staff would be working overtime to complete the change in time.

Dion CE Jannie Els said his company would be working night shifts and Sundays to change labels on the store's 45 000 line items. He expected new ticketing to cost in excess of R100 000 excluding overtime. "We were over 80% done before Wednesday's announcement," he said.

Foschini group's VAT project head Norman Day said it was difficult to estimate the start up costs of the introduction of VAT, or what it would cost to change to 10%. However, he said there would be a marginal benefit to the company because GST on certain expenses would be replaced by input VAT.

A spokesman for a major clothing chain said the reduction in the rate of VAT would significantly increase costs. He estimated that the introduction of VAT had cost his company up to R1m.

A SA Breweries beer division spokesman estimated the changeover would cost it under R100 000 which was the cost of printing new forms and pricing tables. He added that the big costs would be the associated costs in people's time and changes to its systems.

VAT REA

Market waits for windfall

SHARON WOOD

GOVERNMENT may raise the R510m additional revenue needed as a result of the lowering of VAT to 10% from any of its normal financing sources, including the Public Investment Commissioner (PIC), Finance Department deputy director-general Estian Calitz said yesterday.

If the PIC is used, this would be done on a commercial basis at normal interest rates. The balance of R510m would either come from the PIC or the capital market, said Calitz.

The reduction in the VAT rate to 10% would reduce budgeted revenue by R1,4bn, but R260m would be raised through higher excise duties and R630m from the petrol price increase. B/Day 23/8/91

The money would definitely not be raised through bank loans, he said.

Capital market rates increased slightly on news of government's greater borrowing requirement.

Analysts said this was in anticipation of the government coming to the market to raise about R700m.

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Some are more equal

(49)
FM 23/8/91.

COMPREHENDING KARL MARX *by Frank Vorhies (Juta, 142pp, R23,95).*

There can be little doubt that Karl Marx was the most influential political thinker of the 19th Century. Yet I suspect that most people know his writings at second hand, through commentators. It follows that it was an excellent idea to construct a source book on Marx, quoting the main lines of his doctrines across the whole range of human affairs — which he arrogantly took as his intellectual province.

The author, Frank Vorhies, is well known in SA as a committed member of that small band of expatriate American economists fighting for free market economics and political pluralism and dedicated to exposing the innumerable fallacies embedded in Marxist postulates. It must be understood, however, that Vorhies writes as a purist of monetarism, so there will be many economists equally opposed to Marx's confused and destructive doctrines, who will by no means necessarily accept the potted versions of non-Marxist economics offered as brief commentary.

With this important caveat, we may turn to Marx himself, as propounded in his own words. As political theorists and philosophers have frequently pointed out, Marx's work is a strange amalgam of (often acute) economic analysis and naive sentimentalism towards pre-industrial life. He argued that industrialism induced the famous state of "alienation" which could be cured only by changing the economic system and abolishing private property.

To the contemporary eye, Marx's work seems a confused set of disparate elements — some rather shallow economic theorising, mingled with Jean-Jacques Rousseau-derived sentimentality about pre-industrial society as well as apocalyptic prophecy and exhortation derived from biblical models.

Most significantly, as we can now see near the end of the 20th Century, Marx was Manichean — that is, he divided the human race into the categories of virtuous and wicked along class lines.

Not frequently mentioned by commentators is the fact that the family was yet another human institution that Marx rejected. He probably entertained the idea that women as well as material property should be shared in common.

Not only did he summon the call to class warfare, but this approach to human life could easily be redirected to permit an attack on a religious national or ethnic group.

Heirs to Karl Marx ... *Brezhnev, Mao, Andropov*

What is most striking (taking Marxist doctrines to their eventual political application by various enthusiastic practitioners in this century) is that each and every excess and atrocity which they implemented has its literal antecedents in Marx.

Take Proposition Nine of the Communist Manifesto, supporting the combination of agriculture with manufacturing industries and the gradual abolition of the distinction between town and country, replaced by a more "equitable" distribution of the population over the country. If this suggests the Cambodian genocidist Pol Pot, then that is no coincidence.

And what about Proposition Eight? This includes the establishment of industrial armies, especially for agriculture. Here are the roots of Stalin's notorious forced collectivisation.

Though Marx regarded himself primarily as an economist and political theorist, it is probable that the real key to understanding Marx lies in his attitude to religion. More specifically, he held a special hostility to Judaism — the religion of his forebears, which his father had relinquished in favour of Protestant Christianity. It is almost incredible that Marx could have made statements like this — but he did:

"As soon as society manages to abolish the empirical essence of Judaism, the market and its presuppositions, the Jew becomes impossible ... The social emancipation of the Jew implies the emancipation of society from Judaism." If in this we hear hints of Hitler as well as Stalin, so be it.

Marx, as we know, had the most intense ambivalence about his Jewish origins. At times, he reacted as a persecuted Jew; at others, as a German nationalist. In correspondence with Engels, he referred to his French socialist rival, Lasalle (who had some African ancestors), as "that nigger." Marx the racist is one aspect his Third-World acolytes have managed to overlook.

We can theorise that Marx sought to abolish religion and substitute class for ethnicity as the line dividing mankind, in order to extinguish the distinction between Jew and Gentile (and hence his own conflicts on this subject) as well as anti-semitism in general.

Whether or not this overstates the issue of religion, it is clear that Marxism was and remained the credo of the outsider. Hence the profound appeal of Marxism to colonial and ex-colonial subjects in the Third World. Marxism was a Western philosophical tool with which to denounce the West and no matter how frequently and convincingly economists refute cornerstones of Marxist economics (such as the labour theory of value), Marxism will remain the credo of the outsider, however defined.

Intellectual refutation on its own will not shift one iota the resentment of the young man from Soweto gazing enviously upon the procession of limousines entering central Johannesburg day by day. That resentment can only be shifted (over time) by alleviation of his deprivations — precisely the process that fatally undermined the appeal of Marxism in Europe in the age of mass consumption.

The other side of the coin has been the dismal failure of Marxism as a developmental model wherever it has been practised. Vorhies convincingly cites the dismal statistics about low living standards throughout what has been the Soviet bloc.

Where this reviewer has important reservations is in relation to the mini-bites of economic explanation that accompany the extensive quotations from Marx.

The author, to take only one example, mentions Say's Law (that savings must equal investment) without mentioning that at least one important thinker, Keynes, made a serious intellectual attempt to explain the persistence of the Great Depression (not mentioned in this book) by challenging that theoretical proposition's universal validity.

The book will have enormous value in the period of open debate which SA has now entered.

Robin Friedland

BUYING BOOKS

If you have difficulty obtaining a title from a bookshop, we suggest you contact the publisher's representative. The telephone number for the Juta book reviewed this week is: (011) 23-5521.

The second exclusive extract from Paul Johnson's *The Birth of the Modern* will appear in next week's *FM*.

No. 2063 **23 August 1991**

Substitute the word "Wysigingswet" wherever it appears in the Afrikaans text of *Government Gazette* No. 13358 dated 5 July 1991 with the word "Wet".

No. 2063 **23 Augustus 1991**

Vervang die woord "Wysigingswet" waar dit telkens in die Afrikaanse teks van *Staatskoerant* No. 13358 gedateer 5 Julie 1991 voorkom, met die woord "Wet".

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

No. 2064 **23 August 1991**

LESOTHO HIGHLANDS WATER PROJECT: LEVYING OF A CHARGE ON WATER SUPPLIED FROM GOVERNMENT WATER WORKS IN THE VAAL RIVER FOR URBAN AND INDUSTRIAL PURPOSES

1. By virtue of the powers vested in me by section 138F (1) of the Water Act, 1956 (Act No. 54 of 1956), I, Gert Jeremias Kotzé, in my capacity as Minister of Water Affairs and Forestry, hereby with effect from 1 October 1991 levy a charge of ten cents (R0,10) on each cubic metre of water supplied or made available by the Government from or by means of any Government water work in the Vaal River from and including the Grootdraai Dam to the confluence of the Vaal and Orange Rivers to any person or body for eventual use for urban or industrial purposes: Provided that the charge will not apply to any such water supplied or made available free of charge by the Government from or by means of such Government water work.

2. The charge shall be recovered by the Director-General of Water Affairs and Forestry simultaneously with any charge which I levy in terms of section 66 of the said Act in respect of the supply or making available of such water.

3. Interest will be charged on any charges not paid by the due date at the interest rate applicable on that date in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975).

4. For the purpose of this notice, one cubic metre shall be equal to one kilolitre.

G. J. KOTZÉ,
Minister of Water Affairs and Forestry.

DEPARTEMENT VAN WATERWESE EN BOSBOU

No. 2064 **23 Augustus 1991**

LESOTHO-HOOGLAND-WATERPROJEK: HEFFING VAN VORDERING OP WATER VERSKAF UIT STAATSWATERWERKE IN DIE VAALRIVIER VIR STEDELIKE EN NYWERHEIDSDOELEINDES

1. Kragtens die bevoegdheid my verleen by artikel 138F (1) van die Waterwet, 1956 (Wet No. 54 van 1956), hef ek, Gert Jeremias Kotzé, in my hoedanigheid van Minister van Waterwese en Bosbou, met ingang van 1 Oktober 1991 'n vordering van tien sent (R0,10) op elke kubieke meter water wat uit die Vaalrivier vanaf en insluitende die Grootdraaidam tot by die samevloeiing van die die Vaalrivier en die Oranjerivier uit of deur middel van enige Staatswaterwerk aan enige persoon of liggaam vir uiteindelike gebruik vir stedelike of nywerheidsdoeleindes verskaf of beskikbaar gestel word deur die Staat: Met dien verstande dat die vordering nie van toepassing is op enige sodanige water wat kragtens 'n toekenning van die Staat gratis uit of deur middel van sodanige Staatswaterwerk verskaf of beskikbaar gestel word nie.

2. Die vordering word deur die Direkteur-generaal van Waterwese en Bosbou verhaal gelyktydig met enige vordering wat ek kragtens artikel 66 van genoemde Wet hef ten opsigte van die verskaffing of beskikbaarstelling van sodanige water.

3. Op enige vorderings wat na die betaaldatum nog nie betaal is nie, word rente op die onbetaalde bedrag gehef teen die rentekoers wat op daardie datum kragtens artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975), van toepassing is.

4. By die toepassing van hierdie kennisgewing is een kubieke meter gelyk aan een kiloliter.

G. J. KOTZÉ,
Minister van Waterwese en Bosbou.

GENERAL NOTICES

ALGEMENE KENNISGEWINGS

(49)

NOTICE 765 OF 1991

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of July 1991

Liabilities	**1991-07-31** **R**	**1991-06-30** **R**	**Change** **R**
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 110 942 840,00	9 910 465 117,00	200 477 723,00
Deposits:			
Government	5 664 917 585,82	5 607 634 423,40	57 283 162,42
Provincial administrations	757 887 546,01	556 788 281,03	201 099 264,98
Deposit-taking institutions	1 156 868 007,07	1 217 821 787,24	(60 953 780,17)
Other	99 187 892,49	102 831 812,53	(3 643 920,04)
Other liabilities	8 224 587 167,80	8 959 563 297,39	(734 976 129,59)
	26 094 222 902,30	**26 434 936 581,70**	**(340 713 679,40)**

	1991-07-31 R	1991-06-30 R	Change R
Assets			
Gold	5 322 120 560,24	4 970 051 161,04	352 069 399,20
Foreign assets	2 363 645 906,33	2 469 176 802,20	(105 530 895,87)
Total gold and foreign assets	**7 685 766 466,57**	**7 439 227 963,24**	**246 538 503,33**
Domestic assets:			
Discounted bills	1 647 750 000,00	2 676 920 000,00	(1 029 170 000,00)
Loans and advances:			
Government	—	—	—
Other	1 117 979 627,13	1 052 371 578,54	65 608 048,59
Securities:			
Government	971 948 660,84	942 479 215,34	29 469 445,50
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	13 547 793 103,76	13 200 952 780,58	346 840 323,18
	26 094 222 902,30	**26 434 936 581,70**	**(340 713 679,40)**
Rand per fine ounce	938,25	950,06	(11,81)
Gold holdings in fine ounces	5 672 391	5 231 302	441 089

Pretoria, 8 August 1991.

C. J. SWANEPOEL,
General Manager.

KENNISGEWING 765 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Julie 1991

	1991-07-31 R	1991-06-30 R	Verandering R
Laste			
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	10 110 942 840,00	9 910 465 117,00	200 477 723,00
Deposito's:			
Regering	5 664 917 585,82	5 607 634 423,40	57 283 162,42
Provinsiale administrasies	757 887 546,01	556 788 281,03	201 099 264,98
Depositonemende instellings	1 156 868 007,07	1 217 821 787,24	(60 953 780,17)
Ander	99 187 892,49	102 831 812,53	(3 643 920,04)
Ander laste	8 224 587 167,80	8 959 563 297,39	(734 976 129,59)
	26 094 222 902,30	**26 434 936 581,70**	**(340 713 679,40)**
Bates			
Goud	5 322 120 560,24	4 970 051 161,04	352 069 399,20
Buitelandse bates	2 363 645 906,33	2 469 176 802,20	(105 530 895,87)
Totaal aan goud en buitelandse bates	**7 685 766 466,57**	**7 439 227 963,24**	**246 538 503,33**
Binnelandse bates:			
Gediskonteerde wissels	1 647 750 000,00	2 676 920 000,00	(1 029 170 000,00)
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 117 979 627,13	1 052 371 578,54	65 608 048,59
Sekuriteite:			
Regering	971 948 660,84	942 479 215,34	29 469 445,50
Ander	1 122 985 044,00	1 122 985 044,00	—
Ander bates	13 547 793 103,76	13 200 952 780,58	346 840 323,18
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Rand per fyn ons	938,25	950,06	(11,81)
Goudbesit in fyn onse	5 672 391	5 231 302	441 089

Pretoria, 8 Augustus 1991.

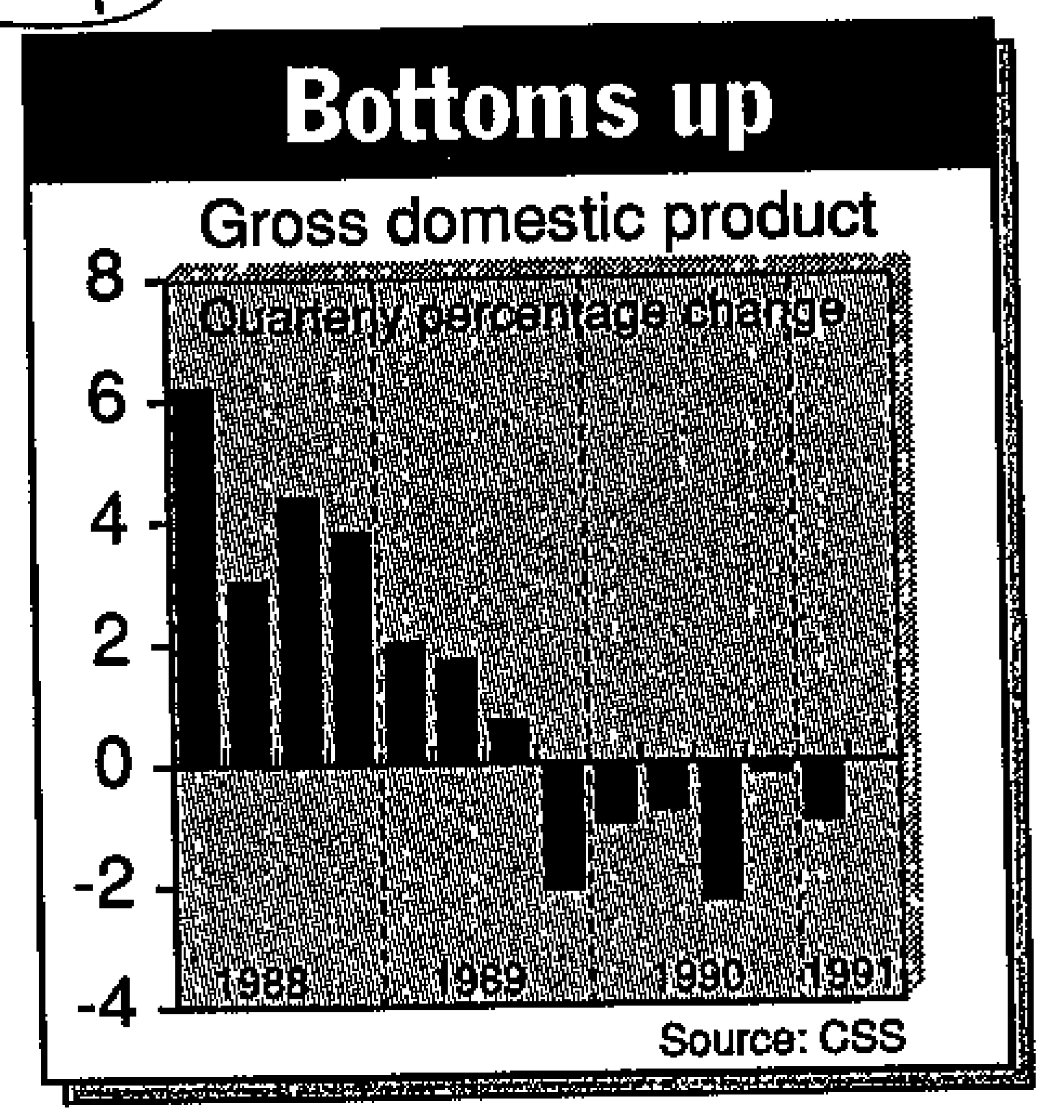
C. J. SWANEPOEL,
Hoofbestuurder.

(23 August 1991)/(23 Augustus 1991)

ECONOMIC OUTLOOK

One swallow or the summer

FM 23/8/91 (49)



After six quarters of decline, GDP fell no further in the second quarter of 1991. Figures released by Central Statistical Service show a marked improvement in a number of sectors, even if only as a sharp deceleration in the rate of shrinkage.

It is tempting to see this as an indication that the economic cycle has turned — and this may well prove the case. But a look at past experience (see graph) shows considerable quarter-to-quarter volatility.

At this point, the tempo of the domestic business cycle depends largely on the international economy. Given recent developments in the USSR, the outlook on this score is uncertain. Meanwhile, commodity prices, which constitute about 65% of exports, remain depressed. *The Economist*'s commodity price index (SDR prices) shows a 12,8% fall in the year and a 2,8% fall in the month to August 6; while metal prices fell 26,8% in the year and 5,4% in the month.

The improvement in the mining sector in quarter two comes largely from the fall in the exchange rate of the rand, against the dollar, which boosted export revenues.

Mining, which contributes nearly 13% of GDP, saw marginal growth of 0,3% after a first-quarter fall of 3,4%. (This quarterly figure has been seasonally adjusted and annualised, as are all the growth percentages reported here.)

Gold output, a major component, edged up from 139 227 kg in January-March to 139 960 kg in the next three months. This was magnified by a rise in the rand price of the metal, from R962/oz to R1 008, despite a fall in the dollar price from a first-quarter average of US$370/oz to $360 in the second.

Significant second-quarter improvement came in manufacturing, from 5,5% to 2,4%, though it consisted merely of a reduction in the rate of decline. The sector contributes nearly 23% to GDP.

Electricity sales, which are nearly 5% of GDP, rose 1,5% in the second quarter after falling nearly 1,3% in the first.

Eskom marketing manager Mike O'Leary reports considerable growth in bulk sales to municipalities this year. He says Eskom sales, up 1,62% in the first quarter, rose a further 3% in the second quarter, over the comparable quarters of last year.

Agriculture (6%) showed an increase in activity of 7,3%, against 5,2% in the first quarter. But agricultural statistics are highly volatile, warns SA Agricultural Union economist Johan Pienaar. "They depend largely on the timing of harvests, which vary from year to year depending on weather."

There is not much to show for the statistical improvement. Conditions in the maize industry, the largest sub-sector, are not encouraging: the 1990-1991 crop is down to an estimated 6,6Mt from 8,3Mt in the previous season, says Pienaar.

Except for pork, red meat has been depressed, with prices to farmers declining in the first half of the year, according to the Meat Board's Pieter Coetzee (see below).

Any real improvement is likely to have come from deciduous fruit, where, as in mining, producers enjoyed better rand prices.

The quarter saw no improvement in construction (3,2%), which fell 8,6%, after dropping 6,5% in quarter one; and finance and real estate (15%), which rose only 1,2%, against 1,9% in the previous three months. In the latter, the slowdown came in real estate transactions and business services. Construction activity traditionally lags the business cycle and its downswing is expected to continue until the second quarter of next year. ■

A gift horse needing its mouth looked at

Star 24/8/91 (49)

SVEN LUNSCHE

EARLIER this month US Congressman Stephen Solarz expressed surprise and bewilderment at the failure of the ANC to welcome a multi-billion-dollar aid package for South Africa with open arms.

The ANC responded by saying an aid package of such proportions, offered to a post-apartheid government, needed careful consideration.

While there are lots of question marks over the ANC's general economic policy, the organisation is right to study the package in detail.

There seems to be a consensus that the economy will not survive without foreign investments and aid.

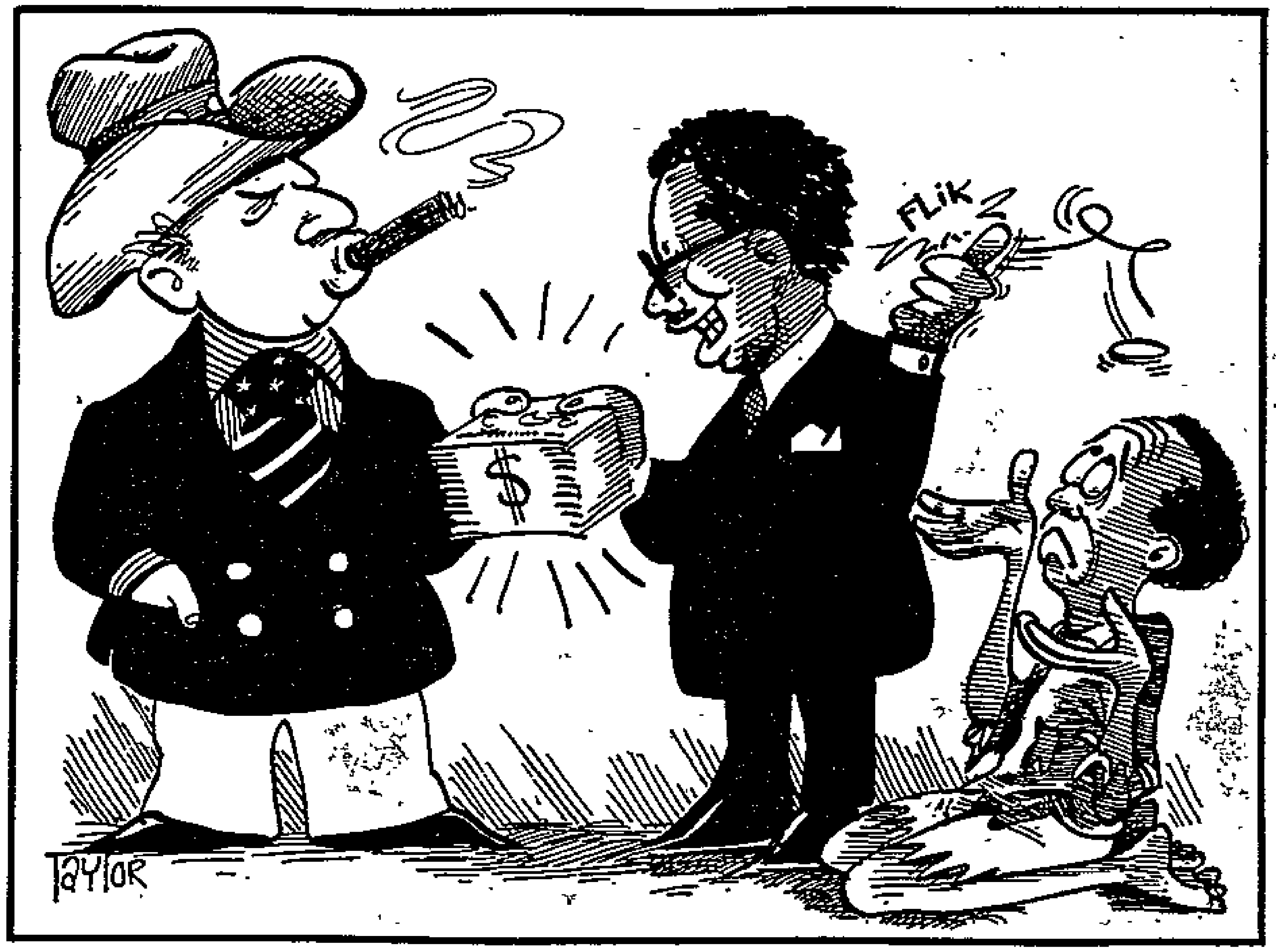
But it is vital that the power players in SA consider carefully the conditions attached to such aid.

Development aid to many Third World countries has not succeeded in boosting economic growth.

To the contrary. In a recent article, appropriately entitled "Beware the Siren Call of Foreign Aid", Nedbank chief economist Edward Osborn warns of the dangers inherent in such aid.

"Foreign aid has resulted in a syndrome of aid dependency where the aid intended for economic stability and growth has failed in achieving that, and hence more and more is requested," he writes.

Nowhere is this more evident than in Africa.



The World Bank estimates that Africa's external debt totals $226 billion this year, more than 50 percent of the continent's gross domestic product.

Over 50 percent of foreign exchange earnings go towards servicing interest and capital on foreign loans.

Despite the billions poured into Africa, there has been a serious decline of national income and a spread of poverty and destitution.

The situation is similar for states in Southern Africa.

In the circumstances it is not surprising that Mr Osborn says: "Aid is not a precondition for growth or the elimination of poverty.

"Indeed there is an appalling record of misuse of aid and much evidence of aid-engendering attitudes and policies that have been harmful to the process of development."

One of the worst aspects of foreign aid is that it has become a form of export promotion for Western countries, who have developed an international aid industry over the past two decades.

"Nearly two-thirds of capital and commodity aid, and even a higher proportion of technical assistance, is tied in the sense that the supply of the goods and services has to come from the donor countries.

"The benefits of the aid programme are tied, to a significant degree, directly to domestic industries, consultants and bankers of the donor country," Mr Osborn says.

He lists other shortcomings of foreign aid:

- Too often aid has gone into projects that are inherently uneconomic prestige projects, usually to underpin the popularity of the ruling party.
- The very availability of aid is itself corrupting in that it leads to the misallocation of resources and neglect of economic appraisal and standards.
- Donor countries often limit their aid to capital projects without due regard to the capacity of the recipient country to maintain the projects.
- Trade patterns become distorted as the freedom of choice of supply of the goods and services required for development is disrupted.

Turning to SA, Mr Osborn says it would indeed be foolish if SA were not to accept foreign aid, but "there should not be a loss of sovereignty in the area of economic policy".

He describes the Solarz plan as the pinnacle of arrogance in attaching conditions characterised by the commitments to economic liberalisation and growth of the private sector.

Mr Osborn says there would also appear to be no need for project and commodity aid to SA entailing a tied supply of goods and services because SA should strive to maintain a sound balance of payments.

Much more would be achieved in the creation of job opportunities and a reduction in poverty levels if aid were transformed into the opening up of trade opportunities. But this was likely to run foul of protectionist lobbies in the donor countries.

"If aid flows must take place, then they should be channeled through SA institutions and structured into spheres of enduring value," Mr Osborn says.

Recession hits even harder

(49) ARG 24/8/91

DAVID CUMMING
Weekend Argus Correspondent

THE squeeze on consumers is getting tighter.

Nedfin Bank reported this week that the growth in hire purchase and leasing credit granted by banks plunged by 87,6 percent in the June quarter compared with the March quarter.

The bank says that for the year to June the HP and leasing markets grew by only 11,8percent compared with 19,4 percent for the year to March.

Commenting on the figures, Nedfin chief executive Christopher Beatty says while a decline was not unexpected, the magnitude of the drop came as a surprise.

"The slowdown can, in the main, be attributed to the cutback in companies' capital expenditure which should continue until VAT is introduced.

Aspects such as tax legislation, changes with regard to car allowances, low levels of confidence in the business sector and the general recessionary climate also played a role.

"A combination of the introduction of VAT, lower interest rates, improving economic conditions and higher levels of business confidence could lead to significant credit demand in the second quarter of 1992."

Econometrix's Michiel Bester felt the figures also reflected the recessionary squeeze on consumers and more caution by banks and others concerning the granting of credit.

He said demand for consumer durables excluding cars had remained remarkably strong during last year and in the last quarter grew in real terms by 17,6percent.

However, this was partially due to a rise in real incomes, particularly among lower paid workers.

"Since then there has been increasing unemployment, wage awards have been lower and inflation has persisted at high levels. This has led to a great deal of pessimism among consumers, many of whom have found they are overextended.

"Hire purchase credit demand simply could not be maintained at the levels ruling last year in the current economic climate."

The miracles needed to create the new — and prosperous — SA

(49)
ARG 24/8/91

A TEAM of economists, businessmen and academics has prepared a scenario of South Africa's future. In it, they argue that, unless the society and economy are transformed, the transition to democracy may never take place.

PATTI WALDMEIR reports.

LIKE every other nationality on earth, South Africans are given to believing in miracles.

Faced with South Africa's economic decline over the past decade and the prospect of worse to come, faced with social disintegration and the existence of a huge underclass, many South Africans nonetheless believe the country will emerge with a post-apartheid government committed to power-sharing and sensible economic policies.

That would, indeed, take a miracle — or, rather, a series of miracles, says Mr Pierre Wack, the French head of Royal Dutch Shell's scenario planning team, which has helped to make projections of South Africa's development.

Scenario planning is the mapping out of a country's political, economic, and social future under various conditions.

Thousands of South African businessmen, politicians, trade unionists, political activists and bankers have seen the scenario prepared by businessmen, economists and academics, and paid for by two of the country's largest financial institutions, Nedperm, a diversified financial group, and the Old Mutual insurance company.

Government officials tok part in drawing up the scenario, whose dire predictions will have lent added urgency to plans for negotiating a new constitution.

Not surprisingly the scenario has provoked considerable debate. Prepared by a team which also included representatives of the private sector and the ANC, the exercise has provided a useful focus for the dialogue of the deaf between South Africa's communists and capitalists.

It highlights structural weaknesses in the country's economy, chronicles a deeply troubled society and pinpoints the political risks of transition from authoritarian government to democracy.

Mr Wack and others dissect the economy; Mrs Mamphela Ramphele, the South African social scientist, offers insights into black society; and Professor Bruce Scott of Harvard Business School provides international examples of political and economic transformation.

The theme is that politics is the least of South Africa's problems: political liberalisation is proceeding apace. But a negotiated transition to democracy is threatened by poor economic performance and social upheaval.

Professor Scott argues that almost every successful political transformation in history has taken place against a background of rising incomes. In South Africa, however, real gross domestic product per capita has fallen by 1,1 percent annually for a decade.

THE team estimates unemployment at 5,5 million, or 40 percent of the potential labour force, and forecasts that by the latest date for new elections (early 1995), 7,8 million will be employed and 7,2 million will be out of work.

The roots of South Africa's economic problems, the team argues, lie in a policy of import replacement which led to stagnation in manufacturing output.

During the 1980s, when successful economies worldwide invested heavily in technology, South Africa lagged behind. Its ratio of investment to GDP fell from 21 percent in 1960 to 19 percent in 1990, compared with 40 percent in Japan.

Against this background the team projects two possible growth paths for the next five years: zero average real growth over the period, or at best three percent (the central bank's best estimate is two percent for 1991-95).

The lower estimate would mean real per capita GDP would continue to fall; the higher figure would halt the slide, leaving per capita GDP stagnant. Neither would be sufficient to close yawning racial gaps in spending on health, education and pensions, for instance.

Zero growth would permit a 2,5 percent annual increase in social spending, and three percent growth would mean 10 percent more could be spent a year. But to equalise social spending between races would require more than twice that: a 24 percent annual increase.

The team concludes that, under what it calls the business as usual scenario, economic performance during South Africa's political transition (1991-95) would be totally inadequate, and would fail to stem further rapid social disintegration.

THE scenario also examines the country's social problems. Political liberalisation (including the 1986 abolition of the so-called pass laws, which kept blacks out of cities) has meant rapid urbanisation which has strained social services. Unrealistic expectations have been raised by the prospect of black political power.

The alternative proposed by the team — the so-called changing gears scenario — has a touch of the miraculous about it as well. It involves a two-stage transition to economic strength: first, huge spending on black housing, electrification, training and job creation; then a radical reorientation of the South African economy toward an east Asian model of export-led growth.

Phase one would kick-start an economy currently in recession: 400 000 serviced housing sites would be provided annually for the next five years (three times the 1990 figure); 200 000 low-cost homes would be built a year. One million houses would be electrified a year (only 35 000 are planned this year); the private sector must provide post-primary skills training (perhaps through the imposition of a skills' development tax); a job corps must be created, if necessary through a levy on business and the wealthy.

The combined effect of these measures would be to provide evidence of visible redistribution of wealth to blacks; create jobs; provide a route to black capital accumulation; stimulate demand for local manufacturers; stabilise communities; and improve the quality of black life.

Phase two calls for South Africa to abandon high tariffs and other forms of protection; devalue the rand; adopt a centrally directed industrial strategy to promote exports; develop its human potential through skills training.

The aim would be to boost economic growth to pick up where phase one growth leaves off in 1994.

THE effect, the team believes, would be growth of four percent in 1992, 5,5 percent in 1993, 4,5 percent in 1994 and six percent in 1995. Exports would rise by 12 percent per annum by 1995, and gross domestic fixed investment would increase by 11-12 percent a year over the period. Inflation would be 16 percent by 1995, and the current account R5,8 billion in deficit.

After a two-and-a-half-year spurt of growth, South Africa could be left with high inflation and balance of payments problems, and without the benefits of an economic restructuring that would certainly take longer than two-and-a-half years to complete. Success would in any case depend on forging a social compact between government, business, labour and the community — a tall order.

But if socio-economic revolution is not in prospect, it is clear — as the scenario team argues — that business as usual could yield an outcome too horrible to contemplate.

The miraculous may yet happen, and South Africa may emerge a liberal democracy committed to free market economics. But do not count on it.

PAC president Clarence Makwetu addresses Nafcoc's 27th annual conference. ■ Pics: ANDRIES MCINEKA

UCT vice chancellor Mamphele Ramphe[illegible] speaks on the causes of poverty in South Afri[illegible]

White business is dividing us — Azapo

C/Press 25/8/91 (49)

By DERRICK LUTHAYI

WHITE businesses encouraged black organisations to compete with each other on every venture in order to keep black business divided, Azapo President Pandelani Nefolovhodwe told cheering delegates at Nafcoc's 27th annual conference held at Sun City this week.

Nefolovhodwe said big business encouraged the formation of ventures which actually duplicated their activities, saying big business was the first to encourage Fabcos to compete with Nafcoc

"The fact that Nafcoc and Fabcos exist as separate entities serves the interests of big business. Despite your differences, Azapo would want to see a common national economic agenda being worked out to enhance the economic gains of our people, and we encourage the formation of a national front of black business organisations

"The present form of black economic empowerment has not succeeded in empowering blacks economically."

Owning a fast food outlet or a grocery shop had nothing to do with empowerment and economic control, he said

"We believe economic control and power is found within the forces that black people should struggle to control," said Nefolovhodwe.

He urged Nafcoc to engage in productive measures that would be capable of feeding our children in the future

Real power

A future constitution should enshrine the return of the land to the landless and an economic system in which the people have ownership, control and full participation in the creation, distribution and sharing of wealth.

ANC secretary-general Cyril Ramaphosa said people no longer expected slogans, rhetoric or ideology from a conference. They expected to be informed about practical steps that would lead to them acquiring economic power and nothing less.

Ramaphosa said the conference came at a time when the apartheid regime was at its weakest and dazed as a result of self-inflicted punches like Inkathagate The Vat punch was about to make it even more punch drunk.

"Our assertion that apartheid is a system that contains within itself seeds of self destruction has been proved a zillion times over as a result of Inkathagate."

PAC president Clarence Makwetu said the conference was taking place at a very momentous time internationally as well as on home ground.

"On the African continent there has been little growth. In many African countries people have, for reasons not always of their own making, suffered on account of drought, internecine wars, poverty and a lack of democracy.

"It is heartening to note that presently there is an upsurge in demand for the installation of democratic forms of government which should lead to higher levels of economic perfomance.

Azapo's Pandelani Nefolovhodwe receives a gift from Nafcoc president Sam Motsuenyane as Simon Zuma looks on.

Forget the slogans, let's take power – ANC

CiPress 25/8/91 (M) (49)

"African countries have also been victims of rigorous neo-colonial and imperialist exploitation."

Visiting professor and associate director of the Center for Management at Baruch College at the City University of New York, Prof Prakash Sethi, focused on the integration of blacks in South Africa's formal economy.

Sethi said he believed this was a critical area of concern for black leaders – just as it was for the white-controlled formal sector and the government.

"We must create a political environment that makes it illegal and politically unpalatable for the formal economic sector to use discriminatory practices against large segments of South Africa's citizens," said Sethi.

Sethi said the country was going through a period of massive political restructuring.

"Political power will not necessarily achieve economic growth, improved job opportunties and a better quality of life for blacks in the country. Even when political power is used as a coercive mechanism to redistribute wealth, the process is shortlived."

He warned that power did not flow from the barrel of a gun, but does flow to those people who have the money to buy guns and pay for the people who would use them to do their bidding.

He said the time for rhetoric and complaining was over and concrete steps had to be taken to alter the current situation. This would require a change of dialogue between those who control economic power and those who seek to gain it.

Nafcoc President Dr Sam Motsuenyane said a high level of optimism prevailed when the government and the ANC agreed to engage in dialogue to resolve specific problems that were percieved to be the main obstacles to negotiations.

However, he said while it was generally believed a negotiated settlement would not be unduly protracted or difficult, the process towards reaching the new envisaged multiparty negotiations "has been repeatedly thwarted and frustrated by the ongoing violence in the country".

SUNDAY TIMES, Business Times, August 25, 1991 4

Too early to ease curbs

STimes (Bus|T) (49)

25|8|91

Business Times Reporter

IT IS still too early to stimulate the domestic economy in spite of the strain in the business sector.

Moves to stimulate domestic demand too early would be tantamount to "irresponsible management" of the economy, says Volkskas Bank's Economic Spotlight.

It suggests the authorities should wait for an upswing in the world economy, which is unlikely to be felt before mid-1992.

Volkskas says the poor business climate, the heavy underuse of production capacity and the fact that inflation is largely driven by cost-push factors suggest that an attempt could be made to stimulate growth by fiscal measures and a relaxation of monetary policy.

Justifying its case for delaying action, the bank says SA's net foreign-currency reserves are still too low and an economic upswing brought about by increased domestic expenditure could not be maintained for long.

Higher domestic expenditure eventually leads to increased imports, draining reserves and leading to poorer exchange rates.

It would also increase inflation annd reduce foreign confidence in SA's ability to meet international liabilities on time.

Impulses

"Foreign institutions are watching the performance and management of the country most intently."

An upswing in world economies, however, would lead to higher exports and strengthened reserves.

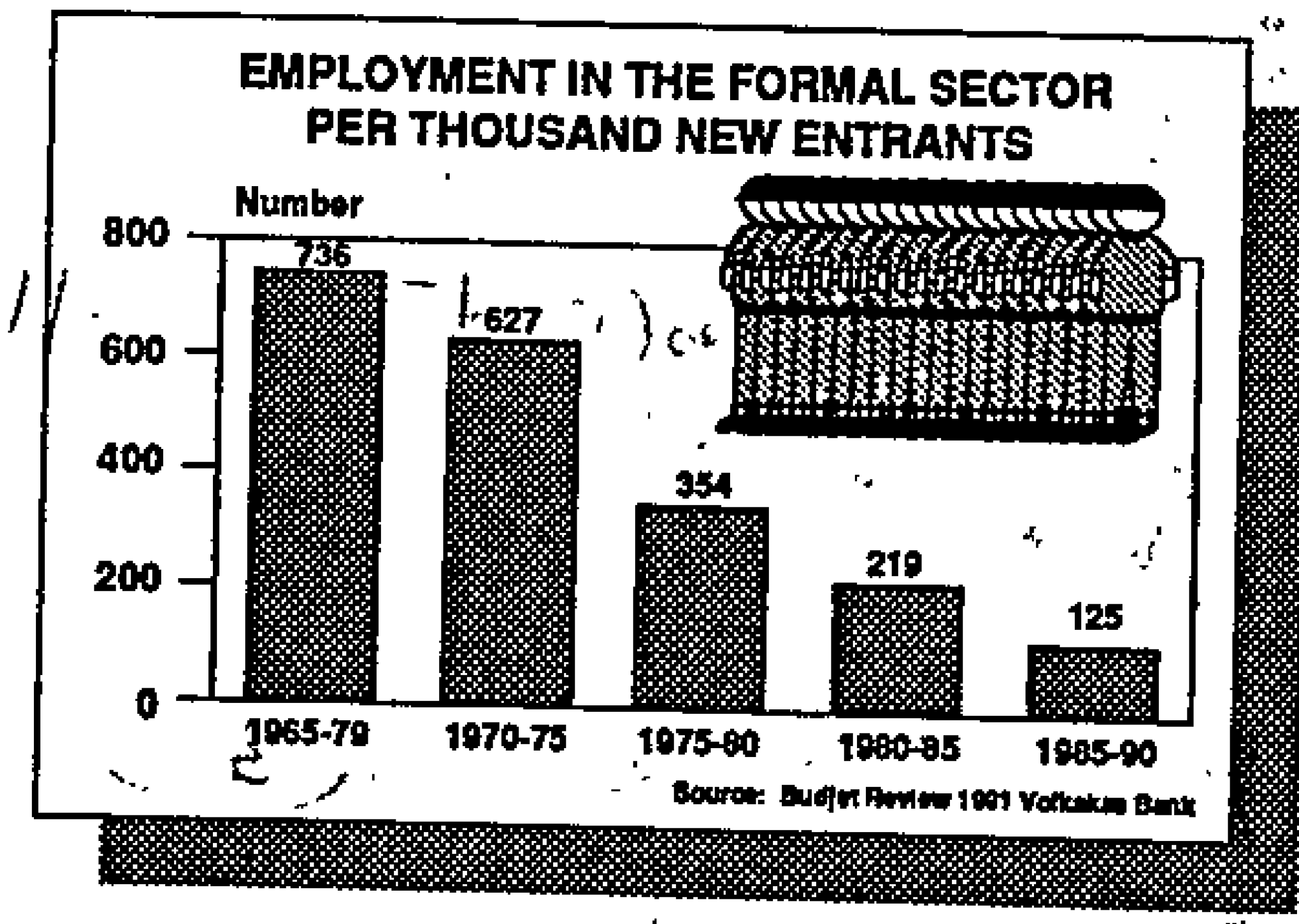
"This would transmit growth impulses to domestic demand. In the interim, South Africans could fruitfully give preference to buying SA goods and services which compare favourably with imported goods and services in terms of price and quality.

"In the long term this approach will deliver the best economic results, and only then will SA be able to rely on an inflow of capital and investment from abroad."

Stagflation, which has reduced personal prosperity and hit the formal sector's ability to absorb entrants to the labour market, was partly due to external factors like sanctions and low world prices for export commodities. But South Africans have not always acted correctly.

"They will have to learn to live within their means to protect and expand their fixed and financial asset positions and to accept remuneration packages that bear a relation to the contribution to production."

Volkskas says it appears the lower turning point of economic cycle will be reached later this year. Domestic demand and the growth rate could still decline this year, but slightly better business conditions can be expected next year.



Stage set for recovery, says the Reserve Bank

Star 26/8/91

49

By Derek Tommey

The Reserve Bank has some words of hope for the hard-pressed business community.

It says in its annual economic review that the stage has been set for a long period of steady economic growth, which could start between the middle of this year and early next year.

It says the underlying economic situation has improved considerably and is more conducive to sustainable economic growth than in any period in the 1980s.

Policies pursued in the past three years have made a major contribution towards achieving a healthier balance of payments and foreign reserve position, reducing foreign debt and creating a more stable financial situation, it says.

This, together with current political developments, indicates that an export-led upturn in economic activity seems more than a remote possibility.

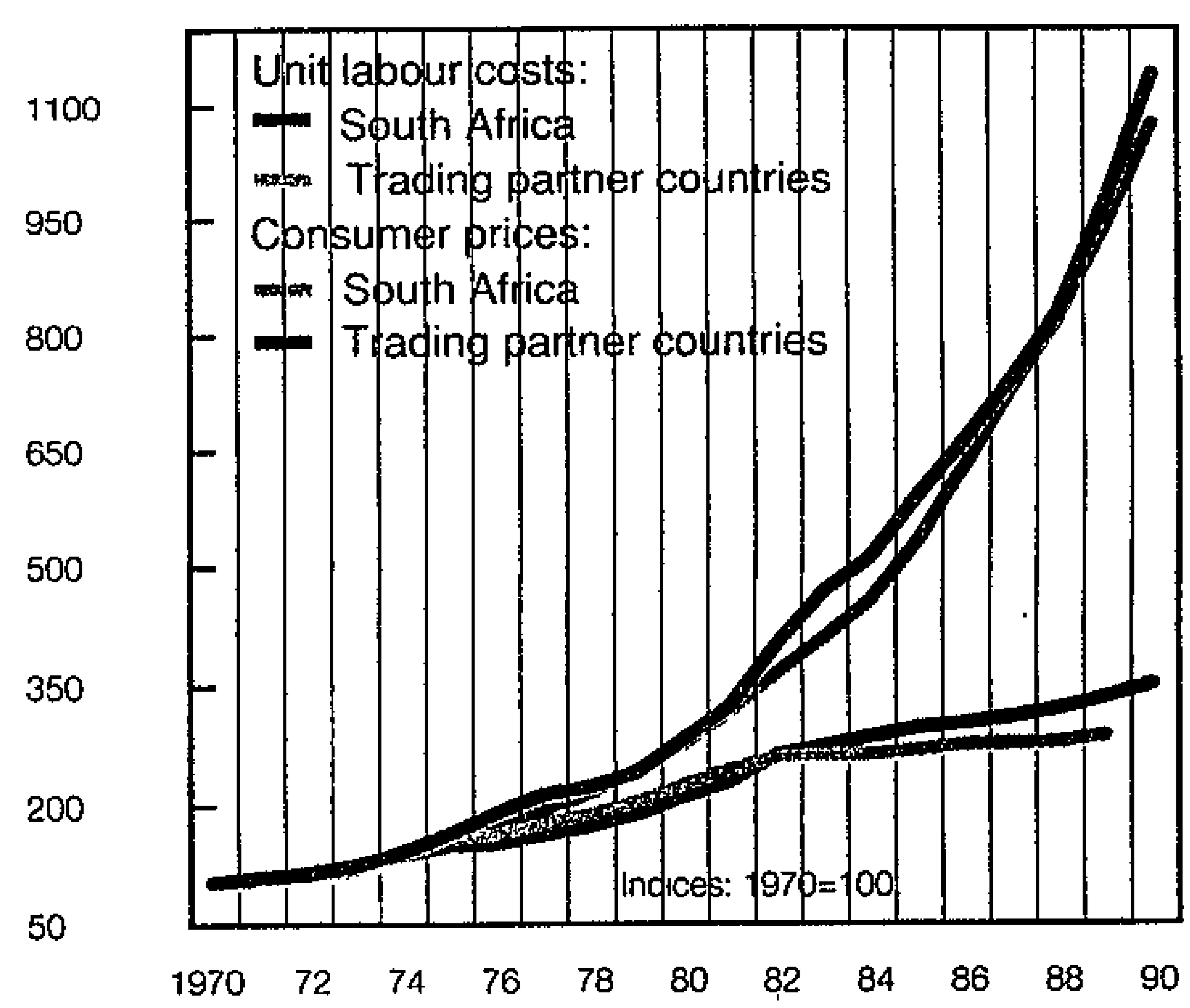
The bank bases some of its hope for an upturn on the composite leading business cycle index.

This increased in the first quarter of the year, it says, indicating that the lower turning point of the business cycle could be reached in the second half, or early in 1992.

"Although the economy may at first grow at a relatively modest rate, the rate could strengthen if the country's international relations improved further."

But if the Reserve Bank seems reasonably content with the overall state of the economy, there are a number of areas about which it expresses displeasure.

Unit labour costs in manufacturing



One is the continuing unacceptably high rate of inflation. While producer prices have shown a downward trend, the rate of increase in consumer prices remained stubbornly high in the first half of the year.

Increases in the prices of food, alcoholic beverages and tobacco, new vehicles and transport services in the year to June were not only consistently higher than the overall increase in the index, but have been close to 20 percent.

It puts a lot of the blame for this situation on entrenched inflationary expectations, which affected wage negotiations and made business enterprises more willing to meet wage demands.

Socio-political conditions have also affected productivity.

It says the initial slowdown and subsequent deterioration in labour productivity was partly the result of more strikes and work stoppages.

These cost industry 900 000 man-days in 1988, 1 500 000 man-days in 1989 and two million man-days last year.

Overall, real unit labour costs rose 2,1 percent in 1989 and 1,7 percent in 1990 after falling from 1985 to 1988.

The rising cost of labour was also one of the factors making South African industry more capital intensive and less able to absorb workseekers.

In the 1960s the formal sector of the economy absorbed 97 out of every 100 workseekers.

In the 1970s it was able to absorb only 72 out of 100 and in the 1980s only 22 out of 100.

But from 1985 to 1990 it was able to give work to only seven out every 100 workseekers.

While this was going on, all South Africans were getting poorer. Gross national income per capita dropped three percent in 1989, four percent in 1990 and so far this year has fallen 2,5 percent.

This means that South Africans today are almost 10 percent poorer than two and a half years ago.

However, one item of good news has been the strong rise in exports, which grew at an average rate of 22,5 percent between 1984 and 1990, and the even sharper rise in exports of manufactured goods, which averaged 25 percent a year in this period.

This contributed to the improvement in the balance of payments and to the substantial reduction in foreign debt, the bank says.

Star: 26/8/91

Money supply figures called into question

49

By Derek Tommey

The question analysts have to ask is how much importance should they attach to the latest M3 money supply figures.

Figures published by the Reserve Bank show that M3 — the broadest definition of money, including cheque, short-, medium- and long-term deposits in the banking system — grew by 15,94 percent in the 12 months to July, which is way above the bank's target rate of 12 percent.

But the bank's annual economic survey says that new banking regulations this year have distorted money supply figures, possibly to the extent of R5,1 billion.

As a result: "The movements in the statistically measured M3 in the first half of 1991 should clearly not be regarded as indicative of developments in the real economy.

"When allowance is made for the effect of new regulations, the estimated underlying rate of increase in M3 remained fairly subdued".

In fact, if one subtracts the R5,1 billion from the money supply figures (which the Reserve Bank does not), one gets a rate of increase in money supply of close on 12 percent.

By achieving its target rate it seems possible that the bank might now consider relaxing the money supply and allowing interest rates to ease a little sooner than the market is expecting.

The figures show that commercial banks this year have not been lavish with new advances.

In the four months to June, total domestic bank credit extended grew by R1 billion, or only 0,2 percent, to R143,5 billion, which in real terms means that advances have been contracting.

Uncertainty on future curbs cash flow

US investors fear nationalisation

Sowetan 26/8/91

49

WASHINGTON - A survey of more than 40 company executives, business consultants, bankers and government officials has pinpointed the reasons why United States companies continue to be wary about investing in South Africa.

The survey comes six weeks after the lifting of sanctions and indicates why some organisations which still have direct investments in the country feel that they may yet withdraw after withstanding more than a decade of pressure to disinvest.

The survey was conducted by the Investor Responsibility Research Centre, an independent and non-profit corporation which provides impartial analysis on business and public policy issues for 400 of the top institutional investors in the US.

The results are contained in a report, "US Business in post-sanctions South Africa: The Road Ahead", which is to be published shortly.

A grim prognosis in the report is that even if South Africa were to fulfil all the requirements of US investors, the country would face stiff competition for scarce foreign investment, especially from eastern Europe, China and South America.

Uncertainty about South Africa's political and economic future predictably has emerged as one of the two major deterrents to new US investment.

"The US business community has questions not only about what South Africa's new political system will be, but also how its economy will be managed.

"US companies want to be sure that they will have room to operate, that their assets won't be nationalised and that the new government will lay out a set of rules they can play by that will not be subject to constant change," the report says.

It finds that the other major deterrent to investment is the web of county, city and state sanctions now enforced throughout the US.

"Those laws have been a far greater deterrent to US companies than federal sanctions," the report says, adding: "Several state and local entities have already made it clear that they think President Bush acted too soon in lifting sanctions, and say they won't follow suit until there has been more reform in South Africa."

Violence also features prominently as a reason why US firms are wary about investing, and the report comments:

"Several representatives of US companies that still have direct investment in South Africa point to the violence as the one thing that could force them out of the country after weathering more than a decade of disinvestment pressure."

But even if all these problems were removed, including all local sanctions in the US, "it is not at all clear that at a time when foreign investments funds are limited, South Africa is where US companies will choose to invest.

"Many companies are focusing their foreign investment resources on the emerging markets of eastern Europe, China, Latin America and the new streamlined version of western Europe that will debut in 1992, which all offer either far larger consumer markets or less domestic political risk."

The survey pinpointed some "significant bellwethers" which US business leaders believe could influence them to invest in South Africa, the most important being the signing of OPIC and IMF agreements.

Such agreements would be "an important signal to firms that the US government is willing to place its faith in South Africa's future."

In a segment devoted to market opportunities in the country, the report says: "It is widely agreed that the emerging black consumer market will provide the best opportunities.

"Other promising areas are tourism and jewellery which, like the consumer products industry, are not capital intensive and entail less risk if the investment is lost.

"But US companies looking to re-enter the South African market will have to assess the cost and difficulty of re-establishing a market presence and whether it makes the most sense for them to do so through direct investment or non-equity ties."- *Sowetan Correspondent.*

Call for SA to speed up progress

(49) CT 26/8/91

Business Editor

DEPRESSING economic news from other parts of Africa is changing attitudes to SA because this country is seen as the only hope for the continent, says Peter Vale of the Centre for Southern African Studies at the University of the Western Cape.

But he warns that SA must make the most of this situation and not allow the interest of prospective investors to be lost through lack of positive developments.

Vale — a member of the Pew International Task Force on Global Security, which meets regularly in New York — says in Syfrets investment newsletter Money Matters that "the jury is still out" on whether the new SA can prosper.

"As the walls which have isolated SA from the world, and its citizens from each other, come down so the pace of change and of its political manifestation, international pressure, will quicken."

Vale says the depressing news from other African countries probably speeded up the lifting of sanctions.

"The logic is simple — if there is further drift in SA the centre faces collapse. With it will go Africa's hope for salvation."

However, he continues, "it seems unlikely that investment capital will simply flood back. The security situation in the townships, among other things, makes SA a poor risk.

"On the other hand the country has a pronounced business culture which makes it a far more attractive target for investment than either Eastern Europe or the Soviet Union."

Vale says international pressure "on both sides of the great SA divide" will increase. The future of both sides, and of the country, "hangs on creative responses to this changing pressure.

"Should our politicians hesitate, interest in SA will waste away. After decades of isolation this would not be in the interests of any of its people."

Vale points out that changes taking place in other parts of the world will also affect SA.

Trade balance

He urges investors to watch out for "a seriously deteriorating relationship between the US and Japan. This hinges on the lop-sided trade balance which many in the US believe the Japanese lack the political will to tackle.

"Influential and informed American circles now look upon Japan as the new threat to their national security."

Discussing "a plethora of schemes to salvage the Soviet economy and, with it, Gorbachev", Vale says this is helping to focus interest on environmental issues "which will certainly dominate world affairs in the coming decade."

He explains that much of the money needed by the Soviets is to repair their devastated ecology. "In some European countries like Sweden it is being argued that the entire budget allocation for ecological purposes would be more usefully spent not at home but in the Soviet Union."

Discussing the break-up of states, he says that where this is happening in Africa it will increase "marginalisation from the global economy."

Listing causes for concern about individual countries in Southern Africa, Vale says Lesotho "is finely balanced.

"Despite efforts at peacemaking things still appear uncertain in Mozambique.

"While the accord in Angola is a promising development, the economic recovery of this potential giant is in no way assured.

"Serious questionmarks also hang over the futures of Kenya and Malawi. The latter may well implode on the death of the ageing President Banda and pessimistic observers fear a re-run of the blood-letting which accompanied the political change in Liberia."

But, Vale says, there are some positive African developments. "Watch in particular the powerful personality of former Nigerian president Olusegun Obasanjo, who is rallying African support for a far-reaching examination of why the continent is in such a state of tribulation."

● **SA focus at SADCC meet today — page 12**

AWARD WINNERS ... Johan Leeuwner (right) of First Bowring and Associates and independent broker Derek Hodson (left) receive their fifth consecutive Eagle Awards from Southern Life GM (broker division) Quentin Pretorius for the level of quality business they brought during the past financial year.

(49) CT 26/8/91

'Equities best return in changing SA, economy'

Business Staff

SA is heading for higher economic growth in the '90s says Old Mutual assistant GM (investments) Rowland Chute.

And he is confident that equities will still provide the best real return in a changing SA where inflation will remain a problem.

Pointing out that negative political factors which hampered the economy have been removed, Chute said at the weekend that Old Mutual saw the economy bottoming out over the next six to 12 months with gross domestic product (GDP) of 2,5% to 3% next year against the estimated current rate of around zero.

"With sanctions lifted and renewed access to foreign capital the authorities are likely to feel comfortable with running a small deficit on the current account on the balance of payments (BoP) for the first time in years.

"This means we should have a longer period of economic growth. There will be no need to cut the upswing short due to BoP constraints."

Heavy buying

Old Mutual's results for the year to June showed that it had invested about R3bn in equities and had actually bought heavily in the depressed stock market last year at a time when many competitors switched to cash.

The purchases included De Beers, Richemont, Iscor and Absa. Nearly R400m was invested in De Beers.

Chute pointed out:"By buying while prices were depressed last year Old Mutual obtained large lines of shares at prices well below current levels.

"Last year we laid the base for our growth asset acquisitions, taking the view that SA will follow growth orientated policies. The growth in the '90's will boost corporate earnings and be bullish for the stock market.

"Consider that, since companies produced good profits in the '80s with all the political problems we had then, the 1990's could be an exciting period."

Chute pointed out that company managements could be flexible in line with the changing economy and conditions in the country.

"Equities offer the flexibility that fixed interest does not. If you buy a 20-year longterm stock with a yield to maturity of 16% that is what you will get. The only bull factor is if the interest rate declines.

"If you buy into a well managed corporation it is constantly adapting to the changing socio-political environment in which we are living. That is very important when we are going through these ups and dows. You want to take advantage of the change ..."

Chute considered gold would rise as demand outstripped supply. But the rise would be gradual. With strong international confidence in the banking system, the odds were stacked against a sudden surge in the price of the yellow metal.

He said stock market sectors to watch in the '90s would be different from those which had performed well in the '80s. Companies which could increase exports would be worth monitoring.

"Before the Soviet coup my own view was that the market would take a breather. Fundamentally there is still a big demand for equities but we could see the market drifting sideways for some time until corporate growth begins to re-emerge."

Pointing out that demand for equities was strong even before State pension funds moved into the market, Chute said: "As a result I am not sure we shall see a cheap stock market again in the near future. At best it will move down from expensive to neutral."

THE MONEY MARKETS by Sharon Wood

Market back in the doldrums

B Day 26/8/91

AFTER a small twitch in rates on Wednesday the money market slumped back into the doldrums, ahead of a what is expected to be a liquid month-end.

Markets reacted neutrally to the news on Wednesday night of a reduction in the VAT rate and the simultaneous petrol price hike.

The smaller rise in inflation as a result of lower VAT is expected to be counter-balanced by higher transport costs.

But the news did push expectations of an interest rate cut into the distance because government agrees tight monetary policy will be maintained to contain more buoyant consumer expenditure this year.

Money market rates moved sideways and trading activity centred on longer term one-year market instruments because of uncertainty regarding interest rate direction and not much paper was created in three-month NCDs.

There was no demand for rates under 17,40%.

Twelve-month NCDs moved up to 17,50% on Wednesday after hovering around 17,45% during the first half of the week, but Finance Minister Barend du Plessis' statement on Wednesday night saw the rate move down to 17,45% again on Thursday.

The Reserve Bank rolled over R500m in Treasury Bills on Monday and Thursday leaving R800m in special Treasury Bills in the market. The rollovers increased the market shortage to R1,851bn from R1,350bn on Wednesday.

(49)

Indications

When the shortage drifts below R1,5bn the Reserve Bank drains liquidity from the market.

The Bank will have its work cut out to maintain a decent shortage on Friday because all indications point towards an easy month-end. Month-end promises to be liquid because R2bn of RSA government stock is maturing and R1bn interest is being paid out.

The shortage will probably remain at current levels — unusual for a month-end when it is normally relatively high.

Mining tax payments, which would take money out of the system, are not that substantial this month.

The Bank will probably use dollar swaps and short-dated Treasury Bills to mop up liquidity and may sell short-dated assets.

Money supply figures show M3 growth remained relatively static with the target used by the Reserve Bank to monitor monetary policy falling below 20% for the first time since the figures were distorted in February. The M3 annualised growth rate from the base of the guideline year rose by 19,38% in July from 20,22% in June.

The reasonably good money supply figures will probably be ignored by what is expected to be another disappointing rise in inflation in July, when the consumer price figures are released today.

Markets may show some movement when Reserve Bank governor Chris Stals delivers his annual address at tomorrow's ordinary shareholders meeting.

Decade of strong economic growth forecast

49

WILLIAM GILFILLAN

SA IS headed for strong economic growth in the '90s, according to Old Mutual's assistant GM of investments, Rowland Chute. B | Day 26/8/91

In a statement issued at the weekend he said he believed the economy would bottom out over the next six to 12 months, with a GDP of 2,5% to 3,0% next year.

"The lifting of sanctions and renewed access to foreign capital should lengthen the period of economic growth in the next upswing as the authorities are likely to feel comfortable with running a small deficit on the current account for the first time in years," he said. There would be no need to cut short the upswing due to restraints on the balance of payments.

Chute said equities should continue to provide the best real return to investors in the economy of a changing SA where inflation would remain a problem.

"Equities offer the flexibility which fixed interest rates do not," he said.

Chute said gold had seen the worst and the supply/demand situation was improving. However, with strong international confidence in the banking system, the odds were stacked against a sudden surge in the gold price.

Companies which had the ability to increase exports would be worth monitoring in the '90s, he said.

Money supply growth is up

SHARON WOOD

Act. B/Day 26/8/91 (49)

MONEY supply growth remained too high in June and, combined with the expansionary impact of a lower VAT rate later this year, interest rates were unlikely to come down before next year, economists said yesterday.

Reserve Bank money supply statistics released yesterday showed M3 money supply edged up to 15,9% year-on-year in June compared with the previous month's 15,8%.

The aggregate used by the Reserve Bank to monitor monetary policy, M3 (seasonally adjusted and annualised), rose by 19,4% from the base of the guideline year.

This remains well outside the monetary guidelines of 8% to 11%, but is still subject to the distortions created by the Deposit-Taking Institutions

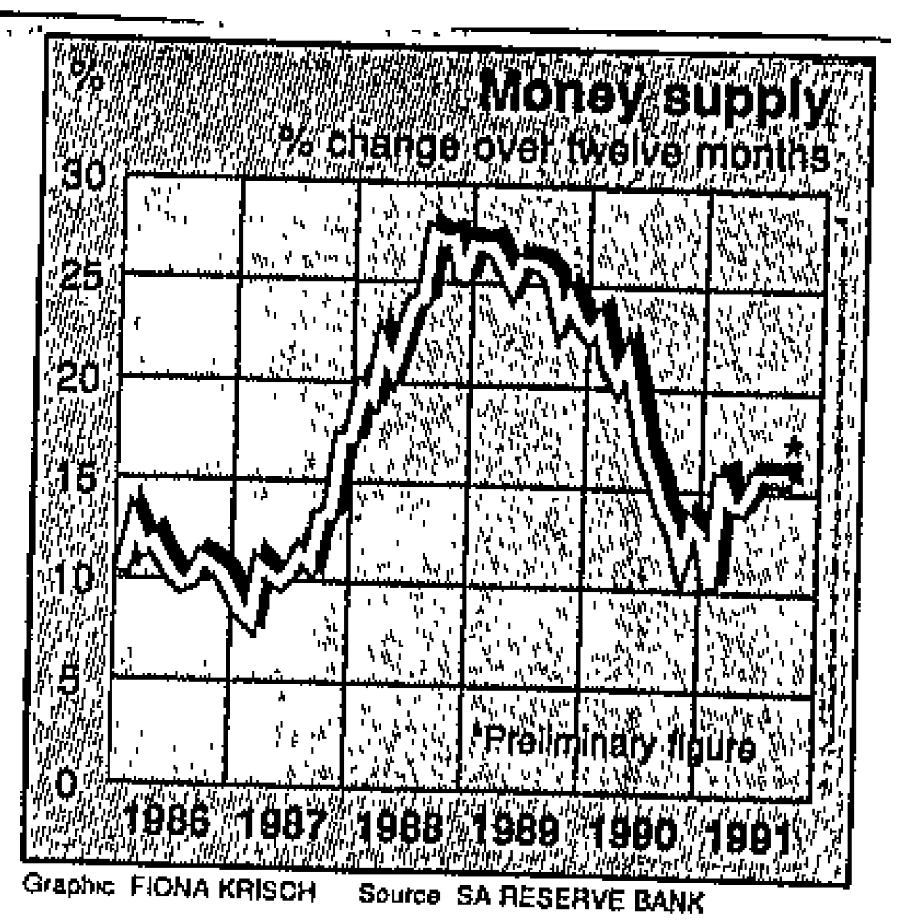
Sanlam economist Johan Louw said the figure was disappointing.

"In the light of the money supply figures and the fact that VAT may have an expansionary effect on the economy, we have moved our forecast of an interest cut later this year to early next year."

But Louw was more optimistic about inflation, because VAT was expected to result in less upward pressure on the inflation rate.

He forecast the consumer inflation rate reaching about 14% by year-end, as opposed to the previous 15%.

Bank credit extended to the private sector eased by 0,2% to R141,4bn



Graphic FIONA KRISCH Source SA RESERVE BANK

in June from R141,8bn in May.

The slight fall in credit was mainly due to a decline in lending by firms.

"Stals is still worried about the man on the street's lending levels," said Louw.

Economic inequality: Action needed

Political Staff (49) ARG 26/8/91

JOHANNESBURG. — The government has accepted that "affirmative action" will be needed to overcome historical economic inequalities.

Deputy Finance Minister Dr Theo Alant made this clear in a debate at the University of Pretoria's Centre for Human Rights at the wekend. He said a market-orientated economy would best suit the needs of a future South Africa.

However he added: "... but programmes of affirmative action will have to be introduced to enable the disadvantaged to participate and share in the development process and in the income thus generated."

But Dr Alant said that it was difficult to distinguish between people who had been disadvanted deliberately and those disadvantaged unintentionally. Therefore it would be easier to integrate affirmative action into a single human development programme of normal socio-economic upliftment.

Another speaker in the debate on the economy and human rights, Democratic Party Houghton MP Mr Tony Leon said South Africa should create the maximum amount of growth possible and thereafter allow the State to implement policies of social upliftment.

"That is the only way forward to a democratic solution to South Africa's economic morass," said Mr Leon.

PAC spokesman Mr Barney Desai said the creation of an equitable economic order was of paramount importance to the organisation.

The PAC proposed to correct the injustices of the past by legislation.

"We are discussing a number of policy options but will not act in a spirit of retribution. Nationalisation will not be used for doctrinal reasons.

"It is not our intention to transfer wealth from one elite to another simply because they are black. Economic policy must serve the needs of the whole nation," he said.

SACP spokesman Dr Essop Pahad said it was not sufficient to only concentrate on democratising political life but also the economy.

The creation of economic growth required foreign investment. The SACP and ANC would propose a code of conduct for foreign investors, said Dr Pahad.

Professor Sampie Terblanche of the University of Stellenbosch said a perestroika of the economy was needed to get rid of inequalities.

He said the government's realisation of the need for affirmative action was "too little too late" and power relations needed to be restructured.

Dr Alant said economic growth could not be created through legislation. It had to be earned, practised and nurtured.

Dr Alant suggested that a social accord or economic governance accord could be drawn up to incorporate some of the economic rights which could not be enshrined in a Bill of Rights.

Investment spur as govt seeks votes

LINDA ENSOR

CAPE TOWN — The investment environment in the run-up to national elections and/or a referendum would be positive, Southern Life investment GM Carel de Ridder said at an Institute of Life and Pension Advisors' function last week.

"Positive sentiments will prevail and government policy can be expected to be stimulating, especially fiscal policy, so as to generate support from the population," De Ridder said. B/Day 26/8/91

He expected uncertainty about the form of the new government to set in closer to the election or referendum, having an adverse effect on capital and stock markets.

Taking a longer-term view, De Ridder said it was possible to extrapolate from the experience of the SA economy in the '60s and '70s to construct high-road and low-road scenarios respectively.

The high-road scenario assumed that government would follow free market principles and a policy of monetary discipline, while still being actively involved in the economy and in the redistribution of wealth. Government spending as a percentage of GDP would not rise much above the present 35%, the tax rate would not rise dramatically, inflation would be in the region of 10% and the rate of exchange would be moderate.

The low-road assumed a socialist government controlling the economy and using tax increases to redistribute wealth, but constrained by the requirements attached by the IMF and other donor agencies to loans.

De Ridder said that even should a socialist government come to power under a new constitution, South Africans should not expect any worse than they had already experienced.

JSE-listed firms account for almost half of GDP

B/Day 27/8/91

ROBERT LAING (49)

JSE-listed companies generated 42,6% of SA's GDP of $88bn last year, according to a study by McGregors Online released yesterday.

Anglo American headed the chart, accounting for 30,9% of the GDP generated by the JSE. Anglo was followed by Sanlam (15,9%), SA Mutual (12,6%) and Rembrandt (9,3%).

Non-listed companies generated 26,1% and the state (including Eskom, IDC and Transnet) about 29%.

McGregor Online chairman Robin McGregor said: "Director-controlled companies, of which there are 364 listed on the JSE, perform commendably. They only control 5% of the JSE's market capitalisation, yet produce 12,1% of the JSE's contribution to the national GDP."

The report found that SA mines still generated the bulk (32%) of GDP generated by JSE-listed companies. Mines were followed by banks (6,6%), retailers (6,0%) and beverages (5,9%).

However, GDP as a percentage of fixed assets showed mining near the bottom of the list. Whereas the Venter Group came 11th on the JSE's top GDP generator list, it had the highest percentage of GDP to fixed assets (195%), followed by FSI (188%). Anglo dropped to eighth on this list with 99%.

The report said SA was Africa's leading GDP generator with $88bn in a total Africa GDP figure of $373bn. Worst performer in the total Africa figure was Lesotho, generating GDP of just $330m.

Communism still viable, say callers

Sowetan 24/8/91

EASTERN Europe and the Soviet Republics did not practise communism efficiently, callers to the *Sowetan*/Radio Metro Talkback told host Tim Modise yesterday.

They were commenting on the fall of the Soviet Communist Party and President Mikhael Gorbachev's resignation as secretary-general of the party.

On the future of communism, most callers said communism could still be applicable even in South Africa if it was not imposed upon the people.

Mashilo from Evaton said there was never communism in the Soviet Union and that people were fed with Western propaganda that the Soviets were practising communism.

Agreeing with Mashilo was Pat from Jabavu who said the Soviet Union, eastern Europe and African countries did not practise communism but it was socialism of "some kind".

"It failed because it was imposed upon the people. Even in South Africa, it will fail if it is imposed," Pat said.

A Zimbabwean calling from Bryanston, Zeth, warned that if South Africans believe in communism then they will kill the country.

A self-confessed communist, Zeth said African countries are dying because of communism. "With communism, the government is the ruling party without any opposition, whether official or unofficial.

"In Zimbabwe, when you import goods from other countries, the State imports them for you and then you will have to pay whatever the State charges you, which is not good for any business," said Zeth.

SA secures R3bn in debt rollovers

49

CT 27/8/91

From GRETA STEYN

JOHANNESBURG. — SA secured about R3bn in foreign debt rollovers in the 18 months to June this year, figures in the Reserve Bank's Economic Report show.

The Bank describes as "dramatic" the recent improvement in the capital account of the balance of payments (BoP) in the face of the country's foreign debt burden.

"The smaller capital outflow than the debt maturing confirms that the more favourable foreign political and economic perceptions regarding SA led to a substantial refinancing of debt or that new funds were made available to SA borrowers."

About R7,3bn in foreign debt fell due over that period, but capital outflows were considerably less at R4,16bn. The Bank estimates that about 40% of maturing bearer bonds and notes were rolled over or replaced by new loans. Bonds and notes are more difficult to refinance than normal bank loans as a range of individual investors are involved.

Indications are that the improvement in the capital account is continuing. The Industrial Development Corporation this month secured a $150m credit line from an Italian banking consortium for capital goods imports, while Taiwan is to invest $200m in an SA petrochemical plant. Government's accounts for the year to June show it has received R139m in foreign finance this year. Talk is that it will provide details soon of R330m in rollovers and that it is poised to enter the European capital markets for a further R245m.

The BoP also received a major boost this year from an impressive performance on the current account (the trade balance less net payments for "invisibles" such as interest, dividends and insurance). The current account surplus shot up to an annualised R6,2bn in the second quarter — higher than the quarterly average for last year.

Net reserves, which exclude special central bank credit, rose by R1bn in the first half after increasing by R2,9bn in 1990.

But the Bank sounds a note of caution on the BoP by pointing out that most of the improvement in capital flows was the result of movements of short-term capital. These are notoriously volatile and influenced to a large extent by exchange rate expectations.

LETTERS

Business must open up to world competition

B/Day 27/8/91.

(49)

EDDIE CROSS

BUSINESS has a unique and special contribution to make to the welfare of society. In business we have considerable freedom to mould the conditions under which our people live and work.

Free markets are democratic and responsive to individual need. There is no alternative to competition to establish fair returns. We need to believe these things and to translate them into practice. We must face up to the fact that all too often we in the business sector have sought privilege and protection to the detriment of the consumer. The new SA deserves better.

How the business community in SA reacts to the changing situation is of vital importance. If you react with the negative elements in society, and reinforce the spirit of conflict rather than compromise, you will make it that much more difficult to secure the future you all desire. If on the other hand you act with confidence, lead and inspire your staff and support the process of change and adaptation, you will help ensure a positive and negotiable outcome. Never underestimate the power of ordinary people acting in concert.

If you look at examples of successful societies, they are all characterised by a sense of patriotism and national pride. The Japanese, the Germans, the French and the Americans are all clearly recognisable as people who have a deep and emotional commitment to their countries.

Black political leaders in southern Africa should be careful to give due recognition to the role which white nationalism has played in the development of our countries.

In Rhodesia, white Rhodesians were intensely patriotic. We reacted to the challenge of sanctions by throwing our entire weight into the battle for economic stability and growth. We succeeded. The economy of Zimbabwe was established by business organisations which were committed to the country. For us, home was not somewhere in another part of the world but a place to which we returned every evening.

However, since the transfer of power in Zimbabwe, the government has done little to encourage white patriotism. This is a serious mistake as, even though there are only about 120 000 white Zimbabweans left in the country, they play an important part in the economy.

For those whites who have had the courage and commitment to remain in Zimbabwe, life is very different to what it was. Whites are now actively discriminated against. Our young people find it difficult to obtain jobs, bursaries and scholarships. Our young business people are denied promotions and find it difficult to secure concessional financing for new ventures. Scarce resources such as foreign exchange and motor vehicles are allocated on a discriminatory basis. Very few whites remain in the public sector.

I can accept some of this as being necessary to balance the books against many years of discrimination against blacks. However, the danger is that this process will destroy what is left of white patriotism. If this happens, a powerful force for promoting development will have been lost and all Zimbabweans will be poorer as a result.

The situation in SA is potentially even more precarious. If the black leadership undermines the patriotism of white South Africans towards their country they will be doing not only themselves and their country a disservice but they will be, in many respects, jeopardising the future.

It is important to establish and maintain the commitment of all South Africans to the future of the country. It is important that that commitment be maintained not only in economic and political terms but also in emotional and cultural terms.

☐ CROSS

We must accept that it will be necessary to have a period of positive discrimination after political transition, to redress decades of discrimination against black South Africans. With the transfer of power, black South Africans will legitimately demand full participation in the SA economy. This can be only at the expense of the other communities in the short term.

To minimise the damaging effects of such pressures, you will need a period of rapid and sustained economic growth. It is time that African leaders recognised this and stopped playing political games with the sanctions issue. Nobody can really deny that SA is on the new road, and what you need now is help, not hindrance.

There are also things that you can do — you need to accelerate the privatisation of state enterprises, open up your economy to competition and, now that the gap between the commercial and the financial rand has closed, make the rand convertible.

This will not only have the effect of keeping the value of the rand down but will also give your business community confidence and encourage international companies to recognise that SA is back at the table and ready to play.

The future of this continent is in our hands. Others can help, but only we can deliver. Trust and empower the individual working within free markets and your new democratic structures. Lead from the front and you will have nothing to fear.

☐ Cross was the first MD of Zimbabwe's Beira Corridor Group Company. This is an edited extract from his speech at the Business Day Business Achievement Award banquet in Sandton last night.

Capital projects to benefit from oil sale

B|Day 27/8/91. (49)

BILLY PADDOCK

GOVERNMENT would disclose details today of socio-economic projects to be funded with the R1bn proceeds of the sale of strategic oil reserves, Economic Co-ordination Minister Dawie de Villiers said yesterday.

It is believed De Villiers will announce that the R1bn will be spent on one-off capital investments to fund community-based developmental projects aimed at stimulating economic growth and providing jobs over a protracted period.

A source said government realised it had a responsibility to the less privileged sections of the community and it had been decided that some of the major projects would include:

- Building community centres;
- Building 141 primary health clinics;
- Developing sports facilities in squatter settlements;
- Upgrading 50 hostels in Transvaal townships; and
- Setting up systems for drinking water in self-governing homelands.

A spokesman said De Villiers would discuss the expenditure and allocation of the R1bn at a news conference this morning.

The funds from selling off oil reserves would be spent on special projects "designed to make the maximum contribution to economic growth, job creation and social stability", the statement said.

The sale of reserves to fund socio-economic upliftment was announced by President F W de Klerk during his Budget vote in Parliament earlier this year.

Following De Klerk's announcement, the flood of proposals "oversubscribed" the fund eight times.

One source said some organisations sent in the same requests in different guises. Had this not been discovered in good time, it could have resulted in double funding.

It could not be established yesterday how the funds would be channelled to the projects. Proposals had included channelling through community or local councils, but there were objections on the grounds that the funds could be misused. Another objection was that the councils did not enjoy credibility in the communities.

Valuable lesson for SA to be found in the Soviet crisis

BDay 27/8/91. (49)

SIMON BARBER in Washington

THE past week's events in the Soviet Union (if it can still be called that) pose a massive challenge to SA. The longer it delays in getting its political and economic act together, the higher the premium it will have to pay for foreign investment and the more likely it will become just another messy, Third World backwater.

The death of Soviet communism marks the end of the Cold War as definitively as the Red Army's capture of Berlin signified the end of the Second World War. The victorious allies, this time without Uncle Joe Stalin to hamper them, will once again seek to reconstruct the vanquished foe. In this instance, the much-overused Marshall Plan analogy is apt. Just as the US recognised its own overriding self-interest in helping restore the once thriving industrial economies of postwar Europe, so now the West and Japan will wish to help put Russia back on the economic path down which it was headed before the October 1917 interruption.

As in 1945, the loser's technology, skills and infrastructure base is essentially extant beneath the social and political rubble. Institutions and economic habits may be missing, but there is at least some consensus on that point and, after 75 years of practical instruction on what does not work, a readiness to build new ones. In short, it will not be a matter of starting from scratch.

The degree to which the West's energies and resources are likely to be focused on this task over the next decade or more should not be underestimated, the current debate over aid notwithstanding. To be sure, the US is unwilling to pour money down a "rathole", as Secretary of State James Baker put it last weekend, but Washington's European partners are considerably less hesitant and appear to be prevailing.

A genuine new world order — not the trite and wishful one trotted out by President George Bush's speechwriters — is being born, and with it, quite possibly, a dozen or so new countries, each rebelling against a statist past and desperately seeking integration into the market-based global economy. The manner of their birth, and their growth thereafter, will be of all-consuming interest, especially to their European neighbours, both in economic and security terms.

What does it mean for national budget priorities to find that what was once the most heavily militarised society on earth is no longer the enemy? What does it mean to have millions of hungry new consumers in the marketplace, all clamouring for your goods, services and capital? Alternatively, what happens if the basic wants of those would-be consumers are not satisfied and they come flooding West across newly opened borders? What if communism is replaced, as in Yugoslavia, by warring, but on this occasion nuclear-armed, nationalisms.

While no one as yet has any clear answers to such questions, they at least illustrate just how critical it is for to the West to ensure that whatever replaces the Soviet Union works. The potential for wealth generation is as massive as the danger.

SA's own transition, however historic, is of picayune significance in comparison. Its continent might care if it sank into the Indian Ocean, but in the broader sweep of things its continent does not matter very much either. Happily, its needs are relatively modest. Nonetheless, it will have to compete harder than ever if even those needs are to be met.

In the present euphoria, all the Soviet Union has to do to trigger serious capital inflows is to pass Baker's "rathole" test, the criteria for which are becoming increasingly more relaxed. The theory now is that Western investment and credits will be their own best guarantee of return by helping lock the transformation to market economics in place.

By contrast, SA is still obliged to play by the rules that pertained towards the Soviet Union prior to last week. That is to say, investment, official foreign assistance and loan guarantees continue to be discouraged or restricted on the basis that they will go to prop up the existing order. This is one of the penalties that must be paid for not mattering.

If SA's future had a direct bearing on Western commercial or security interests, policies towards it would not be dictated by moralists. President Bush and his Secretary of State would not be cringing at the thought of having to certify to Congress that Pretoria had met the conditions of the Gramm Amendment and so could have access to the IMF. It is also unlikely that 140-plus state and local governments would be vitiating Bush's decision to lift the ban on new investment by maintaining sanctions of their own.

Since it cannot make itself matter, SA's only option is to make itself so attractive a destination for capital that investors will not only select it over opportunities elsewhere but overlook the constraints placed on them in their home markets. Over the past year or so, it has been modestly successful in this regard, but the success has largely been due to cosmetic expedients involving funny exchange rates and other market distorting policies. Unfortunately, the economic equivalent of fish-net tights and falsies tends to attract only those interested in quick thrills and the odd purchaser of SA Eurobonds.

To achieve the kind of long-term inflows it needs to combine real growth and the closure of what is politely known as its "social deficit", SA will have to do a lot better than that. Serious investors, as well as the politicians who must decide whether to support serious aid packages, want to know what is beneath the wig. Thus far, neither the government nor its principal negotiating partner has given them much grounds for optimism. Nor, for that matter, has the SA business community which, with certain exceptions, has been notably unwilling to take much of a plunge itself.

Even though many outsiders believe reality will set in once a new regime is in power, they remain unnerved by the rhetoric of the self-styled government-in-waiting, rhetoric that all too often sounds ominously reminiscent of what has just been tossed out in Moscow. The ongoing violence — a phenomenon markedly absent during last week's Soviet showdown — does nothing to offset such qualms. Neither do corporate scenarios long on the problems the country faces and short on practical policies to deal with them.

Some have suggested that agreements with the IMF or the Overseas Private Investment Corporation, which provides insurance for US investors against expropriation and other forms of state theft in developing countries, would ease such fears. Yes, but with whom would the agreements be signed? If the present government, what assurance would that be that the next one would abide by them? If the next one, by then it could well be too late.

All of which might be secondary concerns if the outcome of SA transition either promised or threatened to reshape the economic and political face of the planet. Since it does not, South Africans of all political persuasions are going to have to reach a confidence-inspiring consensus on how they propose to run their economy when it comes under new management, and do so pretty quickly.

If they do not they may find that investment funds, not to mention the billions of dollars of aid money sought by Congressman Stephen Solarz, have moved elsewhere. Down a rathole, even.

Debts of R3bn rolled over

GRETA STEYN

SA SECURED about R3bn in foreign debt rollovers in the 18 months to June this year, figures in the Reserve Bank's Economic Report show.

The Bank describes as "dramatic" the recent improvement in the capital account of the balance of payments (BoP) in the face of the country's foreign debt burden.

"The smaller capital outflow than the debt maturing confirms that the more favourable foreign political and economic perceptions regarding SA led to a substantial refinancing of debt or that new funds were made available to SA borrowers."

About R7,3bn in foreign debt fell due over that period, but capital outflows were considerably less at R4,16bn. The Bank estimates that about 40% of maturing bearer bonds and notes were rolled over or replaced by new loans. Bonds and notes are more difficult to refinance than normal bank loans as a range of individual investors are involved. (49) (54)

Indications are that the improvement in the capital account is continuing. The Industrial Development Corporation this month secured a $150m credit line from an Italian banking consortium for capital goods imports, while Taiwan is to invest $200m in an SA petrochemical plant. Government's accounts for the year to June show it has received R139m in foreign finance this year. Talk is that it will provide details soon of R330m in rollovers and

□ To Page 2

Rollovers

B/Day 27/8/91 (49) (54)

□ From Page 1

that it is poised to enter the European capital markets for a further R245m.

The BoP also received a major boost this year from an impressive performance on the current account (the trade balance less net payments for "invisibles" such as interest, dividends and insurance). The current account surplus shot up to an annualised R6,2bn in the second quarter — higher than the quarterly average for last year.

The Bank says SA's current account performance "is probably a record for a developing country". The current account was helped by reduced interest payments because of lower foreign debt.

The overall strength of the BoP has given SA a healthy cushion of foreign exchange reserves — a factor which will help in sustaining the next economic upswing.

The Bank says "the total potential reserves are now considerably better placed to accommodate an economic upswing". The Bank has a "substantial amount" of unused credit facilities available after redeeming almost all its foreign liabilities.

Net reserves, which exclude special central bank credit, rose by R1bn in the first half after increasing by R2,9bn in 1990.

But the Bank sounds a note of caution on the BoP by pointing out that most of the improvement in capital flows was the result of movements of short-term capital. These are notoriously volatile and influenced to a large extent by exchange rate expectations. It also notes that total foreign exchange reserves still represent only about seven weeks' imports.

High level of government spending a 'cause for concern'

By Derek Tommey

Star 28/8/91

The Governor of the Reserve Bank, Dr Chris Stals, voiced concern at the high level of government spending when he spoke at the annual meeting of the Reserve Bank yesterday.

The deficit before borrowing in the four months to July was R5,6 billion, or equal to 55 percent of the total budgeted deficit for the 12 months to next March.

In the four months to July last year the deficit was only 35,7 percent of the deficit budgeted for the year.

"Of greater concern from a monetary point of view is that the deficit in the four months to July, when revenue was running at a seasonally low level, was financed to a large extent by borrowing from the banks.

49

"This will hopefully be corrected again during the remainder of the year," said Dr Stals.

He also expressed concern at the slow increase in tax collections. These rose only three percent in the four months to June. This was markedly lower than the projected 11,1 percent increase for the full year.

Dr Stals said it was rather alarming that the rate of growth in Exchequer receipts had been on a declining trend since the beginning of 1990.

Socialism only way – SACP document

Star 28/8/91.

(49)

By Esmaré van der Merwe
Political Reporter

The South African Communist Party is "very confident" of convincing the majority of citizens that socialism is essential to achieve the basic goals of democracy, the organisation says in its first draft manifesto.

"National democratic transformation represents the most direct route to socialism," says the internal discussion document, "Building workers' power for democratic change", which is being circulated among members before final adoption at the SACP's national congress in December.

The 24-page manifesto openly admits that the "virtual end of the world socialist system" has had a negative impact on the SACP's struggle.

However, it remains committed to the implementation of a unique socialist model based on the principles of Karl Marx.

In its analysis of events in Eastern Europe, the manifesto concludes that the lesson to be learnt from "the crisis" is that it is impossible to sustain and develop socialism in an authoritarian environment.

Nationalisation

Thus, emphasis should be put on democratic participation in sectoral and communal organisations affecting people's lives, their work, environment, education and recreation.

The manifesto notes that a post-apartheid society must not merely encompass political democracy but must also achieve a broadening of economic democracy to put the economy under public control.

State ownership or nationalisation is "neither sufficient, nor is it necessarily always the only or most effective form of socialist ownership", the SACP says.

"Our enemies like to spread the lie that the SACP wants to take away people's cars, houses or furniture.

"Democratic socialism will give every individual the right to own and to dispose all non-exploitative private property."

The SACP adds: "Nothing will dissuade us from our firm conviction that a system based on the needs of the working people will prove to be far superior to the present system based on greed and private profit."

The scrapping of all racist laws, a democratic constitution and one person, one vote elections would be an important victory, but the objective of the transformation should be to overcome the effects of colonial conquest and dispossession as well as "racist capitalism", the manifesto states.

Stals resists pressure to bring down rates

By Derek Tommey Star 28/8/91 (49) (188)

In spite of what appears considerable pressure from business and possibly the Government, Dr Chris Stals, Governor of the Reserve Bank, has no intention of easing money supply and lowering interest rates to stimulate the economy at the present time.

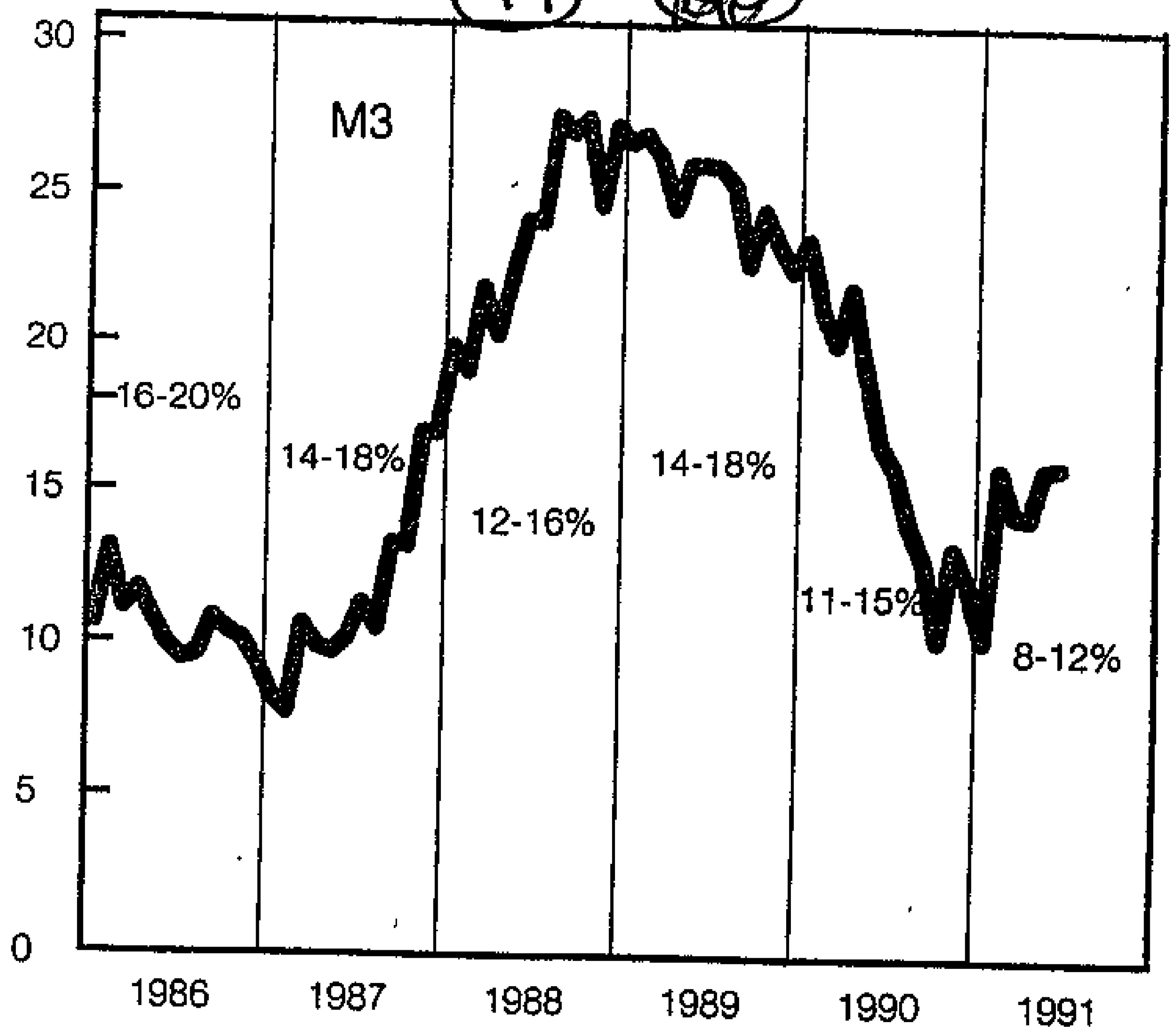
He made it clear in a pugnacious speech at the annual meeting of the Reserve Bank in Pretoria yesterday that fighting inflation was his first priority.

Defending his monetary policy, he said that South Africa had no alternative but to persist in its fight against inflation.

This was the only way to restore sustainable high economic growth and achieve lasting higher standards of living for all people.

A move to easier money in the present circumstances would have the same result as injecting an athlete with anabolic steriods.

"He may deliver a good performance in the coming event, but the stimulant will eventually destroy his system."



Money supply . . . guidelines for growth in M3 (percentage change over 12 months).

Inflation had remained stubbornly high and financial discipline must be maintained, he said.

There was ample evidence that South Africa was still suffering from the double-digit inflation it had experienced for almost two decades.

It was not surprising that it had become so difficult to break out of this vicious circle.

Without sufficient restraint, there was a high risk of losing the hard-won progress made towards achieving an acceptable level.

But curbing inflation was not the only reason for maintaining a restrictive monetary policy.

It was necessary to maintain a cautious attitude towards the balance of payments, he said. Although this had improved, a number of factors had to be taken into account.

The recent strength in the balance of payments was based mainly on an inflow of short-term capital that could easily be reversed.

The present level of gold and foreign exchange reserves, though at their highest for six years, were still insufficient to cover two months' imports.

The low level of inventories and the pressing need for new fixed investment may force imports to rise sharply, and South Africa still did not have access to IMF facilities amd World Bank loans.

Dr Stals said the Reserve Bank must also be careful not to relax exchange controls too soon.

It would be to South Africa's advantage to relax the existing controls on non-residents. But doing so at this stage would be premature.

However, Dr Stals saw some reasons for hoping the economy would start to recover.

Domestic demand was already being stimulated by rising public sector expenditure. The reduction in the rate of VAT would provide further stimulus, which should contribute towards a revival in private sector demand and also in fixed investment.

These signs of a possible economic recovery were to be welcomed, he said.

South Africa desperately needed economic growth. But it must be sustainable and benefit all people — and this could not be achieved by the artificial creation of more money.

SOUTH AFRICAN RESERVE BANK

Star 28/8/91.

GOVERNOR'S ADDRESS

(49)

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-first ordinary general meeting of shareholders of the Bank on 27 August 1991

ECONOMIC REVIEW

Continued mild cyclical downswing

The economy has now been in a cyclical downswing since March 1989, i.e. for a period of nearly 30 months, compared with an average duration of 17 months for cyclical downturns in the post-war period. Although the downswing is of a relatively long duration its intensity has remained mild, as is reflected in the fact that real gross domestic product has contracted at an average annual rate of only about ½ per cent from the first quarter of 1989 to the second quarter of 1991. This contraction is considerably smaller than the annual rates of decrease of 3 per cent and 2 per cent, respectively, recorded in the preceding two downward phases of the business cycle.

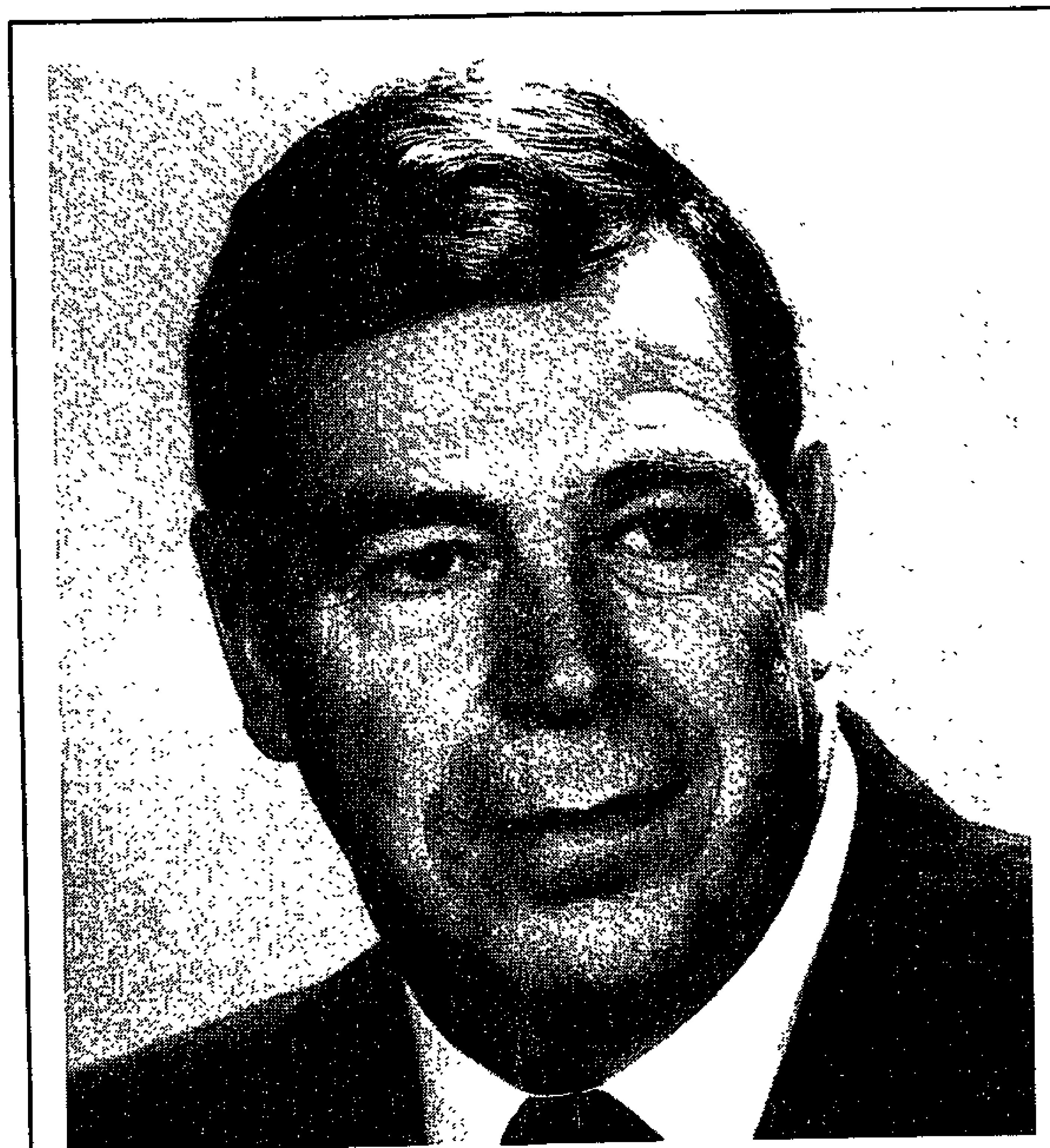
Various factors contributed to the relative mildness of the current economic downswing. Firstly, restrictive monetary and fiscal policies were applied in a way that did not depress economic conditions unduly. Secondly, a strong international demand for South African goods, in conjunction with a relatively competitive exchange rate of the rand, led to sustained increases in the volume of South African exports. Finally, domestic production was until recently supported by a persistent firm demand for consumer goods and services.

In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991. Initially, decreases in real production occurred mainly in the primary sectors, but from the beginning of 1990 the value added by the secondary sectors also began to decline moderately. In the tertiary sector the value added by the sub-sector transport, storage and communication declined in 1990, whilst all other sub-sectors continued to record increases. However, from the beginning of 1991 the value added by enterprises in the sub-sector commerce also began to decline as the downturn gained momentum.

Real gross domestic expenditure began to decrease even before the downturn in the business cycle started, and showed sharp quarterly fluctuations throughout the recessionary period. On average, however, the decrease in real gross domestic expenditure over the whole downswing period equalled an annual rate of only 2 per cent, which also represents a relatively mild decline and can be compared with declines of 9½ and 5 per cent per annum during the two preceding downswings.

"In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991."

In a comparatively firm performance, real private consumption expenditure increased at an annual rate of around 2 per cent in each of the four quarters of 1990. Consumer



coupled with entrenched inflationary expectations kept price increases at high levels. In the second half of 1990 the effect of the crisis in the Middle East on petroleum and related prices, together with rising food prices, interrupted an otherwise encouraging slowing-down in domestic price increases and further strengthened inflationary expectations. Accordingly, the rate of increase in consumer prices, measured over a period of twelve months, accelerated from 13,3 per cent in July 1990 to 15,3 per cent in November 1990, to fluctuate around this level up to June 1991.

Similarly, the rate of increase in the total production price index over periods of twelve months accelerated from 10,3 per cent in July 1990 to 15,8 per cent by November, but then fluctuated downwards to 14,1 per cent in June 1991. This recent slightly slower rise in production prices occurred only in the case of imported goods, while the rate of

liabilities by R1,6 billion, while the gross gold and other foreign reserves held by this sector rose from R6,9 billion at the end of 1989 to R8,7 billion at the end of June 1991. This was the equivalent of about seven weeks' imports of goods and services. Taking into account the substantial unused credit facilities available to the Reserve Bank at this stage, the potential total reserves are now considerably better positioned than at any time during the past six years to accommodate an economic upswing.

Stable effective exchange rate of the rand

Although the nominal exchange rate of the rand declined moderately over the nineteen months ended July 1991, this decline occurred in a stable and orderly manner. The decrease in the weighted nominal exchange rate of the rand averaged only ½ per cent per month. The real effective exchange rate of the rand, i.e. after taking account of international inflation rate differentials, rose by about 4 per cent from the end of 1989 up to June 1991.

In contrast to the relatively stable effective exchange rate of the rand against the basket of currencies, rates against individual currencies varied considerably. The exchange rate of the financial rand against the US dollar also fluctuated substantially. However, from the end of September 1990 the financial rand discount narrowed from slightly less than 34 per cent to 7½ per cent on 12 July 1991, but subsequently widened again to 12 per cent at the end of July.

Growing deficit on the Exchequer Account

In the first four months of the current fiscal year, i.e. from April to July 1991, Exchequer issues (after the usual adjustment for changes in the balance on the Paymaster-General Account but excluding off-budget expenditures) were 14 per cent higher than in the corresponding period of fiscal year 1990/91. The rate of increase in these issues was only slightly higher than the increase budgeted for in government expenditure (also excluding off-budget expenditures) of 13,7 per cent for the current fiscal year as a whole.

Exchequer receipts in the first four months of the fiscal year, on the other hand, rose by only 3 per cent above the level of the corresponding period of fiscal year 1990/91. This was markedly lower than the projected increase of 11,1 per cent in government revenue for the year as a whole. It is rather alarming that the rate of growth in Exchequer receipts has now been on a declining trend ever since the beginning of 1990.

The deficit before borrowing in the first four months of the current fiscal year amounted to no less than R5,6 billion, or to 55 per cent of the total budgeted deficit for the fiscal year as a whole. For the corresponding period of the 1990/91 fiscal year this deficit was equal to only 35,7 per cent of the deficit budgeted for that year. Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government. This will hopefully be corrected again during the remainder of the year.

income to lower-income households with a high propensity to consume and also a natural resistance from higher income groups against enforced lower living standards. From the beginning of 1991, however, a contraction of expenditure on durable and semi-durable goods and on services caused the growth in real private consumption expenditure to slow down at first, and then to turn negative for the first time in the present recessionary phase during the second quarter of the year, when it declined at an annual rate of about ½ per cent.

In contrast to these developments, real consumption expenditure by general government, which had increased by only 1 per cent in 1990, started to grow more rapidly towards the end of last year. Real government consumption expenditure was actually 5 per cent higher in the twelve months ended June 1991 than in the preceding twelve months.

Total real fixed investment started to decline from as early as the fourth quarter of 1989. Initially, the rate of decrease in fixed capital outlays was modest, but this rate then rose to an annualised level of approximately 5 per cent in both the second half of 1990 and the first half of 1991. The downturn in real aggregate gross domestic fixed investment was brought about by a downward trend in the outlays of both public authorities and the private sector. On the other hand, real capital outlays of public corporations continued to increase up to the first quarter of 1991, owing to the development of the Mossgas project. In the second quarter of 1991 real fixed investment of public corporations also began to decline as the capital outlays on this project tapered off.

A considerable decumulation of inventories took place in the current economic downswing during the eight consecutive quarters from the third quarter of 1989 to the second quarter of 1991. Inventories reached very low levels, as indicated by a declining ratio of commercial and industrial inventories to non-agricultural gross domestic product. This ratio decreased from a recent high of 21 per cent in the second quarter of 1989 to a new low of 18½ per cent in the first half of 1991, compared with 25 per cent in the early 1980's.

Decline in domestic savings

The decline in economic activity was accompanied by a relative decrease in domestic savings which, as a ratio of gross domestic product, declined from 22½ per cent in 1989 to 21½ per cent in 1990 and to 19½ per cent in the first half of 1991. The decline in this savings ratio initially was caused mainly by decreases in saving by corporate entities and by households, but in the first half of 1991 general government switched from a positive saver to a dissaver.

Lower employment and higher wage costs

As can normally be expected during an economic downswing, growth of employment outside agriculture slowed down from 1½ per cent in 1988 to an average annual rate of ¼ per cent in the next two years. However, this low growth in employment was not only caused by cyclical factors, but was also the result of changes in the production structure of the economy. In the Bank's *Annual Economic Report*, various factors which contributed to a substitution of capital for labour over the past two decades are discussed in more detail. Accordingly, the non-agricultural sectors of the formal economy became increasingly unable to provide sufficient employment opportunities for a rapidly growing labour force.

Despite a substantial rise in unemployment, nominal salaries and wages continued to rise at high rates. This was due, in general, to effective wage and salary bargaining and, in particular, to actions of labour unions aimed at maximising short-term benefits for their members. Such actions unfortunately have the unavoidable adverse long-term effect of lowering overall employment levels. Moreover, increases in labour productivity did not keep pace with real wage increases. One reason for this can be related to an alarmingly high increase in the number of man-days lost because of strikes and work stoppages during 1989 and 1990. Together these developments caused real unit labour costs to rise at an average annual rate of nearly 2 per cent in these two years.

Continuing unacceptably high rates of inflation

Various factors contributed to a continuation of an unacceptably high rate of inflation, despite the lower rate of increase in total monetary demand. The rising labour costs

around a level of [illegible] per cent in the first six months of 1991.

Levelling-off in the growth rate of money supply and credit extension

Measured over a period of twelve months, the rate of increase in M3 dropped from a peak of 27,5 per cent in August 1988 to only 10,2 per cent in October 1990, before edging up slightly to 12,1 per cent at the end of 1990. This pronounced decline in the growth rate of the money supply was mainly a reflection of the cyclical slow-down in economic activity and spending, and also the relatively high nominal interest rates. Subsequently, however, the twelve-month rate of increase in M3 accelerated to 15,8 per cent in February 1991, to fluctuate around a level of 15 per cent up to the end of July 1991. This higher growth rate of the money supply must, however, not be seen as part of a new trend as it was related mainly to the re-intermediation of funding activities by banking institutions, brought about by the implementation of the Deposit-taking Institutions Act from 1 February 1991.

Measured over a period of twelve months, the growth rate of monetary institutions' claims on the domestic private sector receded from a peak slightly above 30 per cent in October 1988 to about 13 per cent in January 1991. Thereafter it accelerated to 19 per cent in February and stayed above 16 per cent in the next four months, mainly because transactions previously treated as off-balance-sheet items were brought on balance sheet.

Further surpluses on current account of balance of payments

Although considerable fluctuations occurred from quarter to quarter during the course of the year, the current account of the balance of payments in 1990 again showed a remarkable overall surplus of R5,8 billion. The level of the surplus then declined to a seasonally adjusted annual rate of R3,9 billion in the first six months of 1991.

These further current account surpluses were recorded despite a weakening of 11½ per cent in South Africa's terms of trade from the second quarter of 1988 to the second quarter of 1991. In addition, net gold exports performed relatively poorly as a result of a generally depressed gold price and decreases in gold production. These negative developments were, however, largely neutralised by further increases in the volume of merchandise exports, combined with a low level of the volume of merchandise imports. Moreover, the value of net service and transfer payments decreased over the past eighteen months owing to lower interest and dividend payments.

Decline in net capital outflows

The net outflow of capital not related to reserves decreased from R6,2 billion in 1988 to R4,3 billion in 1989 and even further to R2,9 billion in 1990. In the first six months of 1991 the net outflow of capital amounted to only R1,3 billion. The improvement of the capital account during the past eighteen months was particularly significant since it occurred at a time when large amounts of foreign debt fell due for redemption. This clearly indicates a substantial refinancing of maturing debt, supplemented by the raising of new foreign funds by South African borrowers.

The improvement of the capital account of the balance of payments was largely due to an inflow of short-term capital related to trade finance. In total, long-term capital still showed net outflows of R1,9 billion in 1990 and R0,9 billion in the first six months of 1991. These outflows of long-term capital consisted of net repayments on foreign loans by public authorities and the private sector, which were partly neutralised by a net inflow of long-term loans to public corporations.

"As a result of the overall improvement of the balance of payments, South Africa's total net gold and other foreign reserves increased by R3,9 billion in the eighteen months ended June 1991."

Increase in foreign reserves

As a result of the overall improvement of the balance of payments, South Africa's total net gold and other foreign reserves increased by R3,9 billion in the eighteen months ended June 1991. Over this period, the monetary sector reduced its reserve-related

Improved prospects for the economy

After two and a half years of recession, the economy is now reasonably well placed for a new upswing. Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future:

- the leading indicator of the business cycle calculated by the Reserve Bank moved upwards for four months in succession from January to April 1991;
- the sharp increases in the total current expenditure of the public sector since the third quarter of 1990 provide some stimulus to overall demand. Total public sector expenditure has now become distinctly expansionary;
- the switch-over from general sales tax to a value added tax (VAT) system on 30 September 1991, on the basis announced by the Minister of Finance last week, presents a stimulatory fiscal package which should encourage both consumer and new capital investment expenditure;
- the further improvement in the overall balance of payments position and the recent rise in the foreign reserves provide some cushion for future increases in imports; and
- the lifting of sanctions by many countries holds the promise of further increases in exports, and possibly also for some new capital inflows into South Africa.

There are, unfortunately, also certain remaining weaknesses in the economy that call for caution and that may constrain the upswing:

- the continuing high rate of inflation does not justify any early relaxation in monetary policy;
- until recently, real wage and salary increases still outpaced productivity increases and continued to exert upward pressure on the total unit costs of production; and
- there remain many uncertainties surrounding the political situation; South Africa's relations with the IMF and World Bank, for example, have not yet been normalised.

In these circumstances, the chances of an early new economic upswing are indeed improving but the recovery may, at least in its initial stages, turn out to be relatively mild, like the downswing phase of the past thirty months has proved to be.

"Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future."

MONETARY AND FINANCIAL POLICY

Balance of payments

The persistent need to finance continuous and substantial net capital outflows from the country since 1985 has been one of the main reasons for a relatively subdued domestic economy during this period. South Africa was compelled to export more goods and services to the rest of the world than it imported in order to generate the foreign exchange needed for financing the negative capital account. Over the period of six years from 1985 to 1990, the total net capital outflow amounted to almost R30 billion, and the current account surplus to R29 billion.

Throughout this period, a low level of foreign reserves severely constrained the Reserve Bank in its ability to influence the exchange rate of the rand, or even to smooth out volatile short-term movements in the foreign exchange market. At one stage, from about the middle of 1988 up to June 1989, the Bank borrowed virtually all of the gross gold and other foreign reserves as shown on its balance sheet, which at that stage amounted to only about R5 billion. Short-term foreign liabilities of the Bank at times even exceeded the gross gold and other foreign reserves.

This perilous overall balance of payments situation depressed the growth potential of the South African economy. Not only was a substantial part of the declining amount of domestic saving absorbed in the financing of the capital outflow, but the absorption of

Zimbabwean dollar slipping against rand

Star 28/8/91

By Michelle Maliepaard

Zimbabwe's dollar, not so long ago on a parity with the rand, is slipping fast and will affect the economy of that country owing to its limited foreign exchange supply, says Nora Hill, MD of Export Marketing and Management Consultants.

The Zimbabwean dollar has slumped against the rand. Yesterday it was quoted at between Z$1,30 to Z$1,325 to the SA unit.

"We do not import a lot of goods from Zimbabwe, but rather export a fair amount to it — so we should benefit," says Mrs Hill.

However, she says, if it becomes too expensive, the orders from Zimbabwe will fall off and trade decrease.

Unofficial exchange rates of the Zimbabwean dollar to the rand are far removed from the published rates.

One source says the introduction of the Open General Import Licence a few weeks ago has resulted in the black market exchange rate sliding to alarming proportions.

"We can now get up to Z$2,75 for R1 on the black market and we are expecting it to go up to around Z$5 by the end of the year," he says.

The effect can be seen in the price of goods in Zimbabwe. A car bought in SA for R50 000 can fetch up to Z$180 000.

"Deprived of certain goods for a long time, Zimbabweans are prepared to pay high prices for scarce commodities," he says.

Share analysis and accurate forecasting — 3

Directors with vested interest inspire confidence

Star 28/8/91

A 10-part series by Jacques Magliolo on methods used by stock exchange analysts to predict company performance.

The groundwork has been completed when the analyst has collated all relevant data and assessed economic trends.

He is now ready to start determining the company's future prospects.

Before beginning analysis of the financial results, he needs to investigate factors which are not quantifiable but could affect a company's performance.

These include:

- **Management.**

A continuously changing board of directors and senior management team is likely to undermine the confidence of shareholders and the share could be adversely affected.

The recent problems experienced at furniture retailer Rusfurn when chief executive Geoff Austin resigned saw the share drop to 80c from a previous trading band of between 120c and 140c.

A long-term association between directors and the firm always inspires confidence, especially if the directors have a vested interest in the company through personal share holdings.

- **Demographics.**

It is essential to understand the company's target market.

This provides a better insight into the business's cyclical nature.

For instance, if it targets the middle to upper income group, the firm's sales turnover will be evenly distributed throughout the year.

It becomes easier to forecast results if the stage of the company's business cycle can be determined.

- **Product cycles.**

In assessing possible changes in turnover growth, it is important to know how demand for the company's product range is affected by cyclical movements.

Retailers experience the greatest volume of sales during the last three months of the year, while service companies are less cyclical and turnover growth is evenly distributed throughout the year.

Another variable that requires investigating is long-term product cycles, such as companies producing fashion garments.

The problem of determining the effect of cycles on turnover growth becomes more complex when the company has trading partners in another country.

This partner is likely to be in a different cycle phase, making demand and supply predictions more difficult.

- **Spread of investments.**

Most companies have a number of subsidiaries which are also listed on the JSE, although they do not necessarily produce the same goods.

It is imperative, therefore, to complete the same analysis on all the listed subsidiaries.

The analyst compiles an organisational chart of the entire group, including major shareholders, percentage control of each listed and non-listed company and in which sectors these companies are operating.

This highlights the diversification of group investments, strengths and weaknesses in organisational structure and whether its shareholders could provide a "safety net" through financial assistance during recessionary conditions.

- **Mission statement.**

A review of the company's past financial statements should reveal whether it is conservative and methodically achieving its targets;whether its main aim is growth through acquisition or if it is simply not attaining its goals.

Although it is difficult to place a value on these factors, they do provide an indication of a company's inherent strength and ability to overcome financial problems.

And, they are essential when forecasting financial results.

MUTUAL&FEDERAL

MUTUAL & FEDERAL INSURANCE COMPANY LIMITED

(Reg No 70/06619/06)

PROFIT AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 1991

The Group's audited financial statements for the year ended 30 June 1991 are as follows:

INCOME STATEMENT:

	1991 R'000s	1990 R'000s
Gross premiums	1 202 634	882 911
Net premiums	1 014 045	748 370
Underwriting surplus	18 991	11 581
Investment income	118 222	109 707
Income before taxation	137 213	121 288
Taxation	36 189	33 030
Net income before extraordinary item	101 024	88 258
Less: extraordinary item	—	20 593
Net income	101 024	67 665
Number of shares in issue		
— at year end	46 686 700	46 527 000
— weighted average	46 611 322	46 509 500
Earnings per share (cents) (before extraordinary item)	217	190
Dividend per share (cents)	52	40
Dividend cover (times)	4,2	4,7
Net asset value per share (cents)	2 751	2 251

BALANCE SHEET:

	As at 30.06.1991 R'000s	30.06.1990 R'000s
CAPITAL EMPLOYED:		
Share capital	24 495	23 444
Investment fluctuation reserve	924 471	765 219
Distributable reserves	335 432	258 690
Total shareholders' interest	1 284 388	1 047 353
Deferred taxation	75 473	54 883
Contingency reserve	104 023	86 420
	1 463 884	1 188 656
EMPLOYMENT OF CAPITAL:		
Investments (at market value)	1 951 296	1 616 644
Current assets	140 109	147 672
Total assets	2 091 405	1 764 316
Less: current liabilities and provisions	627 521	575 660
	1 463 884	1 188 656

Comments:

The underwriting surplus for the year amounts to R19-million — a modest 1,9% of earned premiums. This result is satisfactory when viewed against the current economic and trading environment. The Group's ongoing commitment to the control of expenses has contributed significantly to the positive result. Uneconomic premium levels remain prevalent in the industry at a time when claims costs continue to escalate at a level above the inflation rate. Furthermore crime related losses, in particular those emanating from theft and fraud, are increasing to an alarming level.

The comparative figures for the year ended 30 June 1990 do not include the results of short-term insurance subsidiary National Employers' General Insurance Company Limited (NEG) which was acquired at the end of the preceding financial year. Approximately one-third of the premium growth for the year to 30 June 1991 is attributable to this acquisition.

Investment income advanced moderately to R118-million. Slower cash flows from the insurance operations together with minimum growth in dividend receipts and a switch from interest bearing securities to lower yielding equities as a result of the NEG acquisition, account for this.

The ratio of expenses to net premiums improved to 7,3% (1990: 7,5%).

The Group's total assets advanced strongly by 19% to R2 091-million. The net asset value per share increased by 22% to 2 751 cents per share. The solvency margin (being the ratio of net assets to net premiums) remains very sound at approximately 120% at 30 June 1991 and as in previous years is considerably above the statutory requirement of 15%.

The Group's annual report will be posted to shareholders on or before 27 September 1991.

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SOUTH AFRICAN RESERVE BANK

imported goods in domestic economic activity had to be curtailed, mainly by keeping the economic growth rate down.

Monetary policy played its part in protecting the overall balance of payments in such a way that South Africa could, to the extent that this was still possible, retain some credibility with the international financial community. Through a frustrating process of negotiation with foreign creditors, a series of interim debt arrangements, prudent management of the gold and foreign exchange reserves, a successful campaign to promote exports, and a depressed domestic economy, South Africa succeeded in weathering the severe balance of payments storms of the second half of the eighties.

The policies followed during this period paid off over the past year when external political pressures on South Africa also abated and access to foreign money and capital markets opened up again, albeit to a limited extent at this stage. Supported by disciplined internal monetary and fiscal policies, the new attitude towards South Africa brought about a significant improvement in the overall balance of payments situation. As indicated in the economic review above, the current account remained in surplus, the net capital outflow declined and the net gold and other foreign reserves increased by a substantial amount.

This improved position enabled the Reserve Bank to achieve one of its major policy objectives, which is to keep the exchange rate of the rand relatively stable. From the end of December 1989 to the end of December 1990, the weighted average value of the rand against the basket of currencies of our major trading partners depreciated by 6,3 per cent in nominal terms, and in the first seven months of 1991 by a further 4,3 per cent. Taking account of the inflation differentials between South Africa and these countries, the exchange rate of the rand actually showed a small appreciation in real terms over the past eighteen months.

At this juncture, the Reserve Bank remains cautious in the balance of payments policy which it follows. With the experiences of the mid-nineteen eighties still fresh in memory we cannot be fully complacent about the present situation. It must be taken into account that:

- the recent strength in the balance of payments is based mainly on an inflow of short-term capital that can easily be reversed again;
- the present level of the gold and foreign exchange reserves, albeit substantially higher than at any time during the past six years, is still insufficient to cover more than two months' imports;
- the low level of inventories in the country and the pressing need for new fixed investment may force imports to rise sharply, even at a very early stage of the next upward phase in the business cycle; and
- South Africa still does not have access to IMF facilities and World Bank loans.

The Reserve Bank therefore has no alternative but to maintain its cautious policy towards the balance of payments. It must remain careful not to relax the restrictive monetary policy measures too soon. This also applies to exchange control. It is appreciated that it will be to South Africa's advantage to lift the existing exchange controls applicable to non-residents, i.e. the financial rand system, and to terminate the debt rescheduling arrangements as soon as possible. Certain exchange control restrictions on residents, for example to invest in other countries, should also be re-examined at the earliest possible opportunity. If South Africa stands to play its rightful role in Africa, a more flexible exchange control policy for both residents and non-residents will become imperative. Careful judgment, however, will be necessary to decide what will be affordable in terms of available balance of payments resources, and when to introduce any such relaxations. The Reserve Bank is of opinion that it will be premature to start relaxing on these measures already at this stage.

Money supply and interest rates

In pursuing its obligation to contribute towards the attainment of optimum long-term economic growth, the Reserve Bank over the past year continued with its efforts to keep the rate of increase in the money supply below the rate of inflation. The success achieved

Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage. For the time being, the policy must continue to be geared towards restricting growth rates in the monetary aggregates to a level below the rate of inflation.

The financial system

New banking legislation was introduced in South Africa on 1 February 1991 when the Deposit-taking Institutions Act of 1990 came into effect. This Act, which replaced the Banks Act of 1965 and the Building Societies Act of 1986, has the following features:

- it creates a uniform legal framework for all deposit-taking institutions in the private sector which are based on an equity-financed structure, namely banking institutions, building societies and discount houses;
- it provides for a relatively wide definition of deposit-taking business, which has implications for what were previously regarded as "off-balance-sheet" activities, commercial paper issues, bank guarantees and other forms of financial intermediation;
- it places great emphasis on proper risk management and assigns greater responsibilities to managements of banks and external auditors in this regard; and
- it incorporates the internationally accepted capital adequacy proposals of the Basle Supervisors Committee.

With the implementation of this Act, South Africa has placed itself ahead of most other countries in the world with its approach towards banking supervision. It also laid the necessary foundations for the creation of a sound banking system that will be able to play its important financial role in future developments, both locally and abroad. In line with the easing of the political situation, South African banks are already beginning to show interest in establishing their own representation in some of the major international financial centres, and in extending their activities into other African countries.

During the past year the banking sector went through a testing period in many countries. The South African banking system also had its tribulations. In a relatively depressed domestic economy, bad debts increased and banks had to make substantial provisions for real and potential losses. In some instances, these problems were aggravated by over-trading or over-extension, especially on the part of smaller banks.

In a few exceptional cases, the solvency of institutions was eroded to an extent where the Registrar of Deposit-taking Institutions had no option but to intervene in order to safeguard the interests of depositors. Thus, during the year, two banks were brought under curatorship and a third was placed in liquidation when a due diligence audit and an independent evaluation of a merchant bank indicated total insolvency.

These decisions by the Registrar placed the monetary authorities once again in a difficult position with regard to the need for the protection of depositors. This is a problem that occurs regularly every time a banking crisis develops, not only in South Africa but also in other countries. It is not a function of the Reserve Bank to provide an open-ended guarantee for the safety of all depositors' funds placed with registered deposit-taking institutions; neither can the Bank, as a privately owned institution, provide this kind of support without limits. The Bank has, however, a responsibility to promote confidence in banking institutions, and to protect the stability of the financial system. Actions taken by the Reserve Bank over the past year to protect the interests of smaller depositors with those banks that were placed under curatorship or in liquidation should, therefore, not be construed as an unqualified guarantee that the Bank will always be prepared to protect all depositors with registered deposit-taking institutions. Every depositor must, in the final count, still decide for his own responsibility, on the institution where he wishes to invest his funds.

The Bank continued to encourage the development of efficient financial markets and participated actively in the process, *inter alia*, through its representation on the Financial Markets Advisory Board as well as on the executive committees of the Bond Market Association and the South African Futures Exchange. The Bank's participation is based

- the creation of tenacious expectations that are built into price-settings, spending decisions and wage determinations with far-reaching adverse effects for the long-term economic growth potential of the country.

"There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced."

There is ample evidence that South Africa is already suffering from all the deleterious effects of inflation which has now been running at double-digit levels for almost two decades. It is not surprising that it has become so extremely difficult to break out of this vicious circle. We have no alternative but to persist with our fight against inflation. This is the only way in which to restore sustainable high economic growth and to achieve lasting higher standards of living for all the people of the country.

With this objective in mind, monetary policy must remain restrictive, and a restrictive monetary policy inevitably entails relatively high interest rates. The Reserve Bank is often accused of maliciously keeping interest rates at an unreasonably high level. In a market-oriented economy interest rates are, however, determined by the total demand for loanable funds, and by the supply of savings. Total supply can be supplemented by a net inflow of capital from abroad, and by the creation of more money. The latter will apply especially in circumstances where the monetary authorities do not accept interest rates dictated by the market, but try to accomplish rates at artificially lower levels.

In the present South African situation, where we are experiencing a surging demand for more loanable funds, also to finance social and economic upliftment programmes, where domestic saving has recently declined and where we have had to absorb a net capital outflow of about R30 billion over the past six years, interest rates cannot be expected to be low. Under these circumstances, the Reserve Bank can only reduce market interest rates by allowing even more money to be created than what is already being added to the system. This will neither earn any credibility from the international or the local investment community, nor will it solve any of the real economic problems of the country. It will only make them more intractable.

Positive real rates of interest must be maintained, not only because of the need for a disciplined and ceaseless attack against inflation, but also because of the need to restructure the overall economy of South Africa. Realistic interest rates are needed for a proper allocation of resources. Such rates will encourage savings, provide an incentive for the more productive utilisation of capital, act as a catalyst in the restructuring of production structures to alleviate the growing unemployment, while recognising the relative scarcity of available funds needed for the financing of development. It is an over-simplification to insinuate that because high interest rates did not reduce inflation over the past few years, interest rates should now be reduced by injecting even more money into the system. Such a policy will defeat the crucial role that realistic interest rates must play in the process of economic restructuring that is to lead South Africa to greater prosperity in the years ahead.

Finally, some old truths can be repeated again with justification – the fight against inflation cannot be won, and eventual financial stability cannot be established by monetary policy alone. Support is needed from a disciplined fiscal policy, realistic wage and salary adjustments, and efficient and well-functioning markets for the rational pricing of goods and services, as well as for the use of money and capital. The challenges facing South Africa in this regard should not be underestimated, nor can they ever be evaded. Financial stability is an indispensable precondition for achieving sustainable economic growth in this country. Financial stability will not come easily, nor by itself. Monetary policy must continue to play a constructive role in this regard in an objective and impartial way.

Bank to reduce its guidelines for a desirable increase in M3 in 1991 to a range from 8 to 12 per cent, compared with a higher range of 11 to 15 per cent for the preceding year.

When these lower guidelines were announced for 1991, reference was made to the possible effects that the implementation of the new Deposit-taking Institutions Act might have on the statistical measurement of the M3 money supply, as calculated from the consolidated balance sheets of all deposit-taking institutions. The subsequent re-intermediation of certain off-balance-sheet transactions proved to be as disruptive as had been feared. The abrupt increase in the twelve months' rate of growth in M3 from 10,2 per cent in January 1991 to a level of around 15 per cent in the following six months, however, does not give reason for great concern. From the end of February, that is after the implementation of the new regulations, to the end of July 1991 the seasonally adjusted and annualised rate of growth in M3 amounted to only 11,7 per cent. This indicates that the current rate of growth of the money supply is still within the bounds of the guidelines for 1991. Nevertheless, it is still pushing against the upper limit and leaves little scope for any relaxation in monetary policy at this stage.

Despite the relatively depressed real economic activities in the country, the demand for credit from banking institutions remains brisk, indicating that not all borrowers are discouraged by the present level of interest rates. Over the twelve months up to the end of June 1991, the total claims of monetary institutions against the private sector increased by no less than R25,5 billion, which was more or less double the amount of total net saving by South Africans over the same period. At the end of June 1991 the total amount of the outstanding bank credit extended to the private sector was 16,8 per cent above the figure for 30 June 1990, although this figure again includes the statistical effect of the re-intermediation of off-balance-sheet activities already referred to. At this stage, bank credit extension is still increasing at a rate more or less in line with the current rate of inflation, which raises the question whether monetary policy is after all sufficiently restrictive to achieve the objective of reducing inflation in the longer term.

Over the past year monetary policy indeed accommodated a substantial easing of the overall liquidity situation in the money market. Over the first six months of 1991, the Reserve Bank on a net basis added to total money market liquidity through an increase of R2,4 billion in the Bank's net gold and foreign exchange reserves as well as a net loss of R815 million realised on the Bank's forward foreign exchange operations. At times, a decline in the net government deposits with the Reserve Bank, especially during April and May, added further to liquidity. Simultaneously, the introduction of revised lower minimum prudential requirements in terms of the new Deposit-taking Institutions Act released more than R7 billion of liquid assets, including about R1,2 billion in the form of cash reserves, for banking institutions.

The Reserve Bank intervened from time to time to drain some of the additional liquidity from the market. These intervention operations, mostly carried out through issues of ultra short-dated Treasury bills and short-term dollar/rand swap transactions, normally only smoothed out intra-monthly fluctuations in money market conditions but did not withdraw liquidity from the market on a permanent basis. The result was that banking institutions in general experienced easier liquidity conditions and became less dependent on the central bank as a lender of last resort. The average daily level of accommodation at the Reserve Bank's discount window accordingly declined from a high point of R4,8 billion in January 1990 and R3,6 billion in the first half of 1990, to R1,9 billion in the first half of 1991.

Against this background money market interest rates eased throughout 1990 and the first half of 1991. The market rate on three-months' liquid bankers' acceptances, for example, declined from 18,4 per cent at the beginning of 1990 to 17,4 per cent at the end of February 1991. In recognition of the changed underlying situation, Bank rate was reduced from 18 to 17 per cent on 11 March 1991, after which short-term interest rates eased by a further forty to sixty points.

"Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage."

. ıe ꞵank ꞉s, ıowever, preparec to provide support on a partnership basis for developments that will enhance financial efficiency as well as investor protection in the markets. In the end, monetary policy based on a market-oriented approach as we apply it in South Africa, can only be successful if there are sound and efficient markets through which official signals and policy actions can be transmitted to all the relevant participants in the economic process.

Monetary policy objectives

In the Chairman's Address presented to the sixty-ninth ordinary general meeting of the shareholders of the Bank in August 1989, the objectives of monetary policy at that time were summarised as follows. Monetary policy in South Africa should strive to:

- stop the rising trend in inflation;
- replenish the low level of the country's foreign reserves;
- reduce the excessive rates of increase in bank credit extension to the private sector; and
- reduce the rate of increase in the money supply to within the Reserve Bank's accepted target range.

Reference was also made at the time to the need for some restraint on the high level of public expenditure in the country.

Last year, good progress could be reported towards the achievement of at least some of these goals, and emphasis was then placed on the need for adopting a medium- and longer-term approach towards the implementation of monetary policy. At the same time, it also became an objective not only to prevent the rate of inflation from rising further but indeed to bring it down to a level more in line with inflation in those countries with which South Africans have to compete in the markets.

With these goals in mind, monetary policy remained relatively restrictive throughout the past year. Supported by a more positive attitude that is now emerging in the outside world towards South Africa in the wake of domestic political reforms, further progress could be made towards reaching the goals set for monetary policy during the past two years. We have by now succeeded in:

- steering the rate of increase in the money supply to within the guidelines set by the Reserve Bank, even after these guidelines had been reduced in two consecutive years;
- reducing the rate of increase in bank credit extension to the private sector to within a more acceptable range;
- replenishing the gold and foreign exchange reserves to a more comfortable level; and
- stabilising the average weighted value of the rand against the basket of currencies.

The rate of inflation, however, has remained stubbornly high and at this stage the financial disciplines applied thus far must be maintained. Without sufficient restraint there is a risk of losing the hard-won progress already made towards eventually achieving a more acceptable level of price stability in South Africa. The country cannot afford to rest content with a battle half won.

The pursuance of greater price stability is not, as some critics say, in conflict with the overriding objective of general economic policy, which is to promote maximum economic development. On the contrary, the purpose of a disciplined monetary policy is indeed to create a stable financial environment which will provide a solid foundation that is necessary for sustained economic growth and prosperity.

It is often argued that the social and political costs of achieving a low rate of inflation may be too high a price to pay for South Africa in its present situation. There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced. The many disadvantages of a continuous high rate of inflation cannot be over-emphasised. Without repeating what should by now be common knowledge in this widely debated issue, South Africans should perhaps again be reminded of a few indisputable facts. The distorting effects of a chronic high rate of inflation include:

- an arbitrary and inequitable redistribution of income and wealth. It favours those who can protect themselves against the rising costs of even basic needs and requirements. It makes the poor poorer, and the rich richer;
- an inefficient allocation of resources. When price changes no longer emit meaningful signals of basic economic trends and developments, resources will no longer be allocated according to the true costs of production and the real needs of the people of the country. In consequence, economic decisions also become distorted; and

CONCLUDING REMARKS

There is reason for some satisfaction with the further improvement in the underlying financial situation over the past year. It is disappointing and frustrating, however, that the domestic rate of inflation remained relatively high. On the other hand, the underlying inflationary pressures at least abated further, which was reflected in the lower rates of increase in the money supply and bank credit extension. The encouraging increase in the gold and foreign exchange reserves, and the relative stability of the exchange rate of the rand contributed towards improving the financial conditions needed for a renewed economic upswing.

Real economic activities remained depressed, however, and, if anything, contracted further in recent months. Although a few portents of an imminent recovery have recently emerged, a new upswing may prove to be only mild, unless some additional extraneous stimulation is to be provided. It will, however, not be prudent to introduce such a stimulus through a premature relaxation of monetary policy – the injection of additional money into the economy at this juncture will be synonymous with an injection of anabolic steroids into an athlete. He may deliver a good performance in the coming event, but his entire system will eventually be destroyed by the stimulants.

This does not mean that economic recovery will have to be delayed until there is scope again for a relaxation in monetary policy. The South African economy is not now suffering from excess demand. This is evidenced by the continuing surpluses on the current account of the balance of payments, the growing numbers of unemployed and the surplus capacity available in the manufacturing sector. Some stimulus, preferably from external sources and provided it is of the right kind, will not be out of place at this stage.

"It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies."

There is much evidence of a growing interest in South Africa by foreign traders, bankers and long-term investors. I have referred to the need of a healthy stimulation which could arise from growing exports, and a steady inflow of long-term investment funds. The balance of payments presents the most preferred route to a new expansionary phase in a country with an economy in which imports play such an important role as in South Africa. It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies.

Domestic demand is already being stimulated by rising public sector expenditure. The recent announcement by the Minister of Finance that VAT will be introduced at a rate of only 10 per cent provides further fiscal stimulus that should contribute towards a revival in private sector consumer demand, and also in fixed investment. At this stage, it is important not to over-stimulate the economy, taking account of the vulnerability of the balance of payments and the remaining inflationary pressures of a cost-push nature that are still exerting upward pressure on prices. Cost-push inflation, like demand-pull inflation, can in the longer run only endure provided it is accommodated by a persistent rise in the money supply. Any revival of the economy at this stage should therefore be financed with great care. Measures can be taken to stimulate real demand, but they should not cause the money supply to increase again at an excessive rate. This applies to the financing of additional public sector outlays as well as private sector expenditures.

The forementioned signs of a possible economic recovery in the near future are to be welcomed. Nobody can disclaim the fact that South Africa desperately needs economic growth, but it must be growth that will be sustainable and that will benefit all the people of the country. Such growth simply cannot be generated by the artificial creation of more money. The desired higher economic growth will only be attainable, in the long as well as in the short run, in an environment of sustainable financial stability. Notwithstanding the present relatively depressed economic conditions in the country, it must therefore still remain the first objective of the Reserve Bank to strive for greater financial stability in order to ensure maximum economic prosperity, for now and for the future.

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SOUTH AFRICAN RESERVE BANK

B/Day 28/8/91.

GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-first ordinary general meeting of shareholders of the Bank on 27 August 1991

ECONOMIC REVIEW

Continued mild cyclical downswing

The economy has now been in a cyclical downswing since March 1989, i.e. for a period of nearly 30 months, compared with an average duration of 17 months for cyclical downturns in the post-war period. Although the downswing is of a relatively long duration its intensity has remained mild, as is reflected in the fact that real gross domestic product has contracted at an average annual rate of only about ½ per cent from the first quarter of 1989 to the second quarter of 1991. This contraction is considerably smaller than the annual rates of decrease of 3 per cent and 2 per cent, respectively, recorded in the preceding two downward phases of the business cycle.

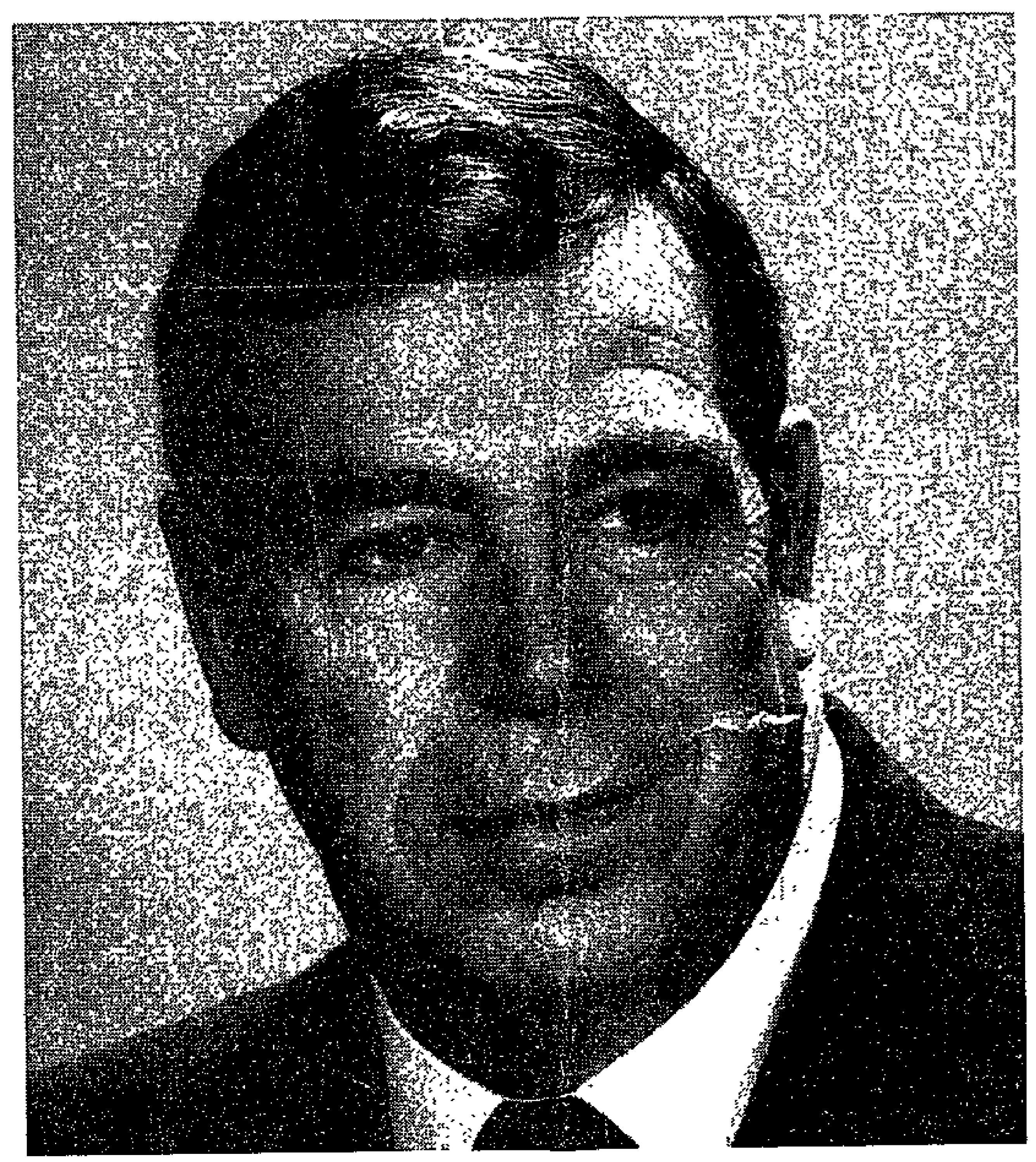
Various factors contributed to the relative mildness of the current economic downswing. Firstly, restrictive monetary and fiscal policies were applied in a way that did not depress economic conditions unduly. Secondly, a strong international demand for South African goods, in conjunction with a relatively competitive exchange rate of the rand, led to sustained increases in the volume of South African exports. Finally, domestic production was until recently supported by a persistent firm demand for consumer goods and services.

In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991. Initially, decreases in real production occurred mainly in the primary sectors, but from the beginning of 1990 the value added by the secondary sectors also began to decline moderately. In the tertiary sector the value added by the sub-sector transport, storage and communication declined in 1990, whilst all other sub-sectors continued to record increases. However, from the beginning of 1991 the value added by enterprises in the sub-sector commerce also began to decline as the downturn gained momentum.

Real gross domestic expenditure began to decrease even before the downturn in the business cycle started, and showed sharp quarterly fluctuations throughout the recessionary period. On average, however, the decrease in real gross domestic expenditure over the whole downswing period equalled an annual rate of only 2 per cent, which also represents a relatively mild decline and can be compared with declines of 9½ and 5 per cent per annum during the two preceding downswings.

"In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991."

In a comparatively firm performance, real private consumption expenditure increased [illegible]



coupled with entrenched inflationary expectations kept price increases at high levels. In the second half of 1990 the effect of the crisis in the Middle East on petroleum and related prices, together with rising food prices, interrupted an otherwise encouraging slowing-down in domestic price increases and further strengthened inflationary expectations. Accordingly, the rate of increase in consumer prices, measured over a period of twelve months, accelerated from 13,3 per cent in July 1990 to 15,3 per cent in November 1990, to fluctuate around this level up to June 1991.

Similarly, the rate of increase in the total production price index over periods of twelve months accelerated from 10,3 per cent in July 1990 to 15,8 per cent by November, but then fluctuated downwards to 14,1 per cent in June 1991. This recent slightly slower rise [illegible] while the rate of

liabilities by R1,6 billion, while the gross gold and other foreign reserves held by this sector rose from R6,9 billion at the end of 1989 to R8,7 billion at the end of June 1991. This was the equivalent of about seven weeks' imports of goods and services. Taking into account the substantial unused credit facilities available to the Reserve Bank at this stage, the potential total reserves are now considerably better positioned than at any time during the past six years to accommodate an economic upswing.

Stable effective exchange rate of the rand

Although the nominal exchange rate of the rand declined moderately over the nineteen months ended July 1991, this decline occurred in a stable and orderly manner. The decrease in the weighted nominal exchange rate of the rand averaged only ½ per cent per month. The real effective exchange rate of the rand, i.e. after taking account of international inflation rate differentials, rose by about 4 per cent from the end of 1989 up to June 1991.

In contrast to the relatively stable effective exchange rate of the rand against the basket of currencies, rates against individual currencies varied considerably. The exchange rate of the financial rand against the US dollar also fluctuated substantially. However, from the end of September 1990 the financial rand discount narrowed from slightly less than 34 per cent to 7½ per cent on 12 July 1991, but subsequently widened again to 12 per cent at the end of July.

Growing deficit on the Exchequer Account

In the first four months of the current fiscal year, i.e. from April to July 1991, Exchequer issues (after the usual adjustment for changes in the balance on the Paymaster-General Account but excluding off-budget expenditures) were 14 per cent higher than in the corresponding period of fiscal year 1990/91. The rate of increase in these issues was only slightly higher than the increase budgeted for in government expenditure (also excluding off-budget expenditures) of 13,7 per cent for the current fiscal year as a whole.

Exchequer receipts in the first four months of the fiscal year, on the other hand, rose by only 3 per cent above the level of the corresponding period of fiscal year 1990/91. This was markedly lower than the projected increase of 11,1 per cent in government revenue for the year as a whole. It is rather alarming that the rate of growth in Exchequer receipts has now been on a declining trend ever since the beginning of 1990.

The deficit before borrowing in the first four months of the current fiscal year amounted to no less than R5,6 billion, or to 55 per cent of the total budgeted deficit for the fiscal year as a whole. For the corresponding period of the 1990/91 fiscal year this deficit was equal to only 35,7 per cent of the deficit budgeted for that year. Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government. This will hopefully be corrected again during the remainder of the demand was underpinned by continued real wage increases, some redistribution of income to lower-income households with a high propensity to consume and also a natural resistance from higher income groups against enforced lower living standards. From the beginning of 1991, however, a contraction of expenditure on durable and semi-durable goods and on services caused the growth in real private consumption expenditure to slow down at first, and then to turn negative for the first time in the present recessionary phase during the second quarter of the year, when it declined at an annual rate of about ½ per cent.

In contrast to these developments, real consumption expenditure by general government, which had increased by only 1 per cent in 1990, started to grow more rapidly towards the end of last year. Real government consumption expenditure was actually 5 per cent higher in the twelve months ended June 1991 than in the preceding twelve months.

Total real fixed investment started to decline from as early as the fourth quarter of 1989. Initially, the rate of decrease in fixed capital outlays was modest, but this rate then rose to an annualised level of approximately 5 per cent in both the second half of 1990 and the first half of 1991. The downturn in real aggregate gross domestic fixed investment was brought about by a downward trend in the outlays of both public authorities and the private sector. On the other hand, real capital outlays of public corporations continued to increase up to the first quarter of 1991, owing to the development of the Mossgas project. In the second quarter of 1991 real fixed investment of public corporations also began to decline as the capital outlays on this project tapered off.

A considerable decumulation of inventories took place in the current economic downswing during the eight consecutive quarters from the third quarter of 1989 to the second quarter of 1991. Inventories reached very low levels, as indicated by a declining ratio of commercial and industrial inventories to non-agricultural gross domestic product. This ratio decreased from a recent high of 21 per cent in the second quarter of 1989 to a new low of 18½ per cent in the first half of 1991, compared with 25 per cent in the early 1980's.

Decline in domestic savings

The decline in economic activity was accompanied by a relative decrease in domestic savings which, as a ratio of gross domestic product, declined from 22½ per cent in 1989 to 21½ per cent in 1990 and to 19½ per cent in the first half of 1991. The decline in this savings ratio initially was caused mainly by decreases in saving by corporate entities and by households, but in the first half of 1991 general government switched from a positive saver to a dissaver.

Lower employment and higher wage costs

As can normally be expected during an economic downswing, growth of employment outside agriculture slowed down from 1½ per cent in 1988 to an average annual rate of ¼ per cent in the next two years. However, this low growth in employment was not only caused by cyclical factors, but was also the result of changes in the production structure of the economy. In the Bank's *Annual Economic Report*, various factors which contributed to a substitution of capital for labour over the past two decades are discussed in more detail. Accordingly, the non-agricultural sectors of the formal economy became increasingly unable to provide sufficient employment opportunities for a rapidly growing labour force.

Despite a substantial rise in unemployment, nominal salaries and wages continued to rise at high rates. This was due, in general, to effective wage and salary bargaining and, in particular, to actions of labour unions aimed at maximising short-term benefits for their members. Such actions unfortunately have the unavoidable adverse long-term effect of lowering overall employment levels. Moreover, increases in labour productivity did not keep pace with real wage increases. One reason for this can be related to an alarmingly high increase in the number of man-days lost because of strikes and work stoppages during 1989 and 1990. Together these developments caused real unit labour costs to rise at an average annual rate of nearly 2 per cent in these two years.

Continuing unacceptably high rates of inflation

Various factors contributed to a continuation of an unacceptably high rate of inflation, despite the lower rate of increase in total monetary demand. The rising labour costs increase over twelve months in the prices of domestically produced goods remained around a level of 15 per cent in the first six months of 1991.

Levelling-off in the growth rate of money supply and credit extension

Measured over a period of twelve months, the rate of increase in M3 dropped from a peak of 27,5 per cent in August 1988 to only 10,2 per cent in October 1990, before edging up slightly to 12,1 per cent at the end of 1990. This pronounced decline in the growth rate of the money supply was mainly a reflection of the cyclical slow-down in economic activity and spending, and also the relatively high nominal interest rates. Subsequently, however, the twelve-month rate of increase in M3 accelerated to 15,8 per cent in February 1991, to fluctuate around a level of 15 per cent up to the end of July 1991. This higher growth rate of the money supply must, however, not be seen as part of a new trend as it was related mainly to the re-intermediation of funding activities by banking institutions, brought about by the implementation of the Deposit-taking Institutions Act from 1 February 1991.

Measured over a period of twelve months, the growth rate of monetary institutions' claims on the domestic private sector receded from a peak slightly above 30 per cent in October 1988 to about 13 per cent in January 1991. Thereafter it accelerated to 19 per cent in February and stayed above 16 per cent in the next four months, mainly because transactions previously treated as off-balance-sheet items were brought on balance sheet.

Further surpluses on current account of balance of payments

Although considerable fluctuations occurred from quarter to quarter during the course of the year, the current account of the balance of payments in 1990 again showed a remarkable overall surplus of R5,8 billion. The level of the surplus then declined to a seasonally adjusted annual rate of R3,9 billion in the first six months of 1991.

These further current account surpluses were recorded despite a weakening of 11½ per cent in South Africa's terms of trade from the second quarter of 1988 to the second quarter of 1991. In addition, net gold exports performed relatively poorly as a result of a generally depressed gold price and decreases in gold production. These negative developments were, however, largely neutralised by further increases in the volume of merchandise exports, combined with a low level of the volume of merchandise imports. Moreover, the value of net service and transfer payments decreased over the past eighteen months owing to lower interest and dividend payments.

Decline in net capital outflows

The net outflow of capital not related to reserves decreased from R6,2 billion in 1988 to R4,3 billion in 1989 and even further to R2,9 billion in 1990. In the first six months of 1991 the net outflow of capital amounted to only R1,3 billion. The improvement of the capital account during the past eighteen months was particularly significant since it occurred at a time when large amounts of foreign debt fell due for redemption. This clearly indicates a substantial refinancing of maturing debt, supplemented by the raising of new foreign funds by South African borrowers.

The improvement of the capital account of the balance of payments was largely due to an inflow of short-term capital related to trade finance. In total, long-term capital still showed net outflows of R1,9 billion in 1990 and R0,9 billion in the first six months of 1991. These outflows of long-term capital consisted of net repayments on foreign loans by public authorities and the private sector, which were partly neutralised by a net inflow of long-term loans to public corporations.

"As a result of the overall improvement of the balance of payments, South Africa's total net gold and other foreign reserves increased by R3,9 billion in the eighteen months ended June 1991."

Increase in foreign reserves

As a result of the overall improvement of the balance of payments, South Africa's total net gold and other foreign reserves increased by R3,9 billion in the eighteen months ended June 1991. Over this period, the monetary sector reduced its reserve-related

Improved prospects for the economy

After two and a half years of recession, the economy is now reasonably well placed for a new upswing. Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future:

- the leading indicator of the business cycle calculated by the Reserve Bank moved upwards for four months in succession from January to April 1991;
- the sharp increases in the total current expenditure of the public sector since the third quarter of 1990 provide some stimulus to overall demand. Total public sector expenditure has now become distinctly expansionary;
- the switch-over from general sales tax to a value added tax (VAT) system on 30 September 1991, on the basis announced by the Minister of Finance last week, presents a stimulatory fiscal package which should encourage both consumer and new capital investment expenditure;
- the further improvement in the overall balance of payments position and the recent rise in the foreign reserves provide some cushion for future increases in imports; and
- the lifting of sanctions by many countries holds the promise of further increases in exports, and possibly also for some new capital inflows into South Africa.

There are, unfortunately, also certain remaining weaknesses in the economy that call for caution and that may constrain the upswing:

- the continuing high rate of inflation does not justify any early relaxation in monetary policy;
- until recently, real wage and salary increases still outpaced productivity increases and continued to exert upward pressure on the total unit costs of production; and
- there remain many uncertainties surrounding the political situation; South Africa's relations with the IMF and World Bank, for example, have not yet been normalised.

In these circumstances, the chances of an early new economic upswing are indeed improving but the recovery may, at least in its initial stages, turn out to be relatively mild, like the downswing phase of the past thirty months has proved to be.

"Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future."

MONETARY AND FINANCIAL POLICY

Balance of payments

The persistent need to finance continuous and substantial net capital outflows from the country since 1985 has been one of the main reasons for a relatively subdued domestic economy during this period. South Africa was compelled to export more goods and services to the rest of the world than it imported in order to generate the foreign exchange needed for financing the negative capital account. Over the period of six years from 1985 to 1990, the total net capital outflow amounted to almost R30 billion, and the current account surplus to R29 billion.

Throughout this period, a low level of foreign reserves severely constrained the Reserve Bank in its ability to influence the exchange rate of the rand, or even to smooth out volatile short-term movements in the foreign exchange market. At one stage, from about the middle of 1988 up to June 1989, the Bank borrowed virtually all of the gross gold and other foreign reserves as shown on its balance sheet, which at that stage amounted to only about R5 billion. Short-term foreign liabilities of the Bank at times even exceeded the gross gold and other foreign reserves.

This perilous overall balance of payments situation depressed the growth potential of the South African economy. Not only was a substantial part of the declining amount of domestic saving absorbed in the financing of the capital outflow, but the absorption of

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SOUTH AFRICAN RESERVE BANK

GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-first ordinary general meeting of shareholders of the Bank on 27 August 1991

ECONOMIC REVIEW

Continued mild cyclical downswing

The economy has now been in a cyclical downswing since March 1989, i.e. for a period of nearly 30 months, compared with an average duration of 17 months for cyclical downturns in the post-war period. Although the downswing is of a relatively long duration its intensity has remained mild, as is reflected in the fact that real gross domestic product has contracted at an average annual rate of only about ½ per cent from the first quarter of 1989 to the second quarter of 1991. This contraction is considerably smaller than the annual rates of decrease of 3 per cent and 2 per cent, respectively, recorded in the preceding two downward phases of the business cycle.

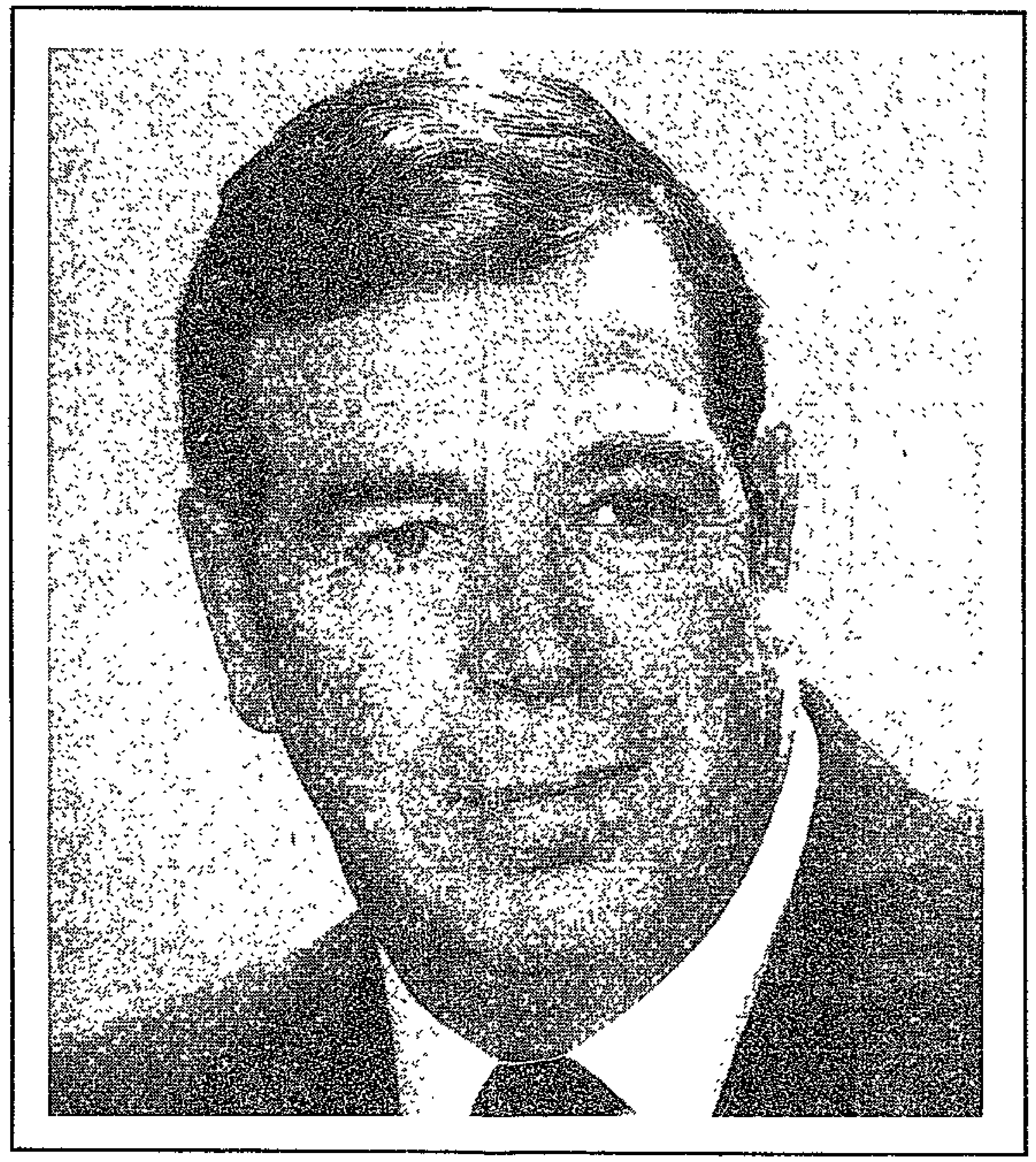
Various factors contributed to the relative mildness of the current economic downswing. Firstly, restrictive monetary and fiscal policies were applied in a way that did not depress economic conditions unduly. Secondly, a strong international demand for South African goods, in conjunction with a relatively competitive exchange rate of the rand, led to sustained increases in the volume of South African exports. Finally, domestic production was until recently supported by a persistent firm demand for consumer goods and services.

In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991. Initially, decreases in real production occurred mainly in the primary sectors, but from the beginning of 1990 the value added by the secondary sectors also began to decline moderately. In the tertiary sector the value added by the sub-sector transport, storage and communication declined in 1990, whilst all other sub-sectors continued to record increases. However, from the beginning of 1991 the value added by enterprises in the sub-sector commerce also began to decline as the downturn gained momentum.

Real gross domestic expenditure began to decrease even before the downturn in the business cycle started, and showed sharp quarterly fluctuations throughout the recessionary period. On average, however, the decrease in real gross domestic expenditure over the whole downswing period equalled an annual rate of only 2 per cent, which also represents a relatively mild decline and can be compared with declines of 9½ and 5 per cent per annum during the two preceding downswings.

"In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991."

In a comparatively firm performance, real private consumption expenditure increased at an annual rate of around 2 per cent in each of the four quarters of 1990. Consumer demand was underpinned by continued real wage increases some redistribution of



coupled with entrenched inflationary expectations kept price increases at high levels. In the second half of 1990 the effect of the crisis in the Middle East on petroleum and related prices, together with rising food prices, interrupted an otherwise encouraging slowing-down in domestic price increases and further strengthened inflationary expectations. Accordingly, the rate of increase in consumer prices, measured over a period of twelve months, accelerated from 13,3 per cent in July 1990 to 15,3 per cent in November 1990, to fluctuate around this level up to June 1991.

Similarly, the rate of increase in the total production price index over periods of twelve months accelerated from 10,3 per cent in July 1990 to 15,8 per cent by November, but then fluctuated downwards to 14,1 per cent in June 1991. This recent slightly slower rise in production prices occurred only in the case of imported goods, while the rate of increase over twelve months in the prices of domestically produced goods remained

liabilities by R1,6 billion, while the gross gold and other foreign reserves held by this sector rose from R6,9 billion at the end of 1989 to R8,7 billion at the end of June 1991. This was the equivalent of about seven weeks' imports of goods and services. Taking into account the substantial unused credit facilities available to the Reserve Bank at this stage, the potential total reserves are now considerably better positioned than at any time during the past six years to accommodate an economic upswing.

Stable effective exchange rate of the rand

Although the nominal exchange rate of the rand declined moderately over the nineteen months ended July 1991, this decline occurred in a stable and orderly manner. The decrease in the weighted nominal exchange rate of the rand averaged only ½ per cent per month. The real effective exchange rate of the rand, i.e. after taking account of international inflation rate differentials, rose by about 4 per cent from the end of 1989 up to June 1991.

In contrast to the relatively stable effective exchange rate of the rand against the basket of currencies, rates against individual currencies varied considerably. The exchange rate of the financial rand against the US dollar also fluctuated substantially. However, from the end of September 1990 the financial rand discount narrowed from slightly less than 34 per cent to 7½ per cent on 12 July 1991, but subsequently widened again to 12 per cent at the end of July.

Growing deficit on the Exchequer Account

In the first four months of the current fiscal year, i.e. from April to July 1991, Exchequer issues (after the usual adjustment for changes in the balance on the Paymaster-General Account but excluding off-budget expenditures) were 14 per cent higher than in the corresponding period of fiscal year 1990/91. The rate of increase in these issues was only slightly higher than the increase budgeted for in government expenditure (also excluding off-budget expenditures) of 13,7 per cent for the current fiscal year as a whole.

Exchequer receipts in the first four months of the fiscal year, on the other hand, rose by only 3 per cent above the level of the corresponding period of fiscal year 1990/91. This was markedly lower than the projected increase of 11,1 per cent in government revenue for the year as a whole. It is rather alarming that the rate of growth in Exchequer receipts has now been on a declining trend ever since the beginning of 1990.

The deficit before borrowing in the first four months of the current fiscal year amounted to no less than R5,6 billion, or to 55 per cent of the total budgeted deficit for the fiscal year as a whole. For the corresponding period of the 1990/91 fiscal year this deficit was equal to only 25,7 per cent of the deficit budgeted for that year. Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government. This will hopefully be corrected again during the remainder of the year.

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resistance from higher income groups against enforced lower living standards. From the beginning of 1991, however, a contraction of expenditure on durable and semi-durable goods and on services caused the growth in real private consumption expenditure to slow down at first, and then to turn negative for the first time in the present recessionary phase during the second quarter of the year, when it declined at an annual rate of about ½ per cent.

In contrast to these developments, real consumption expenditure by general government, which had increased by only 1 per cent in 1990, started to grow more rapidly towards the end of last year. Real government consumption expenditure was actually 5 per cent higher in the twelve months ended June 1991 than in the preceding twelve months.

Total real fixed investment started to decline from as early as the fourth quarter of 1989. Initially, the rate of decrease in fixed capital outlays was modest, but this rate then rose to an annualised level of approximately 5 per cent in both the second half of 1990 and the first half of 1991. The downturn in real aggregate gross domestic fixed investment was brought about by a downward trend in the outlays of both public authorities and the private sector. On the other hand, real capital outlays of public corporations continued to increase up to the first quarter of 1991, owing to the development of the Mossgas project. In the second quarter of 1991 real fixed investment of public corporations also began to decline as the capital outlays on this project tapered off.

A considerable decumulation of inventories took place in the current economic downswing during the eight consecutive quarters from the third quarter of 1989 to the second quarter of 1991. Inventories reached very low levels, as indicated by a declining ratio of commercial and industrial inventories to non-agricultural gross domestic product. This ratio decreased from a recent high of 21 per cent in the second quarter of 1989 to a new low of 18½ per cent in the first half of 1991, compared with 25 per cent in the early 1980's.

Decline in domestic savings

The decline in economic activity was accompanied by a relative decrease in domestic savings which, as a ratio of gross domestic product, declined from 22½ per cent in 1989 to 21½ per cent in 1990 and to 19½ per cent in the first half of 1991. The decline in this savings ratio initially was caused mainly by decreases in saving by corporate entities and by households, but in the first half of 1991 general government switched from a positive saver to a dissaver.

Lower employment and higher wage costs

As can normally be expected during an economic downswing, growth of employment outside agriculture slowed down from 1½ per cent in 1988 to an average annual rate of ¼ per cent in the next two years. However, this low growth in employment was not only caused by cyclical factors, but was also the result of changes in the production structure of the economy. In the Bank's *Annual Economic Report*, various factors which contributed to a substitution of capital for labour over the past two decades are discussed in more detail. Accordingly, the non-agricultural sectors of the formal economy became increasingly unable to provide sufficient employment opportunities for a rapidly growing labour force.

Despite a substantial rise in unemployment, nominal salaries and wages continued to rise at high rates. This was due, in general, to effective wage and salary bargaining and, in particular, to actions of labour unions aimed at maximising short-term benefits for their members. Such actions unfortunately have the unavoidable adverse long-term effect of lowering overall employment levels. Moreover, increases in labour productivity did not keep pace with real wage increases. One reason for this can be related to an alarmingly high increase in the number of man-days lost because of strikes and work stoppages during 1989 and 1990. Together these developments caused real unit labour costs to rise at an average annual rate of nearly 2 per cent in these two years.

Continuing unacceptably high rates of inflation

Various factors contributed to a continuation of an unacceptably high rate of inflation, despite the lower rate of increase in total monetary demand. The rising labour costs

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Levelling-off in the growth rate of money supply and credit extension

Measured over a period of twelve months, the rate of increase in M3 dropped from a peak of 27,5 per cent in August 1988 to only 10,2 per cent in October 1990, before edging up slightly to 12,1 per cent at the end of 1990. This pronounced decline in the growth rate of the money supply was mainly a reflection of the cyclical slow-down in economic activity and spending, and also the relatively high nominal interest rates. Subsequently, however, the twelve-month rate of increase in M3 accelerated to 15,8 per cent in February 1991, to fluctuate around a level of 15 per cent up to the end of July 1991. This higher growth rate of the money supply must, however, not be seen as part of a new trend as it was related mainly to the re-intermediation of funding activities by banking institutions, brought about by the implementation of the Deposit-taking Institutions Act from 1 February 1991.

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These further current account surpluses were recorded despite a weakening of 11½ per cent in South Africa's terms of trade from the second quarter of 1988 to the second quarter of 1991. In addition, net gold exports performed relatively poorly as a result of a generally depressed gold price and decreases in gold production. These negative developments were, however, largely neutralised by further increases in the volume of merchandise exports, combined with a low level of the volume of merchandise imports. Moreover, the value of net service and transfer payments decreased over the past eighteen months owing to lower interest and dividend payments.

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The improvement of the capital account of the balance of payments was largely due to an inflow of short-term capital related to trade finance. In total, long-term capital still showed net outflows of R1,9 billion in 1990 and R0,9 billion in the first six months of 1991. These outflows of long-term capital consisted of net repayments on foreign loans by public authorities and the private sector, which were partly neutralised by a net inflow of long-term loans to public corporations.

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This perilous overall balance of payments situation depressed the growth potential of the South African economy. Not only was a substantial part of the declining amount of domestic saving absorbed in the financing of the capital outflow, but the absorption of

Africa looks forward to aid from SA

(49)

Sowetan 28/8/91.

ARUSHA - Southern African countries should "look forward with joy" to a post-apartheid South Africa joining the 10-member Southern African Development Co-ordination Conference, according to Zimbabwe President Robert Mugabe.

The Ziana news agency reported that Mugabe, who was addressing the opening session of a one-day summit of heads of state of the regional organisation in Arusha, said South Africa's economy was three times bigger than that of the SADCC economies combined.

South African participation would increase the organisation's resources and enable SADCC " to accelerate the developmental pace of our countries".

The Zimbabwean president began by saying there was a need for greater co-operation between the member nations unless they wanted to abandon their goal of collective self-reliance, preferring instead to relegate themselves to being "a perpetual begging bowl".

In his speech Mugabe delt with the possibility of donor fatigue and whether the organisation would have a role to play following peace in Angola and Mozambique and the apparent end of apartheid.

He said that, despite a hostile international economic environment, unfavourable weather conditions and destabilisation by apartheid South Africa, SADCC had made some modest achievements.

Donors

Mugabe said although it was true donors had played an important role in the funding of SADCC projects and in providing technical assistance, the regional grouping had already started formulating strategies to enable member countries to assume greater responsibility for the funding of projects.

It was argued that a post-apartheid South Africa could easily take the role of co-operating partner through the provision of aid and investment capital to the organisation's member states.

"It is our contention that the post-apartheid government in South Africa will be faced with the enormous task of reversing the structural imbalances created by apartheid as immediate priority.

"Although we are aware that South Africa's economy, apart from being the most sophisticated, is also bigger (three times bigger than that of the combined SADCC economies), we should look forward with joy to the membership of a democratic South Africa as that membership would increase the resources of our organisation and enable it to accelerate the developmental pace of our countries," Mugabe said.

"If, as is increasingly evident, the 1990s are likely to be a decade of trading blocs and growing multilateralism, particularly with the consolidation of Europe into a common market in 1992 ... then Africa must surely strive harder for economic integration and co-operation during this current decade," he said. - *Sapa*

Pepkor chairman calls for pact on economy

BDay 28/8/91 (49)

LINDA ENSOR

CAPE TOWN — A pact between the state, private sector and trade unions to develop the potential of the SA economy should be agreed upon, Pepkor chairman Christo Wiese said yesterday.

He told an Afrikaanse Sakekamer function that none of these interest groups could achieve the task alone.

The provision of welfare for the population was a precondition for the development of democracy, which could succeed only if it satisfied people's material wants.

One of the threats to democracy was the high rate of unemployment.

Exports by sectors with a high growth potential had been identified as the path of salvation for the SA economy, but would succeed only if prices were lower and quality better, Wiese said.

The strategy of government in the past to encourage exports by certain sectors had not worked.

It was necessary for a strategy to be adopted that made all exports competitive by encouraging investments in technology and by instituting an appropriate tax structure to make investment possible. Productivity would have to improve, input costs cut and the expectations of trade union members tempered.

Wiese stressed that attempts to improve competitiveness should not be directed at the international market only, but also at the domestic market.

It's not yet time to abandon the battle against inflation

B|Day 28/8/91.

CHRIS STALS

(49)

AFTER two-and-a-half-years of recession, the economy is now reasonably well placed for a new upswing. Although recent trends indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming out or even a new upturn in economic activities in the near future:

- The leading indicator of the business cycle calculated by the Reserve Bank moved upwards for successive months from January to April 1991;
- The sharp increases in public sector current expenditure since the third quarter of 1990 provide some stimulus to overall demand;
- The switch from GST to VAT on September 30, on the basis announced by the Minister of Finance last week, presents a stimulatory fiscal package which should encourage both consumer and new capital investment expenditure;
- The further improvement in the overall balance of payments position and the recent rise in the foreign reserves provide some cushion for future increases in imports; and
- The lifting of sanctions by many countries holds the promise of further increases in exports, and possibly for some new capital inflows.

There are, unfortunately, also certain weaknesses that may constrain the upswing. Firstly, the continuing high inflation rate does not justify any early relaxation in monetary policy. Secondly, until recently real wage and salary increases still outpaced productivity increases and continued to exert upward pressure on the total unit costs of production. Third, there remain many uncertainties surrounding the political situation. SA's relations with the IMF and World Bank, for example, have not yet been normalised.

In these circumstances, the chances of an early new economic upswing are improving but the recovery may, at least in this initial stage, turn out to be relatively mild.

The inflation rate has remained stubbornly high, and at this stage financial disciplines applied thus far must be maintained. Without sufficient restraint there is a risk of losing the hard-won progress already made. The country cannot afford to rest content with a battle half won.

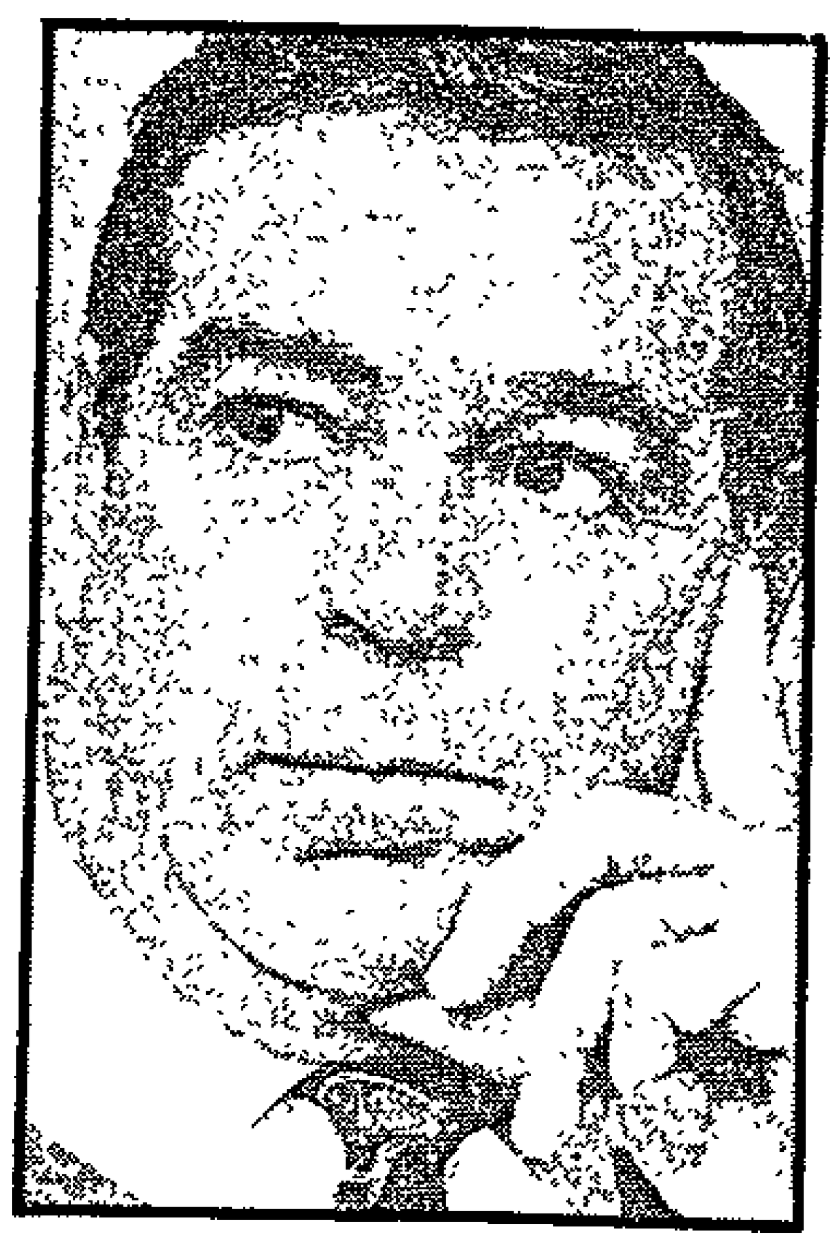
The pursuance of greater price stability is not, as some critics say, in conflict with the overriding objective to promote maximum economic development. On the contrary, the purpose of a disciplined monetary policy is to create a stable financial environment which will provide a solid foundation necessary for sustained growth and prosperity.

It is often argued that the social and political costs of achieving a low rate of inflation may be too high a price to pay for SA in its present situation. There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced.

The many disadvantages of a continuous high rate of inflation cannot be over emphasised:

- An arbitrary and inequitable redistribution of income and wealth. It favours those who can protect themselves against rising costs. It makes the poor poorer, and the rich richer;
- An inefficient allocation of resources; and
- The creation of tenacious expectations built into price-settings, spending decisions and wage determinations with far-reaching adverse effects for long-term economic growth potential.

There is ample evidence that SA is already suffering from all the deleterious effects of inflation which has now been running at double digit levels for almost two decades. Monetary policy must remain restrictive, and a restrictive monetary policy inevitably entails relatively high interest rates.



STALS

The Reserve Bank is often accused of maliciously keeping interest rates at an unreasonably high level. Positive real rates of interest must be maintained, not only because of the need for a disciplined and ceaseless attack against inflation, but also because of the need to restructure the overall economy of SA.

Realistic interest rates will encourage savings, provide an incentive for the more productive use of capital, act as a catalyst in the restructuring of production structures to alleviate growing unemployment, while recognising the relative scarcity of available funds needed for the financing of development. It is an oversimplification to insinuate that because high interest rates did not reduce inflation over the past few years, interest rates should now be reduced by injecting even more money into the system.

Some old truths can be repeated again with justification. The fight against inflation cannot be won by monetary policy alone. Support is needed from a disciplined fiscal policy, realistic wage and salary adjustments, and efficient and well-functioning markets.

In conclusion, there is reason for some satisfaction with the further improvement in the underlying financial situation over the past year. It is disappointing and frustrating, however, that the domestic rate of inflation remained relatively high. On the other hand, the underlying inflationary pressures at last abated. This was reflected in the lower rates of increase in the money supply and bank credit extension. The encouraging increase in the gold and foreign exchange reserves, the relative stability of the exchange rate of the rand contributed towards improving the financial conditions needed for a renewed economic upswing.

Real economic activities remained depressed. A new upswing may prove to be only mild, unless some additional extraneous stimulation is provided. It will, however, not be prudent to introduce such a stimulus through a premature relaxation of monetary policy.

This does not mean that economic recovery will have to be delayed until there is scope again for a relaxation in monetary policy. The SA economy is not now suffering from excess demand. Some stimulus, preferably from external sources and provided it is of the right kind, will not be out of place at this stage.

There is much evidence of a growing interest in SA by foreign traders, bankers and long-term investors. The balance of payments presents the most preferred route to a new expansionary phase. It is in our interests to entice foreign participation in the economy through the application of sound monetary and fiscal policies.

Domestic demand is already being stimulated by rising public sector expenditure. The announcement that VAT will be introduced at a rate of only 10% provides further fiscal stimulus that should contribute towards a revival in private sector consumer demand, and also in fixed investment.

At this stage, it is important not to overstimulate the economy, taking account of the vulnerability of the balance of payments and the remaining cost-push inflationary pressures. Measures can be taken to stimulate real demand, but they should not cause the money supply to increase again at an excessive rate.

The signs of a possible economic recovery in the near future are to be welcomed. SA desperately needs economic growth, but it must be growth that will be sustainable and that will benefit all the people of the country. It must therefore still remain the first objective of the Reserve Bank to strive for greater financial stability.

This is an edited extract from Governor Stals's address to the Reserve Bank AGM yesterday.

Whole page (49)

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SOUTH AFRICAN RESERVE BANK

imported goods in domestic economic activity had to be curtailed, mainly by keeping the economic growth rate down.

Monetary policy played its part in protecting the overall balance of payments in such a way that South Africa could, to the extent that this was still possible, retain some credibility with the international financial community. Through a frustrating process of negotiation with foreign creditors, a series of interim debt arrangements, prudent management of the gold and foreign exchange reserves, a successful campaign to promote exports, and a depressed domestic economy, South Africa succeeded in weathering the severe balance of payments storms of the second half of the eighties.

The policies followed during this period paid off over the past year when external political pressures on South Africa also abated and access to foreign money and capital markets opened up again, albeit to a limited extent at this stage. Supported by disciplined internal monetary and fiscal policies, the new attitude towards South Africa brought about a significant improvement in the overall balance of payments situation. As indicated in the economic review above, the current account remained in surplus, the net capital outflow declined and the net gold and other foreign reserves increased by a substantial amount.

This improved position enabled the Reserve Bank to achieve one of its major policy objectives, which is to keep the exchange rate of the rand relatively stable. From the end of December 1989 to the end of December 1990, the weighted average value of the rand against the basket of currencies of our major trading partners depreciated by 6,3 per cent in nominal terms, and in the first seven months of 1991 by a further 4,3 per cent. Taking account of the inflation differentials between South Africa and these countries, the exchange rate of the rand actually showed a small appreciation in real terms over the past eighteen months.

At this juncture, the Reserve Bank remains cautious in the balance of payments policy which it follows. With the experiences of the mid-nineteen eighties still fresh in memory we cannot be fully complacent about the present situation. It must be taken into account that:

- the recent strength in the balance of payments is based mainly on an inflow of short-term capital that can easily be reversed again;
- the present level of the gold and foreign exchange reserves, albeit substantially higher than at any time during the past six years, is still insufficient to cover more than two months' imports;
- the low level of inventories in the country and the pressing need for new fixed investment may force imports to rise sharply, even at a very early stage of the next upward phase in the business cycle; and
- South Africa still does not have access to IMF facilities and World Bank loans.

The Reserve Bank therefore has no alternative but to maintain its cautious policy towards the balance of payments. It must remain careful not to relax the restrictive monetary policy measures too soon. This also applies to exchange control. It is appreciated that it will be to South Africa's advantage to lift the existing exchange controls applicable to non-residents, i.e. the financial rand system, and to terminate the debt rescheduling arrangements as soon as possible. Certain exchange control restrictions on residents, for example to invest in other countries, should also be re-examined at the earliest possible opportunity. If South Africa stands to play its rightful role in Africa, a more flexible exchange control policy for both residents and non-residents will become imperative. Careful judgment, however, will be necessary to decide what will be affordable in terms of available balance of payments resources, and when to introduce any such relaxations. The Reserve Bank is of opinion that it will be premature to start relaxing on these measures already at this stage.

Money supply and interest rates

In pursuing its obligation to contribute towards the attainment of optimum long-term economic growth, the Reserve Bank over the past year continued with its efforts to keep the rate of increase in the money supply below the rate of inflation. The success achieved in 1990 when the M3 money supply increased by only 12 1 per cent [illegible]

Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage. For the time being, the policy must continue to be geared towards restricting growth rates in the monetary aggregates to a level below the rate of inflation.

The financial system

New banking legislation was introduced in South Africa on 1 February 1991 when the Deposit-taking Institutions Act of 1990 came into effect. This Act, which replaced the Banks Act of 1965 and the Building Societies Act of 1986, has the following features:

- it creates a uniform legal framework for all deposit-taking institutions in the private sector which are based on an equity-financed structure, namely banking institutions, building societies and discount houses;
- it provides for a relatively wide definition of deposit-taking business, which has implications for what were previously regarded as "off-balance-sheet" activities, commercial paper issues, bank guarantees and other forms of financial intermediation;
- it places great emphasis on proper risk management and assigns greater responsibilities to managements of banks and external auditors in this regard; and
- it incorporates the internationally accepted capital adequacy proposals of the Basle Supervisors Committee.

With the implementation of this Act, South Africa has placed itself ahead of most other countries in the world with its approach towards banking supervision. It also laid the necessary foundations for the creation of a sound banking system that will be able to play its important financial role in future developments, both locally and abroad. In line with the easing of the political situation, South African banks are already beginning to show interest in establishing their own representation in some of the major international financial centres, and in extending their activities into other African countries.

During the past year the banking sector went through a testing period in many countries. The South African banking system also had its tribulations. In a relatively depressed domestic economy, bad debts increased and banks had to make substantial provisions for real and potential losses. In some instances, these problems were aggravated by over-trading or over-extension, especially on the part of smaller banks.

In a few exceptional cases, the solvency of institutions was eroded to an extent where the Registrar of Deposit-taking Institutions had no option but to intervene in order to safeguard the interests of depositors. Thus, during the year, two banks were brought under curatorship and a third was placed in liquidation when a due diligence audit and an independent evaluation of a merchant bank indicated total insolvency.

These decisions by the Registrar placed the monetary authorities once again in a difficult position with regard to the need for the protection of depositors. This is a problem that occurs regularly every time a banking crisis develops, not only in South Africa but also in other countries. It is not a function of the Reserve Bank to provide an open-ended guarantee for the safety of all depositors' funds placed with registered deposit-taking institutions; neither can the Bank, as a privately owned institution, provide this kind of support without limits. The Bank has, however, a responsibility to promote confidence in banking institutions, and to protect the stability of the financial system. Actions taken by the Reserve Bank over the past year to protect the interests of smaller depositors with those banks that were placed under curatorship or in liquidation should, therefore, not be construed as an unqualified guarantee that the Bank will always be prepared to protect all depositors with registered deposit-taking institutions. Every depositor must, in the final count, still decide for his own responsibility, on the institution where he wishes to invest his funds.

The Bank continued to encourage the development of efficient financial markets and participated actively in the process, *inter alia*, through its representation on the Financial Markets Advisory Board as well as on the executive committees of the Bond Market Association and the South African Futures Exchange. The Bank's participation is based on the principle of allowing markets to determine their own structures and arrangements.

- the creation of tenacious expectations that are built into price-settings, spending decisions and wage determinations with far-reaching adverse effects for the long-term economic growth potential of the country.

"There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced."

There is ample evidence that South Africa is already suffering from all the deleterious effects of inflation which has now been running at double-digit levels for almost two decades. It is not surprising that it has become so extremely difficult to break out of this vicious circle. We have no alternative but to persist with our fight against inflation. This is the only way in which to restore sustainable high economic growth and to achieve lasting higher standards of living for all the people of the country.

With this objective in mind, monetary policy must remain restrictive, and a restrictive monetary policy inevitably entails relatively high interest rates. The Reserve Bank is often accused of maliciously keeping interest rates at an unreasonably high level. In a market-oriented economy interest rates are, however, determined by the total demand for loanable funds, and by the supply of savings. Total supply can be supplemented by a net inflow of capital from abroad, and by the creation of more money. The latter will apply especially in circumstances where the monetary authorities do not accept interest rates dictated by the market, but try to accomplish rates at artificially lower levels.

In the present South African situation, where we are experiencing a surging demand for more loanable funds, also to finance social and economic upliftment programmes, where domestic saving has recently declined and where we have had to absorb a net capital outflow of about R30 billion over the past six years, interest rates cannot be expected to be low. Under these circumstances, the Reserve Bank can only reduce market interest rates by allowing even more money to be created than what is already being added to the system. This will neither earn any credibility from the international or the local investment community, nor will it solve any of the real economic problems of the country. It will only make them more intractable.

Positive real rates of interest must be maintained, not only because of the need for a disciplined and ceaseless attack against inflation, but also because of the need to restructure the overall economy of South Africa. Realistic interest rates are needed for a proper allocation of resources. Such rates will encourage savings, provide an incentive for the more productive utilisation of capital, act as a catalyst in the restructuring of production structures to alleviate the growing unemployment, while recognising the relative scarcity of available funds needed for the financing of development. It is an over-simplification to insinuate that because high interest rates did not reduce inflation over the past few years, interest rates should now be reduced by injecting even more money into the system. Such a policy will defeat the crucial role that realistic interest rates must play in the process of economic restructuring that is to lead South Africa to greater prosperity in the years ahead.

Finally, some old truths can be repeated again with justification – the fight against inflation cannot be won, and eventual financial stability cannot be established by monetary policy alone. Support is needed from a disciplined fiscal policy, realistic wage and salary adjustments, and efficient and well-functioning markets for the rational pricing of goods and services, as well as for the use of money and capital. The challenges facing South Africa in this regard should not be underestimated, nor can they ever be evaded. Financial stability is an indispensable precondition for achieving sustainable economic growth in this country. Financial stability will not come easily, nor by itself. Monetary policy must continue to play a constructive role in this regard in an objective and impartial way.

12 per cent, compared with a higher range of 11 to 15 per cent for the preceding year.

When these lower guidelines were announced for 1991, reference was made to the possible effects that the implementation of the new Deposit-taking Institutions Act might have on the statistical measurement of the M3 money supply, as calculated from the consolidated balance sheets of all deposit-taking institutions. The subsequent re-intermediation of certain off-balance-sheet transactions proved to be as disruptive as had been feared. The abrupt increase in the twelve months' rate of growth in M3 from 10,2 per cent in January 1991 to a level of around 15 per cent in the following six months, however, does not give reason for great concern. From the end of February, that is after the implementation of the new regulations, to the end of July 1991 the seasonally adjusted and annualised rate of growth in M3 amounted to only 11,7 per cent. This indicates that the current rate of growth of the money supply is still within the bounds of the guidelines for 1991. Nevertheless, it is still pushing against the upper limit and leaves little scope for any relaxation in monetary policy at this stage.

Despite the relatively depressed real economic activities in the country, the demand for credit from banking institutions remains brisk, indicating that not all borrowers are discouraged by the present level of interest rates. Over the twelve months up to the end of June 1991, the total claims of monetary institutions against the private sector increased by no less than R25,5 billion, which was more or less double the amount of total net saving by South Africans over the same period. At the end of June 1991 the total amount of the outstanding bank credit extended to the private sector was 16,8 per cent above the figure for 30 June 1990, although this figure again includes the statistical effect of the re-intermediation of off-balance-sheet activities already referred to. At this stage, bank credit extension is still increasing at a rate more or less in line with the current rate of inflation, which raises the question whether monetary policy is after all sufficiently restrictive to achieve the objective of reducing inflation in the longer term.

Over the past year monetary policy indeed accommodated a substantial easing of the overall liquidity situation in the money market. Over the first six months of 1991, the Reserve Bank on a net basis added to total money market liquidity through an increase of R2,4 billion in the Bank's net gold and foreign exchange reserves as well as a net loss of R815 million realised on the Bank's forward foreign exchange operations. At times, a decline in the net government deposits with the Reserve Bank, especially during April and May, added further to liquidity. Simultaneously, the introduction of revised lower minimum prudential requirements in terms of the new Deposit-taking Institutions Act released more than R7 billion of liquid assets, including about R1,2 billion in the form of cash reserves, for banking institutions.

The Reserve Bank intervened from time to time to drain some of the additional liquidity from the market. These intervention operations, mostly carried out through issues of ultra short-dated Treasury bills and short-term dollar/rand swap transactions, normally only smoothed out intra-monthly fluctuations in money market conditions but did not withdraw liquidity from the market on a permanent basis. The result was that banking institutions in general experienced easier liquidity conditions and became less dependent on the central bank as a lender of last resort. The average daily level of accommodation at the Reserve Bank's discount window accordingly declined from a high point of R4,8 billion in January 1990 and R3,6 billion in the first half of 1990, to R1,9 billion in the first half of 1991.

Against this background money market interest rates eased throughout 1990 and the first half of 1991. The market rate on three-months' liquid bankers' acceptances, for example, declined from 18,4 per cent at the beginning of 1990 to 17,4 per cent at the end of February 1991. In recognition of the changed underlying situation, Bank rate was reduced from 18 to 17 per cent on 11 March 1991, after which short-term interest rates eased by a further forty to sixty points.

"Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage."

developments that will enhance financial efficiency as well as investor protection in the markets. In the end, monetary policy based on a market-oriented approach as we apply it in South Africa, can only be successful if there are sound and efficient markets through which official signals and policy actions can be transmitted to all the relevant participants in the economic process.

Monetary policy objectives

In the Chairman's Address presented to the sixty-ninth ordinary general meeting of the shareholders of the Bank in August 1989, the objectives of monetary policy at that time were summarised as follows. Monetary policy in South Africa should strive to:
- stop the rising trend in inflation;
- replenish the low level of the country's foreign reserves;
- reduce the excessive rates of increase in bank credit extension to the private sector; and
- reduce the rate of increase in the money supply to within the Reserve Bank's accepted target range.

Reference was also made at the time to the need for some restraint on the high level of public expenditure in the country.

Last year, good progress could be reported towards the achievement of at least some of these goals, and emphasis was then placed on the need for adopting a medium- and longer-term approach towards the implementation of monetary policy. At the same time, it also became an objective not only to prevent the rate of inflation from rising further but indeed to bring it down to a level more in line with inflation in those countries with which South Africans have to compete in the markets.

With these goals in mind, monetary policy remained relatively restrictive throughout the past year. Supported by a more positive attitude that is now emerging in the outside world towards South Africa in the wake of domestic political reforms, further progress could be made towards reaching the goals set for monetary policy during the past two years. We have by now succeeded in:
- steering the rate of increase in the money supply to within the guidelines set by the Reserve Bank, even after these guidelines had been reduced in two consecutive years;
- reducing the rate of increase in bank credit extension to the private sector to within a more acceptable range;
- replenishing the gold and foreign exchange reserves to a more comfortable level; and
- stabilising the average weighted value of the rand against the basket of currencies.

The rate of inflation, however, has remained stubbornly high and at this stage the financial disciplines applied thus far must be maintained. Without sufficient restraint there is a risk of losing the hard-won progress already made towards eventually achieving a more acceptable level of price stability in South Africa. The country cannot afford to rest content with a battle half won.

The pursuance of greater price stability is not, as some critics say, in conflict with the overriding objective of general economic policy, which is to promote maximum economic development. On the contrary, the purpose of a disciplined monetary policy is indeed to create a stable financial environment which will provide a solid foundation that is necessary for sustained economic growth and prosperity.

It is often argued that the social and political costs of achieving a low rate of inflation may be too high a price to pay for South Africa in its present situation. There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced. The many disadvantages of a continuous high rate of inflation cannot be over-emphasised. Without repeating what should by now be common knowledge in this widely debated issue, South Africans should perhaps again be reminded of a few indisputable facts. The distorting effects of a chronic high rate of inflation include:
- an arbitrary and inequitable redistribution of income and wealth. It favours those who can protect themselves against the rising costs of even basic needs and requirements. It makes the poor poorer, and the rich richer;
- an inefficient allocation of resources. When price changes no longer emit meaningful signals of basic economic trends and developments, resources will no longer be allocated according to the true costs of production and the real needs of the people of the country. In consequence, economic decisions also become distorted; and

There is reason for some satisfaction with the further improvement in the underlying financial situation over the past year. It is disappointing and frustrating, however, that the domestic rate of inflation remained relatively high. On the other hand, the underlying inflationary pressures at least abated further, which was reflected in the lower rates of increase in the money supply and bank credit extension. The encouraging increase in the gold and foreign exchange reserves, and the relative stability of the exchange rate of the rand contributed towards improving the financial conditions needed for a renewed economic upswing.

Real economic activities remained depressed, however, and, if anything, contracted further in recent months. Although a few portents of an imminent recovery have recently emerged, a new upswing may prove to be only mild, unless some additional extraneous stimulation is to be provided. It will, however, not be prudent to introduce such a stimulus through a premature relaxation of monetary policy – the injection of additional money into the economy at this juncture will be synonymous with an injection of anabolic steroids into an athlete. He may deliver a good performance in the coming event, but his entire system will eventually be destroyed by the stimulants.

This does not mean that economic recovery will have to be delayed until there is scope again for a relaxation in monetary policy. The South African economy is not now suffering from excess demand. This is evidenced by the continuing surpluses on the current account of the balance of payments, the growing numbers of unemployed and the surplus capacity available in the manufacturing sector. Some stimulus, preferably from external sources and provided it is of the right kind, will not be out of place at this stage.

"It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies."

There is much evidence of a growing interest in South Africa by foreign traders, bankers and long-term investors. I have referred to the need of a healthy stimulation which could arise from growing exports, and a steady inflow of long-term investment funds. The balance of payments presents the most preferred route to a new expansionary phase in a country with an economy in which imports play such an important role as in South Africa. It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies.

Domestic demand is already being stimulated by rising public sector expenditure. The recent announcement by the Minister of Finance that VAT will be introduced at a rate of only 10 per cent provides further fiscal stimulus that should contribute towards a revival in private sector consumer demand, and also in fixed investment. At this stage, it is important not to over-stimulate the economy, taking account of the vulnerability of the balance of payments and the remaining inflationary pressures of a cost-push nature that are still exerting upward pressure on prices. Cost-push inflation, like demand-pull inflation, can in the longer run only endure provided it is accommodated by a persistent rise in the money supply. Any revival of the economy at this stage should therefore be financed with great care. Measures can be taken to stimulate real demand, but they should not cause the money supply to increase again at an excessive rate. This applies to the financing of additional public sector outlays as well as private sector expenditures.

The forementioned signs of a possible economic recovery in the near future are to be welcomed. Nobody can disclaim the fact that South Africa desperately needs economic growth, but it must be growth that will be sustainable and that will benefit all the people of the country. Such growth simply cannot be generated by the artificial creation of more money. The desired higher economic growth will only be attainable, in the long as well as in the short run, in an environment of sustainable financial stability. Notwithstanding the present relatively depressed economic conditions in the country, it must therefore still remain the first objective of the Reserve Bank to strive for greater financial stability in order to ensure maximum economic prosperity, for now and for the future.

High rates of interest to remain, warns Stals

Star 28/8/91

By Derek Tommey

4982

The Governor of the Reserve Bank, Dr Chris Stals, is determined to maintain tight money policies — which means a continuation of high interest rates — until there is an easing up of inflation in the country.

Dr Stals has recently been under heavy pressure from business and even, it is suggested, the Government, to ease interest rates.

But in a hard-hitting speech at the annual meeting of the Reserve Bank in Pretoria yesterday, Dr Stals justified his restrictive monetary policy and warned any changes could lead to long-term economic deterioration.

He said price stability would create a stable financial environment which would provide a solid foundation for sustained growth.

There would be serious costs if inflation were not reduced.

Inflation

Continued high inflation, he added, resulted in:

- An inequitable distribution of wealth, making the poor poorer and the rich richer.
- An inefficient allocation of resources; they were no longer allocated according to costs of production or the real needs of the people.
- Price, spending and wage expectations that had far-reaching adverse effects for the country's long-term growth.

Dr Stals also expressed concern at Government spending.

In a part of his speech which he did not read out at the meeting, Dr Stals said heavy spending by the Government at a time when revenue was seasonally low had resulted in the Government going into debt in the first four months of the year by R5,6 billion.

This was 55 percent of the total budgeted deficit for the 12 months ending in March next year.

● Stals resists pressure — Page 24

SOWETAN BUSINESS

Fabcos chief Mabuza warns over socialism

Sowetan 29/8/91 (49)

SOUTH Africa could face pressures to become a socialist state if black economic empowerment did not keep pace with political advancement, according to the Foundation for African Business and Consumer Services.

Fabcos chief executive officer Jabu Mabuza told businessmen in Johannesburg that if this did not happen there could be pressures to use "quick fixes" such as nationalisation and punitive company taxation to seek a redistribution of wealth.

"The result may be to condemn South Africa to a decade or more of socialism - before economic realities show that socialism does not work," he said.

Mabuza was addressing a symposium run by the SA Direct Marketing Association.

He urged faster progress in the creation of more black/white business partnerships to avert the threat of socialism - pooling the formal sector skills of established white companies with the know-how of new black entrepreneurs about how to penetrate the vast black consumer market.

The start of the black taxi industry, now with a turnover running at no less than R50 000 million a year, was a classic example of the potential of niche markets that had been unexplored until the collapse of apartheid.

Political

Joint black/white business ventures promised not only access to huge new markets but also represented positive moves towards the restructuring of the economy.

At the moment, emphasis was on political reform and on social upliftment in spheres such as housing and education.

Yet, if there was not similar progress towards economic reform, South Africa would still not find the stable platform for overall advancement that it so badly needed, Mabuza said.

"It is important that marketeers should understand the depth of mistrust among the black community - from the lowest to the highest - when it considered the role of business during the apartheid era."

"There is an absolute conviction that business walked hand-in-hand with Government.

"But whereas Government was open about its discriminatory practices, business disguised its participation by extensive displays of breast-beating about the inequities of the system and by tokenism such as 'affirmative action' and 'social investment' programmes," he said.

Proponents of "redistribution through growth" theories had the opportunity between now and the mid-1990s to show the merits of their arguments.

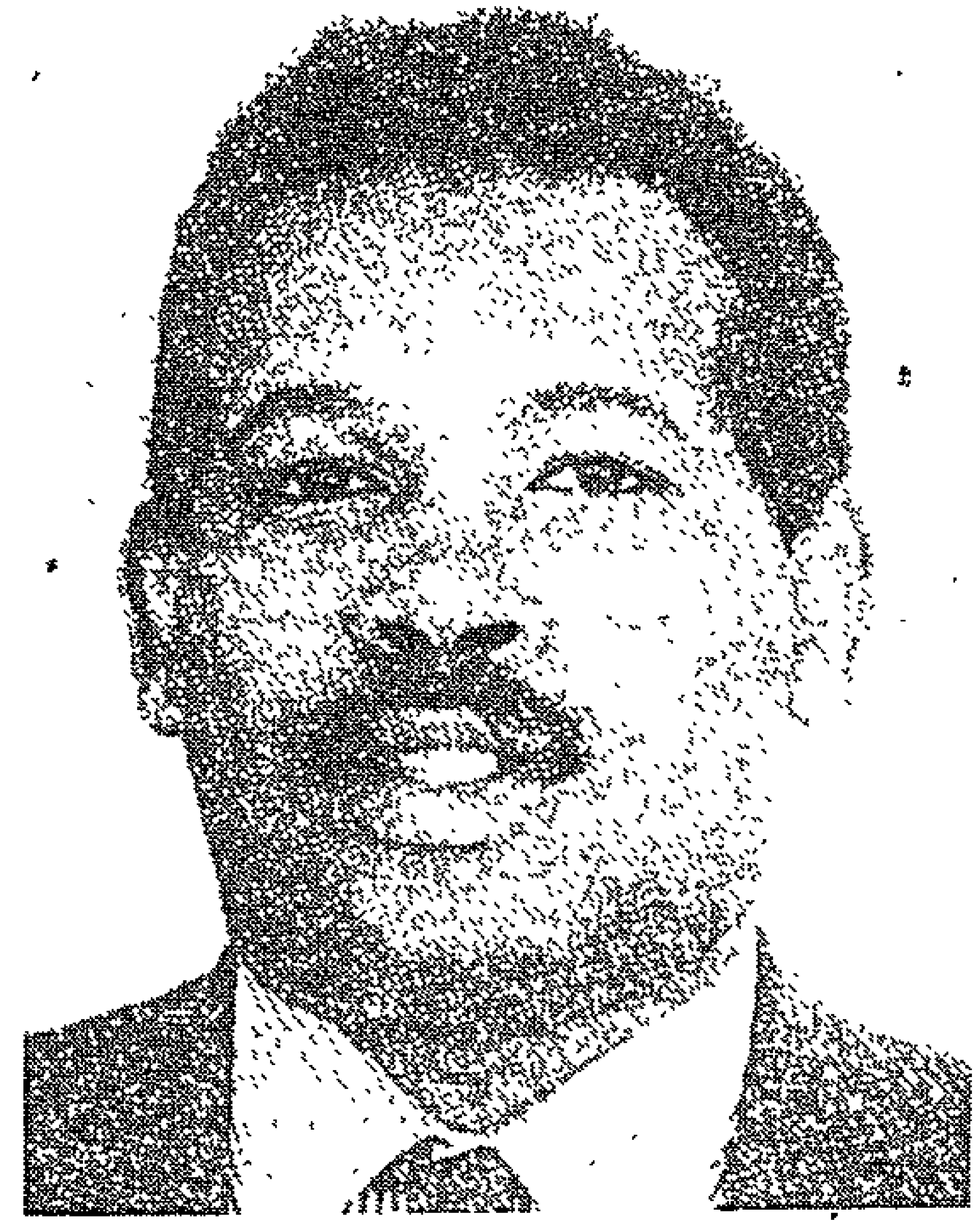
"But they had better get ~~moving~~ quickly and they had better mean real business.

"There is no place for tokenism. The black community has had a bellyful of that in the past decade or so," Mabuza said.

Marketeers who set out to create new black/white business ventures would not only generate faster sales but would also help to retain the capitalist system as the economic basis of a new South Africa.

"You may think that blacks may be good at digging gardens and playing soccer, but in business would have difficulty in running a booze-up in a brewery.

"If so, you will probably still be thinking that way in a few years time as the first government of the Socialist People's Republic of Azania is sworn in."



JABU MABUZA

SOWETAN BUSINESS

SA is heading for a higher growth

Sowetan 29/8/91

(49)

By JOSHUA RABOROKO

SOUTH Africa is heading for higher economic growth in the '90s than in the '80s as the extremely negative political factors which have hampered the economy are removed.

This is the opinion of Old Mutual's assistant general manager of investment, Mr Rowland Chute.

Old Mutual sees the economy bottoming over the next six to 12 months with a gross domestic product growth of 2,5 to 3 percent next year against the estimated current rate or around zero.

"With sanctions lifted and renewed access to foreign capital, the authorities are likely to feel comfortable with running a small deficit on the current account for the first time in this year.

"This means we should have a longer period of economic growth - there will be no need to cut short the upswing due to balance of payments restraints."

The company's results of the year ended June released last week showed that the assurer had invested some R3-billion in equities and had actually begun buying heavily in the depressed stock market last year at a time when many competitors switched into cash.

The purchases included De Beers, Richemont, Iscor and Absa with nearly R400-million being invested in De Beers.

By buying while prices were depressed last year Old Mutual obtained large lines of shares at prices well below current levels.

Sketching the background to these investment, Chute says equities should continue to provide the best real return to investors in the economy of changing South Africa where inflation will remain a problem.

"Last year we basically laid the base for our growth asset acquisitions, taking the view that South Africa will follow growth in the '90s will boost corporate earnings and be bullish for the stock market.

"Consider that if companies produced good profits in the '80s with all the political problems, then the '90s could be an exciting period."

The company chose equities as the major investment channel due to the ability of company managements to be flexible in line with the changing economy and conditions.

"Equities offer the flexibility - fixed interest does not. If you buy a 20-year long-term stock with a yield to maturity of 16 percent, that is fixed, the only bull factor is if the interest rate declines. If you buy into a well managed corporation, their management is constantly adapting to the changing socio-political environment with which we are living.

"This is very important when we are going through these ups and downs. You want to take advantage of these changes. . ."

Revenue trend alarming — Stals

49

CT 29/8/91

Own Correspondent

JOHANNESBURG. — The deep recession has taken its toll on government revenue with personal income tax and company taxes lagging far behind budgeted estimates.

The sluggish revenue has caused concern in official circles, with Reserve Bank Governor Chris Stals describing the revenue trend as "alarming".

An analysis by Bankorp economist Emile van Zyl shows the increase in revenue from company taxes, non-gold mines and individuals was only 2,5% for the period April to June. This falls far short of the budgeted increase of 19,3%.

"Revenue from these categories would have to increase by 22,8% for the rest of the fiscal year to catch up with the Budget estimates. That is a tall order during a recession," Van Zyl said, predicting a shortfall of about R3,5bn on income tax. He added that the Budget estimate for personal income tax (27,2%) seemed especially optimistic.

A breakdown of revenue patterns is not yet available for July, but overall revenue rose by less than 2% for the period April to July. The budgeted increase is 11,1%.

The recession is knocking government revenue because of lower growth in company profits, unemployment and lower wage increases. United economist Pierre Morgenrood said a decline in economic activity immediately implied a slowdown in revenue if tax rates remained unchanged.

Company profits rose by an annualised 10% in the first half of this year compared with 13,5% in 1989, according to the Reserve Bank Economic Report. GDP fell by 1% in the first half of 1991 from 1990.

Economists said government's main hope of averting a higher deficit was if the yield from VAT exceeded expectations. Some feared that the loss in revenue due to the lower rate might not be offset fully by the higher fuel levy, as the petrol tax could also be affected by a sluggish economy.

The deficit could also be contained to close to the budgeted 3,4% if a tight rein is kept on spending. Spending rose by about 14% in the first four months, against a budgeted 13,7%.

Morgenrood notes that social spending is ahead of Budget. Planning, provincial affairs and housing has spent more than 40% of the budgeted allocation, while own affairs, education and training and development aid are also ahead of Budget. Protection services are below Budget.

Stals pointed out in his speech this week that the deficit in the first four months of the fiscal year was "no less" than R5,6bn, or 55% of the total budgeted deficit for the year as a whole — compared with 35,7% at the same time last year.

Stals said: "Of greater concern from a monetary policy point of view, is that the deficit was financed to a large extent by an increase in the net claims of the banking sector on the government."

Govt revenue hit by declining taxes

B Day 29/8/91

(49)

GRETA STEYN

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Revenue

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☐ From Page 1

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Stals said: "Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government. This will hopefully be corrected again during the remainder of the year."

Deadlock over division of duties

Minister kept from control of his portfolio

49

B\Day 29/8/91.

BILLY PADDOCK

FIVE months into his appointment, State Expenditure Minister Amie Venter has to a large extent not been able to do his job because agreement on the division of tasks between his department and that of Finance has not been reached.

All queries on government spending made to Venter's department are referred to Finance director-general Gerrit Croeser, who issues the figures and statements and comments on these.

Sources in Venter's department said proposals to date for splitting the departments' functions had been unacceptable to the politicians and officials concerned, and that there was a great deal of dissatisfaction in the two camps.

Until some workable solution was found, Venter would not be in full control of his portfolio, one said.

Three weeks ago Venter went to London to study the British system on which SA's separation of revenue and expenditure functions was to be modelled.

Venter could not be reached for comment yesterday.

Finance deputy director-general Estiaan Calitz said yesterday the division of responsibilities had not yet been finalised but this was expected in the near future.

"One or two minor items still have to be sorted out and these have to be done but the way things are operating is not to the detriment of the functioning of the department," he said.

He said finalising the separation of expenditure from revenue was essential.

"In the meantime, we continue to issue on a regular basis and in a consistent way, to maintain continuity, the government spending figures and statements, until everything is finalised," he said.

The Finance Department would still retain involvement at the macro level, and by implication the micro level "because one cannot look at government spending at the micro level on its own", he said.

Calitz, officially in charge of monitoring and running state expenditure until April, when the division of tasks was announced by President F W de Klerk, said it was important that all statements on government spending be issued within a budgetary framework of revenue and financing as well as expenditure.

It is understood the Finance Department may issue the statements even after the separation is completed. An idea being worked on is for both departments to issue joint statements to ensure consistency.

A senior Finance official said recently that the system of monitoring departments' spending and projecting their expenditure for the full year had fallen into disuse, and that this was contributing to the lack of control over state spending. He said no one really knew what was going on.

Calitz said he was not in a position to comment on the monitoring mechanism that had been used, but they were working on new systems and "continually improving our systems of cashflow management".

There has been strong criticism of the separation and its implementation.

According to a Finance source, the IMF also expressed concern about splitting the

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Minister

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management of the country's financial affairs. It apparently said it was a bad idea.

A source in the Expenditure Department said there were fears that the separation was purely artificial, impractical and that it sowed uncertainty.

Although there was broad agreement at a political and ministerial level, there were apparently strong objections from within the Finance Department.

The separation was decided on to lighten Finance Minister Barend du Plessis' load.

The Finance source said among the suggestions received on the separation, from the IMF among others, was that a Deputy Minister from Finance, with Cabinet status, would have been a better solution.

The British system has one minister for the treasury and several junior ministers with cabinet status to handle budget responsibilities.

● Comment: Page 8

Inflation here to stay, says BER

CT 30/8/91 (49)

ARI JACOBSON

IN a pessismistic August Economic Update the Bureau of Economic Research's (BER) Ockie Stuart says the rate of inflation will not be lowered significantly in the near term, from the 15% level.

He says "to a large extent the stickiness can be blamed on increases in wages and salaries which are not accompanied by increases in productivity. The steady depreciation of the rand against the dollar in particular is also keeping inflation high."

Stuart adds the uncertainty that comes with political and constitutional reform carries a cost which should show in the inflation figure.

"Unfortunately it appears as if these factors will remain for many years to come — suggesting it will be extremely difficult to lower the rate of inflation."

Further Stuart says Value Added Tax (VAT) will be an additional cost to enter the scene. "And the way the issue was handled will no doubt have caused confusion and uncertainty — increasing costs attached."

Technically he says Vat would mean a one percentage point increase to the inflation rate. But the BER has calculated this could add a further five percentage points to the food component of the consumer price index (CPI).

And with the focus on the poor "it seems as if the introduction of Vat could lead to social unrest".

"If the above arguments are converted into figures SA could have an inflation rate as high as 16% to 17% — with the petrol price hike."

But with the tempo in economic activity rising during 1992 — the fuller utilisation of productive capacity should lead to lower unit costs exerting downward pressure on inflation.

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Little scope for near-term economic lift

(49) CT 30/8/91

ARI JACOBSON

THE outlook of the major economies is one of a modest and broadly based improvement — which bodes well for the recovery of the SA economy by 1992, says the August edition of the Standard bank economic review.

The review says persistently high inflation, low savings and the need for continued caution on the balance of payments means there is little scope for a pick up in the economy to come from domestic factors.

"In the near term stimulatory factors are likely to be confined to government initiated programmes and externally orientated elements."

It pointed out trends in the world's major economies translate to SA through commodity prices.

"With these likley to show gradual improvement in the year ahead and with stronger volume growth our export position should improve."

This should help to put the economy on a growth path with improved conditions in the mining and agricultural sectors as well as providing better markets for industrial products.

"Also the steady erosion of sanctions will substantially broaden SA's export markets allowing the economy to take the necessary advantage of the international recovery."

From a monetary stance the four industrial nations are unlikely to implement substantial interest cuts in the coming year and so SA's authorities will follow not wanting to go against the trend by easing domestic policy significantly.

"The task of stimulation will be left to government with possible impetus coming from positive political dynamics and the freeing of funds for social delivery and re-structuring."

Export performance will be crucial in determining the timing and extent of the economic recovery.

"However since the global outlook is for only a modest recovery export prices are expected to improve gradually rather than to show dramatic gains."

SA growth rate to 'treble' — Sacob

(49) CT 30/8/91

JOHANNESBURG. — South Africa's economic growth rate could treble by the year 2000 through economic co-operation with Africa's other super economic powers, says SA Chamber of Business (Sacob) director-general Raymond Parsons.

In his speech to the Scandanavian-South African Business Association (Scansacom) in Oslo yesterday, a copy of which was made available in Johannesburg, Parsons said increased trade and infrastructural linkages would be created through economic co-operation between South Africa, Nigeria, Egypt and Kenya.

These four countries could act as the locomotives for regional economic development in Africa. If this common economic approach materialised, it would benefit not only South Africa, but Southern Africa as a whole, Parsons said.

He added that the economic progress of Southern Africa would depend upon a strong SA economy which required full participation in the global economy. SA needed to increase its share of available overseas investment and international trade. — Sapa

Development plan must be based on a social accord

B Day 30/8/91.

RONNIE BETHLEHEM

(49)

THE need for a social accord which would create consensus on a national economic strategy, has arisen as a result of continuing economic stagnation in SA, against the background of a rapidly increasing population and major demographic change.

Economic stagnation and demographic transformation together increase unemployment, aggravating problems of socio-political stability.

Formal unemployment today is estimated at around 6-million compared with 1,5-million in 1960 — about 43% of the economically active population compared with 25% 30 years ago. In the '90s it would increase by 1-million every three years were SA's growth experience of the '80s to be repeated.

The needs of the economy are urgent. They cannot wait for constitutional negotiations to begin, let alone to be successfully concluded.

It is common cause between organised business and labour, and between government and black liberation organisations, that a major restructuring of the economy is necessary. Agreement on restructuring is linked to the need to redress racial imbalances, to the problems of poverty and inequality, and what to do about them. But it is also linked to the requirement for growth.

Sacob's view is that redistribution and growth cannot be separated. In dealing with these problems the state is going to have to play a major role. Disagreement with the ANC and PAC and other liberation organisations relates mainly to the nature and extent of that role.

Sacob would favour a role which does not crowd out the private sector and which gives full recognition to the need for market-related policies. The limits of benevolent interventionism have to be acknowledged. However, this does not get away from a great deal of common ground which has already been established between business, labour unions, government and the liberation movements on what needs to be done to get the economy onto a new growth path.

The ANC, in the words of its president Nelson Mandela, has acknowledged that poverty and inequality have to be addressed in the context of a "national development strategy". Sacob has called for a "10-year socio-economic programme".

A national growth and development strategy will have to be comprehensive, specifying objectives and what needs to be done to achieve them. Objectives have to be classified as short, medium and long term.

Such a strategy, furthermore, will have to be phased. If phase one is concerned with a kick-start of the economy, phase two and subsequent phases will have to give attention to the process's sustainability.

Also, any growth and development strategy will need to take account of the market nature of the global economy and SA's dependence on that economy. The major variables relating to the export sector — commodity prices, interest rates, exchange rates, demand levels — are exogenously determined. They are beyond the control of this government, or a future one.

SA, therefore, will have to implement its strategy in the context of a market economy. Central planning command economy techniques will be out of place. Today there is common cause about that between all parties.

Who should formulate such a strategy? In a normal society, the central agent would be the government. SA, however, is not yet a normalised society. On the contrary, the nature of government is in dispute and negotiations are necessary to draw up a new constitution. This precludes the state from acting alone now in drawing up a strategy for SA.

Also, the state would be precluded from taking such an initiative in SA today because it is controlled by one of the political parties contending for power in the "new SA". The danger exists of even the best possible plan or strategy being rejected were it to be advanced by one party and be seen by others as an attempt on the part of the first to seize the moral high ground for itself. Any national plan or strategy must be commonly owned if it is to succeed.

This is where a social accord has a role to play. It would constitute an understanding reached between all major players — government, organised business, labour, political organisations and community groups — as to what needs to be done to get the economy growing again.

An accord has to be distinguished from a compact or contract. A contract implies something too rigid and binding to be able to work in a rapidly changing world. A prices and incomes policy would probably be rejected by organised business and labour, for example, even were government and political organisations to accept it.

In broad terms, the country's development objectives have to concern the problem of mass black unemployment — until now something which has lacked compelling political focus because blacks have not had the vote. With democratisation that will change. An accord would provide a formalising of the understanding of what would be required in restructuring state expenditure.

It would also make clear what would be needed in the conduct of other economic agents if the objectives of the accord are to be realised. It would specify the outline of an indicative economic plan accommodated to a market system where critical price movements are indeterminate, and the possibilities of commandist resource allocation are excluded.

Further caution would be required in any "top-down" approach that ignored what was happening on the ground. But a succesful macro-accord would also be unlikely to emerge from a purely "bottom-up" approach which took insufficient account of macro-economic linkages and requirements.

While what happens at grassroots level is critical, it has to be given coherence and logic in terms of balance of payments management, inflation control and broad monetary and fiscal policy formulation.

In SA, much progress has been made at the micro-level. Mini-accords in different industries, regions and areas (such as those concerning gold mining, the eastern Cape, education and the problem of political violence) already exist which demonstrate the possibilities of consensus-seeking.

However, such mini-accords (bottom-up) need to be linked to macro-strategising (top-down) to achieve a breakthrough in the economy. If a social accord can be reached it could contribute in an important way to advancing progress in political negotations.

A social accord on the economy could be helpful to political negotiations directly in that the parties to the accord would be the same as those involved in the political discussions. And it could help indirectly to improve economic performance, reduce the pressure on the unemployed and so also reduce negative socio-political feedbacks.

☐ **Bethlehem is chairman of Sacob's economic affairs committee. This article has been adapted from a statement recently issued by the chamber.**

Fast and sustained recovery expected

(49)

B/Day 30/8/91.

LINDA ENSOR

CAPE TOWN — The economic recovery, when it comes, is going to be faster and more sustained than the previous two recoveries in 1983/84 and 1987/89, Board of Executors senior portfolio manager Rob Lee says in the latest Investment Outlook.

There is also the potential for the recovery to be as good as those in the '60s with growth averaging 3% and lasting at least into 1994.

A growth rate of 5% or higher on a sustained basis is possible, Lee says, but would require skilled political and economic management by government and political, trade union and business leaders.

"The potential to develop the necessary consensus on key issues is perhaps much greater than may appear on the surface."

Factors which would contribute to the growth would be rising exports; prospects of better agricultural seasons; reduced foreign capital outflows; improvements in foreign exchange reserves, money supply growth and inflation; an expansionary fiscal policy; and the need to rebuild inventories from current very low levels.

Lee expresses concern about the apparent deterioration in fiscal discipline, which will reinforce the Reserve Bank's determination to maintain its monetary policy. "A cut in Bank rate is now unlikely to occur this year," he says.

"It is somewhat disturbing that the deficit could well turn out to be close to 4,5% of GDP. This is well above the long-term sustainable level of around 3% of GDP that the IMF recommends and if maintained for more than a short period will make it extremely difficult, if not impossible, for SA to make any sustainable progress in curtailing inflation."

Lee says that to bring the deficit to sustainable levels once the economic recovery is under way could mean government abandoning its tax reform programme to cut marginal and company tax rates.

On other economies, Lee says there is now evidence to confirm that the US recession ended sometime in the second quarter of the year and that an economic recovery is under way.

Finance accused of stalling

Bid to control govt spending 'frustrated'

(49)

B Day 30/8/91

BILLY PADDOCK

STATE Expenditure director-general Henri Kluever yesterday accused Finance Department officials of hampering his job by "clinging to their little empires" and refusing to let him handle government spending.

He said government expenditure was still wholly controlled by Finance and all he was involved in was drawing up the Budget for next year. The monitoring of government spending and the mechanisms being used were still in the hands of Finance, he said.

He said it was inevitable that State Expenditure Minister Amie Venter and he would be held responsible in Parliament next year for the overspending. They were technically the people in charge.

Government spending in the first four months of the fiscal year rose by about 14%, against a budgeted 13,7%. According to the Finance Department, the increase in spending for the full year is expected to be 15% because of an extra R1bn in social spending, which will start this month.

But social spending is already running ahead of budget, while spending on security services is behind budget.

One senior Finance source said the uncertainty over the separation of functions was a major contributory factor to government's bad performance in handling its spending. He also said the previous monitoring mechanism was no longer used.

Kluever insisted the separation of expenditure and revenue could work if all parties would adhere to the announcement by President F W de Klerk on defining the responsibilities of the two departments.

It was clear from De Klerk's announcement that Finance would handle revenue and macro fiscal policy and Expenditure would deal with all government spending, the exchequer and the Exchequer Act.

Kluever, formerly deputy auditor-general, said the total job of running the country's finances was too big a task for one head of department. By splitting the functions this burden was shared and could be dealt with far more efficiently.

However, five months after the new department was created, he was still the only formal employee apart from Venter.

The longer the delay in finalising the separation, the worse this would be for containing government spending and for the efficient operation of the various fiscal and revenue functions.

On Wednesday Finance deputy director-general Estiaan Calitz said the management of the country's finances were not being hampered by the separation process.

Kluever said the only point not in dis-

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Govt spending

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pute between the two parties was the Treasury task of drawing up the Budget for next year. This was what he had been concentrating on.

Finance Minister Barend du Plessis said yesterday there was no animosity between him and Venter. He said as far as he was concerned, the controversy over the separation was not a big issue.

The internal workings at departmental level were not his proper concern but that of his director-general, Gerhard Croeser. The process of separation was going well, with agreement at ministerial level.

"It's going ahead at a reasonable pace. It's not an easy thing to deal with administratively because the legal structure was not designed to cope with this separation. We have to move very carefully to avoid transgressing laws," he said.

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REGIONAL DEVELOPMENT

Waiting for SA

The Southern African Development Co-ordination Conference (Sadec) on Monday ended its 11th annual summit in Arusha, Tanzania, with one ray of hope focused on welcoming a "democratic" post-apartheid SA among its ranks. It might work.

The 10-nation Sadec, which includes some of the poorest states in the world, is again facing serious food shortages and has a combined debt of US$25bn. Despite some "modest" infrastructural achievements, it has in recent years looked increasingly irrelevant compared to its optimistic launch ambitions in Maputo in 1980.

"The region cannot afford to wait any longer for SA to join the community of Sadec. We are impatient for the end of apartheid," said the chairman, Botswana's President Quett Masire.

Zimbabwe PM Robert Mugabe observed that SA's economy was three times bigger than that of the Sadec economies combined. SA's participation would increase the organisation's resources and enable Sadec "to accelerate" their development. Sanctions against SA should, however, remain until a new constitution is agreed.

Dealing with the possibility of donor fatigue and whether Sadec would have a role following peace in Angola and Mozambique and the end of apartheid, Mugabe said that despite a hostile international economic environment, unfavourable weather conditions and brutal destabilisation by SA, Sadec had made some modest achievements which justified its continued existence. The group had started formulating strategies to enable members to assume greater responsibility for funding projects.

A post-apartheid SA could easily take the role of co-operating partner through the provision of aid and investment capital. "It is our contention that the post-apartheid government in SA will be faced with the enormous task of reversing the structural imbalances created by apartheid as immediate priority.

"Though we are aware that SA's economy, apart from being the most sophisticated, is also bigger, we should look forward with joy to the membership of a democratic SA as that membership would increase the resources of our organisation and enable it to accelerate our developmental pace," Mugabe said.

"If, as is increasingly evident, the Nineties are likely to be a decade of trading blocs and growing multilateralism. . . then Africa must surely strive harder at economic integration and co-operation."

The final communiqué stated that the region was undergoing fundamental economic, political and social changes which would have a major impact on its future.

The root cause of their economic problems was a lack of skilled people without professions and entrepreneurship, which resulted in low productivity, said Masire, painting a gloomy economic outlook for member states. Masire recognised that "no amount of foreign aid or investment will change this reality. Only our own innovation, creativity and hard work will take us forward."

The summit welcomed the ongoing process toward the abolition of apartheid, though apartheid was still firmly in place in the fabric of SA life. Particularly regretted was the continuing cycle of violence. Government was urged "to take decisive action to end the conflict."

The international community was called on to maintain sanctions against SA to ensure the process of reform and negotiation led to the establishment of a nonracial and democratic SA. "The summit strongly urged all countries, particularly African countries, to refrain from contact with SA until a new political dispensation acceptable to the majority of South Africans is in place."

The "liberation movements" were urged to co-ordinate their strategies, and efforts to establish a Patriotic Front were welcomed.

The Mozambique and Angolan peace processes were welcomed and Renamo was urged to "take these talks seriously."

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(49)

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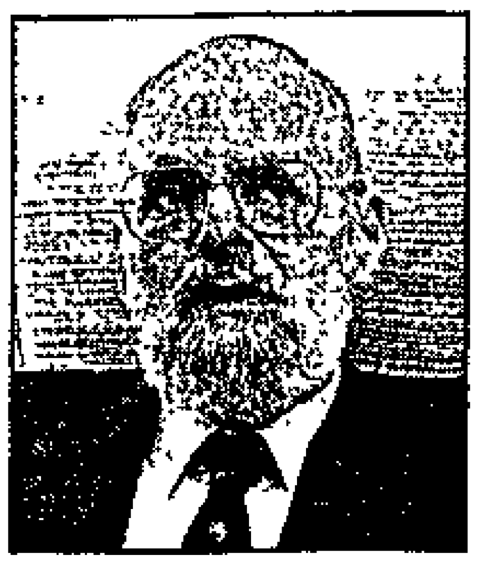
Meanwhile, member countries should attempt to increase the region's food supply, as a deficit of 2,8bn t was expected this year.

Namibia is to host the 1992 Sadec summit in Windhoek, where the organisation could change its name to the Southern African Development Community. ■

Deregulate to end income inequality

FM 30/8/91 (49)



New York University economics professor Israel Kirzner is a leading member of the Austrian school of economics, which stresses that freedom of entry is essential for a competitive market. Born in London, he grew up in Cape Town and attended UCT. At NYU, where he earned his doctorate and studied under Ludwig von Mises, he was a colleague of the late Wits economist Ludwig Lachmann. He was in SA last week to give the first Ludwig Lachmann Memorial lecture. He has devoted his career to the role of the entrepreneur, a role largely ignored in SA, and authored *Competition and Entrepreneurship.*

***FM*: What role should government play in the economy?**

Kirzner: The primary function of a government is to maintain the framework that secures the market economy, that means it should protect private rights. Under socialism, government controls all the resources, so it will not be able to stimulate entrepreneurial activities. Such a system cannot survive because it is only the market system where individual entrepreneurs get the incentives to discover the best ways of utilising resources.

How should the eastern European countries reform their economies?

They should simply abandon the role of government in the economy. But there are intervening steps that must be taken. A framework should be set up to permit entrepreneurs to enter the market and do things that are profitable. All obstacles, all legal limitations, should be eliminated.

Do you see similarities between the eastern European and SA economies?

In SA there is also a large body of restrictive legislation that circumscribes entering many different fields. It is, therefore, highly desirable for SA to be more free. But SA is not at the same stage as eastern Europe. Certainly the SA economy has a substantial market sector.

Some State-owned companies in SA are now being commercialised. Is this a step in the right direction?

Yes, but just a first step. Let me take the example of the Post Office. In the US it is still government-owned, but, in recent years, it has been exposed to competition from many other types of messenger and courier services.

This has certainly improved mail delivery because it has forced the Post Office to become more efficient.

How would you eliminate the inequality between blacks and whites in the SA economy?

First, property rights should be strictly protected, no transfers without the owners' consent should be made. Second, everybody should have an absolute right of freedom of entry to initiate new enterprises. If that is the case, then incomes will become nearly equalised fairly rapidly. If all discriminatory legislation was abolished, the low wages of black labour would become very attractive in many areas.

What will happen if the ANC introduces socialism in SA?

If socialism with central planning occurs, it would reintroduce an atmosphere in which property rights are not secure. And a fundamental requirement for a market economy is the perception by property owners that their rights are secure.

So what would you recommend to a future government?

It should deregulate as far as possible. I hope that whatever party is in power will recognise the danger of tampering with existing property rights.

Are you optimistic?

I am hopeful. I hope that SA will find its way. I hope that SA will succeed in finding its way to establishing institutions that will uphold individual and property rights.

Financial Mail

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ECONOMIC REFORM

(49)

The lessons for SA

The difficulties of pushing through major political reform during a period of economic retreat have often been commented on. It is arguable that there would never have been an attempted counter-revolution in the USSR if Mikhail Gorbachev's reforms had been accompanied by an improvement rather than a deterioration in living standards. That, in turn, tends to confirm that he was wrong to backtrack on moves towards a market economy, which could hardly have caused much more short-term distress and would at least have paved the way for longer-term recovery.

So recent events in the USSR underline the need for economic revival to accompany political reform in SA. This means that government must not surrender to philosophies of economic dirigisme that have been discredited everywhere else, but must press ahead with structural reforms.

Trouble is that, as we have remarked before, the National Party's conversion to a competitive free-market philosophy not only came at the eleventh hour, it lacks so much of the zeal normally found in a convert as to suggest that it is only skin-deep. However much they may differ on political issues, the NP and the ANC seem equally happy to shelve economic reform and the onslaught on excessive bureaucracy; we no longer have the impression of debate on the shape of a post-apartheid economy, so much as a struggle to control the patronage a socialist economy is perceived to offer.

This alone, incidentally, is surely an adequate rebuttal to the simple souls who wonder if the DP still has a function.

Set in this context, Barend du Plessis' amendments to the VAT proposals last week are no more than reactive ad hocery. They may ameliorate some of the initial hardship of VAT (**see *Leaders***), but it is difficult to see in them any coherent vision of the future. It is also regrettable that, by appearing to give in to "radical" pressure, they inevitably appear as confessions of error and weakness.

Sadly, it's too late to do much to build up a black middle class with a real stake in the existing system. But socio-economic upliftment is essential if the new SA is not to become totally ungovernable — by *any* party.

In the long run, Dawie de Villiers' redeployment of R1bn from the oil stockpile may mean more than Du Plessis' VAT changes; if only it, too, was presented as part of a coherent strategy rather than just another knee-jerk reaction! ■

The heads of Hydra

(49)

FM 30/8/91

The VAT bungle has given inflation a new lease of life

The battle against inflation must be won in the minds of people. Though the inflationary process was set in motion by excessive monetary demand which started in the Sixties and accelerated when the rand depreciated sharply against other currencies after 1983, its momentum now depends largely on the tide of expectations. This appears to be running remorselessly onwards despite an improvement in some important fundamentals.

For this reason, the way in which VAT has been introduced has proved disastrous. It has given impetus to expectations which are self-fulfilling, at precisely the time when demand for credit is showing signs of subsiding (see p31) and when the rand is relatively stable against a basket of major currencies.

While the tax is sound in principle and is not inherently inflationary, the government failed to develop a strategy for its successful implementation, despite the long period of preparation. Though VAT was expressly delayed to allow time for the necessary structures to be put in place, the transition has been badly mismanaged. To its credit, government has kept the essential structure of VAT intact in the face of continuing opposition — but implementation has deteriorated into ad hoc-ism.

This has happened because of its inability to respond to or, even better, anticipate public sentiment. This is a legacy of a time when the National Party did not have to account for its failures, when it came to power at each election on a platform of blatant racism regardless of its record in any other sphere. The need to nurture public opinion on economic issues has come more recently.

Now, white voters, who have seen their living standards shrink, have become more aware of the part which economic policy plays in their lives. And blacks, who have not yet acquired any meaningful vote, are suspicious of fundamental changes introduced under existing structures — and hostile to a broadly based regressive tax.

What was needed for the occasion was ingenuity, forward planning and skilful political management.

As government has repeatedly been told, the first step should have been tangible pre-emptive poverty assistance, outside the tax system. Early consultation with organised labour, consumer bodies and other organisations would also have been a comparatively simple device for defusing and containing some of the opposition building up against the new system of indirect tax. It would have been time-consuming and frustrating — because many opponents of VAT have political agendas and would prefer making political capital to finding solutions. But a consultative process and an earlier confrontation

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continue

would have been preferable to the organised chaos that is now threatening to overwhelm the issue. It would not have dispelled all opposition but would have left time to come to terms with it.

In the same vein, attempts to educate the population about the benefits could have started earlier.

But these palliative measures were not taken until opposition was reaching a crescendo. And they were then introduced with an air of crisis management which erodes confidence and creates uncertainty. Leadership was poor.

And stage management would have been the easy part. The difficult part is deciding the rate at which VAT should be set.

There is always an immediate cost to its introduction and it must be borne where it will do the least damage. Given the importance of inflationary expectations, it would have made sense to choose a level that would have been neutral from this point of view — a rate which, when applied to the broader base than did GST, would not generate a higher rate of inflation.

Standard Bank economics division estimates that at 9%, without any additional measures, such as the 8c-13c/l on fuel and new excise taxes, the rate would have had only a marginal effect on inflation. At 10%, this would rise to 1,2%. While 9% would be ideal, in practice, 10% may be as close as we could practically come to neutrality.

The problem then would have been: how to balance the Budget.

The Budget review, published in March for 1991-1992, projected that GST for seven months and VAT at 12% for five months would produce a loss of R910m against GST at 13% for the full year. A revision of budgeted projections, to take into account the changing circumstances and reduced revenues that materialised from GST over the intervening period, as well as VAT at 10%, showed that an additional loss of R1,4bn will be incurred by the change.

These figures, of course, can only be a rough estimate. Among other sources of confusion is the uncertainty about the extent of funds which have flowed out the GST loopholes now to be closed by VAT (see box).

But, given the size of the budgeted shortfall in revenue, expenditure would have to be cut accordingly. This appears a major problem at a time when huge socio-economic demands are being made on the fiscus. And only people with full access to the accounts of government would be able to say precisely where the cuts could be made. Without insights into State expenditure one can only work with information available to the public, to make suggestions as to where economies could be made — secret accounts, for instance. Though government says it has discontinued its funding to Inkatha, there are doubtless a range of

Continue →

P.T.O.

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e depths

30/8/91.

☐ A communication made to GA by the broker acting on behalf of RTS, that he was suspicious of the claim RTS submitted;

☐ The existence of two audited sets of accounts of RTS for the financial year to February 1989. One contains a book entry of R1m, which does not appear in the other;

☐ The fact that RTS had been trading unprofitably before the fire; and

☐ "The fact that Bernard Cutler, to your knowledge, appeared in Court on August 22, 1991, on charges of fraud allegedly perpetrated on Broderick Motors — we understand that he pleaded guilty and that the matter has been postponed in order that he might give evidence in mitigation."

"The fact that the ski-boat ... appears deliberately to have been scuttled: the person who salvaged the boat found it weighed down with steel railway sleepers, paving blocks and rocks, the sump of the boat having been removed," the letter said. The engine number of the recovered boat corresponded with that of Cutler's.

Deneys Reitz's response, on behalf of GA, also repudiates responsibility for any actions that may have been taken by the police during investigations into the ski-boat loss or alleged fraud.

Bryan Deans

ECONOMIC OUTLOOK 30/8/91

Touchdown

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In 1988, when economic activity expanded at the rate of 4,1% and the surplus on the current account of the balance of payments fell to a dangerously low R2,7bn, the monetary authorities had no alternative but to halt the upswing. As rising consumption sent imports soaring, they moved to contain demand and rebuild the surplus. The central concern then was how to do this without damaging the fabric of the economy. 30/8/91

Looking back over the period since the second quarter of 1989, when GDP first started to decline, it is clear that they achieved the required soft(ish) landing. The downturn has proved far more moderate than those experienced in 1984-1986 and 1981-1983 (see graph). Since the second quarter of 1989, GDP has fallen only 0,5%. Over the nine quarters, private consumption rose 1%, government consumption climbed 4% and gross fixed investment fell only 2%.

It was not until the second quarter of this year that the recession reduced private consumption spending — the latest edition of the *Reserve Bank's Annual Report* records an annualised decline of 0,5%.

Reasons for the fall are not hard to find. Since the start of the year, there has been:

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☐ A sharp drop in annual wage and salary increases. According to the report, rises in the remuneration of employees fell from an annualised 18% and 23% in the first two quarters of 1990 to annualised increases of 14,5% and 15% in the first half of 1991; and

☐ A slowing in the rate at which credit is extended. HP and leasing finance rose by only R200m a month in the first half of 1991, compared with R400m a month in 1990.

In normal times, this would be a prelude to a relaxation in monetary policy — especially as there has been a dramatic improvement in gross gold and other foreign reserves. These rose by R400m in 1990 and a further R1,4bn in the first half of 1991, to reach to R8,7bn by the end of June. 30/8/91

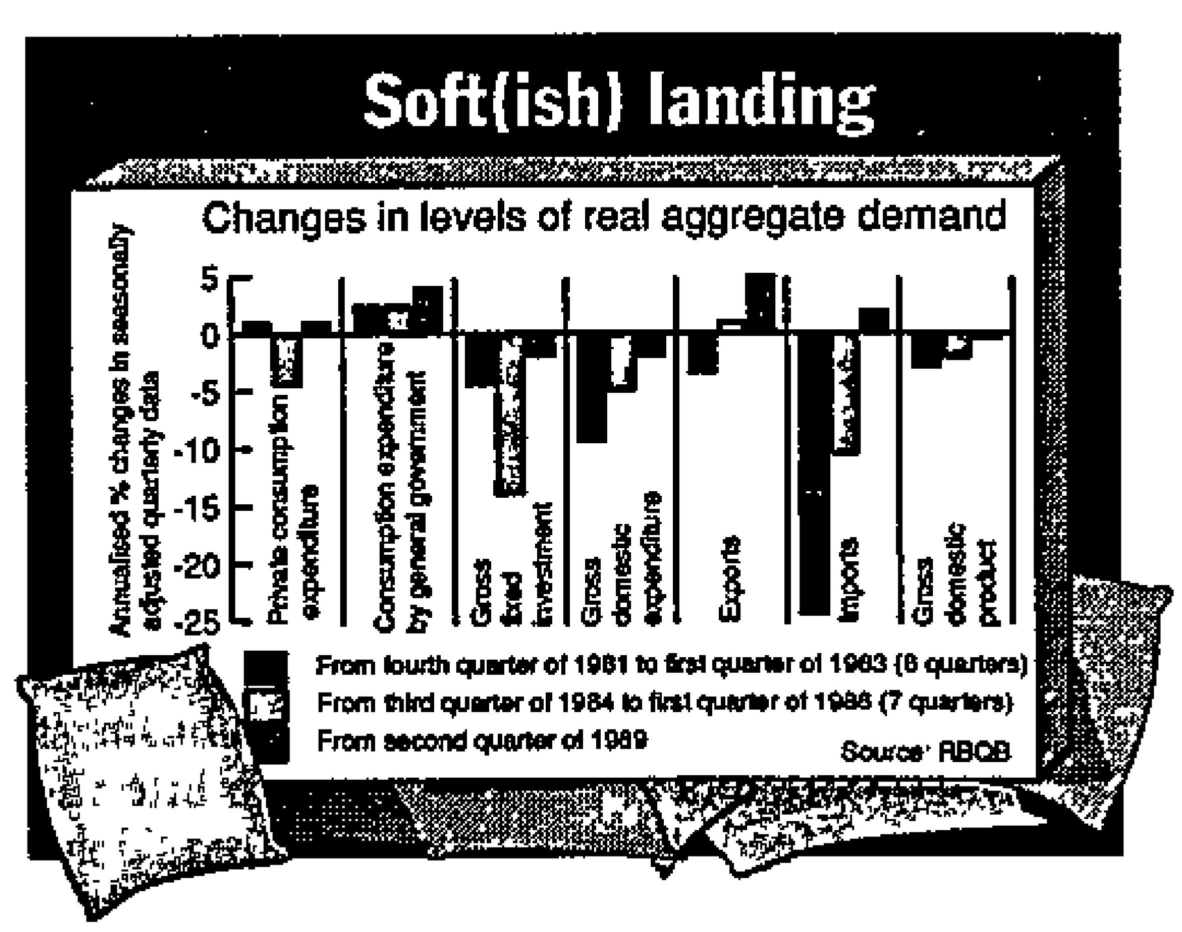
Though this covers only about seven weeks' imports of goods and services, the annual report points out that, "with a substantial amount of unused credit facilities available to the Bank, total potential reserves are now considerably better placed to accommodate an economic upswing."

But Governor Chris Stals is determined to act with caution. In his address to shareholders this week, he said monetary policy must remain restrictive.

He is battling an inflation psychosis. A number of events have conspired to create a picture of inflation that is defying attempts to contain it. This has fed straight back into the inflationary spiral giving further strength to the beast.

A major contribution came from Central Statistical Service, which has been overstating the producer price index (PPI) since March 1990, because of an error in agricultural food price increases (see page 32). By June, the error had added 2,9 percentage points to producer price inflation and 34,4 percentage points to the rate at which agricultural prices were rising.

The jolt the June figure gave the markets can be measured in the rise in the rate of the benchmark Eskom 11%, which closed the day (August 12) at 16,36% after closing the



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SOUTH AFRICAN RESERVE BANK

GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-first ordinary general meeting of shareholders of the Bank on 27 August 1991

ECONOMIC REVIEW

Continued mild cyclical downswing

The economy has now been in a cyclical downswing since March 1989, i.e. for a period of nearly 30 months, compared with an average duration of 17 months for cyclical downturns in the post-war period. Although the downswing is of a relatively long duration its intensity has remained mild, as is reflected in the fact that real gross domestic product has contracted at an average annual rate of only about ½ per cent from the first quarter of 1989 to the second quarter of 1991. This contraction is considerably smaller than the annual rates of decrease of 3 per cent and 2 per cent, respectively, recorded in the preceding two downward phases of the business cycle.

Various factors contributed to the relative mildness of the current economic downswing. Firstly, restrictive monetary and fiscal policies were applied in a way that did not depress economic conditions unduly. Secondly, a strong international demand for South African goods, in conjunction with a relatively competitive exchange rate of the rand, led to sustained increases in the volume of South African exports. Finally, domestic production was until recently supported by a persistent firm demand for consumer goods and services.

In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991. Initially, decreases in real production occurred mainly in the primary sectors, but from the beginning of 1990 the value added by the secondary sectors also began to decline moderately. In the tertiary sector the value added by the sub-sector transport, storage and communication declined in 1990, whilst all other sub-sectors continued to record increases. However, from the beginning of 1991 the value added by enterprises in the sub-sector commerce also began to decline as the downturn gained momentum.

Real gross domestic expenditure began to decrease even before the downturn in the business cycle started, and showed sharp quarterly fluctuations throughout the recessionary period. On average, however, the decrease in real gross domestic expenditure over the whole downswing period equalled an annual rate of only 2 per cent, which also represents a relatively mild decline and can be compared with declines of 9½ and 5 per cent per annum during the two preceding downswings.

"In its early stages, the downturn in economic activity was restricted to only a few sectors, but it later became more dispersed and then deepened during the first half of 1991."

In a comparatively firm performance, real private consumption expenditure increased at an annual rate of around 2 per cent in each of the four quarters of 1990. Consumer demand was underpinned by continued real wage increases, some redistribution of income to lower-income households with a high propensity to consume and also a natural resistance from higher income groups against enforced lower living standards. From the beginning of 1991, however, a contraction of expenditure on durable and semi-durable goods and on services caused the growth in real private consumption expenditure to slow down at first, and then to turn negative for the first time in the present recessionary phase during the second quarter of the year, when it declined at an annual rate of about ½ per cent.

In contrast to these developments, real consumption expenditure by general government, which had increased by only 1 per cent in 1990, started to grow more rapidly towards the end of last year. Real government consumption expenditure was actually 5 per cent higher in the twelve months ended June 1991 than in the preceding twelve months.

Total real fixed investment started to decline from as early as the fourth quarter of 1989. Initially, the rate of decrease in fixed capital outlays was modest, but this rate then rose to an annualised level of approximately 5 per cent in both the second half of 1990 and the first half of 1991. The downturn in real aggregate gross domestic fixed investment was brought about by a downward trend in the outlays of both public authorities and the private sector. On the other hand, real capital outlays of public corporations continued to increase up to the first quarter of 1991, owing to the development of the Mossgas project. In the second quarter of 1991 real fixed investment of public corporations also began to decline as the capital outlays on this project tapered off.

A considerable decumulation of inventories took place in the current economic downswing during the eight consecutive quarters from the third quarter of 1989 to the second quarter of 1991. Inventories reached very low levels, as indicated by a declining ratio of commercial and industrial inventories to non-agricultural gross domestic product. This ratio decreased from a recent high of 21 per cent in the second quarter of 1989 to a new low of 18½ per cent in the first half of 1991, compared with 25 per cent in the early 1980's.

Decline in domestic savings

The decline in economic activity was accompanied by a relative decrease in domestic savings which, as a ratio of gross domestic product, declined from 22½ per cent in 1989 to 21½ per cent in 1990 and to 19½ per cent in the first half of 1991. The decline in this savings ratio initially was caused mainly by decreases in saving by corporate entities and by households, but in the first half of 1991 general government switched from a positive saver to a dissaver.

Lower employment and higher wage costs

As can normally be expected during an economic downswing, growth of employment outside agriculture slowed down from 1½ per cent in 1988 to an average annual rate of ¼ per cent in the next two years. However, this low growth in employment was not only caused by cyclical factors, but was also the result of changes in the production structure of the economy. In the Bank's *Annual Economic Report,* various factors which contributed to a substitution of capital for labour over the past two decades are discussed in more detail. Accordingly, the non-agricultural sectors of the formal economy became increasingly unable to provide sufficient employment opportunities for a rapidly growing labour force.

Despite a substantial rise in unemployment, nominal salaries and wages continued to rise at high rates. This was due, in general, to effective wage and salary bargaining and, in particular, to actions of labour unions aimed at maximising short-term benefits for their members. Such actions unfortunately have the unavoidable adverse long-term effect of lowering overall employment levels. Moreover, increases in labour productivity did not keep pace with real wage increases. One reason for this can be related to an alarmingly high increase in the number of man-days lost because of strikes and work stoppages during 1989 and 1990. Together these developments caused real unit labour costs to rise at an average annual rate of nearly 2 per cent in these two years.

Continuing unacceptably high rates of inflation

Various factors contributed to a continuation of an unacceptably high rate of inflation, despite the lower rate of increase in total monetary demand. The rising labour costs coupled with entrenched inflationary expectations kept price increases at high levels. In the second half of 1990 the effect of the crisis in the Middle East on petroleum and related prices, together with rising food prices, interrupted an otherwise encouraging slowing-down in domestic price increases and further strengthened inflationary expectations. Accordingly, the rate of increase in consumer prices, measured over a period of twelve months, accelerated from 13,3 per cent in July 1990 to 15,3 per cent in November 1990, to fluctuate around this level up to June 1991.

"Accordingly, the rate of increase in consumer prices, measured over a period of twelve months, accelerated from 13,3 per cent in July 1990 to 15,3 per cent in November 1990, to fluctuate around this level up to June 1991."

Similarly, the rate of increase in the total production price index over periods of twelve months accelerated from 10,3 per cent in July 1990 to 15,8 per cent by November, but then fluctuated downwards to 14,1 per cent in June 1991. This recent slightly slower rise in production prices occurred only in the case of imported goods, while the rate of increase over twelve months in the prices of domestically produced goods remained around a level of 15 per cent in the first six months of 1991.

Levelling-off in the growth rate of money supply and credit extension

Measured over a period of twelve months, the rate of increase in M3 dropped from a peak of 27,5 per cent in August 1988 to only 10,2 per cent in October 1990, before edging up slightly to 12,1 per cent at the end of 1990. This pronounced decline in the growth rate of the money supply was mainly a reflection of the cyclical slow-down in economic activity and spending, and also the relatively high nominal interest rates. Subsequently, however, the twelve-month rate of increase in M3 accelerated to 15,8 per cent in February 1991, to fluctuate around a level of 15 per cent up to the end of July 1991. This higher growth rate of the money supply must, however, not be seen as part of a new trend as it was related mainly to the period of fiscal year 1990/91. This was markedly lower than the projected increase of 11,1 per cent in government revenue for the year as a whole. It is rather alarming that the rate of growth in Exchequer receipts has now been on a declining trend ever since the beginning of 1990.

The deficit before borrowing in the first four months of the current fiscal year amounted to no less than R5,6 billion, or to 55 per cent of the total budgeted deficit for the fiscal year as a whole. For the corresponding period of the 1990/91 fiscal year this deficit was equal to only 35,7 per cent of the deficit budgeted for that year. Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government. This will hopefully be corrected again during the remainder of the year.

Improved prospects for the economy

After two and a half years of recession, the economy is now reasonably well placed for a new upswing. Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future:

- the leading indicator of the business cycle calculated by the Reserve Bank moved upwards for four months in succession from January to April 1991;
- the sharp increases in the total current expenditure of the public sector since the third quarter of 1990 provide some stimulus to overall demand. Total public sector expenditure has now become distinctly expansionary;
- the switch-over from general sales tax to a value added tax (VAT) system on 30 September 1991, on the basis announced by the Minister of Finance last week, presents a stimulatory fiscal package which should encourage both consumer and new capital investment expenditure;
- the further improvement in the overall balance of payments position and the recent rise in the foreign reserves provide some cushion for future increases in imports; and
- the lifting of sanctions by many countries holds the promise of further increases in exports, and possibly also for some new capital inflows into South Africa.

There are, unfortunately, also certain remaining weaknesses in the economy that call for caution and that may constrain the upswing:

- the continuing high rate of inflation does not justify any early relaxation in monetary policy;
- until recently, real wage and salary increases still outpaced productivity increases and continued to exert upward pressure on the total unit costs of production; and
- there remain many uncertainties surrounding the political situation; South Africa's relations with the IMF and World Bank, for example, have not yet been normalised.

In these circumstances, the chances of an early new economic upswing are indeed improving but the recovery may, at least in its initial stages, turn out to be relatively mild, like the downswing phase of the past thirty months has proved to be.

"Although recent trends in macro-economic statistics indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming-out or even a new upturn in economic activities in the near future."

MONETARY AND FINANCIAL POLICY

Balance of payments

The persistent need to finance continuous and substantial net capital outflows from the country since 1985 has been one of the main reasons for a relatively subdued domestic economy during this period. South Africa was compelled to export more goods and services to the rest of the world than it imported in order to generate the foreign exchange needed for financing the negative capital account. Over the period of six years from 1985 to 1990, the total net capital outflow amounted to almost R30 billion, and the current account surplus to R29 billion.

Throughout this period, a low level of foreign reserves severely constrained the Reserve Bank in its ability to influence the exchange rate of the rand, or even to smooth out volatile short-term movements in the foreign exchange market. At one stage, from about the middle of 1988 up to June 1989, the Bank borrowed virtually all of the gross gold and other foreign reserves as shown on its balance sheet, which at that stage amounted to only about R5 billion. Short-term foreign liabilities of the Bank at times even exceeded the gross gold and other foreign reserves.

This perilous overall balance of payments situation depressed the growth potential of the South African economy. Not only was a substantial part of the declining amount of domestic saving absorbed in the financing of the capital outflow, but the absorption of imported goods in domestic economic activity had to be curtailed, mainly by keeping the economic growth rate down.

Monetary policy played its part in protecting the overall balance of payments in such a way that South Africa could, to the extent that this was still possible, retain some credibility with the international financial community. Through a frustrating process of negotiation with foreign creditors, a series of interim debt arrangements, prudent management of the gold and foreign exchange reserves, a successful campaign to promote exports, and a depressed domestic economy, South Africa succeeded in weathering the severe balance of payments storms of the second half of the eighties.

The policies followed during this period paid off over the past year when external political pressures on South Africa also abated and access to foreign money and capital markets opened up again, albeit to a limited extent at this stage. Supported by disciplined internal monetary and fiscal policies, the new attitude towards South Africa brought about a significant improvement in the overall balance of payments situation. As indicated in liquidity from the market on a permanent basis. The result was that banking institutions in general experienced easier liquidity conditions and became less dependent on the central bank as a lender of last resort. The average daily level of accommodation at the Reserve Bank's discount window accordingly declined from a high point of R4,8 billion in January 1990 and R3,6 billion in the first half of 1990, to R1,9 billion in the first half of 1991.

Against this background money market interest rates eased throughout 1990 and the first half of 1991. The market rate on three-months' liquid bankers' acceptances, for example, declined from 18,4 per cent at the beginning of 1990 to 17,4 per cent at the end of February 1991. In recognition of the changed underlying situation, Bank rate was reduced from 18 to 17 per cent on 11 March 1991, after which short-term interest rates eased by a further forty to sixty points.

"Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage."

Recent trends in the money supply and in total bank credit extension, like the balance of payments situation, call for caution and do not justify any further easing of monetary policy at this stage. For the time being, the policy must continue to be geared towards restricting growth rates in the monetary aggregates to a level below the rate of inflation.

The financial system

New banking legislation was introduced in South Africa on 1 February 1991 when the Deposit-taking Institutions Act of 1990 came into effect. This Act, which replaced the Banks Act of 1965 and the Building Societies Act of 1986, has the following features:

- it creates a uniform legal framework for all deposit-taking institutions in the private sector which are based on an equity-financed structure, namely banking institutions, building societies and discount houses;
- it provides for a relatively wide definition of deposit-taking business, which has implications for what were previously regarded as "off-balance-sheet" activities, commercial paper issues, bank guarantees and other forms of financial intermediation;
- it places great emphasis on proper risk management and assigns greater responsibilities to managements of banks and external auditors in this regard; and
- it incorporates the internationally accepted capital adequacy proposals of the Basle Supervisors Committee.

With the implementation of this Act, South Africa has placed itself ahead of most other countries in the world with its approach towards banking supervision. It also laid the necessary foundations for the creation of a sound banking system that will be able to play its important financial role in future developments, both locally and abroad. In line with the easing of the political situation, South African banks are already beginning to show interest in establishing their own representation in some of the major international financial centres, and in extending their activities into other African countries.

During the past year the banking sector went through a testing period in many countries. The South African banking system also had its tribulations. In a relatively depressed domestic economy, bad debts increased and banks had to make substantial provisions for real and potential losses. In some instances, these problems were aggravated by over-trading or over-extension, especially on the part of smaller banks.

In a few exceptional cases, the solvency of institutions was eroded to an extent where the Registrar of Deposit-taking Institutions had no option but to intervene in order to safeguard the interests of depositors. Thus, during the year, two banks were brought under curatorship and a third was placed in liquidation when a due diligence audit and an independent evaluation of a merchant bank indicated total insolvency.

These decisions by the Registrar placed the monetary authorities once again in a difficult position with regard to the need for the protection of depositors. This is a problem that occurs regularly every time a banking crisis develops, not only in South Africa but also in other countries. It is not a function of the Reserve Bank to provide an open-ended guarantee for the safety of all depositors' funds placed with registered deposit-taking institutions; neither can the Bank, as a privately owned institution, provide this kind of support without limits. The Bank has, however, a responsibility to promote confidence in banking institutions, and to protect the stability of the financial system. Actions taken by the Reserve Bank over the past year to protect the interests of smaller depositors with those banks that were placed under curatorship or in liquidation should, therefore, not be construed as an unqualified guarantee that the Bank will always be prepared to protect all depositors with registered deposit-taking institutions. Every depositor must, in the final count, still decide for his own responsibility, on the institution where he wishes to invest his funds.

The Bank continued to encourage the development of efficient financial markets and participated actively in the process, *inter alia,* through its representation on the Financial Markets Advisory Board as well as on the executive committees of the Bond Market Association and the South African Futures Exchange. The Bank's participation is based on the principle of allowing markets to determine their own structures and arrangements. The Bank is, however, prepared to provide support on a partnership basis for developments that will enhance financial efficiency as well as investor protection in the markets. In the end, monetary policy based on a market-oriented approach as we apply it in South Africa, can only be successful if there are sound and efficient markets through which official signals and policy actions can be transmitted to all the relevant participants in the economic process.

Monetary policy objectives

In the Chairman's Address presented to the sixty-ninth ordinary general meeting of the shareholders of the Bank in August 1989, the objectives of any of the real economic problems of the country. It will only make them more intractable.

Positive real rates of interest must be maintained, not only because of the need for a disciplined and ceaseless attack against inflation, but also because of the need to restructure the overall economy of South Africa. Realistic interest rates are needed for a proper allocation of resources. Such rates will encourage savings, provide an incentive for the more productive utilisation of capital, act as a catalyst in the restructuring of production structures to alleviate the growing unemployment, while recognising the relative scarcity of available funds needed for the financing of development. It is an over-simplification to insinuate that because high interest rates did not reduce inflation over the past few years, interest rates should now be reduced by injecting even more money into the system. Such a policy will defeat the crucial role that realistic interest rates must play in the process of economic restructuring that is to lead South Africa to greater prosperity in the years ahead.

Finally, some old truths can be repeated again with justification – the fight against inflation cannot be won, and eventual financial stability cannot be established by monetary policy alone. Support is needed from a disciplined fiscal policy, realistic wage and salary adjustments, and efficient and well-functioning markets for the rational pricing of goods and services, as well as for the use of money and capital. The challenges facing South Africa in this regard should not be underestimated, nor can they ever be evaded. Financial stability is an indispensable precondition for achieving sustainable economic growth in this country. Financial stability will not come easily, nor by itself. Monetary policy must continue to play a constructive role in this regard in an objective and impartial way.

CONCLUDING REMARKS

There is reason for some satisfaction with the further improvement in the underlying financial situation over the past year. It is disappointing and frustrating, however, that the domestic rate of inflation remained relatively high. On the other hand, the underlying inflationary pressures at least abated further, which was reflected in the lower rates of increase in the money supply and bank credit extension. The encouraging increase in the gold and foreign exchange reserves, and the relative stability of the exchange rate of the rand contributed towards improving the financial conditions needed for a renewed economic upswing.

Real economic activities remained depressed, however, and, if anything, contracted further in recent months. Although a few portents of an imminent recovery have recently emerged, a new upswing may prove to be only mild, unless some additional extraneous stimulation is to be provided. It will, however, not be prudent to introduce such a stimulus through a premature relaxation of monetary policy – the injection of additional money into the economy at this juncture will be synonymous with an injection of anabolic steroids into an athlete. He may deliver a good performance in the coming event, but his entire system will eventually be destroyed by the stimulants.

This does not mean that economic recovery will have to be delayed until there is scope again for a relaxation in monetary policy. The South African economy is not now suffering from excess demand. This is evidenced by the continuing surpluses on the current account of the balance of payments, the growing numbers of unemployed and the surplus capacity available in the manufacturing sector. Some stimulus, preferably from external sources and provided it is of the right kind, will not be out of place at this stage.

"It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies."

There is much evidence of a growing interest in South Africa by foreign traders, bankers and long-term investors. I have referred to the need of a healthy stimulation which could arise from growing exports, and a steady inflow of long-term investment funds. The balance of payments presents the most preferred route to a new expansionary phase in a country with an economy in which imports play such an important role as in South Africa. It is in our interest to entice foreign participation in the South African economy through the application of internationally recognised sound monetary and fiscal policies.

Domestic demand is already being stimulated by rising public sector expenditure. The recent announcement by the Minister of Finance that VAT will be introduced at a rate of only 10 per cent provides further fiscal stimulus that should contribute towards a revival in private sector consumer demand, and also in fixed investment. At this stage, it is important not to over-stimulate the economy, taking account of the vulnerability of the balance of payments and the remaining inflationary pressures of a cost-push nature that are still exerting upward pressure on prices. Cost-push inflation, like demand-pull inflation, can in the longer run only endure provided it is accommodated by a persistent rise in the money supply. Any revival of the economy at this stage should therefore be financed with great care. Measures can be taken to stimulate real demand, but they should not cause the money supply to increase again at an excessive rate. This applies to the financing of additional public sector outlays as well as private sector expenditures.

The forementioned signs of a possible economic recovery in the near future are to be welcomed. Nobody can disclaim the fact that South Africa desperately needs economic growth, but it must be growth that will be sustainable and that will benefit all the people of the country. Such growth simply cannot be generated by the artificial creation of more money. The desired higher economic growth will only be attainable, in the long as well as in the short run, in an environment of sustainable financial stability. Notwithstanding the present relatively depressed economic conditions in the country, it must therefore still remain the first objective of the Reserve Bank to strive for greater financial stability in order to ensure maximum economic prosperity, for now and for the future.

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MONEY SUPPLY

Counting change

(49)

Revised money supply figures for June are substantially higher than the preliminary figures published a month ago, as a result of two technical adjustments.

One relates to negotiable certificates of deposit, which form part of money supply only when held by the private non-banking sector. The change of ownership which takes place as these instruments pass from the hands of banks to their clients was not fully reflected in the preliminary figures. The second adjustment relates to a larger than usual flow of "net remittances in transit" — cheques not fully cleared through the clearing mechanism. These too were fully reflected only in the revised figures.

The new figures show growth in M3 over

contin

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12 months to June of 15,77%, to R175,8bn. Preliminary figures a month ago showed growth of only 14,66% to R174bn. Calculated from the base of the current target year (November 1990) M3 rose 20,22% to a seasonally adjusted R176,2bn instead of 18,38% to R174,5bn as initially reported.

A more useful calculation is growth from February as, that month, legislative changes relating to deposit-taking brought massive re-intermediation and distorted figures over longer periods. Between February-June, M3 rose a seasonally adjusted annualised 11,3%.

Preliminary figures show that, in the five months February-July, M3 grew at 11,7% annualised to a seasonally adjusted R178bn.

So, despite the upward revision, the pace at which M3 has grown in recent months is below the rate of inflation and within the guidelines set by the Reserve Bank.

Between February-June, credit extended to the private sector grew a seasonally adjusted annualised 13,8%.

☐ Preliminary figures for July show 12-month M3 growth of 15,94% to R176,4bn, and growth from mid-November of 19,38% to a seasonally adjusted annualised R178bn. Revised June figures show M2 grew 20,19% over 12 months to R147,3bn, M1 14,94% to R57,3bn and M1A 16,94% to nearly R30bn. ■

ALAN McCONNOCHIE

Africa ranked ninth in world

49

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JOHANNESBURG. — McGregors Online has completed a study comparing South Africa's Gross Domestic Product internationally and the contribution made by locally listed companies to the South African figures.

Worldwide, taking the wealthiest seven countries and selected others into account, the whole of Africa lies ninth on the GDP generation table ahead of India.

USA generates 28 percent of the world's GDP with only 5 percent of the world's population.

In a more local context, however, the continent of Africa lies eighth on a similar table, South Africa being the leading GDP generator — with $88 245 m (R264 000m) in a Total Africa GDP figure of $373 125 m (R11 110 000 m).

Worst performer in the Total Africa figure is Lesotho generating only $330 m (R990 m) GDP.

South Africa's GDP is equal to that of the total of all other sub-Saharan countries.

Striking balance on the economy

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FRANS ESTERHUYSE, Weekend Argus Political Correspondent

BATTLE lines for a potential power struggle over how and by whom the country's economy will be controlled are being drawn in the three rival plans now on the table for a New South Africa.

At the same time, analysts see a remarkable measure of common ground and scope for compromise between the National Party, the Democratic Party and the African National Congress in their respective constitutional proposals.

However, a clear pattern now emerging shows a gulf between the systems of government control envisaged by the NP and the DP on the one hand and the ANC on the other — a division with fundamental economic implications for the New South Africa.

Analysts foresee a battle for effective control of the country's economy between these two main groupings at the negotiating table. It will be partly a struggle between socialist/communist-orientated ideas from the ANC/SACP alliance and concepts of a free market system.

According to some analysts, the NP and DP proposals, revealed this week, show these two parties are much closer to each other in their thinking than either of them is to the ANC.

Both the NP and the DP want systems of decentralised control and governments in which decisions can be taken by way of compromise between conflicting viewpoints and ideas, while the ANC's plan is said to be more hardline towards tough central control in a winner-takes-all system.

Dr Stoffel van der Merwe, outgoing Minister of Education and Training, who takes up his newly-created key post of NP secretary-general on Monday, told Weekend Argus the NP's plan was designed for rule by negotiation and compromise.

This would be possible even at the very top of the government structure — the presidency. Instead of a single state president, there would be an executive college consisting of three to five members representing the larger parties in government.

Dr Van der Merwe says a similar concept is used in the Swiss system in which chairmanship of the Cabinet rotates between different members.

He also envisages a system of compromise decisions and consensus in the NP's proposed multi-party Cabinet.

This will be possible, he says, even if there are to be widely-differing viewpoints, because everybody in such a multi-party government will have a common aim — the interests of the country as a whole.

He is aware of ANC criticism of the NP's plan on the lines that it does not provide for a strong enough executive authority — "but then a very strong executive on a winner-takes-all basis will also not work."

The NP's draft proposals are to be tabled at a special federal congress of the party in Bloemfontein on Wednesday.

Dr Van der Merwe says it will be a "consultative congress" to consider the proposals but not to take decisions.

Decisions on the final proposals are to be taken by the NP's four provincial congresses this year.

Professor Hennie Kotzé, of Stellenbosch University's department of political science, notes that both the NP and the DP want multi-party coalition cabinets in which minority interests are to be represented.

He says these proposals reflect the fears of both parties that minorities will be swamped in a New South Africa.

A basic difference between these two parties and the ANC is that the latter stands for a strong central government in which the strongest party will form the Cabinet.

In spite of the ANC's proposal for proportional representation, Professor Kotzé believes its plan still amounts to a "winner-takes-all" system.

This, he says, links up with ANC economic policy. The ANC envisages a State-controlled economy, nationalisation and State intervention to break down structures created by apartheid.

The ANC, therefore, wants power at the top to bring about drastic changes to remove the imbalances it perceives in the economic system. It wants State control over the economy in order to achieve this. The NP/DP, on the other hand, say the only way to redress apartheid-created imbalances is by a market-driven economy.

A power struggle based on economic issues is therefore likely to develop when constitutional negotiations get under way.

THE MOST INTRIGUING QUEST

doesn't add up

ECONOMY — 1991

SEPT. — OCT.

KEN OWEN ON SUNDAY

S/Times 1/9/91. 49

COMMUNIST spokesman Jeremy Cronin, claiming the authority of a Roman Catholic "background", has argued that many Christians find their ideals fulfilled by Marxism. I dismissed that claim as the sort of specious nonsense that tends to crop up in political arguments.

However, my failure to refute Cronin's assertion has prompted an irritable reader to draw my attention to Pope John Paul's recent encyclical letter, *Centesimus Annus*, and to the debate to which it has given rise in the civilised world.

To my shame I confess that I was scarcely aware of *Centesimus Annus*. I am not a Roman Catholic but I cannot explain how any reasonably informed person can have remained in ignorance of such an historic and resounding papal denunciation of socialist thought and an endorsement, subject to important qualifications, of free market theory.

Viewed entirely as a political document, not as a religious pronouncement, this encyclical is — in the words of Peter Berger, the writer on capitalism — "an enormously important event". Milton Friedman agrees. Father Jozef Tischner, professor of philosphy in Cracow, applauds.

The socialists (and, apparently, their surviving chorus in the media) remain silent, or try to pretend that Pope John Paul has not quite said what he did say.

Centesimus Annus is, I would say, a celebration of individual freedom, and it does not flinch from carrying the idea of freedom into economics. Indeed, it attributes the international crisis of socialism to the inefficiency of the socialist economic system not simply as a technical problem "but rather as a consequence of the violation of human rights to private initiative, to ownership of property and to freedom in the economic sector".

Now there's a thought for Albie Sachs, and all the human rights lawyers who want to load our bill of rights with so-called "rights" to health and fresh air, but baulk at including a right to ownership of property, or a right to exercise private initiative. Or, indeed, a right to liberty.

The Pope is explicit: "The fundamental error of socialism is anthropological in nature. Socialism considers the individual person simply as an element, a molecule within the social organism, so that the good of the individual is completely subordinated to the functioning of the social-economic mechanism.

"Socialism likewise maintains that the good of the individual can be realised without reference to free choice, to the unique and exclusive responsibility which is exercised in the face of good or evil ... from this mistaken conception of the person there arises both a distortion of law, which defines the sphere of the exercise of freedom, and an opposition to private property."

DEPENDENCY, moral disintegration, alienation — that favourite word of the Marxists — and political failure are traced to their source, which is the denial of the right to individual liberty, the subjugation of the individual to the hive, which is the essence of socialism.

Father Tischner, living now in a land ruined by socialism, notes in a commentary that it was "rebellious man" who overthrew communism in Europe. "Freedom," he says, "was born in an enslaved world."

Liberation, the overthrow of unfree societies by people born and raised in bondage, is a constant theme of human history, and it refutes the social scientists. The mind-benders, the educators, the propagandists always fail in the end because individual man will not be permanently subdued. Socialism, which makes of the individual a mere cog in the system, dooms itself.

During the past week I listened to an old friend of my family, Professor Jakes Gerwel, the vice-chancellor who has converted the once-scorned "Bush College", the University of the Western Cape, into an important centre of Marxist thought. He was lamenting, in poignant terms, the loss of idealism on the left which followed, necessarily, the collapse of the socialist system.

His theme, if I may paraphrase ruthlessly, was that this century was born in the hope of a socialist alternative to the brutalities and excesses of capitalism and its handmaiden, colonialism, but that it was ending in despair, bereft of the hope of a better world.

HIS speech seemed to me a terrible indictment of us liberals who, filled with hope and faith in a better future, have somehow been unable to communicate that vision to people whose idealism directed them, ironically, towards the collectivist atrocities of socialism.

Pope John Paul goes some way, perhaps, towards meeting the need. He endorses the view of the church, expressed a century ago by Pope Leo in his encyclical letter *Rerum Novarum*, opposing state control of the means of production (on the grounds that it would "reduce every citizen to being a cog in the state machine").

Centesimus Annus says, "There is a legitimate sphere of autonomy in economic life which the state should not enter", but it adds: "The state, however, has the task of determining the juridical framework within which economic affairs are to be conducted, and thus of safeguarding the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience."

Other commentators have likened the economic model set out in *Centesimus Annus* to the German "social market economy". That, I would say, is about right. The encyclical talks of opposing the exploitative capitalism associated especially with the last century, and offers as an alternative not socialism, but "a society of free work, of enterprise, and of participation".

"Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the state, so as to guarantee that the basic needs of the whole society are satisfied."

Class struggle, that all-purpose Marxist justification for violence and atrocity, is roundly condemned (which must raise difficulties for the liberation theologists) on the grounds that it excludes compromise, and pursues not the good of society but the partisan interest.

THE conclusion is that the free market appears to be the most efficient instrument for utilising resources and responding effectively to (people's) needs, but that it does not solve all problems and that there exists "a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not to allow those burdened by such needs to perish". In other words, capitalist societies have a duty of care.

On my reading, and on the reading of some other commentators, it may now be possible for a person "of Catholic background" to be a socialist; it is surely not possible to be a devout Roman Catholic and still to be a socialist.

Inflation threat as State borrows

(49) S Times 1/9/91

(Business)

By DIRK TIEMANN

THE GOVERNMENT is financing its deficit by short- as opposed to long-term borrowing through the banks and this could put upward pressure on inflation, say economists.

Reserve Bank Governor Chris Stals says he is worried because "the deficit during the first four months of the current fiscal year, when revenue was at a seasonally low level, was financed to a large extent by an increase in net claims of the banking sector on the Government".

Borrowing from the banks increases the money supply because they can immediately rediscount any paper they buy from the Government at the Reserve Bank.

This allows them to increase their lending.

Short-term stock is attractive to banks because it is more tradeable and contributes to maintaining liquid asset requirements.

Lot

From 1987 until recently the Government financed its deficit by issuing long-term stock to the non-banking private sector.

This is non-inflationary because it does not immediately increase the money supply — the stockholder cannot discount his paper for cash with the Reserve Bank.

But the Government is not having much success in selling its long-term RSA stock because inflation makes the yields look unattractive.

Discount House capital market manager Chris Greyling says: "A lot has to happen before the risk-return ratio in the long end of the market becomes attractive. Fund managers are staying in the money market and earning higher returns without the capital risk.

"The Government will have to keep pumping short-term stock into the market at more attractive yields."

The Government is under increased pressure to borrow because tax receipts are down due to the recession and expenditure is slightly up.

Some economists expect this to lift the deficit before borrowing to between 3,9% and 5% of gross domestic product for the year as opposed to the Budget estimate of 3,4%.

Cash

The Government has raised R5,6-billion and it will need another R2-billion before its funding requirements from the capital market for the fiscal year are satisfied.

If necessary it could draw down the R5-billion balance it has with the Reserve Bank, another inflationary method of finance.

It raised R1-billion through new issues of short-term stock and R2,4-billion through long-term RSA 150.

The RSA stock yields about 16,92, which is only 1,02% above the inflation rate. The poor outlook for inflation means yields are under upward pressure and the price of the stock is falling.

This is shown by the fact that when bank rate was cut, long-term yields actually rose by 1,7% — an abnormal occurrence.

The first quarter fiscal 1991-92 deficit before borrowing is R6,3-billion — 43% higher than last year.

The Reserve Bank Economic Report says the Public Investment Commissioners funded R3,3-billion, the non-bank private sector R169-million and the banking sector R4-billion, mainly through short-term paper.

Money raised from Treasury bills amounted to about R1,2-billion in the first quarter of the fiscal year compared with R400-million last year. At the same time cash balances at the Reserve Bank rose by R500-million.

Phenomenal upturn in economy foreseen

49

8 Jan 1991

By Derek Tommey

Board of Executors senior economist Rob Lee does not see any quick improvement in the economy. But when the recovery does arrive, the upturn could be phenomenal, he believes.

He says in the board's Investment Outlook any recovery discernible to income-earners, the private sector and the unemployed is still some months down the track.

Consumer spending will remain under pressure through a combination of fiscal drag, high interest rates, high inflation, falling levels of wage increases and rising unemployment.

Tough domestic conditions will prevail for a while yet.

But he is confident the economy is set for a cyclical rebound that will be faster and more sustained than the two previous recoveries.

It could also be as good as the recoveries typical of the 1960s.

There is a good probability that the growth rate will average more than three percent, with the possibility of five percent, or even higher, for a sustained period.

Rising exports

Factors triggering this surge in growth include:

- Rising exports resulting from world economic growth, the removal of sanctions, and the adoption by the authorities of aggressive measures to stimulate exports;
- Better prospects for agriculture;
- The reduction of foreign capital outflows, and the longer-term possibility of net foreign investment;
- Improving underlying trends in foreign exchange reserves, in money supply growth, and ultimately in inflation, which should allow a gradual reduction in interest rates. (Mr Lee sees no cut in bank rate this year.);
- The need to rebuild inventories and the possibility of rapid increases in domestic investment spending as political and economic confidence returns;
- An expansionary fiscal policy leading to a budget deficit of 4,5 percent of GDP, compared with the latest target of 3,8 percent.

Mr Lee says the major emphasis in state spending will be on development programmes for lower-income groups and stimulating manufacturing. Both these have the potential to kick-start economic growth.

However, he says the possibility that the budget deficit could reach 4,5 prcent of GDP is disturbing as the figure is well above the long-term level of three percent favoured by the IMF.

If it is maintained for any length of time, it will make it extremely difficult, if not impossible, to curtail inflation, he says.

R95bn State debt billows

CURT VON KEYSERLINCK and DIRK TIEMANN

S.Times (Bus)

THE Government's debt commitments are billions more than its R95-billion borrowings recorded in the latest Reserve Bank bulletin, say economists. 8.9.1991

Sketchy information from official sources makes it impossible to estimate the true amount.

An indication of these additional off-budget State liabilities is buried in a paragraph of the Auditor-General's 430-page report on appropriation and miscellaneous accounts for general affairs for 1989-1990. It says the Government has guaranteed to repay commercial loans totalling R22,128-billion taken by State institutions and the homelands.

The authorities had not previously released a breakdown of the guarantees. Because of persistent inquiries by Business Times at the departments of finance and of State expenditure and the Auditor-General they can now be disclosed.

But they do not make up the full amount. The Government is also liable for debts by the three separate "own affairs" administrations.

Less is known about the extent of its liabilities to the Land Bank, the provinces, black local authorities and parastatals, such as the Atomic Energy Corporation, Armscor and Mossgas.

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Transnet

Some economists include a R10-billion contingency fund for forward cover losses by the Reserve Bank and the State Pension Fund that will require an additional R42-billion in the next 20 years.

It is unlikely that the Government will ever have to repay the full amount because some of the loans included in the Auditor-General's total of R22,128-billion are to parastatals that can easily meet their debt commitments.

They include debt of R10-billion for Eskom and R2-billion for the Post Office.

Also included is a debt of R3-billion for Transnet which is more problematical because of its loss-incurring commuter service which has to be heavily subsidised.

But debts less likely to be fully repaid without assistance from central government are R2,2-billion guaranteed by the Department of Foreign Affairs for the TBVC states; R573-million guaranteed by the Department of Agricultural Economics and Marketing for control boards and other organisations; R977-million guaranteed by the Department of Public Works and Land Affairs for low-income housing; R468-million by the Department of Development Aid for the homelands.

In addition, as of March 31, 1990, it appears that the Government guaranteed R3,4-billion owed by Mossgas. No confirmation of the figure can be obtained.

But because of Mossgas' capital cost overruns it could be higher. Mossgas will have trouble repaying this amount.

Nedbank chief economist Ted Osborn says: "A comprehensive statement of Government debt guarantees should be made available for review by Parliament.

"These guarantees are serious and yet are not kept under systematic review. So far, the payouts have been small — probably the reason why the Treasury lets them slide."

Government payouts for debt it guaranteed amounted to only R36-million in 1989 and R35-million in 1990.

But with the possible abolition of homeland administrations under a new constitutional dispensation and other financial restructuring, payouts could rise soon.

But even if the Government is not required to repay these debts, they have to be serviced. In many cases the cost of servicing them is borne by direct payments from the Treasury. They are not included in central government's debt-servicing costs of R15-billion this year.

Mr Osborn says: "In the Department of Finance there is no single body with a comprehensive knowledge of these guarantees and this signifies lack of control and co-ordination of the information."

Potential

Rand Afrikaans University professor of economics Jack Heyns says: "It should be part of the Budget document for a better overview of debt and potential debt. If the taxpayer does not have it all in one document he cannot make sense of it.

"In the United States, for example, potential debts are reported in Budget papers."

The same is true in Britain.

Rand Merchant Bank economist Rudolph Gouws says: "Government debt guarantees are effectively part of total State debt. They should be included in the State debt figures published in the Reserve Bank Bulletin."

Govt's R1bn programme misdirected, says Cosatu

Sowetan 2/9/91

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WILSON ZWANE

GOVERNMENT's R1bn injection into socio-economic projects was intended to prop up "discredited" local authorities and not benefit people in rural areas, Cosatu said at the weekend.

In a statement, Cosatu said government should not — as it did with VAT — embark on programmes which did not have broad support.

Public works programmes which were not developed through negotiations with key political parties, trade unions and community organisations were doomed to failure, it said.

Economic Co-ordination Minister Dawie de Villiers announced on Tuesday last week that government would create 59 000 jobs with its R1bn injection into socio-economic projects.

The union federation said: "SA needs a comprehensive approach to a national economic reconstruction programme — not continued, unilateral and ad hoc measures by the government, based on narrow interest and political considerations."

Government's projects were aimed more at propping up "discredited" local authorities and buying votes in future than at meeting the critical needs of rural communities, Cosatu said.

The projects should be used to meet critical needs in rural areas.

They should be financed, implemented, monitored and geared towards training unemployed people, Cosatu said.

The sale and use of oil reserves — which were a national asset — should be broadly negotiated "so that they are not squandered by a government which has a bad track record when it comes to abusing our country's resources", it said.

Government should then ensure that the money which had been allocated to the projects was used effectively, the union federation said.

Government heading for serious cash crisis

By Derek Tommey (49)

Star 2/9/91

If the alarm bells are not already ringing at the Department of Finance, they soon will be.

An analysis of revenue figures and recent company results suggests the Government is heading for a serious crash crisis.

The figures suggest it might have to consider reducing expenditure next year, if not this year, if it is to have any hope of balanc ing its books.

Governor of the Reserve Bank, Dr Chris Stals, with his tight money policy, and the international recession, which has lowered the price of many major exports, appear to have achieved between them what many thought impossible: to force the Government to start counting its pennies.

Such a move would also help in the fight against inflation.

The Government's failure to limit expenditure has been one of the major factors behind continuing high inflation. Now that the Government is about to be squeezed, the prospect has been greatly improved for a reduction in inflation in the next 12 to 18 months.

Government difficulties were highlighted by Dr Stals in his annual address last week when he said revenue had risen only three percent in the four months to July.

This is well below the 11,1 percent rise expected for the full year and well down on the 13,7 percent forecast rise in expenditure.

No doubt the Government is hoping revenue in the remaining eight months of the fiscal year will improve sufficiently to make good at least a significant part of th shortfall. But one cannot be to sanguine about this.

Times are tough in the business world, with profits — and tax payments — under pressure.

Last week two major companies said their tax payments for the year to June would be substantially lower than last year.

Samancor reported that owing to a drop in profit, its tax payment had been cut from R388,8 million to R210,8 million — a drop of R177,7, or 45 percent.

Iscor had an even bigger shock for the Receiver when it said its tax payments had fallen from R259,0 million to R32 million — a drop of R227 million, or 88 percent.

Together, the two are paying R400 million less than they did last year — an amount which could have a significant impact on government finances.

But these figures are for the year to June, and included results for the six months to December when times were not quite so hard.

What has been happening since then to company profits, and especially to those of mining companies, must be causing serious concern at the Treasury.

Impala Platinum paid R555,6 million in lease considerations, royalties and tax in the year to June. But that was achieved on earnings from an average platinum price of $424 an ounce and a rhodium price of $3 715 an ounce.

Platinum and rhodium are now some 20 percent lower at $340 and $3 000 respectively. The result is that Impala would be having the same problems as a marginal gold mine but for rhodium revenue, Impala chairman Brian Gilbertson said last week.

It is clear that Impala and fellow platinum producer Rustenburg will be making smaller tax payments in the current six months than they did a year ago.

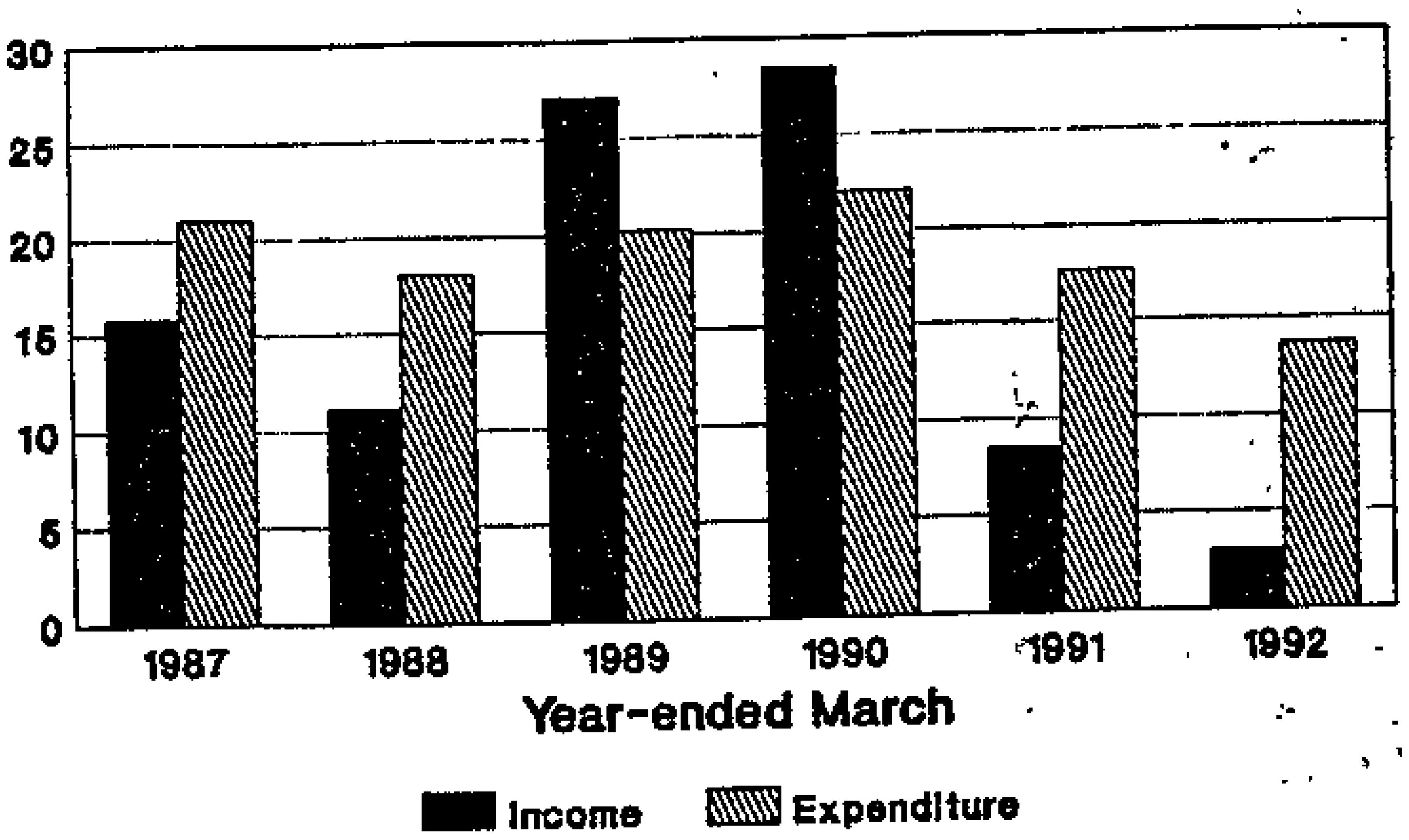
This must apply to a great many other mines, including coal producers.

What is the Government going to do if revenue does not recover? It has already been attacked by Dr Stals for borrowing 55 percent of its loan requirements in the first four months of the year.

If it continues to borrow heavily it will drive high interest rates even higher. Its only alternative would be to cut its spending.

It certainly looks as if 1992 is going to be a difficult year for the public service.

State finances
percentage growth



Revenue rose three percent in the four months to July, against a projected 11,1 percent for the full year

Right wing forms investment group

DAVE LOURENS

A RIGHT-WING investment company which will deal only with selected conservative white businesses is to be floated by CP supporters to mobilise right-wing capital.

CP trade and industry spokesman Daan Nolte said an invitation-only meeting in Pretoria on Saturday decided to float the company, and a steering committee had been chosen to lead the project. 8 Days 3/9/91

The meeting was called to determine how to utilise conservative white Afrikaners' economic and consumer muscle to their best advantage in a changing society, and to express concern about the impoverishment of conservative whites and rampant inflation. 49

Nolte said CP supporters did not want socialist programmes, but viable, profitable economic policies. They did not want to see their funds nationalised or used by the NP to finance a new SA they did not agree with.

He said redistribution of wealth was not necessarily bad in itself as the richer members of the community had long helped subsidise the elderly and the poor by paying high taxes, but there was danger in a redistribution of wealth based on socialist principles.

Under a socialist system everybody would receive the same, regardless of their skills, productivity and efforts. The CP viewed this as unjust because a person's rewards should be linked to the contribution he made to society.

Barend shrugs off low tax receipts

49

BDay 3/9/91

SHARON WOOD

FINANCE Minister Barend du Plessis yesterday shrugged off falling government taxes and said his department would be concerned about the possible underperformance of revenues only towards the year's end.

However, the prospects for an economic recovery later this year were looking brighter, he said.

Speaking at the Wits Business School in Johannesburg, Du Plessis said: "We never attach importance to the beginning of a fiscal year, because there is something peculiar in each tax year."

Du Plessis was responding to a question on whether he was concerned that tax receipts were well below projections for the first four months of the fiscal year.

Revenue collected in the fiscal year to July was only 3% up on last year, compared with the 11,7% budgeted for the year.

Revenue collected by GST could be much lower than expected because private consumption expenditure was lower than anticipated. Private consumption expenditure had held up firmly throughout the recession until the second quarter, when it fell by 0,5%.

Du Plessis said the Reserve Bank's leading indicator had risen for the fourth consecutive month after declining since mid-1987. In the past this had been a reliable indicator of an upturn in the economy.

"An upturn could occur with reasonable certainty in the second half of this year or the beginning of next year," he said.

He said he hoped SA's opening up to the international world would bring about a much better balance between wages and productivity, which would break inflationary expectations.

The miscalculation of the producer price index had not helped inflation because in-

☐ To Page 2

Barend

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☐ From Page 1

correct price rises had been built into wage demands, and "much came from the incorrect calculation", said Du Plessis.

There was no chance of getting rid of double-digit inflation from the economy unless a strict monetary and fiscal policy was maintained.

"Government cannot dish out money as it used to, to the managers of hospitals, education and roads."

Strict fiscal discipline, and keeping the tax load ~~where it~~ was, would psychologically break inflationary expectations.

"Tackling major tax reform was a bit courageous," he said.

Government had asked regional services councils to channel finances into current expenditure rather than capital expenditure, because the townships' rent crisis had led to the loss of billions of rands.

● Picture: Page 3

Budget deficit blamed on size of civil service

BD 3/9/91 (49)

CAPE TOWN — The disturbing growth in government's deficit before borrowing should be urgently addressed in the 1992 Budget by a reduction in the size of the civil service.

LINDA ENSOR

This recommendation forms part of the Cape Chamber of Industries' (CCI) submission to the SA Chamber of Business (Sacob) on next year's budget.

"An urgent need exists to reduce and reprioritise government expenditure. The only way in which this will be achieved is through scaling down the size of the civil service.

"This it is realised will require real political courage by government but at least a moratorium on employing more people should be effected," the CCI says in its latest bulletin.

It says the growth in government's deficit before borrowing has far exceeded the target of 3% of GDP.

"It could be argued that a major reason for the doggedly persistent high level of inflation is that wage and salary increases in the government sector, after notch increases, have far outstripped increases granted in the private sector," the bulletin says.

The CCI believes the Budget should be used to achieve long term structural objectives which encourage real economic growth and the expansion of manufactured exports.

"Government should not succumb to pressure to fine-tune the economy in response to short term fluctuations," it says.

Further stimulation should be given to savers who should be rewarded with an improvement in the savings allowance.

Despite demands for social spending on job creation, housing, social upliftment, education and health care, the CCI says increasing the tax burden will be counterproductive.

The personal tax limit of 43% should be reduced to a marginal rate of 40%, and the tax structure should be reviewed to take bracket creep into account.

"It should be pointed out that over the past seven years, largely as a result of bracket creep, the proportion of direct tax payable by individuals has risen from 25% to over 37%," CCI says, adding that the rate of corporate tax should also be reconsidered.

Foreign capital outlook improving, says Barend

(49)

Star 3/9/91.

By Derek Tommey

Minister of Finance Barend du Plessis had good news for businessmen yesterday.

He told the Wits Business School Association in Johannesburg that the Government might consider using foreign bank loans to give the economy a kick-start.

He said Gerhard Croeser, Director-General of Finance, and Jan Steyn, chairman of the Independent Development Trust, had found on a visit to Europe last week that commercial banks were prepared to lend money to SA.

"Our desperate need for readmission to the International Monetary Fund is no longer as important as it was a few weeks ago," he said.

The implication of his remarks, say economists, is that easier access to foreign capital should remove the need for the Government to keep the economy on a tight rein to maintain a balance of payments surplus.

Renewed foreign borrowing could also contribute to lower interest rates.

And though the injection of foreign loans might be seen as an inflationary increase in money supply, the effects could be more than offset by a rise in imports, thereby providing more competition for local producers.

Barend du Plessis . . . Government intends removing the import surcharge

Mr du Plessis said the Government intended removing the import surcharge and getting a better balance between the cost of local and imported goods.

Other points in his speech were:

- Several developments were under way, which should help the economy start growing;
- The Government was still looking at a single withholding tax on savings interest and at ways of ending fiscal drag;
- A tight fiscal policy meant tighter control of expenditure on hospitals, education, roads and other departments;
- VAT was a fairer tax than GST as it fell on both rich and poor;
- Job reservation had caused serious wage distortions, even though job reservation had ended;
- Because many businessmen started taking a short-term view of SA after 1985, there had been a loss of business integrity;
- If the growth rate had been only one percent higher from 1985 to 1991, the Government's tax revenues would have been R6 billion higher;
- The Government was not too concerned at the moment about low revenue figures.

Mr du Plessis said that SA was one of the world's most under-borrowed countries. Total foreign debt was equal to 70 percent of one year's export earnings.

The average for the Western Hemisphere's developing countries was 254 percent.

"The country's low borrowings and the way it has met every commitment in terms of interest, capital and dividends in the difficult years have combined to give us an international standing as a borrowing country second to none," said Mr du Plessis.

"It is terribly important that European banks are keen to put money here because we have had every positive vibe coming out of this country in terms of honouring our commitments."

Other good news, said Mr du Plessis, was that R1,5 billion of the R2 billion pledged by Jan Steyn's Independent Development Trust had been committed and 108 building contracts would be concluded in the next few weeks. The first would be operational a week from now.

The R1 billion being spent by Dr Dawie de Villiers, Minister of Economic Co-ordination and Public Enterprises, would also make a contribution to the upturn.

There was, in addition, the moderately expansionary Budget, the end to sanctions and the opening of African countries to SA businessmen.

Mr du Plessis said he had had many visits from foreign businessmen who wanted to come to South Africa, or who wanted to buy back their old businesses, or who wanted to enlarge their surviving businesses.

They wanted to use SA as a base for exports to Africa and other Southern Hemisphere countries.

They would bring managerial and entrepreneurial expertise and new technology, he said.

Foreign loans could kick-start economy

(49)

DEREK TOMMEY

JOHANNESBURG. — The government might consider using foreign bank loans to give the economy a kick-start, says Minister of Finance Barend du Plessis.

He said Gerhard Croeser, Director-General of Finance, and Jan Steyn, chairman of the Independent Development Trust, had found on a visit to Europe last week that commercial banks were prepared to lend money to South Africa.

"Our desperate need for re-admission to the International Monetary Fund is no longer as important as it was a few weeks ago," he told the Wits Business School Association in Johannesburg.

The implication of his remarks, say economists, is that easier access to foreign capital should remove the need for the government to keep the economy on a tight rein to maintain a balance of payments surplus.

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ARGUS 3/9/91

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The R1 billion being spent by Dr Dawie de Villiers, Minister of Economic Co-ordination and Public Enterprises, would also make a contribution to the upturn.

Mr Du Plessis said the Treasury was not too concerned about the government's financial situation.

"We never attach that much importance to expenditure or revenue patterns so early in the fiscal year as there is something peculiar in every year.

"We would like to wait until the end of the year before we get really concerned about revenue."

There were many changes taking place in the market.

The government might have to lower its estimates of GST collections as private consumption expenditure had been lower than the Treasury expected.

"But with VAT coming in we believe we will catch a few others (in the tax net) to compensate for that loss."

People had come to his office saying that they had never paid tax in their lives but now had to register for VAT to get the advantage of input credits.

The government had given an amnesty to murderers, they had argued, and asked: "How about an amnesty for me?"

"The answer has been very short — no," said Mr Du Plessis.

SA economic upturn could be 'phenomenal'

ARG 3/9/91 (49)

Business Staff

BOARD of Executors (BOE) senior economist Rob Lee does not see any quick improvement in the economy.

But when the recovery does arrive, the upturn could be phenomenal, he believes.

Writing in the BOE's Investment Outlook, he says any recovery that would be discernible to income-earners, to the private sector and to the unemployed is still some months down the track.

Consumer spending will remain under pressure through a combination of fiscal drag, high interest rates, high inflation, falling levels of wage increases and rising unemployment.

Tough domestic conditions will prevail for a while yet, he says.

But he is confident that the economy is set for a cyclical rebound that is going to be faster and more sustained that the two previous recoveries.

It should also have the potential to be as good as the recoveries typical of the 1960s.

He says there is a good probability that the growth rate will average more than three percent, with the possibility of five percent, or even higher, for a sustained period.

Factors triggering this surge in growth include:

■ Rising exports resulting from world economic growth, the removal of sanctions, and the adoption by the authorities of aggressive measures to stimulate exports;

■ Better prospects for agriculture;

■ The reduction of foreign capital outflows, and the longer-term possibility of net foreign investment;

■ Improving underlying trends in foreign exchange reserves, in money supply growth, and ultimately in inflation, which should allow a gradual reduction in interest rates. (Mr Lee sees no cut in bank rate this year.);

■ The need to rebuild inventories and the possibility of rapid increases in domestic investment spending as political and economic confidence returns; and

■ An expansionary fiscal policy leading to a budget deficit of 4,5 percent of GDP, compared with the latest target of 3,8 percent.

Mr Lee says the major emphasis in State spending will be on development programmes for lower-income groups and stimulating manufacturing. Both these have the potential to kick-start economic growth.

However, he says the possibility that the budget deficit could reach 4,5 percent of GDP is disturbing as the figure is well above the long-term level of three percent favoured by the IMF.

If it is maintained for any length of time, it will make it extremely difficult, if not impossible, to curtail inflation, he says.

Nation's woes 'are not the fault of capitalism'

Sowetan 4/9/91 (49)

The crisis in South Africa is not a failure of capitalism, it is the failure of the terrible policy of apartheid argues TONY MANNING, a management consultant and author. His most recent book is *Business Strategy in the New South Africa.*

APARTHEID and socialism are in trouble for many of the same reasons.

Mass action in Europe has forced cruel and selfish rulers to let go of power and give individuals a say in their lives and the freedom to reach their potential.

It would be a tragedy if South Africa's politicians were allowed to deliver anything less.

Professor Jakes Gerwel, vice-rector of the University of the Western Cape, said last week that the failure of socialism in Eastern Europe meant that "'we leave the 20th century immeasurably poorer for lack of a vision of, and a hope for, human social equality and world-wide humanity".

The Bible tells us: "'When there is no vision, the people perish."

Unfortunately, the vision of socialism has led to death and deprivation on a scale that even apartheid cannot match.

The citizens of the Soviet Union and Eastern Europe have suffered terribly in the past, and will continue to suffer as they struggle with reform.

There is no certainty that they will have a better future. But as Harvard political economist Mr Robert Reich said: "'The greatest enemy of progress is a sense of hopelessness."

And if the Soviet and Eastern European peoples had lost many things, they now have new hope.

They are willing to risk everything because the system they had was rotten.

The theories of Marx and Lenin have been thoroughly discredited. Social engineering does not work. You cannot push people around and expect them to be happy or productive.

No politician or economist can decide what is best for others and expect them to obey. It is impossible to plan people's lives from Moscow, Belgrade, Havana or Pretoria.

By trying that futile course, the National Party Government has brought this country virtually to its knees. We have become outcasts. Our economy is in ruins. Millions of people live in squatter settlements; children are uneducated; health care is in a shambles.

But this mess is not a failure of capitalism. Nor does it mean that capitalism is inherently a bad idea, or morally wrong. Rather, it's the result of a terrible experiment gone wrong.

The Nats tried to invent a "'solution" that would keep whites in power forever. It took them 40 years to learn that they couldn't do it.

But they will not easily give up their say in the affairs of the country. Their latest constitutional proposals show clearly that they want to keep power in the hands of the advantaged.

While they now speak of us all "'talking to each other" with great conviction and sincerity, they are sure to keep experimenting with ideas, models and "'processes" that will delay real change and get in the way of our success.

But this is no excuse for the so-called "'progressive movement" to stand in the way of every positive idea the Nats put forward, or to insist on concepts that have not worked and will never work.

The next government doesn't have 40 years in which to fool around. South Africa is in crisis and we must urgently do those things that have been proved to work rather than those that are sure to fail.

The underlying ideals of socialism might be noble. And if the world was still trundling along in the industrial age, they might have some chance of realisation. But the information age has transformed politics, economics and society.

In the new world economy, socialism cannot and will not work. The proof is all around us, in the crumbling economies of Eastern Europe, the Soviet Union, Cuba, Vietnam and much of Africa.

We now live in an interlinked global economy. The well-being of a nation depends on its ability to deliver world-class goods and services.

That in turn hinges on the education of its people, the intellectual ability of its workforce and its work ethic

As citizens of this wonderfully blessed country, we should insist that our political leaders give us at least a chance of success rather than the certainty of failure.

We should limit their powers and force them to be accountable for their actions. We should demand that they give each of us the opportunity to be educated and the freedom to innovate, to take risks and to reach our own level in life.

Like many other countries, South Africa now stands at a crossroads in its history. Today's choice will shape our children's tomorrow.

Pray that none of us now working for change will one day ask forgiveness for what we have done.

Radio topic

ON this page today the writer argues that the South African crisis must be blamed on apartheid, not capitalism. The two are different concepts, he says.

Do you agree? Or do you believe apartheid and capitalism are one?

Telephone Radio Metro DJ Tim Modise between 5pm and 6pm today and share your opinion with the nation. The hotline number is 714-8063. Listen to the Sowetan/Radio Metro Talkback Show on mediumwave 576KhZ.

Political comment in this issue by Aggrey Klaaste and Deon du Plessis. Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivay Fynn. All of 61 Commando Road, Industria West, Johannesburg.

*Write to the Editor at PO Box 6663, Johannesburg 2000. Nom-de-Plumes can be used, but full names and addresses should be supplied or the letter will not be published.

Mossgas a bad bet, NP told

CT 4/9/91

BLOEMFONTEIN. — Mossgas was a bad investment, the deputy Minister of Finance, Dr Theo Alant, told the Free State National Party congress yesterday.

Dr Alant said: "With hindsight Mossgas was a bad investment, as very much more could have been done with the millions spent on that project.

"There has also, in the past, been over-expenditure on projects where hospitals had been built where they were not necessary or roads were tarred where the traffic volume did not justify it.

"We are now trying to sort this out.

"We can talk about these things and put money to its best use, but no country has succeeded in development in isolation.

"If we don't succeed in attracting massive foreign investment our economy will not reach its potential."

Dr Alant said low economic growth during the 1980s had resulted in everyone being poorer today. About 43% of the population who wanted to work could not find jobs.

Mr Alant also said the Inkatha funding disclosures had damaged the VAT promotion campaign.

He said the revelations had damaged people's perceptions of how tax was spent. — Sapa

SA's tax net keeps on getting wider

BDay 4/9/91 (49)

LESLEY LAMBERT

GOVERNMENT may have committed itself to a reduction in the nominal corporate and individual tax rates, but effective taxation is increasing all the time as new revenue sources are found to assist the "process of redistribution".

In the 1990 Budget, Finance Minister Barend du Plessis undertook to reduce the corporate and the maximum marginal individual rate to 40% over five years and to make corresponding adjustments to compensate for inflation.

Last year the first step was taken in this direction, with corporate rates reduced from 50% to 48% and individual maximum marginal rates reduced by one percentage point to 43%. No provision was made for bracket creep.

The rate reduction was accompanied by the elimination of a wide range of concessions and the introduction of various forms of indirect taxation, many of them announced post-Budget.

One of the most controversial measures was the withdrawal of concessions on company bursary schemes and exam bonuses.

Financial authorities argued that it was done to stop companies abusing the system. A senior official in the Finance Department said the biggest beneficiaries of the concession had been senior executives who could afford unsubsidised education.

The money could be put to better use if it was channelled directly into the education system. He said this and other similar measures were being considered as a means of assisting the process of redistribution.

Many other corporate tax concessions have been scrapped or reduced in recent years in an effort to remove discretionary tax from the system and broaden the revenue base.

All of these measures have increased the effective amount of tax paid by individuals, reinforcing SA's ranking as one of the highest tax nations in the world and making a mockery of the tax rate reform, tax consultants say.

The introduction of VAT will broaden the tax base and is likely to place an additional financial burden on individuals.

Recent concessions to lighten the impact of the tax on the poor have required compensation from other revenue sources. By increasing petrol prices and excise duties on luxury goods some of the cost burden has been transferred to wealthier South Africans.

Cape economy 'outstrips SA'

LINDA ENSOR (49)

CAPE TOWN — Growth in the Western Cape economy outstripped that of the national economy last year, says the annual report of the Western Cape Growth Organisation (Wesgro).

"While official figures are not yet available to cover this period, regional economists maintain that the Western Cape economy grew at a rate of nearly 2% per annum during 1990 compared to -0,9% for the South African economy as a whole," the report says.

Strong performances were achieved by the property, fruit and financial services sectors, a range of manufacturing sectors focusing on export markets and the retail sector. B/Day 4/9/91.

The report says the strong growth in these sectors offset the relatively weak growth in the fishing industry, some manufacturing sectors and tourism which was affected by the Gulf war.

Prospects for the regional economy in the '90s look good as its main industries such as food and clothing are geared to take advantage of opportunities on the export market, and will also benefit from the redistribution of wealth in the country.

Political freedom will trigger growth in Africa, writes Rowena Whelan

Reform pays economic dividends

Star 4/9/91

(49)

THE pro-democracy wave sweeping across Africa from Mali to Madagascar may at last trigger economic liberation in the world's poorest region, economists say.

They say decades of mismanagement by military dictators and one-party autocrats have stifled enterprise and investment in countries south of the Sahara.

"A much more free political system is essential if these economies are to move forward," said Gerrishon Ikiara, a Kenyan economics professor at the University of Nairobi.

Foreign pressure is reinforcing internal opposition to inept or corrupt governments as Western creditors seek better value for their development dollars.

French President Francois Mitterrand led the way last year, linking aid to democratic reforms. Since then, US, British and Canadian officials — among others — have echoed his theme.

Political analysts say change seems to be accelerating as part of a worldwide shift toward plural politics and market economics.

Zambia's President Kenneth Kaunda, who has been in power since independence in 1964, faces a tough ride at the first multiparty polls in two decades, due by October.

Ibrahim Babangida, military ruler of regional giant Nigeria, has promised to hand over power to a civilian government by the end of 1992. Contested state elections are due soon.

Ethiopian guerillas who overthrew dictator Mengistu Haile Mariam pledged multiparty elections by 1993 and market incentives.

Angola and Mozambique, impoverished by years of civil war, plan to follow the pluralistic examples of neighbours Botswana and recently independent Namibia.

A vogue for pro-democracy conferences which began in the small west African state of Benin last year, and led to the fall of military ruler Mathieu Kerekou, is also spreading.

National conventions have been, or are being, held in Congo, Niger, Togo Zaire and Mali.

A 13-week crisis on the Indian Ocean republic of Madagascar began with street protests to demand a convention on electoral and constitutional reform. It escalated into violence and intense pressure on President Didier Ratsiraka to quit after 16 years.

Political and economic experts say Africa's spiral of economic decline is a basic cause of popular discontent.

"We're fighting for economic survival," said Jonathan Frimpong-Ansah, a former governor of Ghana's central bank who now heads a UN-backed foundation to train business leaders.

"We need the political leaders who can recharge the African spirit as someone who can produce for himself," he said from the African Capacity Building Foundation's headquarters in Harare.

But experts warn it could take years, if not decades, to revive regional economies, even under the most democratic system.

With aid and investment flows declining, debts of $160 billion, agriculture stagnating and Aids an impending disaster, economists say the task ahead is becoming ever more daunting. — Sapa-Reuter. □

THE ETHIOPIAN ORTHOD

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TEL

SOWETAN RADIO METRO

TALKBACK

49

Apartheid, capitalism the same say callers

Sowetan 5/9/91

MOST callers to the *Sowetan*/Radio Metro Talkback Show yesterday said there was no difference between apartheid and capitalism.

Mxolisi, of Protea North, defined apartheid as a system which apportioned resources unequally among people of different races.

He blamed both apartheid and capitalism for the inequalities in the country and said capitalism would not have worked even without apartheid.

Collins of Pimville said apartheid and capitalism were intertwined. "Even with full capitalism we still would have had the Mshenguvilles."

Capitalism extracted the resources of Third World countries for the betterment of the United States.

"The answer is socialism because with capitalism only the rich owners benefit from the system."

Pat of Jabavu said people were moved off their land during the diamond and gold discoveries because of capitalism.

Kenny, from the East Rand, said apartheid was evil and enriched certain people only. He said the country must have full capitalism because it worked.

Mxolisi of Eldorado Park said capitalism not only had racial problems but enriched few people only.

"People are still being denied jobs even after the scrapping of discriminatory labour laws."

Dita Rabothata said: "Capitalism is from Europe and apartheid was created by the Boers to the disadvantage of black people."

He said capitalism was not evil because one could own property and it was better than communism. Capitalism should be encouraged as it had worked all over the world.

Politics remains a curb on investment

Star 5/9/91

49

By Mike Siluma
London Bureau

LONDON — The key to South Africa's full participation in the world economy lies in progress being made to reach a political agreement on the future direction of the Republic's economy, The Independent newspaper warned Wednesday.

In a lengthy commentary on recent moves by Old Mutual to launch a South African Eurobond issue, the newspaper conceded that "significant progress" had been made to dismantle apartheid, but cautioned that foreign investors would want to reach a judgment on the overall future of the economy before injecting large amounts of money into it.

South Africa's projected inflation rate of between 10 and 19 percent for the 1990s was, the paper said, "uncomfortably Latin American".

Although the South African economy was likely to revive as the world economy recovered next year, especially if sanctions were lifted completely, the political situation still overshadowed any improvement in the Republic's economic prospects.

"The biggest single question continues to be the attitude of the African National Congress to private ownership. Marxism may be a dying creed in Eastern Europe, but it is alive and well in the ANC," said The Independent.

Meanwhile, banks taking part in the proposed Eurobond issue for South Africa are facing the possibility of losing the business of two of the biggest borrowers on the international bond market, Ontario Hydro and Province of Ontario.

Both borrowers have a standing policy of not dealing with any banks which underwrite new loans to South Africa or its agencies.

At particular risk is Province's close relationship with Deutsche Bank, involved in discussions with Pretoria regarding the bond issue.

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Mayekiso disputes claim that workers are overpaid

Star 5/9/91 (49)

By Kaizer Nyatsumba
Political Staff

A top trade unionist yesterday disputed Sasol chairman J A Stegmann's claim that salaries paid to semi-skilled and unskilled workers in South Africa had priced the country out of the international market.

In his annual chairman's review, published in newspapers yesterday, Mr Stegmann said South Africa had priced itself out of competitive markets both in terms of its remuneration of semi-skilled and unskilled workers and in terms of the payment and average productivity of skilled workers.

"It is my view," Mr Stegmann said, "that in comparison with the newly industrialised nations, South Africa has succeeded in pricing itself out of the market in terms of its remuneration of workers.

"Whatever the reasons for this state of affairs may be, it has definitely impeded the global and domestic competitiveness of our economy. It has also contributed greatly to the high level of unemployment, which is perhaps our single most serious challenge for the future."

Moses Mayekiso, general-secretary of the National Union of Mineworkers — one of Cosatu's biggest affiliates — said Mr Stegmann's remarks were "surprising".

South African workers, Mr Mayekiso said, were among the worst paid in comparison to workers in Europe and other parts of the world. They were paid "slave wages", and it was capitalists' bad planning and the system of apartheid which had ruined the economy.

"We would not expect that (comment) to come from an enlightened employer, because employers know clearly that the pittance they pay workers cannot affect the economy," Mr Mayekiso said.

In his review, Mr Stegmann said the problem could only be addressed by appropriate educational and training policies and by ensuring that the price of the most important of the country's resources, its human resource, properly reflected the relative scarcity or abundance of that resource.

The Sasol boss said the end of sanctions against South Africa was "at last in sight" and that most participants in the constitutional process would agree that a future economic policy should have as its main focus the achievement of an economic growth rate of at least 5 percent a year.

This, he said, could be achieved only if full and open financial relations were restored with the outside world, including institutions such as the International Monetary Fund and the World Bank.

In the meantime, South Africans themselves would have to demonstrate their ability to bring "the persistent unrest" under control and to manage fiscal and monetary affairs in a manner which would inspire confidence in foreign investors.

The more things change, the more they remain the same

W/Mail 6/9-12/9/91.

(49)

It may take 50 years for the workers' movement to regroup, and socialists must wait for the next upsurge, says Dr Baruch Hirson. **DREW FORREST** interviewed the Marxist historian in Johannesburg during a brief return from his 18-year exile

'FOR things to remain the same, they must change." The ringing quote, from the novel *The Leopard* sums up South Africa's current political travail for exiled Marxist historian and former convicted saboteur Baruch Hirson.

Back in South Africa after 18 years in England, where he lectured and now writes in retirement, 69-year-old Hirson sees "irreversible change, but no transformation" in the lives of South Africans.

"Black faces on Wits campus, a black SRC president, Mandela appearing on every second TV show — it's amazing. For individuals, things may be very different, but not for the masses. The huge socio-economic problems remain."

A Trotskyist trade union organiser in the 1940s and later on the left of the African National Congress-linked Congress of Democrats, Hirson turned to sabotage out of disillusionment with congress politics. "It was a bum movement which wasn't really prepared to struggle."

In 1964 he was sentenced to nine years in jail for sabotage as a member of the tiny, largely white African Resistance Movement (ARM), leaving South Africa with his family five days after his release.

Hirson has no links with Trotskyist organisations, seeing them as irredeemably tainted by "the Stalinist belief in a tightly controlled vanguard movement". But a broad Trotskyist perspective permeates his critique of the ANC and its allies.

"South African capital will allow change so as to retain control, and the ANC and the South African Communist Party will be its willing partners," he comments.

A majority rule government, probably dominated by the ANC, is inevitable, he believes, and with it will come opportunities for an African elite. But for most South Africans, conditions will be largely untouched.

He is sharply critical of the ANC's failure to develop a coherent socio-economic programme during its 30 years of exile. "What is it going to do about schooling, about the fantastic problem of an illiterate population in a modern technological society? Why hasn't it tackled the issue of Aids? What is it going to do about the mines? I can find no policy statement ..."

As the popular movement was defeated in 1986 and there is no question of a return to guerrilla war — "talk about reviving the military struggle is absurd; there was never a struggle in the first place" — the ANC must negotiate with the government, Hirson believes.

But he also holds the movement is failing to press democratic demands with sufficient vigour. "Indemnity for exiles, for example, is an absurdity."

Marxist historian Baruch Hirson
Photo: Kevin Carter

His view of the SACP is two-edged: on the one hand, it had "carried" and "formed the backbone" of the congress movement and, through its international contacts, secured the aid and training essential for armed struggle. But, he insists, the party "remains Stalinist through and through".

"Months before the Berlin Wall fell, the SACP was praising the successes of East Europe. It must stop perverting history, must spell out how it sees socialism being realised — it certainly won't be through the free market — it must square up to what went wrong in the Soviet Union."

Indeed, he sees the "Russian connection" as a pervasive and pernicious influence on the leadership of the movement. "When Tsarism fell, Jews were said to have danced in the streets of Johannesburg. Some are still dancing to the same tune."

Hirson's fears of an authoritarian future in South Africa are heightened, he says, by the ANC's failure to come clean on Umkhonto weSizwe soldiers allegedly tortured, defamed as South African agents and still held in Tanzanian jails after the camps mutiny.

Their release and reinstatement has been a crusade of a journal he helps produce, *Searchlight SA*.

"We've made more progress through the British Foreign Office than through the ANC," he says. "Pallo Jordan says everyone has been freed, but we're still getting letters from people in jail.

"Only if there is an impartial inquiry, with public findings to which the leadership binds itself, will I believe it's capable of democratic practice."

He adds: "When it can't admit the problems with Winnie Mandela, who supports Saddam Hussein, when Nelson praises Arap Moi, the Soviets and Cuba — what kind of movement have we got?"

Hirson concedes the working class movement is in disarray worldwide, but is adamant that under capitalism, no solution can be found to South Africa's woes.

"It may take 50 years to overcome the setbacks, but if it doesn't happen, the world will be in a fearful mess. It will lurch from crisis to crisis, depression to depression, conflict to conflict."

There were two key problems: the absence of forces in South Africa capable of working a socialist transformation and South Africa's isolation in a hostile world, even if such a thing were possible.

"Socialism collapsed in countries like Cuba and Yugoslavia because they were islands in a capitalist sea. Obviously it can't start everywhere at the same time — but it must start in an advanced society which can trigger change elsewhere."

Although the local union movement is enormously more powerful than in his organising days, he doubts it will be a vehicle for socialism, as it is "now slipping under the thumb of the congress movement and becoming bureaucratised.

"Unions can only exist if the state incorporates them; come national liberation the pressures not to rock the boat will be overwhelming."

Can existing Trotskyist movements chart the path to a socialist order? "God help us!" Hirson scoffs, adding that all such groupings are too close to the nationalist movement to constitute independent tendencies. The right course, he says, is to analyse and develop Marxist theory in anticipation of the next worker upsurge.

"When Marx found that European workers had stopped struggling, he went back to the British Museum — it was the best thing he ever did.

"I know of very few South African Marxists of stature, and most are white. We need black Marxists who understand the people's situation and can apply theory to find a way out of it."

The ARM saboteurs of the 1960s had erred by thinking they could make the revolution. "We can only be there when revolution comes," Hirson concluded. "We should not be passive — there must constant attempts to get to workers, to organise them — but although it means biting our nails, we'll have to wait."

●A three-day conference on Marixism will be held this weekend at the University of Western Cape

Cabinet calls for 2% spending cut

BDay 6/9/91 (49)

TIM COHEN

THE Cabinet has asked all departments, other than those involved in social spending, to trim 2% from their proposed guidelines for departmental expenditure for the 1992/93 financial year.

Announcing this yesterday, State Expenditure director-general Henri Kluever said a 2% spending cut by the departments would result in a saving of about R1,2bn, assuming government expenditure increased by 13% next year.

The departments had already submitted their guidelines when the request was made.

Kluever said the request did not apply to the educational and social service departments, where historical imbalances had to be addressed.

He said the process of drawing up spending guidelines was still in its early stages, and his department would have to examine the departments' responses to see if the cuts could be justified.

As a general policy, government was trying to reduce state expenditure as a percentage of GDP, but he stressed that it was extremely difficult in an environment where the size of the "cake" was not getting bigger.

But SA did have some factors in its favour, such as the fact that it was no longer engaged in full-scale military operations and that its relations with the outside world were improving.

Kluever did not spell out which departments were not included in the request. But he did say that the Foreign Affairs Department was one of those requested to submit cost-cutting proposals.

However, an expanding department like Foreign Affairs would find it "very, very difficult" to trim its expenditure without seriously affecting its functioning, he said.

The proposal was not unusual in the sense that it formed part of a programme which was set in motion on an annual basis. The making of a Budget was a process of negotiation and give-and-take, he said.

Cabinet appeals for curtailed spending

(49) CT 6/9/91

Own Correspondent

JOHANNESBURG. — The Cabinet has asked all departments, other than those involved in social spending, to trim 2% from their proposed guidelines for departmental expenditure for the 1992/93 financial year.

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Global links to play 'crucial' role

(49) CT 6/9/91

Own Correspondent

LONDON. — Internationalisation of the activities of South African companies will play a "crucial role" in the years ahead as the convergence of global economic and political interests determine South Africa's future, Kent Durr said yesterday.

Opening the Edinburgh offices of Sasol Chemicals Europe, South Africa's UK ambassador said this expansion into Europe came at "a particularly opportune and momentous period in South Africa's political and economic relations with the outside world."

The former trade minister added that the 1992 deadline for the European Community's single market "adds further impetus to this significant move ..."

He said he was convinced Sasol's move, which follows Old Mutual's announcement that it is to list a South African investment company on the London stock exchange, would "encourage other firms in South Africa to move into this vital market and contribute also to the strengthening of South Africa's economy".

'Steady stream of applications to Reserve Bank . . .'

New opportunities for South African companies in Europe and elsewhere had been created by the "political changes brought about by the remarkable coincidence of events within southern Africa and the collapse of communism in eastern Europe.

Another factor was that "Africa's post-colonial dream had run its course forcing African countries and the international community to take a more realistic look at South Africa's role in Africa."

South Africa's normalisation of relations with the rest of the world was reflected in the number of trade and diplomatic missions it has opened this year — seven in eastern Europe and eight in Africa.

Also, in the past few months, eight new foreign airlines had commenced flights to South Africa.

Durr said SA was poised to become the "refined oil producing engine of southern Africa as oil refineries gear up for a massive export drive into Africa and beyond". He noted that the China Investment and Development Company of Taiwan had recently concluded a R500m investment in the petrochemical plant being developed by Sentrachem.

"In 1990 South African exports to Africa soared to R5,5bn, over the R3bn in exports the previous year."

He said said a "steady stream of applications" was being received by the Reserve Bank from foreign banks wishing to locate in South Africa.

"Already 32 foreign banks have set up representative offices."

STATE EXPENDITURE

Who's the boss? (49)

FM 6/9/91.

Criticism is mounting that government's Ministry of State Expenditure, created to administer State spending, is unworkable. Critics say the UK system should be followed, with one Minister in charge of the total Treasury function and two Deputy Ministers responsible for the separate revenue and expenditure functions.

A report in *Business Day* last week even quoted State Expenditure director-general Henri Kluever as accusing Department of Finance officials of refusing to let the new department handle government spending. The latest State expenditure figures were released by the Department of Finance, as was an accompanying press release.

Nedbank chief economist Edward Osborn says the split of ministries is nonsensical. "Treasury's primary function is to maintain responsibility for the Budget," he says. "It cannot be responsible solely for setting the Budget." He believes two divisions within Treasury is the only way to go.

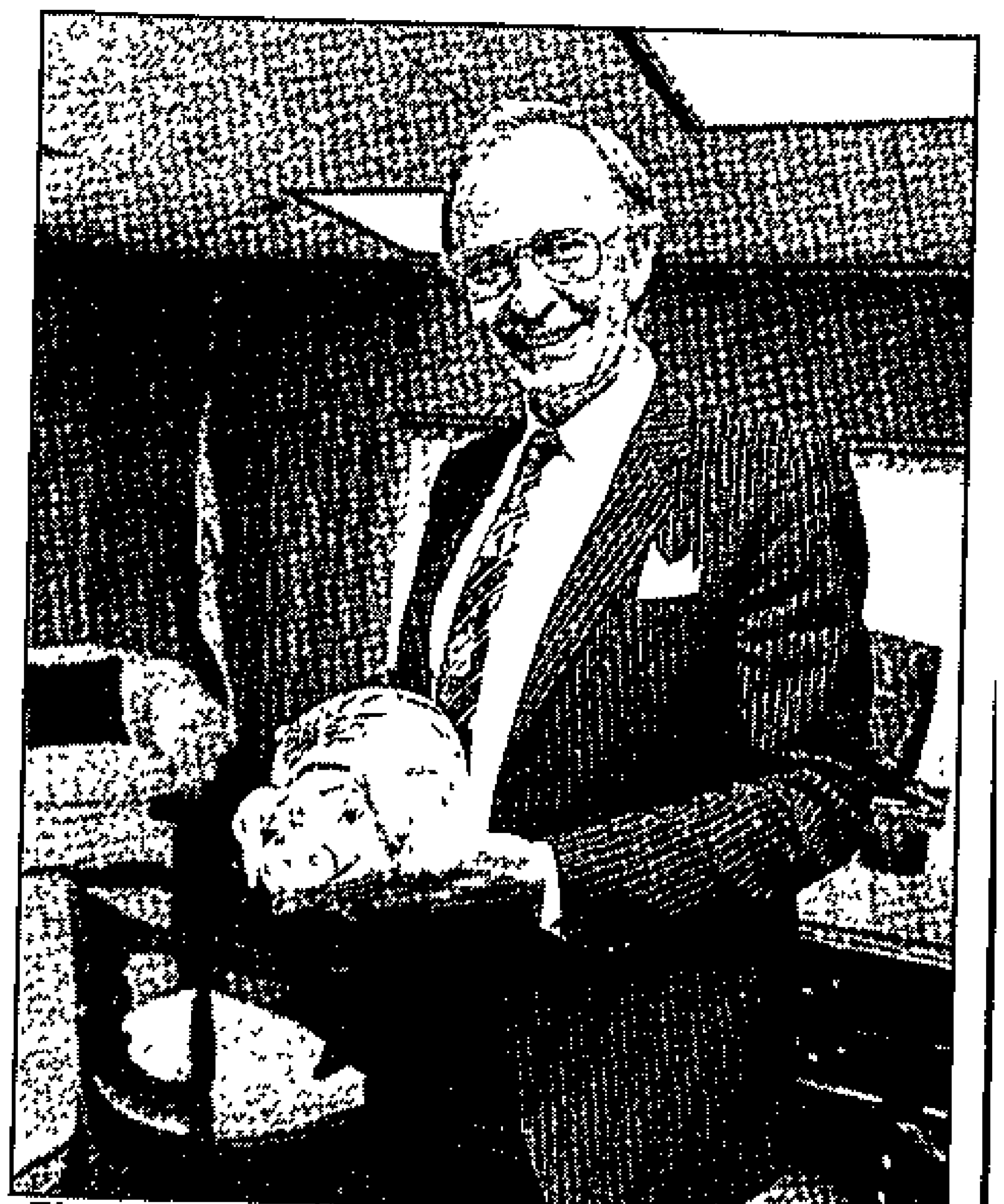
"It's courting disaster to have two Ministers. The Finance Minister must have sole authority to stand up to special pleading by other Ministers within the Cabinet."

Another economist says: "From an administrative point of view it makes no sense to have separate ministries. There must be one person to take charge of Treasury decisions."

But officialdom is moving to cover up suggestions of a rift — or ineffectiveness. Kluever has claimed he was seriously misquoted, while Minister of State Expenditure Amie Venter says discussions between himself and Finance Minister Barend du Plessis are ongoing. "The process (of forming the new department) is nearly complete."

Venter says the department is "basically fully operational." Five chief directorates already report to the Department of State Expenditure. He adds that "there has not been any stoppage in its activities, nor has there been any debasement in the control of State expenditure or the planning of the 1992-1993 Budget."

Expenditure Minister Venter ... *basically fully operational*



Finance Minister Du Plessis ... *ongoing discussions*

Exchequer issues for April-July show total expenditure of R27,4bn, or 32,1% of the R85bn budgeted for the fiscal year — virtually identical to the percentage of the year already elapsed.

Treasury was split into two departments as it was felt that one Minister could not cope with the volume of work. The idea was for Du Plessis to be responsible for broad policy guidelines and for setting expenditure limits, while Venter's department would negotiate with each government department within these limits.

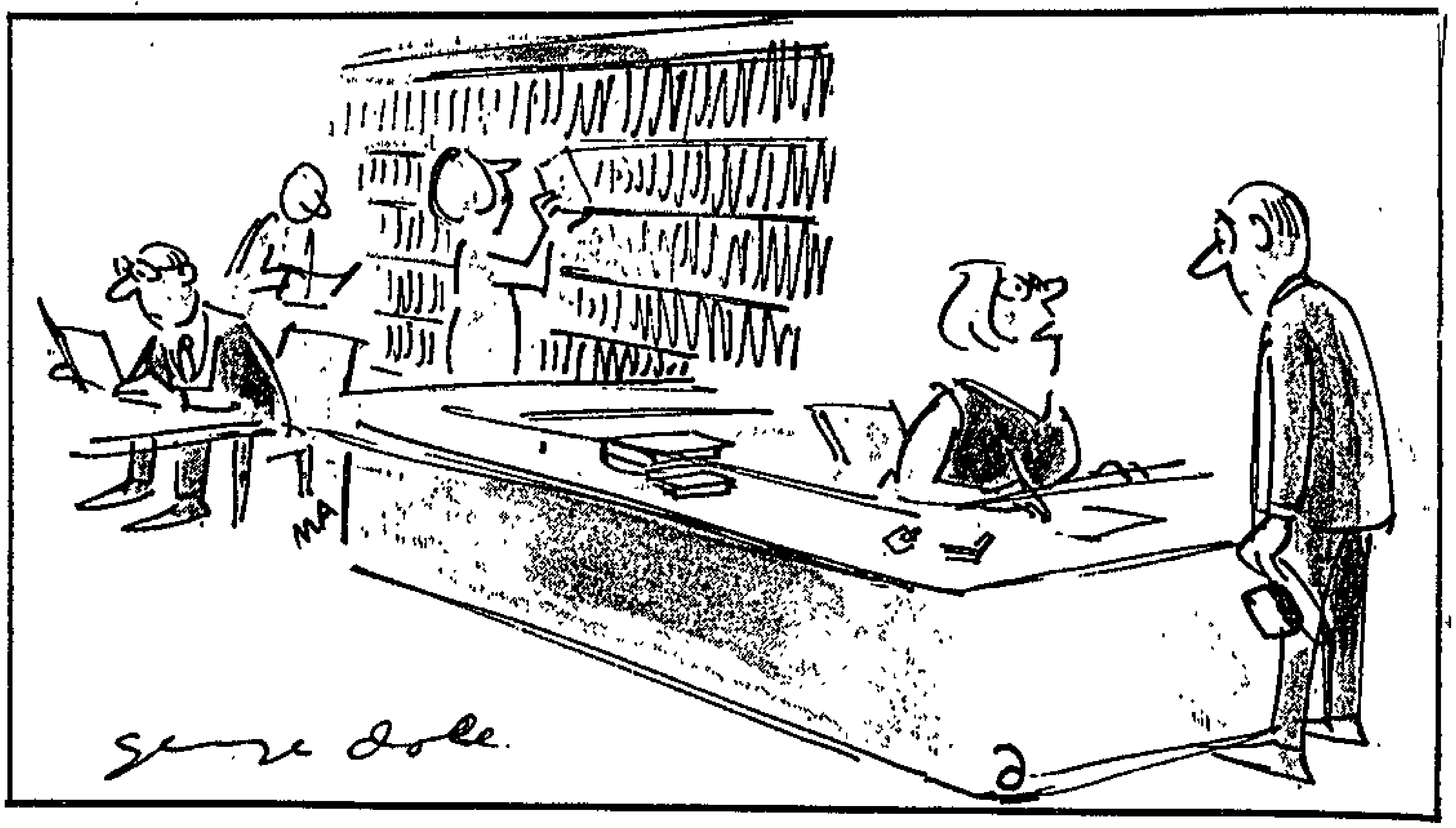
So far, agreement as to the functions of the new department has not been reached, though its formation was announced in early April. Functions set so far are drawing up the expenditure budget, designing financial systems for control of State expenditure and administering the State Tender Board. Others will be finalised "within two weeks."

Even countries with single, strong finance ministries have difficulty keeping State spending under control. Experience of our new system so far, coupled with recent figures indicating that the number of public-sector employees continues to rise, hardly suggests that it will be an improvement. ■

Economy shows signs of upswing

Star 7/9/91. (49)

MAGNUS HEYSTEK
Finance Editor



"You'll find a copy of 'How to get rich in today's economy' in the fiction department.

THE economy is probably at the threshold of a new upswing.

While the growth rate is not expected to soar dramatically, several factors are in place that point to a fairly sustainable upswing next year.

And if the summer rains and the gold price play ball, the economy could well exceed all expectations and grow by anything between 3 and 4 percent next year.

This would come as welcome relief to hard-pressed South Africans who have been buffeted by more than 28 months of economic contraction — the longest in the country's post-war economic history.

Further signs that the foundations are being laid for an economic upswing was the release of gold and foreign exchange figures yesterday afternoon.

According to Reserve Bank figures gold and foreign exchange holdings rose for the fourth month in a row in August.

Holdings

The Bank said its holdings rose by 3,4 percent during the month to R7,96 billion compared with July's R7,67 billion.

Gold holdings rose marginally by 1,1 percent to R5,4 billion (R5,32 billion) while foreign exchange holdings rose by 7,88 per cent to R2,55 billion compared with July's R2,36 billion.

Once again, the value of gold declined, dropping from July's R938 an ounce to R911,76 an ounce.

Physical gold held rose to 5,93 million ounces from 5,67 million ounces, a rise of 262 000 ounces.

A sustained increase in the country's gold and foreign exchange reserves is a vital prerequisite to any likely upswing in economic growth.

At current levels the reserves still cover only slightly more than three month's imports. The monetary authorities would like to see reserves somewhat higher before starting to release the brakes, particularly as far as interest rates are concerned.

And on the Johannesburg Stock Exchange, normally a very accurate barometer of future economic activity, industrial shares this week rose to yet another record high as investors eagerly bid for blue-chip shares.

"Despite high interest rates and tight monetary conditions, many blue-chip companies have managed to show increased earnings. This augurs well for the upturn," one analyst said yesterday.

In Durban Finance Minister Barend du Plessis said South African loan floatations now under way in Europe are progressing well in spite of attempted obstruction by the ANC.

He said at the Natal congress of the National Party in Durban that one of the key factors for growth at this phase of the economic cycle was access to international finance.

The economy was now entering the start of a growth phase and a positive attitude towards the economic future of the country was of critical importance, he said.

Under-borrowed

In terms of international standards, South Africa is very much under-borrowed, with its foreign debt declining to \$19,4 billion at the end of 1990, down from \$20,6 billion at the end of 1989.

At the same congress the Minister for Economic Co-ordination and Public Enterprises Dr Dawie de Villiers said there were sound reasons for accepting that the lowest turning point in the current recession had been reached and that a new growth phase was at hand.

He said: "Over the past few months the recession has been at its worst. Even private consumer spending which remained surprisingly strong despite the recession, has levelled off."

The expectation still was that a growth rate of one or two percent next year was realistic. This was not sufficient if the extent of unemployment and the urgent socio-economic requirements were taken into consideration.

"A higher growth rate is vitally important to South Africa.

"It is therefore surely not unreasonable to expect that other political parties, and in particular the ANC, will also support steps to strengthen the growth rate", he said.

Middle-class pounded into economic mess

ARG 7/9/91

(49)

Weekend Argus Reporter

SOUTH Africans belonging to the middle classes have virtually been blown out of the economic water.

A combination of high interest rates, persistent inflation and poor salary increases have pounded many families into the worst position since the great depression.

And little relief from the ravages of recession are in prospect.

Most middle-income households expect to be hard hit by VAT and the increased petrol price. Those living in Johannesburg face soaring rates in the wake of massive increases in the municipal valuations of properties.

These conditions are clearly reflected in increasing bankruptcies, distress selling of homes, dwindling retail sales and plunging demand for credit.

Mr Andrew Reekie, senior marketing manager at Stannic, said: "There is no doubt that the middle-class has been hard hit. We have seen it in very high levels of bad debt in our motor business, although this has appeared to level out in recent months, indicating that the weak have already gone to the wall.

"Even the reasonably secure are having a difficult time meeting fixed commitments. In different times, these would be regarded as good clients but now they are hanging on grimly."

He said such factors as higher taxes, lower wage settlements and mortgage bond interest rates, which have stayed high for longer than expected, had taken their toll.

Demand for credit had plunged.

"The average man cannot even think of taking on new commitments at this stage," said Mr Reekie.

Another factor was that bank margins were under strong pressure from the Reserve Bank and there was little flexibility in the system.

Even the recent reduction in the rate at which VAT will be levied holds little cheer.

Econometrix motor industry specialist Mr Tony Twine says the middle-class will be hardest hit when it comes to running the family car.

Higher-income groups will be least affected at 2,27 percent, lower-income groups slightly worse off at 2,48 percent and middle-income groups worst off at 2,73 percent.

Standard Bank says the situation is mirrored in figures for retail sales which held up fairly well last year, but have slowed dramatically.

The peak year-on-year increase in their value in 1990 was about 23 percent, but by mid-1991 this had dropped to 10 percent.

The figures for hire-purchase lending and leasing showed an average growth of 14,5 percent in the first six months of this year compared to 20,7 percent in 1990 and 31 percent in 1989.

The bank says this is an indication of consumers reaching the limit of their borrowing powers.

In the field of credit cards, total monthly debit balances rose to R2,9 billion for the first half of this year, compared to an average of 2,5 billion last year.

This might indicate consumers were resorting to their cards as they ran out of cash from other forms of credit.

However, the rise was in line with inflation (16 percent) and it was likely there were more cards in circulation.

WEEKEND INSIGHT

'The odds on SA recovering are 2-1 at this stage'

(49) ARG 7/9/91

Dr Harry Schultz, arguably one of the world's best-known investment commentators, has been publishing his international newsletter from his Swiss base for 27 years. While visiting South Africa this week, the former American spoke to JOHN SPIRA.

SPIRA: You have the advantage of seeing South Africa from a distance. With that perspective, do you think this country will solve its problems?

SCHULTZ: Very definitely, yes - mainly because I'm impressed with the calibre of the negotiators that will determine South Africa's future.

I liken the country's outlook to a horse race. A government unable to quell the violence is running at odds of ten-to-one. A federal-type government which satisfies the aSPIRAtions of the majority, I would quote at odds of two-to-one.

Why am I so optimistic? Because the ANC is becoming increasingly responsible. Bear in mind that it's only been operating as a political party for a short time. Give a child responsibility and he grows up quickly.

SPIRA: How do you foresee South Africa's economic outlook evolving?

SCHULTZ: The long term prospects are encouraging, but I envisage short term problems because South African businessmen have become insular as a result of sanctions.

My interface with South African businessmen and stockbrokers suggests that they couldn't care less about world markets. Because they haven't been exposed to fierce competition, they believe they can't do anything wrong. With sanctions going, they're in for a rude awakening.

SPIRA: Have international investment attitudes towards South Africa changed for the better in recent months?

SCHULTZ: I recently recommended to my newsletter subscribers that they invest in Eskom bonds, requesting them to write to me for further details should they wish to take the recommendation further. I received more than a dozen replies.

That's a dozen more than I would have got six months ago, when violence was being aired on TV stations throughout the world.

SPIRA: In the mid-1960s, you were one of the few international observers who predicted that gold would rise substantially above 35 dollars an ounce. What's your view on gold now?

SCHULTZ: We shouldn't be surprised that gold didn't move much on the Soviet coup, because:

- The cynical Soviets sold into the move. They miss no tricks.
- There's a young generation of investors since the 1970 gold rush days who aren't gold conscious.
- It's easier to hedge via a currency than gold bars.
- We're into deflation.
- The Arabs are too poor these days to buy and neither Taiwan nor Japan are buying today owing to the credit crunch there.
- The public isn't scared enough by failing US banks and Savings and Loans.

I believe the big move for gold will be in mid-1992, though it might come sooner, since the ratio of gold to the Dow Jones is the lowest in more than 10 years — a technical buy signal.

If gold fixes above 363 for three days it would be a short term speculative buy.

Economy due to creep up next year

(49)

ET 9/9/91

WASHINGTON. — The IMF expects the world economy to emerge from its worst performance in nearly a decade and stage a modest recovery next year, diplomats said.

The fund is forecasting that world economic growth will accelerate to close to 3% next year after dropping to about 1% in 1991, they said.

Lower interest rates and oil prices should help spur the recovery from this year's slump, which was triggered by the financial fall-out of the Gulf crisis, particularly the sharp rise in oil prices that followed Iraq's invasion of Kuwait.

The global rebound will be paced by a recovery in the US, where the economy is expected to expand by about 3% next year after contracting slightly in 1991.

The new forecast will be officially released in the middle of next month just before the IMF/World Bank annual meeting in Thailand, the diplomats said.

They said IMF staff appear confident the US recovery is sustainable and that a "double-dip" recession — where the economy deteriorates again after a brief upturn — is unlikely.

But some private economists are not so sure and believe that further interest rate cuts are needed to keep the US economy moving ahead.

An economic rebound in the US, Canada, Britain and some other industrial nations should be enough to offset slower growth in Japan and Germany.

Diplomats said the IMF expects growth in Japan to slow to slightly under 4% next year from slightly over 4% this year and in the former West Germany to about 2% from 3% or more. Reliable economic figures for the former East Germany are not available yet.

Despite the faster growth, the IMF apparently does not expect a big pick-up in inflation next year.

The world economy should also benefit next year from a strong economic rebound in the Middle East as the region recovers from the Gulf War, they said.

Eastern European economies are likely to stabilise next year after slumping this year and last. However, the Soviet Union will probably suffer a further fall in output in 1992, the diplomats said. — Reuter

(49) CT 10/9/91

Billions 'fled' SA, say boffins

By BARRY STREEK

MORE than R34 billion "fled" the country between 1970 and 1988, two University of Stellenbosch academics have found.

And they say the total capital flight could have been as high as R64,9 billion.

Professor Ben Smit and Mr B A Mocke distinguish between "normal" capital leaving the country and "flight" capital. They say the difference between the two was more than $12 billion (R34 billion).

They broadly defined flight capital as money "that flees from abnormal risks in a country".

Their findings are published in the latest issue of the South African Journal of Economics.

Professor Smit works at the university's economics department and Mr Mocke at its Bureau for Economic Research.

They admitted that it was difficult to measure flight capital, but said they applied a number of criteria which indicated substantial capital outflows during 1974, 1977-1980 and 1986-7 in particular.

"The total capital outflows suggested by these criteria over 1970-1988 substantially exceed the estimates of capital outflows in the 'normal' balance of payments statistics and range from a minimum of $12,4 billion (R35,3 billion) and $22,8 billion (R64,9 million)," they Mocke said.

Professor Sampie Terreblanche, also from Stellenbosch University's economics department, said last night the findings by his colleagues were "tragic".

He said: "Now in a capital-scarce world we have to invite that capital back to South Africa."

Business considerations setting pace of change

Star 10\9\91

WINDHOEK — Economic rather than political considerations could force the rate of change in South Africa, former Nigerian head of State, General Olusegun Obasanjo, said in Windhoek on Sunday.

He was speaking at the opening of an Africa Leadership Forum (ALF) conference on the Challenges of Post-Apartheid South Africa.

"The pace of business links with South Africa has quickened in the last few months and is well ahead of formal links," General Obasanjo said.

"In the end the business community could be calling the tune, leaving politians no option but to provide the right climate, in which positive trade considerations will fuel the economic integration of South Africa with her immediate neighbours and the rest of Africa."

He warned that whoever took over power in the "New South Africa" would inherit an economy in distress and gravely out of balance.

"If the South African situation can be ameliorated and rectified it may well serve as a lesson for and have impact on other countries which struggle with racial tension throughout the world," he said.

"South Africa is recognised as a great African country," General Obasanjo said, adding that the dilemma had been how to destroy apartheid without damaging its economy.

"A peaceful end to apartheid, as it now seems, would remove this dilemma, as it will leave the economy intact for South Africa to legitimately play an important role within the subregion and the continent as a whole.

Acceptance

"At the formal levels, the admission of South Africa into the Organisation of African Unity will symbolise Africa's acceptance and ratification of the end of apartheid.

If South Africa was to become "the entrepeneur" of Africa, it had to shed apartheid mentality and culture and demonstrate it belonged to the continent.

"The aim must be integration and co-operation rather than domination."

The Preferential Trade Area, Southern African Customs Union and Southern African Development Coordination Conference were bodies whose structures served as models for sub-regional cooperation.

The United Nations had estimated destabilisation due to apartheid had cost almost R18 billion.

A reduction in security spending should lead to expanded production capacity and greater economic efficiency.

There ought to be immediate gains from the "New South Africa" being a partner in the success of a "re-oriented" SADCC.

"We should add that the envisaged high performing regional organisations are an ideal plank and building block for the African Economic Community," he said.

A number of academics and politicians from Africa and abroad are attending the three-day conference in Windhoek, which was officially opened by Namibia's President, Mr Sam Nujoma.

South Africa is being represented by Dr Frederick van Zyl Slabbert and Dr Alex Boraine of the Institute for a Democratic Alernative for South Africa (Idasa).

While the focus of the conference would mainly be on economic issues, political and strategic matters were also to be discussed, ALF director Mr Felix Mosha of Tanzania said. — Sapa.

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Communist Party rethinks socialist economics for SA

B/D cy 11/9/91 (49)

SACP member ROB DAVIES examines policy options in the light of Eastern European experiences

RECENT developments in Eastern Europe and the Soviet Union have created a major crisis for Marxism and socialism worldwide. The right has attempted to portray the crisis as conclusive proof of the inherent incapacity of humanity to develop any social system more progressive than liberal capitalism.

If this tide is to be stemmed it is essential that Marxist socialists produce convincing analyses of what went wrong in Eastern Europe. It is imperative, too, that the left confronts the uncomfortable question: how much of the baby of socialist theory needs to be thrown out with the bath water of a critique of the theory's application in Eastern Europe?

The central pillars of the Soviet model were nationalisation and a hierarchical and centralised planning system. As an economic system, this model proved to be highly effective at a certain time in promoting quantitative growth. A heavy industrial base was rapidly constructed.

It also achieved impressive social goals — including the elimination of unemployment and the expansion of health, education and welfare services. However, it became increasingly apparent more recently that the system was chronically unable to guarantee either quality or efficiency.

Developing a comprehensive national plan was a complicated and time-consuming process. The bureaucratic planning process made modification difficult. Also, the highly centralised state planning process inevitably operated with less than full information — this hampered the formulation of effective plans. And the planning process emphasised quantity rather than quality. It was therefore inefficient in terms of promoting innovation.

Further, the system provided for little competition between enterprises. It provided little effective incentive for either workers or managers of enterprises to raise productivity. Enterprises were subject only to soft budget controls, with little penalty attached to failure. And plans were formulated by officials from above with little or no involvement by workers.

What does all of this mean for a socialist project in SA? It means that we who defend a socialist vision of the future do not have any ready-made model to draw on. We have to approach other experiences as sources of lessons — both negative and positive. It also means we need to re-examine critically a number of theoretical propositions which have become part of the "conventional wisdom" of socialist theory.

Propositions which reduce socialisation to state ownership of the means of production are among these. Socialisation implies social processes in which working people assume powers of economic ownership — the powers to organise and control actual labour processes. Nationalisation is merely a transfer of legal property rights to the state.

A related notion is that state property is the "highest" form of collective property. In Africa such notions have influenced practices which have, in some cases disastrously, favoured the state sector (particularly state farms) to the detriment of other forms of collective production, for example co-operatives. A fundamental principle of democratic socialism is that collective forms of production should establish their predominance by responding to the needs of working people more effectively than private capitalist alternatives.

A third proposition requiring re-examination is that which favours directive planning by the central state over any other form of planning. Planning will be indispensable in any programme of socialist construction. The challenge facing those championing democratic socialism in the light of Eastern European experience will be to devise a planning system that empowers working people — more than under capitalism — actively to participate in decision-making processes.

State bodies do not inevitably have to be the only agencies involved in planning. Organisations based on civil society — trade unions for example — can play a vital role.

Socialism does not require the abolition of market forces. Marxist theory has long maintained that commodity relations finally disappear only under communism. Rather than thinking of the (socialist) planning process as abolishing the market, many of the most important planning interventions might be those which aim to influence market relations or empower working people within them. The state in any society is a major player in markets. So too, potentially, are organisations such as trade unions.

Where then does all this leave our understanding of socialism?

First, as formulated in the classics, we must see socialism as a transitional social form combining features of a future communist society and the capitalist society out of which it emerged.

Second, we need to see socialisation as a complex process in which workers collectively assume control over the means of production. It is a process in which working people are progressively empowered to assume these powers.

If we accept this, and the fact that the immediate post-apartheid period will be characterised by a national democratic struggle rather than socialist transformation, a more creative approach by socialists and communists to the national economic debate becomes possible.

Instead of simply raising general visions of a future society free from exploitation, or putting forward unrealisable demands based on discredited views of socialism, we should be asking ourselves what elements of transformation beneficial both to working people's immediate interests and to an eventual transition to a socialist society can be built now. I would suggest that there are at least the following:

First, all significant forces have been obliged to acknowledge the necessity for some redistribution and for the basic social needs of impoverished people to have priority in a new government's economic policy.

Second, there is general acceptance among substantial sections of broader society that we need an effective, though limited, state sector, and that various forms of community and popular ventures should be encouraged.

Third, the liberation alliance is committed to providing full rights to working people to organise. This is also a demand which capital, though less than enthusiastic, finds difficulty in directly opposing.

Fourth, there is widespread acceptance that democratic decision-making bodies should be established to deal with aspects of economic policy at various levels.

The organised working class needs to become more active in identifying priorities for programmes of redistribution; in defining the kind of state sector we want and why; and perhaps most importantly, in giving content to demands for a democratic industrial relations system and to the kinds of democratic consultative and decision-making bodies — at national, industrial and plant level — we want to create.

It is within our power to achieve these goals, and success should create more favourable conditions for the eventual transition to socialism.

The economic debate is now opening up. We have the possibility of intervening now in a way which places issues of central concern to the working class more firmly on the agenda. If we do not seize the opportunities now available, capital's concerns and worries will inevitably continue to dominate.

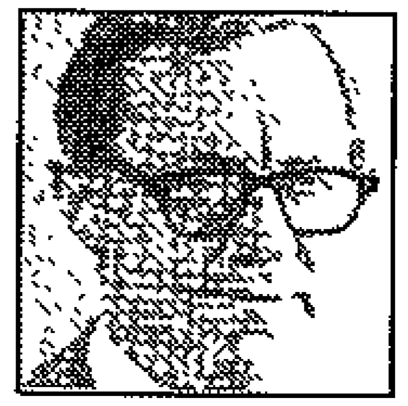
☐ This is an edited version of an article appearing in the latest edition of African Communist, the journal of the SACP. Davies is a lecturer at the University of the Western Cape.

African countries have inflated expectations of the SA economy, a conferenc

The dream . . . and the real

star 11/9/91

49



Allister Sparks

THERE has long been a dream in Africa, and in some quarters of South Africa as well, about the role South Africa could play in the continent once apartheid was gone.

It has been likened sometimes to the role Japan has played in the Pacific Rim. South Africa, the regional superpower, would at last be able to integrate its economy with the continent from which it has so long been isolated, and like a powerful locomotive engine, pull it out of the mire.

The notion gained strength as Africa's deepening economic crisis coincided with the collapse of communism and fears that the end of Cold War rivalry would mean a loss of interest in the Third World and a massive diverson of development aid and investment to Eastern Europe and the Soviet Union.

Faced with the prospect of being abandoned, many African countries saw the changes taking place in South Africa as a fortuitously timed hope of salvation.

This week they were told they were grasping at a straw. At a conference in Windhoek organised by General Olusegun Obasanjo, the former Nigerian president and co-chairman of the Commonwealth Eminent Persons Group that tried to get negotiations going in South Africa in 1986, economic analysts from various countries warned the African delegates that while their economies were in a mess, South Africa's was also.

It would be the lame leading the weak.

For two days the delegates listened to a catalogue of South Africa's ills; an economy that was "fundamentally misstructured and grossly underperforming", with a heavy dependency on raw material exports and an underdeveloped manufacturing sector turning out overpriced goods that made an export-led recovery highly improbable.

They heard about the way South Africa had spent the glory years of a high gold price building economic infrastructure and uneconomic import substitution industries (Sasol and Mossgas) while neglecting its human resources, so that today its people were "frustrated, angry and underdeveloped", which meant low productivity and high unit costs, and now the whole fabric of society was falling apart, causing an upsurge in violence and discouraging investors.

They were told also about the problems that lay ahead: the 43 percent unemployment rate among the economically active population, rising at a rate of 1 million every three years, which could only be contained if the economy attained the improbable growth rate of 5,6 percent a year.

That plus the terrible housing backlog meant there could be no question of the new South Africa having an open-door labour policy towards its neighbours. Foreign migrants from all except perhaps Lesotho would have to be stopped.

South Africa, like the rest of Africa, needed major structural adjustment. It would take years to fix. To which Dr Frederik Van Zyl Slabbert added the further sobering thought that the longer it took for South Africa to get through its political transition the more preoccupied it would become with its domestic problems and the less inclined to play a role in the region.

It came as a shock to the African delegates to have their dream shattered like this.

"We have been brought up to believe there was tremendous economic progess in South Africa, especially in technological expertise," protested Phillip Asiodu, former permanent secretary of Nigeria's Oil Ministry. "Won't someone please reassure me that our basic assumptions were not wrong."

"This is very sobering. We have been euphoric," added General Joseph Garba, another Nigerian who spent years chairing the United Nations Anti-Apartheid Committee.

While it was good that the inflated expectations of what a new South Africa could do for the continent should have been reduced to a more realistic level, I did feel the conference went too far. I don't think the picture is quiet as negative as that.

For a start consider the immediate gains that an ending of apartheid's wars will bring. The UN has estimated that South Africa's destabilisation operations during the "total onslaught" years cost the neighbouring states R175 billion. The staunching of that haemorrhage alone will constitute a considerable peace dividend.

It should also enable the countries of the region to cut their defence spending and redirect those resources to development (I say should because, regrettably, armies are regarded as national status symbols and governments are reluctant to reduce them).

If Angola, Mozambique, Zimbabwe and South Africa were to reduce the percentage of their gross domestic products allocated to defence down to the level of Canada or Japan, the collective saving would be in the region of R10 billion a year.

Professor Prakash Sethi, an Indian economist at the City University of New York, had some other positive suggestions.

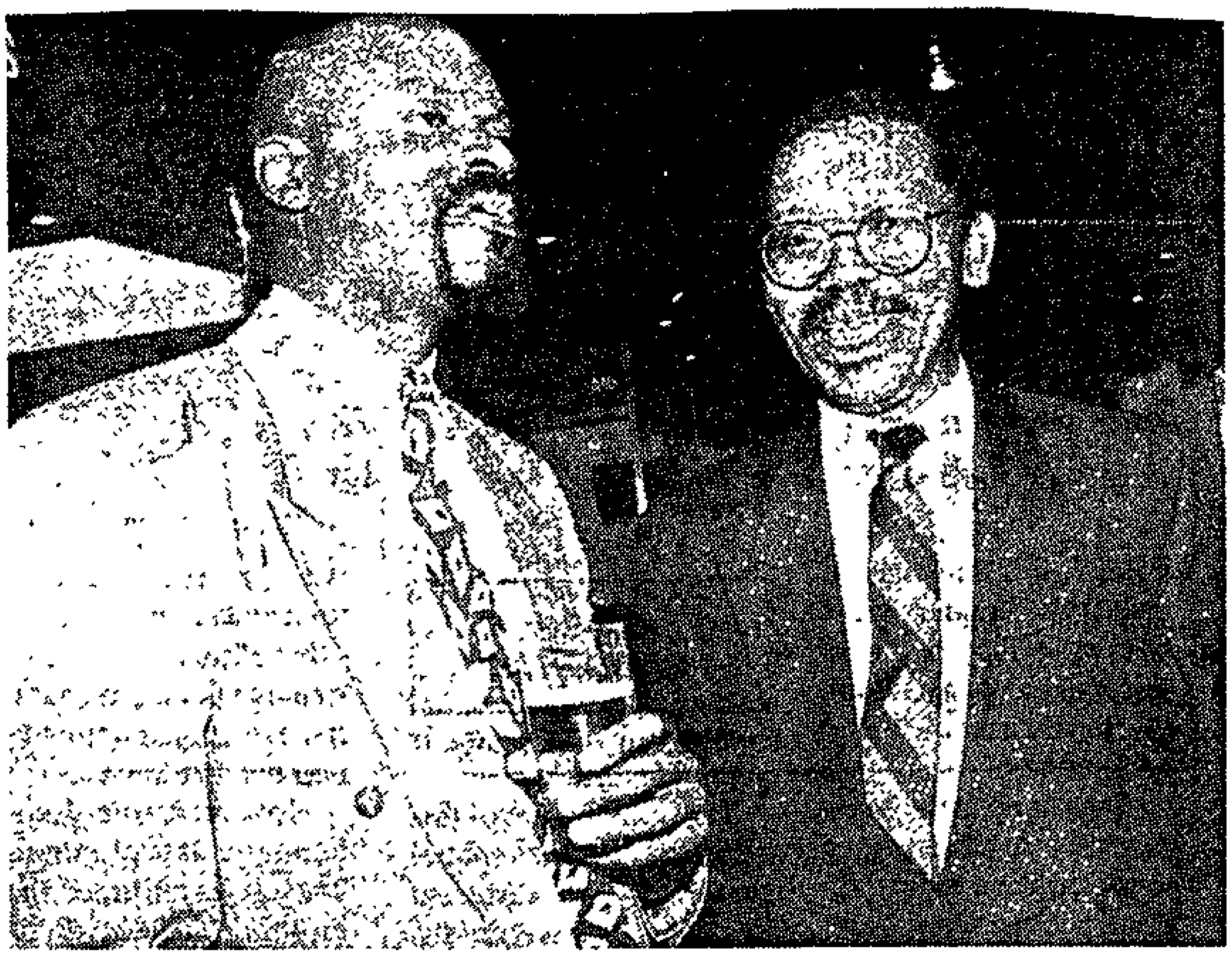
There should be a common market, he said, with arrangements to ensure a stable fiscal and monetary system for the region.

Secondly, a series of autonomous regional authorities should be established to develop cross-national railway systems, highways and telecommunications networks. These should be modelled on the profit-making New York-New Jersey Bridge and Tunnel Authority, or the Scandinavian Airlines system, run by jointly appointed boards of governors and with the participating governments "acting like large shareholders rather than managers".

Finally, Professor Sethi suggested that regional governments could negotiate agreements to encourage heavy industries to spread large investments around several countries. Plants for the different parts of heavy industrial goods like machinery, buses and locomotives could be located in different southern African countries — engines in one, chassis in another — with the finished product selling in an enlarged market.

As Professor Sethi said, agreements like this would prevent each country forming its own status industries which would compete with each other and become white elephants.

Realism is healthy, but so is positive thinking. Sick though our economy is, we are still the regional superpower in relative terms and with creative thinking like Professor Sethi's there is much that can be done to make at least part of the dream come true. □



Among the many people who attended Matchmaker '91 were Mr Lucas Sebobe and Mr Moss Leoka.

Historical imbalances need to be recognised

Sowetan 12/9/91 (49)

By JOSHUA RABOROKO

THE participants in the successful Matchmaker '91 have realised the need for the formal sector to recognise the historical imbalances of the South African economy and the tremendous opportunities for prosperity and growth.

The message was clear that the future South Africa will require not only political and social freedom, but economic emancipation and entrepreneurship as well.

As a result, it is essential that all South Africans, both in the informal and formal sectors of the economy, are encouraged and helped to become part of the engine of growth and prosperity.

This is the reason why the Matchmaker Services - a non-profit organisation dedicated to "matching" black entrepreneurs with business opportunities - staged an exhibition where 150 black business people exchanged views in Johannesburg last week.

Matchmaker Services' executive director Mr Zuko Tofile said they were presently working to organise a group of black business people to visit the US for the purpose of obtaining master franchises for Southern and South Africa.

They were also "staffing" up to act as brokers between buyers of products and services and black suppliers.

They would locate suitable black business buyers requiring specific products and services.

Employment

The highlight of the three-day trade show came when Soweto's Mr Pascal Manana, of Pascal Landscape, was awarded a floating trophy, a R1 000 cheque and other gifts, for running the best stall during the exhibition.

Manana said the Matchmaker was an eye-opener and he hoped it would encourage many small entrepreneurs to participate in the future.

"It is important that black business should create employment opportunities and for that we need economic muscle," he said.

(49)

Sowetan 12/9/91

PAC still supports socialism

THE Pan Africanist Congress yesterday reaffirmed its commitment to a socialist economy.

The PAC's chief economist, Dr Sipho Shabalala, told a fundraising event in Johannesburg that Africans should be involved in the mainstream of the economy.

On the issue of the disintegration of socialism in Eastern Europe, he said the PAC's view was that the problem had not been the economics of socialism but the politics of socialism.

"There the rule by an elite that resulted in the complete marginalisation of the people," he said.

The Communist Party was the minority organisation in those countries but it had been in control of the state machinery and economic activities.

The key element of the PAC's economic policy was to distribute wealth, power, control and influence among the Africans. - Sapa.

Govt won't allow nationalisation of farms – FW

(49)

Star 12/9/91

The Government would not agree to a political system that would lead to the nationalisation of farms and other property, State President de Klerk said last night.

Opening the annual congress of the Natal Agricultural Union, Mr de Klerk also announced that fire-ravaged areas in Natal and the Free State had been declared disaster areas, which would enable people to claim damages from the Disaster Aid Fund.

Details about how to claim from the fund would be released today by National Health Deputy Minister Fanus Schoeman, he added.

Mr de Klerk assured farmers that their title deeds would be a safe guarantee against nationalisation.

He dismissed rumours of nationalisation and the sellout of farmers as horror stories (spookstories).

The Government had the power to veto a constitution which did not conform to its values, which were in line with those of the most successful democracies. The Government would receive international support in implementing these norms.

Thus, there was no party that would be able to enforce its will and standpoint.

"Negotiations will not be those of capitulation."

Turning to agricultural unions, the State President said the politicisation of agriculture constituted a serious danger to the image of organised agriculture.

He conceded agriculture was suffering serious financial problems and that restructuring was needed.

The Department of Agriculture Development Services was been restructured to meet these challenges.

Other problems were:

- Much more food would have to be produced, despite the country's limited natural resources and the vulnerability and retrogression of large areas of farmland.
- Water for irrigation was limited and underground resources were already overused.
- Widespread use of insecticides and weed killerswere becoming less acceptable.
- Producer prices were not keeping pace with the rise in prices of farm requisites, which negatively affected farming profits.
- Labour costs would rise, which would require more efficient working and training. — Sapa-Own Correspondent.

LABOUR

Negotiations on economic future hit snags

WMail 13/9 – 19/9/91

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By DREW FORREST

CRUCIAL macro-economic negotiations involving the labour movement, government and employers have hit unexpected delays — sparking Congress of South African Trade Unions charges that the other parties are "scared" of talks.

"The state and (the employer body) Saccola hoped for an ineffectual talking-shop," said a Cosatu representative. "They now see we are in earnest."

She warned that Cosatu considered the process as "central to its programme. If necessary we will take mass action to get the other parties to the table".

Cosatu wanted the first round of substantive talks, which will focus on job security and creation, to take place before the end of this week. Government has refused to commit itself to a date, while Saccola chairman Anton Roodt told *The Weekly Mail* he doubted employers would be ready for negotiations this month.

Manpower director general Joel Fourie stressed that Cosatu had widened the terms of the Laboria Minute. "The Manpower Department agreed to discuss the impact of labour relations on the economy, but Cosatu wants general talks on the economy.

"As a result, we will have to draw in other government departments, such as finance and economic co-ordination — and this takes time."

Roodt said Saccola accepted talks were "absolutely essential", but was concerned that the current forum was not appropriate. "Many other key players need to be involved," he said.

Employers also questioned whether sectoral, rather than economy-wide, discussions might not be more productive.

Roodt said a Saccola task group was working on the "process and substance" of the negotiations.

Its findings would be forwarded to Cosatu shortly.

FM 13/9/91 (49)

ECONOMIC POLICY FM 13/9/91

Adding hoc (49)

While investors continue to drive the industrial index to record-breaking levels, a major industrial project cannot get off the ground without a substantial government handout. In a country which apparently has no shortage of capital for viable projects, accelerated tax write-offs on capital expenditure are to be granted to get the R3bn-plus Columbus stainless steel venture, backed by Anglo American and Gencor, off the ground.

Thanks to the negotiable nature of these write-offs, they are expected to reduce negative cash flows by an estimated 58% during the five years before the project is expected to yield returns.

Columbus is designed to increase SA's portion of world production of stainless steel from its present 1%, from Middelburg Steel & Alloys, to 4%. So the move is in line with government policy to promote beneficiation of raw materials.

Barlow Rand's Paul Hatty, who was responsible for a report completed in October 1989 for the Board of Trade & Industry on a long-term strategy for the chrome and stainless steel industry, sees merit in the principle — but not in the ad hoc application.

"We are uncompetitive for a number of reasons," he says. "Some have to do with financial infrastructure: tax rates, interest rates, inflation." However, the decision to subsidise the project is not necessarily a step in the right direction. The measure has been attacked on a number of grounds.

There is, for instance, a strong case for applying the benefits to phase four of the industrial process rather than primary and secondary beneficiation. When processed materials are used to make goods, the potential for employment creation is greater. Once construction is complete, Columbus is likely to provide no more than 1 600 jobs.

More fundamentally, the concept of tax concessions for selected projects, at the discretion of a statutory committee, is open to criticism. So much has already been voiced that, since the initial announcement by Deputy Finance Minister Theo Alant, it's been decided to narrow the discretionary powers allowed the committee. However, an element of discretion remains. Projects must conform to certain requirements but do not automatically qualify for assistance. The committee will evaluate each project.

Furthermore, the decision to provide assistance to selected projects, announced as a temporary measure, is another example of government's tendency to resort to ad-hoccery in the absence of long-term planning. No decision has been made on proposed strategy for the industry; but this single measure was hastily included in the Taxation Laws Amendment Bill.

The measure, only one of a range of tax incentives, comes at a time when, internationally, this type of spur to economic growth is falling from favour.

At a recent OECD symposium on the impact of taxation on international investment flows, tax incentives were described as "inefficient, ineffective and unimportant as a means of attracting inward investment and as undesirable in adding to the overall complexity of the tax system."

Given the complexities and the difficulty of achieving the required trade-off between costs and benefits, it would be more productive to fall back on the ultimate incentive: a lower tax rate. Ian Elsdon-Dew, executive director of the SA Stainless Steel Development Association, argues that as long as the corporate tax rate remains at punitive levels, no form of incentive will be cost effective.

If SA manufacturers are disadvantaged by the comparatively high rate of tax, high nominal interest rates and chronic inflation, the solution surely lies in a comprehensive industrial growth plan and economic policy which address these fundamentals. Ad hoc decisions which ultimately increase the Budget deficit won't solve the problems — they will perpetuate and worsen them. ■

STAR SPEAKERS AT INVESTMENT CONFERENCE (49)

FM 13/9/91

There will be more international speakers at this year's annual *FM* investment conference than ever before and they will deal with a diversity of subjects which will have an impact on decisions investors will have to make in the year ahead. It takes place on October 31 and November 1 at the Carlton Hotel, Johannesburg.

Among the speakers from abroad is France's leading businessman, Jean Peyrelevade, president of that country's largest insurer, UAP. The *Wall Street Journal* has described him as "the Pope of the mixed economy" and tipped him as a future French Finance Minister. He will speak on financial services in Europe after 1992.

Leading US investment banker, Rimmer de Vries, from Morgan Guaranty, will analyse world economic trends in the light of events in eastern Europe, Japan and the US and examine the implications for interest rates. He is an economist of international renown who has been the *FM*'s guest three times previously.

A leading British accountant, Richard Agutter, senior partner at KPMG Peat Marwick, will examine the advisability of SA companies forming alliances with companies throughout the world and discuss how this can be accomplished and financed.

Michael Shea, who was press secretary to the Queen and public affairs head of the giant Hanson group, will discuss the consequences for SA of the forthcoming British election. He is a former diplomat and a noted author and academic.

Alfred Schneider of the Swiss Bank Corporation in Zurich will speak on the development of the gold market. Alistair Ross-Goobey, from the City of London, a partner in stockbrokers James Capel, will discuss relative valuations of international share markets.

The outlook for the SA economy will be addressed first by Reserve Bank Governor Chris Stals, who will deliver the keynote address on monetary policy and inflation.

ANC secretary-general Cyril Ramaphosa will discuss wealth distribution in a new SA and Oscar Dhlomo, of the Institute for Multi-Party Democracy, will speak on SA's potential for progress towards democracy.

A banker's view on interest rates will be provided by Edward Osborn, chief economist of Nedbank. The outlook for industrial shares will be ventured by Southern Life's new managing director, Jan Calitz, who is particularly well known for his investment skills.

Gengold's Gary Maude, who was the first to tackle the cost crunch in the gold mining industry, will consider prospects as the gold price sags and examine progress in the containment of costs. Storeco's Stewart Cohen will assess prospects for the retail sector.

Of special interest this year will be papers prepared by two prominent SA accountants: KPMG Aiken & Peat's managing director Matthew McElligott will defend the contents of annual financial statements as they now stand and Ernst & Young's Claire Herbst will present and interpret the findings of a special study on international and national trends in mergers and acquisitions. She will examine the successes and failures.

As the SA economy moves over the next few months towards renewed economic growth after a particularly long and difficult recession, the issues to be dealt with at this conference will be of particular importance to investors.

In the weeks ahead, the *FM* will be writing in greater detail on each of the speakers and their subjects.

☐ The *FM* confidently expects demand for places to be substantial. Those interested in making reservations should contact Brigitte Petty at (011) 497-2134/5. To avoid disappointment, early booking is recommended.


Peyrelevade


Ross-Goobey


Shea


Schneider


Agutter


Ramaphosa

How a guru with a matric plans to fix the economy

49

S/Times 15/9/91

By NORMAN WEST
Political Reporter

FORMER detainee Trevor Manuel, newly-appointed chief of the ANC's Economic Planning Division, is not an economist.

But he says you don't need to have a PhD in economics to realise that the government has made a mess of South Africa's economy.

What Mr Manuel believes he does have is "the common touch". That, he says, is the best qualification for the job.

His mission is to correct the imbalance of economic plans devised by theorists and bureaucrats to suit the rich, but which largely ignore the "real needs" of the people.

The ANC would want a "people's economy", he says, with maximum participation by the masses in decisions on future economic trends.

The ANC believes economics are not so much about rands and cents and percentage points, "but about people and their needs and what they can and cannot afford".

Although Mr Manuel's highest academic qualification is matric, he says he has an "understanding" of economics. The broad approach of his department will be to dealing with the "real" expectations of people — not the theories of bureaucrats.

These expectations include access to land, housing and jobs.

His aim, therefore, is to introduce a "people's approach" rather than a "technical" one.

In terms of this, he feels qualified for the ANC job because of his "grassroots experience" of the basic needs of the people. But he acknowledges that the expertise of others better qualified must be harnessed to make information about economic issues more accessible to the public, and to generate participation in analysing these issues.

He says the ANC remains committed to a mixed economy, to fighting unemployment and to redistribution of wealth.

Born in Kensington, Cape Town, Trevor Manuel matriculated from the Harold Cressy High School in 1973, worked for a construction company, attended the Peninsula Technikon and obtained a diploma as a civil engineering technician.

He was detained in October 1985 because of his UDF activities. Although released a month later, he was banned and kept under virtual house arrest until 1986.

He is married and has two young children.

KEN OWEN ON SUNDAY

5/Times 15/9/91 (49)

15/9/91

THE link between individual liberty and private property is so obvious that one might expect eminent lawyers to be aware of it. Alas, not so! Left-wing lawyers are assiduously peddling a brand of sentimental nonsense about "human rights" which, by undermining property rights, undermines liberty.

Few of them seem to understand what they are doing, or if they do understand, their campaign is sinister. Let's examine it.

Elsewhere in this issue is published an incandescent letter in which Brian Currin, national director of Lawyers for Human Rights, berates me for mocking the attempts by Albie Sachs and others to load our constitution with phoney "rights", such as health or fresh air, while baulking at including the right to own property and, indeed, the right to liberty.

Mr Currin, unusually for a lawyer, has confused an attack on his ideas as an attack on himself and on his like-thinking, Politically Correct (PC) buddies. He accuses me of conducting a campaign against human rights lawyers.

Not so. Some of my best friends are human rights lawyers. One of them I frankly adore. But, collectively, they do peddle a lot of muddled nonsense about ill-defined "rights" which are, in fact, no more than policy preferences.

It is no accident that the Western democracies put the idea of liberty first. The American Declaration of Independence puts the right to liberty second only to the right to life, and just ahead of the right to pursue happiness. The British give expression to the same idea rather more subtly by their reverence for Runnymede, where it all started. The French put liberty before equality and fraternity.

What of the South African left? Albie Sachs, in his book *Protecting Human Rights in a New South Africa*, has some passing references to "freedom", and even to "love", but the idea of liberty does not rank in his hierarchy of rights.

At the top of his list he puts "the equal dignity and worth of all South Africans"; in second place is "freedom of movement, residence and travel", then the right to vote, the right to free expression, freedom of conscience, and the usual provisions against torture and slavery.

He adds that a child has "a right to play", a right to adventure and a right to warmth, but he dismisses, very sensibly, the notion that trees have rights. He skims over that other favourite, the right to housing, perhaps because human rights lawyers have not decided whether it is Politically Correct to talk of housing or of mere shelter.

Sachs concludes by offering a set of constitutional principles, including equal rights within the family, equality of the sexes, and the idea, now utterly discredited, that the state "shall ensure" that the economy serves the interests and well-being of all the people. As if the state knew how.

Not a word, though, about liberty.

ON the contrary, he proposes to limit the right of free speech by prohibiting advocacy of fascism or racism, a ban not dissimilar to the prohibition on the advocacy of communism by which the Nationalists drove Albie Sachs and others underground, and to armed struggle.

This raises problems. The concept of "racism" is not defined, and neither is "fascism", and Sachs quickly falls into his own trap.

For example, he postulates, with an unlawyerly lack of precision, that whites own 87 percent of the land and blacks only 13 percent, and he goes on to say: "This means that just as land was taken away from blacks because they were black, so in future must land be taken from whites because they are white."

This is manifestly the advocacy of racism. To insert into the constitutional debate the idea that whites, most of them owning less than a quarter of an acre, heavily mortgaged, may legitimately be looted *because they are white* is to recreate in South Africa that which led in Europe to the oppression of Jews *because they were Jews*.

Sachs will also, I fear, run a grave risk of falling foul of a law against advocating fascism. In proposing to redistribute land, he is compelled to attempt a definition of the "deserving" owner, rather as the Nationalists, having decided to redistribute land in a different way, were driven to the impossible task of defining race.

FOR example, says Sachs, the farmer who simply sits on the stoep drinking coffee will have a weak claim to land; the jolly fellow who works day and night, presumably, will have a stronger claim. Who decides? And what if the lazy fellow puts up a show of energy and drive? What will happen to the man who starts out working hard, but falls into coffee drinking?

Sachs does not say. His half-baked ideas are full of uncertainties and bureaucratic temptations. On the other hand, it is quite clear that where the right to own property is absolute and secure, a man may drink all the coffee he can buy, without having to persuade the commissars that he is "deserving".

All this is well understood among educated people. Liberty implies choice, and where the state owns all means of production and necessarily becomes the only employer, there can be no choice of work. Where the state owns all the shops, there is no choice of goods. Where the state controls the land, there will be no choice of lifestyles, and no man can be sure of his right to sit on his own stoep and drink his own coffee; he will fawn on those who control his destiny, or bribe them.

Conversely, the more individual owners exist, the more choices there will be, even for those who own very little. The existence of many shops confers choice on the man who spends a penny. That is why all people of fascist temperament, and most governments sooner or later, assault the right of property ownership.

Exchange controls are used to prevent people from fleeing from bad governments; taxes are used to increase the power of government; confiscations are an instrument to reduce people to helplessness and servitude, as the Nationalists reduced the Indian traders by seizing their homes and businesses.

Any fool can draw up a juvenile list of demands and call them "human rights", but that doesn't make them so. Laws that allow "society" to bully eccentrics, gypsies or idle coffee drinkers are not rights at all.

Long before the American Declaration of Independence proclaimed that the very purpose of government was to defend the rights of its individual citizens, serious lawyers were trying to define human rights, and to balance them, one against the other.

IT is difficult, painstaking work, the labour of centuries, which is still pursued by truly eminent lawyers before the Appellate Division of the Supreme Court, and by the judges who preside there.

That, Sir, is human rights law. The politicised lobbying which seeks to sneak mere policy choices into the constitution under the mantle of "human rights" is something else, and I don't have much respect for it.

● See Live Letters: Page 18

Economy 'to surge from October . . .'

(49)

CT 17/9/91

By AUDREY D'ANGELO
Business Editor

THE economy has been marking time pending the introduction of value added tax (VAT) — and is likely to surge forward from next month, says Colin Boyes, deputy director of the Cape Chamber of Industries (CCI). "I believe all the doom and gloom could start to dissipate from the end of this month."

Boyes was commenting on the SA Chamber of Business (Sacob) manufacturing confidence index for August, which shows that most manufacturers throughout the country expect sales, production volumes and real capital investment to increase in the coming year.

Manufacturers in the Western Cape differ in some of their views from those in other regions.

A CCI survey shows that they expect sales volumes and capacity utilisation to fall while production volumes and real capital investment remain unchanged.

Boyes said that this was probably because production in the Western Cape was mostly consumer orientated. The consumer was now feeling the pinch and this was reflected in retail sales.

"Pending the introduction of VAT it is as though the economy is marking time. We must not postpone the introduction of VAT now that we are committed to it.

"We have really got to assess the situation once VAT is up and running. I foresee the economy moving ahead."

Boyes said he expected statistics for September to show that the economy was "even more down this month. But beyond the threshold of VAT the whole picture should change dramatically."

Tax rebates for inputs would help. So would the removal of the import surcharge on capital goods — promised in the next Budget — which would make SA manufacturers more competitive with those in other countries.

Sacob economist Keith Lockwood says in his report that 63% of industrialists surveyed expected sales to increase in the coming year.

"This tends to give credence to the idea that VAT is responsible for the decline in activity levels in the short term and that an upswing is anticipated to get underway soon.

"Developments on the political front are also likely to have bolstered confidence.

"The recent reduction of interest rates in both Britain and Japan should provide some indication that conditions in the major economies of the world are starting to improve."

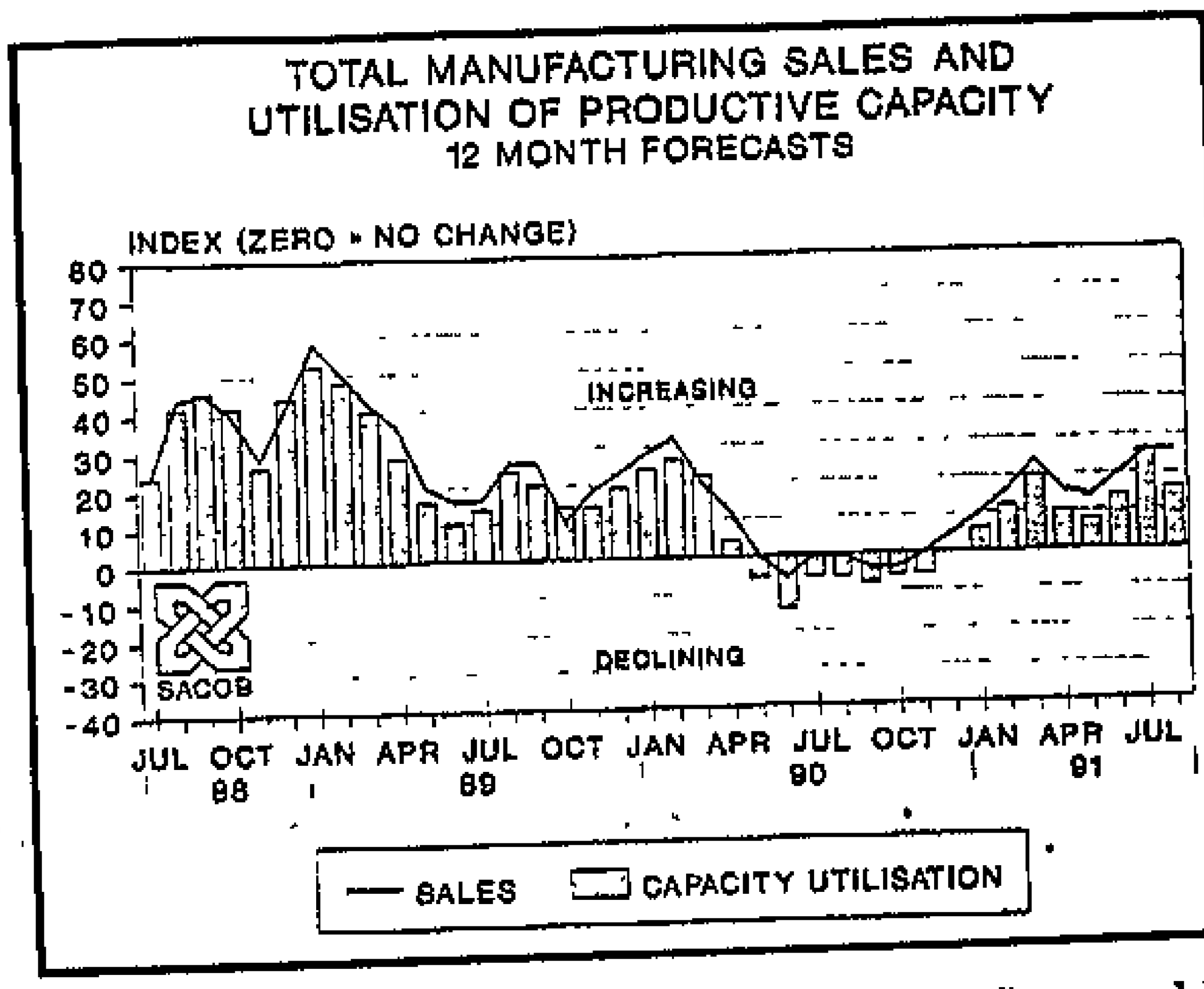
Discussing regional outlooks, Lockwood says a conscious decision has been made in Durban and Maritzburg to increase stock levels. Other regions expect to cut back further on them.

"In the Transvaal this decision may be linked closely to the less optimistic outlook for the mining sector."

In Cape Town and East London there was "clearly no expectation of a sudden increase in demand levels which could not be catered for adequately by existing production and stock holdings, and hence no justification for increasing stock levels that are costly to maintain."

Lockwood says the "slight decline in sales expectations in the Western Cape could be linked to the fact that demand for various types of consumer goods, including clothing and textiles which are concentrated around Cape Town, appears to be falling off.

"Despite this, optimism in the region remains fairly high — due largely to export trade."



was not immediately known why ...w fast they were travelling.

US to help ANC plan economy

49

The Argus Foreign Service

WASHINGTON. — A series of closed meetings between the ANC and representatives of more than 20 major US companies will be held at Notre Dame University in Southbend, Indiana, next month as part of a programme to help the ANC develop a viable economic and investment policy. ARG 18/9/91

The vice-provost of the university, the Rev Oliver Williams, said that while the meetings would be closed, Press briefings would be given.

He said the conference, from October 6 to 8, had been arranged at the request of the ANC, and confirmed that the Inkatha representative in the US, the Rev Sipho Mzimela, had asked why Inkatha had not been included.

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ANC 'to promote economic growth'

49 CT 19/9/91

DURBAN. — An ANC government would not sacrifice economic growth for ideology in a new South Africa, and would ensure growth through a mixed economy, ANC secretary-general Mr Cyril Ramaphosa said yesterday.

In a wide-ranging address at a breakfast organised by the Institute for a Democratic Alternative in South Africa (Idasa), he said the ANC would strive for a mixed economy with some state intervention.

Mr Ramaphosa pointed out that even US Assistant Secretary of State for African Affairs Mr Herman Cohen had said a new South African government would be unable to correct the country's imbalances without state intervention.

Mr Ramaphosa also said the ANC wanted to "get moving" to restore stability in the country, adding that an all-party congress before the year-end would be a "Christmas present" to all South Africans.

Last weekend's peace accord "signified the birth of a nation", Mr Ramaphosa said. But the accord's "litmus test" would be on the ground, among the people who had to make sure it worked.

He said the demand for an interim government was urgent, as President F W de Klerk had conceded that he was not qualified to run the country during the transitional period.

"We maintain that De Klerk's government is blundering at the helm. If his government continues piloting this ship, we will all end up like the Oceanos."

Attacking the recently-enunciated constitutional proposals of the National Party, he said these contained the "seeds of conflict".

The ANC secretary-general said the organisation felt it was short-sighted to believe that black people would settle for a "meaningless vote". — Sapa and Own Correspondent

SA public debt issue 'all wrapped up'

(49) CT 19/9/91

From KIN BENTLEY

LONDON. — Senior European bankers said yesterday that the launch of South Africa's first public debt issue since 1985 was to be officially announced today.

One source said the deal had been "very satisfactorily wrapped up" and would exceed the DM200m issue needed to refinance an outstanding SA bond issue due in mid-November.

He said the issue would probably include a symbolically important additional amount of over DM50m, marking the beginning of the end of six year's of damaging financial isolation.

The deal is being lead managed by Germany's largest bank, the Frankfurt-based Deutsche Bank. Other banks playing a leading role in the deal include Swiss Bank Corporation, Paribas and Kleinwort Benson.

In August, a broad cross-section of institutions attended presentations by Gerhard Croeser, the director general of the SA finance department, in Frankfurt, Zurich, Paris and London.

Banks participating in the deal have risked being ostracised by some of the leading borrowers in the international bond market, including the Province of Ontario and Ontario Hydro. However, the signing last weekend of the SA peace accord, bankers say, has been beneficial.

With around $1,1bn of existing debt falling due in 1992, the smooth running of today's bond issue will give impetus to private sector involvement in the market.

● End Loans to South Africa, the London-based anti-apartheid group, announced yesterday they will picket the British offices of Deutsche Bank today "to express growing opposition to this ill-informed and dangerous action".

They claimed that as a result of its involvement in the bond issue, Deutsche Bank was excluded from a large Ontarian bond issue earlier this month.

● Meanwhile, Reuter reports that SA's campaign to reclaim its good standing on global capital markets has left European bankers scrambling to get in on the act, despite initial fears that the republic's re-emergence would prompt moral outrage.

London's Smith New Court, which has launched an investment fund together with Old Mutual, is leading the charge back into the country, but researcher Stephen Oke says many other bankers are starting to share its optimistic views.

Govt spending way ahead of budget

SHARON WOOD

GOVERNMENT's spending soared 17,9% in the first five months of the fiscal year compared with last year and was well above the budgeted 13,7% for the year.

Exchequer figures show socio-economic and police spending largely behind a 29,7% year-on-year rise in spending in August.

Revenue collections continued to lag behind the budgeted 11,1% for the fiscal year, rising only 4,1% year-on-year to August.

Economists said government was heading for a R1,5bn larger deficit before borrowing this fiscal year as a result of high socio-economic spending and low revenue collections. The deficit had risen substantially during the period, and could result in a government deficit of about R11,6bn for the year, compared with the budgeted R10,1bn.

BDay 1/10/91

Departments should have spent only 41% of their budgetary vote in the first five months of the fiscal year, but many departments had exceeded this. Planning, Provincial Affairs and Housing had spent 49,5% of their vote, Home Affairs 47,4% and Education and Training 45,3%.

The SADF appeared to have been relatively successful in curbing expenditure. It spent 32,5% of its budgetary vote during the period.

(49)

The SAP had spent 48,6% of its vote.

Absa economist Pierre Morgenrood said revenue receipts were slightly below July's level, so the low level of revenue collections in the first quarter could safely be regarded largely as an aberration.

ence than Alexander Forbes provided: "We would conceive that the returns might well be minimal but, if a strategy is pursued that will ensure that we have a fairly good mix between investments that bring in a fairly good return and investments that bring a good return or, possibly, the best return in the long term, we can find a way out."

Before coolly arrogating his followers' retirement prospects, Ramaphosa did at least appear to rule out nationalisation of the retirement industry. He believed that question should be addressed to ANC president Nelson Mandela but added: "I am also a member of a pension fund so I have a direct interest in this matter and I would like the ANC to tell us whether they are going to nationalise pension funds or not because, if they do, I also lose."

Presumably, Ramaphosa's pension fund may also invest in liquor and tobacco shares. ■

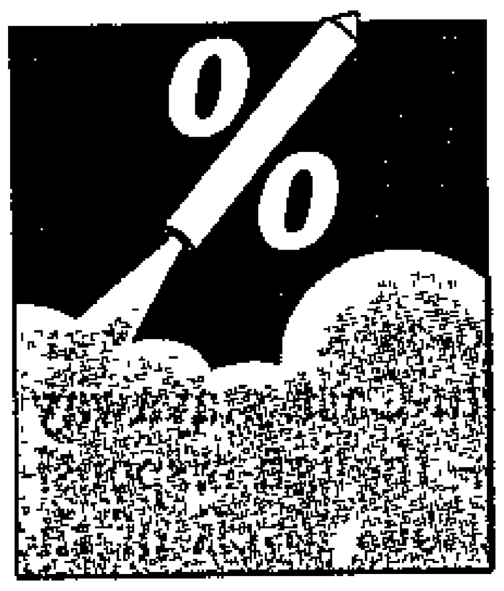
INTEREST RATES

Nailing the culprits

(49)

Inflation is being driven by government spending

FM 20/9/91.



Interest rates have been falling steadily in a number of major industrial economies. Last Friday, the US Federal Reserve Board lowered its bank lending rate from 5,5% to 5%, which prompted at least one bank to drop prime by the same amount to 8%. The UK base rate fell a half percentage point to 10,5% on September 4 and, in July, Japan's prime rate was reduced to 7,63%. These are only the latest in a series of adjustments in key rates that have taken place this year.

But these declines in countries that are among our major trading partners don't necessarily set the scene for a similar move in SA. Though they ease pressures by reducing the cost of offshore funding, real interest rates in SA are still relatively low compared with those in countries with which we do business. They have fallen as inflation has risen from a low of 12,8% in mid-1990 to nearly 16% in June.

This is the heart of the problem. Despite determined monetary policy, inflation has remained stubbornly strong.

There are two reasons. One relates to expectations that prompt businesses to raise prices, and workers to ask for wage increases, above the expected rate of inflation. The other relates to government spending and its impact on aggregate demand.

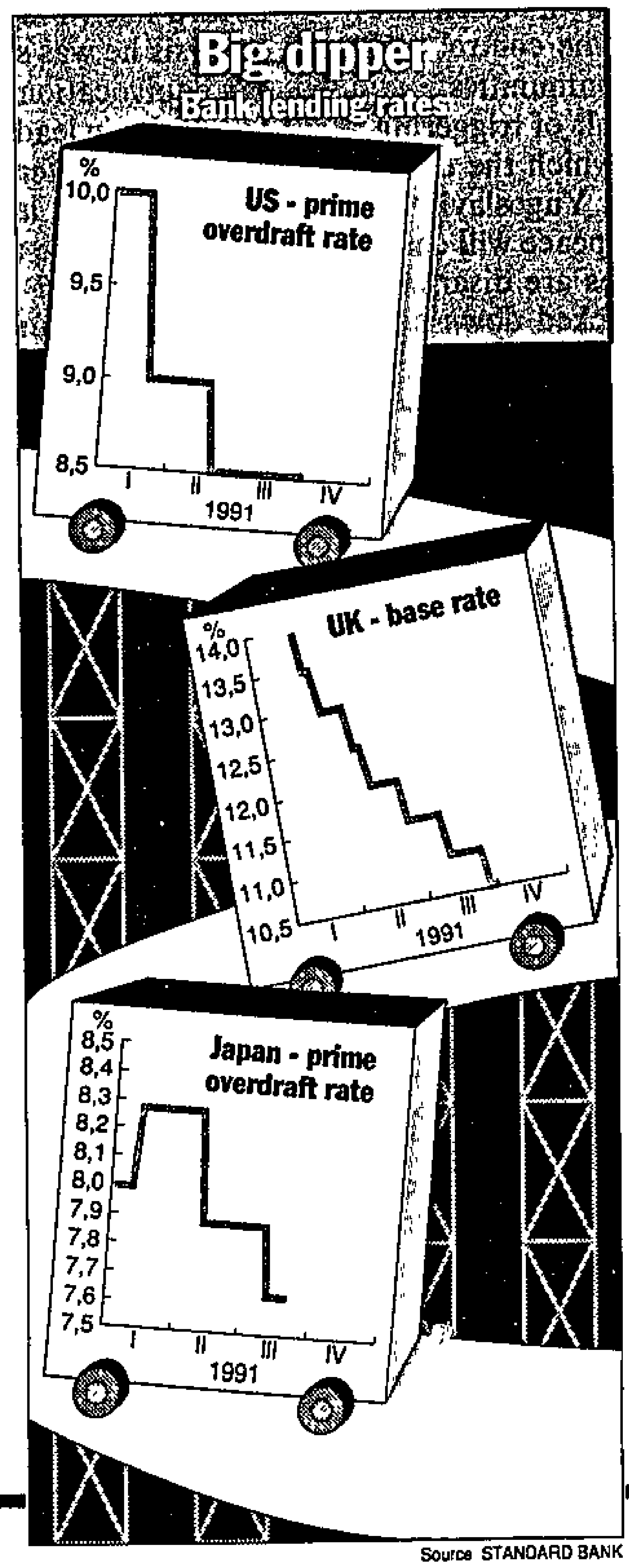
In the 12 months to June, consumption by government, which started to accelerate towards the end of last year, was 5% higher than in the previous 12 months. This growth is expressed in real terms, that is, after the effect of inflation has been removed. Economic growth in the period was negative. So government's share of the economy is growing significantly. With publication of figures on flows in and out of the State Exchequer Account in the first five months of the fiscal year, it becomes clear that appropriate monetary policy is being sabotaged by government's failure to impose fiscal discipline.

Last month government spending was 29,7% higher than in August last year and, in the first five months of the fiscal year, it was up nearly 18% on the same period in the previous year. This is well ahead of the budgeted rise of 13,7%.

Nedbank group economist Edward Osborn argues that the sharp rise is due to a technical reason: "It is off a low base, in that spending last year got off to a slow start. This year's expenditure level in the first five months is almost exactly in line with budget estimates, excluding the R1,2bn contingency provision. The big jump between July and August was entirely due to the half-yearly interest payments."

However, spending is only part of the problem. Revenue rose 13% August-on-August and 4,1% over the five months — against a budgeted 11,1% rise for the year. Businesses that want to survive the recession are cutting back on spending at an estimated rate of 15% this year. But government, which does not have to generate an operating surplus or even cover costs, faces no such constraint on its spending. It is free to make an operating loss year after year; to decide each year the extent of the loss; and then finally to generate an even greater loss at the end of the year. In most years it makes full use of all these options.

The 1991/1992 fiscal year is proving no exception. Faced with a shortfall in tax inflows in the recessionary climate, government is not cutting back on spending but rather pressing ahead. The result is that the deficit for the fiscal year, so far, amounts to more than R8bn, not far short of the year's targeted R10,1bn deficit.



Source STANDARD BANK

Of even greater concern from the point of view of monetary policy, Reserve Bank Governor Chris Stals pointed out in his annual address, the deficit has been financed "to a large extent by an increase in the net claims of the banking sector on the government." Government has been running down its deposits with the Reserve Bank and borrowing from the commercial banks thereby creating assets against which the banks are able to gear up their business. And government is doing so at a time when its avowed policy is to reduce the rate at which credit is extended.

Says Standard Bank chief economist Nico Czypionka: "This has contributed to a large build-up in the money market at a time when the Reserve Bank was desperately trying to mop up excess liquidity. The running down of government deposits at the Bank had the effect of increasing net claims on government and as a consequence increasing the money supply."

As long as government spending causes monetary expansion, interest rates cannot fall without unleashing dangerous inflationary forces. The losers then are private consumers who have been forced to cut back on their borrowings and businesses, which have been obliged to reduce their inventories, run down capacity utilisation and allow their capital stock to age. The result is negative economic growth and rising unemployment.

These developments reinforce inflationary expectations. The role of expectations was highlighted by Deputy Governor Jaap Meijer in a speech to a trade association last week. The inflationary impulses of the Eighties were excessive monetary demand, the weakening of the exchange rate and inflation. Now, he saays, it "is an expression of deeply entrenched inflation expectations, inflation. Now, he says, it "is an expression of deeply entrenched inflation expectations, rate tend to be regarded as permanent and possibly as foreshadowing further inflation increases, whereas declines in the inflation rate tend to be discounted as fortuitous, self-reversing and temporary."

From a strategic point of view then, it would not be advisable to reduce the official Bank rate. Says Czypionka: "The growing deficit comes at a time when consumer price inflation has been rising and when the introduction of VAT at the end of the month is expected to create at least a once-off rise in prices of 1,5%-2%. Stals will not want to be seen to be accommodative."

continue.

4. **"Security Services Undertaking"** means the undertaking in which employers and their employees are associated for the purpose of guarding or protecting premises, buildings, structures or any other fixed property, vehicles, vessel or boats or other craft and employees or other persons, and includes the depositing, withdrawal and cashing or transportation of money for or on behalf of a client, the making up thereof in specified amounts, the placing of specified amounts in envelopes and the handing over of envelopes to persons, as instructed by the client, or the transportation of any other goods that have to be guarded or protected while in transit.

Postal address of applicant: P.O. Box 626, Newcastle, 2940.

Office address of applicant: I.M.S. Building, Mirchison Street, Newcastle.

Attention is drawn to the following requirements of section 4 of the Act:

(a) The representativeness of any trade union which objects to the application shall in terms of subsection (4) be determined on the facts as they existed at the date on which the application was lodged and, as far as membership is concerned, only members who were in good standing in terms of section 1 (2) of the Act as at the aforesaid date shall be taken into consideration.

(b) The procedure laid down in subsection (2) must be followed in connection with any objection lodged.

D. W. JAMES,
Industrial Registrar.

(20 September 1991)

4. **"Sekuriteitsdiensteonderneming"** beteken die onderneming waarin werkgewers en hul werknemers met mekaar geassosieer is met die doel om persele, geboue, strukture of enige ander vaste eiendom, voertuie, skepe of bote of ander vaartuie en werknemers of ander persone te bewaak of te beskerm, en dit omvat die deponering, onttrekking en wisseling of vervoer van geld vir of namens 'n kliënt, die opmaak daarvan in gespesifiseerde bedrae, die plasing van gespesifiseerde bedrae in koeverte en die oorhandiging van die koeverte aan persone, ooreenkomstig die kliënt se opdrag, of die vervoer van enige ander goedere wat bewaak of beskerm moet word terwyl dit in transito is.

Posadres van applikant: Posbus 626, Newcastle, 2940.

Kantooradres van applikant: I.M.S.-gebou, Mirchisonstraat, Newcastle.

Die aandag word gevestig op onderstaande vereistes van artikel 4 van die Wet:

(a) Die mate waarin 'n beswaarmakende vakvereniging verteenwoordigend is, word ingevolge subartikel (4) bepaal volgens die feite soos hulle bestaan het op die datum waarop die aansoek ingedien is, en wat die lidmaatskap betref, word alleen lede wat ingevolge artikel 1 (2) van die Wet op voormelde datum volwaardige lede was, in aanmerking geneem.

(b) Die prosedure voorgeskryf by subartikel (2) moet gevolg word in verband met 'n beswaar wat ingedien word.

D. W. JAMES,
Nywerheidsregistrateur.

(20 September 1991)

NOTICE 857 OF 1991

49

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of August 1991

	1991-08-31	1991-07-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 105 766 166,00	10 110 942 840,00	(5 176 674,00)
Deposits:			
Government	4 902 829 765,88	5 664 917 585,82	(762 087 819,94)
Provincial administrations	595 052 704,44	757 887 546,01	(162 834 841,57)
Deposit-taking institutions	1 049 943 524,43	1 156 868 007,07	(106 924 482,64)
Other	88 420 320,99	99 187 892 ,49	(10 767 571,50)
Other liabilities	10 171 816 745,70	8 224 587 167,80	1 947 229 577,90
	R26 993 661 090,55	**26 094 222 902,30**	**899 438 188,25**
Assets			
Gold	5 411 247 895,85	5 322 120 560,24	89 127 335,61
Foreign assets	2 549 651 337,81	2 363 645 906,33	186 005 431,48
Total gold and foreign assets	**7 960 899 233,66**	**7 685 766 466,57**	**275 132 767,09**
Domestic assets:			
Discounted bills	2 309 440 000,00	1 647 750 000,00	661 690 000,00
Loans and advances:			
Government	—	—	—
Other	1 119 585 168,64	1 117 979 627,13	1 605 541,51

	1991-08-31	1991-07-31	Change
Liabilities	R	R	R
Securities:			
Government	499 704 688,54	971 948 660,84	(472 243 972,30)
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	13 981 046 955,71	13 547 793 103,76	433 253 851,95
	R26 993 661 090,55	**26 094 222 902,30**	**899 438 188,25**
Rand per fine ounce	911,76	938,25	(26,49)
Gold holdings in fine ounces	5 934 948	5 672 391	262 557

Pretoria, 6 September 1991.

C. J. SWANEPOEL,
General Manager.

KENNISGEWING 857 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Augustus 1991

	1991-08-31	1991-07-31	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	10 105 766 166,00	10 110 942 840,00	(5 176 674,00)
Deposito's:			
Regering	4 902 829 765,88	5 664 917 585,82	(762 087 819,94)
Provinsiale administrasies	595 052 704,44	757 887 546,01	(162 834 841,57)
Depositonemende instellings	1 049 943 524,43	1 156 868 007,07	(106 924 482,64)
Ander	88 420 320,99	99 187 892,49	(10 767 571,50)
Ander laste	10 171 816 745,70	8 224 587 167,80	1 947 229 577,90
	R26 993 661 090,55	**26 094 222 902,30**	**899 438 188,25**
Bates			
Goud	5 411 247 895,85	5 322 120 560,24	89 127 335,61
Buitelandse bates	2 549 651 337,81	2 363 645 906,33	186 005 431,48
Totaal aan goud en buitelandse bates	**7 960 899 233,66**	**7 685 766 466,57**	**275 132 767,09**
Binnelandse bates:			
Gediskonteerde wissels	2 309 440 000,00	1 647 750 000,00	661 690 000,00
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 119 585 168,64	1 117 979 627,13	1 605 541,51
Sekuriteite:			
Regering	499 704 688,54	971 948 660,84	(472 243 972,30)
Ander	1 122 985 044,00	1 122 985 044,00	—
Ander bates	13 981 046 955,71	13 547 793 103,76	433 253 851,95
	R26 993 661 090,55	**26 094 222 902,30**	**899 438 188,25**
Rand per fyn ons	911,76	938,25	(26,49)
Goudbesit in fyn onse	5 934 948	5 672 391	262 557

Pretoria, 6 September 1991.

C. J. SWANEPOEL,
Hoofbestuurder.

(20 September 1991)

Civil debt bounces up 34%

Own Correspondent

JOHANNESBURG. — Total civil debt for the first six months of this year was R1,24bn, up 34% on the 1990 figure of R904m, Credit Guarantee senior economist Luke Doig said yesterday. (49) CT 20/9/91

Total civil debt for the whole of 1989 was also R1,24bn. This rose by 60% to R1,96bn in 1990.

Doig said the effects of increased debt would endure for a long time.

"Our experience as a credit guarantor is that there is a nine- to 12-month lag between an upturn in the economy and the corresponding reduction in civil debt."

He said the June figure of R204,4m was down from R216,4m in May, but despite the decrease, civil debt figures were on a much higher plateau than last year.

Meanwhile, Information Trust Corporation MD Tony Leng said latest figures showed civil judgments against black consumers were increasing as they made more use of credit facilities.

Financial empire? Not at Liberty to say

CT 20/9/91

By ARI JACOBSON

SHARES in Liberty Life and First International Trust (FIT) — its offshore arm — were suspended on the JSE and the London Stock Exchange yesterday, sending rumours rippled through the market of the possible formation of a financial services empire overseas.

But FIT Chairman Donny Gordon stationed in London was not willing to comment.

"Just believe me its positive," he said before rushing off into a meeting.

A leading analyst was willing to speculate that this could signal a joint venture between the domestic and overseas components — (including possibly Standard Bank Investment Corporation (Stanbic) — to build an integrated financial services system overseas.

He said SA's position, over the last five years, had been tainted by the political climate.

"The time is now ripe for an involvement with a powerful financial force overseas."

The idea of one-stop-services, coming out of SA and flowing onto the international scene could be the most exciting recent financial development, he said.

FIT's overseas investments include about 29% of UK based life assurer Sun Life and effective control through TransAtlantic of UK property group Capital-& Counties.

Speaking of the possible effect on share prices a dealer said "the man's (Donny Gordon's) record speaks for itself. Those that have backed him are already retired".

But FIT has had a less than glorious rise since its listing two years ago on Diagonal Street.

The share which peaked at about R17 in mid-1990 was suspended close to its lows of R9,40 yesterday. A slump in the UK property market and the strengthening of the financial rand were the main contributors to its failure.

This translated into a 6% fall in earnings a share for the six months end June. FIT is presently raising R375m through a rights issue of 30 for 100 shares.

Recovery stock

Cape-based Viscount Portfolio's Ralph Hoffman said FIT at its current market low was considered a recovery stock, even before this announcement.

Hoffman said factors considered were excellent property assets all held offshore, strong management and the likelihood of the UK property market turning favourable over the next two years.

● The suspension of Liberty Holdings, Liberty Life, FIT and Liberty Investors was requested by the companies and triggered speculation of a major offshore restructuring involving Liberty's TransAtlantic and Sun Life, our Johannesburg correspondent reports.

Market speculation was that Gordon was close to achieving his long-standing ambition of gaining undisputed control of UK assurer Sun Life Corporation through Liberty's Luxembourg-quoted insurance and property investment holding company TransAtlantic.

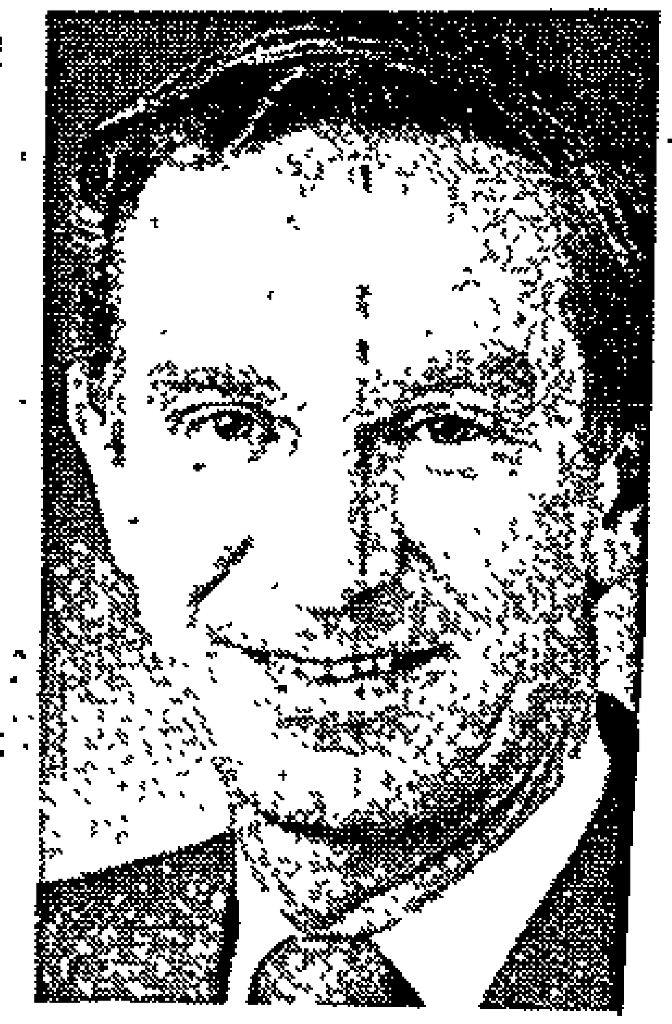
Sources close to TransAtlantic said the group was negotiating with l'Union des Assurances de Paris (UAP) to acquire the French assurer's 27,9% stake in Sun Life for about £180m.

Last night, Gordon would neither confirm nor deny that Liberty was planning to acquire additional shares in Sun Life.

The deal would probably involve a combined equity swap and cash payment for the French interest, stockbrokers believe. London's takeover regulations would mandate a comparable bid for minority shareholdings.

The brokers added that Liberty was expected to take a direct interest in TransAtlantic in addition to its indirect holding through FIT.

Richard Connellan of the JSE's listings department yesterday confirmed the exchange had recently passed a special resolution which authorised listed companies to enlarge their equity bases by up to 10% in a private placement to raise quick cash. No public offer would have to be made in this instance, unlike in a conventional rights issue.



Ken Coleman has been promoted to senior manager, financial systems in the corporate finance division of Southern Life in Cape Town.

Henry Vermeulen h been promoted to a sistant GM, sal support at Souther

A glance behind slogans

W Mail 20/9 - 26/9/91 (49)

NICOLI NATTRASS takes a look 'beyond the slogans' at an interesting beginner's guide for would-be nationalisers

IF YOU want to know the basics of company valuation, payment of compensation, alternative structures of ownership and control and other strategic business issues associated with nationalisation, read Keith Coleman's *Nationalisation: Beyond the Slogans* (Ravan Press).

But Coleman is far from being an uncritical advocate of nationalisation. His argument is sprinkled with warnings about the need for suitable profit-related incentives, the dangers of total state control, potential power-struggles between labour, management and the state, etc. In fact it is difficult to pin down *what* Coleman actually believes about nationalisation. For the most part, Coleman succeeds in being even-handed — although I would like to have seen a more critical analysis of current leftwing thinking on the subject.

The book started life as a Masters of Business Administration thesis. This probably accounts for its micro-economic orientation.

The substantial and original part of the book is Chapter Four: "Nationalisation in South Africa". Ruling out confiscation as an option, Coleman observes that it would be too expensive to fully nationalise Anglo if compensation was to be paid at market value. Partial nationalisation of Anton Rupert's controlling pyramid would, on the other hand, give the state effective control of the Rembrandt conglomerate at a relatively cheap price. Coleman's back-of-the envelope cost calculations are interesting and valuable. They will generate consternation among some radicals (because nationalisation is expensive) and most industrialists (because it is possible).

When Coleman discusses the ins and outs of actual nationalisation, he is on relatively strong grounds. However, when he jumps from an enterprise focus to questions entailing a broader macro-economic perspective, the analysis weakens substantially. This could be because economics is apparently not one of Coleman's strengths.

Although this is a very specific quibble (and I have many such quibbles), it is indicative of the book's general failure to come to grips with broader economic dynamics.

Furthermore, the analysis is open to misinterpretation by ideologically motivated readers interested in drawing more definite conclusions. For example, Joe Slovo is quoted on the back cover as saying that the book "shows that nationalisation is a workable instrument which can play an important role in redistribution and economic planning".

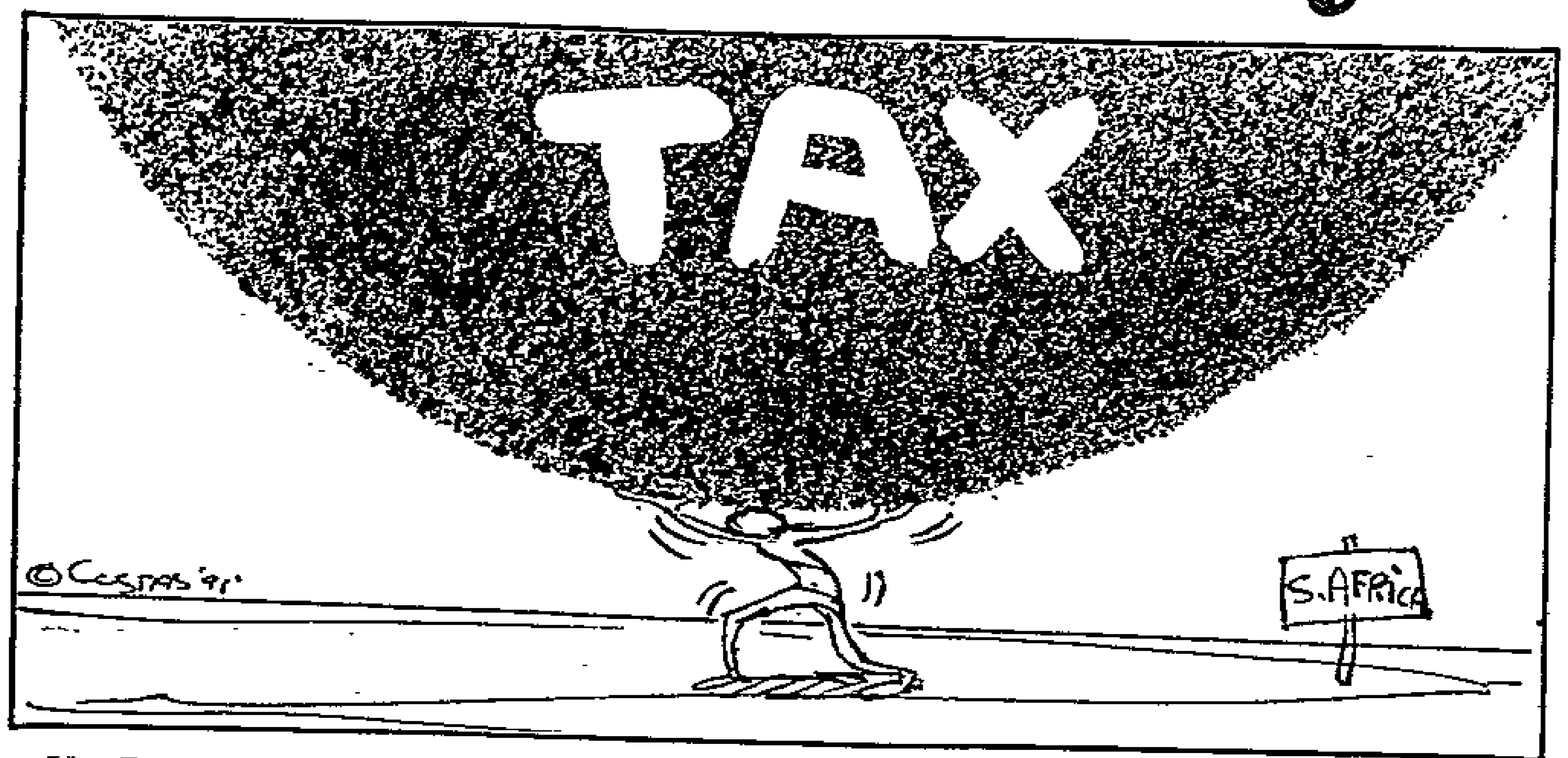
This is precisely what the book does *not* show. What it shows is that if a government believes nationalisation has an important role to play (and there are many roles depending on the specific goal in mind), then various alternative means of nationalisation can be followed. It is to Coleman's credit that he discusses these alternatives. It is a pity the book is presented as doing something more than this.

● Nicoli Nattrass is a lecturer in the Department of Economics at the University of Cape Town.

GOVERNMENT REVENUE: *South Africans are paying too much, according to worldwide trends, reports REG RUMNEY*

SA's tax burden: Enough already

W/Mail 20/9-26/9/91 49



THERE is little scope to increase taxes in South Africa, according to South African Fiscal Think Tank chairman Marius van Blerck.

The reason, Van Blerck remarks in a paper on international tax trends delivered at a seminar this week, is that South Africa is effectively one of the most highly taxed nations in the world in all categories of tax, with the notable exception of social security taxes.

Van Blerck looks at both the overall tax burden and the distribution of tax in South Africa and abroad, using International Monetary Fund, SA Reserve Bank and Receiver of Revenue statistics.

The overall tax burden is measured by taking the amount of tax central government receives as a percentage of the measure of national activity, gross domestic product (GDP).

In South Africa, central government revenue as a percent of GDP was 24,6 percent in 1987 — up from 21,4 percent in 1975.

The corresponding average for industrialised countries in 1987 was 27,4 percent; the figure for developing countries in Africa was 21,6 percent.

South Africa is more of a developing than an industrialised country, though it is ahead of many other African states.

Even more extreme is the disparity between South Africa and the rest of the world in the areas of direct tax on income, profit and capital gains.

In South Africa in 1987 central government got 51,2 percent of its tax from this source.

The average for the world was 37,2 percent.

Van Blerck comments that the high direct tax burden doesn't include a capital gains tax.

So the imposition in South Africa of a capital gains tax will have to be accompanied by a substantial drop in income tax or the combined burden will be too great.

So what scope is there for raising taxes? Van Blerck argues this can only happen if there is higher economic growth.

Turning to the distribution of tax, Van Blerck expands on the shift in the tax burden from companies to individuals.

This shift, he say, needs to be examined in context.

"Firstly, part of the shift has resulted from external factors, namely the softening of a wide range of mineral prices since 1985 which has seen the profitability of the mining sector decline dramatically.

"Secondly, despite the shift, the corporate tax burden in South Africa is, relative to the individual burden, still high by OECD standards .. .in 1987 in the OECD countries personal tax generated on average four times as much as corporate tax; in South Africa in 1987 personal tax only generated about 50 percent more than corporate tax."

South Africa is most out of line with most other countries when it comes to social security taxes — basically a form of compulsory national insurance.

In South Africa social security tax means essentially the Unemployment Insurance Fund, and stood at two percent of central government revenue compared with the world total of 28,1 percent.

South Africa's social security tax figure is close to the average for developing countries in Africa, at 1,8 percent. But since it is better developed than most countries on the continent, it should arguably have a higher proportion of such tax.

Van Blerck also surveyed tax trends between 1980 and 1990 in 40 countries chosen at random. The average rate of corporate tax in those countries dropped from 45,80 percent in 1980 to 40,36 percent in 1990. Of those countries, 13 have dropped their rates by more than 10 percentage points and only three have raised their rates by five points or more.

The average rate of individual tax in the world dropped far more dramatically from 1980 to 1990, from 62,71 percent to 47,77 percent. Planned further reductions could push the average below 45 percent by 1992, says Van Blerck.

Fully 24 countries dropped their rates by more than 10 percentage points in this period, led by Tanzania with a stunning 55 point reduction. Only one country, Zimbabwe, raised individual tax rates, and this may soon be reversed.

"A further statistic which indicates the extraordinary nature of individual tax reforem is that 21 of the 40 countries surveyed imposed maximum tax rates of over 60 percent in 1980, but only four did do in 1990 and of these, one (Sweden) will shortly be reducing its rate to 50 percent (down from 86 percent in 1980)."

Prepare to meet th

Growth rates set to improve rapidly

Star 21/9/91 (49) Star 21/9/91

LIKE Gulliver, the South African economy is slowly breaking loose from the many shackles that have all but paralysed the economy for almost a decade now.

Evidence is mounting that the economy is close to the bottom of a secular, long-term decline and that growth rates are set to improve rapidly during the Nineties.

For many hard-pressed consumers, drowning under a sea of personal debt, this would come as an economic lifeline.

Personal debt levels are at record levels as people increased debt-exposure in their battle to maintain living standards. In many cases, the battle has been lost

AND for the almost 4 million unemployed people an upturn in economic growth offers the hope of finding employment at some time in the foreseeable future.

After nearly 10 years of stagnant economic growth — coupled with an ever-rising population — we are much poorer than 10 years ago.

This is visibly evident in the steady ageing of the national car pool, a decline in the average size of newly built houses (down from 200 sqm in 1980 to under 140 sqm at the end 1989) and other, perhaps less tangible, measures of material wealth

The dismantling of sanctions, a breaking-down of trade barriers and an inflow of foreign capital, is likely to filter through to improved local business confidence and higher growth rates, even as soon as next year.

Economists are now widely confident that an economic growth rate of between 3 and 4 percent can be reached next year. If this target is reached, it will be the first time since 1988 that economic growth will exceed the growth in the population — a vital prerequisite in addressing the disparity in wealth in South Africa.

Leon Steenkamp, an economist and investment fund manager at life company Momentum says: "Statistical calculations covering more than 30 years suggest that the South African economy is close to the beginning of a long-term upswing. Growth rates of up to 5 percent in some years during the Nineties are not impossible."

Rob Lee, a former chief economist at insurance giant Old Mutual and now investment chief at Board of Executors in Cape Town, shares this view and believes that the economy is set to grow rapidly in the Nineties

The main reasons for this mood of optimism among the men who study the economic crystal ball almost on a daily basis includes.

- South Africa's access to foreign capital;
- An upswing in world economies;
- An upturn in the commodities cycles, and;
- Higher exports by South African manufacturers.

Even the progress being made on the political front is starting to have an effect on the business mood

Last week's signing of the National Peace Accord has been well received by business. This will go a long way in improving long-term confidence in the country.

THE economic growth rate was erratic and volatile for most of the Eighties The two discernable upswings - the periods 1983/84 and 1987/88 — both had to be terminated by the authorities.

The reason: pressure on the current account of the balance of payments due to a lack of foreign capital.


UPSWING: Leon Steenkamp says growth rates of up to 5 percent are not impossible.


MOOD OF OPTIMISM: Economist Rob Lee believes the economy is set to grow this decade.

Report: MAGNUS HEYSTEK
Finance Editor

Ever since the debt standstill in 1985, the economy has been operated on a cash-basis. Due to a lack of foreign capital and restricted access to new funding by the International Monetary Fund, South Africa could not dare to run up a deficit on the current account of the balance of payments

This week's startling success in raising DM400 million (R670 million) in a German bond issue is the likely forerunner to more loans on international capital markets.

And more capital projects, similar in size to the R3 billion Columbus stainles steel project, announced earlier this week, are expected to boost investment considerably in capital projects in years to come.

Evidence is mounting that the economic recession in the United States has ended and that a new phase of economic growth has started With trade barriers falling all the time, South African exporters will be able to exploit this huge market fully for the first time in more than six years.

The Governor of the Bank of England, Rob Leigh-Pemberton, this weeks also suggested that the UK economy had passed what is called the "lower turning point of the current trough". What this means is that economic activity on the whole is now starting to increase.

For South Africa, with its "open" economy, the normalisation of trade with the rest of the world — although hampered by certain measures still in force — would be beneficial to exports.

This has already had many favourable implications new possibilities for South African exports, as reflected in the record non-gold export volumes achieved in the second quarter of 1991, considerable relief on the capital account of the balance of payments and scope for reduced import costs.

Since this country has a relatively "open" economy, the country is particularly sensitive to positive impulses from the international arena Higher growth in world trade very rapidly leads to higher exports (and export prices) for local manufacturers.

As Lee says: "The cumulative long-term impact of sanctions and iso-

to meet thy boom

es set to improve rapidly in the '90s

Star 21/9/91


VING: Leon Steenkamp says growth rates of up to 5 percent are not impossible.


MOOD OF OPTIMISM: Economist Rob Lee believes the economy is set to grow this decade.

Report: MAGNUS HEYSTEK Finance Editor

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Since this country has a relatively "open" economy, the country is particularly sensitive to positive impulses from the international arena. Higher growth in world trade very rapidly leads to higher exports (and export prices) for local manufacturers.

As Lee says: "The cumulative long-term impact of sanctions and isolation was enormously damaging to South Africa's economic performance and potential, probably more so than many appreciate or even care to admit.

"Similarly, the consensus view is probably underestimating how positive an impact the ending of sanctions and isolation will have. Enormous opportunities are now open to us, which the South African economy and infrastructure have the potential and the ability to exploit."

The crumbling of sanctions, among other factors, is regarded as a positive leading indicator of a domestic upswing This is already reflected in the strong surge in the share prices of leading industrial and financial companies on the Johannesburg Stock Exchange

The stock exchange is considered a very sensitive (and very accurate) barometer of future economic growth and, by implication, growth in company earnings. The surge in share prices, which has made the JSE the best performing stock exchange in the world this year, reflects increasing confidence that company earnings are set to grow at a subtantial rate during the next two to three years

Depressed gold, platinum and other metal prices, however, continue to cause concern, but several gold bosses have expressed confidence that metal prices will increase in the Nineties

A large marketing exercise is being undertaken by the World Gold Council, which could stimulate world jewellery demand considerably in the next few years.

While the outlook for an improvement in the economy is soundly based, there is as yet little evidence to support this contention

Real economic activity has been at a virtual standstill for more than 28 months now — making it the longest post-war recession. Spending on durable and semi-durable items has been falling for several months now while even spending on essential items has come under pressure in recent months.

Food retailing supremo Raymond Ackerman only yesterday described business conditions in the retailing industry as a "catastrophic recession".

The imposition of VAT is also likely to add to this pressure, in the short-term at least

But a sharp increase in investment spending is expected to materialise soon after the September 30 VAT-deadline. Thereafter, all expenditure on capital goods by business will be zero-rate. But this will take time to translate into higher job creation, one of the most serious challenges facing the business community

Other signs pointing towards an improvement in the economic lot of most South Africans include

- Inflation and monetary supply figures for July proved more encouraging than in previous months

The consumer price index rose by only 0,7 percent, the lowest increase this year. However, at current levels the inflation rate is still very high, considering that the country is at the beginning of an economic upswing.

Inflation tends to rise during periods of economic upswings This could limit the duration of any upswing as the authorities will have to step in and bring inflation under control

- The Reserve Bank's index of leading indicators rose for the third successive month in March (the latest figure available). The normal lag between an upturn in this index and the economy as a whole is six to nine months.

NEW INCOME FIGURES SHOW HOW A STAGNANT ECONOMY DEPRIVES THE DEPRIVED

THE MYTH: Growth makes whites richer

S/Times 22/9/91. (49)

By BRIAN POTTINGER

THE poor get poorer and the rich get richer — or so goes the old adage.

Not necessarily true, reveals an important new Urban Foundation survey of income patterns among South Africa's racial groups.

Estimates by economist Charles Simkins show that economic growth improves the position of black communities more than it does for whites.

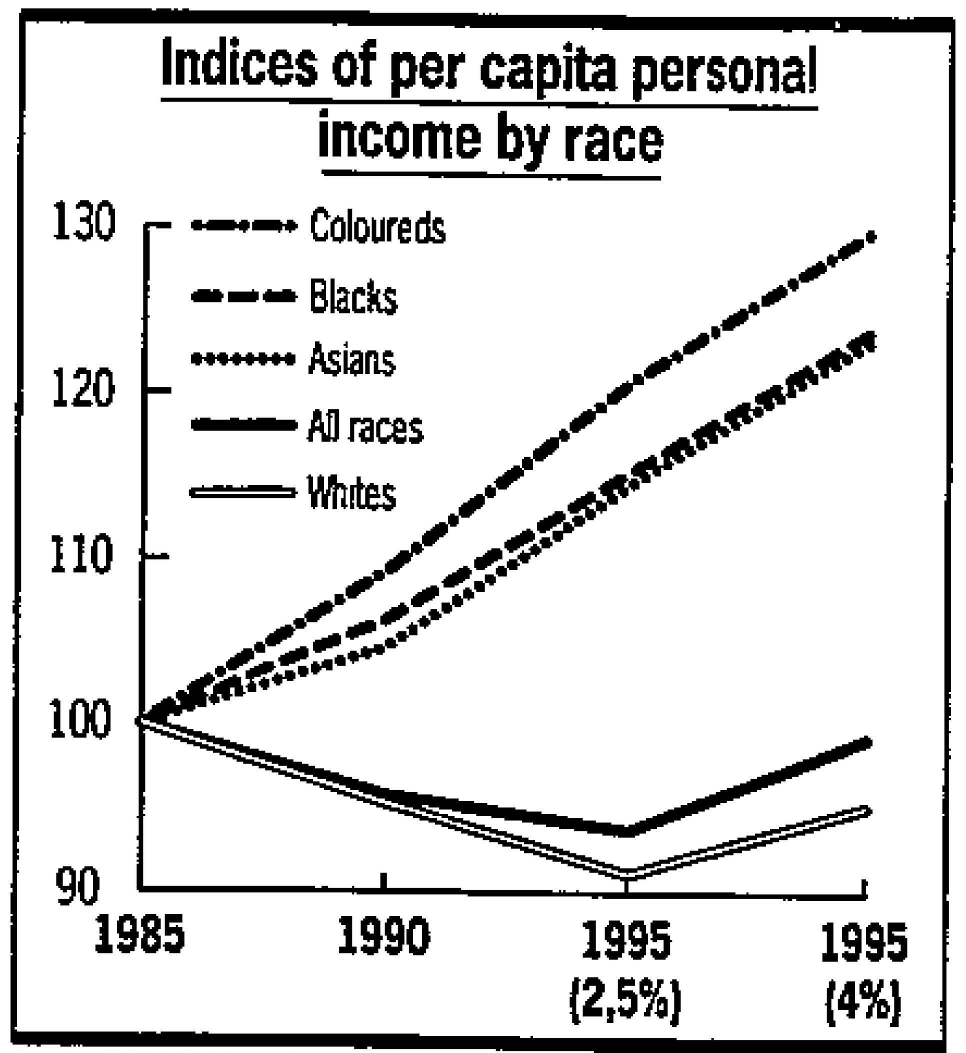
The proportion of black households living in poverty, has diminished over the last five years. The proportion of poor white households has increased.

Higher growth rates — 2,5 percent for example — lift more urban black households out of poverty. And at a four percent growth rate, the endemic rural poverty is also reduced.

The white poor, on the other hand, will experience hardly any improvement in their position, estimates Professor Simkins. The number of whites living in poverty will stay constant at about 200 000 people — even at four percent growth rates.

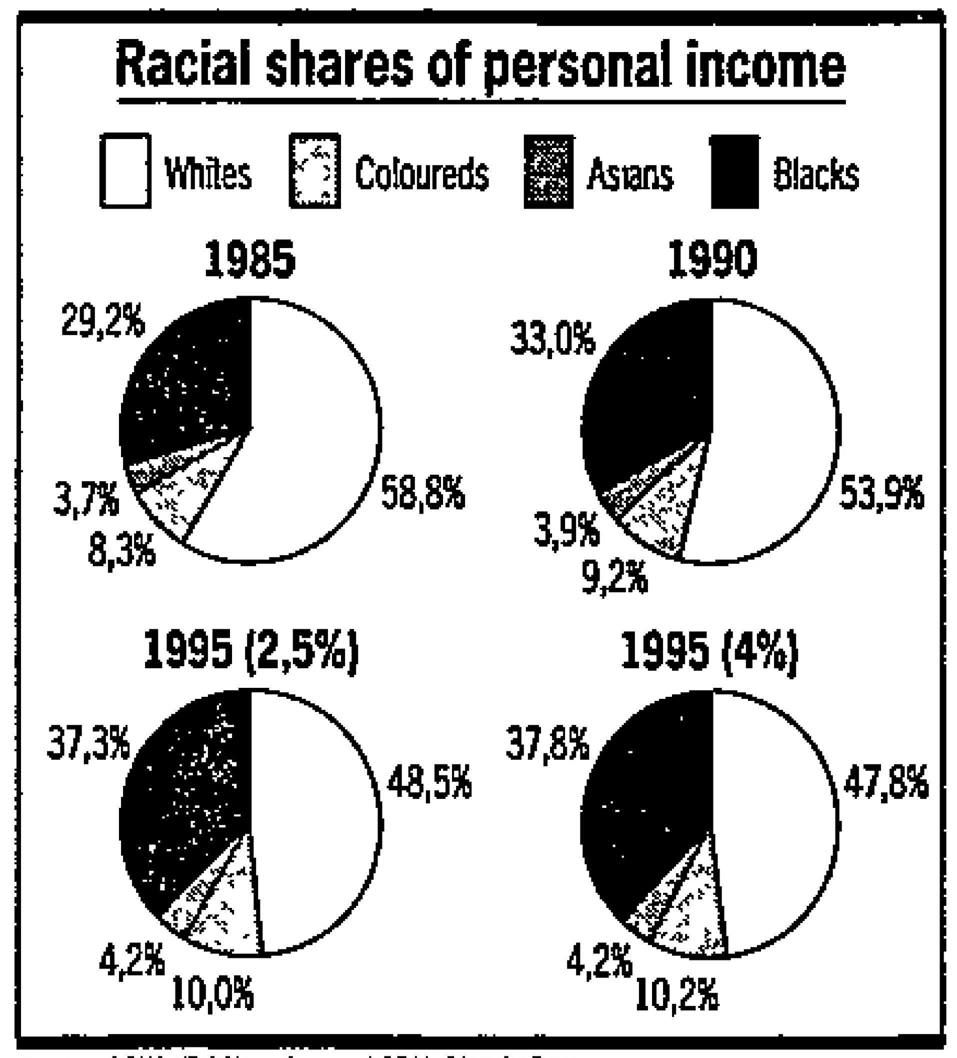
The conclusion: economic growth rates will continue the process of income redistribution away from whites towards blacks.

Professor Simkins' model shows that the white share of total personal income has been falling sharply. Six years ago whites earned nearly 59 percent of all personal income in the country. Last year the figure had dropped to below 54 percent.



Graphic: FIONA KRISCH Source: URBAN FOUNDATION

A projected lowering of the white per capita income



Graphic: FIONA KRISCH Source: URBAN FOUNDATION

The growing black share of personal wealth

THE FACT: Growth makes blacks richer

Fall

If South Africa maintains a 2,5 percent growth rate for the next four years (current growth rate is about -1 percent), white share of personal income will fall to 49 percent. If the country can achieve an economic growth rate of four percent, white share slips another one percent.

What then happens to black South Africans' share of personal income?

The Simkins model suggests that at a four percent growth rate, black share of personal income would have risen from 29,2 percent in 1985 to 37,8 percent in 1995.

Real per capita income has also shown some interesting changes in the last decade.

If one uses a baseline of 100 in 1985, the following has happened:

- White per capita income had dropped to 95,8 points by 1990 while black incomes went up to 106,3;
- At a 2,5 percent growth rate white incomes will be at 93,7 points in 1995 while black incomes will be 115,3;
- If we assume a four percent growth rate, white incomes will have recovered to 99,3 in 1995 while black incomes will have risen to 123,8.

There are two reasons why the racial share of personal income is changing: the black component of the total population is increasing and per capita income of blacks is increasing in real terms while white income is decreasing.

"Both these trends are working in the same direction to redistribute income away from whites towards coloureds, Asians and blacks," says Professor Simkins.

The Simkins model suggests that the number of South African households living in poverty (he uses for his definition the Minimum Living Level which is described as the minimum income required for subsistence in the short-term), has declined in the last five years from 42,8 percent to 41,9 percent of all households.

At a growth rate of 2,5 percent, the model suggests, households in poverty drop to 40,1 percent and at four percent it is 37,9 percent.

About one-third of black households in cities live below the MLL, though this proportion rises to just over 50 percent on the fringes of cities under homeland jurisdiction. Poverty levels in smaller towns are slightly higher.

But the incidence of poverty is still enormous among rural black communities.

The homeland rural poor benefit the least: 84 percent were termed "in poverty" in 1985, 82,6 percent were still there last year, 80 percent will be there in 1995 on a 2,5 percent growth rate and 77,2 percent in 1995 at a four percent growth rate.

The total number of people living in poverty (as opposed to households) has also increased.

In 1985, 15,5-million people were considered poor. Last year there were 17,1-million. By 1995, with a 2,5 percent rate of economic growth, the number of poor would still have edged up to 18,4-million. It is only with a growth rate of four percent that the corner is turned: in that case the number of people classified as poor by 1995 would drop back to 17,4-million.

Mossgas

What would it cost to bring all South African households to the MLL?

Professor Simkins assays some figures. In 1985 it would have cost R6,7-billion. Last year it was R13,8-billion (the estimated cost of Mossgas). In 1995, at a 2,5 percent growth rate it would take R14,6-billion and at four percent it drops back to R13,8-billion (in 1990 prices).

The conclusion, says Professor Simkins, is that income inequality remains unequal along racial lines although in "rapidly diminishing measure".

Even with the low rate of economic growth between 1985 and 1990, the proportion of households in poverty has dropped.

"Unless economic growth drops to even lower levels, further progress against poverty can be expected during the first half of the 90s," he says.

OTHER COUNTRIES MORE UNEQUAL THAN US

THE Gini Coefficient sounds like the title of a Robert Ludlum novel but it is in fact the most widely used measure of economic inequality within a particular society.

South Africa does not do well in terms of that definition. It is in the top quarter of the most unequal societies in the world for which data is available.

But some people — the SA Communist Party's Joe Slovo is one — insist that South Africa is the *most* unequal society in the world.

This is not true: the Gini Coefficient has become one of the most used, and abused, terms in the country.

What are the facts?

The Gini Coefficient is measured on a scale of 0 to 1. At 0, a mythical figure, there is complete income equality among all people. At 1, also mythical, one person has everything and everybody else nothing. The claim that South Africa has the worst Gini Coefficient in the world is probably based on a paper presented to the Second Carnegie Inquiry into poverty in South Africa in 1984.

The authors, De Lange and Van Seventer, in fact, never claimed that South Africa's Gini Coefficient was the worst but that it was the worst *of the countries for which such information was available*. Data from only 57 countries was available and that had been collected from 1948 to 1971.

Notable by their absence were the oil-producing countries and places like Zaire where the income differentials between kleptocracy and citizens would put South Africa in the shade.

Even then, later research by Gary Field, a World Bank economist, has thrown up the uncomfortable fact that at least four other countries have higher Gini Coefficients than South Africa. They are Jamaica, Bahamas, Honduras and Sierra Leone.

Brazil, Mexico and Malaysia are all at roughly the same stage of development as South Africa and all have roughly comparable Gini Coefficients.

South Africa, unlike many other countries at similar stages of development, is slowly improving its record. Research between 1970 and 1980 suggested a declining Gini Coefficient.

Looking beyond the slogans at nationalisation

Star 23/9/91

(49)

BOOK OF THE WEEK

Nationalisation: Beyond the Slogans by Keith Coleman (Ravan Press)
Reviewed by PATRICK LAURENCE

KEITH Coleman, an MBA graduate and a consultant in strategic planning, has written an interesting and challenging book. His analysis of nationalisation lives up to the promise of its subtitle: Beyond the Slogans.

Coleman's ability to look critically and innovatively at the nationalisation debate in South Africa is reflected in the praise given to it by Ken Maxwell, director of JCI, and, at the opposite end of the spectrum, Joe Slovo, general secretary of the South African Communist Party.

Coleman, one suspects, is on the Left in South African terms. But he is not a dogmatist, blind to weaknesses and dangers of simple prescriptions to complex problems.

He is fully aware of the arguments against nationalisation and cites them as points to be considered and absorbed rather than rejected. He agrees that competition is vital to economic efficiency and that the profit motive per se is not a problem.

"The collapses of the economies of Eastern Europe and the Soviet Union have left indelible warnings as to the consequences of lack of competition," he says in his final chapter, Weighing the Risk.

Earlier, in the same chapter, he notes: "The lessons of Eastern Europe and the Soviet Union have in fact pushed the supporters and critics of nationalisation closer together in agreeing on the importance of the profit motive."

He quotes Slovo on the issue (one of the useful appendixes in the book is a full interview with the communist leader).

Slovo agrees that the profit motive is important, arguing that generating a surplus — ie making a profit — "must be a key aim of all enterprises except in those areas where, for social reasons, the State goes in for complete subsidisation".

The socialist quarrel with the profit motive, Coleman reckons, is not with profit per se but with the manner in which it is obtained and distributed.

But while recognising the arguments against nationalisation, Coleman contends that "enough examples of successful nationalistion can be found to undermine the argument that, as a rule, nationalisation does not work."

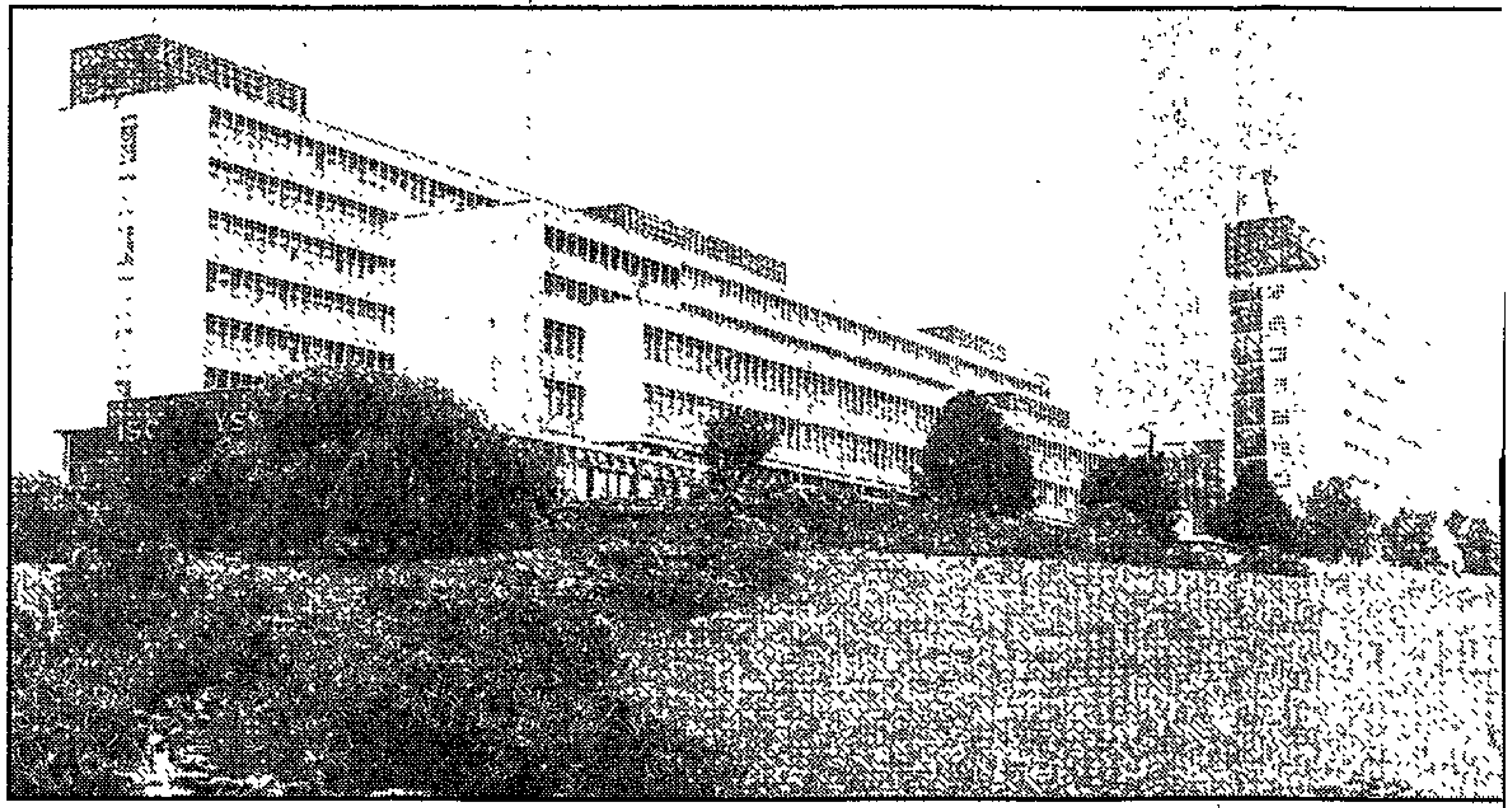
In his survey of nationalisation in different parts of the world, Coleman quotes the nationalisation of American oil companies in Mexico as one that succeeded. "The nationalisation was successful, both economically and politically," he says.

In another appendix containing an interview with Maxwell, Coleman cites two more cases of successful nationalisation. Challenged by Maxwell to say where it has worked, he suggests the Tennessee Valley Authority in the US and Iscor in South Africa.

These cases establish another theme that runs through Coleman's book: contrary to popular opinion, nationalisation has been deployed as a tool by staunchly capitalist as well as strongly socialist governments.

"Politicians of all shades have advocated nationalisation — communists, socialists, social democrats, conservatives, fascists. Stalin nationalised and so did Mussolini, Atlee, Roosevelt, Edward Heath . . .

"Anyone who rejects nationalisation outright has not been to the Tennessee Valley in the United States or the oil-fields of the North Sea; has not chatted to Gavin Relly (immediate past chairman of Anglo-American); has not understood what's been going on when taking a train, calling a policeman, flushing a toilet.



Iscor . . . an example of successful nationalisation, says Keith Coleman.

"As for those who swear by nationalisation, who conceive of it as the cure to all ills, they had better go quickly to Eastern Europe, earn wages in a Zambian copper mine or find out what happened to the Peruvian iron industry."

Coleman's central thesis is that the success or failure of nationalisation depends on how it is done and under what conditions.

He looks at South Africa in detail, pointing out that nationalisation can take different forms: it can be with or without compensation, it can be complete or partial (where the State shares ownership with a corporation), it can involve control rather than — or more than — ownership.

Coleman raises a fascinating scenario, one that involves a reconciliation or synthesis between the two opposing views: negotiated partial nationalisation, with compensation.

It entails an arrangment where the State gets representation on a company board commensurate with its share in the ownership, but where the management prerogative remains intact.

Nationalisation does not, in Coleman's view, exclude partnership between State and capital; it may even involve, on the model of production councils in Germany, a tripartite partnership of State, capital and workers. □

(49) CT 24/9/91

'Economic recovery in SA as important'

SYDNEY. — Australian Prime Minister, Mr Bob Hawke said yesterday that South Africa's economic recovery from apartheid should be as much a priority as its political reform.

"We must remember that in South Africa ... the political revolution is only the start," Mr Hawke told the foreign correspondents' association of Australia and the South Pacific.

"The urgent need to rebuild South Africa's economy after the ravages of apartheid means that sanctions should not be applied any longer than is necessary to secure essential political reforms. We must start now to foster economic as well as political reform," he said.

"Australia has said it will back moves at next month's Commonwealth Heads of Government meeting to lift "people-to-people" sanctions against South Africa.

However, Mr Hawke added that while cultural sanctions should be lifted immediately, economic sanctions should remain until further progress was made in dismantling apartheid. — Reuter

Economy recovery 'is a priority'

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Sowetan 24/9/91

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However, Hawke added that while cultural sanctions should be lifted immediately, economic sanctions should remain until further progress is made in dismantling apartheid.

Hawke, who last week postponed visiting the republic because the pace of change had slowed, said that, while South Africa was reaching a "crucial stage of transition"; the end of apartheid was still not near.

"The recent peace accord is a heartening sign but it will be some time before real peace can be guaranteed."

Hawke also warned that the failure of the current round of world trade talks threatened South Africa's prosperity.

He said the current Uruguay round of Gatt (General Agreement on Tariffs and Trade) had scarcely achieved anything in the past 12 months.

Australia is keen to bring agricultural trade under Gatt control. - *South African Press Association-Reuter*

Sanctions strangled growth prospects

Star 25/9/91

By Derek Tommey

Five years of foreign trade sanctions appear to have been weathered reasonably well. But Mike Brown, economist with Frankel Max Polak Vinderine Inc claims the economy has been seriously damaged and the country is now in a "fourth world" category.

Over the tough years of sanctions South Africa managed to keep open its channels to international markets.

Technology limitations were not a major short-term constraint and foreign disinvestment and debt repayments accommodated and honoured.

On the surface the economy appeared relatively unscathed. But five years of sanctions brought out the underlying economic frailties, claims Mr Brown.

A cursory examination suggests that exports did relatively well. But as the effective value of the rand fell 60 percent over the sanctions period, much of the export growth was bought at the expense of a depreciating currency.

The falling rand had several negative effects. It contributed to the steady decline in the terms of trade, which pushed up the price of imports by 20 percent a year in both 1984 and 1985 and the annual price increases of imports have remained in double figures since then.

This increased the inflation rate and raised the effective level of protection for South African producers from zero in 1984 to above 40 percent in 1986 to 1990, according to the IDC.

This situation carried the risk of unduly endangering the international competitive position of a large portion of the country's production process.

Sanctions also resulted in the export of about R30 billion in capital over the past six years.

The foreign capital haemorrhage was a major factor in the reduced investment.

"South Africa's level of effective net invstment is now among the lowest in the world, placing us firmly, but hopefully temporarily, in the 'fourth world' category," he says.

Potential

"Sanctions did not destroy the ongoing momentum of the economy to the same extent that they appear to have blocked the generation of new investment and job creating activity, and strangled the future potential of the economy".

Government policy in the early 1980's switched towards the promotion of consumption as the chosen multiplier for economic expansion.

Mr Brown saidthe "consumer boom" was to a disappointing extent reliant on growth in Government consumption expenditure which has been growing faster than private consumption expenditure.

The result was Government employment rose nearly 60 percent while total employment rose by a cumulative 12 percent.

"South Africa became a nation of civil servants, with the Government insulating those fortunate enough to be in its employment from the ill effects of sanctions," he adds.

However, now that sanctions are being lifted South Africa must start attracting foreign capital.

Mr Brown says that plenty of interest is being shown in South Africa. What is needed is a catalyst to turn this interest into actions.

This could include:

- Concentrated efforts to establish "show piece" projects involving at least partial foreign participation and provide a visible display of foreign confidence in South Africa;
- "Flag-raising" the issue of South African capital market stock as occured with the German loan last week;
- Specific tax incentives such as temporary "tax holidays" to encourage foreign investment, and;
- Joint ventures by foreigners with South African companies.

Mr Brown says that economic and political stability is a prerequisite for attracting foreign investment.

Violence

The endemic political conflict and violence was also obstructing foreign investment.

A priority for the multiparty conference and any interim Government arrangements should be the issuing of a uniform declaration of support for foreign investment and a pledge to allow free flow of dividends, interest and other payments for non-resident investors.

It's a long, slow haul for the economy — Sanlam

49

Star 25/9/91.

By Sven Lünsche

Sanlam's economists foresee an improvement in general economic activities for 1992, but caution that the upswing will progress only slowly.

In its latest economic review, Sanlam forecasts a decline in GDP of 0,6 percent this year, but a positive growth rate of two percent in 1992.

The upswing however will be retarded by the stubbornly high inflation rate, increases in wages and salaries that exceed the inflation rate and continuously uncertain political climate, chief economist Johan Louw says.

Inflation

He expects inflation to remain at levels of about 15 percent by the end of the year, but only after the implementation of VAT pushes it to 16 percent in October.

Turning to the recession, which has now lasted for about 30 months, Mr Louw says it is significant that the intensity of the present downswing is considerably lower than that of the previous two recession phases.

And there are a number of economic statistics which indicate that the economic downswing is bottoming out:

- The Reserve Bank's leading economic indicator has been showing an upward tendency since January.
- The public sector's current expenditure is showing a reasonably sharp increase.
- The change to VAT forms part of a fiscal package that should encourage private consumer spending, as well as capital investment by companies.
- The continued improvement in the balance of payments and the lifting of sanctions.

Mr Louw emphasises, however, that in order to facilitate stronger growth the fight against inflation needs to be intensified.

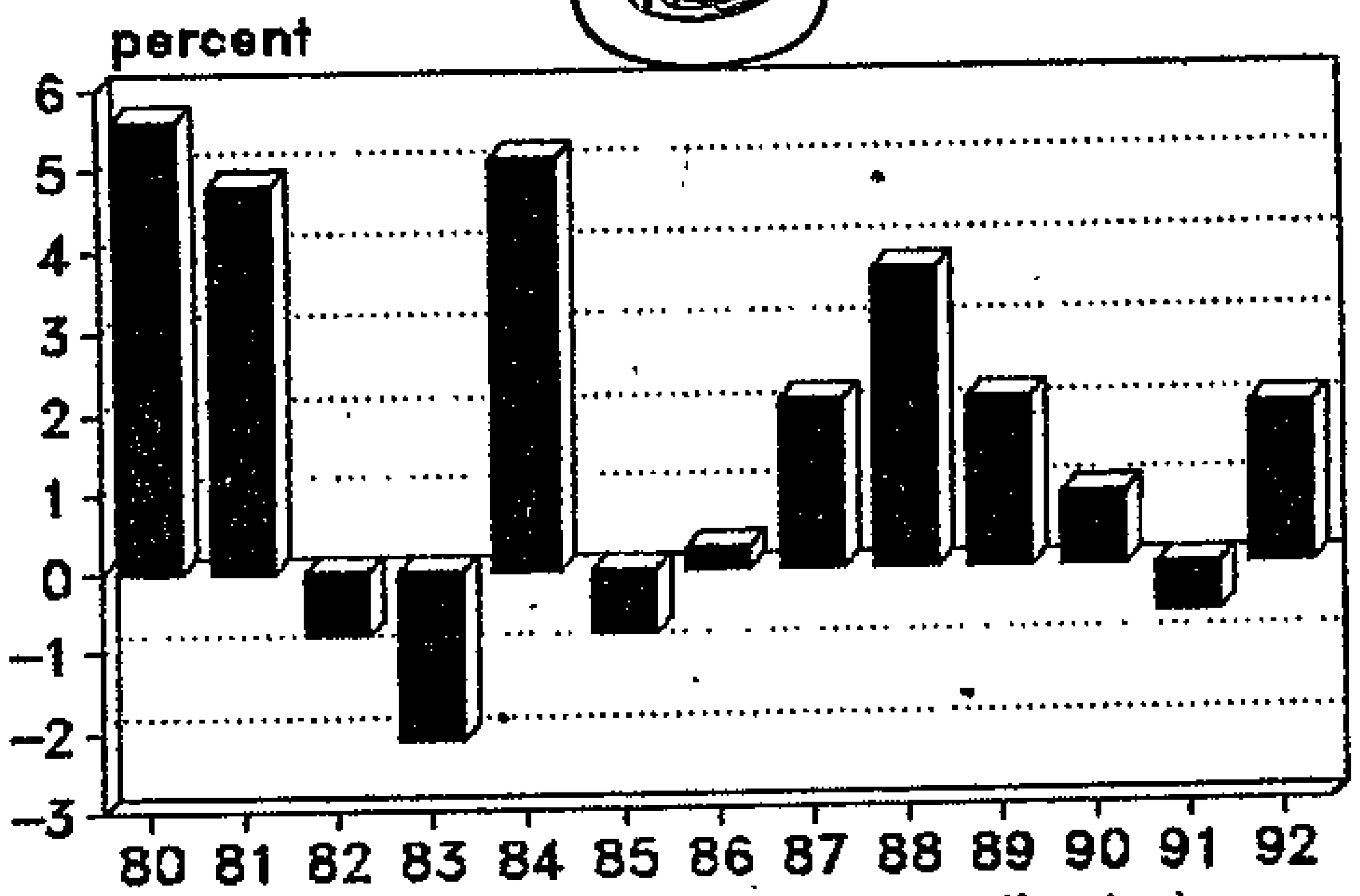
"A significant lowering of the inflation rate can be attained only if strict monetary policy is supported by fiscal discipline, restrained adjustments in salaries and competitive markets in respects of goods, services, capital and labour."

As a result no significant drop in interest rates is expected by Sanlam over the next few months.

However, the economy should receive a boost from the improved position of the balance of payments, which is estimated to show a surplus of R4 billion to R5 billion this year.

"The combination of the sustained surpluses on the current account of the balance of payments and the smaller net outflow of capital has led to a noticeable increase in the country's foreign reserves.

"The chances are good that this trend will continue in the next few years, thanks to an expected continued improvement in the capital account and the benefits which can result from the lifting of sanctions," Mr Louw says.



GDP growth (1991/92 are Sanlam estimates).

Road to the world widens

Star 25/9/91.

South Africa's avenues back to worldwide acceptance seem to be shifting all the time.
By GERALD L'ANGE of the Star Africa Service

THE BELIEF long held in Pretoria that South Africa's road back to international acceptance runs through Africa may be revised by the Department of Foreign Affairs.

It is certainly being reconsidered by Neil van Heerden, Director-General of Foreign Affairs.

"I have personally come to question somewhat the position of the past whereby we said that our road to the rest of the world leads through Africa," he said in an interview in Pretoria.

"It is true that the outside world does look at Organisation of African Unity (OAU) positions and the positions of important individual African countries when they consider dealing with South Africa.

"But there is another dimension to South Africa's place in the world, and that does not necessarily go through the African capitals.

"The world has grown very much smaller. South Africa has been an international player in trade and also politically.

"Whether through criticism or praise, we have had a high profile internationally, and that has carried us into the living rooms of people across the world."

That road had not run through Africa — it had gone directly to the international community, with South Africa recognised as a part of that community, Mr Van Heerden said.

While South Africa was "pushing to normalise our situation with Africa, we are also pushing to normalise our situation globally — politically, economically, culturally and in sport.

"I tend to come to the conclusion that the notion that we are tied to this road through Africa has changed, if indeed it was ever an entirely valid statement.

"There is another dimension to our position in the world than the African one.

"It also has to do a bit with the fact that Africa is under threat of being marginalised.

"And now that sanctions are going, people are going to look at South Africa as a market, as a tourist destination, as a trading partner per se, and not through the perspective of how this would fit into the overall African scene.

"In fact, there are indications that many major international players have burnt their fingers elsewhere in Africa and are looking at South Africa as a platform and a safe haven from which they can have African operations."

At the same time, Mr Van Heerden noted that recent developments had given greater substance to South Africa's claim to be an African country.

AndAfrica, itself, had changed radically over the past few years, with its peoples' demanding pluralistic democracy, and developing countries threatening to withhold aid if they did not get it.

While the traditional stand of the Organisation of African Unity had not changed, African countries were individually telling South Africa that the OAU rhetoric was no longer in keeping with the changed situation in the country and the continent in general.

Mr van Heerden said it would be interesting to see whether President Babangida of Nigeria, the new OAU chairman, would be "the person to take the issue of South Africa across the threshold into a new era".

"I wouldn't be surprised if precisely such an intention is on the agenda."

In response, South Africa was continuing to put out signals that it had a right to be, and wanted to be, part of the continent.

Mr van Heerden noted, however, that South Africa could not begin to meet Africa's enormous needs for aid, especially as it own domestic backlog must take priority.

This would dictate that a strict system of priorities must operate, based on South Africa's own national interests.

Trade would be an important criterion for developing relations with African countries but so would the "political weight" of other countries.

As a country in transition — with "lots of unfinished domestic business" — South Africa would want to avoid being caught up in friction and tensions elsewhere.

South Africa would not be a major donor of aid for a long time but would rather be a technical power.

As a regional force, South Africa must live in harmony with its neighbours.

What had been "a rather adverserial climate" in the region was changing, although there still was an adverserial relationship with Zimbabwe.

He hoped, however, that this relationship would also benefit from the "general sense of reconciliation and the acceptance of the need to talk to each other, even if we differ".

Discussing the Southern African Development Co-ordination Conference (SADCC), Mr Van Heerden said that it was increasingly being recognised that no regional association could succeed if it excluded South Africa. □

Neil van Heerden . . . South Africa cannot begin to meet Africa's enormous needs for aid.

JCI chief urges action to get economy moving

By Derek Tommey Star 26/9/91.

(49)

The chairman of powerful mining house JCI, Pat Retief, has called on political leaders to settle their differences to get the economy moving and start reducing the gross inequalities in society.

He has appealed to the ANC to recognise that experience elsewhere shows it is the free enterprise ethic that has produced the greatest economic growth and the greatest reduction in poverty.

Mr Retief says in his annual statement to shareholders that the weakness of the economy is disturbing.

It is not only affecting business, but has an adverse influence on socio-political conditions as a whole.

"When it should be mobilising itself for sustained economic growth in order to raise the general level of employment and standards of living, our society remains mired in economic stagnation, political confusion and social unrest."

He says SA has reached a critical stage in its development.

"If the economic decline and the erosion of law and order are to be arrested and reversed, the principal actors on the political stage must move rapidly towards the negotiation of a new and fully democratic constitution."

The ANC's inability to evolve into a political party with a coherent and credible economic policy, and perceptions that there is a link between the National Party and Inkatha have been obstacles to negotiations.

"It is imperative that the country's political leaders should transcend these obstacles, recognising that none of their parties is beyond reproach, that there is no lasting benefit in partisan recrimation and that there is no rational alternative to constructive dialogue."

If SA cannot overcome the existing gross inequality, it faces a bleak future.

"The only course of action that holds out any prospect of success is rapid and sustained expansion of the economy at the maximum rate of which it is capable."

The ANC appears to believe that the socio-economic crisis can be resolved only by a substantial measure of state-directed redistribution of investment.

This would necessitate large-scale state intervention in the economy because it is alleged that the private sector cannot be relied upon either to invest on an adequate scale or to achieve a socially appropriate allocation of investment.

"The dissolution of so-called conglomerates is thought to be essential in order to bring bank lending and the funds of major corporations under state control.

"On the other hand, it has long been apparent to the business community, and has more recently become apparent to the reformed National Party, that the relative stagnation of the economy has not been due to any intrinsic defect in the free market system.

Mr Retief says the stagnation has been due rather to the wastefulness, patronage and bureaucratic inefficiency inherent in the apartheid system, compounded in recent years by the effect of sanctions, a weak gold price and the reluctance of businessmen to undertake investment in an increasingly turbulent environment.

Mr Retief says that international experience is overwhelmingly in favour of free enterprise and against the interventionism espoused by the ANC and other liberation movements.

Societies that have achieved the highest growth rate and a concomitant reduction in poverty are characterised by fully democratic political institutions and market-oriented structures.

Reserve Bank signals an upturn in economy

Star 2/9/91

(49)

Newcomer . . . In the six years he has been Minister of Finance, Barend du Plessis has never set foot inside the Johannesburg Stock Exchange's trading hall. Yesterday he broke the ice, offering a few encouraging words for brokers, and expressing some sympathy for the slowness of recovery from one of the longest recessions the country has experienced. The Reserve Banks' leading economic indicators, he said, showed the recovery was beginning, but outbursts of violence kept puncturing the recovery. However, the recent peace accord was a positive factor.

By Sven Lünsche

The Reserve Bank expects a mild upturn in the economy after a second quarter in which activity hit new lows and consumer spending fell for the first time in almost five years.

In its September Quarterly Bulletin the Bank paints a mixed picture of the state of the economy and prospects for an upturn in activity.

Its mildly optimistic outlook seems to a large extent to emanate from the recent rise in government expenditure.

"Additional fiscal measures relating to VAT, socio-economic upliftment and tax incentives for export ventures should increase the expansionary effect of the Budget.

"This should encourage both consumer and new capital investment expenditure and could contribute to a bottoming out of the cyclical decline in economic activity, or even to an upturn in economic activity," the Bank says.

However, its report on the second quarter of the year makes for more pessimistic reading.

While Gross Domestic Product (GDP) declined by a mere 0,1 percent, real private consumption expenditure declined by 0,5 percent — its first quarterly decline since the first quarter of 1986 (see graph).

This led to a fall in gross domestic expenditure of three percent, despite a 12 percent year-on-year rise in government expenditure on the back of increases of 16 and 19,5 percent in the two preceding quarters.

The Bank says the decline in private spending was largely related to a 0,5 percent fall in real personal disposable income in the second quarter.

Spending on durable goods was particularly hard hit, falling by 4,5 percent, with furniture, household goods and cars showing the largest falls.

Spending on semi-durable goods contracted at 1,5 percent, while non-durable consumer goods sales were up by only one percent.

To make matters worse "the rate of decrease in gross domestic fixed investment accelerated sharply in the second quarter to an estimated annual rate of 7,5 percent".

The Bank says that real fixed capital investment, a key component in job creation, has declined for seven consecutive quarters, with both the private and public sectors curtailing their expenditure programmes.

A breakdown shows that private sector expenditure on fixed investment fell by 5,5 percent, while that of the public sector plunged by 11 percent as a result of cutbacks by parastatals.

Unemployment

The decline in domestic spending and investment was accompanied by a further reduction in employment.

Non-agricultural employment declined at quarter-to-quarter rates of 2,4 and 2,6 percent in the fourth quarter last year and the first quarter of 1991 respectively.

Over the same period, employment in the private sector fell by 5,3 and 5,4 respectively.

Data available for the second quarter this year indicate continued decreases in the workforce in manufacturing, construction, electricity generation and insurance.

Public sector employment, however, increased 4,2 percent in the first quarter of this year after falling by 0,1 percent on an annual basis in 1990.

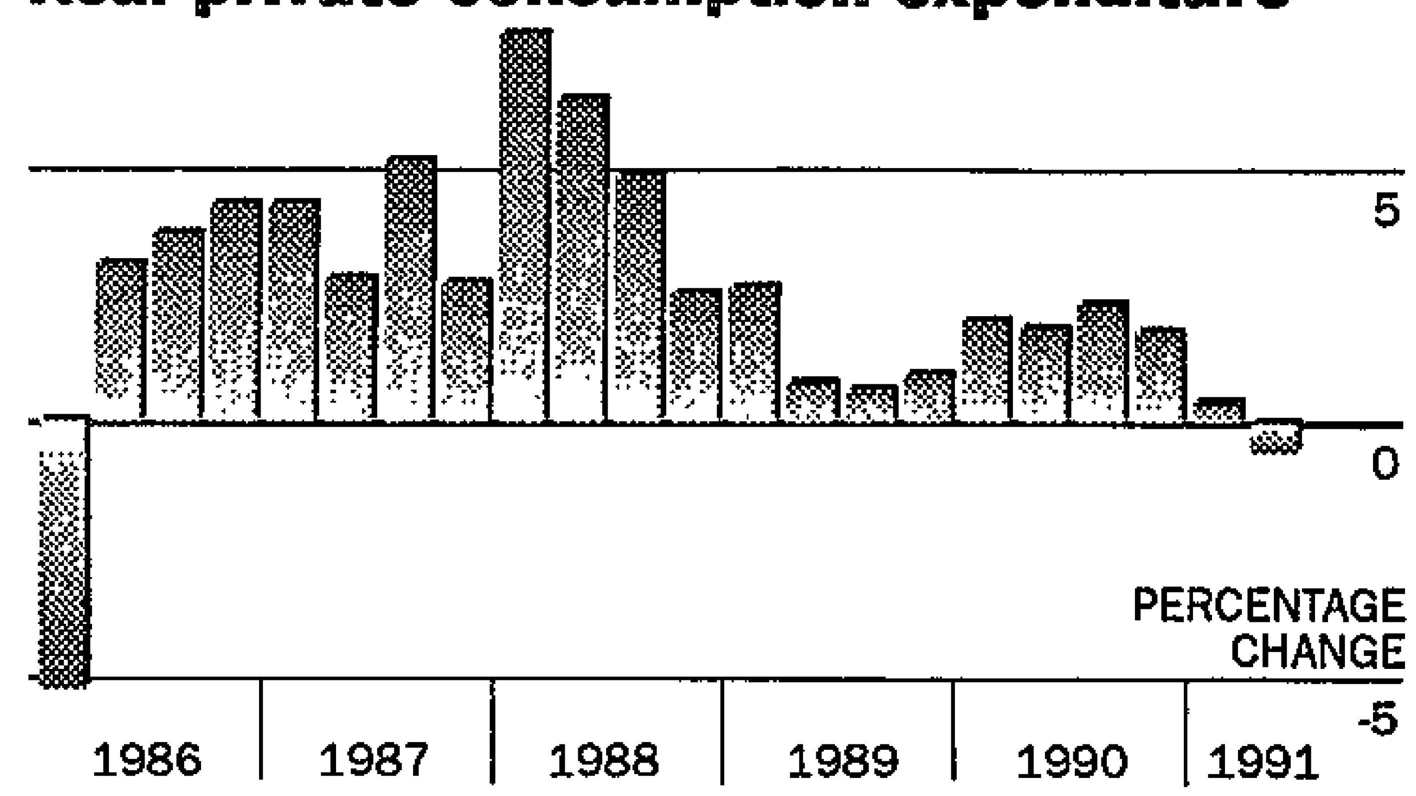
The Bank is critical of the continuing high wage increases reported both in the public and private sectors.

"While recent negotiations with labour unions have shown some moderation in wage demands . . . they still do not reflect underlying supply and demand conditions and productivity changes and contribute to the low labour absorption rate.

"Continuing excessive increases can become a serious impediment to growth and where development does take place it could tend to become more capital-intensive," the Bank says.

In the first quarter of this year, wage increases in the private sector totalled 16,6 percent and 21 to 22 percent in the public sector.

Real private consumption expenditure



Reserve Bank predicts upturn

Bday 27/9/91 (49)

ANDREW GILL

THERE was a distinct possibility of a mild upturn in the economy despite a "somewhat deeper" downturn in activity in the first half of the year, according to the Reserve Bank's latest Quarterly Bullettin.

The recession, which began cutting deeper into the more buoyant sectors earlier this year, is reflected in record declines in employment levels.

Non-agricultural private sector employment fell an annualised and seasonally adjusted 5,3% in the last quarter of 1990 and 5,4% in the first quarter of this year.

The Bank said continued high government spending could stimulate activity and contribute to an upturn in the near future, encouraging both consumer and new capital investment expenditure.

The deepening of the recession has taken its toll on indicators which had survived the tough conditions or which looked likely to recover this year.

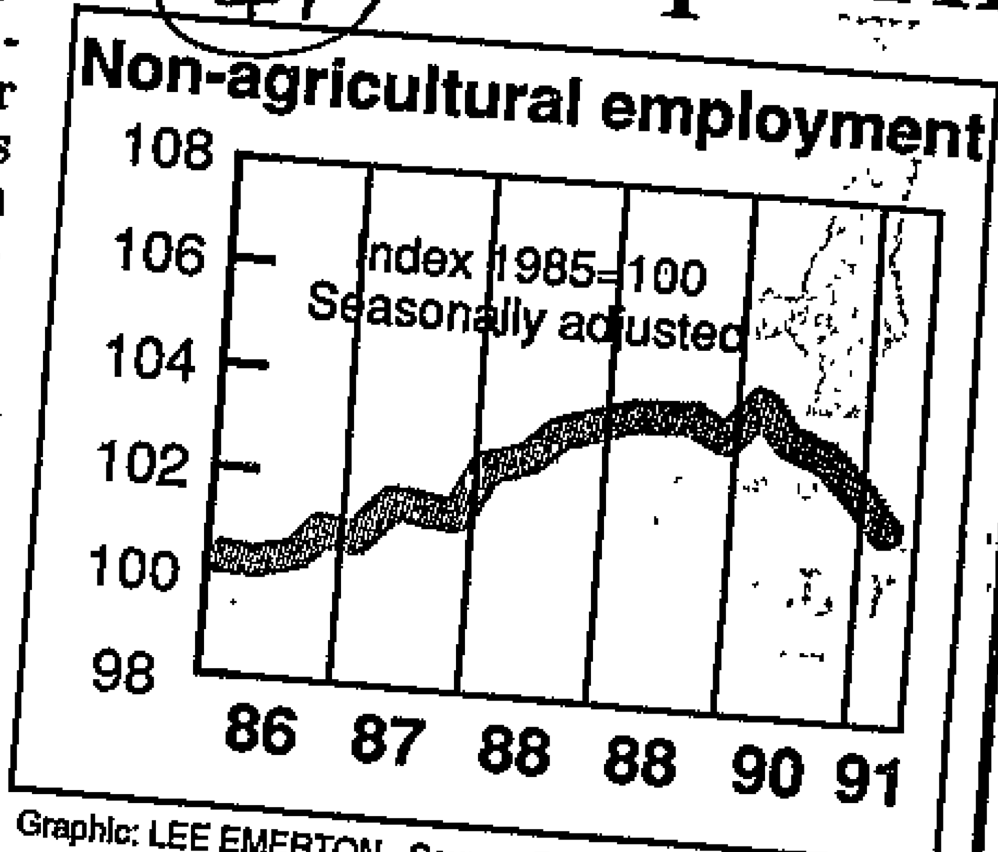
Inventory destocking intensified with a drop of R5,9bn in the second quarter following a R4,9bn fall in the first quarter.

Real private consumption expenditure fell (by 0,5%) for the first time since the first quarter of 1986.

Also, real personal disposable income declined by 0,7% in the second quarter from a growth of 0,5% in the first.

The decline in real gross domestic fixed investment was again substantial, plunging 7,5% (5,5% in the second half of last year) and resulted from decreased outlays from both government and the private sector.

The private sector decline was blamed on political uncertainties, the low and decreasing level of economic activity, and unrest and discord in management-labour relations.



Graphic: LEE EMERTON Source: RESERVE BANK

Also, the impending implementation of VAT has seen outlays on capital goods postponed to benefit from the new system.

Real fixed capital formation by public corporations declined by an annualised 11% in the second quarter from 3,5% in the first.

The only real growth sector has been government. Real consumption expenditure by general government rose at an annualised 12% in the second quarter from 16% and 19,5% in the previous two quarters.

The Bulletin again attacked the continuing trend of high wage increases.

The first quarter saw nominal incrases of 18,5% and the second quarter is expected to produce further accelerations.

'No utopia in new SA' — Slovo

(49) CT 27/9/91

JOHANNESBURG. — Majority rule will not bring immediate utopia to South Africa's black majority, says Communist Party general-secretary Mr Joe Slovo.

"It's even very likely conditions will deteriorate," the 65-year-old veteran said in an interview.

He argued that just as business would have to accept state intervention in the economy, and a degree of affirmative action to redress historical imbalances, blacks could not look forward to immediate satisfaction.

Of the fear that violence could escalate as a result of the dashing of black aspirations, Mr Slovo said: "The only way to handle that is to lead, not to pander to inherited emotional positions. We have to keep contact, explain, they have got to realise there is not going to be utopia the day after the transformation.

"We can't create a balance the day after the ANC flag flies over Pretoria. It's going to be a relatively long, complicated process — but the process has got to begin."

Mr Slovo said his party had learned from communist debacles in Eastern Europe and the Soviet Union.

"It put paid to any illusions that one had about trying to run an economy from a capital, without unleashing the creative energies of the producers and without using the market mechanisms," he said.

Mr Slovo said the ANC alliance accepted a mixed economy, but believed the profit motive alone could not begin to correct huge imbalances between the privileged white minority and the black majority.

"Left to business, it won't even begin, because they tend to talk about growth and trickle-down, and we need a bit of a flood," he said.

He rejected centralised bureaucratic planning, but said the government had to use fiscal policy to influence the direction of investment resources.

He said a democratic government would have to balance the objective of black advancement with the need to keep the economy growing and to retain white skills.

Mr Slovo also said:

- That there was "a good chance" of an all-party conference before the end of 1991;
- That President F W de Klerk's constitutional blueprint was unacceptable and that majority rule was the "bottom line" for the ANC's concept of democracy;
- That South Africa's progress to democracy was not irreversible, and
- That the SACP was more than half-way towards its recruitment goal of 30 000 active members. — Sapa-Reuter

Will growth cause redistribution?

W/Mail 27/9 - 3/10/91. (49)

For South Africa economic growth is a must. But whether the economy grows at a rapid rate or not, redistribution is inevitable, **REG RUMNEY** argues

FORGET about redistribution — economic growth will in time take care of the income inequality between blacks and whites.

This is the subtle message in a Sunday newspaper treatment of a study by eminent Urban Foundation economist Charles Simkins.

Simkins probably would not want to associate himself with so crude an argument. He does not actually make any overt argument for or against redistributive policies.

He only contends that unless economic growth drops to low levels further progress against poverty can be expected in the first half of the Nineties. And the report on an income distribution model produced for the Urban Foundation does emphasise that economic growth will continue to redistribute income away from whites and towards blacks.

It is not Simkins' fault that the report will be used to support "growth before redistribution" proponents, or even "growth without redistribution".

Whatever the future holds, income inequality in South Africa is severe now.

Simkins notes that in 1990 about 42 percent of South African households had formal incomes below the minimum living level (the least generous of the regularly calculated poverty lines).

The report estimates the racial share of personal income in 1990. Whites had 53,9 percent, coloureds 9,2 percent, Asians 3,9 percent and blacks 33 percent. The black share is up from 1985, and the white share down.

Assuming a 2,5 percent growth rate for five years, the share of whites will decline to 48,5 percent by 1995, and the black share climb to 37,3 percent; coloured and Asian shares of personal income grow marginally.

But the report's indices of per capita personal income by race show, using the same growth assumptions, fairly big changes in the relative shares of income.

Again assuming a 2,5 percent growth rate, per capita personal income of whites drops by around nine percent from 1985 to 1995; blacks are 15 percent richer; Asians 14 percent; and coloureds around 21 percent richer.

So, can we sit back, fold our hands and wait for growth to put right economic inequality in South Africa?

A simple political fact will have been underlined by the Value-Added Tax debacle: it is difficult to persuade people with real political grievances about the justness of economic priorities.

It is difficult to sell promises of benefits in years to come to deprived and marginalised people. The challenge is to redistribute without inflicting mortal damage on the economy.

How poverty is measured is an area for debate in itself. Take the disputed Gini coefficient — a measure of economic inequality in a country. The Gini works thus: 0 is complete equality, 1 complete inequality.

South Africa was long supposed to have the highest or worst Gini coefficient in the world. This is not true. South Africa when measured by AR de Lange and DE van Seventer (*Uprooting Poverty* by F Wilson and M Ramphele) had a Gini which was "the worst of any of the 57 countries in the world for which such data was available". Many others countries not measured are likely to have worse Gini coefficients.

This is not to say South Africa's Gini shows all South Africans are equals among equals. An estimated Gini of 0,65 in 1985 puts us somewhere among Third World countries.

More interesting is the effect of growth on equality. Peter Moll in his *Great Economic Debate* contends that growth does not guarantee a reduction in inequality. An example is Brazil, which had growth of 2,6 percent in per capita gross domestic product between 1960 and 1970, but whose Gini coefficient increased from 0,59 at the start of the period to 0,63 at the end — ie inequality increased.

Growth is likely to bring redistribution in South Africa because of factors noted by Simkins: "The existing pattern of taxation and state spending redistributes income from richer to poorer households; the degree of such redistribution has almost certainly increased over the last decade and can be expected to increase further.

"Sensible policy is capable of reducing poverty levels below the projections, just as poor policy is capable of increasing them."

Recession bottoming

STANDARD Bank has joined the growing ranks of economic commentators who are predicting the end of the recession. Star 28/9/91

In its latest Economic Review, the bank states that signs have emerged in recent months that the economy may be bottoming out and that conditions are beginning to stabilise in many sectors. 49

The bank says: "The impending recovery is likely to be neither rapid nor spectacular and conditions in many areas of the economy will continue to be difficult for some time to come".

Standard comments that investment spending has been held back because of the introduction of VAT. As a result, the last four months of this year may see this spend up spending coming through the system.

There could also well be several major private sector capital projects now on the drawing boards which could also help to boost the economy later in the year or early in 1992.

Other factors are that inventories are now at rock bottom and have to be re-stocked and that imports will also show growth during coming months. Exports should also grow.— Sapa.

State borrows more as the tax take sinks

S/Times (Bus) 29/9/91 (49)

By DIRK TIEMANN

AS revenue continues to fall below expected levels, the Government's deficit before borrowing for the first five months of the fiscal year is now equal to 3,8% of gross domestic product against a budgeted 3,4% for the year.

The Reserve Bank Quarterly Bulletin says revenue in the first five months of 1991-92 was 5% higher than in the same time last year, but is far less than the budgeted 11,1% increase expected for the year.

The bulletin says: "More alarming may be the fact that the rate of increase in Exchequer receipts has shown a marked declining tendency since the June quarter of 1990."

Among the reasons for lower revenue are reduced import surcharges, plummeting tax receipts from gold mines and lower than expected receipts on GST, excise duties and fuel levies.

Government spending rose by 20,7% in the June quarter — well above the budgeted 13,7% for the year.

The bulletin says: "Seeing that this rate of increase was substantially higher than the budget increase of 13% for fiscal 1991-92, this high figure obviously gave cause for concern."

The deficit in the first five months of 1991-92 totalled R8,6-billion — R3,5-billion higher than for the same time last year.

Most of it was financed through long-term government stock (R7,2-billion), another R1,8-billion being received through the issue of short-term Treasury bills.

The bulletin says the Minister of Finance's August 21 package that included reducing the Vat rate and increasing the fuel tax and certain excise duties will increase the deficit before borrowing by another R510-million.

SA: going nowhere?

Citizen 29/9/91. (49)

MONEY TALK

IT is no secret that new investment in South Africa's crucial manufacturing industry has reached an all-time low. Yet it is this sector that must provide new job opportunities for our rapidly growing population.

Various reasons are being advanced for this, including political uncertainty, unrest, stayaways, low productivity, sanctions, the poverty of our neighbours – which makes trade difficult – and even the long distances between South Africa and the world's big markets.

Pepkor group chairman Christo Wiese pointed out that high company taxes are another serious problem. At a maximum of 48 percent, this is one of the highest rates in the world and compares, for instance, with a maximum of only 32 percent in Britain.

Wiese says our rate is too high to stimulate investments in new manufacturing facilities and cripples efforts to compete on world markets.

A British factory can sell a product on international markets at eight percent less than a similar local organisation.

Wiese believes the country needs an umbrella strategy to make all sectors of the economy internationally competitive.

He says the new South Africa is confronted by massive problems that will not simply go away if a new government, acceptable to the outside world, gains power.

"The problems will continue to exist and the degree to which the new South Africa will bring about an improvement in quality of life will be determined by the success with which a new government tackles these problems."

He warned that while the new South Africa could become a wonderful place, "it could just as well develop into a hell on earth if it simply exacerbates poverty and the disintegration of social services, accompanied by even greater violence".

These are strong words from one of the country's top business leaders. Yet if people in his position are unwilling to invest because of our high taxes, politics or whatever, one should pay attention.

The scarcest "commodity" in underdeveloped areas such as Africa is entrepreneurs with capital. They are the people who take risks to start new factories and other businesses. If we cannot regain their confidence, we may well turn out to be just another poor country going nowhere.

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Anti-monopoly laws applauded

49

Star 30/9/91.

By Patrick Laurence

South Africa needs effective anti-monopoly legislation, Anglo American chairman Julian Ogilvie Thompson has told The Star.

"It is extremely important (to) have strong anti-monopoly, anti-restrictive practices legislation," Mr Ogilvie Thompson said.

"We think this ... must be continually reviewed and, if necessary, revised."

Mr Ogilvie Thompson's assessment was made, coincidentally, on the eve of a critical finding by the Competition Board on the acquirement of shares last year by Anglo American and its sister company, De Beers, in Gold Fields of South Africa.

The board found that the purchase of shares by Anglo and De Beers did not constitute a restrictive practice or amount to acquisition by the companies of Gold Fields.

Nor did it signal an end to competition between Anglo and Gold Fields in the gold mining in[illegible]y, nor the establishment of a monopoly.

The board calculated that Anglo American and De Beers had acquired more than the 18 percent share in Gold Fields necessary to block special resolutions in Gold Fields. However, it said the power to exercise a veto did not in itself constitute a restrictive practice.

But, in a postscript to its specific finding, the board noted that concern over the extent of corporate conglomeration in South Africa was "widespread and covers all shades of political opinion".

Mentioning Anglo American and Rembrandt specifically, it concluded that the time was opportune for them "to focus on the wider implications of ... the substantial network of formal relationships that exist between the major conglomerates in South Africa".

Commenting on the Maintenance of Promotion of Competition Act, Mr Ogilvie Thompson said: "I think it must be effective, and I think it is effective too."

Asked whether he was opposed to the law being given more teeth, he replied: "If it needs more teeth, certainly it should have more teeth. We have consistently said so."

But he added: "What you can't do is pick up the legislation, say, in the United States and plonk it down in South Africa and say it'll work. You've got to adapt your legislation to the realities, facts and possibilities of the situation."

Developing his point, he said: "You can't say that no one in South Africa can have more than 20 percent of the market, because then you won't get the economies of scale (to compete on the world market)."

In the United States it was possible to limit the share of the market in any commodity to 20 percent and "still have the five biggest producers in the world".

South Africa, Mr Ogilvie Thompson said, could not afford to do so "any more than ... Switzerland, Holland and Sweden".

These countries, like South Africa, had companies which were very large in relation to their own economies, but quite small on the world scale.

In a related development, Anglo American spokesman Michael Spicer has reacted sharply to a renewed call by ANC president Nelson Mandela for the nationalisation of mines and financial institutions.

Responding to a speech made by Mr Mandela at a banquet in Somerset West, Mr Spicer expressed disappointment at the ANC leader's "archaic and bankrupt thinking", warning that it would stifle initiative, block investment and lead to a flight of capital and skills just as surely as a rise in taxes.

He noted that an invitation to the ANC to discuss economic policy had still to be accepted after two years.

Julian Ogilvie Thompson ... review laws against restrictive practices regularly.

Worthy plans for a disaster

B Day 30/9/91 (49)

HENRY KENNEY

THE ANC is no longer expounding the primitive economics of the Freedom Charter. Now it likes to sound off about its commitment to "a mixed economy", as if it has just discovered America. It has come some way since Nelson Mandela's release, but actually not very far.

Secretary-general Cyril Ramaphosa's exposition of ANC economic policy on SATV's Agenda a week ago was at least comprehensive, for he included most clichés in the book. The future people's government will go in for "good planning" to ensure that the disadvantaged (women, blacks) will receive adequate levels of housing, health care and other good things. Businessmen so foolish as to think that making profits is the name of their game will find themselves issued with official directives to pursue ends suitable to the new caring social order. Affirmative action will be what it is all about, to undo the ravages of apartheid.

The objections to these platitudes are so obvious that they are embarrassing to repeat. It is tempting to conclude that there is some not-so-hidden agenda. Get your hands on the levers of power and who can keep you away from the loot?

The 20th century is cluttered with regimes which professed to serve "the people", did well for murderous and avaricious elites and ended by ruining their economies. The familiar comeback is that next time it will be different. "Mistakes" were made (to quote Joe Slovo), but will not happen again. Bad planning must be replaced by good.

In the you-have-it-I-want-it world of ANC economics, all that counts are claims of worthy intent. Incentives can be treated with contempt and capitalists can be subjected to the whims of politicians and bureaucrats.

The ANC does not appear to have a clue about the need for security of property rights. These cannot be secure if the gains of capitalists are up for grabs by a government which claims a popular mandate for implementing "social justice" wherever it pleases.

In fact, without property rights there can be no justice. More than 200 years ago the philosopher David Hume saw the connection: "Few enjoyments are given us from the open and liberal hand of nature; but by art, labour, and industry, we can extract them in great abundance. Hence the ideas of property become necessary in all civil society: Hence justice derives its usefulness to the public: And hence arises its merit and moral obligation".

The problem is to devise institutions which will prevent the major parties from reneging on any bargains they have struck. This is why the NP is on the right track when, for entirely self-interested reasons, it talks about a limited role for the state. They should know, after more than 40 years of relentless abuse of state power.

States must establish credible commitments to abide by constitutional restrictions. The most credible commitment of all would be the limited power to expropriate. Even if the rulers want to, they cannot.

It is not just the collapse of socialism which tells us about the intimate relationship between limited government, the protection of property rights and the ability of an economy to deliver the goods. There are also the success stories, of which perhaps the most striking is that of the first country to industrialise, England.

In the first half of the 17th century it could not avoid a civil war. The Crown needed money, much of which it attempted to raise through arbitrary exactions on private individuals. Ultimately, it failed, but the cost was high, most obviously in terms of lives lost and violations of political and civil liberties. It was only after a number of failed experiments that a new institutional structure evolved from 1688 that gave security to property rights.

Holders of wealth were represented in a more powerful parliament, which placed limitations on the ability of the Crown to plunder. The executive also benefited: once property-holders discovered that they would not be expropriated they became willing to lend to the government on a massive scale. It was the beginning of a long phase of expansion which put England on the road to industrialisation.

There are many lessons from the experience of other countries. One is that economic freedom is a necessary, if not sufficient, condition for political freedom. The most important lesson is the one about incentives.

Individuals will only create wealth if they believe that they will benefit from doing so. If they become convinced that they are living in a den of thieves they will try to get out; if they cannot the last thing they will do voluntarily is to provide resources for the enjoyment of the robbers.

Another philosopher, George Santayana, once observed, "Those who cannot remember the past are condemned to repeat it". The ANC has a more substantial problem: it has not forgotten the past, because it knows nothing about it.

We should start worrying. If the ANC ever makes it into power, it looks as if South Africans will be compelled to repeat the past in a big way.

☐ **Kenney is a lecturer at Wits University's business economics department.**

False arguments cloud the debate on interest rates

B(Day) 30/9/91

EDWARD OSBORN

4-9

THE FINANCIAL media are prone to attributing blame for high interest rates to excessive government spending, suggesting the high rates are required to reduce inflation which is caused by state expenditure being out of control.

The most recent data used to illustrate this supposed lack of control are the August state expenditure figures. In the period to August this year, spending was up by 17,9% compared with the same period last year. The Budget provides for a 13,7% increase over the year.

Inflation has been with us for nearly two decades. It is not a short-term phenomenon. Wild and sweeping attributions of blame cloud the debate and affect the understanding of the inflation process.

There are two fundamental misconceptions that have to be addressed — that government expenditure has become very high, and that it is out of control.

The notion that state expenditure is out of control seems to be a popular one. However, government departments are constrained in their spending by the statutory appropriations set by Parliament. Even the transfer of items allocations to other uses has to be sanctioned, on behalf of Parliament, by the Ministry of Finance/State Expenditure.

That is not to deny there will be unforeseen expenditures, like the recent fire damage relief in the Free State and Natal, but these will require *post hoc* parliamentary approval in a supplementary appropriation Act.

Of course there will be transgressions when the state structures are so complex and diffused through society, but the function of the Auditor-General, the watchdog of Parliament, is to bring these to light and make recommendations to Parliament on dealing with them: for example, the recent write-offs of overspending by Cape hospitals.

But by and large the transgressions are small compared with total state expenditure. There is no question of state spending being out of control and departments being free to spend as they will.

The point is also often made that, whereas large companies are riding the recession by making large cost reductions, the state is not. This, too, is astoundingly naive.

Government is like a juggernaut which cannot be slowed or quickened smartly. It is too complex a structure with a large dominating component of salary costs and transfers to other government tiers, regions and bodies, universities and technikons and the private sector. In extreme circumstances, the state could impose a spending freeze, but not without massive problems of dislocation and disruption of services.

Turning to the point of apparent excessive spending, it brings to mind Clem Sunter's remarks about the American disease of quarteritis. In this country there is a media disease of annualitis, because much of the economic comment is simply on the level of making annual "gee whiz" percentage comparisons.

In this case, the percentage comparison suggests a high level of spending because it so happens that departments made a slow start last year. By August last year spending was only 40,3% of the annual total.. On a purely pro rata basis it should have been 41,7%. By August this year the expenditure was 41,6% of budget. It is therefore almost precisely on budget.

However, government finances are under severe strain because revenues are running almost R4bn less than expected in the Budget. This is presumably because of the unexpected depth of the recession. The Finance Department Director-General expresses some confidence about a recovery in revenues to the required level. But that seems doubtful, especially after the hasty changes that have been made to VAT regulations. It is possible that, after the introduction of VAT and the dust has settled, further tax increases will have to be made to raise revenues.

☐ STALS

Because of the lower revenues, the deficit after five months of the financial year was R8,1bn, compared with the Budget forecast of R10,1bn for the full year.

However, this deficit, together with a large stock redemption of R2bn and some other transactions, has been covered by borrowings of stock of R9,4bn and a net increase of treasury bills of R1,8bn. Government balances have actually increased by R500m since the start of the financial year.

Nevertheless, the manner of borrowing is of concern to the authorities. Reserve Bank Governor Chris Stals, in his annual address, said he was worried about the large element of finance represented by an increase in the net claims of the banking sector on government. This has monetary implications, in that the Reserve Bank is battling to curb overall bank credit growth.

It does not mean, however, an automatic addition to inflationary pressures. Definite figures are not yet available, but it is likely that the banking sector lendings to government will be seen to be concentrated largely with the Corporation for Public Deposits, which assembles and channels free monies of other public sector bodies to the State Revenue Account and the banks.

The commercial banks have been able to finance the lending to government with ease because of the reduced reserve requirements of the deposit-taking institutions. The Governor mentioned a release of R1,2bn on this account alone. Further, the balance of payments situation has been positive, injecting a net increase in liquidity into the system. The Reserve Bank's difficulties have largely been coping with a highly liquid situation. It is unlikely that the banks have created money in order to finance government. There has simply been a redistribution of balances.

Another reason for government's moving into a net liability position with the banking system — that is claims on, less deposits, of government — is the massive payment of R3bn to the Reserve Bank last December for foreign forward cover losses. This effectively destroyed R3bn in government deposits, but not, of course, public debt.

And this is the most worrying aspect of the state's finances. Government has tended to borrow well in excess of requirements in recent years, and there have been massive appropriations for various funds from the surplus finance, including the redemption of forex losses.

The upward spiralling of public debt is, together with high interest rates, accounting for a rapid increase in interest costs. For this year they are estimated at R12,9bn, or 15,4% of expenditure provisions before the contingency item of R1,2bn. Indeed, without interest payments, the core budget is in surplus.

The redemption of forex losses is, in effect, a conversion of non-interest debt of government to interest bearing debt, and on this score serious consideration should be given to the write-off of this debt.

There is about another R11bn to go and at a rate of 16,5%, that represents an ongoing additional interest charge of R1,8bn a year to be met by future taxpayers. A write-off would not be a free lunch; payment has already been made by the country through inflation.

☐ **Osborn is chief economist at Nedbank.**

Anglo attacks Mandela speech

BIDay 30/9/91

(49)

BRENT VON MELVILLE

THE ANC's swing back to its platform of nationalising certain key sectors of SA's business community would kill investment initiative and motivate a capital skills flight just as surely as increased taxation would, says Anglo American spokesman Michael Spicer.

Spicer, reacting sharply to ANC president Nelson Mandela's assertion on Friday that the ANC intended to nationalise mines and certain financial institutions, said he was "very disappointed" that Mandela had displayed the kind of archaic and bankrupt thinking which we had hoped it had abandoned in favour of joining the "real world of the 1990s".

And Iscor deputy MD Nols Olivier said it was unfortunate that a responsible leader like Mandela would make a statement like that "as we think he does not really believe in nationalisation himself".

Mandela, speaking at a banquet in the Lord Charles Somerset Hotel near Somerset West on Friday, said mines and other financial institutions would be nationalised "because the majority of the population did not have access to SA's resources".

He said while the ANC had "no ideological attachment" to nationalisation this was the only way to address the imbalances in the economy.

He said countries which had been through traumatic experiences (Japan, Germany and South Korea) had not been able to avoid massive measures of state intervention to rebuild their economies.

SA was in a similar situation since the trauma of apartheid had left 87% of the land in the hands of a 13% white minority while 75% of JSE shares were controlled by four monopolies. "Where is the free market you talk about?"

"Mandela has completely misunderstood the Japanese, German and South Korean experiences," Spicer said. "There was no nationalisation in these countries, these governments did not work against business groups and government intervention was concentrated on creating a facilitative environment for investment."

Mandela said that at every meeting he had had with businessmen he had asked them how the ANC could address this question. "If you are able to give us an alternative option we will reject nationalisation," he added.

Spicer responded by pointing out that Anglo had been offering for two years to sit down and discuss economic policies with the ANC, and it had renewed its offer this year.

He said that while Anglo had no "quick fix" for SA's economic ills, it had clear ideas on growth and wealth distribution.

The ANC said the banquet at which Mandela spoke was aimed at reaching out to the business and professional community of the western Cape. Many businessmen and academics attended as well as French ambassador Joelle Bourgois and her husband. Tickets cost R1 000 at the main table (including a double room for the evening) and R150 at the other tables.

● See Page 8

Nationalisation talk angers Anglo

Sowetan 1/10/91 (49)

Political Staff

THE African National Congress's policy on nationalisation has not been finalised, according to the organisation's spokesman.

The announcement follows ANC president Mr Nelson Mandela's weekend statement that the organisation still planned to nationalise mines and some financial institutions.

Ms Gill Marcus, of the ANC's publicity and information department, said the organisation intended holding a policy conference early next year where its economic policy would be finalised.

Mandela told businessmen at a banquet in Somerset West that the ANC would nationalise mines and financial institutions because the majority of the population did not have access to SA's resources.

This provoked an angry response from Anglo American spokesman Michael Spicer who said he was "very disappointed" that Mandela had displayed "the kind of archaic and bankrupt thinking which we had hoped it had abandoned in favour of joining the real world of the 1990s."

Spicer said the business community had believed the ANC had moved beyond nationalisation.

He said Mandela's statement had pulled the rug from under the feet of the ANC's economic team which was about to "fan out all over the world to try to sell the ANC's economic policy" and encourage international business to invest in a future South Africa.

To this end, ANC secretary-general Cyril Ramaphosa, head of international affairs Thabo Mbeki and senior economic spokesmen were scheduled to attend three major international economic conferences this month.

"They will have nothing to say now. What Mr Mandela has said will be inimical to their task."

Asked if Mandela's statement now represented official ANC policy, Marcus said: "If he said it, we go with that."

She pointed out, however, that Mandela had also said that the ANC had no ideological attachment to nationalisation.

If business and industry could offer another way to address the imbalances of wealth of income, the ANC would consider it.

She welcomed the possibility raised by Spicer of a meeting with Anglo American to discuss nationalisation.

Spicer said Anglo American had been offering for two years to discuss the subject with the ANC and had renewed the offer this year.

Barend keeps a tight grasp on policy control

B/Day 1/10/91.

(49)

BILLY PADDOCK

"WE ARE together in the boat on violent seas. We can argue who is captain later, but let's co-operate now and get through this mess first," Finance Minister Barend du Plessis told stockbrokers on the floor of the JSE last week.

He was using a statement made by Foreign Minister Pik Botha during the cold days of SA's isolation to illustrate a point about the need to alleviate socio-economic backlogs and underpin the constitution while lacking the necessary resources during the country's longest recession.

Du Plessis lauded the Carlton peace accord as a means of restoring stability, and noted that rival groups had co-operated with government to reach a negotiated settlement. Most leaders lauded the exercise, which resulted in structures for jointly monitoring the security forces and political parties and setting up conflict resolution mechanisms. Similarly, a code of conduct for the Defence Force is in the process of being negotiated allowing for joint monitoring and control of its members' activities.

The country also has in place the Interim Measures for Local Authorities Act designed to facilitate negotiations between civic bodies and local authorities over the creation of joint, non-racial municipalities with single tax bases.

In the education field, a joint education working group was set up in February with the goal of overcoming the crisis in black education. This body also influenced the National Education Department's Education Renewal System.

In the labour field, groups like Cosatu and Nactu have agreed to participate in the National Manpower Commission, and moves are afoot to restructure it to make it more than a purely advisory body. Meanwhile, the Manpower Minister undertook, in the Laboria Minute signed with Saccola, Cosatu and Nactu last September, to ensure that any new labour legislation enjoyed the broadest possible consensus.

As the VAT conflict has demonstrated, however, Du Plessis has not handled issues of economic policy-making and restructuring in the same way as have his colleagues in education, local government and manpower.

Taxation is a major focus of economic reform. It is also a highly emotive issue directly affecting an already overtaxed (and, where blacks are concerned, unrepresented) populace.

Business Day recently asked Du Plessis his views on establishing a transitional consultative body to deal with economic issues in the same way the peace accord structures deal with political and security matters, and other government departments operate in their sphere. What about, for example, broadening the Tax Advisory Committee to include representatives of the ANC and Cosatu, along with existing members from the private sector.

Du Plessis rejects this. Firstly, he says committee appointments are based on merit and individual skills, and not on their representation of particular groups. "The method of operation is that any interest group can go to the committee and put forward its point of view," he explains.

Secondly, Du Plessis believes it is premature to establish any economic consultative body: "If these groups want to co-govern, then let's get the multiparty conference off the ground. This will organically evolve into a forum with both legislative and executive powers. When it comes to economics, I believe a sub-committee could be formed, representative of the groups round the table. It could evolve into a group that will be involved in all the legislation going before Parliament, and it could participate in executive decisions.

"Co-decision-making, in our view, should come about through that route. In the meantime, if they want to make representations on particular issues they are welcome. But we cannot ... pre-empt the multiparty conference," he says, adding that the best solution until then would be consultation.

"Economic policy, fiscal policy and the whole question of economic rights and the kind of economic system the country will have is a most important part of the constitution. Economics will have to wait for the multiparty conference."

For government this approach, plainly, does not apply to issues of peace, education, local government and manpower.

The parties to the peace accord had to battle it out in joint working groups until they had reached consensus. There was no question of participants merely making representations to government and leaving it to Cabinet Ministers to take the final decisions.

During the parliamentary debate on the Interim Measures for Local Authorities Bill the then Planning and Provincial Affairs Minister Hernus Kriel argued strongly that SA could not wait for a final negotiated settlement before forming non-racial municipalities with a single tax base.

A similar argument was put forward by Education and Training Minister Stoffel van der Merwe in forming a joint working group of interested educationists to resolve the education crisis. He said the demands for a single education system for SA had to wait until the national negotiations on a new constitution were in progress. But, in the meantime, many problem areas could be resolved in preparation for the final system.

Could government Ministers be accused of calling for joint working groups and full consultation and negotiation when it suits them?

"Who is the captain?" appears uppermost in Du Plessis' mind, not "how do we get out of this mess?".

Nationalisation not final (49) — ANC

Star 1/10/91.

By Peter Fabricius
Political Correspondent

The ANC's policy on nationalisation had not been finalised, a spokesman said yesterday after ANC president Nelson Mandela's controversial weekend statement that the organisation still planned to nationalise mines and some financial institutions.

ANC spokesman Gill Marcus said the ANC intended holding a policy conference early next year at which economic policy would be finalised.

Mr Mandela told businessmen at a banquet in Somerset West, near Cape Town, that the ANC would nationalise mines and financial institutions because the majority of the population did not have access to South Africa's resources.

Abandoned

This provoked an angry response from Anglo American spokesman Michael Spicer, who said he was very disappointed that the ANC had displayed "the kind of archaic and bankrupt thinking which we had hoped it had abandoned in favour of joining the real world of the 1990s".

Mr Spicer yesterday said the business community had believed the ANC had moved beyond nationalisation.

He said Mr Mandela's statement had pulled the rug from under the feet of the ANC's economics team which was about to "fan out all over the world to try to sell the ANC's economic policy" and encourage international business to invest in a future South Africa.

ANC secretary-general Cyril Ramaphosa, head of international affairs Thabo Mbeki and senior economic spokesmen are scheduled to attend three major international economic conferences this month.

"They will have nothing to say now," said Mr Spicer. "What Mr Mandela has said will be inimical to their task."

Asked if Mr Mandela's statement represented official ANC policy at present, Miss Marcus said yesterday: "If he said it, we go with that."

She pointed out that Mr Mandela had also said the ANC had no ideological attachment to nationalisation.

The ANC would consider other ways to address wealth imbalance.

Business sources were yesterday confused and concerned about Mr Mandela's statement and unsure whether to interpret it as an ill-considered, impulsive remark, or the sign of a hardening of the ANC position.

Limited future government intervention would be essential and the option of nationalising specific bodies should not be ruled out, Mr Mbeki said yesterday

Addressing the UCT Graduate Schools of Business Association in Sandton, he stressed that the basis for his claims was economic and not ideological, and did not contradict National Party policy.

Backing Mr Mandela's views that in order to correct racial imbalances there would have to be intervention by the government in terms of the economy, Mr Mbeki said: "There must be redistribution. We cannot continue to retain racial disparities in South Africa if we want a stable, free country."

Highlighted

Singling out the Land Bank, he said it was impossible to allow it to continue in the present manner.

The South African Defence Force, which was one of the biggest landowners in the country, was also highlighted as an organisation in which limited government intervention could address the problem of land.

He planned to urge overseas businessmen, during his coming five-country international tour, to come to South Africa to discuss investment.

But he warned that foreign investment would not be attracted until after an interim government was in place.

● Big boss backs big business — Page 15

...as urgent need to ...usiness sector, ...lthough we have ...pment organisa- ...estimated at more ...mportant player is ...is a government ...inating role to 'de- ...n' small business." ...vate sector should

business practitioner, and dissemi- nate information pertinent to this sector among members.

Big business could be "part of small business" by planned pur- chases from this sector, joint venture funding, sub-contracting, in-house small business units, continued finan- cial support and training.

Marais could not be reached for comment yesterday.

New standards for agricultural products

B/Day 2/10/91.

GERALD REILLY

PRETORIA — Agriculture Minister Kraai van Niekerk yesterday announced the im- plementation of new legislation to enforce quality standards on agricultural products.

Van Niekerk said the Agricultural Pro- ducts Standards Act consolidated the Dairy Industry and the Agricultural Ex- port Acts and incorporated some sections of the Marketing Act.

He said the provisions would control sales on local markets and the export of specific farm products, and laid down minimum requirement for packaging.

Quality control was an important com- ponent in local and international market- ing of farm produce, he said, adding that it was government's approach to let indus- tries apply quality control on its behalf.

SA's need for aid 'massive'

B/Day 2/10/91

GENEVA — A future democratic SA would need "a fairly massive programme of assist- ance" to help tackle the effects of years of discrimination against blacks, a UN official said yesterday.

Basem Khader of the United Nations Devel- opment Programme (UNDP) said the interna- tional community must be ready to mount housing, education and employment pro- grammes.

But he told a news conference government would be expected to "assume the bulk of the responsibility".

Khader urged the UN General Assembly, meeting in New York, to relax restrictions on UN activity in SA to allow the organisation to set up a base.

The UN High Commissioner for Refugees recently set up offices in SA under a special agreement with government, but no other UN agencies are present because of a long- standing policy against apartheid.

For the past 20 years, UNDP has confined its activities to helping national liberation move- ments such as the ANC.

Khader spoke to journalists after a one-day meeting to discuss technical assistance to SA. Representatives of the World Bank, the Eco- nomic Commission for Africa, the African De- velopment Bank, the Commonwealth Fund for Technical Co-operation, the EC and the UN Centre Against Apartheid also attended.

No SA delegates were present.

Khader said government officials had been briefed on the talks but had not yet indicated whether they supported the planned programmes.

Khader said the UN would only implement aid programmes after SA adopted a new con- stitution and had a racially representative government.

He said the cost of such assistance was not yet known, but it would likely be much higher than the estimated \$250m to \$300m in aid cur- rently received from the US and EC.

"We need to be prepared for a fairly massive programme of assistance to SA to redress the imbalances so far," he said.

Further meetings would be held every six months and would focus on likely programmes in the housing, education, employment, health and rural development sectors. — Sapa-AP.

Visits herald new era for medical research

B/Day 2/10/91

CAPE TOWN — An unprecedented number of official visits to SA by world-renowned medical research experts since the beginning of last month indicates a promising era for medical research in SA.

This is the view of Medical Research Council deputy president Prof Walter Prozesky.

He said visitors to SA over the past few weeks included Poland's Medical Research Centre director; a seven-member AIDS delega- tion from Atlanta's Disease Control Centre; and an official group from the French National Institute for Health and Medical Research.

"This is exceptionally positive for medical research in this country. "For the first time in more than a decade, we are again experiencing a wealth of scientific exchange which will benefit the health of all South Africans.

"If these visits are the sign of times to come, through active scientific exchange our medical experts will once again be well on the way to firmly establishing SA as a country with exper- tise which is of immense value to Africa and the international scientific community as a whole," Prozesky said. — Sapa.

Left's policy puzzles Anglo chief executive

Sowetan 2/10/91

FOCUS

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AS THE head of South Africa's biggest corporation, Anglo American chairman Julian Ogilvie Thompson is - to use the idiom of the street - a man who packs a hefty clout.

But, when he makes a point about which he feels strongly, he does so in an understated manner. The untutored may mistake his tone and phraseology for diffidence.

"I hope that the new South Africa isn't moving into a situation where it proposes to penalise success," he says.

Ogilvie Thompson's point is made amidst growing concern in South Africa over the concentration of economic power in the private sector in the hands of a few companies, of which Anglo American is pre-eminent.

It is manifest in a Competition Board report on Anglo American's acquisition of shares in Gold Fields of South Africa.

Collude

The report finds that Anglo American's share in Gold Fields does not enable it to control Gold Fields or collude with it and Rembrandt, another of Gold Fields' corporate shareholders, to establish a monopoly. But the report contains a strongly worded caveat.

"The concern over the extent of corporate conglomeration is widespread and covers all shades of political opinion," the report says. It goes on to warn of drastic measures - "akin to those introduced by the Supreme Commander for the Allied Powers in Japan after the Second World War" - if the major corporations do not take remedial action.

Another sign - and danger signal for the big corporations - comes from the African National Congress and its allies, the South African Communist Party and the Congress of South African Trade Unions.

Their pronouncements are permeated with threats and pledges to curb the power of, and even nationalise, the corporate giants.

ANC president Mr Nelson Mandela has dispelled illusions that the ANC, heeding developments in Eastern Europe and the Soviet Union, is edging away from nationalisation.

He reaffirmed the ANC's commitment to nationalise mines, financial institutions and monopoly industry as recently as last weekend.

Ogilvie Thompson does not shy away from admitting that Anglo American is a big company. "There's no denying that," he says.

But he adds: "You might ask why we are a big group."

He offers two reasons.

The first, and perhaps the foremost, reason is that Anglo American has been successful: its huge size is a measure of its success.

The second is foreign exchange regulations: Anglo American has been "forced to reinvest pretty well only in South Africa".

The concentration of Anglo American's power is "mostly in mines and largely in export industries".

Thus, he reckons, the power of the big corporations does not work to the detriment of South Africa - it operates to South Africa's advantage by making them more powerful competitors on the world market.

Ogilvie Thompson's point becomes clearer when he talks about the recent acquisition of Middelburg Steel and Alloys from Barlow Rand by Highveld Steel (an Anglo subsidiary) and Samancor (a subsidiary of another corporate giant, General Mining).

The acquisition will give the new company, Columbus, a monopoly of the production of stainless steel in South Africa and make it - and South Africa - a force to be reckoned with on the world stainless steel market.

"I mean, you asked specifically if it can be justified. I think not only can this be justified but it's the only way you'll get things like this," Ogilvie Thompson says.

"Once we've got a larger stainless steel industry in South Africa, you will find that downstream manufacturers will get their products at more or less a world price but without the transport (costs)."

Ogilvie Thompson is perplexed by the left's resistance to privatisation of State industries and its continued commitment to nationalisation.

Object

"If the State privatises (its) businesses they'll be more efficiently run... the Government would then be able to rearrange its assets and use the capital from the sales to spend money in the socio-economic sphere...

"But some people on the left object to that. I don't quite follow this. Is it that they hope that when they come into power they'll be able to fill State industries with all their chums on a very inefficient basis?

"This is, of course, what has jolly nearly destroyed Africa north of South Africa. Nationalisation and overcrowding State-controlled companies with too many people, has failed totally in Eastern Europe, failed totally in Africa.

"That is why all these countries are turning round the other way. So I find it really rather curious that the people in South Africa should still be thinking along those lines. It's a total muddle. Or is there a hidden agenda which is not economic but political?"

The conversation turns to alternatives to nationalisation and to Mandela's challenge to big business to come forward with alternative methods of ending the racially skewed distribution of wealth in South Africa.

"The trouble is there's no quick fix," says the Anglo chief.

"If there was a quick fix, people would have thought of it long ago in many countries."

Quote

He goes on to quote from a study by the Indian economist Deepak Lal, who researched the economies of 21 underdeveloped or developing countries.

"The conclusion is that the only way to improve the lot of the poor is to increase economic growth in the country.

He elaborates on political stability: "Only that is going to give investors, local and abroad, the confidence to invest."

Investment is, in part, a "function of consumer spending," he says. "When consumers are uncertain about the future, they don't spend. There is either a virtuous or vicious circle here again." - *Sowetan Correspondent*

Targeted incentives are the real key to export-led growth

(49)

STEPHEN SMITH

B/Day 2/10/91

THE great success stories of economic development in the past decade have been the newly industrialising countries of East Asia, especially the so-called Four Tigers — South Korea, Taiwan, Hong Kong, Singapore. These stories hold important lessons for development policy, but wrong inferences have been drawn about the source of their success.

The dominant conventional wisdom of the '80s argues that the free operation of the market accounts for the export growth responsible for these East Asian successes. However, there is nothing that inherently links export promotion with a completely free market environment. The governments of South Korea, Taiwan and most other newly industrialised countries have undertaken a host of interventionist measures which have created powerful incentives for export-orientated manufacturing firms, usually in particular targeted industries at particular stages of development.

At the same time, many less developed countries followed the incentives of current world market prices by specialising in primary commodities (agricultural and mineral exports), only to discover that the prices of those commodities subsequently fell. The World Bank and other agencies which encouraged these policies in individual countries failed to take into account the oversupply this would cause on international commodity markets.

These contrasting experiences suggest two vital distinctions. First, it seems to make a big difference whether a developing country promotes exports of primary commodities or manufactured goods. Second, it is critical to distinguish a country's static comparative advantage (what it can produce relatively more efficiently and export successfully in the short term) from its dynamic comparative advantage — long-term export potential. Laissez-faire trade policies will not necessarily encourage those exports which are most advantageous in the long run.

This is not to say that any kind of government intervention however [illegible] real to long-term development objectives. Government intervention can overpromote certain industries to the detriment of long-term efficiency, competitiveness and growth. This makes it all the more important to understand exactly what kinds of trade and industrial policies have worked and what kinds have not.

The scope and pervasiveness of the 19 major types of intervention used by South Korea listed here should dispel the myth that Korea succeeded by "allowing the free market to work":

☐ Periodic devaluations of the Korean currency have been combined with other policies to keep the effective exchange rate for exporters higher than that for importers;

☐ Preferential access to imports needed for producing exports has been provided to manufacturers with unrestricted, guaranteed, and tariff-free access to imported intermediate inputs used in goods later exported, while other imports are severely restricted;

☐ Tariff exemptions on inputs of capital goods needed in exporting activities;

☐ Tax breaks for domestic suppliers of inputs to exporting firms, which constitutes a domestic content incentive;

☐ Domestic indirect tax exemptions for successful exporters;

☐ Lower direct tax on income earned from exports;

☐ Accelerated depreciation allowances for exporters;

☐ Exemptions from import restrictions linked directly to export levels;

☐ Monopoly rights granted to the first firm to achieve exports in a targeted industry;

☐ Subsidised interest rates for exporters;

☐ Preferential credit access for exporters, including automatic access to bank loans for the working capital needed for all export activities;

☐ Reduced public utility taxes and rail rates for exporters;

☐ A system of export credit insurance and guarantees, as well as tax incentives for overseas marketing and post-shipment export loans;

☐ Free trade zones, industrial parks, and export-orientated infrastructure have all been created;

☐ Public enterprises have been created to lead the way in establishing new industries; public enterprises produced the first Korean output of ships and refined petroleum products and petrochemicals;

☐ Export sales promotion is carried on by the publicly supported Korean Traders Association and the Korea Trade Promotion Corporation;

☐ General orchestration of sector-wide efforts to upgrade the average technological level, through use of a new generation of machinery;

☐ Government co-ordination of foreign technology licensing agreements, using national bargaining power to secure the best possible terms for the private sector; and

☐ Export targets have been set by firms themselves since the early '60s, although they may be adjusted by the government.

On the import side, South Korea maintained an extensive system of import controls well into the '80s, including restrictive trader licensing for importers, widespread quantitative controls on imports, domestic content requirements, systematic foreign exchange allocation, required advance deposits (sometimes as high as 200% of the value of imports), and capricious customs practices. It also established minimum domestic content requirements for large plant facilities and for those built with foreign loans.

Many successful Korean export industries begin as infant industries requiring protection. For example, the electronics industry was the recipient of numerous special government benefits. As of 1984, 185 electrical and electronic goods imports were still restricted in Korea.

In the late '80s, South Korea substantially liberalised. The lesson one should draw, however, is that substantial liberalisation logically follows only after a country has virtually joined the ranks of the industrially developed countries. An active industrial policy continues to this day, encouraging Korean entry into high technology fields. The trade and industry ministry recently targeted new areas for production, such as computer-controlled machine tools, bioengineering, microelectronics, fine chemistry, optics and aircraft.

Much less has been written about Taiwan than Korea. But like South Korea, Taiwan has put in place active industrial policy systems. The Taiwanese government has licensed exports, controlled direct foreign investment both to and from Taiwan, established export cartels, provided fiscal incentives for investment in priority sectors and given concessional credit for favoured industries.

Like Korea and Taiwan, Singapore has also practised an active industrial policy, co-ordinated by its Economic Development Board.

Hong Kong is the only one of the Four Tigers in which government intervention in trade and industry has been minimal. However, the association of Hong Kong's success with free trade is not as simple as the likes of Milton Friedman have suggested. The effective cartel of large banks (which have assets considerably greater than Hong Kong's GNP) is said to perform an industrial policy function through the rationing of credit towards the industries that the cartel picks as the emerging "winners". Hong Kong is no textbook model of perfect competition. With its economy's relative trading advantages slipping in the past few years, the Hong Kong government has begun to introduce aspects of industrial policy. For example, the government has subsidised the Hong Kong Productivity Centre.

All this points to the conclusion that real, sustainable development will, as a rule, require not just any exports, but manufactured exports.

It is sensible for less developed countries to start with relatively simple, labour-intensive manufacturing activities, but the long-term goal should be to move progressively "up the technological ladder" to the higher value-added (total factor productivity) activities more likely to generate higher real wages and living standards.

☐ **These are edited excerpts from Industrial Policy in Developing Countries, produced by the Economic Policy Institute, Washington. Smith is associate professor of economics at George Washington University.**

Foreign Minister Pik Botha with German Deputy Economic Development Minister Michaela Geiger after their meeting in Pretoria yesterday. They discussed development in southern Africa. Geiger is in SA on a four-day visit. Picture: ROBERT BOTHA

Treat SA as a developing country — Pik

B/Day 2/10/91

DARIUS SANAI

SA WAS a developing country and should be recognised as such by Western politicians, Foreign Affairs Minister Pik Botha said yesterday.

Botha was speaking after meeting German Deputy Economic Development Minister Michaela Geiger, who is on a four-day visit. (49)

He said there was a temptation for visitors from Western countries to class SA as a developed nation, whereas the majority of South Africans were "still developing", and SA needed to be seen in that context.

In a thinly veiled hint to Geiger, Botha also urged the West to attack the ANC's advocacy of nationalisation with as much vigour as they had attacked apartheid.

Geiger said that they had discussed a range of issues, including how Germany could help uplift SA's black community and how SA and European states could combine to stimulate development in other southern African states.

Both ministers said the talks had been a helpful and constructive introduction.

Nationalisation 'an option', says ANC

B Day 2/10/91 TIM COHEN (49)

THE ANC yesterday reaffirmed ~~that mea-~~ sures it would adopt to redress economic imbalances in SA society "might well include nationalisation".

And ANC executive member Ronnie Kasrils entered the debate by suggesting that the issue be put to a referendum.

A three-page statement issued yesterday by the ANC's Department of Information and Publicity said there was nothing "outlandish or fantastically radical" in ANC president Nelson Mandela's views on nationalisation.

Mandela had said three times in the last two weeks that banks and mines would be nationalised to correct racial imbalances in the ownership of wealth, according to Anglo American spokesman Michael Spicer.

The department said: "Comrade Mandela's purpose was to once again draw attention to the vast disparities in power and wealth that separate black from white in our country.

"The dogmatic assertion that nationalised industries are necessarily mismanaged is hyperbole of the highest order," the statement said.

It added that there was a deafening silence from those "who today pontificate as champions of the sanctity of property" when blacks were deprived of their property rights.

"The protestation of such recent converts would sound a little more convincing if they could point to a track record testifying to a consistent defence of the rights of property, irrespective of the race of the victims," the statement said.

"In the absence of such a record one

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Nationalisation

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must reluctantly conclude that such special pleading is rather self-interested."

In reaction, Spicer said the ANC's statement was "confused and obfuscatory", but underlined the need for it to define clear policies on complex economic matters.

Spicer, who emphasised that Anglo American wanted a rational discussion on the issue, said no one disputed the need for the state to be active in health care, education and shelter.

"Equally, it is a red herring to refer to the NP's history of creating parastatal organisations when what the ANC means by nationalisation is taking over existing private sector organisations such as mines and banks."

Kasrils told a public meeting at Wits yesterday that the issue of nationalisation was negotiable and could be resolved by calling a referendum.

Spicer said Kasrils' suggestion added nothing to the debate because sound economics were often not popular.

"Asking people whether they want tax will clearly elicit an answer that will be detrimental to society at large," he said.

Interim govt near, suggests Du Plessis

BDay 2/6/91 (49)

ROBERT GENTLE

A MULTIPARTY conference could take place by the end of the year and elements of an interim government could soon be established, Finance Minister Barend du Plessis said yesterday.

He endorsed ANC secretary-general Cyril Ramaphosa's recent remarks on the possibility, saying: "Maybe the nation will get a Christmas present."

Du Plessis was responding to questions following his opening address at a retail financial services conference in Johannesburg organised by the UK-based Lafferty Conferences group.

He later told Reuter it might not be long before opposition parties won a significant say in the formulation of economic policy.

"The moment that begins, I think there will be an interaction between the multiparty conference and the legislative and executive process, which will soon see major participation in fiscal affairs, policies and management of it by people of colour of the other parties," he said.

The financial rand could be expected to go once SA's financial relations with international organisations like commercial banks and the IMF had been normalised.

The worldwide move towards democracy and the crumbling of socialism meant that these truths had begun to be accepted in SA, despite "certain utterances now and again" on nationalisation.

Du Plessis called for more competition in SA to lessen the concentration of power in the economy. He said multinational representatives had told him that this concentration prevented them from easily setting up in SA. However, any dismantling of conglomerates should be voluntary.

The challenge for SA in the process of democratic change was to prove the African experience wrong. "We must ... not repeat the mistakes of Africa. We say distribution through growth. The other side says growth through redistribution. We must make the market economy work in a way that attends to the great divide between the haves and have-nots."

● See Page 3

We will evaluate cash given to apartheid govt, says Ramaphosa

ANC loans bombshell

Star 3/10/91

Political Staff

A newly elected democratic government would "not be keen" to honour international loans granted to the current Government, ANC general-secretary Cyril Ramaphosa told a senior visiting politician yesterday.

After discussions with German Deputy Minister of Economic Co-operation Michaela Geiger, Mr Ramaphosa said at a press conference in Johannesburg that a new government should have the right to evaluate loans granted to the apartheid Government before deciding whether to honour such loans.

He added that loans from the International Monetary Fund, which the Government had been trying to get, should not be granted now.

The ANC "expects quite a lot of assistance" from foreign governments, but wanted such aid and foreign loans to be delayed until an interim government had been set up.

Mrs Geiger, who is on a fact-finding mission to establish how Germany can help to develop South Africa, said her government supported the immediate lifting of sanctions.

However, Mr Ramaphosa said the ANC would on Friday meet with the SACP and Cosatu to strengthen a resolution passed at the ANC's July congress for the "three-phased maintenance" of sanctions.

Disastrous

On nationalisation, Mr Ramaphosa said this policy should be seen in the context of State intervention necessary to correct the imbalances created by apartheid.

"I can guarantee you that we won't nationalise simply for the sake of nationalisation. But if it turns out that we can achieve objectives better through nationalising certain enterprises, then we will do that.

"But it would be disastrous to nationalise as happened in Mozambique and one or two countries in Eastern Europe."

An earlier statement by the ANC's information office said State intervention was a universally recognised device.

"In South Africa it has been used by the National Party ... to solve the poor white problem," the statement argued.

In his meeting with Mrs Geiger earlier yesterday in Pretoria, Foreign Minister Pik Botha chastised European governments for not criticising the ANC's mistakes in the same way as they used to attack the SA Government's errors.

Preach

In a clear reference to remarks made last week by Nelson Mandela that the ANC still intended nationalising mines and financial institutions, Mr Botha said: "If the ANC preaches nationalisation we would like our friends in Europe to say that's not on."

Mr Botha said the Government expected Germany and other European governments to make a choice between the various policies that would be offered at the SA conference table.

In the past, European ambassadors had seen him every week to pressure the Government to end detention without trial, reform the security laws and scrap apartheid.

"We have done that. Now I am concerned that Europe is too quiet when it comes to statements by the ANC and its alliance partner, the SACP."

Mr Botha said he did not hear Europe criticising the ANC's talk about a centralised economy or arguing in favour of private enterprise. "We would like Europe to say what policies are unacceptable."

● ABSA chief critical of nationalisation — Page 24

Absa chief critical of ANC nationalisation

(49)

Star 2/10/91

By Derek Tommey

The nationalisation of South Africa's financial industry would have catastrophic consequences, says Piet Badenhorst, chief executive of Absa.

He was commenting yesterday on a statement by ANC President Nelson Mandela that financial services and the mining industry would be nationalised if it came to power.

"A healthy economy can survive only with a healthy financial sector. Normal market forces must be allowed to play their part in controlling money supply and interest rate levels within a well disciplined environment," said Mr Badenhorst.

He told the Retail Financial Services Conference in Johannesburg yesterday:

- Unless black borrowers paid the instalments on their mortgage bonds, financial institutions would not be able to do much to ease the chronic shortage of housing;
- The banking industry was experiencing large-scale fraud costing it millions of rands. It was also suffering from a huge drop in business morality;
- Some way had to be found to protect house buyers in the lower-income groups from sharp fluctuations in interest rates;
- He would like to see Absa become larger and expand its operations overseas;
- Absa was already selling its own insurance policies.

Piet Badenhorst . . . normal market forces must be allowed to play their part

Mr Badenhorst said certain sections of the population were not making their bond repayments — some because they were having difficulty meeting higher repayments, but many because they were simply unwilling to do so.

"The normal processes of the law do not operate within certain black areas. People refuse to pay their bonds and the communities refuse to allow us to evict these borrowers.

"The financial services industry is being severely criticised for not lending in a major way in black areas.

"But how can the industry lend money when the normal processes of the law cannot be enforced?" he asked.

Unless lending conditions return to accepted norms, the chronic shortage of housing cannot be addressed in any meaningful manner.

The Absa group pioneered lending in black areas in 1978 and had some R2 billion invested in black housing, he said.

Mr Badenhorst said another risk facing the industry was the large increase in the amount of fraud by small-time operators from the involvement of staff directly or indirectly, and from well-organised syndicates with networks operating countrywide.

Mr Badenhorst refused to say how much Absa and other financial institutions had lost through fraud, but said it ran into millions of rands.

Absa had also to spend millions to protect itself against fraud.

He said it was surprising how relatively unsophisticated and uneducated people were able to find ways to circumvent the systems.

He said a further disturbing factor had been the decline in business morality.

For a business to be liquidated, and for the owner of the business to buy it back at a discount to the detriment of other creditors, was totally unacceptable, especially when these liquidations were engineered, he said.

"We need an effective credit rating mechanism to penalise those people who cause a loss to any one who provides finance and walks away without paying a penalty."

Mr Badenhorst said the black taxi market, hailed as a success story, had cost banks millions of rands.

People did not pay for their taxis and the recovered vehicles were mostly badly damaged.

This had made bankers reluctant to finance these vehicles, with the result that the taxi industry was not growing at the rate it should.

He said there was a need to finance housing for the lower-income groups so that they could be shielded from the effects of substantial interest rate movements.

"We must in some way devise a system where the proportion of family income being expended on shelter is not suddenly escalated beyond the means of the family, thus avoiding hardship, anxiety and resentment for the owners, and potential problems for the financiers of the properties."

Questioned on whether Absa had any plans to start its own life assurance company, Mr Badenhost said that Absa already had its own life assurance company and was busily rationalising the group's insurance interests.

Life insurance was far more profitable than banking, he said. A bank was doing well if it received a return of one percent on its assets.

Life assurance companies were getting a return of eight percent.

Tight monetary policy to stay — Stals

Business Staff (49) ARG 3/10/91

JOHANNESBURG. — Governor Chris Stals has committed the Reserve Bank to a tight monetary policy, regardless of the economic needs of the present or the new South Africa.

He told the Retail Financial Services Conference yesterday longer-term economic needs could only be served by applying fundamental financial discipline.

"Should we ever discard or ignore it, financial indiscipline will come back with a vengeance to haunt us in the form of inflation."

He said real interest rates were among the lowest in the world at less than two percent above the inflation rate.

A major disadvantage of a persistently high inflation rate was that it led to a malignant maldistribution of resources.

"The evidence is there that almost two decades of double-digit inflation inflicted unavoidable distortions on the economy," he said.

While monetary policy could not remain aloof from the changing needs of South Africa, there were certain basic economic laws that could not be altered — not by politicians, not by the people and not by those responsible for the determination and implementation of policy.

"Any unnecessary waste of the limited resources of South Africa, now and in the future, must be avoided at all costs."

Dr Stals said the Reserve Bank believed maximum economic growth would be promoted by a monetary policy that ensured optimum financial stability.

To achieve those objectives South Africa had to:

- Keep the rate of money supply increase at least below the inflation rate.
- Prevent excessive increases in bank credit extension.
- Allow interest rates, as determined by market forces, to stay above the inflation rate.

Dr Stals called on financial institutions to provide reasonable access to their services for all people and "not only for the rich".

Business is obliged to guarantee an end to capital flight

B/Day 3/10/91

49

ZAVAREH RUSTOMJEE

A RECENT study in the SA Journal of Economics estimated illegal capital flight from SA between 1970 and 1988 at between \$12bn and \$22bn. Another study put the figure as high as \$37bn at current prices.

Depending on which estimates are believed, this means potential economic growth has been stunted by between 2% and 5% every year since 1970.

Three interrelated questions arise. Firstly, who has been involved in capital flight (the term is used in this article to refer to unlawful flight)? Secondly, how is it possible for up to \$37bn to circumvent what are acknowledged to be fairly stringent capital and exchange controls? Thirdly, what impact will this have on future economic policy choices?

Broadly categorised, asset holders include foreign private and corporate investors, private SA residents and SA corporate asset holders. Given the magnitude of flight, it is unlikely private individuals have been involved to any great extent. The flight is more likely to have resulted from actions of a combination of foreign investors and domestic corporate asset holders.

If we were to assume flight capital is largely foreign controlled, then one important policy implication is that future national development is unlikely to be secure if it is based primarily on future foreign capital inflows (assuming that these are forthcoming). This does not imply that foreign investment should be discouraged, but that caution should be exercised in future policy making, particularly in regard to a future investment code.

Since one major objective of such a code would be to provide a framework of stability to all signatories, the code should include specific clauses that, firstly, provide a clear agreed definition of what is meant by capital flight. Secondly, it should outline an appropriate scale of penalties for illegal capital flight.

While the SA economy is but one of many investment options open to foreign capital, this is not the case with domestic capital holders. Assuming that flight has been carried out partly by the latter, what are the implications?

Firstly, capital flight of such magnitude has directly contributed to the stagnation of the SA economy. It would be ironic if domestic asset holders have engaged in capital flight, since they have been the most vociferous opponents of sanctions and disinvestment.

Secondly, the evidence of flight undermines the arguments of many domestic asset holders, who, while not denying that flight has taken place, attribute it to sanctions, inflation driven by state spending and unreasonable wage demands.

It also casts doubt on their solution to the crisis which is to lift sanctions, allow domestic asset holders to invest outside SA and entice capital back to SA by giving favourable tax and capital repatriation incentives, to develop competitive export oriented industries and to raise productivity by working harder and curbing wage demands. The very conditions that are cited as causing capital flight have actually been created and exacerbated by flight.

Furthermore, in view of the fact that the action of flight has significantly sabotaged growth, it places a question mark on the sincerity of domestic asset holders who are participating in debates on future political and economic dispensations.

The question of how \$37bn was lost needs to be directed at the relevant regulatory institutions. Laws have been broken but those responsible have largely not been brought to book.

From time to time, there have been glimpses of action — the special committee formed within the Reserve Bank after 1985; reports of foreign exchange investigations being undertaken; and the occasional forex circumvention trial.

It has, however, been left to academics to inform the taxpaying public of the magnitude of the problem of capital flight. These revelations should have a major impact on debates about abolishing the financial rand and lifting exchange controls. Given the past record of capital flight, it would be almost a criminal act to open the floodgates.

economics fraternity? This is partly due to the fact that contemporary economists usually explain away the phenomenon of capital flight as "rational behaviour". In other words, the asset holders concerned rationally diversify their portfolios between domestic and international holdings. The process of capital flight, they argue, is determined by a number of factors including perceptions of political and economic risk and state intervention which inhibits the most efficient allocation of assets.

They argue that specific factors that have driven asset holders in SA to indulge in capital flight have been a stagnant economy with few investment opportunities, little prospect for growth, high inflation, a comparatively high tax regime, pressures from organised labour and financially repressive state policies largely in the form of capital and exchange controls.

The same argument is then extrapolated to reassert ideological dogma — that those who control assets should be free to allocate them in accordance with market principles. If present or future governments do not grant this freedom, asset holders will — as they have done in the past — shift their assets into a more liberated environment.

Yet far away from the rarified atmosphere of this economic debate, there exist about 30-million South Africans who are worse off as a result of such "rational behaviour". Investment has stagnated in the '80s. Gross domestic fixed investment in 1981 was higher in real terms than in 1990. Those fortunate to be employed have watched their purchasing power steadily fall while the returns of their corporate employers have steadily risen. From their perspective, capital flight has been nothing more than criminal economic sabotage. A thorough examination and revelation is required of all such past activities.

Today the word "democracy" is on the lips of all, and a vigorous debate is in progress about the future constitution, possible safeguards, and so on. Asset holders, as individuals and through their collective organisations, like Sacob for example, are making major contributions to the debate, committing themselves to a democratic economy. In doing so, they have raised many objections about past state policies and many questions about a future government's economic policy.

This is their right and is an essential component in a democratic economy. However asset holders are not neutral referees, but also participants in the economy. Other essential components include the obligations that participants must uphold. This is particularly important in a future economy which incorporates some form of social accord involving all the major players including labour, state, capital, unemployment and the rural poor.

If adopted, each of the parties involved in such an accord would carry a heavy responsibility to make it work. In such a framework, a major democratic responsibility of capital (domestic and foreign) would be to guarantee that illegal capital flight does not take place.

☐ Rustomjee is completing a PhD in Economics at London University and is associated with the ANC's economic policy depardment.

Hint of change in hardline ANC policy

BDay 3/10/91

ROBERT GENTLE

THE conference tomorrow of the ANC and its allies could see the first signs of change in the ANC's hardline policy on sanctions and new investment, ANC's Don Mkhwanazi hinted yesterday.

Mkhwanazi, member of the ANC's department of economic policy, said at the retail financial services conference yesterday that the stance on new investment and sanctions would be "considered" at tomorrow's meeting. (49)

If government moved quickly on outstanding issues in the reform process, the ANC would call for new investment.

Asked whether the perception that the ANC was not wholeheartedly committed to free market principles might jeopardise future foreign investment, Mkhwanazi said: "I know of three multinationals who have said that if the ANC calls for new investment, they would do so tomorrow."

Mkhwanazi described the SA financial system as the exclusive preserve of whites. There were virtually no blacks in the audience, and the only blacks at the JSE were cleaners, sweepers or messengers.

He called for financial institutions to revise their lending criteria to make it easier for black entrepreneurs to obtain finance. He accused certain banks of "stealing ideas" from local black savings clubs like Stokvels and engaging in unfair competition.

"What we need is a strong, vibrant, efficient, disciplined and responsive financial system that is closer to the people; not a racist, aloof, apathetic, distant, inefficient and ineffective financial system," said Mkhwanazi.

Reserve Bank governor Chris Stals told the conference that financial institutions in the new SA should not be "for the rich alone". Special economics adviser Japie Jacobs said a "broader spectrum of the population" must have access to the financial markets.

Privatisation 'will help blacks'

SHARON WOOD

STELLENBOSCH — Privatisation would make an enormous contribution to helping empower blacks and reduce the size of the public sector, Economic Society president Peet Strydom said at the society's bi-annual conference yesterday. BDay 3/10/91.

"Unless more blacks become involved in the production of GDP, the economic transition is unlikely to be a success," he said. (49)

Big companies would have to provide the employment projects needed because the informal sector was too small and SA could not "dump people in the informal sector".

In addition to privatisation, business alliances should be established which would mutually benefit business and other players in the economy, and government would have an important role in stabilising markets, particularly in providing social security.

Strydom suggested various areas in the Budget which should be readjusted to release the resources needed to finance the new SA.

Police spending would have to be upgraded and funds should be re-allocated from defence and constitutional development to housing and health. SA's expenditure on education was relatively high by world standards.

He rejected the common statement that SA was under-borrowed, saying that foreign debt levels were still extremely high and government should privatise the cost of state debt.

Combatting inflation was an essential prerequisite for an efficient market-driven economy.

"SA has made great progress with monetary policy ... but is dragging its heels with fiscal policy, which is causing exessive inflationary pressures," Strydom said.

Long-term stability the aim

Stals refuses to relent on interest rates

BDay 3/10/91 (47)

ROBERT GENTLE

RESERVE Bank Governor Chris Stals yesterday sent out one of the strongest signals yet that interest rates were not about to come down.

Speaking at the start of the second session of a retail financial services conference in Johannesburg, Stals launched an impassioned defence of SA's current tight monetary policy.

He said the Reserve Bank would continue to keep the rate of money supply below inflation, prevent excessive increases in bank credit, maintain real market-related interest rates and reduce inflation — which itself would bring rates down.

Similarly, gold and foreign exchange reserves would be protected and the average exchange rate of the rand would be kept as stable as possible.

"We cannot compromise on these objectives for whatever the economic needs of the present or new SA might be," he said.

"We shall not be able to satisfy the maximum possible quantum of those needs without applying these fundamental financial disciplines. Should we ever disregard or ignore them, they will come back with a vengeance to haunt us in the form of inflation."

The Reserve Bank believed maximum economic growth would be promoted by a monetary policy approach that would ensure optimum financial stability in the medium and longer term — hence the present policy.

Responding to questions, Stals denied that SA had a high interest rate policy. "Today, we have the lowest real rate of interest of any country that I know of."

At 17%, the Bank rate was barely two percentage points above inflation, he said. This compared with about 10 percentage points in a country like New Zealand.

"If we closed the Reserve Bank tomorrow, interest rates would rise," said Stals. "If exchange control were lifted, money would flow out to seek higher rates in other countries."

While other countries preferred to base their policies on protecting the currency or the exchange rate, SA was concentrating on the longer-term goals of inflation and financial stability.

While acknowledging that monetary policy could not remain aloof to the changing needs of the new SA, Stals said basic laws of economics had to be respected.

"Man's resources are limited and his needs are insatiable. Any effort to ignore this basic law can only evoke the resentment of the intricate workings of the economic system. The result is often a situation in which even fewer needs are satisfied because of a forced unproductive employment of the limited resources."

On the country's relatively sophisticated financial system, Stals said SA could easily become a convenient intermediary between the developed financial markets abroad and developing countries in Africa.

However, in order to achieve this SA needed an efficient, stable, secure and profitable financial system operating in an environment where financial stability was entrenched.

This would encourage other African countries in the region.

Southern African strategies the key

By ARI JACOBSON

49 CT 3|10|91

THE new economic strategies for SA must include plans for the entire Southern African region, says Johannesburg Consolidated Investments (JCI) economist Ronnie Bethlehem.

Lawrence Seeff (left) chairman of the Seeff Property Organisation, and JCI group economist Ronnie Bethlehem.

He told the Seeff-Cape Times Executive Breakfast Club yesterday, at the Bay Hotel, that SA was a net recipient of labour from neighbouring Southern African countries and so should include this factor in job creation decisions.

On a more general level, Bethlehem said regionalisation was becoming a universal trend. He pointed to the lowering of tariff barriers within the European Community (EC) by 1992, the free trade agreement between the US, Canada and Mexico and similar strategies being followed in the Pacific Rim countries, Eastern Europe and concerning the decentralisation of the Soviet structure.

"SA cannot just look at itself — it needs to get into step with regional and global changes."

Bethlehem said the growth strategies in SA must revolve around "mass black unemployment and massive black homelessness".

Here, he said, government supported work programmes (as well as private initiative) could set the one off against the other by employing those unemployed in, for instance, the homebuilding industry.

"No future government can avoid this problem as every politician addresses the needs of the voter."

He suggested that the authorities provide business with the incentive to concentrate their resources in this direction.

Other problems that would have to be attended to were the imbalances between education and training and between capital and labour.

Bethlehem said SA's education system was not providing the skills the economy required. This could be cured by the focus on artisan and basic skills training.

Discussing SA's bias for capital over labour in the corporate environment, Bethlehem said that among other factors low interest rates historically, and the increased power of trade unions, have enticed businesses toward capital intensive production.

Taking a broader look at the situation he said "along with redirected state expenditures to satisfy the demands of the economy the governemnt would need to adopt tough monetary and fiscal policies."

This restructuring would include the redistribution of wealth and ownership towards the black population "which have too little of shared participation".

"But do not be apprehensive of this redirection — the market economy shifts in this manner all the time, from surplus to deficit units."

SA's economy needs a kick-start — Bethlehem

(49)

B Day 3/10/91

LINDA ENSOR

CAPE TOWN — The economy needed a kick-start but there was also a need for planning to ensure the sustainability of the growth generated by the kick-start, JCI group economics consultant Ronnie Bethlehem said yesterday.

Speaking at the Seeff-Cape Times Breakfast Club, Bethlehem stressed the need for a market-related growth and development strategy which included strict fiscal and monetary policies together with massive expenditure on labour-intensive public works such as house building to create jobs.

Such a strategy would also address the problems of mass unemployment and homelessness.

He said a strict monetary and fiscal policy on its own would be too deflationary while deficit financing would hit the balance of payments.

There was considerable room for restructuring government expenditure for job creation.

But sounding a word of caution, Bethlehem said there was no chance that unemployment could be abolished in SA as the growth rate required to achieve this was impossible. However, it could be stabilised, he said.

Financial services 'must undergo fundamental change'

Star 3/10/91 (49)

Finance Staff and Sapa

The ANC is not as yet convinced that the transformation process and changes that are taking place in this country are irreversible, said a senior ANC official, Don Mkhwanazi, at the financial services conference in Johanneburg yesterday.

He was commenting on the warning by Cyril Ramphosa, the ANC's secretary-general, that an ANC government would "not be keen" to honour international loans granted to the current Government.

Mr Mkhwanazi, who is corporate affairs and management specialist at the ANC's economic department, said the ANC would be in a position to say that the change was irreversible when the All Party Congress asserts and agrees on the mechanicism for delivering a new constitution.

He said that the ANC regions, with Cosatu and the SACP, will be meeting on Friday to consider the whole issue of sanctions and disinvestment alongside the developments taking place.

If the Government had moved fast on some of the things that were still issues "the ANC would have called for new investment yesterday".

He said the country's financial system needed to undergo fundamental change to respond to the needs of the community and to sustain political transformation.

There was no doubt that political change was taking place with all its attendant problems and suspicions.

"What is of course worrying is that there is no corresponding economic transformation," he said.

"We cannot wait for political transformation to take its full course before applying our minds to the whole process of economic restructuring, reconstruction and transformation."

Problem areas were food poverty, housing, municipal-services infrastructure, job creation and education.

Most of these community needs were basic.

"It is not unreasonable for the people of the community not only to have these needs but to expect satisfaction.

"They desire that shortly after liberation the new democratic order would guarantee them the basics of human life."

The ANC believed the financial system was not geared to meet the needs of all citizens.

"There is no doubt in my mind that the financial system cannot continue to be an exclusive preserve of whites, in terms of management composition, spread of ownership, delivery and benefits.

"Black participation in terms of ownership, control, management and service benefits must be accelerated." — Sapa.

Star 3/10/91

ANC backtracks on loans

Ramaphosa's view 'does not reflect official policy'

By Esmaré van der Merwe
Political Reporter

A new Government would have no choice but to honour foreign loans granted to the National Party Government, the ANC deputy head of international relations Stanley Mabizela said yesterday.

This followed ANC general-secretary Cyril Ramaphosa's remark on Tuesday that a newly elected democratic government would "not be keen" to honour loans granted to the apartheid Government and should have the right to evaluate such loans before deciding whether to repay them.

Mr Ramaphosa last night claimed in a statement that The Star's report regarding his views on honouring international loans did not accurately reflect what he had said at a press conference.

But his explanation (see details below) shows that he was correctly quoted.

Several ANC officials said yesterday that Mr Ramaphosa's view did not reflect official ANC policy.

A senior source said Mr Ramaphosa's remark was probably aimed at "scaring off" international financiers from granting loans to the current Government.

Dodging

The ANC argues that foreign investment should be withheld until an interim government has been set up.

Mr Mabizela told The Star: "Any government succeeding an outgoing one must honour the international commitments of the previous government.

"This may be an unhappy situation, but that is the international law. There is no way of dodging such obligations."

He added that the ANC was "hugely embarrassed" by the Independent Development Trust's efforts to obtain foreign funding for its projects.

The ANC had nominated three IDT board members from the democratic movement because it believed the Government and the local private sector would be the only sponsors of the IDT's development projects.

"Our position remains that foreign funding should be blocked," he said.

Asked to respond to Mr Ramaphosa's remark, a member of the ANC's department of economic planning, Don Mkhwanazi, told an economics conference in Johannesburg that the ANC was not yet convinced that political change had become irreversible.

Re-evaluate

"Once we are convinced — that is, after an all-party congress has agreed on a mechanism through which a democratic government will be reached — our policy will become clear."

He added that the loans issue might be discussed at an ANC/SACP/Cosatu conference on sanctions in Johannesburg tomorrow.

In his statement last night, Mr Ramaphosa said: "I emphasised the right and moral duty of any future democratically elected government to re-evaluate any loans that the apartheid regime entered into and the conditions under which they have been obtained.

"The new democratically elected Government cannot just be a rubber stamp for the actions and undertakings of an apartheid Government, which could have agreed to onerous conditions making it difficult for a new government to achieve its objectives. We will need to carefully evaluate the conditions for each loan.

"Faced with this situation, we are opposed to the granting of any further international loans to South Africa, at least until an interim government is formed."


Cyril R

Financial Mail

STREET POLITICS AND THE ECONOMY

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FM 4\10\91.

Some fears of flying

The economic outlook over the past few weeks has clearly been improving far beyond the expectations of the ANC and its fellow travellers. The prospect of an upturn only a few months off — bringing with it more job opportunities and rising incomes — must have stirred latent fears that the comrades were in danger of sacrificing power to prosperity.

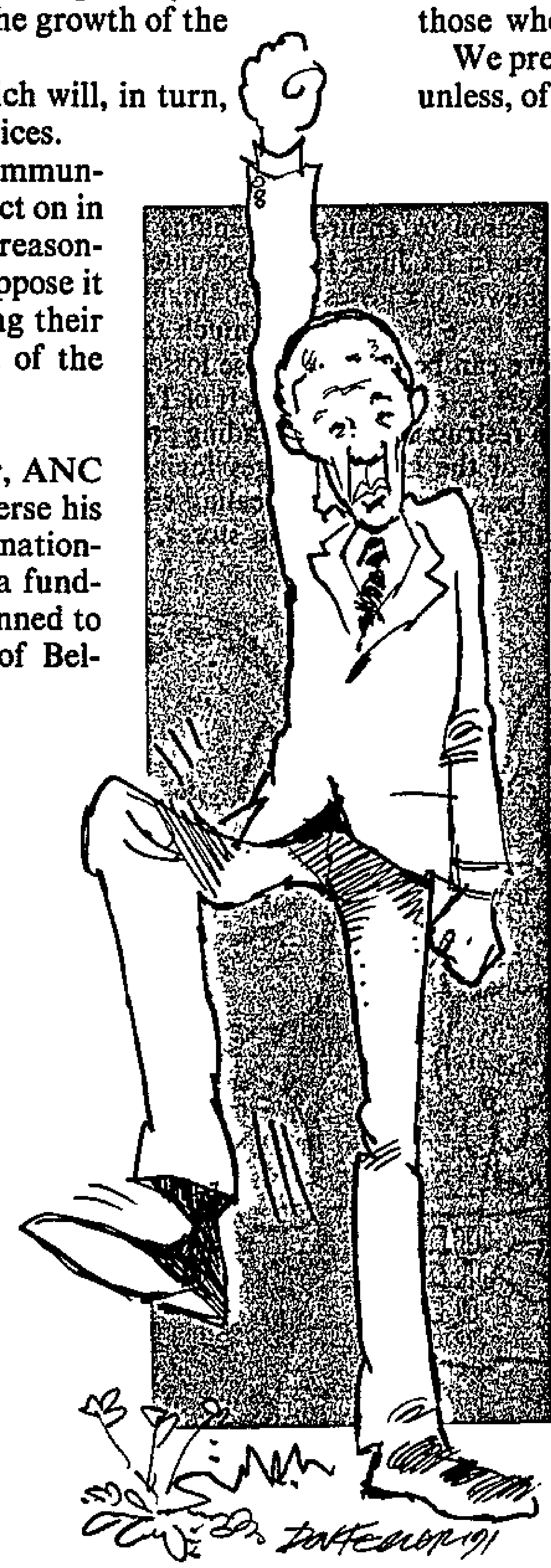
So in recent weeks there has been a firm and what appears to be an orchestrated campaign to reverse the situation. Belated attempts have been made to score politically by sabotaging the introduction of VAT, a tax that has no permanent inflationary implications at all, especially in view of the substantial real reduction in the growth of the money supply.

For tight money will curb demand which will, in turn, circumscribe ability to buy at higher prices.

It is a tax that will benefit the entire community, the economic merits of which we reflect on in detail in the following pages. When that reasoning sank home, those who threatened to oppose it by violence on the streets decided to swing their disruptive energies to the general plight of the poor.

Any excuse would do.

As if to reinforce that futile endeavour, ANC president Nelson Mandela decided to reverse his organisation's more sensible attitude to nationalisation by declaring to businessmen at a fund-raising dinner in the Cape that it now planned to embrace again the sterile romanticism of Belgrade economics.



Down the road at the University of Cape Town, radical black students went on the rampage, disrupting normal university work, destroying property and endangering life.

When asked to intervene, Mandela referred the matter to the local ANC branch. If a request for help went also to Archbishop Desmond Tutu and he responded, he wasn't very successful in defusing matters.

Manual workers at the university were simultaneously in dispute with the university authorities over demands for higher wages. Their spokesman emphasises that the workers were not involved in the depredations of the students. Their pay claim clearly provided an excuse for others to riot.

Maybe the real reason was the success of the foreign borrowing campaign abroad which, along with the improving domestic economic outlook, has become a threat to the real motives of the ANC — power instead of prosperity.

It is all going far too well for the people but not nearly so for the ambitious comrades. Sanctions are crumbling too fast; there are too many trade delegations from large Western powers passing through the country; and too many of our neighbours want to trade with us.

It is too much to believe that the riots and Mandela's refuge once again into threats of nationalisation was no coincidence. Coming only weeks after the historic Peace Accord, it says little for the noble motives expressed by those who signed.

We predict that the VAT protests won't be sustained — unless, of course, the levels of intimidation are once again raised. Ordinary workers will lose interest in this sort of political posturing as they see it brings no tangible benefit.

But the delinquent students will need more positive action from the authorities. For unless their dangerous inroads are matched by firm authority, at the very least rustication, it will spread.

Too many students are immature, impractical and with only limited academic vocation. They are very much like sheep, easily open to intimidation and persuaded that revolutionary conformity is a substitute for free will. If they are not met with a firm manifestation of authority, the upheavals will spread. As it is, there is reason for surprise that the radicals of the University of the Western Cape were not involved — but perhaps they were.

Experience has shown elsewhere that the sort of mindless unrest that UCT experienced last week is not far off from the questioning of syllabi not considered socially or politically correct and the questioning of the relevance of examinations.

Equally mindless was the ANC's response to the outcry at Mandela's lapse into nationalisation rhetoric, claiming justification on the grounds that the Nats used State enterprises to solve the poor white problem. They didn't solve it. It was solved for them by the economic growth that foreign investment in the new goldfields brought about in the Sixties.

State intervention is not a "universally recognised device to correct social and economic imbalances." Ask almost any Russian. Or, for that matter, Zambian or Tanzanian.

Could it be that Comrade Nelson, like his more famous namesake, finds it convenient at times to put his glass to a blind eye? ■

LAW OF CHEQUES FM 4/10/91

Extending banks' liability

A recent case in the Witwatersrand Division of the Supreme Court has important implications for the law of cheques. It involves a medical aid scheme which found itself the victim of a R2m fraud, linked to the actions of Albert Vermaas.

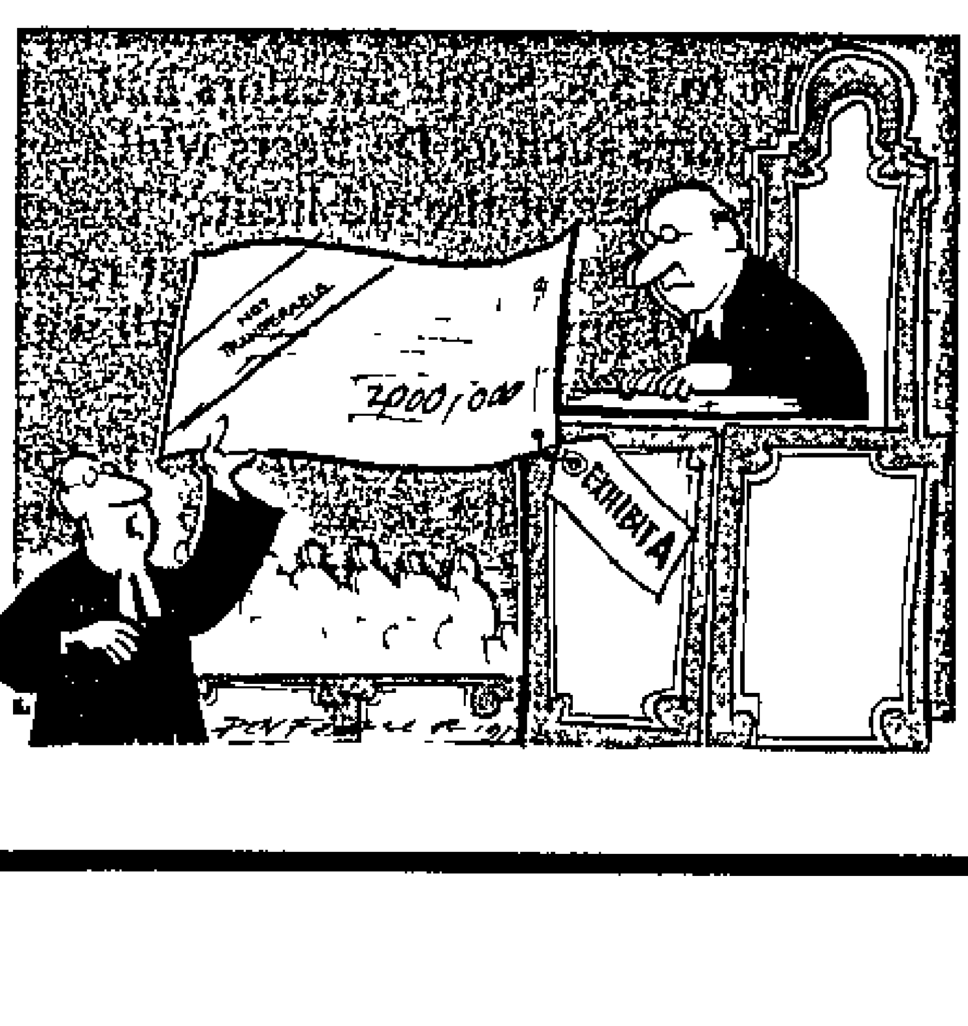
The attorney for the plaintiff, Werksmans' Tony Gorley, tells that Bonitas Medical Fund (administered by Medscheme Administrators (Pty)) sued both banks when a cheque drawn on Nedbank and made out to Volkskas was deliberately credited to the account of Eurotrust Ciskei (Pty), a company connected with Vermaas.

The court found Volkskas liable for the amount, interest from the date of proceedings and costs. Nedbank was found not liable, because Volkskas had stamped the cheque: because in part of an agreement between banks, this made Volkskas responsible for the cheque being correctly dealt with.

On November 25 1988, a cheque intended as an investment by Bonitas in a Volkskas call account was credited to an account in the name of Eurotrust Ciskei by an agent apparently working for Vermaas. The deposit slip had been signed by Vermaas's employee on behalf of Eurotrust. When the medical aid scheme saw its name linked to Eurotrust in the press in mid-1989, it immediately issued summons against both banks.

What makes the case interesting besides Vermaas's involvement is the question of banks' liability when dealing with cheques. The cheque in question was correctly crossed and marked "not transferable" between parallel lines. Judge Chris Plewman, however, found that Volkskas was not merely negligent but had constructive if not actual knowledge that it was crediting the amount of the cheque to the wrong account.

This followed from the fact that the cheque was marked not transferable — meaning that it could not be paid into any other account than that of the payee. If a bank disregards this annotation it is at the least negligent in ignoring the drawer's instructions. However, cases decided in the Transvaal courts until now have held that mere negligence is not enough on which to found an action against the collecting bank.



This awkward series of precedents was distinguished by Judge Plewman through a finding that there was constructive if not actual knowledge by Volkskas that the cheque was not due to Eurotrust Ciskei.

This arose out of evidence by Volkskas' witnesses that they trusted Vermaas implicitly and would and did not question his actions — in this case depositing to Eurotrust's account a "not transferable" cheque drawn in favour of Volkskas itself. ■

ECONOMIC OUTLOOK FM 4/10/91 (49)

Measure for measure

With international economic recovery still tentative, the "mild upturn" in the domestic economy which the Reserve Bank now describes as a "distinct possibility" will have to come from a recovery in local confidence.

Yet this seems to have become more tenuous in recent weeks. Since the sharp fall in the price of gold — to a London morning fix under US$343,50/oz on September 13 — the JSE Industrial index has drifted in sympathy with falling gold share prices. Gold recovered to nearly $355 at the London afternoon fix on Monday, but the Industrial index remains lethargic. It closed Monday at 3 974, below September 10's closing high of 4 237.

The market was overbought and analysts have expected a consolidation for months. A more hopeful signal is the upward path of the leading business cycle indicator. And the latest Bank *Quarterly Bulletin* suggests the "more stimulatory fiscal package should encourage both consumer and new capital investment expenditure."

But impetus from within the economy cannot accomplish much. What is needed is a recovery in exports. Though second-quarter trade figures are encouraging, the improving surplus was generated largely by the weak rand, which offset a further fall in international commodity prices.

Benefits of a depreciating currency will be lost now the dollar is losing ground. Expectations are that US interest rates will continue to fall, putting further downward pressure on the currency. So the impetus to domestic growth that comes from a stronger dollar will fail as the year progresses.

Meanwhile, SA second-quarter national accounts figures show that growth is still swallowed by a huge decline in inventories and an even bigger negative residual item.

The residual is a balancing item between expenditure and output figures and is partly

FM 4/10/91 (49)

the result of statistical distortions. It is fair to assume that unrecorded growth makes a contribution, as expenditure statistics measure activity of the informal sector more fully than do output figures.

The unusual size of the residual in three of the past four quarters — nearly 3,5% of GDP compared with less than 1% in 1989 — shows one of two things: either statistical errors are far greater than they were or growth in the informal sector is substantial.

These unknowns make it difficult to pinpoint where we are in the business cycle and predict future economic growth. An encouraging signal is coming from gross national product (GNP), which rose 7% in the second quarter.

GDP measures expenditure on goods and services produced in SA, while GNP measures income earned by SA residents. Because SA pays more in dividends and interest to foreigners than it earns from foreign sources, GNP is derived by subtracting net factor payments to the rest of the world from GDP and is, therefore, the smaller aggregate.

The Bank's economic head Ernie van der Merwe explains: "GNP is an indication of the standard of living and GDP is an indication of real economic activity."

The discrepancy in growth between the two is not due to the different composition as net factor payments are relatively small. It comes about because GDP is calculated in constant 1985 rands; GNP is recorded in nominal terms and, therefore, reflects the 5,2% improvement in the terms of trade, measured in rands, in that quarter.

GNP is far the more volatile, a pattern also seen in the US where the Department of Commerce has just announced that it will focus in future on GDP. "Swings in US GNP sometimes give a misleading picture of economic activity," says *The Economist*, which notes the switch to GDP brings the US into line with most industrial economies. ■

THIRD PARTY

Clarity needed

Concerns about the Multilateral Motor Vehicle Accidents Fund (MMF) centre on two issues. One is whether the fund is maladministered; the other, whether it is solvent.

On possible maladministration or irregularities, Transport Minister Piet Welgemoed said this week he had called for a report on "possible irregularities." On solvency, there can be two views. A leading reinsurer, who's also an actuary, considers that "on published figures, the fund is technically insolvent."

Comparing capital-intensive industries to labour-intensive ones is meaningless

W/Mail 4/10 - 10/10/91 (49)

Anglo American divisional economist **GAVIN KEETON** reckons that calculating who contributes what to the economy is not as simple as it seems

AN article entitled "Goodbye, colossus" (*WM* September 27-October 4) used recent calculations by Robin McGregor which purport to compare the output (gross domestic product) of various sectors of the economy with their control of fixed assets.

The logic for such calculations lies in South Africa's need to increase GDP amid a shortage of capital: it is therefore concluded that capital is best used in areas maximising GDP. These are found in the Johannesburg Stock Exchange's printing and publishing, tobacco and match or retail and wholesale sectors.

McGregor's calculations are, however, at best an educated guess. Most South African companies do not publish sufficient information for contribution to GDP to be calculated and aggregation is made difficult because of numerous cross holdings in ownership and control. Calculating control of fixed assets is even more of a problem. Some fixed assets are reported at historical cost and others at replacement cost.

If reported at historic cost less depreciation, older plant will always perform better than new when assets are compared to GDP. Moreover, some assets (eg land, buildings) contribute to GDP for decades and it is meaningless to compare their cost with output in a single year. It is for this reason that property is the worst-performing sector in McGregor's analysis (also buildings are revalued frequently and so don't "benefit" from a declining asset value as a result of depreciation).

A more meaningful measure than fixed assets would be a company's share of the country's fixed capital stock (the total of fixed assets at a particular time). This difficult calculation was carried out for Anglo American and reported in the 1990 chairman's statement. It was calculated that Anglo and its subsidiaries control some six percent of South Africa's fixed capital stock: this compared with 40 percent controlled by the rest of the private sector (listed and unlisted companies as well as individuals) and 54 percent by the state and parastatal organisations.

Comparing these finding with McGregor's calculations of GDP is revealing. Anglo, with six percent of South Africa's fixed capital stock, produced nearly 10 percent of its GDP (McGregor claims 13 percent of GDP, but his estimate of the corporation's control of the JSE is wildly inflated): the 40 percent of the capital stock controlled by the remainder of the private sector generated some 59 percent of GDP and the 54 percent of the capital stock controlled by government and the public corporations produced only 32 percent of GDP.

These figures are, at first glance, an indictment of the efficiency of public investment. But comparisons of fixed assets to GDP, however measured, are meaningless — as is illustrated in the this extreme example:

A farmer, with land and other assets of, say, R1-million, would contribute perhaps R100 000 to GDP in a single year: in contrast, the contribution to GDP of a sweeper in a supermarket, whose only fixed assets are a broom, would be measured by his salary (say R10 000 pa). By this logic, there should be no farmers in the economy and only sweepers. This is clearly nonsense and any comparison on McGregor's terms makes no meaningful contribution to a proper analysis of the economy.

If a comparison is to be meaningful, investment must be judged according to its overall contribution to economic activity over the full life of the assets. For listed companies this will be measured in terms of profitability and efficiency — reflected in the share price. Some industries and investment will be by nature capital intensive and long term and others will be labour intensive and high value added. All economies need a mixture of both types of investment to flourish.

Call to narrow gap in social spending

STELLENBOSCH — Narrowing the gap in social spending between SA communities was one of the most difficult, nearly impossible, challenges of the future, Stellenbosch economist and political scientist Prof Sampie Terreblanche said yesterday.

Terreblanche, one of a panel at a seminar on public administration in post-apartheid SA, said that in the most recent budget, per capita spending on whites (R2 400) was five times that on blacks (R550) and more than double the R1 000 spent on coloureds and Indians. BDay 4/10/91

To level this, social spending would have to be increased from R32bn (10,5% of GDP) to R96bn (32%) of GDP. This was an impossibility.

If growth could be maintained at 5,5% it would mean expenditure in 10 years' time would have to be 22% of the budget — a near impossible goal.

However, if spending on whites was reduced by a third then social spending amounting to 17% of GDP would level the situation and would be an attainable goal.

He said sanctions had made SA more dependent on the international community. — Sapa.

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ANC wants inquiry on nationalisation

49

SHARON WOOD

STELLENBOSCH — ANC economic affairs spokesman Tito Mboweni yesterday called on government to appoint a commission of inquiry into nationalisation to determine which institutions should be nationalised and how it could be done.

Speaking at a debate at the biannual Economic Society conference on restructuring the SA economy, Mboweni said it was not possible to wipe nationalisation off the ANC's agenda, because it fitted in with the party's thinking. B/Day 4/10/91

"The nationalisation issue now becomes one of trying to show which parts of the economy can and cannot be nationalised."

In addition, restructuring would need affirmative action which saw more blacks in management positions and owning productive assets, inward industrialisation and an industrial policy which focused on investment policy.

"Redistribution of land will also be part of the process. It will take place but we just have to determine how," Mboweni said.

Political democracy was essential in the quest for higher economic growth, he said.

Finance Department deputy director-general Estiaan Calitz said SA should follow an outward-orientated development approach. High economic growth was necessary, he said, but not sufficient for reducing income inequalities.

Calitz suggested a restructuring process which would develop an outward-orientat-

□ To Page 2

Nationalisation

49 □ From Page 1

ed formal sector, inward industrialisation to develop labour-intensive industries and world development of SA's economic resources.

JCI economist Ronnie Bethlehem said with faith, hope, foreign bankers and an annual growth rate of about 5,5%, SA employment would be able to stay abreast of the rapid growth in the economically active population. The bleak picture, in which the economy grew by only 1,4% a year, would result in unemployment rising by about 500 000 a year.

Deputy Reserve Bank Governor Jaap Meijer said an independent central bank could not rely on statutes but needed the backing of public opinion.

The newly empowered might disagree that fighting inflation was a national economic priority, he added. But they had indicated they were amenable to a free market financial system.

Meijer said he did not believe SA would move towards a centrally planned economy but it might have to live with nationalisation of the banking system.

This would not be a disaster, but it would reduce the chance of running the Reserve Bank efficiently.

● See Page 3
● Comment: Page 8

BDay 4/10/91

A fairytale of nationalisation

W/Mail 4/10 - 10/10/91 (49)

REG RUMNEY lets his imagination run fairly wild about what would happen if the African National Congress really went ahead with its threats of nationalisation

IT WAS more of a shock than a surprise. President Nelson Mandela, urged on by the results of a countrywide referendum, announced a programme of widespread nationalisation.

The African National Congress was split on the issue, but South African Communist Party leaders tapped into widespread resentment that the new government had done little so far to alleviate the plight of the poor and downtrodden. Action was needed.

Those who supported nationalisation reminded that it had long been one ANC option to achieve a number of political and economic ends, and was implicit in the Freedom Charter.

Intransigence by companies in moving to address wealth imbalances along racial lines, and problematic labour practices, had forced their hand, the pro-nationalism lobby said.

Nationalising the mines would empower workers, achieve a minimum wage and better working conditions. Nationalising the banks would enable the government to funnel money directly into productive investment rather than speculatively.

The ANC had signalled its punches long before acting. Constant threats of nationalisation, accompanied by warnings that loans granted to the apartheid government might not be honoured, were taken seriously by the international financial community and local business.

The big South African companies, led by Anglo American, had first tried to face the government of the day down, and then quietly made their plans.

Some had already taken pre-emptive action. The government, in nationalising De Beers, found it had only a few South African diamond mines. Other diamond mines, such as those in Botswana, were effectively out of the government's reach. This was because De Beers had already been split in two, with overseas interests owned by De Beers' Centenary, and De Beers itself owning South African interests.

The shares of the two companies were then metaphorically "stapled" together to form one.

All the powers that be in De Beers had to do was to unstaple the shares to leave two separate companies, one in South Africa, and the other invulnerable and based in Europe.

The government had several options. To get a controlling stake it could have paid cash for shares at the market value of target companies, ie the price the shares were trading on the Johannesburg Stock Exchange (before nationalisation was announced).

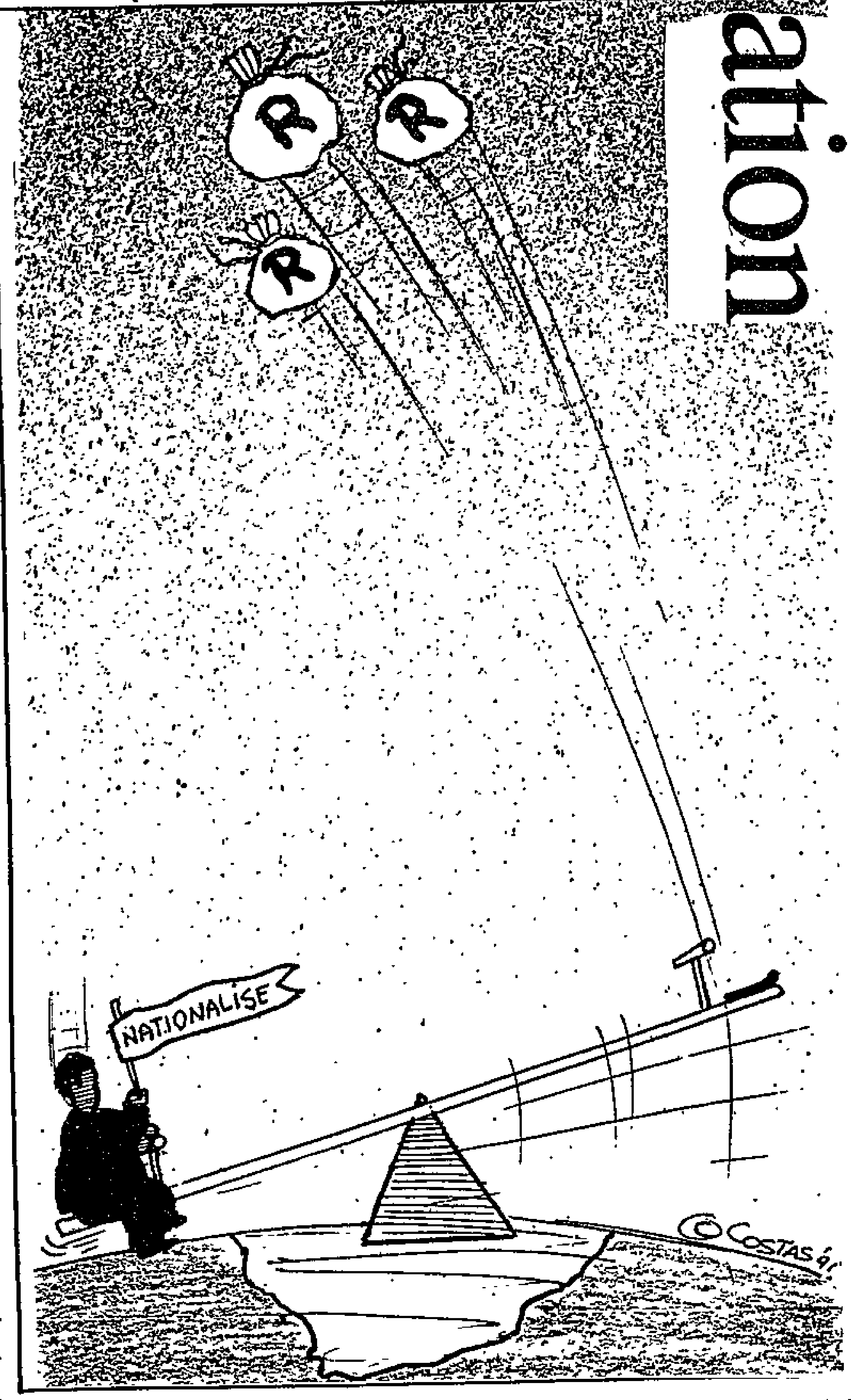
This was the option it decided on in gaining control of Rembrandt. Because of the pyramid structure of control of Rembrandt, it had only to pay around R320-million for the shares owned by the Rupert and Rembrandt family trust to gain control of a group with a market value of more than R3-billion.

It turned out it had to pay rather less. Well before the nationalisation the Rupert family relocated to Zug, where it still controlled the Richemont group, which has all its assets overseas. Rembrandt, deprived of its leading light, became less attractive to South African investors and share prices fell.

The government's representatives found that buying control wasn't that simple; it now also had to exert control over the hostile and disgruntled management, steeped in a particular culture, that of an Afrikaans conglomerate.

The government encountered similar problems in re-nationalising privatised Iscor.

Other acquisitions were problematic for different reasons. Not all companies can be acquired through pyramids. Though Anglo is in theory controlled through a mere eight percent stake by the Oppenheimer family, in fact control in this case also depends on director loyalty. To control Anglo, acquisition of more than 50 percent of the shares would be necessary.



Faced with paying, at some estimates, around R90-billion just to gain partial control (51 percent) of the mining industry, the government decided to issue government bonds in payment.

However, with inflation high and rising, fixed interest government bonds were regarded as little better than confiscation.

Some companies put into play previously hidden offshore shelf companies, in which they vested control of South African assets.

This provide the government with a problem. They refused to accept government bonds in payment for their assets, and since they were not subject to South African law they couldn't be forced to.

Peeved, the new South African government went ahead and confiscated their South African assets anyway, much to the consternation of the already perturbed international community. New investment dried up, and in a retaliatory move, aid was cut.

The most damaging move was the flight of capital and skills. Many top and middle management discovered foreign passports at the back of their cupboards.

The burden of administration of the newly acquired mines fell increasingly on the government, already thinly spread because of the general lack of skills in the country.

Surprisingly, the nationalisation of the banks proved less dramatic, though payment in bonds was regarded with displeasure by former shareholders. This was because the government was forced in most cases to leave the management in place, and be content with a shareholding.

As in the French case, initial attempts to direct investment away from profitable areas were strongly resisted, even by management newly appointed by the government, and the conservative banking culture remained.

The government was left asking itself why it had bothered to nationalise the banks in the first place, when it could have used the money and energy on other projects.

This was especially so since it managed to control part of the funds of the long-term insurance companies (owned by policy holders in any case) without any ownership at all.

Nationalisation looked like an uphill battle, even without taking into account the long-term economic consequences.

● **Many thanks to Keith Coleman, whose *Nationalisation — Beyond the Slogans* (Ravan Press) I have used for basic information.**

Star 4/10/91

German Minister takes ANC to task

Political Staff

The ANC has been bluntly warned that its recent spate of remarks about nationalising industries and reconsidering the honouring of foreign loans was jeopardising investment in this country.

This rebuke came yesterday from German Deputy Economic Co-operation Minister Michaela Geiger.

She said during an interview: "This is not a good way if you want capital to come into your country. You must not say these things."

Mrs Geiger was referring to ANC president Nelson Mandela's remark last Friday that the ANC was still considering nationalising mines and financial institutions and secretary-general Cyril Ramaphosa's statement this week that the ANC would "not be keen" to honour foreign loans granted to the apartheid government.

The ANC last night showed further signs of being in a muddle on its official stance on the loans issue.

A statement issued by its Department of Information and Publicity said: "The National Working Committee of the ANC wishes to reaffirm that the secretary-general's statements on the issue of loans accurately reflects ANC position."

Several ANC officials have, however, told The Star that Mr Ramaphosa's view did not reflect official policy and deputy head of international relations Stanley Mabizela said a new government would have no choice but to honour foreign loans granted to the National Party Government.

In its statement last night, the ANC claimed Mr Mabizela "was expressing a personal view which does not reflect policy".

Mrs Geiger said she hoped that Mr Ramaphosa's remark would not discourage other German and foreign banks from making loans. She believed they would in-

● To Page 3

German Minister rebukes ANC

Star 4/10/91

● From Page 1

vestigate the ANC's position further before making decisions.

"But what is worse is (Mr Mandela's statement about) nationalisation. That's already had a negative effect. If you want the economy to grow you must create the right climate for investment."

Mrs Geiger said, however, that Mr Ramaphosa had explained to her that Mr Mandela's remarks were not the ANC's final position on nationalisation.

She said she told Mr Ramaphosa that nationalisation had been the policy pursued by Eastern European countries such as Czechoslovakia and Poland "and all of them had gone bankrupt".

"He understood that word, even in German."

Asked if she had made any decision about further German government development aid for South africa, Mrs Geiger said that she had a problem because SA was not officially defined as a developing country and her ministry was only responsible for development aid.

It was a mixture of First and Third World that she had never seen before. But to overcome this problem Germany was considering joint development projects between South Africa and it welcomed the suggestion.

Economy shows signs of upturn

49

Early signals of an economic upturn were already evident, said Jon van Coller, Romatex's group economist. Star 4/10/91.

Mr van Coller said a number of leading economic indicators were showing positive trends — although "coincident" indicators remain in the doldrums.

He said the predictive indicators were only tentatively pointing to a recovery and that such an upswing probably would be slow to start and would remain sluggish.

He hoped there would be a modest interest rate cut before the year-end.

Also speaking at the seminar, **Kevin Fagan, of Coopers Theron Consulting**, urged businesses to do their arithmetic properly regarding VAT.

He said VAT was not a cost to business. Those firms which failed to pass on the benefits of VAT to their clients ran the risk of being out-manoevred by their competitors.

F M 4\10\91 (49)

MONEY SUPPLY (49)

Tapering off

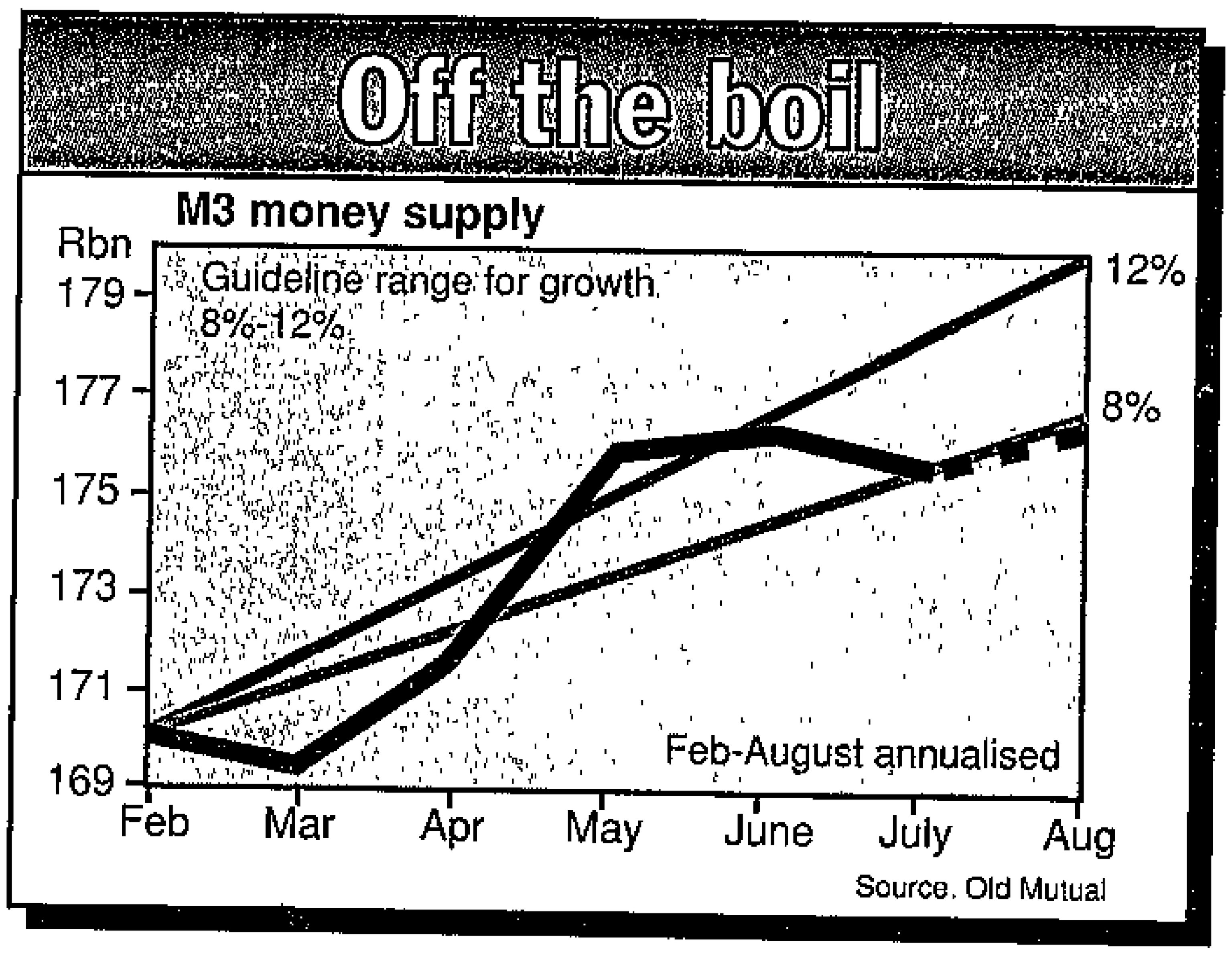
FM 4\10\91

Growth in the broad monetary aggregate M3 has slowed significantly since February. Legislative changes that month obliged banks to reclassify certain transactions as deposits, which created a technical increase in money supply. But annualised growth since then has been below the Reserve Bank's target range of 8%-12%.

The 3,8% increase in seasonally adjusted M3 in the six months to end-August represents annualised growth of only 7,7%, says Old Mutual's Rian le Roux.

The latest Bank *Quarterly Bulletin* says that, even measured this way, technical distortions are not removed, as changes to regulations in May brought more transactions on to balance sheet. If these — estimated at R1,5bn — are removed, fundamental underlying growth in February-August is 5,8% annualised, says Le Roux.

M3 growth peaked in August 1988, at 27,5% year-on-year. By January 1990, it had halved, to only 10,1%. Thereafter, it accelerated "under the impact of the new regulations to 14%-16%."



In August, M3 rose:

- ☐ 14,51% to an estimated R176,5bn, over 12 months; and
- ☐ 15,85%, to an estimated seasonally adjusted R176,4bn, from the base of the current target year (in mid-November).

Revised July figures show growth of 14,38% and 17,12% over these periods (compared with estimates made last month of 15,94% and 19,38%).

Of other aggregates:

- ☐ M2 rose 21,83%, over 12 months, to R147,7bn in July;
- ☐ M1, 25,45% to R57,9bn; and
- ☐ M1A, 26,73% to R32,2bn.

The monetary aggregate least distorted by the new regulations, says the *Bulletin*, is " 'notes and coins in circulation outside monetary institutions.' Though this indicator has obvious shortcomings, its 12-month rate of increase (11,9% to June) was probably more indicative of developments in the real economy than the growth of the other monetary aggregates during (that) period."

Credit extended, the main counterpart of the components of money supply, slowed accordingly. In the 12 months to July:

- ☐ Claims on the domestic private sector rose 15,95%; and
- ☐ Total domestic credit extension grew 16,56%.

The deceleration has taken place in recent months. In July, these measures fell in absolute terms and, between February-July, total credit rose only 2,4%, while claims on the private sector rose 3,3%. This is annualised growth of 11,3% and 13,7%. ■

ANC may have blown bank plan

Star 5/10/91 (49)

PETER FABRICIUS
Political Correspondent

THE ANC may have shot itself in the foot with its alarming threats this week to nationalise industries and to reconsider honouring foreign loans, for it might have jeopardised its secret R30 billion plan to start a development bank.

Diplomats disclosed this week that ANC president Nelson Mandela had recently written to the heads of the G7 states — the world's richest nations — asking them for donations towards a R30 billion, ANC-sponsored development bank to help overcome socio-economic inequalities in a post-apartheid South Africa.

But the ANC's apparent shift to the Left may have scared off many potential contributors, the diplomats said.

RAMAPHOSA: Hard line

"If you look at this project in the light of recent statements by the ANC, I doubt that potential donor countries would be prepared to give millions," one said.

The first controversial ANC statement came from Mr Mandela, who affirmed last Friday that the ANC still intended nationalising mines and financial institutions.

Then secretary-general Cyril Ramaphosa said mid-week that a new democratic government would "not be keen" to repay foreign debts incurred by the present government.

After a flurry of contradictory statements, the ANC basically confirmed both these standpoints in official releases.

ANC deputy international affairs director Stanley Mabizela, who had said that Mr Ramaphosa's view was "not correct", was publicly rebuked by the ANC, which said he had expressed a "private view".

And yesterday the giant Congres of South African Trade Unions, one of the ANC's chief alliance partners, fully endorsed Mr Ramaphosa's line. "The present government has no right to burden the South African people by unilaterally

● TO PAGE 2.

P.T.O.

SACP modifies its line

Property rights protected in draft constitution

(49)

PATRICK LAURENCE

Star 5/10/91

THE South African Communist Party affirms its commitment to common ownership of the "key means of production" in a draft constitution to be discussed at its congress scheduled for December.

At the same time the draft document also declares that the party will protect "all personal non-exploitative property" and any additional private property which "may be necessary for effective economic development".

The commitment to protect some private property represents a major change for the SACP, judging by its existing constitution.

Adopted in Havana, Cuba, in 1989, the present constitution defines as one of its main aims the destruction of the "system of capitalist exploitation" and the establishment of a "socialist republic based on the common ownership of the means of production".

The draft constitution, however, makes no direct reference to the events which shook the Soviet Union after the failed coup attempt against Mikhail Gorbachev in August.

Unlike many communist parties around the globe which have abandoned the label "communist", the SACP's draft constitution makes no attempt to hide behind euphemisms for communism.

"The ultimate aim of the party is the building of a communist society in which all forms of exploitation of person by person will have ended and in which all the products of human endeavour will be distributed according to need," it says.

Lenin recognised

But it adds an important corollary: "The attainment of such a society will require an interim socialist formation in which reward will be measured by contribution."

Unlike the SACP's draft manifesto — which was released for discussion about a month ago — the draft constitution specifically recognises the importance of Lenin as a revolutionary.

Committing itself to the "principles of Marxism", it says: "The foundations for these principles were laid by Karl Marx and Friedrich Engels."

But it stresses that Marxist principles have to be applied in South Africa and thus require "indigenous elaboration" in order to take account of the realities of the South African situation.

The draft constitution, unlike the existing one, commits the SACP to multiparty democracy and to attaining its ends by winning the support of the majority of the voters rather than through a revolutionary seizure of power.

The draft constitution says: "The SACP will primarily dedicate itself to advancing the interests of the working class and its allies in democratic contest with other political forces."

The draft constitution aims to do what SACP leaders believe President Gorbachev should have done in the Soviet Union: introduce the principles of democracy and accountability into the ranks of the Communist Party.

It states: "All higher organs (of the SACP) shall be accountable to lower organs and to the membership in the formulation and implementation of policy."

It lays down that the election of people to leadership positions in the party shall be "by secret ballot unless a minimum of 75 percent of the delegates (at the pending congress) decide otherwise."

It's time for the ANC to get real

S Times 6/10/91.

STEPHEN MULHOLLAND argues that the ANC is out of touch with economic reality

49

THERE is little that could have been better calculated to damage the long-term economic interests of South Africa and all its peoples than two recent pronouncements by ANC leaders.

First, ANC president Nelson Mandela reverted to the stand on nationalisation which most observers, both here and abroad, believed the ANC had wisely decided to shelve.

Then secretary-general Cyril Ramaphosa suggested that foreign loans contracted by the present government might not be honoured by future "democratic" (read ANC) rulers.

One does not have to repeat the arguments against nationalisation and the sort of collectivist economics of which it is an integral part. All sensible people all over the world — including most recently the Swedes — have rejected these dated, worn, discredited notions of a collectivist Utopia on earth.

Nonsense

Those systems just do not work. Trevor Manuel, the ANC's economic planner, stated in a television debate with me last week that those policies "don't always destroy economic growth". Well, cancer doesn't always kill, but who needs it?

It is sad to see a man of Mandela's stature and abilities talking such trite nonsense. It would be less sad if the consequences of these foolish remarks were not so seriously damaging to confidence in the long-term future of South Africa. Mandela confesses he knows little of economics. What is evident is that those he listens to also know very little.

Ramaphosa's statement sent shivers through the capital markets, knocking billions off the value of these bonds. Perhaps Ramaphosa enjoyed this; he considers markets to be nothing but glorified casinos anyway.

But has he not considered, or been advised, that the confidence of bankers and investors is fragile and that, once lost, it becomes most elusive? When he's in government and seeking foreign loans, he might learn just how useful markets are for mobilising capital.

And surely he is being disingenuous to suggest that the De Klerk government is raising foreign capital for apartheid ends?

What apartheid ends? The whole thrust of government spending is towards black welfare. The government should challenge Ramaphosa to provide evidence that it is raising funds for apartheid ends.

There is no denying the hamhandedness — as in the VAT debacle — of our treasury and its leadership. Perhaps a clearer statement of the aims of foreign fund-raising with a clear commitment to concentrate such funds on social upliftment to help redress the manifest evils of apartheid would have been helpful.

On the other hand, it is becoming increasingly clear that the ANC is hopelessly out of touch with economic reality. For all its faults and the cruel legacy of apartheid, this country does have Africa's only proper market economy. It is, in African terms, a sophisticated industrial, financial and commercial giant. Its economy has the potential to provide a better living for more people than any other in Africa.

This is not to say that a reasonable case cannot be made for deconcentration in the private sector — particularly, for example, in the case of the media.

Yet the ANC seems to be possessed of some self-destructive urge which causes it to fight against the great tide of history now sweeping the world, a great tide on which millions of ordinary people, once prisoners of collectivism, are being swept on to new freedom and prosperity.

This week the ANC's Department of Information and Publicity referred to "the hare-brained social engineering of successive white governments". This is absolutely correct; National Party rule since 1948 was based on an evil racist doctrine descended directly from Adolf Hitler, a social engineer matched in his own depravity only by Josef Stalin.

Those National Party rulers were unfit to govern. They must answer to history for the evil they visited on innocent South Africans of colour. And we need a growing and vibrant economy to help us redress the deprivations of apartheid.

There is overwhelming evidence before us that market economies generate growth while collectivist economies are, everywhere and always, disasters.

If it seeks to be fit to govern — which is different from seeking to govern — then the ANC must take a crash course in the *realpolitik* of economics.

Touch

It must get in touch with the real world and drag itself out of that intellectual time warp in which it is believed that governments have the answer for everything, can provide for all of man's needs, knows better than we do what is good for us and can manage to generate growth while destroying investor and lender confidence.

The ANC could start by consulting the prime minister of Mozambique, Mario Machungo, who I met in Maputo.

"What," I asked him, "would you say to the ANC if it asked for your advice?"

"I would tell it," he replied, "that central planning and nationalisation do not work. They fail to produce growth. I can tell you. We have tried them."

□ *Stephen Mulholland is the managing director of Times Media Limited.*

Unions and ANC vow to give FW 'nightmares' over the economy

IT'S WAR OVER WHO RUNS SA

(49)

S/Times 6/10/91

By MIKE ROBERTSON
Political Correspondent

THE GOVERNMENT and the ANC-led left are squaring up for a potentially crippling showdown over who runs the country's economic policy.

The "give them hell" challenge to the government's authority is being spearheaded by Cosatu, whose general secretary, Mr Jay Naidoo, told the Sunday Times this week: "There will be no industrial peace in this country until the government allows us a say in running the economy."

Adding his voice yesterday, ANC secretary-general Cyril Ramaphosa vowed to give President De Klerk "nightmares" over the introduction of VAT.

He told the ANC's PWV regional congress in Johannesburg: "We are going to knock him out and leave him punch drunk for good ... We must give the government hell and a final baptism of fire before we get them out of the way."

But Deputy Finance Minister Theo Alant hit back. He slammed Mr Naidoo's threat as trying to introduce interim government by stealth, saying it was "tantamount to blackmail".

The very essence of government, he said, was controlling the income of the state and the way it was spent.

The business community is watching the confrontation with growing concern.

In a series of militant moves this week Cosatu and its political ally, the ANC:

BEGAN a series of protest actions which will culminate in a three-day strike in an effort to force the government to exempt more basic foodstuffs, water, electricity and scheduled

Minnie the cat is in the pink

Jan Lock dies as Bulls win

By EDWARD GRIFFITHS
Sports Editor

WITHIN an hour, Northern Transvaal delight at winning the Currie Cup final yesterday turned to horror.

Jan Lock, the out-of-favour Northerns prop, died from a massive heart attack after suffering heat exhaustion during the curtain-raiser at Loftus Versfeld.

A regular member of the Blue Bull front row for the past five seasons, the young man from Delmas recently lost his first team place amid official claims that he was carrying too much weight.

At 5.55pm last night, he died in Pretoria's HF Verwoerd Hospital.

News of his death halted all Blue Bull victory celebrations. All of a sudden rugby, even a Currie Cup final triumph, seemed so terribly unimportant.

"Janneman" was dead.

He had been playing for Northern Transvaal B against a Transvaal Invitation side in the oppressive midday heat. The capacity crowd was given a first indication that something was wrong when, midway through the first half of the Currie Cup final, a public address announcement called for Lock's wife, Ronel, to leave for the hospital.

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BEGAN a series of protest actions which will culminate in a three-day strike in an effort to force the government to exempt more basic foodstuffs, water, electricity and scheduled medicines from VAT.

Jittery

WITHDREW from the National Manpower Commission in protest against the government's delay in setting up a national forum of employers, government and trade unions to negotiate all macro-economic issues.

SENT the capital markets tumbling when Mr Ramaphosa warned that a new government would re-evaluate any loans granted to the "apartheid regime".

INJECTED further instability into already jittery markets when Cosatu added that loans granted to the government in the transitional period would be subject to re-evaluation in particular.

Mr Naidoo said in an interview that Cosatu would push for an open tax revolt which would draw support well beyond its 14 unions and 1,2-million members.

He said President De Klerk was making a big mistake if he thought his National Party government could determine economic policy without proper consultation. "We will just not allow it. We are an integral component of that economy."

Mr Naidoo said the multi-party talks would include only political players and exclude "major players in the economy".

"If the government does not shift from that position then we are in deadlock. In a deadlock situation, we will use anything in our power to exercise pressure on them to enter into proper negotiations.

Conflict

"We are going to enter the old mould of conflict and confrontation."

Mr Naidoo said Cosatu wanted the government to agree to set up a forum which would ensure all major players had a stake in developing an economic model for South Africa.

Mr Naidoo condemned the negotiating style of Finance Minister Barend du Plessis as authoritarian.

He was not afraid the recession would undermine Cosatu's call for militant industrial action.

"South African trade unionism acts contrary to international experience. Our most militant actions have been at times of deep

□ To Page 2

PURR-FECT ... Minn

War over the economy

S Times 6/10/91.

□ From Page 1

recession."

Taxation, he said, was an emotive issue.

Mr Du Plessis was not available for comment, but his deputy, Dr Alant, accused Cosatu of pursuing a political agenda.

The government had invited it to serve on Vatcom but it had refused, he said.

"They are not worried about taxes or even the poor people. They are attempting by stealth to introduce an interim government and we are not prepared to accept that.

"They want to control both the income side of the Budget and the way in which the money is spent."

Dr Alant said every political party in the country would have the chance to attend a multi-party conference at which a working committee would be set up to discuss economic matters.

(49)

The government would consult this body on all economic matters, including proposed financial legislation.

If Cosatu was not satisfied with the representation provided by its political allies at such a conference, it could register as a political party.

"Cosatu has its own agenda. It does not want to be represented by the ANC ... They don't want to discuss, they want to demand to be a force on their own."

Anglo American spokesman Michael Spicer said Cosatu was flexing its muscles because it perceived a weakness on the part of the government and believed it could frighten a lot of concessions out of it.

Cosatu, he believed, also saw an opportunity to become the senior partner in the ANC/SACP/Cosatu alliance when it came to economic negotiations.

The Cosatu action, he said, injected new elements of doubt at a time when businessmen were beginning to anticipate a new growth phase. It was possible, he said, that there would be no peace on the labour front until an interim government was in place.

Mr Anton Roodt, chairman of the employers' organisation Saccola, said the looming battle was to be expected.

"It is the testing of the boundaries of power that is to be expected in a negotiating process such as this."

Threats 'harming economy'

ARG 7/10/91

Political Correspondent

THE ANC-Cosatu alliance has been strongly criticised by the Democratic Party for recent statements on the economy, which are described as "irresponsible" attempts to gain short-term political advantage. (49)

"Threats of nationalisation, tax revolts and reneging on government loans will harm our economy immeasurably and perpetuate even greater suffering," says a DP finance spokesmen, Gardens MP Mr Ken Andrew.

"In the past 10 days, actions of the ANC-Cosatu alliance indicate that they seem determined to make South Africa economically ungovernable until they decide otherwise.

"Investment and economic growth cannot be turned on and off like a tap, and it is irresponsible for anyone to mortgage South Africa's future potential prosperity for short-term political advantage."

A social market economy can help redistribute wealth

B/Day 8/10/91

CHARLES SIMKINS

(49)

ONE FUNDAMENTAL principle of the social market economy is that the state should take the form of a *Rechtsstaat*, that is, a state ruled by law. The law in turn embodies fundamental principles. The social aspect of the system is defined by the norm that all sections of the community should be protected against political and economic hardship.

The market aspect is embodied in the guarantee of property rights (including the right of inheritance) and a commitment to the maintenance and promotion of competition.

Public finance should be ordered to support both the social and market aspects through responsible monetary policy and fair sharing of fiscal resources between various levels of government.

Any social market economy may need development of new markets as incomes rise and technology changes.

In SA, new markets need to be opened. It has increasingly been accepted during the past decade that a market-conforming educational policy requires individuals to bear a greater part of the costs of their education the higher up the system they go, on the grounds that they will be reaping private returns on their human capital investment.

Indeed, such a rule encourages people to make choices about education based on economic principles, that is, to seek opportunities which will offer them the highest rate of return.

This creates the need for the creation of a credit market which will enable people to borrow against their expected future earning power. A modestly subsidised interest rate would introduce an element of redistribution, financed perhaps by a small tax on the incomes of existing graduates of tertiary institutions.

There are other areas of national life where market principles need to be introduced. Housing is one. Many urban South Africans have in the past found it impossible to obtain housing and many others have been allocated it on an administrative basis with no choice over location or type or size of dwelling. A national housing market requires freedom of choice, only recently permitted by the abolition of the Group Areas Act.

In this new context, one can expect a series of trades over time which should improve the efficiency of our cities considerably, especially if accompanied by non-segregationist urban planning. It is even possible to arrange efficient lump sum redistribution by offering a capital subsidy to low-income households buying shelter for the first time.

Unemployment relief is another. SA already has an Unemployment Insurance Fund and the tendency is to cover more workers by its provisions. But it is unlikely to have much effect in rural areas, so there is a case for a second scheme.

This could take the form of an employment guarantee scheme, in terms of which everyone who wanted work at a wage announced by the scheme would be employed by it. The scheme (which would have to be state-funded, though not necessarily run by the state) would construct rural infrastructure and would have to be integrated into a rural development strategy which itself needs to be developed.

The wage would have to be set by a process of trial and error (since our knowledge of the operation of rural labour markets is sketchy at best) and would be subject to three constraints: it should not lure the employed away from their jobs, it should be affordable in terms of funding available and it should be such that there is a reasonable social rate of return on the projects constructed. Such a scheme would be a market-conforming social measure designed to assist some of the poorest people in the society.

The general point needs to be emphasised: market-conforming economic policy by no means rules out redistribution. Indeed, it can make it both well-targeted and relatively cheap in terms of efficiency losses.

SIMKINS

Exponents of the social market economy have also stressed the need for responsible monetary and fiscal policy. The German Federal Bank has two duties: to manage monetary policy in a way that the currency is protected and the economic policies of the government in power are strengthened, and to supervise the German banking system as a whole.

The international debate about the role of reserve banks in general has centred on their degree of independence from political pressures, something hard to achieve in any system, since all the major interests have an interest in influencing monetary policy from time to time.

Current SA policy gives the Reserve Bank at least as independent a role as it has enjoyed at any time in our recent history.

It is far from clear that this situation will continue. The case is being made that the structure of the SA financial system is responsible for low levels of investment and that state intervention will be required to rectify this. The case itself is contentious and needs critical scrutiny, especially since, if such a view prevails, monetary policy will inevitably become less market-conforming and the information signalled by monetary variables less clear.

If the future of monetary policy gives cause for concern, present pressures on the fiscal system will give rise to consequences far from ideal in social market terms. The World Bank has identified deficit-driven financing of black local authorities as destabilising. Murky stories about homeland public finance also emerge from time to time. The political battle around the introduction of VAT is another harbinger of pressure for a loose fiscal policy.

In general, there is substantial latent and manifest dissent about tax policy. On the one hand, there are complaints about individual and corporate tax being high by world standards. On the other, there are expectations of increased taxation of the rich and demands for taxes and user charges to be set below cost-recovery levels for most of the population as a redistribution measure.

The debate is little informed by careful economic analysis — indeed SA is dangerously short of the technical capacity to carry this out. Particular attention needs to be paid here as elsewhere to the unintended consequences of policies.

Unintended consequences! They will be the death of us unless we deepen our analysis.

In democratic systems there are pressures towards the production of deficits on the state budget. Powerful social conflict — as in Europe after the First World War or parts of contemporary Latin America — can lead to circumstances where deficits spiral out of control with highly inflationary consequences.

The consequences must be major swings in living standards — rapid rises for some groups followed by equally rapid falls as emergency stabilisation measures are forced upon governments. An economic environment of this kind must render conflict even more intense.

The resulting war of all against all is precisely a situation in which it becomes impossible to construct the institutions needed for an effective assault on poverty. German experience of this kind explains well the stress on price stability in all accounts of the social market economy.

In the end, a social market economy requires a certain type of citizen. It does not require the abandonment of the pursuit of self-interest; if it did, it would need people to be, as Smuts once put it, better than the good Lord created them.

But it also requires some development of a sense of justice — a willingness to admit the legitimate claims of others — and the determination to support arrangements which embody it. Without this, the enterprise becomes impossible.

☐ Prof Simkins occupies the Helen Suzman chair of Political Economy at Wits University. This is an edited extract of his address yesterday at a symposium on social contracts and SA's economic future, arranged jointly by the Konrad Adenauer Foundation and Wits University's Centre for Policy Studies.

☐ Simon Barber's column has been delayed.

Apartheid, communism 'share a central failure'

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Arg 8/10/91

The Argus Correspondent

JOHANNESBURG. — The failure of apartheid was as good an example of the failure of central planning as the Eastern Europe experience, University of Pretoria economist Professor Geert de Wet said.

Speaking yesterday at an economic conference organised by the Centre for Policy Studies of the University of the Witwatersrand and the Konrad Adenauer Foundation, Professor De Wet argued that minimum State intervention would best achieve socio-economic upliftment and maximum economic growth.

He added: "If you are worried about the poverty problem you shouldn't allocate more funds to the public sector because the more funds you allocate the less productive it becomes. Give the resources to the poor people and let them take control over that."

Dr Japie Jacobs of the Department of Finance said the poor economic performance of the eighties could not be attributed to the economic system but to a "variety of extraneous factors" which undermined business and consumer confidence.

He argued that the private sector did not have the responsibility to address the country's socio-economic needs, but should nevertheless adopt a "caring attitude" towards their employees.

University of Western Cape economist Professor Pieter le Roux argued that social services such as health and education were not properly taken care of under capitalism and that some level of State intervention was necessary to achieve that.

Drawing on international experience, he said the State's regulation of social services spending in countries such as Germany and Sweden had been much more successful than, for example, the United States.

ANC are spoilers, says FW

Star 8/10/91

(49)

By Peter Fabricius
Political Correspondent

STELLENBOSH — President de Klerk last night launched a stinging attack on the ANC's "spoiling" economic tactics which, he said, proved that the organisation could not yet be trusted to play a constructive role in a new South Africa.

Firing back at the ANC's weekend threats to wage economic war on the Government, Mr de Klerk said he would not be intimidated and assured foreign and local investors that the Government would safeguard proper economic policies not only now but also in a future new South Africa.

It would also stick to its "impeccable" record of meeting international credit commitments and would allow nothing to harm South Africa's trustworthiness as a borrower.

He was speaking in Stellenbosh to officially open the Cape congress of the National Party.

Recent ANC threats on nationalisation, non-payment of foreign loans and destabilisation of industry threatened the livelihood of every township dweller and had "sent a shudder through the international community", Mr de Klerk said.

He said the ANC was busy losing a valuable opportunity to prove itself reasonable and that the small group of communists in the ANC leadership still had a stranglehold on the party.

Cosatu was beginning to dictate to the ANC and to steer it away from its intention of negotiation on to the road of confrontation.

Appealing to blacks to join the new nonracial National Party, Mr de Klerk said the ANC "as it is now, in the clutches of radical and communist elements" was not the friend of South Africans struggling to make ends meet.

He urged the poor not to be drawn into ANC or Cosatu actions aimed at destablising the economy.

"If you do, you will be harming yourself more than anybody else."

The real reason for ANC and Cosatu threats of confrontation were not VAT but

● To Page 3

ANC are spoilers, says De Klerk

● From Page 1 (49)

pressure to achieve their aim of an interim government.

Mr de Klerk said that it was just because the ANC realised that the NP had broad support for its economic policies, that it was now trying to intimidate the Government in a highly irresponsible way.

"One might almost call the ANC and its allies spoilers: through their words and deeds, they are standing in the way of what the vast majority of all South Africans really want."

Mr de Klerk said ordinary people were sick and tired of violence and destabilisation yet the ANC alliance persisted with mass actions, boycotts and "gratuitous" protests. People were also tired of poverty and unemployment, yet the ANC continued to advocate sanctions.

"Every time Mr Mandela preaches nationalisation or hugs a Castro or an Arafat, a shudder goes through the international community and it asks a simple question: 'Can the ANC ever be trusted to play a constructive role when it continues to embrace the discredited ideology of communism internationally, and here at home in the form of the SACP?'"

Ordinary people also wanted housing, electricity and water yet the ANC alliance persisted in inciting people to take part in rent and other boycotts which obstructed these services.

The vast majority of South Africans wanted a speedy start to negotiations — yet the ANC continued to "blow hot and cold — indulging in ultimatum politics and unrealistic demands".

The ANC refused to adapt to changed circumstances and continued with spoiling tactics which fostered conflict.

The problems of the less-developed could not be solved by creating intolerable problems for the developed sector, he said.

● Ironically, as the row over ANC economic policy raged, a senior representative of the organisation yesterday encouraged American companies to prepare to invest in a democratic, constitutionally led South Africa.

"We're looking for new investments, that's the bottom line," said Thabo Mbeki, ANC director of international affairs. He was speaking at Notre Dame University at South Bend, Indiana.

Others attending the three-day conference — organised to discuss with executives of US corporations policies for investing in a post-apartheid South Africa — included members of Inkatha, the PAC and Azapo.

Financial Times lashes out at ANC

Star 8/10/91

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Star Bureau

LONDON — The influential Financial Times has accused the ANC of repeatedly failing to "think realistically beyond apartheid" to the daunting economic problems which lie ahead for South Africa.

And, it says in a leading article yesterday, the ANC's track record over the past two weeks — which includes allegiance pledged to nationalism, a withdrawal of this pledge, a threat to renege on foreign loans, another backtrack and another threat, shows "scant regard" for the damage being done.

It names Nelson Mandela as one of the worst offenders, reverting to "tired phrases" of the 1955 Freedom Charter, promising to nationalise mines, banks and "monopoly industries".

It adds: "Afrikaner socialism made the volk rich, it is argued, and many ANC officials believe a post-apartheid state can do the same for blacks."

But it was time for ANC leaders to recognise the outmoded nature of this argument and set out a clear economic strategy.

Wildlife would be safe, vows Mandela

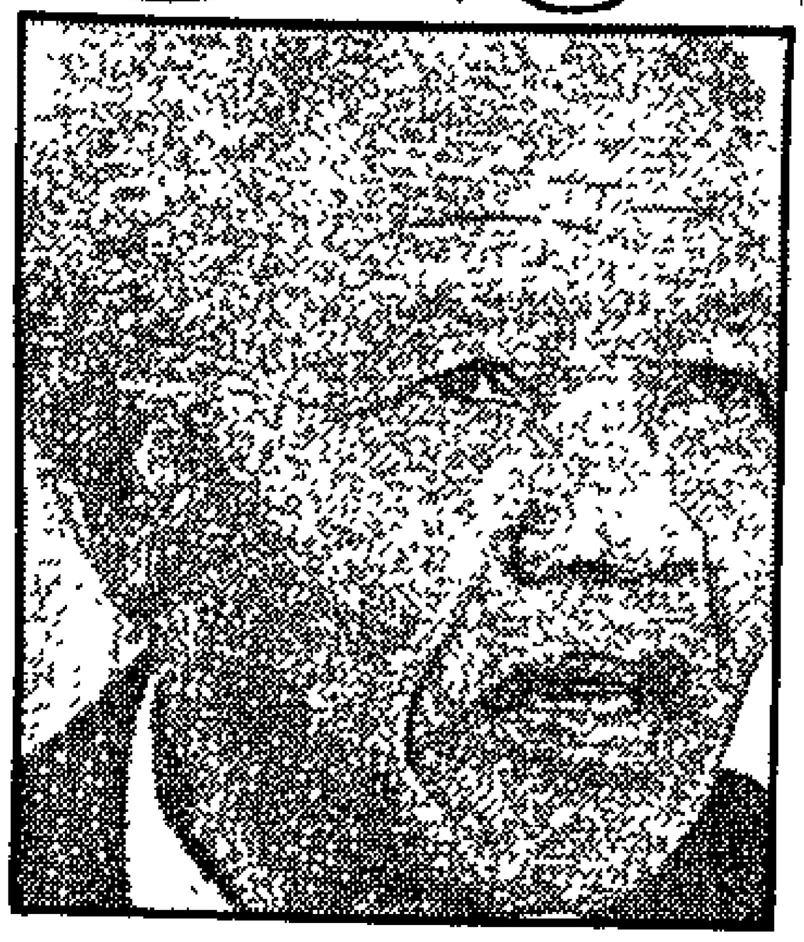
Star 8/10/91 (49)

By Garner Thomson
Star Bureau

LONDON — Nelson Mandela has pledged that the ANC will remain firmly committed to the preservation of South Africa's wildlife parks and the conservation ideal, despite land-hunger and poverty which are still causes of deep bitterness among blacks in SA.

Even though the legacy of apartheid had created resentment among blacks towards conservation, the ANC — should it become the government of South Africa — would try to abide by the internationally accepted principle that 10 percent of every country should be set aside for reserves, he adds.

In fact, he tells Grant Mansfield of the BBC's "Nature" series, the parks could become part of the solution to the problems of poverty. "They can create jobs and generate a measure of wealth," Mr Mandela says. "... Once people see the benefits, parks would become fertile grounds for us to preach the conservation message."



Mandela . . . parks could become part of the solution.

The ANC leader's interview with Mansfield is published in the latest issue of the BBC magazine, Wildlife, and will form part of a documentary, "Fair Game", to be shown next week.

In it, Mr Mandela acknowledges that apartheid did a great deal of damage to conservation because blacks became alienated from their link with the land.

The treatment of blacks, including forced removals, did "a lot of damage to our attitude towards ecology".

But in order to carry out a commitment to preserve SA's rich heritage of plant and animal life, the ANC would have to make the people part of the conservation process. "The idea of the ANC is that the people themselves should be involved, like, for example, the experiment ... in the Mthethomusha game reserve."

The reserve experiences no poaching because the land is part-owned by the people, it generates a measure of wealth, and the people regard the experiment as their own.

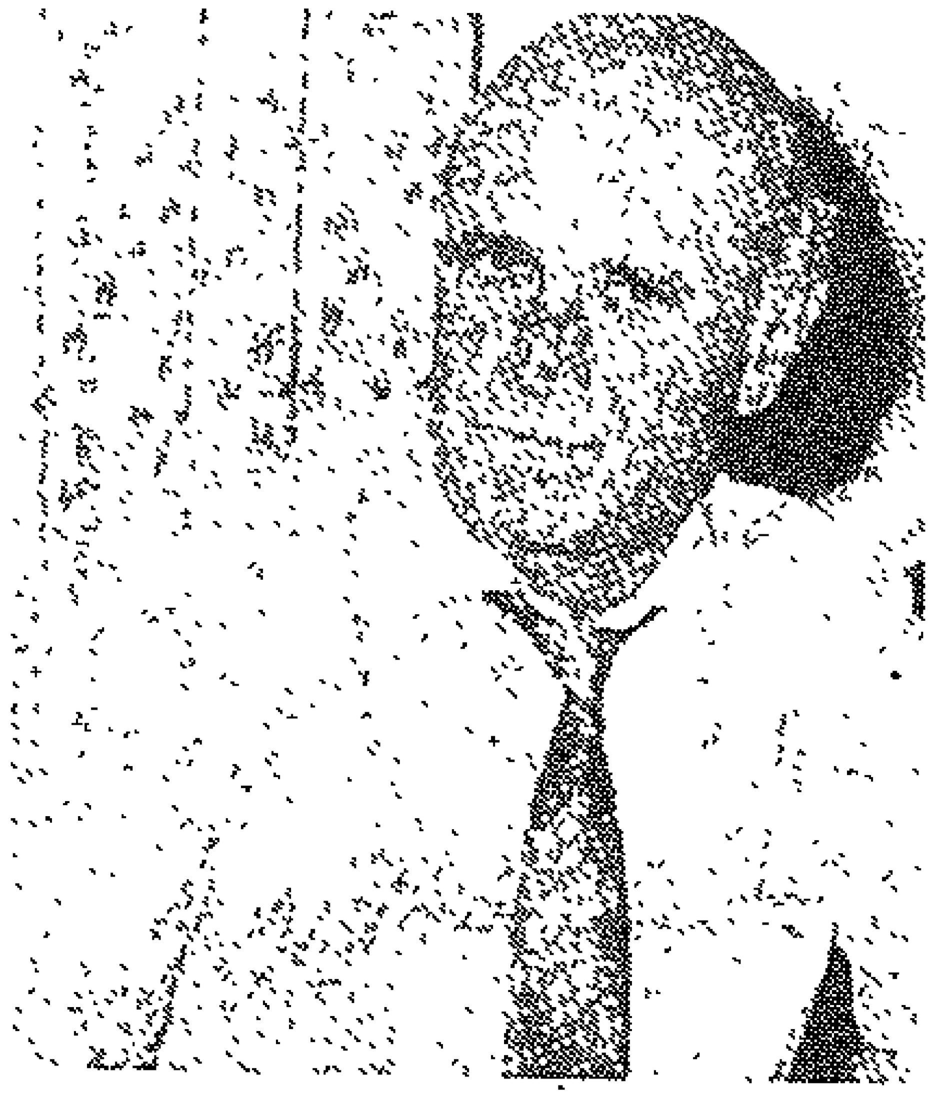
Mr Mandela rules out the possibility of the ANC reclaiming land inside the Kruger Park from where the Tsonga people were forcibly removed.

"The Kruger Park is now an established fact, whether we like or not how it came about."

THE NATIONAL PARTY CONGRESS

Nats hammer ANC, CP

Sowetan 9/10/91



FW DE KLERK

Political Staff

THE National Party is going all out to hammer its opponents on the economic front, warning South Africans of the costly perils of central economic planning, nationalisation and partition.

This is clear from the two major speeches so far at the two-day Cape NP congress.

Following hot on the heels of President FW De Klerk's blistering attack on the ANC and Cosatu in Stellenbosch on Monday night, the provincial leader of the NP, Dr Dawie de Villiers, launched a second assault yesterday, lumping the ANC and the Conservative Party together in what he described as an effort to "strive after a command economy in place of a market economy".

In an apparent strategy to alert ordinary South Africans to the likely fate of their wealth and investments under an ANC or a CP government, Dr De Villiers said: "People are worried. They are concerned over the economic consequences of the standpoints of the CP on the one hand and the ANC/SACP alliance on the other.

"These are such unrealistically short-sighted and dangerous standpoints that the economic consequences could be disastrous."

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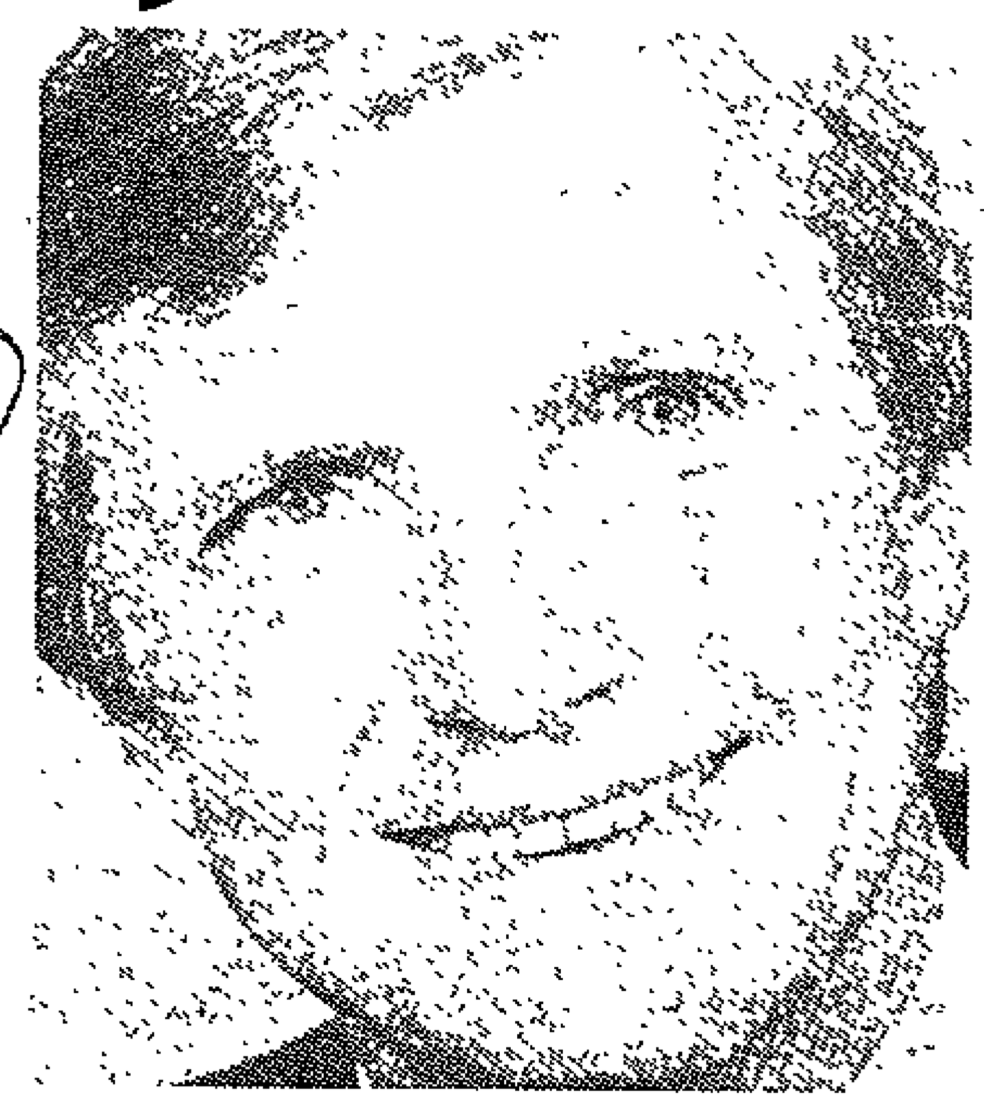
Costly

The "disastrous consequences" of command economies were "well-known throughout the world".

Partition, he argued, would be as costly as nationalisation and redistribution of wealth.

He warned: "It is impossible to create growth through redistribution. The only effective way to create wealth and provide growth is through private initiatives within a framework of a market orientated economy.

"The market economy and private enterprise remain the only true generators of economic growth and wealth creation."



DAWIE DE VILLIERS

Include wealth in talks, says Mbeki

B Day 9/6/91 (49)

FRANKFURT — The ANC said yesterday talks with SA's government on a new constitution should include ways of redressing the balance of the country's wealth.

"There is a whole series of economic things which must be discussed ... one of these is, what do you do about this overconcentration of wealth in a few white hands in SA," ANC international affairs secretary Thabo Mbeki told businessmen in Frankfurt.

He advised foreign investors against granting new credits to SA under its current administration but stopped short of saying that an ANC-led government would refuse to honour previous loan commitments.

□ VWD reports that Constitutional Affairs Minister Gerrit Viljoen told the conference yesterday SA's economy had been hurt but not destroyed by sanctions. He said investors should put their money in SA because it had never suffered under the "destructive dogma of socialism" and it did not intend to in the future.

● Comment: Page 14

ANC blamed for retarding upsurge

(49)

B/Day 9/10/91.

SHARON WOOD

THE ANC's call for nationalisation was holding back business confidence and retarding any chance of an economic resurgence, Sacob chief economist Ben van Rensburg said yesterday.

Releasing details of the chamber's monthly Business Confidence Index (BCI) in Johannesburg, Van Rensburg said the BCI had not improved from August's level of 88,2 (1983=100) in September because of the high degree of uncertainty that characterised the business mood. The index had moved sideways since May.

"Economic realities are taking second place in the political fog and it is now time to put economics ahead of politics," he said.

Van Rensburg said nationalisation was not to the advantage of the people of SA and he hoped the people would recognise that it was not only detrimental to business but also to themselves.

The factors contributing to the stagnation in business optimism reflected in the September BCI were a lower dollar gold price, a fall in the overall market index of share prices, a firm decline in imports, smaller retail sales and manufacturing output, and higher unemployment.

On the positive side, the rand-dollar exchange rate firmed slightly, new car sales rose and exports increased.

Van Rensburg said the improvement in the rand-dollar exchange rate did not reflect greater foreign confidence in SA's long-term economic outlook but was a result of a weaker dollar.

Share prices were expected to become shaky because of political uncertainty and SA could expect foreign investors to become more jittery, he said.

Comments by the ANC leadership regarding nationalisation and defaulting on foreign loans could damp recovery in investment spending expected after VAT's introduction.

During the month the uncertainty about the implementation of VAT had been eliminated, but it had been replaced by worries about industrial relations.

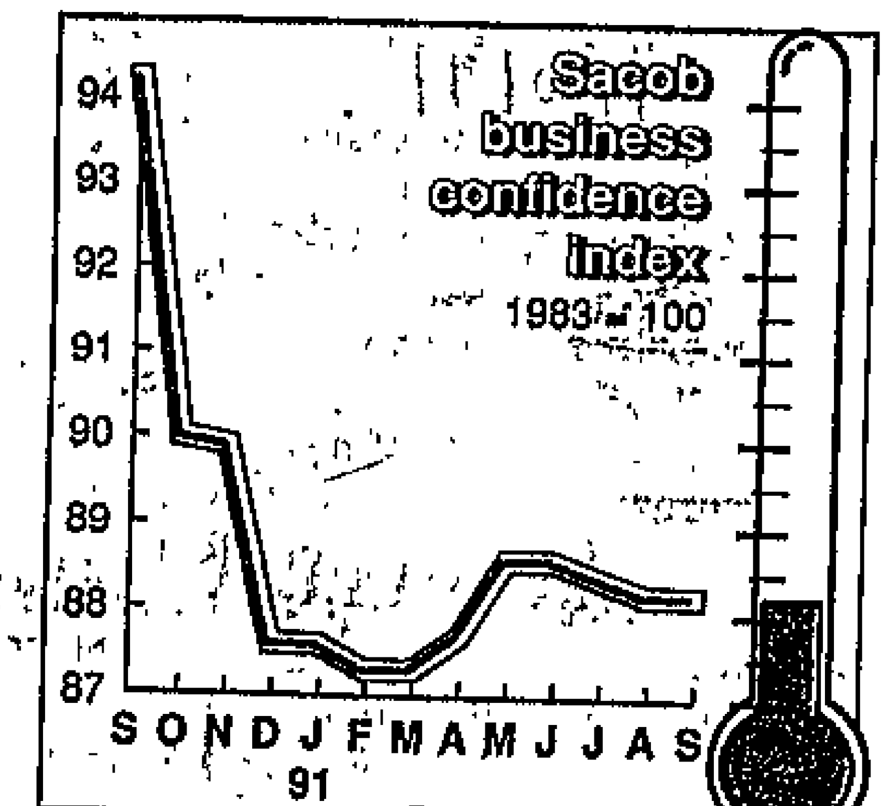
"It is now essential that the necessary poverty safety nets are rapidly put into place," he said. Business would have an important role to play in assisting with, and improving the delivery mechanism of such aid.

In a separate survey of confidence levels in the manufacturing sector, Sacob found that manufacturers expected sales levels and production volumes to improve in the next month and next year.

Sacob economist Keith Lockwood said activity levels had tapered off because the slowdown in expenditure on consumer items was starting to kick-in.

"There are a lot of mixed signals, so it is difficult to say when things are going to start picking up," he added.

The unemployment situation was bleaker than last month, he said. Most manufacturers in September said they expected to cut back on both skilled and unskilled labour.



Graphic: FIONA KRISCH Source: SACOB

Nationalisation 'is not the way to go'

(49)

ROBERT GENTLE

NATIONALISATION merely used up money that could be invested elsewhere, senior Visa International official Jacques Kosciusko said yesterday.

Kosciusko was speaking after a week-long visit during which he announced the opening of an office in SA.

Reacting to remarks last week by ANC leader Nelson Mandela that the ANC would nationalise mines and financial institutions, he said: "The best way to distribute wealth is through economic development."

In relation to banks, Kosciusko said what really counted was their ultimate business aims. In France, there was "very little difference" in the way state-controlled banks and private banks operated. B/Day 9/10/91

Commenting on ANC secretary general Cyril Ramaphosa's remarks that a future SA government would not be keen on repaying existing foreign loans, Kosciusko said: "Now is not the time to create the impression that SA is not a good borrower."

Despite these recent statements, things were moving in the right direction, he said. "One does not acquire the culture of government overnight."

De Villiers warns over descent into anarchy

11.6.91

STRAND — People who easily tore up a constitution once could do so again and were not the sort of people to be trusted with the government of a country, Economic Co-Ordination and Public Enterprises Minister Dawie de Villiers said yesterday.

"Those who suggest that the constitution should be suspended or ignored in order to facilitate an interim government must think again," the Cape NP leader told delegates to the party's Cape congress.

"Tearing up a constitution is the commencement of anarchy. Then the law of the jungle takes over and that is the highway for dictators and despots, not of democrats."

De Villiers said the tough lesson learnt from history was that true, genuine, meaningful freedom emanated from economic growth and progress and not from outdated Marxist rhetoric.

(49)

The truth was that real liberation eventually derived meaning only from economic growth.

He said the policy guidelines of the ANC-SACP alliance amounted to centralised economic control.

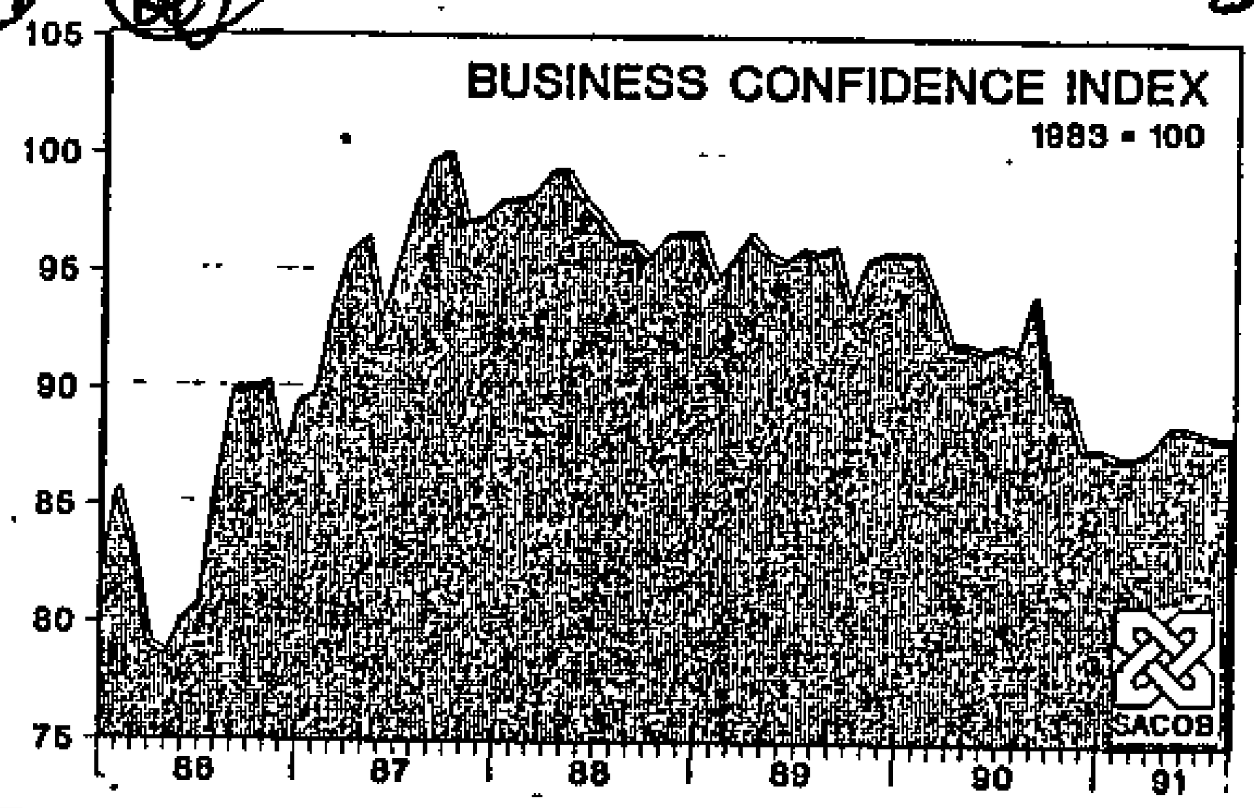
"There is a suspicion that when the ANC talks about a mixed economy, it actually mean a centralised command economy. That translates into government intervention along the lines of discredited and outdated Marxist-socialist theories."

There was one important lesson which everyone had to learn if the new SA was to be successfully pursued — that the country had limited capacities. — Sapa.

Business confidence now hostage to political process

Star 9/10/91

By Sven Lünsche



The economic upturn could be held back by recent political developments, particularly the confusion surrounding the ANC's economic policies, the SA Chamber of Business said yesterday.

Presenting the Chamber's September Business Confidence Index, chief economist Dr Ben van Rensburg said business confidence "has recently been a hostage of the political process".

The BCI remained unchanged in September at 88,2. (see graph)

Business uncertainty had been heightened in recent weeks by renewed talk of nationalisation, reconsideration of international debt obligations, as well as the introduction of VAT, Dr van Rensburg said.

"The political posturing by key players appear to have negated much of the progress that had been made in narrowing the ideological gap in the economic debate.

"The statements by the ANC have undoubtedly served to make both foreign and local investors jittery, and could dampen the recovery in investment spending anticipated following the introduction of VAT."

As such they may have served to prolong the economic recession, Dr van Rensburg says.

There were also fears that opponents of VAT will use further industrial action to change the government's policy.

"It is now essential that the necessary poverty safety nets are rapidly put into place, so that targeted assistance to the people who really need it can be introduced before the temporary zero-rating of the additional foodstuffs comes to an end in six months."

On the economic front business confidence has been dented by the lower gold price and the decline in retail sales and employment figures.

On the other hand business confidence is being boosted by prospects of an upswing in exports once the world economy picks up.

"SA's improved international relations are undoubtedly starting to pay dividends in the form of an improved export performance, in spite of depressed commodity prices and lower world economic growth.

"It seems clear that the next economic upswing will be export-led," Dr van Rensburg says.

Investors put off by high risk factor

Star 9/10/91 (49)

FRANKFURT — International investors appear ready to return to South Africa, but some bankers said at a conference on Tuesday that worries persist about its political and economic outlook.

"At the moment bankers are flooding the country," said Caspar von Hauenschild, head of Bayerische Vereinsbank's International division.

SA business and political leaders addressing the conference expressed confidence that SA would remain on course with its market oriented policies.

But some said at the one-day conference, "South Africa — Open for Business", that doubts about the nation's political future were causing banks to consider it a greater risk than less economically developed countries.

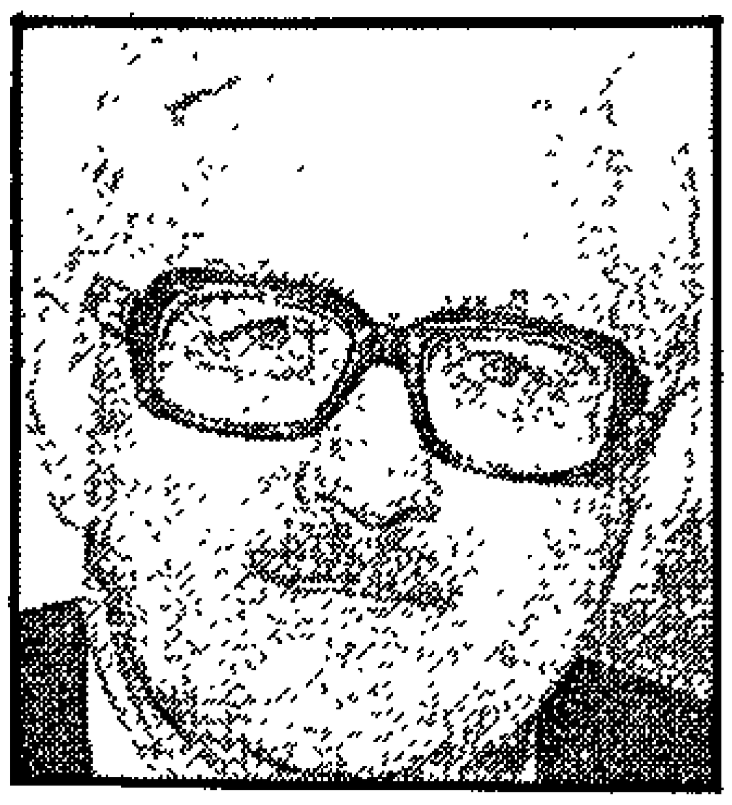
Mr Von Hauenschild said the perception of risk associated with SA was forcing the country to pay the highest premiums on its international debt. Also, bankers noted that international bank lending to SA was currently concentrated in the short-term — most loans carried maturities of one year or less.

Stephen Denning, director of the World Bank's South Africa division, said the bank was prepared to resume lending to SA, but only with international consensus.

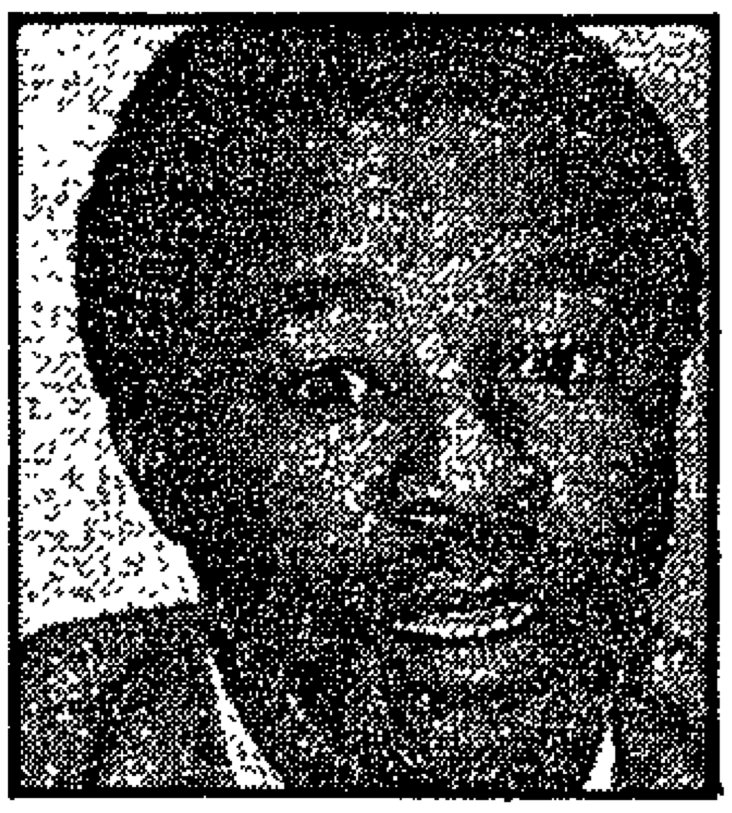
Last month SA launched its first public bond issue in six years — a Dm 400 million five-year issue — ending a self-imposed exile from public capital markets which began in 1985. The deal was lead-managed by Deutsche Bank.

"The comeback was expensive ... they had to pay 200 to 250 basis points above what German federal bonds pay," Mr von Hauenschild said.

Investors' concerns have been fuelled recently because of fresh talk from Nelson Mandela and the ANC about the possibility of nationalisation, as well as the renegotiation of loans.



Dr Gerrit Viljoen . . . rosy view of SA economy.



Thabo Mbeki . . . nationalisation must be an option.

"This (ANC reaction) was almost to be expected after the strong subscription to the new bond," said Conrad Strauss, managing director of SA's Standard Bank Group.

The SA bond, launched on September 19, was originally for Dm 300 million, but the demand was so strong it was raised to Dm 400 million four hours into trading.

At a press conference in Frankfurt yesterday, Minister of Constitutional Development Dr Gerrit Viljoen accused the ANC of sticking to its "unfortunate" economic policy demands "in order to strengthen their negotiating position".

ANC secretary for international affairs Thabo Mbeki did not respond to the charge, but he stressed the ANC position that a fairer distribution of wealth had to occur in any new SA and that nationalisation must remain an option.

Mr Mbeki also warned the SA Government not to negotiate any new loans or other forms of credit during "this transitional phase". Such agreements would have to be renegotiated by a new government, he insisted.

Giving a rosy view of the South African economy, Dr Viljoen said a "sound, modern economy" had been built despite the "handicap of apartheid".

The present Government recognised the dire need for priority channelling of funds to support the poor and disadvantaged, but, he added, "we believe in redistribution through growth, not in the bizarre concept of growth through redistribution".

Pressed to state specifically how the ANC stood on the question of nationalisation, Mr Mbeki said: "There is a whole series of political issues to be discussed. One of them is what do we do about the issue of this over-distribution of wealth. One of the options we have to look at is nationalisation. But privatisation is also an option."

Speakers at the conference said that while the longer-term outlook for SA's economy was positive, complete removal of international economic sanctions and strict adherence to market oriented policies were essential.

"If sanctions do not disappear we will be faced with the inevitability of having to abort the recovery of the South African economy," Dr Strauss said. — Star Foreign Service and Sapa-Reuter.

OPINION

Fears of an economic collapse run deeper than any racial issue, writes **Allister Sparks**

These threats make no sense

Star 10/10/91.

(49)

JUST when it seemed that our economic debate was becoming more rational, emotions have flared again over statements by ANC leaders that the organisation has not abandoned the idea of nationalisation and may want to renegotiate foreign loans.

It is hard to know what prompted this double-barrelled blast at local and international investment confidence.

Perhaps the ANC felt the business community was not taking seriously enough its request for alternative ideas about how to bring about a more equitable redistribution of wealth, so Nelson Mandela decided to prod them with the spectre of nationalistion again.

Perhaps Cyril Ramaphosa's threat stemmed from indignation that some foreign bankers are ignoring the ANC's request for financial sanctions to be maintained until an interim government is in place. Perhaps, too, there is a general feeling of anger over the way VAT was introduced without proper consultation and a suspicion that the Government is trying to restructure the economy on its own before negotiations start.

Whatever the reason, it was a disastrous decision. Apart from the damage to prospects of foreign investment, the ANC has done itself great harm.

It has alienated the business community at a time when it was trying to reach out to them, it has diverted attention from the Government's bungled introduction of VAT, and the flurry of statements, corrections and explanations has given an appalling impression.

Worst of all, it has reawakened white anxieties. On Monday night, I listened to Mr Mandela deliver an extraordinarily sensitive — and sadly under-reported — exposition of his understanding of minority-group fears. He was addressing a large audience of "coloured" people in the Boksburg township of Reiger Park, and one sensed from the close attention he got, that he had touched the very core of their concerns as he talked about the need to blend the ANC's ideal of non-racialism with a sensitive appreciation of each group's particular interests and anxieties.

He spoke with great frankness about the ANC's failure in the past to be sufficiently aware of this need, of how it had acted as though these differences could be subsumed in the larger non-racial ideal, but of how it now been sensitised to the need to be more attumed to the special feelings of different groups.

Nelson Mandela . . . raised spectre of nationalisation again.

"When I speak to you here, I cannot speak in the same way as I do in Tokoza, and when I speak to people in Houghton and Parktown I know that they have special interests and problems, too," Mr Mandela said.

It was a pivotal moment, reflecting a decision by the ANC leadership to address its failure to win the degree of white, Indian and "coloured" support that it needs and deserves. Yet those economic statements cut right äcross that decision.

The point Mr Mandela and his colleagues must grasp is that the fear of an economic collapse under an ANC regime runs deeper even than racial fears in the minds of most whites. The fear is that the country, and themselves with it, will be ruined as the result of pursuit of disastrous economic policies by a government in an ideological straitjacket.

Nor is it an unreasonable fear. We live on a continent that has been turned into a disaster area by governments doing just that. Mr Mandela must know that every time he utters the word "nationalisation" he causes a shudder of anxiety to run through the white community and alienates thousands of potential supporters who fear he is bent on doing the same here.

They shudder because the evidence against nationalisation, especially nationalising the mines, is so compelling that they cannot understand his failure to heed it.

The hard statistics of the industry show that nationalising the gold mines would be as disastrous for South Africa as nationalising the copper mines was for Zambia — a country the ANC ought to know well because of its long sojourn in exile there.

When he nationalised the copper mines President Kenneth Kaunda had to raise a huge loan to pay compensation to the mining companies, Rhodesian Selection Trust and Anglo American. He then had to enter into a management contract with these companies, paying them to continue running the mines because the Zambian government did not have the expertise to do so.

That done, the copper price crashed, leaving Zambia with an enormous debt to service from depleted copper earnings while Anglo took the compensation money and established its successful offshore subsidiary, Minorco.

Gold mining in South Africa is similarly an industry in decline. Production is falling, from 1 000 tons in 1970 to just over 600 last year; the price is falling, from a high of \$800 an ounce to around \$360 this week — and costs are rising: South African gold has to be mined at ever deeper levels and now costs \$300 an ounce to extract compared with \$225 in Australia, Canada and the United States.

Taking over the mines would be hugely expensive. The market valuation of South African gold shares is about R55 billion. To pay compensation significantly below that would be to kiss goodbye to all future foreign investment (28 percent of gold shares are held by foreign interests) and trigger a flight of domestic capital, with disastrous results.

Such a sum would impose an impossible current burden on the State, so it would have to issue paper, rather than cash — adding another R55 billion to our existing R81 billion a year. At 15 percent interest, servicing the additional R55 billion debt would cost more than R8 billion a year.

To achieve what? Last year, after tax, the gold mining companies paid a total of R2,1 billion in dividends. Since the State gets the tax anyway, that is the additional amount it would get by nationalising the mines.

An outlay of R8 billion to gain R2,1-billion! It makes no sense. Only if the gold price were to return to around \$600 or \$800 an ounce would the figures begin to balance, but that is unlikely.

If white anxieties are to be allayed, as Mr Mandela clearly desires, then he must stop sending out signals which suggest he is blind to the reality of figures like that. □

MAKING ECONOMIC POLICY FM 11/10/91

Panics high and low (49)

The ANC has become militant once again. It has in the past had to backtrack on economic issues — finding itself in the embarrassing position of having to adjust its position once it realised the damage it had done. But its latest threat is permanently to disrupt the economy if it is not allowed a part in its reconstruction.

Bluster is usually a sign of internal division and weakness. It is also another part of the mindset that had radical black students on the rampage at the University of Cape Town two weeks ago alongside militant black cleaners demanding outrageous pay increases.

Government would do very well in this instance to emulate the fortitude that UCT faculty and students demonstrated in the face of extreme provocation. It was exemplified by the young student who simply put up his umbrella and waited until those rioters who had aimed a hose at him got tired of it.

In the end the university won. The police did not intervene. The life of Cape Town citizens was not interrupted. The university quickly returned to work after a few days of disruption. And the black workers got no more than they were originally offered. Simply put, they lost.

The matter was handled in a most civilised way and is a great tribute to vice-chancellor Stuart Saunders and his senior common room colleagues. They merit widespread support in dealing with those who must answer for their behaviour.

Government, the police and citizens of this country's main cities and towns would do well to think of that young UCT man with his umbrella as the ANC and Cosatu attempt through disruption to intimidate them into turning over the economy to collectivist opportunists.

In the midst of a recession, it is going to be very difficult for these threats to be implemented for long. In the process the organisers will do their own cause a great deal of harm, unless that cause is power without responsibility. Foreign loans needed for housing and electrification have already been jeopardised by the ANC's talk about renegotiating them (all they can do, in fact, is refuse to repay) once in office and by threats of fomenting civil disorder.

It will be uncomfortable for everyone; it will require great fortitude; but it is unlikely to last long.

There is not going to be complete insurrection, however much Marxist or Trotskyite anarchists may want it. Elsewhere in this edition we explain that 500 000 trained and well-equipped troops can be called upon to contain civil disobedience. Yet it is precisely because they are there that they will not need to be used — provided calm and sane heads prevail in the Union Buildings.

It is also true that President F W de Klerk's government has not heeded the warnings that were given to it at least 18 months ago — that it would stand or fall on economic issues. Had it done so, by now prices would have been more stable and the economy would have been positioned to move ahead, along with a more streamlined and efficient tax regime, to a quickening pace of sustained economic growth.

Instead, as a direct result of economic issues being politically downrated, government is going to have to continue with its austerity measures and thus retard significantly the pace of sustainable economic recovery. It is now in a much weaker position to face the threat of economic insurrection.

We have already reflected on the political and technical ineptness of the introduction of VAT. It was left primarily to a junior minister, Org Marais, who has limited political experience; Finance Minister Barend du Plessis came in just ahead of the crisis.

Du Plessis seems deliberately to have distanced himself from the urgent economic matters of the day. Responsibility for government spending should be his main concern. Yet the job has been sloughed off to a little-known and meek colleague who whines that he is not being allowed to do what he should.

Du Plessis seems to have that illusion — shared, incidentally, by the ANC — that economic efficiency can be tolerated only to the extent that political expediency will allow. That is precisely why we have not got inflation under control, despite tight money and high interest rates.

Ronald Reagan and Margaret Thatcher turned economic issues into political ones and went on crusades. They persuaded ordinary people why they needed to make short-term sacrifices to secure sustained economic advance. And they succeeded beyond the hopes of even their supporters.

Here, instead of repaying national debt, we are monetising it. The public service is leaking like a sieve. Wage settlements in the public service are now far higher than those in the private sector. Off-budget spending for social purposes has been inflating demand.

It might be worthwhile recalling the first finance crisis faced by Harold Macmillan as prime minister. His Chancellor and two Treasury junior ministers resigned ostensibly because he refused to cut a final £50m from the defence budget.

But as one of them, Enoch Powell, later explained, it was not the amount of money but the principle of price stability, and Macmillan's commitment to it, that was at the heart of the matter. Events proved them right.

It is that principle and commitment that is lacking in the De Klerk government now — exemplified by a finance minister whose attention appears to have wandered. ■

ECONOMIC OPTIONS FM 11|10|91

The costs of consensus (49)

What emerges from the biennial conference of the Economic Society of SA at Stellenbosch is that there is a price to be paid for failing to reach a certain critical level of consensus in negotiations that lie ahead. Equally, there is a cost to any concessions made to achieve this consensus.

The debate centres on how a market economy can be structured to generate wealth and substantially redistribute it. If a significant measure of consensus is not achieved, those who in the years ahead will feel alienated from the process of economic decision-making have the power to sabotage it.

People who see socialism as the most effective way to right the wrongs of discrimination and restore their rightful place in the economy can destabilise SA and destroy confidence — if they feel cheated by the new dispensation. The flight of capital whenever unrest has hit the townships shows the potency of this path. It is clear, then, that there can be no meaningful economic progress without political stability. Equally, those who believe that socialism is a euphemism at best for mismanagement, and at worst for theft, can withdraw themselves, their skills and probably a good proportion of their assets from SA.

UCT economist Jos Gerson, who heatedly made this point, argued further that the extent of the loss will not be limited to the next few years. The haemorrhage will continue for generations, as people too locked into this country to leave encourage their children to do so. Without the skills and resources of these future emigrés, the redistributed share of wealth will be that much smaller.

But, though there is a political need for compromise on both sides, the points of economic contention leave little room for give and take. A wide range of ideas should be mooted and suggestions floated on how the required goals should be achieved, but by their diversity, they can't be synthesised.

There is an argument that, as all economies are mixed, there is no problem about having State- and privately owned businesses operating side by side in the new SA. The argument goes further and suggests that the more regulation the better.

But this is not so. "The term, controlled markets," says JCI economist Ronnie Bethlehem, "is a contradiction in terms. Markets distribute information through the economy. If you control prices you suppress information. You may as well kill the messenger."

The fact is that participation of government in an economy, or simply active intervention through excessive regulation, can seriously compromise the system's ability to direct resources where they can best be used. But getting this across to electorates is always a major challenge to politicians. In SA the problem is compounded by both existing inequities and racial overtones.

For this reason, nationalisation, a highly emotive issue, cannot be thrust aside. In the panel discussion which ended last week's conference, ANC economist Tito Mboweni said that, whatever the views held by technocrats about the desirability of various economic options, dominant political groups ultimately determine decision-making. Grassroots supporters of the ANC have not relinquished the goal of nationalisation, he said, therefore it remains a living issue.

He suggested variations on the theme — commercialisation or entrepreneurship (the State starting its own businesses rather than taking over existing ones) — but made it clear that, one way or another, "nationalisation remains on the table."

He proposed a commission to investigate the issue. The only comfort he offered is that capitalists need not fear a centrally planned future. Restructuring towards equality, Mboweni explained, will take place within a market economy. But there will be a strong regulatory framework, worker participation in business — and policy will be directed towards ensuring nonracialism at all levels.

Mboweni's argument that economists cannot ignore the political matrix within which they operate drew a number of responses from the floor. For the most part, their gist was that it is the economist's job to point out the costs of any course of action.

The debate highlighted the extent of the challenge facing policy-makers. It is formidable. But, as one speaker pointed out, we don't have the option of stopping the world and getting off. So we have to choose a solution which appears to have the lowest possible cost.

Bethlehem argued that this solution must proceed from a social accord. Expectations are so high, they can never be met by any future government. "But, if the mechanism for delivering the goods is commonly owned, the people may settle for less."

Strategic initiatives, he envisaged, could take place only against strict monetary and fiscal management on the financing side. "But there is room for Keynesian initiatives on the job-creation side." Provided funding comes not from a growing deficit but through restructuring the existing Budget, he advocated housing and employment-creation schemes which are government-led, but operate through the private sector. Clearly, this can be only a once-off event as the benefits of restructuring will come only once.

The growth this will bring, he said, can be sustained only if SA again becomes an importer of capital. The extent to which risk capital can be attracted will ultimately determine the growth path. And this requires both sides to commit themselves to political stability. "In this way, sustainable growth in both GDP and employment can be achieved, through market structures. Sustaining the kickstart is the critical issue."

Implicit in the accord is that the policy package must be sold to the people. The effective use of symbols is no sleight of hand or confidence trick, as the cynical may suggest. It means taking into account the role of perceptions and adequately dealing with misconceptions, reaching people where they are and not expecting them to be somewhere else.

An important issue is timing. All parties who will play a meaningful role in the future must accept responsibility for that future at the earliest possible moment. Those who benefit from growth will not have a vested interest in undermining it; and those who have to contain damage done by populist economics won't so easily indulge in rhetoric.

The message is simple: It's a matter of time . . . and time is running out. ■

PART BONDS FM 11|10|91

Picking up the pieces

The participation bond industry is putting on a brave face, but last week's collapse of the Masterbond Trust group has spooked thousands of potential investors (see page 68). Damage control will depend on how successfully the provisionally liquidated group's affairs are wound up — and that could take months.

The group relied heavily on small investors — many of them pensioners — who were attracted by higher than average interest rates. What they were not told was that Masterbond's borrowers — often group subsidiaries involved in leisure property development — were relatively high risks.

continued

POLITICAL STRATEGY

Demanding a say

FM 11/10/91

(49)

Backed by the threat of a general strike, Cosatu's determined demand for a say in economic policy has shot up the political agenda. It seems part of a strategy to undermine the legitimacy of President F W de Klerk's government by questioning his Cabinet's constitutional right to make policy.

But, as Finance Minister Barend du Plessis told *Business Day* recently, government is convinced that it is premature to establish any economic consultative body.

It remains to be seen how the workers will respond when Cosatu makes the call: support for the most recent stayaway last month was minimal.

The new Cosatu thrust follows the VAT controversy and the union's pull-out from the National Manpower Commission.

Together with the ANC's confused and damaging utterances on nationalisation, and the hint of not honouring of government loans, however, the issue will — once the dust has settled — intensify the debate about the right strategies for socio-economic development in a changing SA (see page 50).

Despite its national strike threat against government's refusal to set up a joint economic policy forum — with the VAT issue providing a convenient rallying point — the union is still hoping that a "crisis may be averted" by government's agreeing to negotiate. Its doors are open, says Cosatu general secretary Jay Naidoo.

"The future is going to be determined only by multilateral, binding agreements, such as the peace accord. We have the power to stalemate unilateral action, such as the VAT implementation," Naidoo says.

Reiterating the argument that government "has no right unilaterally to restructure the economy," Naidoo says that, as an aspect of their demands for an interim government, the call for a role in economic policy formulation is at least being made "upfront" and that "we require a process that has legitimacy, as did the peace accord." He also says it was "totally patronising for critics to reduce our position to economic ignorance, which is something that will undermine all negotiations, and it is extremely racist."

Naidoo finds unacceptable government's view that there'll be no further negotiations on economic matters until a multiparty conference is held.

"We can't see economic policy issues being dominated by political parties, to the exclusion of organised business and labour. We will fight for the right to have a say in negotiating the future of our country. A minority government that has created this economic chaos cannot be allowed to drag the country further into a mess."

Cosatu's Naidoo ... *fight is on for a say in economics*

Despite Cosatu's withdrawal from the commission on October 1, much encouraging work has begun between unions and employers in exploring the possibility of a social contract. This, as Saccola's and Anglo American's Bobby Godsell has suggested, needs to be widened to encompass a similar contract between the major political players — since agreement on economic policy is at least as important as a negotiated compromise on a new constitution.

Shifting the struggle

Barring the detail, it seems broad agreement over principles is pretty close between government and the ANC regarding basic constitutional provisions.

Therefore, the ANC and its allies have, since apartheid laws have been scrapped, shifted the struggle to socio-economic issues. For one thing it could be calculated to increase their leverage by keeping the political pot on the boil; and it is no doubt also aimed at the vast army of the poor.

"With a majority of the population hitherto excluded from political participation, the need for political symbolism sympathetic to the masses and their needs is accepted," writes Centre for Policy Studies director Lawrence Schlemmer in a recent *Indicator SA* article. "No mass-based party can survive on rationalism alone," he observes.

Elsewhere in the same publication, Schlemmer writes: "To the extent that the ANC has realistic anxieties about a loss of symbolic status and leverage in negotiations, it will continue to adopt strategies outside negotiations which generate reactions (by the IFP or the authorities) and, in turn, become impediments for negotiation for the ANC itself.

"The strategic situation of the ANC, therefore, is trapping it in contradictions. One must be realistic and assume that the dilemma will persist, because if the Cabinet attempts to assist the ANC out of its dilemma by conceding to demands for an interim government in the full sense, it stands to lose a significant fraction of its own support base.

"Basically, the ANC needs time to organise an enrolled membership-base constituency that can compare with that of the NP and the IFP. This will reduce its need to rely on mass mobilisation, mass action and sanctions for leverage, hence easing its entry into negotiations."

Schlemmer continues: "Unless constructive negotiations in the form of a multiparty conference start soon, the possibility of an extended and self-entrenching stalemate will increase ... In the longer run, negotiations will occur simply because the major parties have nowhere else to go. The short to medium term, however, say up to 1993, is critical for SA's economic recovery."

That is the problem. ■

SECURITY POLICE FM 11/10/91

More secrets

Another labour organisation has been infiltrated by the security police. At the same time that security police Major Derick Botha, with the co-operation of Rand Afrikaans University professor Kobus Slabbert, controlled the Auckland Park-based Liaison Bureau with slush funds, Botha's colleagues set up a Cape Town operation (*Leaders* September 27).

A memorandum, marked "top secret" and dated September 11 1989 (the *FM* has a copy), deals with the launch of a Cape Town labour organisation, Management Services Coordination Employers (Manco). The memorandum was sent by the Western Cape branch of the security police to their Pretoria headquarters.

According to the document, "an employers' forum" was formed on August 30 of that year after Cape Town security policemen had various discussions with company directors and managers in the area. It further states that "a five-member committee, under the chairmanship of the Cape Employers' Association's former chairman Frank Lighton, was elected by 35 representatives."

During the meeting, Lighton, according to the memo, informed those present that the forum did not replace existing employer's organisations. Its aim was to inform members on labour law, union strategies, actions during labour unrest and legal aspects, including industrial court decisions, and to

continue

Opinion

Violence is the major threat to SA economy

CT 11/10/91

Political Survey
By GERALD SHAW

THE run-up to negotiation is entering a dangerous muscle-flexing and chest-beating phase as the main protagonists, the NP and the ANC, square up to each other in fierce adversarial style.

And both parties are neglecting to maintain the minimum discipline and order in their ranks which will be needed if negotiations are to prosper.

The NP, in its role as custodian of the State, has failed to keep the peace in the townships, despite the forces at its disposal, and appears to be looking resolutely in the other direction as killer gangs do as they please at Thokoza under the noses of the SAP and the SADF.

Yet all the transgressions are not on one side. Both sides will need to re-think their tactics if negotiations are not to run aground.

The peace process could be seriously jeopardised by militant Cosatu and SACP elements who would like to push anti-VAT protests and labour unrest to the point of confrontation. While these pressures from the Left may also be expected to sharpen in the coming weeks, they offer rather less of a threat to the peace than the continuing township violence and the State's failure to curb it.

In his thunderous anti-ANC speech to the Cape Nationalist congress, the State President, Mr De Klerk, scored a popular success with his own constituency, lambasting the ANC for its contradictory and damaging economic pronouncements while threatening to put negotiations on hold.

Political opening

This is hardly a credible threat. There is no rational alternative to keeping the momentum of negotiation going. To do otherwise is to unleash the Furies, playing Samson and bringing the whole show down around our ears.

It is likewise unrealistic to expect the African National Congress to ignore the political opening given it on a plate by the NP's spectacular bungling of the introduction of VAT. Mr Barend du Plessis, in failing to consult all interested parties in adequate fashion, has given the ANC the opening it needed.

The failure to exempt foodstuffs and medical services from VAT united lower-income South Africans across the political and ethnic spectrum as the angry meetings of pensioners around the country are demonstrating.

Mr Nelson Mandela and most other leaders agree that VAT, as a taxation system, is an improvement on GST. It was the inclusion of the necessities of life in its scope which caused the uproar.

The ANC could hardly have passed up such an opportunity. Would the Nationalists, with their own unerring instinct for the political jugular, have let slip such a chance in their days in opposition in the political wilderness? Of course not.

It is one thing to exploit a good issue to mobilise support. It is another thing entirely to stir up labour unrest to the point of destabilising the country. So Mr De Klerk may be expected to denounce the instigation of labour unrest. His strategy is to drive a wedge between the pro-negotiation element in the ANC and the extremists in the SACP and Cosatu particularly who want to push mass action and the withdrawal of labour to the hilt, even if such tactics rock the negotiation boat more than somewhat.

Remarkably relaxed

Yet it needs to be emphasised again that it is the township violence rather than the threat of labour unrest which is delivering the most dangerous blow to confidence and the economy. Incredibly, there has been another massacre at Thokoza, with gunmen in a white minibus raking a funeral crowd with AK-47s.

How do the killers get away with it, time after time? Mr De Klerk and his government seem remarkably relaxed about it. If the State cannot protect citizens from murderous gangs it is inevitable that people will arm themselves in self-defence. On that route lies anarchy on the lines of Lebanon — which is precisely the aim of the gunmen and their promoters who are determined to wreck the negotiations. They are getting bolder by the day and they are evidently confident they will never be arrested or brought to trial.

No one suggests that Mr De Klerk himself is a party to this sort of thing. But who can blame Mr Nelson Mandela when he concludes that Mr De Klerk is indifferent to the loss of black lives. Imagine the NP government's very different reaction if mystery gunmen were killing white suburbanites by the score, month after month.

The NP rightly expresses concern about injudicious ANC pronouncements which undermine the investment climate. The NP points to the alarming figures of mass unemployment. Yet the continuing violence is much more devastating, economically speaking, than imprudent ANC rhetoric. The violence is destroying any hope at all of reviving confidence. Who wants to invest in an incipient civil war?

Whatever the ANC says, until Mr De Klerk shows that the State is in control it is idle to expect a revival of confidence and economic growth — or any real headway in negotiation.

The dominance factor

Main issue is SA trade links

Sowetan 11/10/91

By STANLEY UYS
In London

WITHIN the next few years, South Africa's relations with its neighbours will be normalised. But what will the new era hold in store for these neighbours - beneficial economic co-operation, or even more pronounced economic "domination"?

The question of "domination" crops up regularly now. Last year already, the ANC felt obliged to announce that, if it becomes the government in South Africa, regional co-operation will be "along new lines that would not be exploitative."

However, it is easier to pledge undying political friendship than it is to be a good economic neighbour. Economic community schemes look great on paper, but they cannot stop the big boy on the block doing what - economically - comes naturally.

The problem of "domination" was raised at a conference here last week at Wilton Park, the elegant centre in West Sussex which is supported by the Foreign Office. Two sharply different points of view were expressed: one that domination is unavoidable, because of the sheer strength of the South African economy; the other that post-apartheid South Africa will be too weak to dominate the region.

Mr Simba Makoni, executive secretary of SADCC, took the latter view.

The South African economy, he argued, is strong only when measured against its present white base. When the "real South Africa" emerges from its (black) townships, and resources have to be redistributed, a different picture will emerge.

Another Zimbabwean view voiced at the conference was that a post-apartheid South Africa will need its neighbours as much as they need it. "I do not anticipate a conflict situation with South Africa over trade," the speaker said. The PTA (Preferential Trade Area) and SACU (Southern African Customs Union) would have to be rationalised to ensure harmony, but then "We will see a very important trading bloc emerge. We could launch a pan-African economic community, and I would be very surprised if South Africa did not associate itself with it."

Utopian? At another conference, held in Windhoek in July, I listened to the knowledgeable Dr Erich Leistner, director of the Africa Institute in Pretoria, warn against too high expectations.

Referring to "strong fears that South Africa's overwhelming economic strength might damage the smaller economies and lead to South African political hegemony over the region," Leistner acknowledged that the ANC and the PAC had rejected "hegemonic" links with the region. But, he noted, neither had yet presented "even the outline of an alternative relationship."

Leistner is sceptical about the viability of a regional economic community. He doubts, for instance, whether SADCC can offer anything that the PTA does not offer already, and he forsees an equally uncertain future, even for the PTA. He advises South Africa not to push for full membership of either organisation too soon.

The desirability of South Africa joining the PTA is open to doubt, says Leistner, "because the problems posed to the smaller economies by Zimbabwe and Kenya would be vastly magnified by South African participation. In fact, these two countries, in particular, could expect to suffer from South African competititon."

One problem of a common market would be the heavy inflow of skilled and unskilled labour into South Africa from neighbouring countries.

The arrival of the unskilled would annoy unemployed South Africans, and the exodus of the skilled would deprive their home countries of much needed manpower Similarly, investments and development in general would tend to polarise around the existing South African growth poles to the detriment of other countries.

As for Zimbabwe, if it joined South Africa in a common market, it would probably find that "much of its manufacturing sector would succumb to competition from firms south of the Limpopo." Prospects for industrial development in Malawi and Mozambique, too, would be adversely affected. Leistner detected no political commitment behind a Southern African community similar to the one behind the European Community. He concluded that "a common market was not a viable option for the Southern African region as a whole."

So what is the answer if it does not lie in a particular model of economic integration? Leistner suggested it was to be found in "responding pragmatically to the patent needs, constraints and opportunities to be found in the region." The organisational framework could be an Economic Commission for Africa (along the lines of the OECD), with a permanenbt secretariat (but not the SADCC secretariat).

At a third conference, held in Windhoek in September and sponsored by the Africa Leadership Forum (I did not attend it), Professor Prakash Sethi examined in considerable detail South Africa's relative strength in the region, and warned that "South Africa has the economic muscle to exert tremendous pressure, and if it so choses, to throw its weight around the economies of its immediate neighbours in the SADCC countries."

South Africa could easily exert "undue influence" on its neighbours to their disadvantage, influencing patterns of development among them in a way that might not be acceptable.

Sethi does not think any of the traditional models of regional economic alliance are likely to be successful if South Africa is the dominant core and other African countries are on the periphery.

A post-apartheid South African government will want to be as helpful as possible to its neighbours, but - and this is what the experts are telling us - in economic relationships there is not much room for sentiment, even among comrades.

Barend to put SA case in Bangkok

BDay 11/10/91 49

BILLY PADDOCK

A HIGH-powered SA team, led by Finance Minister Barend du Plessis, yesterday headed for the IMF and World Bank annual meeting in Bangkok with the message that SA needed international finance soon to get the economy moving.

But Cosatu general secretary Jay Naidoo immediately warned that without consultation, any attempt to secure loans would incur the wrath of his trade union federation, the ANC and SACP.

Du Plessis is accompanied by Reserve Bank Governor Chris Stals, Finance director-general Gerhard Croeser and deputy director-general Estiaan Calitz.

Du Plessis' main purpose is to address the meeting, but he will also have high-level discussions with officials from both organisations. Also on the itinerary for his two-week trip are meetings with businessmen and representatives of some of the world's largest banks, and an address to an investment conference in Hong Kong.

High on his agenda will be recent ANC and Cosatu statements on nationalisation, hints of reneging on foreign loans and Cosatu's threat that if government does not enter into negotiations on restructuring the economy with it and other major players, they might cripple the economy.

In an interview Du Plessis said international investors should be "fully aware of the importance of predictability with regard to fiscal and monetary affairs, predictability even with regard to company law". They should be reassured that capital would be safe, and that it could make money and be repatriated.

"If we have a substantially higher rate of economic growth, with a pending economic upswing extended over a longer period on account of having access to international finance, not necessarily IMF only, our economic growth will give us more expenditure capability without raising the overall tax burden. Obviously that additional money will go towards urgent social expenditure items," Du Plessis said.

A source said Du Plessis was expected to gear his address to the southern African region. He was expected to tell the IMF and World Bank that good growth in SA would have much wider positive developmental effects in the sub-Saharan region.

Du Plessis was expected to address issues such as nationalisation more circumspectly and not counter the ANC directly. He would reassure the international financial community that the present government would ensure loans were honoured.

In an interview Naidoo linked Cosatu's increasing militancy and ANC secretary-general Cyril Ramaphosa's statement on re-evaluating foreign loans.

"Government operates purely on the ba-

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Barend

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☐ From Page 1

sis of technical recommendations from the IMF. We have not been consulted by the IMF, so it seems to us that there has been a deal struck between the IMF and government. We are clearly going to say to the IMF we do not accept deals struck behind the backs of the people. There is a necessary link if those deals relate to economic restructuring, such as VAT, which will then entitle government to borrow money overseas," he said.

"So whether it is from private banks, the IMF or the World Bank I would say that in Cosatu there would be a lot of support that we would not honour loans that are made arbitrarily to the SA government."

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Sacob predicts more job losses

B Day 11/10/91

LINDA ENSOR

CAPE TOWN — Uncertainty over the timing of the next upturn was permeating the economy and could result in further job losses, Sacob economist Keith Lockwood told a Cape Town Chamber of Commerce seminar earlier this week.

Businessmen were uncertain over the state of the economy, possible labour action and political developments.

Lockwood said that over the next few months businessmen would be unsure whether any increases in sales were the result of pent-up demand pending the introduction of VAT or signs of a genuine recovery.

It is widely accepted that the economic recovery will be export led. Lockwood said those businesses involved in the export market should see an increase in sales and profitability next year. However, domestic-orientated manufacturers would continue to experience problems.

Export volumes excluding gold had increased by about 100% over the last eight years, though had tapered off in the last six months because of the fall in the world economy. From a 3,25% world economic growth rate in 1989 and 2% in 1990, a rate of 1,25% was forecast for 1991.

However, there were signs that the world economy, and particularly the US economy, had turned the corner which boded well for SA exports of manufactured goods. A world economic growth rate of 2,8% has been forecast for 1992.

"There is no reason to expect a big turnaround in commodity prices this year so export-led growth will be problematic if reliant only on commodities," Lockwood said.

"SA has increasing exposure to world markets and is enjoying significant growth in exports into Africa. Exports of its manufactured goods will probably be more easily absorbed in developing countries."

The outlook for investment spending was not optimistic as gross fixed investment had tended downwards for the last six quarters, he said.

Realistic unionism is essential for a viable social accord

B/Day 11/10/91 ALAN FINE (49)

WITS University's Centre for Policy Studies (CPS) and the Konrad Adenauer Foundation could hardly have timed this week's symposium better. Titled "Social contracts, conflict resolution and SA's economic future", it took place as Cosatu announced plans for a campaign aimed at winning for organised labour and other opposition groups a major say over the country's economic policy making.

The focus was on both broad national economic questions and on prospects for accords on particular issues (such as labour legislation, the mining industry's future or the peace accord, to cite three recent examples) or those concluded at regional, industrial or local level.

Japie Jacobs, special adviser to the Finance Minister, carried the political battles of the day to the symposium, expressing firm opposition to union involvement in economic policy making. But he was out of step with most of the rest of the gathering — including his colleague, Finance deputy director-general Estiaan Calitz. In general, the necessity for socio-economic accords was taken as given; the symposium focused on their possibilities and limits, and the dangers of going too far too fast.

Calitz suggested that to "facilitate proper (budgetary) prioritisation . . . and to ensure a proper reconciliation between social demands and constraints on the fiscus, future discussions should take place with reference to a longer-term fiscal framework which may have to be part of any social accord".

Surprisingly, two ANC economists — Vivian Macmenamin and the University of the Western Cape's Prof Lieb Loots — repeated Calitz's assertion that the economy could not afford to increase government expenditure beyond the present 35% of GDP to finance social welfare programmes.

Loots argued it would take up to 10 years to make any appreciable im- ... to be a diversion of state social expenditure away from whites towards others.

However, this would still leave serious scarcity. Using the same kind of reasoning as Calitz, she argued that a future government — if it were to carry its constituency — would have to go out of its way to develop a public consensus over priorities for the use of limited public resources. This process would require increasing levels of economic literacy to enable the public to participate in complex policy debates, and such education programmes had become a priority for the ANC's department of economic policy.

Rhodes University's Andrew Donaldson, a specialist in the economics of education, used his expertise in that field to demonstrate how public projects could be made far more efficient — the only way to stretch a financially stagnant budget.

Both UCT's Nicoli Natrass and the CPS's Steven Friedman warned, though, that there were inflated expectations of what social accords could achieve. Natrass said business, labour and political parties tended to fudge issues and ignore the full implications of an economic accord. For example, sensible economic restructuring would cause severe disruption to sectors which lose existing

☐ ROODT

Then there is the question of who represents business. The SA Chamber of Business (Sacob) has called for a 10-year social contract. But its leadership admitted it was unable to bind its members to any agreements. Employer organisation Saccola has a similar problem; both former Saccola chairman Anton Roodt and the Chamber of Mines' Johann Liebenberg conceded that Saccola was not the body to represent business in any

tary Jay Naidoo, asked earlier this week to name the topics the proposed economic negotiating forum should address, referred largely to labour issues, manpower development, literacy and job creation programmes and VAT.

But he did not appear to have thought about participating in formulating the 1992/93 Budget which, after all, is where all economic priorities and policies are reflected.

So while the issue is firmly on the agenda, all potential parties to a national economic accord have a great deal of homework to do.

And the obstacles extend even further. While the NP government, opposition parties, business and labour are essential to any accord, they are not, between them, representative of the entire country. Friedman in particular warns of the unworkability of a national tripartite deal which ignores the existence of the huge sector of unemployed, unorganised South Africans.

In the absence of any organisation to represent this marginalised group, a social accord carried the serious danger of further empowering society's elite, formal sector — a certain recipe for failure. Friedman argued that, for this reason, any accord would have to remain subordinate to an elected parliament in a

only to that elite. This would be a strong temptation, given that such an elite is best able to lobby for its special interests.

Another group in danger of marginalisation, the symposium showed, is the purist free marketeer lobby based largely in the Wits business economics department. With few exceptions, it continues to spread its gospel with a religious fervour and ignorance of the real world usually more typical of its far left-wing counterparts — and contributes to the debate nothing beyond its ritualistic slogans.

Ultimately — although groups like Sacob do not say so bluntly — a social contract involving organised labour must include union acceptance of some form of wage restraint to enable a competitive SA economy to embark on an export-led growth path. Countries like South Korea achieved this through labour repression; in SA that choice is no longer feasible even if it were considered advisable.

The question that then arises is: What can be offered to the unions to entice them and, more importantly, their members, to accept material sacrifices now in exchange for promise of a long-term return?

The answer lies in granting workers and their organisations a greater say in economic decision-making — at plant, industry and national level. It was here, given the German experience in co-determination, that the expertise of the symposium's German co-hosts came in.

Most SA business, not to mention the NP government, is a long way from accepting such fundamental changes in management prerogative. Wits sociology department Prof Eddy Webster spoke of the need for a "paradigm shift" on the part of organised labour from "militant abstentionism" attitudes towards production, to an attitude of participation. But this shift, he argued, depended on the extent to which management and the state are prepared to give labour a real stake.

Industrial relations consultant Andrew Levy, turning a conventional idea on its head, put it more simply:

A new SA begs an answer to the aid question, writes **Jo-Anne Collinge**

How will the great money game be played?

Star 11/10/91.

49

FOREIGN aid will not simply multiply after the installation of a democratic government, argues University of Natal economist Alan Whiteside. There will be significant changes in the source, size and type of aid.

"Donors currently supporting anti-apartheid movements can be expected to withdraw or reduce their commitments," he states in a study commissioned by Deloitte Pim Goldby Management Consultants and published in the journal International Affairs Bulletin.

In counterpoint to this, "one of the big changes will be the establishment of the multi-lateral agencies, most notably the World Bank. Aid to South Africa will have developmental goals and there will be an increase in project aid and loans."

Mr Whiteside states that while "the flow of aid to South Africa is much greater than is generally realised", it is difficult to quantify exactly — partly because of the past hostility of the Government to such intervention.

He suggests that aid reaching South Africa in recent years has been in the region of R600 million.

This excludes aid to liberation organisations outside the country and goods and services received by South Africans abroad.

The Reserve Bank, he notes, recorded R460 million in aid flowing into the country in 1989 and R466 million in 1988.

In contrast to assistance granted elsewhere in the southern African region, aid to South Africa was intended to achieve political rather than developmental goals. "This raises the question as to what will happen to aid flows when apartheid ends."

Mr Whiteside suggests the effect will be uneven, that circumstances favour increases in certain areas and cuts in others.

When it comes to outright development assistance from individual governments and non-governmental organisations, South Africa will be at a clear disadvantage, he argues.

"The reason is quite simply that South Africa is — by African standards — a wealthy country. It has the second highest per capita income in sub-Saharan Africa.

"The income is not equally distributed; an estimated 44 percent of South Africans live in poverty. In general, donors do not look at income distribution as this is regarded as the responsibility of the (recipient) government."

The implication is that governments and non-governmental organisations currently funding South African organisations are likely to scale down aid.

"These bodies are presently giving aid to groups that they feel the Government is ignoring. These donors would assume (one hopes, correctly) that a new Government will set about righting social injustices and helping the poorest groups," he said.

This trend might be mitigated by growing "donor fatigue" with Africa, where 27 out of 44 sub-Saharan countries have experienced declining per capita incomes in the '80s — despite aid.

"Increasingly, donors want to put their money in projects and countries where self-sustained growth will occur," observes Mr Whiteside.

But the real influx of new aid to South Africa is likely to come from multilateral agencies, which (with the exception of the European Commission) have not operated here to date. These would probably include the World Bank, the African Development Bank and various United Nations agencies, such as the Food and Agricultural Organisation and Unicef.

Mr Whiteside expects that "multilateral agencies will replace the bilateral donors as the main funding organisations in South Africa".

There is a basic pre-condition to almost all forms of aid, notes Mr Whiteside, and that is stable government. "The type of government is not of major significance — what is most important is that it be stable and able to absorb the inflow of money." □

'Reparation' bid would force individuals to pay third of their assets

ANC PLAN FOR WEALTH LEVY

S/Times 13/10/91

49

By BILL KRIGE

THE ANC is considering an extraordinary proposal which would force South Africans to pay a one-off levy of a third of their assets to the state in reparation for apartheid.

The proposal was adopted by a working group at an ANC conference on affirmative action in Port Elizabeth at the weekend. The conference also proposed the deliberate creation of a "business crisis" to force corporations to submit to demands for affirmative action.

The capital levy proposal comes hard on the heels of statements last week by ANC leader Nelson Mandela that nationalisation was still an option for the ANC, and a statement by ANC secretary-general Cyril Ramaphosa that the ANC would "re-evaluate" foreign loans if it came to power. Mr Trevor Manuel, the ANC's economics head, also made a strong pitch to US businessmen at a conference in the United States this week to continue disinvesting.

Mr Heinz Klug, the ANC member who reported the decision of the working group to the conference, said taxpayers would be expected to pay off the levy over 10 years.

The money would be used to help disadvantaged communities.

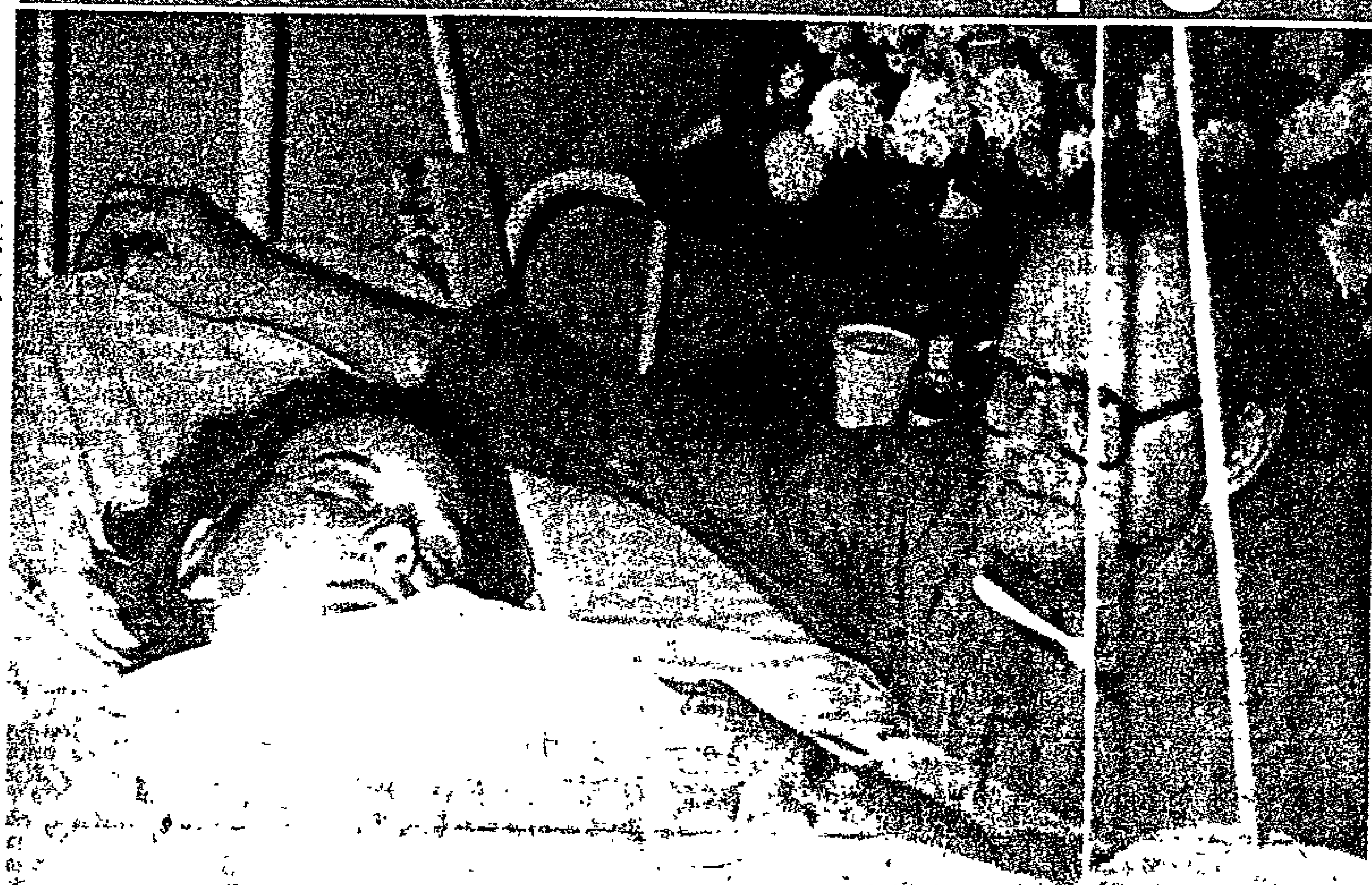
Mr Klug was unable to provide further details of the proposal, but a rough estimate shows that a person with capital assets of R500 000 would pay R16 700 a year to cover the levy.

A recent survey showed that half the white households in South Africa had net assets above R100 000. The annual levy on this amount would be R3 300.

Surrender

Reporting back on committee discussions, Mr Klug said it was felt that any land reform process

Alive: burial mix-up girl



SA heroes in world golf final

By NORMAN DABELL: St Andrews

SOUTH AFRICA'S golf heroes earned a standing ovation yesterday as they toppled home favourites Scotland to reach the final of the Dunhill Cup in their first major international team event after 11 years of isolation.

South African captain Gary Player was cheered all the way down the 18th hole of the historic Old Course as he clinched victory for his team with a four-stroke win over Gordon Brand jnr.

JOHN BLAND

"It is marvellous," said Player. "Here we are beating the home team and we get an ovation. I think it proves everyone is glad we're back."

The Springbok triumph

businessmen at a conference in the United States this week to continue disinvesting.

Mr Heinz Klug, the ANC member who reported the decision of the working group to the conference, said taxpayers would be expected to pay off the levy over 10 years.

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Surrender

Reporting back on committee discussions, Mr Klug said it was felt that any land reform process must include affirmative action. Beneficiaries ought to include the victims of forced removal (both rural and urban), the homeless, township residents, those displaced by violence, aspirant black farmers and tenants.

"The beneficiary would not be able to pay for it (the land). That would be the responsibility of the state," he said in proposing the one-third capital levy.

ANC speakers at the conference made it clear that to compensate for apartheid, a future government would have to go beyond mere reparations — and have its actions enforceable by law.

In this process whites — "promoted beyond their level of competence" by a privileged past — would be forced into a rapid surrender of land and political and economic power.

Siege

If necessary measures as extreme as those invoked for a decade to reconstruct war-battered West Germany would have to be taken.

On affirmative action in the private sector, the conference heard that reparations would not be enough. The beneficiaries of any affirmative action would be "blacks, women, the disabled and anyone disadvantaged".

Not only would blacks be favoured for promotion at all levels of public and private life, but affirmative action programmes should continue indefinitely and be made mandatory, speakers said.

ANC economist Don

□ To Page 2

SA in go

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Wealth levy

S Times 13/10/91. (49)

□ From Page 1

Mkwanazi said that South African business should be placed in a state of siege: "Affirmative action can never succeed on its own in South Africa. We must create a crisis.

"If businessmen continue to make large profits there will be no incentive for affirmative action," he said.

Pressure had to be applied to the "pressure points" of business, such as profits, costs and customer service, to induce a crisis without which corporate South Africa would never submit.

"The economic and human costs of change must be high," he said, adding: "Those who have been on the receiving end of injustices have the right to redress."

Along with other speakers, he cited economic feather-bedding for whites and said they had been "promoted or placed beyond their level of competence" through black exclusion.

Democratic Party leader Zach de Beer warned that the proposed levy was intrinsically communist and hoped that the conference's recommendations would not be accepted by the leadership.

The National Party's finance spokesman, Mr Francois Jacobsz, said such a move would put a damper on capital formation and discourage private initiative.

● See Page 8

PAC, Azapo call for one-third 'wealth tax'

Political Staff (49) ARG 14/10/91

THE Azanian People's Organisation (Azapo) and the Pan Africanist Congress (PAC) would support any strategy which would redistribute the country's wealth, including some forms of taxation.

Responding to a proposal made at a weekend ANC affirmative action conference in Port Elizabeth, Azapo deputy president Dr Nchaupe Mokoape and PAC deputy president Dikgang Moseneke said political freedom without economic redistribution would be meaningless to the black majority.

The ANC proposal, which ANC economic policy head Mr Max Sisulu said had "the authority of the people", would force South Africans to pay one-third of their assets to the state. It was adopted by a working group at the weekend conference.

Asked if his organisation would support a wealth tax, Mr Moseneke said although he did not want to comment on the ANC's proposal, he wanted to state that the central question was that there had to be a redistribution of wealth.

That, he said, could be done in many ways, "and taxation is one of the ways".

Mr Moseneke said the PAC would adopt "a whole range of redistributive mechanisms, including taxation". He said the criticism of the ANC's proposal was blown out of proportion by capitalists. Wealth tax was "one sensible way" to be considered.

Dr Mokoape said although he had only read about the proposal in the media, he could confirm that Azapo would support "any measure that would seriously redress the economic imbalance in the country".

The proposal, Dr Mokoape said, was seriousand deserved an equally serious consideration. He said glaring inequalities in the country had to be addressed, otherwise political freedom would be "meaningless for our people".

Levy on wealth is 'only an ANC option'

(49)

Own Correspondent

JOHANNESBURG. — A wealth tax was just one of a number of proposals which could be considered as a means of addressing SA's racial disparities, ANC constitutional committee spokesman Mr Dullah Omar said yesterday.

The issue was raised at a weekend conference in Port Elizabeth on affirmative action arranged by the constitutional committee. It was proposed that a levy equal to one-third of individuals' assets be payable over 10 years.

Mr Omar said the proposal had to be seen in the context of the purpose of the conference which was to examine ways of eliminating disparities created by apartheid. CT 14/10/91

"This was not a policy-making conference," he said, "but was designed to place issues on the agenda for discussion."

Mr Omar said it had not been decided whether the levy would be suitable in SA.

A Cape member of the ANC's national executive committee said the wealth levy would be totally contrary to the guidelines laid down by ANC president Mr Nelson Mandela.

He told Sapa that weekend reports about the levy were a "specious example of sensational journalism". The proposal was neither ANC policy nor a concrete position of the workshop.

● ANC allays fears on investments in SA — Page 2

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SOWETAN Monday October 14 1991

ANC after new tax plan

Sowetan 14/10/91

49

SA PRESS ASSOCIATION

THE African National Congress is preparing a plan that would heavily tax the country's whites as a form of reparations for apartheid, according to a report yesterday.

A report in a Sunday newspaper said the proposal would require citizens to pay a levy equivalent to one-third of their assets to raise money for the impoverished black majority.

The money would be used to buy land and other resources for blacks, said ANC official Heinz Klug.

The plan is not official ANC policy, but it was recently adopted by the group's committee on affirmative action, according the report.

The ANC says the redistribution of wealth from the 5 million whites to the 30 million blacks will be a leading priority if the group comes to power.

Economic measures

ANC president Mr Nelson Mandela and other top officials have suggested several controversial economic measures recently, drawing sharp criticism from many whites, local businessmen and potential foreign investors.

Under the latest proposal, a family with assets equivalent to R250 000 would be required to pay the government R83 000 over a 10-year period.

This would be a special levy in addition to already existing taxes. All citizens would be subject to the special tax, but it would clearly target whites, who control the vast majority of assets.

ANC critics say the organisation is wedded to socialist economics that failed throughout Eastern Europe and much of Africa.

They argue that a free market economy is the fastest way to improve black living conditions, and it would also keep skilled whites from leaving the country. - Sapa-AP.

heid legacy

49

Money will dictate new SA success

Sowetan 14/10/91

Substantial government intervention in support of efforts to eliminate imbalances of apartheid should be possible without interference with market forces and without reducing incentives for private investments.

South Africa must adopt growth-oriented policies. The only way for the society to meet these ends and to increase the share of the wealth for everyone is for the economy to grow.

Those who hope to assume positions and responsibility in the new South Africa must also be prepared to make economic decisions which will demonstrate their commitment to economic democracy and to obeying the will of the market - answering to the needs of the people.

Job creation is vital to black economic empowerment. Unemployment estimates in South Africa run as high as 40 percent. At the same time, jobs requiring special skills go unfilled because of the lack of qualified candidates.

Spell it out says Mandela

49

Sowetan 14/10/91

AFRICAN National Congress leader Mr Nelson Mandela has reiterated support for nationalisation but said the ANC would drop the policy if business came up with an alternative.

Mandela told businessmen in Durban on Saturday: "We have no ideological attachment to nationalisation, but it's the only effective way to ensure there's an equal distribution of wealth.

"We say to the business community, if you have a better alternative and if it's effective, we'll abandon nationalisation."

He accepted criticism that the ANC had not put forward a detailed blueprint for a post-apartheid economy, but "what has business produced apart from general cliches about the free market, growth and trickle-down effects?".

"Have we seen a single programme that the inherited privilege of apartheid on which business has flourished will be addressed as a resource which will begin to benefit all our people?" - *Sapa-Reuter.*

Labour joins fray

THE battle for the coloured vote has shifted into a new phase with the Labour Party joining the ANC/PAC Patriotic Front initiative to regain a foothold in mainstream politics.

All the major parties in the Western Cape are going out of their way to attract voters from the region's biggest population group.

Sowetan 14/10/91

After pointed remarks from ANC president Mr Nelson Mandela, the ANC's regional congress recently chose Dr Allan Boesak to head its local regional executive.

The NP in the Cape this week elected former Labour Party chairman the Rev Andrew Julies as one of three deputy chairmen. He is now one of the top four leadership figures in the Cape NP hierarchy.

SHARON WOOD

Sabre-rattling must stop, says Barend

SA's economic potential would not be realised if certain spokesmen continued to plan actions which, if executed, would scare off capital, Finance Minister Barend du Plessis said at an investment conference in Hong Kong on Friday.

"It is hoped, therefore, that those spokesmen who are fond of economic sabre-rattling will now accept the hard realities of the real world out there," he said.

Du Plessis reiterated President F W de Klerk's pledge last week that SA would continue to repay its foreign debt.

SA would have to solve its economic problems itself because sufficient development funds would be difficult to obtain in a world environment of low international savings and rising competition for foreign investment funds, he said.

They would be easier to tackle in a more friendly international environment and a more stable domestic one, he added.

Closer economic co-operation with other African countries was a growing possibility, said Du Plessis.

SA's relatively advanced production structure, sophisticated infrastructural facilities and scientific, technological, commercial and financial know-how could make a major contribution to the promotion of the sub-Saharan African region.

Tax on wealth 'is an option for the future'

B/Day 14/10/91. (49)

SUSAN RUSSELL

A WEALTH tax was just one of a number of proposals which could be considered as a means of addressing SA's racial disparities, ANC constitutional committee spokesman Dullah Omar said yesterday.

The issue was raised at a weekend conference arranged by the constitutional committee in Port Elizabeth on affirmative action. It was proposed that a levy equal to one third of individuals' assets be payable over 10 years.

Omar said the proposal had to be seen in the context of the purpose of the conference, which was to examine ways of eliminating disparities created by apartheid.

"This was not a policy-making conference, but was designed to place issues on the agenda for discussion," he said.

"We looked at methods which had been used in other countries. It appears it was a measure used highly successfully in West Germany to ensure orderly development."

"No specific details have been worked out," Omar said, "but we will certainly be looking into it."

Our political staff reports ANC economic policy committee member Don Mkwanazi told the conference there was a necessity to create a "crisis" in business.

"If they continue to make huge profits there will be no incentive to implement affirmative action programmes," Mkwanazi said. He said affirmative action was an interim strategy — and did not involve compromising standards.

Sapa reports ANC president Nelson Mandela on Saturday told a function in Durban that the ANC was prepared to abandon its nationalisation policies if business could provide an alternative to redressing economic imbalances.

The ANC had gone out of its way to bring the business community into the debate, but business people had failed to provide an alternative.

Investors free to repatriate profits

ANC unveils plan to lure foreign firms

BDay 14/10/91.

(49)

ALAN FINE

IN A document likely to allay some foreign concerns about the economic policies of a future ANC government, the organisation has outlined a comprehensive policy on foreign investment which guarantees investors their assets will not be nationalised without fair compensation.

Designed to attract primarily high-technology corporations, it also assures foreign investors that they would be free to repatriate profits.

The policy is contained in a speech which was to have been delivered by secretary-general Cyril Ramaphosa to an investment conference in Hong Kong on Friday. Ramaphosa cancelled the trip because of a family illness.

The speech is understood to have been based on a draft policy statement devised at an ANC-SACP-Cosatu seminar on foreign investment in Johannesburg last month, and on consultations with the UN Centre for Transnational Corporations. Parts of the policy are likely to be codified should an ANC government come to power.

The document says the poor state of primary commodity markets meant SA had to diversify its exports into manufacturing, and foreign investors would be crucial "in our effort to restructure and regenerate the SA economy".

Foreign investment would also be critical as a source of foreign exchange: "We want to make certain that when our upswing begins, as it will when we enter a democratic era, it is not constrained by balance of payments problems."

An ANC government would, in particular, encourage stronger links with transnational corporations which are the repositories of advanced technologies and know-how, and can provide crucial conduits to international markets.

The document says the ANC might also encourage the participation of foreign firms in labour intensive sectors, but it expects local capital to be more prominent there.

It is understood that the ANC and its allies would be loathe to establish new regions such as the existing border areas where firms are exempt from environmental, labour and other legislation. However, they are unlikely summarily to withdraw existing exemptions for fear of disrupting local economies.

The document says the most important way to attract foreign investment is by creating a general economic climate conducive to investment, including: strong and growing domestic and regional markets; political stability; consistent and predictable economic policies; and the prospect of sustained economic growth.

"We are intent on providing all of them — our emerging economic programme is designed to achieve these objectives."

This, it says, would reverse the consequences of misconceived NP economic policies which provoked a weakening of foreign investment in SA.

"We do not hesitate when we say that an ANC government would be willing to guar-

□ To Page 2

ANC plan

(49)

□ From Page 1

antee foreign investments against nationalisation without fair compensation. Moreover, we envisage an economic system where foreign investors will be free to remit funds in the appropriate currencies — for the purpose of repatriating profits, or purchasing inputs," it says.

The document argues that worker repression and "fancy incentive schemes" — such as tax breaks — to attract foreign investment would be irrelevant if the right climate existed. The efficacy of such incentives was ambiguous, at best.

However, it adds, "highly desirable and expensive domestic or foreign investments might require some special financial arrangements — such as those provided for the Columbus stainless steel project. And we might consider reciprocation for export performance or some other form of foreign exchange earning or saving."

The document also proposes co-ordination between the countries of Southern Africa in respect of foreign investment.

It repeats the ANC view that an interim government is a crucial step in the attainment of foreign investment.

"Capital will not be cheap or abundant on international markets during the early '90s, and there are other strong contenders for investments and loans — in Eastern Europe, Asia and the Americas.

"Southern Africa will have to prove its economic soundness before we can really expect substantial inflows of foreign capital," it concludes.

BDay 14/10/91

State intervention the key to Korea's economic miracle

BDay 14/10/91. **DAVID LEWIS** (49)

IT'S not surprising that the key to Korea's economic success should be claimed by so many contending parties. With the other newly industrialising countries of east Asia, Korea is the bright light in an otherwise gloomy Third World firmament.

Moreover, Korea's exceptional growth rates have not been achieved through oil deposits or some other God-given bounty. Korea has no natural resources to speak of and a population density that places it at a considerable disadvantage even by general Third World standards.

Korea's growth rests in particular on the ability of its commodities to compete internationally. And these are not the archetypal cheap labour, Third World commodities.

Although Korea began its industrialising and exporting drive partly on the basis of a comparative advantage in low wages producing wigs, garments and other unskilled labour intensive commodities, it rapidly moved into technologically sophisticated, higher value-added areas of production.

Identifying the ingredients that underpin Korea's success reaps potentially rich rewards. However, it is not an exercise for the fainthearted — those who advocate emulating Korea need to be certain that they're not implicitly supporting the military dictatorship and labour repression so intimately bound up with that country's development path.

Nevertheless, if all that economic progress demanded was political repression, then surely the east Asian countries would have more company at the top of the Third World pile. There has to be something other than repression that explains it.

Nor is Korea fertile ground for propagandists of any hue. It cannot be used to dispute capitalism's claim to generate rapid economic growth. This is a brazenly capitalist society, where initiative lies largely with enterprises whose primary motive is profit.

But equally, for those who associ- [illegible] lively and important debate around the role of the state in the development process.

To the extent that any debate in public policy has been settled, this one has been, with the winners easily identified as those who cited the Korean state as the key actor in the development process.

Hence in the debate that has again flared up betwen the ANC and Anglo American, the former has most informed opinion on its side. Korea — and, in different ways, all late developing nations including Japan and Germany — represents a triumph for state intervention.

Moreover, this is not the sort of framework-setting intervention that even the most ardent free marketeers may be prepared to live with — the infrastructural provision, the checks on blatant cases of market failure, the occasional and limited instances of infant industry protection. This is deep and pervasive intervention — import restrictions, export subidsies, preferential allocation of credit, strict regulation of direct foreign investment.

Korean statism represents the unusual ability of the state to discipline private corporate interests. The Korean planners do not wait passively [illegible] and public benefit.

If Korea and SA appear to have anything in common, it is the structure of their corporate sectors. The Korean counterparts of SA's conglomerates are the truly gigantic *chaebols*. But the similarity is superficial and there are two key differences between them: firstly, their relationship to the state; and secondly, their internal make-up, particularly the relationship between financial and manufacturing capital.

Early on in Korea's industrialisation drive, the state recognised the competitive potential inherent in large units of production, and it set about creating conditions that facilitated the growth of the *chaebols*.

This it achieved by utilising a battery of powerful instruments, though none was important than preferential allocations of credit from the state-owned banking sector.

However, despite underpinning the growth of the *chaebols*, the Korean state remained very much the senior partner in its close relationship with these privately owned giants, with state intervention princi- [illegible] planned industrial policy which identifies the areas of preferred investment. Secondly, the state relies on effective regulatory instruments.

Some of the instruments employed by the Korean state are unconventional to say the least. In the early '60s, many conglomerate owners were imprisoned for various abuses of economic power; others were paraded around carrying signs that read: "I have been a parasite on the people." They were restored to their positions in exchange for making investment decisions favoured by the state. Other instruments are more prosaic and cover the gamut of familiar incentives and regulations.

The second essential difference between *chaebols* and SA conglomerates is that the latter represent an amalgam of financial, manufacturing and mining interests, with the financial institutions — be they mining finance houses or life assurers — the dominant force. The *chaebols*, on the other hand, combine diverse manufacturing interests. The financing function belongs to banks strictly controlled by the state.

Until the early '80s, the Korean government held majority stakes in all the major banks controlling, directly or indirectly, more than two-[illegible]rds of the economy's investa- [illegible] extending to state appointment of senior management.

State control of the Korean financial sector was achieved in a combination of ways. In the '60s, privately owned banks were nationalised; other banks were created by the state. To force reliance on the state-controlled banking sector — and hence the effectiveness of the credit instrument — the state has ensured that other financing mechanisms, namely securities markets, have remained weak and incapable of meeting the *chaebols'* considerable requirements. Foreign capital inflows have also been strictly controlled.

Recently the *chaebols* have, partly because of their startling successes, partly because of the liberalisations, been demonstrating a degree of independence that disturbs the state. Steps have been taken to bring them back into line. Concerned that the giant institutions that led their export drive may be too diversified for effective management and too unwieldly to compete in increasingly segmented international markets, the state has formulated a new regulation designed to enforce greater specialisation.

This regulation obliges the 30 largest *chaebols* to select three core activities. Existing restrictions on access to credit will be lifted in respect of these activities. This privilege may be extended to another two activities within the *chaebol* if it sells off two of its non-core activities. The non-core activities will immediately have official credit lines curtailed. Credit allocation remains the carrot and stick.

The Korean lesson is clear and the ANC is quite correct. Late development, particularly where reconstruction is a major imperative, goes hand in hand with state intervention. A key objective of this intervention is the disciplining of exceedingly powerful private interests and their harnessing to broad development goals. The principal instrument for achieving this is state control of the financing mechanism.

☐ **Lewis lectures in economic his-**

SOWETAN RADIO METRO
TALKBACK

Mixed views over levy

Sowetan 15/10/91

49

By SONTI MASEKO

THE imposition of a one-off levy on a third of the assets of those people who have benefitted under apartheid was impractical and would lead to war and confusion.

These were the views of some callers to the Sowetan/Radio Metro Talkback Show yesterday while others said the levy would be a fair form of compensation for the poor and especially blacks who had been impoverished by apartheid.

Pat from Jabavu said the levy was not a matter of right or wrong.

"One has to look at people's living conditions, the legacy of apartheid, poverty, homeless people and land removals.

He said people who were opposed to nationalisation and other forms of wealth redistribution were failing to advance solutions on affirmative action.

Daniel from Edenpark said there was no country in the world without poor people.

He said the proposed levy was not only unfair but unprofessional and would never succeed.

The country needed to rid itself of the unrest and attract more investment which would improve the living standards of the poor, he said.

Thomas from Berea said South Africans should let "bygones be bygones".

"Whatever happened is something of the past. If we repossess we are going to end up with a worse South Africa" he said.

He was supported by Joey from Pimville.

Jabu of Springs said the poor had to get land first before any discussion of redressing past imbalances.

"The levy is not enough," he said.

Mandela denies plan to heavily tax the wealthy

Sowetan 15/10/91.

(49) SAPA

ANC president Nelson Mandela has denied weekend news reports saying the ANC was preparing a plan that would heavily tax wealthy South Africans.

Speaking to reporters at the ANC headquarters in Johannesburg yesterday, Mandela said: "It is certainly not the policy of the ANC. No such statement was made by the ANC."

The proposal, which would require people to pay a levy equivalent to one third of their assests to the Government for uplifting the impoverished, was merely discussed at a seminar of an ANC committee on affirmative action in Port Elizabeth.

"It was not even taken up," Mandela said.

He said it was tragic that the journalist who had written the weekend report had got his facts wrong despite having been present during the debate.

The whole matter was unfortunate, Mandela said.

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'Harebrained' scheme dismissed

(49)

Wealth tax an option, 'not ANC policy'

B/Day 15/10/91

BILLY PADDOCK

THE ANC moved yesterday to defuse the growing row and confusion over reports that it was considering imposing a one-off wealth tax to redress SA's economic imbalances.

ANC president Nelson Mandela denied his organisation was preparing a plan to impose a one-third tax on the assets of wealthy South Africans. "It is certainly not the policy of the ANC. No such statement was made by the ANC," he told Sapa.

He said the proposal was merely discussed at a seminar on affirmative action in Port Elizabeth. "It was not even taken up." Mandela said the whole matter was unfortunate.

ANC secretary-general Cyril Ramaphosa said he was not present at the conference but should the wealth tax form part of the ANC's economic policy unit's proposals, it would be discussed at the national executive committee meeting in December or January. Only if it was accepted by the NEC would it become policy.

Ramaphosa said that as a result of the news reports the proposal had gained a fair amount of support from ANC members.

ANC NEC member Saki Macozoma clarified the position further and said the conference had no status as an ANC meeting; it was jointly organised by the ANC's constitutional committee, the Community Law Centre at the University of the Western Cape and the US Lawyers Committee for Civil Rights under the Law.

Experts from such countries as Zambia, Tanzania, the US and Norway had attended the conference, which was investigating the issue of affirmative action, regarding women, business and land.

He said the so-called proposal had formed part of the report-back by the committee looking at redressing the disparity in land distribution. ANC constitutional committee member Heinz Klug, reading the report, had said wealth tax was one of the measures initiated by Conrad Adenauer in post-war Germany.

"It incenses us when this is then taken to mean we are going to implement this as part of our economic plan," Macozoma said. But he said it was totally legitimate for the ANC to discuss a variety of options available to deal with the disparities in SA.

Deputy Finance Minister Theo Alant in a statement said he noted that the workshop was not a policy-making conference.

"I do not wish, at this stage, to take issue with other political organisations about controversial proposals for redressing imbalances in the economy, but the government will take a firm stand on such matters once the negotiations for a new constitution and new political and economic dispensations begin in earnest."

ALAN FINE reports that tax expert Prof Denis Davis, who advised the Cosatu-led VAT Co-ordinating Committee in its dealings with Finance Minister Barend du Plessis, yesterday slammed the proposals for the wealth tax as "harebrained and utterly unimplementable".

Davis, director of Wits University's Centre for Applied Legal Studies, said such a confiscatory tax would give rise to huge shifts of wealth from corporations and in-

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Wealth tax

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dividuals to structures such as trusts as a means of tax avoidance.

The wealthiest section of the population would cope through avoidance or capital flight, and the burden of the tax would fall on the middle classes whose most important assets were their homes.

However, Davis said there were certain types of wealth taxes, not confiscatory in nature, which were simple to administer and could be implemented in SA.

These included a capital gains tax; estate duties at a rate higher than is the case in SA but similar to the situation in the US, UK and Europe; and a land tax on large commercial farmers.

Davis estimated that if these taxes were introduced at a reasonable level so as not to engender capital flight, they could bring in R2,5bn to R3bn a year.

Meanwhile, Sacob said the wealth tax idea was linked to previous ANC views on nationalisation and foreign loans. Sacob's annual convention would design a business response to the tax proposal tomorrow.

ANDREW GILL reports that contradictory statements by the ANC and Cosatu had created the impression there were parties intent on destabilising the economy for short-term political gain, the Steel and Engineering Industries Federation (Seifsa) said yesterday.

Seifsa president Robert Barbour said it appeared these organisations were adopting "a scorched-earth policy". Recent "utterances" on nationalisation, re-evaluation of foreign loans, destabilisation of industry and the assumption of political power were confusing local business while the international business community simply steered clear of the country.

● Comment: Page 14

Confusion destroys confidence

Parties 'intent on destabilising SA'

Sowetan 15/10/91 (49)

CONTRADICTORY statements by the African National Congress and Cosatu on the future of South Africa's economy had created the impression there were parties intent on destabilising the economy for short-term political gain by adopting a scorched-earth policy.

This is the view of the Steel and Engineering Industries Federation president Mr Robert Barbour.

Speaking at Seifsa's 48th annual general meeting in Johannesburg yesterday, Barbour said such circumstances made it impossible for local businessmen to plan for the future with confidence.

He said there was an urgent need for renewal in the country. Initial euphoria over the process of change since February 1990 had dissappeared into a melting pot of political posturing.

If the momentum of change was to be maintained, solutions would have to be found quickly to the problems of violence, unemployment and poverty.

Employers should "snap out of the old paradigms" and approach the future with the intention of contributing towards addressing these problems, he stressed.

However, the only way industry could help to finance expectations of wealth sharing was through economic growth and higher productivity within the free enterprise system, for which economic stability was needed.

"I therefore note with some alarm the contradictory statements emanating from Cosatu and the ANC.

"Until recently they had expressed support for rebuilding the economy and creating wealth for all South Africans to share. Recent statements, however, issued threats of nationalisation, non-payment of foreign loans, destabilisation of industry and taking over political power."

He said local businessmen were finding these latest utterances confusing while the international business community simply steered clear of the country.

He stressed that problems of productivity would have to be addressed urgently if South African industries were to survive the increasing pressure of world competition.

Here, the quickest solution lay in a massive upgrading of skills through increased training.

Poor levels of education remained a major drawback and literacy training and basic skills training was needed for greater worker participation, productivity and economic growth.

He said employers should face up to the fact that workers wanted greater participation in decision making, and expected to reach higher job levels linked to a considerable improvement in their education and training.

"This important process of change requires a very significant shift in attitude among white managers," he stressed.

Barbour also said Seifsa would re-examine and redefine its role and mission next month and recommended that the format of the annual wage bargaining process in the industry should be changed.

He said mediation had been very successful and recommended that next year's negotiations should kick-off with an open forum meeting, after which negotiations would continue in a smaller group.

A strong independent facilitator should also be appointed to oversee the proceedings, he said. - *Sapa.*

ANC has no wealth tax plan — Mandela

49

Star 15\10\91.

ANC president Nelson Mandela has dismissed reports saying the ANC was preparing a plan that would heavily tax wealthy South Africans.

Speaking to reporters in Johannesburg yesterday, Mr Mandela said: "It is certainly not the policy of the ANC. No such statement was made by the ANC."

The proposal, which would require people to pay a levy equivalent to one-third of their assests to the government for the upliftment of the poor, was merely discussed at a seminar on affirmative action in Port Elizabeth.

"It was not even taken up," Mr Mandela said. He said it was tragic that the journalist who had written the weekend report had "got his facts wrong" despite having been present during the debate.

The press report, which has caused alarm among property owners and politicians, claimed the so-called "wealth tax" proposal was adopted at the weekend conference.

The report also said the meeting had proposed the deliberate creation of a "business crisis" to force companies to submit to demands for affirmative action. The levy would be payable over a period of 10 years and be imposed in addition to normal taxes.

A joke shared . . . Nelson Mandela and Dr Emilio Castro after their meeting. Picture: Herbert Mabuza

If adopted, people with capital assets of R500 000 would pay R16 700 a year and those with assets of R100 000 would pay R3 300 a year, the report said.

On Sunday, a top ANC official who took part in the workshop but asked not to be named, told Sapa the proposal was neither ANC policy nor a concrete position of the conference.

ANC economic policy head Max Sisulu told The Star yesterday that the levy was not official policy, but said he saw "nothing alarming" in the proposal. He said the proposal was merely one of many suggestions which had emerged as the ANC was looking for solutions to addressing the imbalance of wealth in SA.

Mr Mandela and other ANC leaders have come under sharp criticism from the country's business community recently for issuing controversial and apparently conflicting statements on SA's future economy.

On Saturday, Mr Mandela said that although the ANC had no ideological attachment to nationalisation, it was the only effective way of ensuring an equal distribution of wealth.

● Mr Mandela yesterday urged religious and business leaders to facilitate a multi-party conference before the year-end — similar to the role they had played in the peace inititative.

Mr Mandela was speaking in Johannesburg after holding talks with World Council of Churches general-secretary Dr Emilio Castro yesterday afternoon. — Sapa.

OPINION

Nelson Mandela is open to suggestions on how to address the black-white poverty gap

Business must meet challenge

Star 16/10/91. (49)

Allister Sparks

I came away from a wide-ranging, three-hour conversation with Nelson Mandela the other day convinced of his open-mindedness on nationalisation.

He had read my column last week spelling out what an economic disaster it would be to nationalise the gold mines, and he invited me to discuss the issue in greater depth with him.

What emerged was a clear impression of a leader who does not have the political fixation many commentators are attributing to him, but who faces a compelling problem he is going to have to tackle and is appealing in vain for help in working out how.

South Africa has one of the widest gaps between rich and poor in the world. Its economy has been structurally distorted over many years to provide a First World living standard for the white minority, while the black majority, by a deadly combination of exploitation and exclusion, has been locked into a Third World of separate underdevelopment.

How to redress that inequality now that the apartheid era is ending? What should be done to bring about the structural readjustment necessary to ensure that the new South Africa has a more equitable economy?

That is the number one item on any black leader's agenda. He knows the status quo is untenable in black politics, and that if he gets into power and fails to change it he will be a dead duck — quickly replaced by someone more radical who will promise to do so.

Mr Mandela is saying the free market alone cannot change a situation where the white 20 percent of the population owns 87 percent of the land and more than 90 percent of all business enterprises; where more than 80 percent of the shares on the Johannesburg Stock Exchange are controlled by four giant companies, and 20 percent of directorships are held by just 64 white men. He is saying there must be State intervention.

He is also saying that, in the absence of alternative suggestions, the form of State intervention the ANC has in mind is nationalisation. But it is not stuck on this. If there are other ways, he is ready to listen.

I wrote that nationalising the gold mines would be an economic disaster, so he telephoned to ask what other suggestions I had. He has done the same to business leaders, over and over again, but says he has had no response. Business is stuck on the free market. Fullstop.

"We have no ideological attachment to nationalisation," Mr Mandela told me. "If business can show us an alternative option, then we will abandon nationalisation."

I do not believe he is using nationalisation as a threat. He readily admits the ANC may be wrong about it. "We are learning, we are getting acquainted with the weaknesses of nationalisation. What we are really stressing is State intervention, and we may have wrongly emphasised the aspect of nationalisation."

But he believes it is up to business to recognise the reality of his problem, the manifest injustice of the present situation that he cannot possibly be expected to live with, and to come forward with ideas that will help him resolve it.

"Without the co-operation of business we can forget about succeeding in any measures we take," he said.

But business leaders are not coming forward, except to reiterate their old standpoints, which in turn drives the ANC back into its old positions.

It would be helpful if leading businessmen were to respond to Mr Mandela's invitation. They will find, as I did, that he is receptive.

It became clear in the course of our conversation that he has been influenced by a belief that nationalisation played a crucial role in the "miracle" post-war reconstruction of West Germany and Japan, and the spectacular take-off of South Korea's economy.

He is right to the extent that there was major state intervention in all three, but it was not classical nationalisation of the kind the ANC has in mind. While the West German constitution contains a provision allowing for nationalisation, it has never been used.

What Germany did introduce after the war was a system of *Lastenausgleich*, or burden-sharing. For 30 years individuals and institutions whose assets had not been damaged by the war paid a levy, based on an assessment of the value of those assets, which was used to compensate those whose property had been damaged, who had been driven from their land or disadvantaged in other ways.

Compensation was also paid to those who suffered injustices under the Nazi regime.

Interestingly, a similar levy is being imposed on West Germans once again to help finance the upliftment of East Germany now that the country is reunited.

German law also enforces a system of "co-determination", under which companies have to include a specified number of workers' representatives on their boards — up to 50 percent in the case of large enterprises — who have a say in all issues affecting personnel and working conditions, but not in the company's business operations.

But it is Japan and the other Pacific Rim countries that provide the most striking examples of state intervention within a market economy. Again the key to it is not nationalisation but the ability of the state to discipline powerful private interests, and to direct the banking system to channel credit into specific sectors in accordance with a national strategy of socio-economic development.

Much of this is done on a basis of national consensus, a commodity sadly lacking in our country and without which no economic system is going to work.

We need national consensus on two priorities — the urgent need to promote rapid economic growth, and the urgent need to promote structural readjustment and the redistribution of wealth. Achieving one alone will mean failure.

Combining the two will not be easy, but we desperately need white business leaders and black political leaders to set aside their fixed ideas and get together to work out how best to try.

There is an open door waiting for them. □

Capitalism is alive and well — in the townships

BDay 17/10/91

(49)

IAN HETHERINGTON

AT THIS time of rapid transition, SA is inundated with delegations of potential overseas investors, aid missions, researchers and consultants. To many of them, a natural question to ask is what is the size and nature of the black business sector. If they get a definite, quantified answer to their question, they can be quite certain that their informant does not know what he is talking about.

There are no hard statistics. We do not even know the true size of the economy. For years, the CSS ignored the informal sector. By definition, informal sector activities are unrecorded. So the best the statisticians can do is to mount sample surveys. But the millions who are not complying with one or more of the thousands of rules and regulations extant in the SA economy are hardly likely to give full answers to inquisitive bureaucrats.

The CSS has made three attempts so far. Each time it finds out a little bit more than the time before. It now thinks the informal sector amounts to about 8% of the economy. Some of us, closer to the ground, say "keep on looking". We think it is closer to 25%. There are more than 4-million adults without recorded jobs. But despite an extremely meagre unemployment and welfare system, they are not dead. So somehow they are getting an income.

The informal sector is not confined to black people, of course. A surprising amount of unrecorded activity goes on behind the walls of Houghton — and not only in the servants' quarters. Even more goes on in townships, squatter camps and rural areas. Most of it is, in one way or another, illegal — according to the laws of man. But not immoral, according to the laws of God.

It is sometimes asserted and reported that no more than 2% of the economy is owned by blacks and that there is only one black-owned company, Yabeng, quoted on the JSE. But a large stake in Yabeng, an investment trust, is owned by the Bophuthatswana government. And the largest stakes in JSE blue chip companies are owned by life assurance companies, pension funds and unit trusts, all of which have large and rapidly growing black stakeholder groups — certainly far above the 2% figure bandied around.

In contrast, the commonly reported figure that blacks own only 13% of the land is an error in the opposite direction. The land in question, the homelands, is owned almost entirely by homeland governments and the SA Development Trust — not by blacks, as individuals. It would be nearer the truth to reverse the figures — to assert that 13% of the economy is owned by blacks and 2% of the land. But this, too, would be a guess.

There is a handful of non-quoted public companies owned by blacks, such as the African Bank and Black Chain, both initiated by Nafcoc. The oldest surviving black company, Rantol, was formed by S J J Lesolang and his family in the mid-'40s. No new ones could be formed during the hard apartheid years. But as the apartheid laws have crumbled, black-owned companies have re-emerged. Apart from those that are privately owned, there are now several sponsored by homeland development corporations.

A more popular form of incorporation is, however, the close corporation, which gives most of the benefits of a company, without all the red tape. There are, by now, a few thousand black-owned close corporations but there is no list of them all.

By far the majority of black-owned businesses takes the form of sole proprietorships or informal partnerships. There are about 700 000 of them — some say as many as a million. They span the whole spectrum of business activity. Their combined throughput is as big as the country's largest chain store group.

There are more than 100 000 traditional healers and herbalists and about the same number of taxi owners. The financial sector is represented by the informal — and illegal — moneylenders, the "mashonisa" who turn over hundreds of millions of rands each year.

More hundreds of millions circulate in the social savings clubs — the "stokvels". There are tens of thousands of backyard and other manufacturers and repairers, and tens of thousands more "shebeeners", entertainers, farmers, hairdressers, bookkeepers and lawyers. Just about every sector of the recorded, corporate dominated economy has its more humble counterpart in the unrecorded economy.

The recorded economy is constipated by the combined effects of statism and crony capitalism. But free enterprise is alive and well in the unrecorded economy — in the hustle, bustle and confusion of the market place. To claim to measure it accurately is to claim to count the stars in the firmament.

☐ Hetherington is MD of Job Creation SA. This article appears in the latest edition of SA Foundation Review.

SA cannot emulate South Korea's economic miracle

B/Day 17/10/91 MICHAEL SPICER (49)

THE problem with economic models is that they are seldom presented in their totality with an even-handed attempt to understand context as well as substance. David Lewis ("State intervention is the key to Korea's economic miracle", Business Day, October 14), having aptly observed that South Korea is not "fertile ground for propagandists of any hue" proceeds to special pleading and a highly selective marshalling of evidence.

It is pleasing to see him recognise that South Korea "is a brazenly capitalist society, where initiative lies largely with enterprises whose primary motive is profit". But the reasons for South Korea's economic success are not nearly as clear-cut as he would have us believe, and it is quite wrong to say that those he selects are applicable to "all late-developing nations including Japan and Germany" as he alleges.

Indeed, in a Freudian slip, Lewis refers to the relationship between state and private corporations in South Korea as "unusual", while, as the 1991 World Bank Development Report dryly notes, "analysts differ as to the causes" of South Korea's spectacular development.

Few serious analysts, however, would question that the South Korean state has been heavily interventionist and that such interventionism has played an important role in South Korea's impressive record of economic growth. Pretending that the alternative to his viewpoint is represented by "those who associate capitalist development with the unfettered triumph of the free market" is therefore setting up a straw man.

But the debate on just how important such interventionism has been, and whether the Korean experience is replicable elsewhere, still rages. Lewis pays scant attention to the consensus view to be found, for example, in recent World Bank Development Reports, let alone to the more free market-orientated writings of George Gilder and others.

The replicability of the South Korean "model" in the SA context needs to be questioned for a number of reasons. Firstly, we cannot just deprecate, as Lewis does, the authoritarianism of the Korean state, labour repression and the low wages paid to workers. These were absolutely integral elements of the Korean "developmental state" for the first 25 years after General Park seized power in 1961.

Further integral elements were the heavy investment in appropriate education to produce those highly skilled workers in the private and public sectors essential to running competitive export industries and the sophisticated relationship between government and business that underpinned the charge for economic growth.

A necessary corollary was that improvement in living standards was consciously deferred by the technocrats: equity, social development and political development (democratisation) were all sacrificed to the absolute priority of economic growth. This also implied a deliberate eschewing of populist economics — redistributionist policies and heavy welfare spending by the state.

However desirable they might be in the abstract, such absolute sacrifices are no longer practically possible in SA's economic and political circumstances. We already have a highly unionised (and by international standards, highly paid) labour force. We therefore no longer have the possibility of embarking on industrialisation based on low labour costs.

The country is also irreversibly on the path of democratisation, and the challenge of developing a competitive export-orientated manufacturing sector is therefore that much more difficult, and not amenable to simplistic quick fixes.

In sum, General Park's authoritarian formula simply is not available. As a democratic unionist committed to high wages, Lewis should have the honesty explicitly to recognise this fact.

Moreover, the world of the '90s is a very different place from that in which South Korea's success began. The '60s were a period of rapid global economic growth; export promotion by means of subsidies was therefore unlikely to invite retaliatory trade protectionism, especially since South Korea enjoyed the paternalistic indulgence of a US anxious to see it succeed economically in the Cold War environment.

In today's borderless world of international capital and skills mobility, investors (domestic and foreign) must have confidence to invest. They cannot be forced to invest: if governments try to force them, investors will go elsewhere. Confidence proceeds partly from consistency and stability in policy. In this regard it is worrying that Lewis's argument is at odds with many current Cosatu/ANC policy pronouncements — inconsistent and mutually contradictory as they are too.

What lessons can we then learn from the experience of South Korea and other East Asian success stories? According to the 1991 World Development Report three propositions "now command quite wide support".

The first of these is that intervention in these countries was disciplined by international and domestic competition. This was crucial: government intervention was forced to be competent, pragmatic and flexible or products would fail on international markets. Thus, instead of resisting market forces, governments tried to anticipate them and when they anticipated incorrectly they were quick to undo the damage (for example, the disastrous attempt to encourage Korean heavy and chemical industry development in the '70s).

The second lesson is that governments in these countries were generally careful to ensure that policies did not unduly distort prices. They were careful, therefore, to ensure that domestic protectionism did not act as a bias against exports.

Thirdly, intervention in these East Asian countries was generally more modest than in most developing countries. "In that respect," the World Development Report concludes "these economies refute the case for thoroughgoing dirigism as convincingly as they refute the case for *laissez-faire*".

On none of these three counts does Lewis instil confidence. Indeed, his article is infused with a worrying authoritarian streak (which perhaps ultimately is the real attraction of the South Korean model). He seems to imply that people, particularly businessmen, and markets cannot be trusted to act rationally, but have to be told what to do by those that know best (that is, politicians and trade unionists).

Talk of hanging placards around businessmen's necks may give some a cheap thrill but it is not the stuff of serious debate on how to get the economy going, or the mark of organisations willing to accept joint responsibility for constructive change.

All of this simply underlines the imperative need for government, the extra-parliamentary movements, labour and business to get down to some serious debate about the economy and, in so doing, not to forget the poor who will not have institutional representation at the table.

Business is more than willing to contribute constructively to this debate.

□ **Spicer is Anglo American public affairs consultant and adviser to the chairman.**

ANC wrong on war 'wealth tax'

BDay 17/10/91

DARIUS SANAI

THE controversial "wealth tax" suggested by an ANC member bears little resemblance to measures used to rebuild the economy in post-war Germany despite assertions to the contrary by leading ANC officials.

The wealth levy in Germany consisted of a levy of 0,2% of property value, paid over 20 years by owners of property not damaged during the Second World War.

The SA proposal, raised by an ANC member at an affirmative action workshop sponsored partly by the organisation, is for a levy equal to one third of an individual's assets to be paid over a period of 10 years.

Dismissed

ANC president Nelson Mandela has subsequently said the wealth tax was not official ANC policy.

ANC constitutional committee spokesman Dullah Omar claimed at the weekend that such a measure had been used "highly successfully" in West Germany after the end of the Second World War.

The German levy came in the context of a wave of reform and rebuilding, and has been dismissed by most historians as incidental to the rebuilding process in post-war West Germany.

The Marshall Plan, involving massive US assistance to Western Europe; free market reforms initiated by political leaders Ludwig Erhard and Konrad Adenauer; the German industrial base; and the global economic boom, enhanced by the Korean War, are the commonly cited reasons behind the West German "economic miracle" of the '50s.

Golo Mann's The History of Germany since 1789, widely considered to be one of the most authoritative commentaries on German history, does not even mention the levy in its four chapters on the country in the post-war period.

University of Stellenbosch economics professor Sampie Terreblanche said yesterday the ANC's plan appeared to be a misinterpretation of a plan put forward by a visiting US professor earlier this year.

He said Wesleyan University economics professor Basil Moore said during his visit that all South Africans with net assets of over R500 000 should pay one-third of the excess to government in a one-off payment.

But, under Moore's plan, the payee would receive exactly the same amount back from a loan granted to SA by a "world financial body", to be paid off over 20 years.

The effect would be the instant raising of a large sum, with the effect being cushioned for the taxpayers over a period of years.

This was different to what had happened in Germany, Terreblanche said.

NEWS IN BRIEF

BDay 17/10/91

Bail court at prison

GOVERNMENT has approved the institution of a so-called bail court at Pretoria Prison, Deputy Justice Minister Danie Schutte said yesterday.

He said the court was to be instituted as a pilot project.

"The objective of the institution of such a court is to simplify the application for, and payment of bail and to promote the accessibility of the court of law."

BDay 17/10/91

Political inmate dies

BOPHUTHATSWANA political prisoner Rabusang "Black Mamba" Monnane, 37, of Leeuwfontein died at the homeland's Rooigrond Prison on Tuesday, the homeland's Commissioner of Prisons Brig S S Thooe said yesterday.

He said Monnane was admitted to the sickbay on October 3 with "high blood pressure".

No gun restriction

THE proposed amendment to the Arms and Ammunition Act was definitely not intended to restrict firearm ownership to only one firearm per person, Law and Order Ministry spokesman Capt Craig Kotze said yesterday.

"All the proposed amendment does is that it recognises the needs of the collector. It does not negate any other provisions. It is as simple as that. We are not disarming people," he said.

REPORTS Business Day Reporter, Sapa

Move to include labour

Social accord will help SA, says Barend

BDay 17/10/91

JIM JONES

BANGKOK — Finance Minister Barend du Plessis yesterday suggested that a form of social accord between government, business and labour would facilitate SA's move towards economic and political democracy.

Addressing delegates to the World Bank and IMF annual meeting, Du Plessis said a type of social accord had been invaluable in many developing countries.

Du Plessis did not elaborate, but his statement appeared to represent a shift in his views on organised labour. He recently stated that any shared economic decision-making should occur through a forum established by an all-party conference — a party political forum.

And last week his special adviser, Japie Jacobs, told a conference that unions had overplayed their hand by demanding a say in economic policy-making — it happened nowhere else in the world.

Commenting in Johannesburg on Du Plessis' reference to a social accord, a senior unionist said Cosatu was open to the idea.

Du Plessis said economic restructuring often produced more immediate pain than gain, and as a result the objectives of reform were often difficult to achieve.

Du Plessis did not refer directly to SA, but said that unless timeous external support brought the early achievement of at least some of the goals of restructuring, the whole process might be thwarted or even aborted. "Both economic and political democratisation could therefore be seriously jeopardised if premature disillusion with the results of the adjustment process is experienced and translated into political rejection."

Taking into account the complexity of economic restructuring programmes, developing countries needed the wide-ranging support of the international community, and in particular of institutions like the IMF and World Bank, in the design and implementation of such programmes.

The tone of Du Plessis' speech was in line with the general tenor of the meeting. However, he made the point that there were no hard and fast rules for successful restructuring.

Indirectly referring to SA's experience, Du Plessis said the solution did not lie in mere emulation of successful strategies in other countries. Nor did success necessarily lie in association with one or other regional grouping.

"On the contrary," he said, "the road to success is normally individually styled, requiring hard work and dedication and touching the very fabric of the society involved. Indeed it is consistently found that 'prosperity begins at home', and more often than not, strong leadership is needed to cope with the drastic and unpopular choices that need to be made."

Du Plessis' prescriptions for economic success carried no surprises. He addressed the conservative issue of fiscal and monetary rectitude, the promotion of an environment which encouraged savings and investment and his view that sustainable growth was possible only in conditions of macroeconomic financial stability.

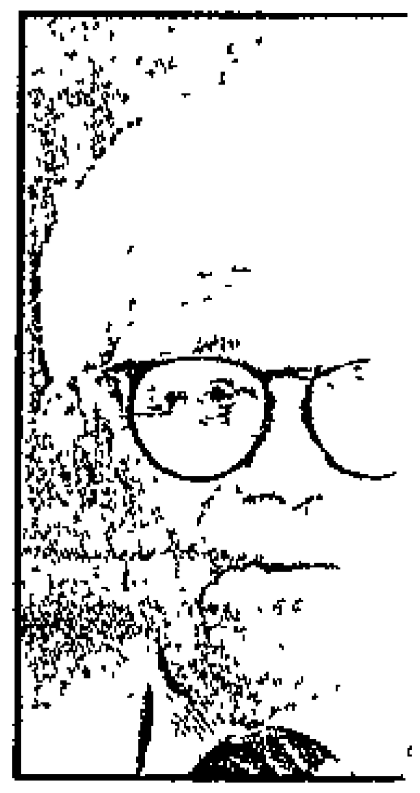
● Comment: Page 8
● See Page 9

It's the big "N-word". Ever since its unbanning, the ANC has been pressed at every turn to clarify its position on nationalisation — and still there's no certainty. JACQUELINE MYBURGH and SHAUN JOHNSON exhume the ANC's public pronouncements on the subject.

Mbeki . . . we do not have a nationalisation policy.

Lekota . . . State must have access to wealth.

Slovo . . . a matter to be negotiated by all parties.



Sisulu . . . ANC wa
mixed economy

49

The ANC and the ‘N

Star 17/10/91

HENDRIK Verwoerd liked the idea, Albert Hertzog particularly wanted to do it to the mines Nelson Mandela had no say in the matter at the time

Now whites — and not a few wealthy blacks — are terrified of it, and no one quite knows if it's going to happen, when it might happen, and in what way.

The nationalisation question simply will not go away: it will dog the multiparty conference, foreshadow constitutional negotiations, and possibly dominate an election campaign.

Recent statements by top ANC leaders to the effect that at least the mines and financial institutions would be nationalised by an ANC government have caused a fresh furore there is a strong perception that the ANC has suddenly adopted a hard line again, having been much more conciliatory in recent months

Is this true? Or has the anti-nationalisation lobby just been engaged in wishful thinking? It is worth tracing the recent history of the ubiquitous topic in the words of the ANC itself — the reader can decide whether Nelson Mandela's organisation has been consistent or confused, principled or expedient.

JANUARY 1990

On January 15, before his release and the unbanning of the ANC, Nelson Mandela says the nationalisation of mines, banks and monopoly industries remains the policy of the ANC A change or modification of this view is "inconceivable", he says. He adds: "In our situation, State control of a certain sector of the economy is unavoidable."

A few days later UDF official Patrick "Terror" Lekota says: "We do not see how a government could provide urgently needed facilities like housing and proper education if it is not to gain access to at least some of the wealth of the country."

Visiting Norway, Walter Sisulu says "The ANC believes in a mixed economy, so there could be aspects — depending on the situation — of nationalisation, and there may not."

FEBRUARY 1990

On February 2, the ANC confirms in Stockholm that it is committed to nationalisation, but says an ANC government would seek negotiation with big business. Secretary-general Alfred Nzo says the nationalisation of key elements is necessary to get the resources for a democratic government to carry out its programmes.

On February 7, an ANC official says a decision on whether to nationalise big firms would depend on the strength of the economy once the apartheid system has been dismantled. The ANC realises nationalisation is not a panacea for all the problems of the economy, but insists it is the only way to redistribute wealth, heavily concentrated in the hands of a few whites

On February 13, Mr Mandela fully endorses the nationalising of mines and "similar sectors of the community"

On the same day, ANC NEC member and SCP general-secretary Joe Slovo says the question of nationalisation is something to be negotiated and discussed by all parties. He says although economic imbalances will have to be redressed, he does not believe nationalisation necessarily changes anything.

On February 15, Mr Mandela dismisses business fears about the ANC's economic policy "The question of nationalisation is being looked at from the white point of view alone That is why they are turning these somersaults The whites are now changing their tune, saying let's privatise, because they want to keep the wealth to themselves."

On February 18, Mr Mandela says "I don't accept this agitation (about nationalisation) at all. Talk about the flight of capital out of the country and about the plummeting shares on the stock market is one illustration of how unsympathetic big corporations are to black aspirations Nationalisation is a demand which is reasonable from our point of view Where do we get the capital and the resources to tackle the national issues that are facing us?"

On the same day, ANC international affairs head Thabo Mbeki says the ANC's aim is to improve the quality of life, and nationalisation is only one possible means to that end It would be wrong to avoid considering an element of nationalisation as part of a possible economic solution, he says

After a meeting with the then chairman of the Anglo American Corporation, Gavin Relly, Mr Mandela says the ANC's policy of nationalisation is "perfectly logical" However, he says this does not mean there would be wholesale nationalisation under an ANC government, and he stresses that a certain part of the country's industries will remain "very much intact".

MARCH 1990

After a meeting with Nafcoc, the ANC announces it has asked the organisation to do a thorough investigation into nationalisation. It is believed that while nationalisation "will not solve all our problems, it might solve some of them".

Mandela and the press . . . no ideological attachment to nationalisation, but business should offer a viable alternat

On March 2, Mr Slovo says nationalisation is not the fundamental policy of the ANC; the movement had made clear its acceptance of a mixed economy. Some industries probably would be nationalised The word nationalisation is a "red herring", he says, conjuring up images of sudden 100 percent takeovers by the State, without the involvement of other sectors of capital. The question of control is more important than that of ownership, he says

The ANC does not have a nationalisation policy, says Thabo Mbeki in Lusaka. All the organisation has are "guidelines" based on the 35-year-old Freedom Charter. The relevant paragraphs in the charter read: "The mineral wealth beneath the soil, the banks and the monopoly industries shall be transferred to the ownership of the people as a whole.

Mr Mbeki adds "The reality is that 99 percent of South Africans have nothing that could be nationalised."

On March 11, Walter Sisulu says the organisation's central objective is to promote economic growth "When we talk of nationalisation, we are laying down a policy which should be a guide, and we are not specifying the mechanics of it," he says

Mr Sisulu says a mixed economy, which includes private enterprise, would have to remain for some time at least before a new economic structure is in place.

A mixed economy would come about through curbs on monopoly power by dismemberment of key conglomerates, greater diffusion of power in industry and the renationalisation of privatised concerns

APRIL 1990

On April 26, Mr Mandela says the ANC would nationalise only certain business sectors if this would strengthen the economy. Only mines, banks and monopoly industries would be nationalised after thorough research by experts However, if their findings did not encourage nationalisation, then the ANC would listen carefully to their advice. The approach of the ANC is "let's do this together" The ANC intends to share South Africa's wealth with whites, he says

ANC representative Mike Roussos says an ANC government would weigh up the benefits of nationalisation against the problems it might entail "Alternatives that may be able to achieve the same effect, but result in fewer problems, would have to be considered."

On May 23, Mr Mandela says the ANC is not rethinking its policy on nationalisation He adds "The view that the only words in the economic vocabulary that the ANC knows are nationalisation and redistribution of wealth is mistaken."

The ANC believes "there must be further discussion of the issue of nationalisation of assets that might at the moment be privately owned"

JUNE 1990

On June 5, an ANC/Cosatu document recommends that the State should retain existing nationalised industries and would be prepared as a matter of fundamental policy to renationalise privatised State assets.

On June 27, ANC economist Tito Mboweni says the State's role in the economy would have to be maintained in the future. However, he warns that a future "democratic government" would need to change the current relations within the State sector and "direct it towards the people as a whole".

AUGUST 1990

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Sisulu . . . ANC wants mixed economy.

Mbowenl . . . nationalisation essential to ANC agenda.

Nzo . . . Govt must be able to carry out its programmes.

C and the 'N-word'

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SEPTEMBER 1990
On September 11, Patrick Lekota says "If South Africa is to know lasting peace, the wealth of the country will have to be redistributed." However, this does not mean full-scale nationalisation as the ANC has never adopted pure socialism or communism as its economic policy

On September 21, Thabo Mbeki says "It is natural that the economic policy of the ANC should focus on the impoverishment of the black majority and the grossly unequal distribution of wealth and nationalisation of the economy.

"Let me hasten to add that the suggestion that what we wish to address these problems by seizing and redistributing existing wealth, so that everybody is equally poor, is an insulting caricature of concerns that should be uppermost in the mind of any person who has the levels of poverty we are talking about."

On September 25, it is reported that a secret ANC economic policy document contains a marked shift away from the ideology of a central statist approach, emphasising the importance of creating growth through investment

The recognition that growth should be encouraged through investment and not just through redistribution represents "a new direction in our thinking", Mr Mboweni says, adding that the State would retain an important role in influencing private-sector investment

OCTOBER 1990
On October 1, Mr Mbeki says the ANC is leaving its options open on nationalisation He says "We can't say please invest but we are going to nationalise you tomorrow" Mr Mbeki says an open economy means links to world economies

"I don't think nationalisation is particularly high on our agenda," he says

On October 4, Mr Mboweni says the "old bogey" linking the ANC to rampant nationalisation is dead and buried Lessons learnt by the Botswana government have strongly influenced the ANC policy, he adds

On the same day, the ANC's draft economic policy is made public It is based on a mixed economy, but contains elements such as nationalisation, redistribution of wealth and land, dissolving of monopolies, and major "affirmative action" to overcome inequalities

Not only should all privatised public utilities be immediately renationalised, but so should private enterprises if an ANC government considers this "strategically" necessary The mining industry comes in for special State-intervention measures and a strong warning of possible nationalisation

FEBRUARY 1991
An ANC discussion paper concedes that nationalisation might not be a workable solution Using the mining industry as an example, the ANC says nationalisation could bring about better wages and working conditions, and mining profits could be used to provide for the poor; but on the other hand the ANC could not afford the R70 billion required for nationalisation

Insecurity of foreign investors and a flight of skills arelisted as two of the disadvantages of nationalisation

The system can also only benefit those who run and are employed in the industry. Among the benefits are that all people would have access to basic services, better working conditions, useful investment of profits, democratisation, and decentralisation of the economy

JULY 1991
A new ANC draft economic manifesto prepared for the organisation's national conference says anti-trust and anti-monopoly legislation would be considered as ways of promoting greater private-sector efficiency Strategic enterprises could be incorporated into the public sector on a case-by-case basis

"This may take place through nationalisation, purchasing through the market, or the establishment of State enterprises In all such cases, a future democratic government will bear in mind the need to maintain confidence and bind itself to proceeding according to constitutional proposals"

SEPTEMBER 1991
On September 28, Mr Mandela says the ANC still plans to nationalise mines and certain financial institutions because the majority of the population does not have access to South Africa's resources

A few days later, a spokesman says the ANC's policy on nationalisation has not yet been finalised

OCTOBER 1991
On October 3, Mr Mboweni says it is not possible to wipe nationalisation off the ANC's agenda, because it fits in with the party's thinking

"The nationalisation issue now becomes one of trying to show which parts of the economy can and cannot be nationalised," he says. He calls on the Government to appoint a commission of inquiry into nationalisation to determine which institutions should be nationalised and how it could be done

On the same day ANC head of information Dr Pallo Jordan says nationalisation of the mines is not certain because they are "a wasting asset".

On October 12, Mr Mandela challenges the business community to come up with a viable alternative to nationalisation "Our message is that we have identified State intervention and participation as one of the ways of addressing the glaring economic imbalances which everyone is aware of.

"We have no ideological attachment to nationalisation We have resorted to this option as the only effective way of ensuring that there is equal distribution of wealth."

He says the ANC are not economic experts and believe there should be a broad coalition of business people to study specific industries and secure the best way of involving the State in reorganising or taking over these industries. □

RAMAPHOSA FOR *FM* CONFERENCE

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FM 18/10/91

With continued talk of nationalisation, and a new working-group proposal that would force the rich to pay one-third of their assets to the State, the ANC, for better or worse, has once again put economics on the front burner.

Foreign investors are supposed to be happy that they would get fair compensation if nationalisation is imposed. And the idea of a so-called wealth tax has met with complete outrage and scorn in the business community.

The ANC, however, continues to challenge business leaders to come up with better ideas. They will get that opportunity when ANC secretary-general Cyril Ramaphosa speaks on "Wealth Distribution in a New SA" at the *FM* Investment Conference this month.

Ramaphosa, an attorney, was at the helm of the mighty National Union of Mineworkers from its inception in 1982 until his election to one of the top ANC spots earlier this year. He was widely admired by union members and respected by mine officials for his negotiating skills.

Since his election, he has spoken in favour of socialism, a mixed economy, sanctions and affirmative action, which should make his speech on redistribution of wealth timely and provocative.

□ The *FM* Investment Conference will be held at the Carlton Hotel, Johannesburg, on October 31 and November 1. The fee is R1 295 per delegate. If a company sends more than one delegate each pays R1 195. To book, phone Fiona Vigliotta at (011) 497-2134/5.

ANC ECONOMIC MUDDLE

49

Taxing the poor

FM 18\10\91

Spare a thought for the ANC and its troglodytic economics. Without threats of nationalisation and a wealth tax, how else could it scare the whites? Or must it threaten total dispossession to win an economic argument against them?

However painstakingly the facts of economic life are explained to ANC leaders, they come bouncing back parrot fashion with the same worn *non sequiturs*. They have a grasp of economic logic equalled only by that of the Cabinet.

So we're back to having to explain to Comrade Nelson, as we did long ago to Gauleiter Verwoerd, that there is no alternative to nationalisation if the object is to redistribute wealth. For nationalisation doesn't spread largesse. It takes it from the thrifty and gives it to government — which uses it to perpetuate the myth that its actions are always in the interests of the people.

Nobel Prize winner James Buchanan has shown up that argument for what it is: sheer fabrication. Government is a constituency of its own, acting inevitably in its own interests, not in that of the people. Ordinary blacks will get no bite of any nationalised cherry. The chaps in the Union Buildings get it all; you can bet your last rouble on that.

What will redistribute wealth is economic growth, encouraged by stable prices, political peace, no sanctions, a capital inflow, low taxes — and hard work. Growth at 5% for three years will see the lowest-paid worker something like three times better off than he is now. That is wealth redistribution.

Growth was the essence of the Industrial Revolution, which brought about massive redistribution of wealth. Before that, getting rich was a zero sum game. In medieval times you got rich by robbing your neighbour. Later, in socialist economies, where the State ran everything, everybody faced equal destitution. Only democratic capitalism has consistently created and distributed wealth. That's no egalitarian myth.

A wealth tax won't redistribute wealth. How does a man with a house pay 33%, or even a lesser amount of its value to government? He, like most other house-owners, after inflation has eroded his savings, has to be a forced seller in a falling market. And anyway, who is to say what the value of his house is?

By the time comrade commissar at the Exchequer has something to distribute, it's a fraction of what it was. And it will take R30bn to pay each black person R1 000 a year.

Meanwhile, there will be a massive loss of jobs, shops will empty of goods, housing will fall into ruin, disease and misery will predominate — and Comrade Nelson, like Comrade Nyerere of Tanzania, will say: "Sorry, we made a mistake. We've redistributed all we have." That is when the World Bank will take over. ■

FM BOARD OF ECONOMISTS

The political dimension

CONFIDENCE IS THE KEY AS 1992 APPROACHES

F M 18\10\91

(49)

As VAT is introduced and 1991 winds down, regular members Ronnie Bethlehem (JCI), Aubrey Dickman (now an honorary professor at Wits Graduate School of Business) and Brian Kantor (UCT) assess where we are and where we're going. As always, SA Chamber of Business's Raymond Parsons puts the questions.

Parsons: Has the prolonged economic downswing caused any structural damage to the economy or has it made it more efficient?

Dickman: This is a profound question, with a lot of aspects. Total investment has fallen but investment by the private sector has been relatively strong. It's the public sector where investment has been hardest hit. This is bad structurally in terms of catching up with backlogs; but public corporation spending has fallen and this may be good in terms of taking up excess capacity.

Kantor: The Eighties were characterised by much slower growth than the previous two decades. Fundamental to that were mammoth capital outflows. A smaller capital stock is the real counterpart to those. The composition of investment spending has changed for the better. I don't think this would have happened had we gone on in the comfortable way of the Seventies. Also, some of the deregulation which we have benefited from, and urbanisation, were policy responses to a more difficult environment.

Bethlehem: Damage from the long, drawn-out downswing focuses on three or four critical matters: the continued rise in structural unemployment; the resumed downtrend of gross domestic fixed investment, which was so sharp in the mid-Eighties that the fixed capital stock per capita started to decline; the continued rise in consumption — particularly government consumption expenditure; and the aggravated shift away from the private sector towards government in the share of GDP expenditure.

The board (L to R): *Kantor, Dickman, Parsons, Bethlehem; and* FM*'s Michael Coulson, Ethel Hazelhurst*

Parsons: Where are we now in the business cycle? Has the economy bottomed out?

Kantor: VAT has disturbed a lot of the numbers, so it is very difficult to make these judgments. But I think the economy is scraping along the bottom.

Dickman: The world economy is still not giving any impetus. Export growth levelled off in the first quarter. We also still have to judge the impact of VAT on capital spending. I may be a little more pessimistic; I think the economy in the third quarter was probably still contracting.

Bethlehem: When we look into the rear-view mirror, we see a slowing in the rate of descent. Whether we actually bottom out or continue to decline or recover will depend on some exogenous factors. What happens to the global economy is very important. But some of the data coming through now suggests that the last quarter of this year may see the economy at an even lower level.

Kantor: I think a lot of spending has been withheld because of VAT.

Dickman: Even if that's so, it will take a while for the economy to start moving again.

Bethlehem: I'm worried by the relative change in earnings in the public and private sectors. The latest *Quarterly Bulletin* shows that public-sector payrolls are 22,3% up annually whereas the private sector shows increases of 16,6%. We also know that that 16,6% is closer to 14% now, maybe even lower. If that were reversed, with the private sector pushing wages up by 22% when the public sector was 16,6%, we would have a whole circus of protest from the Minister down. Instead we've had absolutely deafening silence, and not only from government. It is a national disgrace.

Dickman: The private sector is in recession; it's the public sector that's kept the economy relatively buoyant. In spite of this the public-sector share of GDP is falling because of the levelling-off in investment.

Bethlehem: Maybe, but this is preventing the economy from adjusting.

Kantor: Those are gross figures. Unless you talk in per capita terms that 22% doesn't mean much. The strong public-sector wage claims are coming from people right at the bottom, where wages are relatively low. The public sector lagged in terms of minimum wages, now it is catching up very fast. The public sector is less able to respond like the private sector and generate more productivity out of this more expensive labour. Whether the system serves people in jobs in the formal sector as opposed to all those outside who would prefer formal sector employment is an issue only the new SA can address.

Parsons: What external factors, via the balance of payments, will influence the upturn? Will SA's economic recovery be synchronised with world economic recovery?

Bethlehem: Recovery in the global cycle is still disturbingly tentative, though on balance 1992 should be a better year. But we shouldn't look for any encouragement from the gold price. We seem to have shifted our dependence on gold sufficiently to be hopeful that SA will benefit from global recovery. Then we can look to 1992 as a year in which sanctions will probably be removed.

Dickman: Negative features for us are ingredients for hope for the rest of the world: low commodity prices and a relatively low oil price. World steel output shows how the delay in the investment side of the world economy, which tends to affect us, means it will be some time before we are pulled along. Metal-intensity is dwindling in the whole Western world. But our manufacturing export volumes have done remarkably well, despite soaring unit labour costs. This tells us that we can adapt and has all sorts of messages for our productivity, macropolicies, tax policies and the question of confidence.

There was a big reversal in the capital account in the second quarter. It may have been technical, but foreigners have been buying gilts and selling equities. This shows that foreigners think the risk-reward ratio is better in gilts than equities. If we want economic recovery, we don't have to be synchronised with the world economy but we do have to be compatible with it.

Kantor: A falling gold price and changes in our export mix have made us more synchronised. Our share of major markets for manufactured goods is so small that ability to sell competitively matters more than demand.

We saw recently what announcements of Soviet gold reserves do to the gold price. A major overhang of Soviet sales has affected gold and platinum. It may be less serious next year, so one may hope for a little relief.

And in what circumstances will we be able to attract foreign capital? If we want to raise economic growth rates towards 5% or 6% we must attract foreign capital, because the current account will move into deficit.

Bethlehem: Money goes where growth is. In our case, to attract money, we also have to start managing down the level of violence.

Parsons: Do recent announcements by the US and Soviet Union regarding disarmament hold any implications for the pattern of world demand for commodities?

Continued

Dickman: If this initiative really follows through, it should be reflected in greater growth in Europe, which should benefit us.

Bethlehem: Détente provides a peace dividend which should make it possible for the global economy to grow more by diverting expenditures away from defence. But part of that détente dividend is already mortgaged to aid for the Soviet Union.

Kantor: Disarmament has improved the confidence with which Westerners regard the future. The cost of capital and the risk premium have come down worldwide. That impacts on our capital markets and the terms on which we borrow.

' If we want economic recovery, we don't have to be synchronised with the world economy but we do have to be compatible with it '
- Dickman

Parsons: What internal factors will make for economic recovery? If government spending and an expected larger deficit are helping to generate recovery, what are the risks?

Bethlehem: You can't answer this properly without assessing what is happening to domestic politics. If you assume that a transitional government will be formed in 1992 we have very little time for policy as formulated at present to do the job of bringing down inflation and reconstructing net reserves. Progress on both of these is disappointing.

Kantor: As we really haven't had much of a downturn, to expect a strong recovery is unrealistic. If consumption spending had collapsed a year ago we would be looking at a recovery now, but it didn't. Government spending is to a degree independent of the business cycle, but government revenues depend upon the business cycle; so the deficit has widened, and I think that is probably just as well. It's an automatic relief.

Whether this portends a structural change is another issue. Ideally, we want to keep government small, and that will be a constant battle. The political situation is fragile but if things go well — or don't get worse — we could see a recovery of investment spending, especially now that VAT is out the way.

Dickman: If you look at the difference between equity yields here and on world markets there is room in our yields for foreigners to be attracted. I interpret foreign investors as saying, your risk-reward ratio is better but we are worried about your getting your policies right. JSE figures show no foreign demand for SA equities.

Kantor: You don't know what is happening on world markets. There is a willingness to hold SA equities at higher prices. There is a huge stock out there. Net foreign sales into the JSE or switches between equity and debt are only a small part of the flow.

Parsons: Would you drop exchange controls?

Bethlehem: The hard *realpolitik* is that you can't remove exchange control until net reserves are more comfortable, our relationship with the IMF is normalised and sanctions are removed.

Parsons: What are the implications of current fiscal policy, including the introduction of VAT, for more tax reform in the next Budget?

Dickman: They must be less favourable, quite apart from trying to assess the impact of any tax disobedience campaign.

Kantor: Protests at VAT will cease when it is seen that its impact on prices is irrelevant — it's a silent tax. The issue will disappear. But this experience shows that you can't change taxes easily in current political circumstances; in fact, it's a bit of a miracle that VAT went through. But future governments of all persuasions will be very grateful to (Finance Minister) Barend du Plessis for seeing it through.

More broadly, though, we'll get more of what we've seen already. Forget tax neutrality. Corporate tax rates will stay high nominally for the sake of public perceptions but all sorts of special deals will be cut to encourage employment creation, exports, and so on.

Bethlehem: Will we have a Budget in March, or will it be deferred because a transitional government is imminent? VAT was a huge initiative but the one thing that going it alone on VAT has accomplished is that there can be no further tax reform until a transitional government is in place.

Kantor: You can't postpone the Budget but you can have a Budget without tax reform. You don't need tax reform every year; in fact that would be an extremely bad idea.

Dickman: But Du Plessis might have to postpone further implementation of his five-year programme to cut personal tax rates.

Bethlehem: No question, he'll have to.

Kantor: There's one interesting point in this context of an interim government: the central bank stands independent and I don't think they'll get at (Governor) Chris Stals. He'll run his central bank as he believes a central bank should be run, independently. Stals won't get the economy going except on his own terms — which is lower inflation.

Parsons: Apart from the merits of VAT, how do you evaluate the manner in which it has been introduced?

Bethlehem: There's a perception which may not be correct, though it's one I share, that not enough was done to secure consultation and common ownership of this initiative. Except for this political aspect, I think Du Plessis handled it very well.

Kantor: I don't think the Department of Finance did particularly well. I almost got the impression that it wasn't even behind VAT. The job of publicising and selling VAT was given to the Receiver of Revenue, and for all their merits they are not the sort of people I would choose to sell anything. Du Plessis must take some of the blame for this.

Dickman: To introduce a tax like VAT would be very difficult even in the best of circumstances. When businessmen get around sanctions, that's perceived by critics from the Left as a bad thing; but if you want growth and a vibrant economy, so-called cunning businessmen are just what you need. Would extra-parliamentary groups have been happy to sit down and consult about VAT either, because that's also concerned with negotiating growth and a stronger economy? VAT is a better tax and will promote a stronger economy. People who say, 'Hurray! We've won a victory over government, we've got the rate down from 13% to 10%,' are actually hurting themselves.

Bethlehem: And VAT at 15% would have been better than 13%. SA has a low VAT compared to other countries. It would have been better not to compromise over VAT but to have sought the trade-off outside VAT.

Dickman: We consume too much, we invest too little. VAT will penalise that. Concessions will hurt the people in the long run.

Kantor: It's important to remember that not everybody out there wants the economy to do well. That shows up in attitudes to sanctions, to VAT and to capital inflows. If the economy grows it is to the credit of government, therefore they don't want the economy to grow. That's a hell of a position to take, but it's what we are up against.

' To attract foreign money, we have to start managing down the level of violence '
- Bethlehem

Parsons: How do you see the macro-economic effects of VAT, especially on prices?

Kantor: The only thing that controls prices is competition, and we can rely on it to work.

Bethlehem: The pre-VAT price increases we've heard about through VATwatch are a little worrying. In the longer run, VAT will be helpful to the management of inflation. But it really bugs me that SA is the one economy in the world that can, when in a recession and with declining volumes of business, compensate by increasing prices.

Dickman: Of course, you can never know what prices would have done in the absence of the introduction of VAT.

Kantor: We'll see much lower price increases at the retail level over the next quarter, thanks to VAT. Retailers anticipated VAT, as they always do events of this kind.

I don't take that story about SA being the only economy where business can put up prices without concern for market share. That may be true for some, but a whole range of prices is subject to normal competitive pressures, and is responding to weak demand.

Bethlehem: I would like to believe that once VAT is out of the way we will see further declines in the CPI.

Parsons: What chances do you see of a fall in interest rates, and when?

Bethlehem: Public-sector spending is straining monetary policy. SA has made progress in managing its economy when monetary and fiscal policy were mutually reinforcing. When they were in conflict — like now — there have been problems. Real interest rates in SA are low by international standards. What is happening now will delay any reduction in nominal interest rates.

Dickman: The government debt-GDP ratio is rising, average maturity is falling, a bit more credit is going through to the public sector. That's not coming through the money supply yet, true, because private demand is low, but those are signs of possible problems. Our relative interest rates have swung round in relation to the UK, where inflation has come down sharply. So I don't foresee any drop in nominal interest rates here.

Kantor: If the rand doesn't look like weakening our interest rates are so high that it's attractive to borrow offshore. The obvious answer is to let it strengthen. I believe the rand will stay firm, but it's out of the question to let it strengthen in absolute terms.

Stals has a difficult game to play. He must keep monetary policy tight against two pressures that encourage money supply growth.

' As we really haven't had much of a downturn, to expect a strong recovery is unrealistic '
- Kantor

Parsons: Is there much chance of reducing unemployment in the near future?

Bethlehem: It may be possible to do something about cyclical unemployment in the short run through policy, but the problem we face is a stagnant economy with an inexorably growing economically active population. The only way to deal with that is a growth and development strategy, and that means sitting around a table and working it out. It must be formulated in the context of a market economy; the State can't just shift resources around in some authoritarian way.

Dickman: Formulating a strategy comes back to the question of accord and I don't think there is any way you'll get an accord on macro issues. (The ANC's) Thabo Mbeki said as much the other day. They're just not ready for it, there's too much internal disagreement.

Kantor: There is a chance of increasing employment in the near future in the public

Continue →

sector, but not in the formal private sector. Wage pressures and the political baggage that the formal sector has to carry are all against more employment, so we will see labour saving in the formal private sector and labour-extensive uses in the informal. The dualism between those inside the formal sector and those outside will, sadly, persist.

That issue should be addressed, but it's one for a new SA. If you want more employment in the formal sector, you must take a different attitude towards wage claims; that needs a different political stance.

Bethlehem: Even a National Party government has to deliver on unemployment. If you don't have a means of bringing everybody together to decide how, and just have to accept what government is doing, you have to deliver more; and you will never be able to deliver enough. That is why the idea of a social accord remains important even in the pre-transitional government phase. Build houses, yes; but you can't even build houses until you have some sort of consensus.

Parsons: How important are political uncertainty and recent apparent hardening of anti-business sentiment, in some political circles, in influencing business decisions?

Dickman: I think that business will probably go on, but it is going to be harder. Businessmen have gone through worse, but it cannot possibly be good, especially if a renewed inflow of foreign capital is impaired.

Kantor: It's not helpful but it is part of a cycle and one would be naive to think that we won't have ups and downs. Ideally, one would like certainty about the ANC position on economic policy, but it's unrealistic to expect it because politically they don't want to.

The sooner we get to the position where the wider political movements accept responsibility, and take some credit for the performance of the economy, the better. One has been trying to expose the new political parties to a stronger sense of the trade-offs we are talking about now, but we may have reached the stage where it'll be helpful to go into an interim government sooner rather than later.

Bethlehem: I am concerned about Cosatu's role, because it seems to be adopting a stand-off position while the ANC is much more concerned about avoiding conflict and promoting the transition. My impression actually reduces to something quite personal: there seems to be a personal conflict between Jay Naidoo and Barend du Plessis.

Parsons: What would your perceptions be if you were a foreign investor?

Kantor: The view of financial markets is not unfavourable. The JSE and the financial rand remain strong.

Dickman: Foreign investors' first reaction must be that this seems to be a step back, the debate is not moving forward any more.

Kantor: Yes, the debate has in fact moved back.

Dickman: I heard (ANC secretary-general) Cyril Ramaphosa say on TV that there will have to be a completely new method of production and exchange in a post-apartheid SA. Can foreign investors — direct investors, not just portfolio managers — be subtle enough to interpret this as just pre-negotiation posturing and carry on?

Parsons: What would you estimate the year-on-year rate of inflation to be by the end of 1992, if you had to stick your neck out?

Kantor: 13%.

Dickman: 12%.

Bethlehem: 15%.

Parsons: And real GDP growth next year?

Dickman: On average 3%.

Kantor: 2%-2,5%.

Bethlehem: 1%-2%, without any special event, like a transitional government. ■

Business must get cracking, or disgrace Africa

B Day 18/10/91 49

TONY MANNING

LIKE Rip van Winkle, SA is now waking up after a long sleep. We are finding our way back into the world, which changed while we were away.

The birth of the "new world order" involves not just nations, but industries and companies too. A massive shake-out is under way and nothing will ever be the same again. Politics, society and economics have become inextricably interwoven, and all are now in the throes of a seminal transformation. Yesterday's winning strategies are almost instantly obsolete. There is no such thing as a sustainable competitive advantage.

Today, economics drives politics. It takes serious money to wage a war. The knowledge that drags a country up by its bootstraps is also costly. So the world's rich get richer and more powerful, while the poor multiply and cry for an equal say. Technology has made the world a global marketplace for ideas, for goods and services, and for labour. It's a jungle out there. Competitors are prepared to fight to the death for capital, market share and profits.

The closing decade of the 20th century will be marked as much by a new level of co-operation between nations as by the intensity of competition between companies. Both these changes threaten the economy of the new SA.

The first is problematic because while countries once struck deals with each other to gain political clout, they now do it for access to each other's markets or labour. And SA is neither a particularly exciting market nor a competitive source of labour.

The second — inter-firm competition — is a danger because SA has few companies that can claim to be world-class competitors. Years of isolation have channelled our energies inwards rather than outwards.

Factors which make a nation competitive — a stable socio-political environment, access to capital, low interest rates, low inflation, skilled labour, high productivity — are the very ones that currently cripple us. We have to get the economy moving to rectify all of them; yet we cannot fix the economy until these critical issues are attended to.

Unfortunately, some of the steps that will be necessary will be very painful. Businessmen and politicians will find them hard to live with, but both groups are in the same boat and it's sinking fast under the weight of social demands.

Three issues — the role of the conglomerates, affirmative action, and the question of jobs versus automation — demand special attention. They affect seriously our competitiveness.

There is no doubt that the conglomerates have suppressed competition in local industries. But as government protection is removed they will feel the heat. Foreign competition will force them to sharpen up and hold down prices.

SA needs its business giants. It is impossible to compete in a growing number of industries except on a global scale. (For example, it costs around $100m to bring a major consumer product to market, $250m to launch a new pharmaceutical product, and $1bn to launch a new motor car.) Also, these firms provide plenty of jobs and put a fortune back into society in a variety of ways.

The second issue, affirmative action, is central to the redistribution of opportunities and wealth. But for decades to come, its single greatest achievement will be to blunt our competitiveness. There is no way to turn a 55% illiterate workforce into a world-class skilled force. Nor can any firm afford the passengers who will have to be carried if strategies like mentoring are adopted.

And that brings us to the toughest issue of them all: whether to create jobs or to replace people with machines. Quite clearly, we need to employ as many people as possible at the highest possible wages. But in almost every industry today firms go "bodyshopping" — using communications technology to buy the best skills at the lowest prices.

Japan exports 30 factories a week in search of a labour advantage. Taiwan is being forced to follow. The average manufacturing worker there earns about $600 a month. But in Jakarta, the minimum factory wage is just $42 a month, including an allowance for food and transport. In Shanghai only one worker in 10 earns as much as $1 a day.

But even with access to cheap labour, automation is essential for competitiveness in many industries. New technologies enable manufacturers to turn out extremely short runs of high-quality customised products. So the unkind reality is that many SA firms will have to destroy jobs in the short-term if the economy as a whole is to grow.

SA is poised on a knife edge. Yet our competitiveness is being compromised by the power games of politicians and labour leaders. And there is a dangerous level of complacency among businessmen.

We are late into the race to become world-class. Other countries and companies are sprinting into the future while we are stuck in the starting blocks. If we don't get moving, we will disgrace all of Africa. For if we cannot do it, no one can.

☐ **Manning is an independent management consultant and author.**

LETTERS

Cosatu now seen as key player

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Economic think-tank 'on the cards'

B/Day 18/10/91

ALAN FINE

THE establishment of a forum for economic debate and negotiation between government, business, labour and political parties is now firmly on the agenda of each of these groups, several business and labour representatives disclosed yesterday.

It could become a reality by early next year, one source said.

This development follows Cosatu's proposal two weeks ago for an economic negotiating forum. The initiative has been taken up by a variety of individual businessmen and organisations.

A number of business leaders associated with employer federation Saccola have been involved in discussions with labour and government, including at least one senior Cabinet member. The issue is also under discussion within a number of major Saccola affiliates.

A separate, similar initiative is continuing under the direction of the Consultative Business Movement (CBM).

"It looks as if something may materialise," the CBM's Murray Hofmeyr said yesterday. He said an unresolved issue at this stage was whether such a forum would be largely advisory or whether it would be part of an interim governing authority.

Another business representative involved in delicate talks said "things are moving well. All sorts of initiatives are being pulled together in a specific focus. There is a good chance a tripartite forum can be put together. There appears to be a growing acceptance at Cabinet level that Cosatu is a key player."

An important issue for business was to sort out how it should be represented at such a forum, he said. Saccola's brief extended only to labour relations issues, and the CBM did not claim to be representative of business as a whole.

The task of representing business would probably have to be carried by the top leadership of groups such as Sacob, the AHI and the Chamber of Mines.

Several spokesmen involved in these initiatives said Finance Minister Barend du Plessis' favourable references to the idea of a social accord involving unions in his speech to the IMF on Wednesday were significant, especially given his recent antipathy towards Cosatu.

"The statement shows that there are discussions in government, and that there are a number of Cabinet Ministers who would be comfortable with an economic forum," one official, who declined to be named, said.

A senior unionist said the situation "looks interesting", adding there could be concrete developments early next year.

Cosatu general secretary Jay Naidoo confirmed there had been discussions with employers on the issue, but declined to elaborate, other than to say Cosatu would continue to seek solutions to the dispute over VAT and economic policy-making.

He said he had been surprised by Du Plessis' statement. However, the Minister had made no commitment in SA to proper negotiations with unions, and the ball was ultimately in government's court.

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Think-tank

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It is understood that some senior ANC leaders are not convinced the organisation and its allies should enter such a forum, which would impose responsibilities on the alliance. These elements argue that the ANC should seek joint control in an interim government over only such areas as the security forces, the SABC and the electoral process.

However, Cosatu appears set to stick to its demands on economic negotiation despite ANC reservations.

Business representatives said there was some hope that this process could head off the VAT stayaway scheduled for November 4 and 5. However, the establishment of an economic forum was an important, longer-term issue and if it had any effect on the stayaway this would merely be considered a bonus.

Creaming the rich 49 or a safeguard in the constitution?

wlmail 18/10 – 24/10/91

The creation of a future constitution is paved with pitfalls. Perhaps one of the most difficult aspects emerged in the current controversy over affirmative action and redistribution of wealth. PHILLIP VAN NIEKERK reports

AFFIRMATIVE action to redress the wrongs of apartheid, one of the key constitutional debates on a future South Africa, got off to a stormy start this week with newspaper reports that the African National Congress had a plan to levy one third of the wealth of the affluent.

The fact that the newspaper reports bore little resemblance to the conference where the suggestion emanated from, and had nothing to do with ANC policy, did not prevent whites reaching for their guns or their second passports.

At least part of the problem lay with the ANC's initially ineffectual and ambivalent response to the reports.

But what the reaction did reveal is the intense heat that the debate on affirmative action is likely to generate. Many whites are jittery about the future of their property and their positions in a democratic South Africa.

Not surprisingly, many blacks are hungry for the spoils of liberation and would eagerly endorse any move to overcome the deprivation of their lives at the expense of the privileged.

The prospect of rule by a majority which has historically been disadvantaged by apartheid creates an equally unsurprising feeling of vulnerability among whites.

Having started out as a passing suggestion at a conference workshop, the idea of a wealth levy has now been given widespread publicity where it is likely to be popular among ANC supporters.

The wealth levy controversy exploded just as the affirmative action debate was only warming up. In the process the debate has been skewed.

What got lost in the furore was ANC president Nelson Mandela's opening remarks to the Port Elizabeth conference, where he sought to stress the delicate balance between reassuring whites and meeting black aspirations.

In a landmark speech on the issue, Mandela defined affirmative action as a "means of dealing in as just and realistic a manner as possible with the progressive eradication of the gulf created by past discrimination". He went on to sketch clearly the parameters of such action.

"It must be seen as an alternative both to waiting centuries for the market on its own to eliminate the massive inequalities left by apartheid and to lawless confiscation and arbitrary sharing out."

There are few either in the upper echelons of government or the private sector who would find such sentiments horrendous.

At the opening of parliament this year, President FW de Klerk acknowledged the need for a fundamental restructuring of the economy to reduce, and ultimately eliminate, the great disparities of wealth left by apartheid and a history of racial discrimination.

However, the pull of their respective constituencies could see affirmative action emerge as the dividing line between a status quo-oriented National Party alliance and the ANC alliance in post-apartheid politics.

In applying affirmative action, says Mandela, we are "not dependent on the precarious expectation of a majority showing goodwill towards a minority. Put more crudely, it is not likely to be a vote-loser."

And it is not just blacks, but women and handicapped people who let their voices be heard at the Port Elizabeth conference to put affirmative action on the agenda. In the process, the ANC itself came under fire for the failings of its internal practices.

Feathering the nest or the redistribution of wealth?

Though the debate is only beginning, the ANC's 1988 constitutional proposals identified the need for affirmative action as a means of sweeping away the "centuries-old legacy of colonial conquest and white domination".

The National Party constitutional proposals, as they stand, contain no provision for affirmative action.

However, section two of the South African Law Commission's proposed Bill of Rights recognises that the principle of non-discrimination and equality before the law can be overridden by temporary legislation for the improvement of historically disadvantaged people.

The ANC's Bill of Rights does make provision for any private or public body to take actions designed to open up opportunities including "access to education, skills, employment and land" and the "general advancement ... of men and women who have been disadvantaged by discrimination".

The problem, as ANC constitutional lawyer Kader Asmal has pointed out, is that the government must have the power to implement satisfactorily the Bill of Rights. This is why affirmative action is not simply a policy issue but central to the developing constitutional debate between the ANC and the National Party.

Asmal says that in order effectively to implement an affirmative action programme, there would have to be strong and effective central, regional and local government.

The National Party's September constitutional proposals, apart from making no reference to affirmative action, provide for the diffusion of political power. This, Asmal says, impinges dramatically on the capacity of the state to implement affirmative action policies.

"The central proposals of the Nation-

wlmail 18/10 – 24/10/91.

al Party will entrench privilege, status and domination at every level of government," he claims.

Because blacks have been denied access or been discriminated against in almost every sphere of their lives, the need for affirmative action in South Africa is widespread — starting with the enormous disparities in education.

Mandela said that the whole social programme of the new democratic government would be one of affirmative action:

"It will mean giving the people a chance in every area of life: health, housing, education, nutrition, employment, access to land ... Our whole legislative programme will concentrate on these areas."

Both the public and the private sector are firmly in white hands and would be targets for affirmative action.

The state of black career advancement is parlous, not least because of the extraordinary inequalities in education. Some 80 percent of black professionals are teachers. There are only 41 black chartered accountants in South Africa, four of them women.

This disparity is reflected in where the wealth of the country is spread. More than 95 percent of shares on the Johannesburg Stock Exchange are in white hands.

Though some South African companies started years ago to promote blacks into senior positions, the good old boy network of white males, mainly members of the Rand Club, still dominates corporate South Africa.

"Parachuting former homeland leaders on to the board will not solve the problem," points out ANC economist Don Mkhwanazi.

Holding up the holy grail of the free market, many businessmen resist the notion of affirmative action for women and blacks because they claim to prefer promotion on merit.

"Talk of merit is used as a device to preserve the status quo," says Mkhwanazi, who claims that many whites have been placed in positions beyond their level of competence.

And, as Mandela pointed out: "Affirmative action is based on the paradox that to eliminate race and gender as significant categories, it is necessary to take account of the way race and gender impact on everyday existence."

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Though there are problems in the private sector, the public sector is a more intractable problem. What does one do with an already bloated, overstaffed bureaucracy top-heavy with whites? In Namibia, reform of the civil service has been held back by a constitutional provision guaranteeing security of tenure.

The bureaucracy has vast potential to block progressive change by a democratic government.

In Zimbabwe, the problem was partly resolved by the departure of thousands of top civil servants. Blacks could be pushed up the ladder with greater ease, enabling a process of Africanisation to begin with very little pain.

Aside from these problems, Mandela has pointed to one key advantage that South Africa has over other societies wishing to implement affirmative action programmes — the existence of a spirit of non-racialism in the ANC and the country at large.

"This ensures that the goal of affirmative action will be truly to achieve equal chances for all, and not amount either to a vengeful turning of the tables of oppression or the creaming off of the riches of the country by a new class of exploiters," he said.

Getting down to brass tacks on righting past injustice

(49)

W/Mail 18/10 - 24/10/91

The mere suggestion, at an ANC congress, that a levy of one third of individuals' assets be used for redistribution has stirred up a storm. REG RUMNEY asked the main opposition parties what their specific suggestions were for redressing the economic wrongs of the past.

IT'S not many years ago that militant opposition groups called for confiscating land and "expropriating the expropriator" to redistribute wealth. These days, there's more caution and less rhetoric, as this survey of major political groups reveals.

The African National Congress says the key will be the redistribution of state expenditure to the poor.

This will ensure a substantial improvement in the medium term in health, nutrition, housing and education. Also, within the limits of the budget, employment guarantee schemes can be offered aimed at employing those now unemployed.

Tax will become an important instrument for mobilising resources for redistribution, says the ANC. Tax reforms will be aimed at shifting the burden from individuals and indirect tax to corporations and applying progressive tax. Also, the ANC will consider a capital gains tax, a capital transfer tax, and progressive property and land taxes.

A further option will be a prescribed asset requirement for financial institutions, requiring the investment of a portion of their funds in specified areas, eg state housing funds.

To facilitate democratisation of the economy, the ANC will look at ways in which the population can have a greater control of economic resources. These will include:

- Creating a more democratic industrial relations framework based on full rights for workers in all sectors, including domestic work and agriculture.
- Developing an efficient public sector oriented towards providing the infrastructural base for meeting the basic needs of the people. Not only will the ANC keep public corporations in state hands, it envisages incorporating particular enterprises in the state sector. This could happen through nationalisation, purchase on the market, or establishment of state enterprises. This will be done on a case by case basis where it is advantageous to the state's overall objectives.
- Tackling the concentration of economic power to encourage more equitable and efficient ownership in the private sector. "Particular attention will be given to rectifying social and gender imbalances in the business sector and encouraging small business." Anti-trust legislation will be considered.
- Implementing a major land redistribution strategy, supported by among other things extension services and marketing credit. All heavily indebted, or underused land, or with absentee landlords will be up for redistribution.

The Democratic Party suggests that redress should come through the expenditure side of the budget with the money raised in the normal way through taxes.

The DP's Zach de Beer says money for redistribution, raised through normal taxes, should be channelled into housing, education and health for rapid upliftment of the disadvantaged.

The DP lays a strong emphasis on economic growth and free enterprise.

De Beer says there will be no real hope of redistribution without rapid and sustained economic growth.

"The money to bring about effective redistribution doesn't exist yet. It must still be created, hence the need for growth."

The economy must operate on free market principles. But government expenditure is a top priority to provide better services for the underprivileged. This is the only way to narrow the wealth gap.

The Pan Africanist Congress deals with the issue in its recent publication *Towards a Democratic Economic Order*.

PAC spokesman Barney Desai says the organisation's strategy is two-pronged. One important prong is to address the land question; the other is to redress economic deprivation.

Having rejected confiscation without compensation as an option, the PAC is considering two other courses of action.

One is nationalisation of all the land and then making it available to all present and future landholders on leasehold which will not be saleable but will be inheritable.

Another option is through budgetary and fiscal measures to reallocate the excess of land owned by farmers, eg absentee landlords. There might be incentives for land owners to sell land to the state and disincentives to keep land beyond a certain size. The subsidisation of the uneconomic use of land by the Land Bank would be done away with, and this would free land for distribution to the dispossessed. The PAC, says Desai, would follow an approach of least resistance without bucking the problem.

Government-owned land would be handed over to co-operatives and individuals.

The PAC would encourage the economic use of arable land. Water resources would be investigated to see if irrigation could provide more arable land.

Desai says the PAC realises depopulation of the rural areas has made the land question a less pressing issue. So it will not ignore industry.

The PAC is not wedded to the idea of nationalisation, and would only use it in the national interest.

It wants to make industry more community oriented without interfering with profit. "We would develop co-operatives on a big scale with the co-operation of businessmen." Where possible private enterprise would contribute to co-ops and community-oriented job-creation programmes.

Workers must also have an increasingly meaningful stake in the equity of companies, he adds, and a system of acquiring such a stake will be worked out between industry and the government.

Conservative Party economic spokesman Caspar Uys believes there is little need for new and extra forms of redistribution since the present structure already redistributes from rich to poor.

"The perception abounds that white people obtained their wealth by stealth or theft. This is simply not true. They earned it with the help of others who were paid wages for their work. It was white initiative that developed South Africa.

"In every modern society there is redistribution of wealth." Income tax itself is redistributive.

Uys points out payments such as pensions, and services such as education, and health care are provided free to all while tax is paid on a sliding scale according to wealth. "The only real way of putting things right is by creating job opportunities and developing the economy. You can't plunder the economy and then think things will come right. Free enterprise remains the basis for prosperity and economic growth is a priority."

Azapo would, according to spokesman Strini Moodley, put an end to private monopolies, and turn over primary industries to the ownership and control of the people who work on them. This is a form of nationalisation, says Moodley, but ownership does not reside in the state.

Azapo would seriously consider imposing a tax on the wealthy, in addition to normal taxes, to accelerate the process of redistribution.

Such taxes would be used for housing, hospitals, schools and recreation.

Further, money would be raised by imposing taxes on any corporation which refused to "democratise itself economically". "We are not going to walk in and 'nationalise' companies overnight." High taxes would be levied on monopoly industries which were targets for nationalisation.

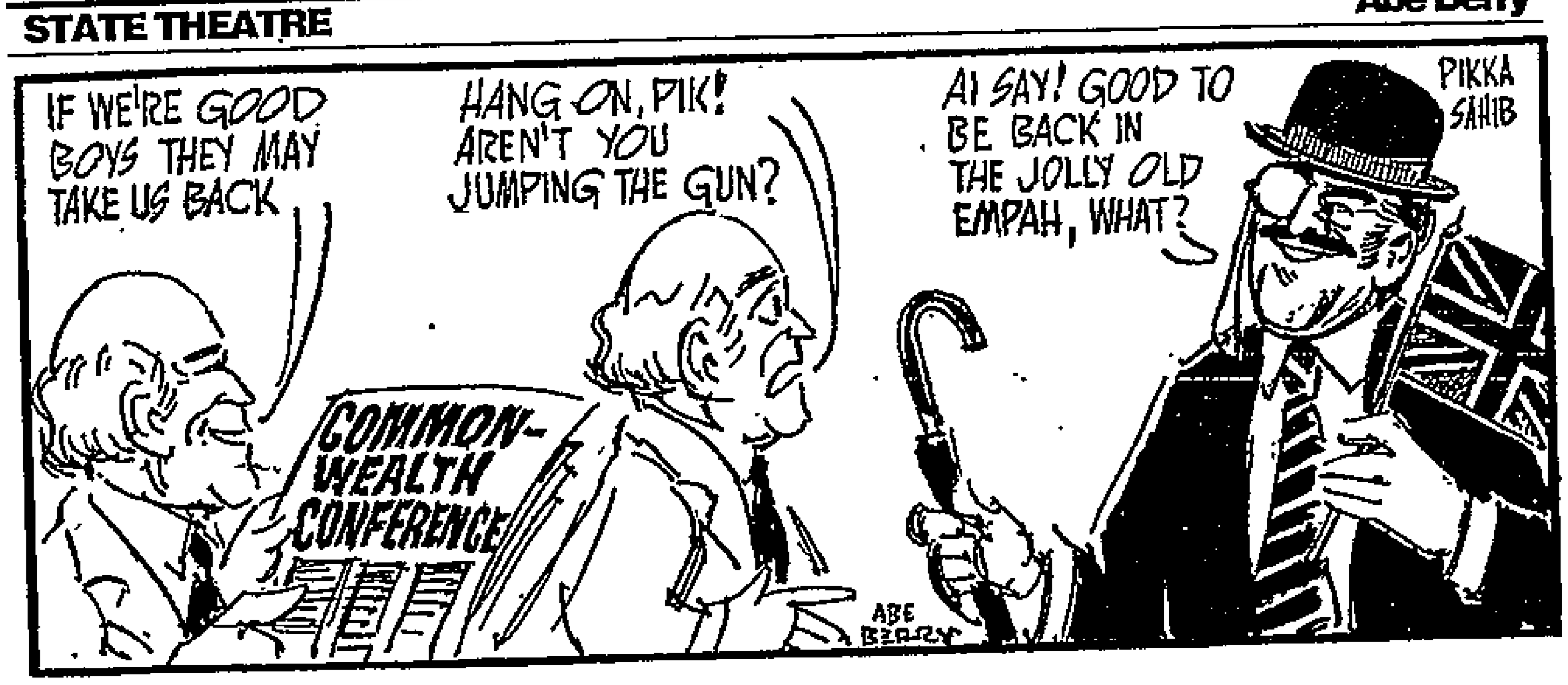
The Inkatha Freedom Party rules out the "quick fixes" of nationalisation, random expropriation, excessive tax or levies on private assets.

It believes wealth is created by economic growth which in turn is created by adherence to economic fundamentals. It says the most effective and permanent redistributive process is having increasing numbers of disadvantaged people becoming participants in the growing economy as employees or entrepreneurs.

"The government's main role in redressing the economic wrongs of the past is thus one which concentrates considerable of its available resources on promoting the industrial base and in fostering that which enhances its economic competitiveness."

The IFP mentions educational opportunity as being important, and says that once the growth path is established the fiscus will play an increasingly redistributive role.

STATE THEATRE — Abe Berry



Economy stagnant until next year — bank chief

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B/Day 18/10/91

THE economy is unlikely to show any growth this year but modest growth could be expected for 1992, says Standard Bank MD Conrad Strauss.

He also warned in his speech at Sacob's annual national convention in Pretoria this week that there would be no economic growth without greater socio-political stability, and no greater socio-political stability without economic growth.

"For 1992 one expects modest growth, of some 1,5% to 2% arising primarily from exports and from accelerated government spending," he said.

Once the upswing was under way, growth might prove more vigorous and durable than the past few expansion periods particularly if there was a continuation of positive political developments.

"Any broadening in the electoral base will bring with it stronger pressures for welfare programmes, income redistribution and infrastructure projects to improve the living conditions of the poor.

"Unless irrational pressures from these sources are resisted by strong leadership, SA will, at best, slip into a current account deficit and, at worse, into a spiral of declining confidence with wide-ranging consequences."

He said the failure of the business community to present a coherent view of what constituted a desirable future economic structure had to be a source of concern to thinking South Africans of all shades of opinion.

"While there is a multiplicity of admirable initiatives aimed at improving communication between what is loosely called 'business' and other sectors of society, there is not one voice, nor is there one body, which can credibly claim to represent business interests as a whole in any discussion with those who purport to represent the black majority.

"The stage is being dominated by players whose economic ideas and pronouncements are of dubious value, whose view of the world is coloured by the inequalities and injustices of the past and who see solutions to our problems through simplistic measures," Strauss warned.

He proposed that the business world create a single, representative, bridging, umbrella platform which could present rational proposals.

"We may even find ourselves drawn into the negotiating process. After all, such a national business forum would represent one of the few components of SA society that is not ideologically driven and is therefore flexible enough to develop processes and structures that meet the legitimate needs of the people," said Strauss. — Sapa.

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ECONOMIC SCENARIO

Talking to the lawyers

(49)

People are 10% poorer than 10 years ago, 40% of the labour force is unemployed, many are homeless and at least a quarter of all adults are involved in crime.

These are a few of the gloomy observations made by former Perm MD Bob Tucker at the Johannesburg Attorneys' Association's annual dinner last week. Tucker, delivering the guest address, said attorneys are ideally placed to help restructure society. "They face the challenge of bringing about an environment in which justice does survive."

But, besides suggesting that attorneys "take themselves out of their white skins and into grass roots SA" and that their "paradigm" or vision should not be distorted, Tucker volunteered nothing on what lawyers could actually do to help restructure society or ensure an environment where justice would prevail. He did, however, warn lawyers not to ignore economic and social realities. The implication made was that the political transition could be threatened by poor economic performance and social upheaval.

Tucker said: "Whites regularly ask me when are blacks — especially ANC president Nelson Mandela — going to realise that they are destroying the economy. But we need to ask what the economy is doing for these blacks? Mandela has been out of jail for 18 months, his constituency has expected better things. But the situation has only got worse. Many areas don't even have water or electricity." Under these circumstances, Tucker asked whether a peaceful transition to democracy is feasible.

Tucker's speech was based on the Nedcor-Old Mutual scenario, now being presented throughout SA. It was compiled by a team of economists, academics and representatives from the private sector and the ANC and has met widespread criticism for ignoring what has worked in the richest countries — mostly sticking to free-market principles — and advocating what has failed in many Third-World countries — a kick start or big push for the economy that invariably results in high inflation and big deficits. ■

ANC men in surprise appearance at IMF conference

State control needed in SA, says Manuel

49 ARG 19/10/91

MAGNUS HEYSTEK
Weekend Argus Correspondent

BANGKOK. — Two senior members of the African National Congress have made a surprise appearance at the annual meeting of the International Monetary Fund and World Bank here.

They are Trevor Manuel, head of the ANC's economic planning department, and Tito Mboweni, one of the ANC's economic advisers.

According to Mr Manuel they were invited by the IMF to attend this year's conference as observers.

They joined another senior ANC member, businessman Gibson Nthula, who arrived earlier.

The two ANC members had to be identified and signed on by members of the official South African delegation, but thereafter they dissociated themselves from the official delegates, turning down an invition to use the offices and telephones in Bangkok.

"We have to look and learn what is happening in the real world," Mr Manuel said in an interview soon after his arrival.

"I have to admit that we (the ANC) are on a steep learning curve and will use this opportunity to assess what is happening in the economic world.

☐ **TREVOR MANUEL:** "Some state intervention necessary in new SA."

"We will use this input in the formulation of the ANC economic policy, which should officially be adopted sometime in February next year," he said.

Mr Manuel reiterated his organisation's position in regard to nationalisation and some kind of affirmative action.

"Nationalisation of certain state assets is just one of the small aspects of the proposed ANC's economic policy, but we will certainly not stand or fall by it.

"The ANC's economic policy is very much still in the melting pot and much can happen between now and February.

He dismissed recent reports about a tax on white wealth as speculative.

"The idea was mooted by a certain individual as one of many options to reduce the wealth-disparity in South Africa.

"It is by no means an official policy and certainly does not reflect the mainstream thought on this issue.

"The whole issue was totally blown out of proportion and caused a negative reaction among whites."

Mr Manuel added, however: "There is no doubt in my mind that a certain measure of state intervention and control is going to be needed in the new South Africa.

"There is certainly nothing strange about this because recent world history is full of examples where state direction was necessary, especially in the case of severely traumatised economies.

"Such was the case in Japan and Germany after the Second World War and is currently also taking place in the unified Germany."

Mr Manuel also said the three ANC members would meet behind the scenes with a large number of people, including members of the IMF technical committees.

But no contact was contemplated with the South African delegation.

He spoke about the "fine balancing act" which would be required of any future government in South Africa.

"I realise that South Africa is only one in a great number of developing countries which are clamouring for vital overseas investment capital.

"But we cannot just let our economic policy be determined by short-term measures and tax-incentives which do not have a lasting impact on growth and development," he said.

SA still a risk – UK investors

Doubts over ANC economic policy

Star 19/10/91

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LONDON — British companies yesterday said there would be little immediate response to the phasing out of Commonwealth sanctions against South Africa due to uncertainty about the post-apartheid political and economic future.

"Sanctions have ceased to be the dominant factor," Jonathan Leape of the London School of Economics said. "Macro-economic and political stability dominate investment."

John Scates, director of international affairs at the Confederation of British Industry, said the most important element was confidence, adding: "That isn't fully there yet."

The lifting of sanctions would allow the resumption of tourism, cultural and academic exchanges and air links with white-ruled South Africa, ostracised internationally for three decades for pursuing a policy of racial segregation.

Mr Scates said companies and banks would look at investment in South Africa with a fresh eye following the sanctions decision by Commonwealth leaders meeting in Harare.

But he said there were still too many uncertainties surrounding a constitutional settlement and the economic policy of the African National Congress. The ANC has recently issued conflicting statements about the possible nationalisation of major industries such as mining and whether a future ANC-led government would honour foreign debt.

Mr Leape said investments could also be hindered by poor local housing and infrastructure, a labour force with relatively low skills and continuing township violence.

In another development out of the Harare summit, a special mission to South Africa by Commonwealth secretary-general Chief Emeka Anyaoku is in the pipeline, following widespread agreement at the suggestion during discussions in Harare yesterday.

Chief Anyaoku's mission would be to take soundings from all parties in South Africa on how best the Commonwealth could assist the emerging democratic process in the country, British government sources said.

Leaders had agreed however that the Commonwealth should not interfere in the constitution-making process until all parties in South Africa wanted this.

Commonwealth leaders would take the proposal further during their weekend retreat to Victoria Falls, where they would also be tidying up their final position on lifting sanctions against South Africa.

British officials also revealed they had recieved a positive response from the SA Government and the ANC to proposals that the UK provide advice and assistance "in the field of police accountability and community policing".

As part of British Prime Minister John Major's good government campaign for developing countries, five ANC nominees have already been accepted for special civil service training in England, officials disclosed earlier this week. — Sapa-Reuter.

Successful future requires common vision

IF THERE were to be any hope of reshaping South Africa and achieving the long-hoped-for peace, there would have to be a pact between First and Third World sectors in order to produce an annual growth rate of at least 10 percent for the next 20 years, according to a former top executive. PIERRE CLAASSEN reports.

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Star 19/10/91

SOMERSET WEST — There are no security walls high enough to protect affluent whites from what is happening at the grassroots in black communities, says former Perm chief Bob Tucker.

He was speaking yesterday at a University of Stellenbosch Institute for Futures Research workshop/seminar on redesigning South Africa's future.

Justice and peace went beyond law and order, security forces and a sound legal system.

"It is a broadly defined condition which brings about stable, fair and just relationships between people and between the people and the State," he said.

After sketching a dismal picture of the country's current socio-economic state and minimum future needs, he said the criteria for successful redesigning, in his view, required a common vision in three key areas. It demanded:

- Security of the State, with "State" defined in the broadest terms as the combination of all the people in a single nation.
- Economic prosperity with the First World component — the predominantly white enclave — being integrated economically with the Third World — predominantly black — grassroots.
- Freedom, equity and justice.

Elaborating, he said the security of the State would not come about unless it were integrated and in harmony with sub-Saharan Africa politically, economically and in health terms.

It also needed to have the same relationship with the world at large in capital, trade and ecological terms, and it needed to have a legitimate and stable government.

The latter did not imply only democracy. The government could be authoritarian, as long as it were legitimate and stable.

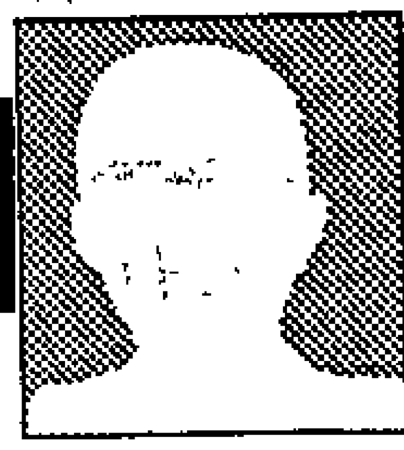
Regarding economic prosperity, Mr Tucker said a 4,5 percent annual economic growth rate was needed just to deal with the annual labour force growth; a further 3 percent growth was required to match the annual improvement in labour wages and capital interest.

"Before we start to address the problem of 5 million unemployed, we already need 7,5 percent growth. It would be irresponsible to set a growth target rate of less than 10 percent, a minimum required every year for the next 20 years," he said.

Equity was seated in the distribution of income and services. Those who considered themselves not "in" would destroy that which was essential for building the new South Africa. — Sapa.

BOB TUCKER: Stability requires co-operation.

THE MAN WHO KNOWS



The Man Who Knows is a leading figure in South Africa's business community. He has been exposed to the business and financial scene for many years and mixes with the country's leading decision-makers. He writes for FINANCE on condition that he remains anonymous.

This is the point ANC must grasp

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Star 20/10/91.

THE sooner the ANC appreciates that money controls the government and not government the money, the sooner it will be in a position to formulate a sensible economic policy. Any attempt to pinpoint the threads of current ANC economic thinking must reach the inevitable conclusion (to judge by recent pronouncements) that it rests on three pillars — nationalisation, the renouncement of the nation's foreign debt burden and a tax on wealth.

To be fair, the haphazard manner in which these ideas have been cast about suggests that they are designed more for political effect than for practical application.

The probable truth of the matter is that the ANC doesn't have a clear idea of what its economic blueprint should comprise — hence the ad hoc hysteria that is so alien to any successful economic model.

But since nationalisation, loan write-offs and a wealth tax are all we have with which to assess the ANC's fitness to manage the SA economy, then, at least for the time being, it is on these principles the ANC must be judged.

Nationalising the mines (for the present it's the mines that appear to be the main target of a policy taken straight from the pages of the most discredited best seller of all time) would cost an ANC government some R70 billion.

If we give the ANC credit for at least paying compensation for what they would be taking, then the money would have to come from a doubling of taxpayers' existing tax burden.

The result? A flight from the country of those responsible for SA's economic wellbeing. People of talent, initiative and the willingness to assume business risk would simply disappear, leaving the economy in shambles.

The ANC would have little alternative but to turn to the IMF for help (as many countries to our north have done in similar straits).

And the IMF would offer its assistance subject to its usual terms, one of which is denationalisation of nationalised industries. So back to square one after irreparable damage.

If the ANC didn't pay compensation for nationalising the mines (or anything else), the international community would consign SA to a scrapheap that would render life under sanctions a picnic in comparison.

Which is precisely what will happen if foreign loans are written off the books. There are certain crucial international rules that are on no account to be broken — no matter the circumstances. Honouring debt obligations is one. Debt forgiveness is fine; but a unilateral scrapping of foreign debt will never be condoned by the international community — never.

Wealth tax sounds fine in theory. In practice, as with nationalisation, it drives out the cream of the nation's business fabric.

True, it's been tried elsewhere. But it fails, because the only way of raising the money to pay the tax is to sell assets.

With all the country's wealthier citizens (of whom there are pitifully few) simultaneously trying to sell their cars, art work and northern suburbs homes, the prices of these assets are driven down (who'll have the money to buy them?) to such low levels that eventually the tax cannot, with the best will in the world, be physically paid. So much for the three pillars of ANC economic policy.

The ANC has been smart enough to have tossed the ball into the court of the business sector, pointing out that if ANC economic thinking is flawed (as indeed it is), then business must come up with an alternative, bearing in mind the need for wealth and income distribution. The ANC has surely been following this column. Its economists will surely be watching this space in the future.

NEW PATHS . . . Cosatu's Jay Naidoo says the success stories of Japan and Germany are being analysed in efforts to come up with a viable economic policy for South Africa. ■ Pic: ANDRIES MCINEKA

Taxing task of creating work

C/press 20/10/91. (49)

By SEKOLA SELLO

DURING the past three weeks the ANC and its alliance partner Cosatu have been under heavy fire from the government, big business and foreign investors.

The ire of these groups was sparked by what they perceived as ANC/Cosatu insistence on "outdated economic policies" such as nationalisation of banks and mines, refusal to honour loans taken to "bolster apartheid" and taxing the wealthy.

Cosatu has further stirred the troubled waters with plans for a two-day strike against VAT on November 4 and 5.

Cosatu secretary-general Jay Naidoo has denied that the alliance is waging economic war against the government and big business.

In an inverview on Friday he debunked claims that the ANC and Cosatu were following failed policies.

Neither body had taken a policy decision on nationalisation or wealth tax. Discussions on these issues were continuing.

Cosatu was reviewing the success stories of capitalist economies like those of Japan and Germany to see what could be learnt from them.

Cosatu proposed four points on which national economic reconstruction could be based. The first step would be to examine the macro policy path the government should take.

"We have got to determine the most effective growth path in the development of South Africa," Naidoo said. The focus would be on the country's major, immediate development needs.

Foreign trade policies and relations with international bodies like the World Bank and the International Monetary Fund would be scrutinised to determine whose interests such relations would advance.

The intention would be to curb government borrowing for projects that did not benefit the people, such as the Mossgas "white elephant".

Industrial reconstruction would be the next priority. A primary concern would be transforming collective bargaining forums to help in "job creation, economic growth and making us (South Africa) more competitive".

Cosatu believed the country was less technically-advanced than Japan, Germany and South Korea because of apartheid policies.

The third and most difficult proposition involved socio-economic development. Failure to address this would lead to government collapse.

Naidoo said: "Any government has to deliver to the black people of this country as the constituency which has been historically deprived."

It was largely on the understanding of the enormous problems that a future government would face that the ANC/Cosatu alliance mooted alternatives like nationalisation and wealth taxes.

The fourth proposition involved restructuring bodies such as the National Manpower Commission, the National Trading Board, and the new Labour Relations Act.

These four propositions were regarded as a broad framework around which to debate economic reconstruction.

Naidoo said: "There can be no blueprint that any single organisation can impose on this country in search of economic solutions to our problems." This could evolve only after consultation and negotiation involving the major players ...

Naidoo denied that the planned anti-VAT strike could lead to retrenchments.

He said the tax was introduced without proper consultation, and that representations made to the government on it had been ignored.

Government policies were deepening South Africa's economic crises, and the added burden of VAT would drive many people below the breadline.

It's confidence that keeps cash here

C/Pres 20/10/91

(49)

MONEY TALK

RHETORIC by politicians is designed to be music to the ears of their followers or potential followers.

So when a relatively junior official of the ANC proposed a "wealth tax" at a recent regional conference of that organisation, it must certainly have been music to the ears of the poor.

But the effect in the business community was devastatingly negative.

To counteract that, the ANC's two top spokesmen, president Nelson Mandela and general secretary Cyril Ramaphosa, had to pour cold water over the idea, pointing out that it was not official policy, but merely one of many options likely to be considered when the ANC's economic policies are designed.

Even overseas media reported on the proposal. Unfortunately, efforts by Mandela and Ramaphosa to play down the issue were hardly mentioned at all, leaving the impression abroad that a future ANC-dominated government in South Africa was likely to follow similar policies to those which left the Soviet Union with a begging bowl at the International Monetary Fund meeting in Bangkok.

But the perceptions of local businessmen are far more important. Indian businessmen, for instance, point out that they have been disadvantaged by apartheid as much as, and often more than, Africans. Yet will they, also, be penalised when new taxes, such as a wealth tax, are introduced?

But this somewhat emotional reaction is not really important because it can be regarded as part of the long drawn out "funeral" of apartheid. What is important is the way businessmen and investors respond with their cash and their willingness to take risks with new investments.

The tragic truth is, as Walter Sisulu confirmed in his reaction to the "wealth tax" debate, that billions of rands are leaving the country.

As happened in so many parts of Africa, businessmen are trying to protect their wealth. Many openly admit they are planning to leave South Africa once they have built up successful business interests in Australia, Europe or the United States.

What is needed is the restoration of confidence that South Africa will remain a country where the capital of wealth-creating entrepreneurs will be safe from looting by those holding political power.

It is the responsibility of our politicians to rebuild the confidence of those who are planning to pack their bags soon. Once gone, they won't come back.

ANC and the wealth tax

LAWYERS acting for ANC member Heinz Klug have written to the Sunday Times to dispute aspects of our report last week which outlined the proposal for a tax on wealth put forward at an affirmative action conference in Port Elizabeth last week.

The "wealth tax" proposal has reverberated around the world, and leading ANC figures — among them Mr Dullah Omar and Mr Max Sisulu — have since confirmed that it is under consideration within the ANC.

Mr Klug, through his lawyer, has protested that the Sunday Times report on the issue was erroneous in four main aspects.

Firstly, he says, the conference was co-hosted by the ANC constitutional committee and three other organisations, and that it was attended by a number of participants from other countries. It was therefore not accurate to call it an "ANC conference".

In fact, conference documents show that the conference was hosted by the ANC and was well attended by ANC members. The Sunday Times, however, accepts that it was not exclusively an ANC conference, and apologises for suggesting otherwise.

Secondly, Mr Klug says, the conference did not break up into working groups, as the Sunday Times report said, but into "commissions" which reported back to the plenary session.

These commissions did not take votes or make decisions but simply discussed options. The Sunday Times accepts, then, that it was wrong to suggest the Land Commission "adopted" the wealth proposals.

Thirdly, Mr Klug says, the wealth levy is not ANC policy and he did not purport to report ANC policy to the conference.

The Sunday Times report did not, in fact, say the wealth tax proposal was ANC policy. It said it was being "considered" by the ANC. Subsequent statements by top ANC officials confirmed this to be correct.

The headline to the report did, however, refer to an ANC "plan" and to the extent that this implied official ANC endorsement of the proposal, the Sunday Times apologises.

Lastly, Mr Klug insists that he at no time recommended the adoption of the plan for a wealth levy. The Sunday Times is happy to accept this assurance and apologises for any impression that he was personally advocating it.

KEN OWEN ON SUNDAY

S/Times 20/10/91 (49)

THERE was a moment in Bangkok this week when, overcome by exasperation with South Africa — with its sloth, its intellectual backwardness, its complacent indignations — I was tempted to abandon hope for the country.

It's not simply that we are light years behind the rest of the world, and losing ground fast, but that we don't seem to learn. We're just too lazy.

The moment of exasperation came when I observed the impact on 10 000 delegates to the IMF annual meeting of the proposal by some fool in South Africa to confiscate a third of the wealth of the rich, which was assumed to mean "rich whites". Some received the news with a condescending hilarity, all with incredulity.

The proposal had much the same effect as did Dr Verwoerd's assertion, 30 years earlier, that he would not permit "white" capital into the bantustans because (as an Afrikaans acquaintance recalled ruefully this week) he didn't want "a string of little Hong Kongs" around the country. In talking in such terms, he simply mystified civilised people.

Today, the same mystification is aroused by the South African debate about "white wealth", or "white capital". It's Verwoerdianism turned in on itself, and the emphasis on distributing wealth — instead of creating it — is simply taken as evidence that South Africans are as ignorant of modern economics as Verwoerd was.

The world has moved on since Verwoerd's days; we have not. The ANC gurus, and indeed most South Africans, have been shaped by apartheid to think, and talk, with a kind of inverted racism. Verwoerdianism has not been eradicated, merely stood on its head, and it remains economic nonsense.

While we bumble around trying to fit the problems of poverty into our racial preconceptions, the rest of the world is hurtling towards a different future, in which race does not matter a damn, and where people do not waste their time trying to redistribute non-existing wealth.

Bangkok, everybody agrees, is a madhouse. A decade of pellmell growth, attributed by its prime minister to private enterprise, monetary discipline and fiscal restraint, has strained every sinew of the nation. The traffic is notorious, the confusion daunting, the famous canals hardly better than open sewers. Even street sweepers wear surgical masks against exhaust pollution.

Thailand is having to slow down now to deal with the problems of its own tearaway success. After a decade of growth at rates up to 12 percent a year, everybody in Thailand is twice as rich as he was seven years ago — a result which no system of redistribution has ever achieved — and it's time to consolidate. The construction industry's growth is slumping to 13 percent this year.

THAILAND is an extreme case, the fastest-growing country in the fastest-growing region in the world, but much the same thing is happening throughout East and Southeast Asia.

I had just emerged, somewhat stunned, from China where, after a dozen years of economic liberalisation, people talk not of redistribution but of privatisation, not of past injustice but of "opportunity".

The contrast with the Soviet Union, where political reform preceded economic, is breath-taking. In Moscow, a people made cynical by socialism say, "we pretend to work and they pretend to pay us"; in China, markets have sprung up wherever you look, goods are piled in profusion, and the people seem never to stop working: eight hours a day, six days a week, three shifts, and often a second job in spare hours.

By day, workers harvest underwater grass for the pigs from the river opposite our hotel; in the evening, 300 trading stalls spring up on the sidewalk to exploit whatever tourist business is on offer; by dawn, they have vanished. When a ferry ties up at the jetty, the crew snatch fishing rods to try their luck for an extra morsel.

At nightfall, a workman lays out his tools neatly on a piece of cloth at the roadside, offering to do anything: shorten a bicycle chain, mend a chair, fix a puncture.

In Moscow, empty trucks rattle to and fro; in China, a nation of cyclists pedals calmly along, often carrying immense loads: boxes, a shoemaker's last, a basket of wriggling eels, or a wife and baby. Our guide surveys the cycles passing in their millions: "Nobody in China is fat," she grins.

THIS is a nation on the move. The statistics show that in the south, and along the coast where a dozen free trade zones have been established, China is developing in much the same way as the rest of East Asia. The Japanese, who have displaced the Americans as the wealthiest and most demanding tourists, shrewdly survey this awesome market. Even New Zealand has found a niche, for automatic hand dryers.

Six Chinese families would live comfortably on any Soweto plot, because they use space as they use time, frugally. They cultivate the verges of roads, eat anything from snakes to birds' nests and water buffalo, feed pigs on the water weeds that we destroy with insecticide. Life is so much, much better now than under Mao, they say, because they have "opportunity". It's all they ask.

I dwell on China because I suspect it is the latest of the emergent nations that have discovered (as even Vietnam has done) that the path to prosperity is in market economics: liberal capitalism, if you like. The entire world is merging, at breathless pace, into a single free-enterprise system, and those nations that try, as the Soviet Union did, to resist the tide are destined to collapse, as the Soviet Union did.

France's Michel Camdessus, MD of the IMF, has distilled from Asia's success six elements of an effective economic strategy: prudent fiscal and monetary policies, efficient private markets, high savings rates and avoidance of excessive debt, sound management of the public sector, an open approach to trade, and continuing attention to education and human upliftment.

How do we shape? The Reserve Bank has only lately adopted sound policies, but the government, though it talks of fiscal discipline, tries to spend and borrow its way to prosperity. Its policy is largely a propaganda show designed to lure foreign investors, and so to escape the need for local savings. The public administration is both corrupt and inefficient, trade policy is protectionist, and education has collapsed.

BUSINESSMEN alternate between pleas for tax breaks, easy money, and subsidies, or they lament the unwillingness of foreigners to invest where they themselves won't. The ANC does its best to drive capital and capitalists away, and the work force refuses to work more than a shift a day, leaving capital equipment idle for two-thirds of the time. And so forth.

Meanwhile, we yak endlessly about sharing wealth we don't have. It is debate without substance, a ritual dance of vested interests, designed to protect workers from work, investors from risk, and government from choice, and it's tiresome beyond endurance. Out there, in the real world, people have stopped debating: they simply get on with the work which we are too idle to do.

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Recovery in danger — Conrad Strauss

S/Times (Buss) 20/10/91 49

By DIRK TIEMANN

THE EMERGENCE of a serious imbalance between monetary and fiscal policy will lead to distortions limiting the strength of any recovery, says Standard Bank Investment Corporation managing director Conrad Strauss.

Dr Strauss told the annual meeting of the SA Chamber of Business in Pretoria this week that the "unspectacular" recovery in 1992 would deliver only modest growth of between 1,5% and 2%, arising mainly from exports and accelerated State spending.

The Government would be the single biggest spender in the economy with faster growth in current and capital spending on social projects.

Jitters

Dr Strauss said: "An unduly expansionary fiscal policy, designed to defuse political pressures, would hamper efforts to cut inflation and make it impossible to cut interest rates."

The main danger ahead was "the recent conduct of fiscal policy which has caused jitters in the capital market". Government consumption spending might help the upturn in 1992, but it "would cast doubt on the success of the Government's intent to increase social spending without compromising fiscal discipline".

The Government could exceed its Budget by R2-billion if the current spending tempo was maintained. Coupled with this, the revenue shortfall could be as much as R3,5-billion. The deficit before borrowing for the first five months of the fiscal year had reached 80% of the budgeted R10,1-billion.

"In the worst-case scenario the total year's deficit could rise to 5% of gross domestic product."

Dr Strauss said Government demands on the capital markets had already made it uncomfortable for the private sector by driving up interest rates.

Interest rates would not fall significantly until inflation dropped and this could not be expected before early next year. Prime overdraft could drop only 3% at the most next year, "making 17% the lower end of the possible".

He also commented on sale of the oil stockpiles worth R1-billion, with another R1-billion in the pipeline later in the fiscal year. This would pump money into the economy "faster than the monetary authorities deem desirable".

Reserve Bank Deputy Governor Jaap Meijer said the public impression that State spending was out of control added to the inflationary mood.

Prime

Dr Meijer said: "The Minister of Finance might have to explain his dilemma in the next Budget and also how he will deal with it. All the structural changes to the tax system proposed by the late Wim de Villiers are unlikely to be implimented."

"A compromise will have to be reached between what the politicians want and what the Department of Finance can deliver."

Sacob delegates unanimously accepted a motion to pressure the Government into "reprioritising" and controlling its expenditure. Delegates criticised the existence of the two departments of finance and expenditure. They warned that off-Budget and departmental spending was not being watched.

Mossgas was given as an example of extravagance — "a bleeding sore paid for by the taxpayer".

The Government was attacked for the size of the central State workforce of 560 000 people — 21 000 higher than a year ago. The wage bill for the first three months of the year totalled R4,4-billion — 26% higher than last year.

Director-General of State Expenditure Henri Kluever said the view that the Government and its bureaucracy wasted money was wrong.

"I could close several government departments now and not have enough money to finance social spending for a year."

Efficiency

Spending control measures had been introduced. Government departments now had to issue quarterly reports on how their spending compared with budget.

Mr Kluever said better computer systems and staff training would improve efficiency.

But as far as the motion was concerned, Mr Kluever told delegates: "I think you are on the right track."

(49) ARG 21/10/91

Black free enterprise doing fine — report

SHARON SOROUR, Staff Reporter

FREE enterprise is alive and well in South Africa's black business sector, according to an article in the latest *South African Foundation Review.*

However, it was impossible to measure its size and nature accurately, said Mr I J Hetherington, managing director of Job Creation S A (Pty) Ltd.

Just about every sector of the recorded, corporate-dominated economy had its more humble counterpart in the unrecorded economy — the informal sector.

While the recorded economy was "constipated by thet combined effects of statism and crony capitalism", free enterprise was "alive and well" in the unrecorded economy.

The majority of black-owned businesses — about 70 000 of them — took the form of sole proprietorships or informal partnerships.

"They span the whole spectrum of business activity from hawking and home-based 'spaza' shops and their combined output is as big as the country's largest chain store group."

There were more than 100 000 traditional leaders and herbalists and the same number of taxi owners.

The financial sector was represented by the informal — and illegal — money-lenders, the "mashonisa" who turned over hundreds of millions of rands every year.

Mr Hetherington said hundreds of millions circulated in the social savings clubs — the "stokvels".

There were also tens of thousands of backyard and other manufacturers and repairers and tens of thousands more taverners "shebeeners", entertainers, farmers, hairdressers, bookkeepers and lawyers.

There were also "a handful" of non-quoted public companies owned by blacks, like the African Bank and Black Chain, both initiated by the National African Federated Chamber of Commerce and Industry (Nafcoc).

Mr Hetherington said there were a "few thousand" black-owned close corporations, but they were not all listed.

He emphasised there were no "hard" statistics — not even on the size of the population.

Monetary policy 'is falling apart'

B|Day 21|10|91. (49)

SIMON WILLSON

THE disciplined monetary and fiscal management of the economy over the past two years is starting to fall apart, says Syfrets' latest quarterly economic review.

The review acknowledges that monetary policy has maintained a relatively restrictive stance. Fiscal policy, however, is far more expansionary than two years ago.

"The fiscal side of the divergence is based mainly on a changed political environment and expectations that have been created and which need to be satisfied.

"After a fair amount of fiscal discipline over the last three years, there are clear signs that this will be increasingly difficult to maintain. The off-budget spending is especially disconcerting," says the review.

Addressing those who argue that the SA authorities could emulate the management of the US economy in the early 1980s, the review says the policies of former Federal Reserve chairman Paul Volcker are not applicable to present-day SA.

Noting that the Volcker anti-inflation prescription was a restrictive monetary policy, stimulatory fiscal policy and a strong exchange rate, the review recalls that the result was one of the US's most severe recessions.

SA does not have the option of using a firm exchange rate to bear down on inflation because of the country's sensitivity to exports, the review says. It adds that risking a severe recession would be detrimental to the economy considering the existing high level of unemployment.

Fiscal policy has to contribute to the fight against inflation, the review concludes. "The longer the fiscal authorities follow their current path, the more the private sector is crowded out.

"If the continuous crowding out of private business enterprises is not halted, the inflationary bias will not be cured in the longer term," the review warns.

It advances two possible alternatives to the current policy mix: a "social consensus" between trade unions, the private sector and government in which wages are linked to productivity, and norms for budget expenditure increases being set in a new constitution.

GST and VAT hidden factors

49

Revenues up as spending by state slows

B/Day 21/10/91

SIMON WILLSON

AFTER a slow start to the fiscal year, government revenue growth picked up during the second quarter to September, while the increase in state spending slowed appreciably.

Finance Department figures for the first half of fiscal 1991/92, released at the weekend, indicate that it may still be premature to expect a budget deficit well above the targeted figure of R11,8bn.

The wild card in the Budget equation remains VAT revenues which, following the introduction of the tax at the end of September, will accrue only in the second half of the current fiscal year.

A statement accompanying the figures admitted to "uncertainties" about the cash-flow implications of VAT.

Government revenues, budgeted to rise by a revised 11% this fiscal year, were up a meagre 0,7% on 12 months earlier at the end of the first quarter. First-quarter state spending, meanwhile, raced ahead by 20,7% against a budgeted 15,1% for the full year, signalling the possibility of a large overshoot in the budget deficit.

Revenues rallied in the second fiscal quarter, however, to stand 8,2% ahead of the 1990/91 September quarter. Spending growth eased off over the same period to a level 14,8% up on last year. At the halfway mark of the current fiscal year, therefore, revenues are up 4,9% and spending 17,6% over last year.

On releasing the figures, the Finance Department restated government's determination to control spending strictly and keep it within the budget's guidelines. The department said the current year's budgeted government spending level of R86bn "should not be exceeded".

Private-sector estimates of revenue prospects for the remainder of the fiscal year are divided: some are cautiously optimistic, citing the likelihood that the bulk of the rise in revenues has been effectively "back-ended" by the introduction of VAT. Others fear a ballooning deficit resulting from continued buoyant spending and a revenue undershoot.

Stanbic MD Conrad Strauss said last week state expenditure could overshoot by R2bn if the current tempo was maintained, while the continuing recession held back revenue by depressing receipts from income tax and sales tax. Strauss outlined a worst-case scenario in which the budget deficit-to-GDP ratio topped 5%.

Bankorp chief economist Nick Barnardt believes it is quite possible that the authorities have underestimated VAT proceeds, and notes two other VAT-related factors that could boost revenues during the second half of fiscal 1991-92.

"VAT has had the effect of postponing a certain amount of capital spending. Given the import-intensive nature of much of this delayed spending, it could lead to a pick-up in imports during the fourth quarter of the calendar year which would increase customs revenue.

"It is also possible that back-payments of GST from the many evaders of this tax that are being uncovered by VAT could increase state revenue."

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Revenues

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The new Finance Department estimates for fiscal 1991/92 now envisage a budget deficit for the year equivalent to 3,9% of GDP, compared with a projected deficit-to-GDP ratio of 3,4% in the March Budget speech. Such an outturn — well above the 3% limit for this ratio recommended by the IMF — should not be interpreted as excessive fiscal stimulation of the economy, according to Barnardt, who forecasts a deficit:GDP ratio of 4% for 1991-92.

"Including strictly all government and government-related spending — such as that by the Independent Development Trust — would take the deficit-to-GDP figure to 4%. That is not aggressively stimulatory when you remember that government spending is only some 2% higher in real terms, while revenues are low because of the recession's impact on the tax base and not because of tax cuts."

VAT concessions will cost state R1,6 billion

Star 21/10/91 (49)

By Sven Lünsche

Recent concessions on VAT could cost the Government up to R1,6 billion in lost revenue in the second half of the 1991/92 fiscal year, according to estimates by the Department of Finance.

This comes on top of government revenue which fell way short of budgeted targets in the first half of the current fiscal year.

Releasing the Government's expenditure and revenue statistics for the fiscal year to date, the Department of Finance says total tax receipts at R34,9 billion were only 4,9 percent higher than in the corresponding period last year.

For the full fiscal year, Finance Minister Barend du Plessis had budgeted for an 11 percent rise in revenue, but the impact of the recession has undoubtedly impacted on tax receipts so far.

VAT, which was introduced earlier this month, will not help matters.

The Department of Finance cautions that the precise cash-flow implications of VAT are difficult to assess, but it provides revised revenue estimates to take account of recent concessions by the Government.

Bringing down the VAT rate from 12 to 10 percent and measures announced at the same time could cost up to R1,4 billion, while the zero-rating of certain foodstuffs adds a further R200 million.

The increases in excise duties and the fuel levy will add R900 million to government coffers, but this is not enough to reduce budgeted revenue for the full year from R74,87 billion to R74,16 billion.

With total expenditure budgeted at R84 billion — excluding the one-off capital expenditure of R1,95 billion to be financed from the sell-off of strategic reserves — and in the unlikely event that the revised revenue forecast will be achieved, the deficit before borrowing for the year will be about R9,88 billion.

This equals 3,2 percent of Gross Domestic Product and is about R700 million higher than specified in the Budget.

In the first six months of this year alone the deficit before borrowing already totalled R7,24 billion and the Government will be hard-pressed to meet its target.

In addition, loan redemptions in the first half were R2,21 billion, pushing the total financing requirements so far this fiscal year to R9,45 billion.

The Department of Finance says about R10,5 billion of the gross loan financing requirements this year have already been met through a combination of bond issues worth R10,39 billion and foreign loans of R139 million.

Against these trends, government expenditure growth is roughly in line with budgeted targets.

In the first six months of this year expenditure was R42,15 billion, an increase of 17,6 percent on the same period in fiscal 1990/91.

The amount represents 49 percent of total budgeted spending of R85,98 billion, which is in line with the 48,5 percent and 49,4 percent of the 1990/91 and 1989/90 fiscal years respectively.

In the first three months of the year spending increased by 20,7 percent, but this slowed considerably to 14,8 percent in the following three months.

Total spending this year is targeted to rise 15,1 percent. The department is confident the expenditure level of R85,98 billion will not be exceeded.

SA's cost of capital near a historic low, says Kantor

B/Day 22/10/91 (49)

SA's cost of capital on offshore markets was almost at an historic low, UCT School of Economics director Brian Kantor told an Investec seminar in Johannesburg yesterday.

He said if SA was looked at from abroad there had been an improved rating on capital markets, which would influence the cost of capital and investment spending.

Business Day Reporter

"The offshore value of SA's assets is well ahead of fundamentals, there is a strong sentiment in favour of SA shares and the risk premium is way down," he said.

Kantor based his cost of capital measure on the dividend yield of SA companies on the New York stock exchange and the declining SA political risk premium.

Another way of calculating the cost of capital was the formula-based one, which took into account depreciation costs, interest rates, corporate taxes and the debt/equity ratio. Based on the formula the cost of capital had gone up.

Kantor forecast healthy growth in investment spending until 1993, which he said could reach 5% real annual growth by the end of 1993 if sentiment remained at current levels.

"The market believes the future is going to be the same as the present. There is no politics in the market right now.

"The violence is more concerning to us. Foreigners thought it would be worse than it has been," he said. This was shown by the difference between SA dividends and the Dow Jones index.

There had been fantastic growth in earnings and dividends since 1986, despite obstacles.

Latest statistics on industrial earnings showed a turning point had been reached, and he expected inflation to come down to about 11,5% by the end of 1993, Kantor said.

PATRICK LAURENCE looks at the reasoning behind the dreaded word nationalisation

Freedom Charter is ANC beacon

Star 22/10/91 (49).

WHENEVER African National Congress leader Nelson Mandela talks of nationalisation, South Africa's business moguls either accuse him of "regressing" to economic infancy or of succumbing to the machinations of the South African Communist Party.

From their perspective, and that of the whites generally, the position is both worse and better than that.

Official ANC economic policy advocates the transfer of mineral wealth, banks and "monopoly industry" to "ownership of the people" and the redivision of the land among "those who work it".

It is set out in two short paragraphs in the Freedom Charter, adopted as long ago as June 1955, more than three decades before socialism and nationalisation were discredited by the collapse of the communism and command economies in Eastern Europe and the Soviet Union.

Thus, when Mr Mandela states that nationalisation of the mines, banks and "monopoly industry" is ANC policy, he is not suffering from an aberration induced by fatigue or complying with dictates of a communist cabal within the ANC.

His dramatic commitment to nationalisation, in a letter smuggled out of prison via the "people's post" shortly before his release in February 1990, was a reaffirmation of the Freedom Charter. So, too, was his re-endorsement of nationalisation in the Western Cape last month.

It is instructive to note that no resolutions were passed on economic policy at the ANC's annual conference in Durban in July, and that the Freedom Charter still stands as a cardinal document.

It is, therefore, pertinent to recall the key sentences in the Charter: "The national wealth of our country, the heritage of all South Africans, shall be restored to the people. The mineral wealth beneath the soil, the bank and monopoly industry shall be transferred to the ownership of the people as a whole ... All the land (shall be) re-divided amongst those who work it."

But, if the Freedom Charter represents the worst-case scenario for South African capitalism, there is a more positive vista for capitalists to contemplate.

The ANC, while still adhering officially to the Freedom Charter, is engaged in a vigorous debate about its future economic policy. The decision to prolong the debate instead of settling it at the July conference testifies to the intensity of the discourse.

The ANC's new policy directions are contained in a short position paper entitled "Draft Resolution on ANC Economic Policy". Adopted in May as a draft policy document by the ANC's Department of Economic Policy, it is the product of several seminars, stretching back over many months.

The manifesto contradicts the boardroom view that the ANC's economic policies are determined by doctrinaire Marxists who refuse to either acknowledge or learn from the crisis of socialism in Eastern Europe and the Soviet Union.

It declares that the ANC is in favour of a "mixed economy", explaining: "We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us."

One of those problems is the inequality of income and wealth in South Africa because of — to paraphrase the ANC manifesto — the "systematic economic exploitation and oppression of black people". Another is concentration of the "vast bulk of productive assets" in a few white hands.

"The overriding objective," writes Professor Laurence Harris of the School of Oriental and African Studies, who has worked with ANC economists, "is to raise black living standards and reduce dramatically the great inequalities that exist".

But there is greater flexibility about the means to attain that end. Nationalisation of some sectors of the economy is mooted as a possible method. It is not accorded the status of a panacea.

The ferment within the ANC over its future economic policy — there are still forces within its ranks who favour extensive nationalisation — forms the background to Mr Mandela's statement to financial notables in May last year.

"The view that the only words in the economic vocabulary that the ANC knows are nationalisation and redistribution is mistaken," Mr Mandela said. He refused, however, to rule out nationalisation all together.

The ANC leader took a firm stand against the privatisation of the huge parastatals which, until recently, were owned by the State and which were used to empower Afrikaners economically.

The ANC's commitment to debate on nationalisation is reflected in the columns of its journal, Mayibuye. It has stated the pro and cons of the policy and invited its readers to contribute to the discussion. "All of us must take part in drawing up economic policy," it says.

ANC economic policy is relatively fluid at the moment. Its fluidity is one explanation for the apparent oscillation in ANC economic pronouncements. Its parameters allow for a certain latitude.

When Mr Mandela re-states Freedom Charter policy, he may be reminding the financial barons about the deprived black community and, as the ANC has put it, about South Africa's socio-economic imbalances.

He may, however, be prompted by another consideration the perceived intransigence of the financial establishment and a desire to remind it of the ANC's iron fist and its commitment to readdressing the disparities wrought by decades of race discrimination.

The same explanations seem to hold for the recent warning by ANC secretary general Cyril Ramaphosa that a democratic government would "not be keen" to honour international loans raised by the present white Government.

Mr Ramaphosa's statement may have had another political motive: to sustain the investment boycott of South Africa until the advent of a more representative government.

The most recent controversy over a wealth tax, precipitated by the suggestion of a member of the ANC at conference, must be seen in the same general light. It is linked to the ANC's continuing search for ways and means of addressing the inequity in wealth.

The financial establishment should heed a warning from Mr Ramaphosa. Over-reaction to these and similar ideas by the financial magnates and their ideological supporters gives them greater credibility among ANC members.

The indignation of the financial establishment triggers a predictable response in ANC ranks: "If it is bad for them, it must be good for us." It may thus tip the balance within the ANC towards radicalism.

Against that, however, apparent contradiction and confusion in ANC policy may well precipitate an exodus of white capital and skills and delay, if not block, the desperately needed infusion of investment capital. Either development could be disastrous for ANC hopes of engineering a substantial upliftment in black living standards. □

Standard predicts huge govt deficit

SHARON WOOD (49)

SA's government deficit would probably be at least 4,3% (2,7% last year) of GDP this fiscal year, a Standard Bank internal document said yesterday.

A worst case scenario, if spending and revenue proceeded as they had in the first six months of the fiscal year, could see a deficit of 5% for the year, it said.

The first scenario was based on government spending exceeding the budgeted amount by R2bn; R1bn through the sale of stockpiles and R1bn through "normal" spending. B|Day 23|10|91.

Government had exceeded spending estimates by an average of R2bn during the past five years, the report said.

The revenue shortfall could rise R2bn. However, the R1bn raised from the sale of oil stockpiles would reduce the loss and result in total revenue for the year of R74bn, against the R75bn in budgeted revenue for the year.

This scenario took into account improved VAT revenue collections offsetting poor income tax collections caused by the weak economy. If the deficit was 4,3% of GDP, government would have to raise another R2,7bn to fund it; if the deficit was 5% the additional financing requirement would be R4,7bn. "Such large additional borrowing requirements could exert upward pressure on money and capital market rates."

Deficits of this size could bar the adop-

□ To Page 2

Deficit

B|Day 23|10|91. (49)

□ From Page 1

tion of a more lenient monetary policy, push up prices, crowd out the private sector from the economy, money and capital markets, and constrain long-term economic growth. High government spending and poor revenue collections in the first six months of the fiscal year had resulted in a larger than expected budget deficit.

The cumulative budget deficit had reached 71,3% of the budgeted R10,1bn in September.

Expenditure on major votes had registered massive increases. Foreign Affairs spending soared 52,5% year-on-year as a result of the parity drive in TBVC states and spending on trips abroad.

Police spending had jumped 43,7% year-on-year because of the high crime rate and unrest, it said.

Poor revenue collections up to September were attributed to the effect of a weak economy on tax collections.

Doubt deters investors

LINDA ENSOR

CAPE TOWN — There was a reticence among foreign business to invest in SA because of the political uncertainty, Cape Chamber of Industries president Ernest Wilson said in his presidential address at the chamber's general meeting yesterday.

Wilson, re-elected president for another year, said there was a lack of confidence inside and outside the country, and the question mark over SA's constitutional future would inhibit the recovery of the economy.

Several foreign delegations had visited SA recently, but while they were willing to trade, there was a reticence about investing here. Bday 23/10/91

"Investment needs are urgent in almost every sector of our manufacturing industry but neither local nor overseas investment is likely on the scale we require until the future constitution has been hammered out by the new and old constitutional players." (49)

Wilson said the country was in a "catch-22" situation in that economic growth was impossible without stability and stability depended on economic growth. Industry was concerned about the increasing burden being placed on its thin line of middle and senior management.

Marx is going, but his legacy haunts African recovery

BDay 23\10\91

(49)

LISBON — African nations committed to shedding Marxist economic policies confront a tangle of worthless currencies, outmoded production and mismanaged state enterprises.

But in Africa, the problems — which are also faced by the Soviet Union and eastern European nations — are compounded by years of civil war, a history of drought and famine.

Central bank governors of the five Portuguese-speaking African nations, Angola, Mozambique, Cape Verde, Guinea-Bissau and Sao Tome e Principe, met this month in Lisbon to discuss their predicaments.

Angola and Mozambique, the biggest of the five nations, also have the biggest problems. Both countries have had potentially solid economies undermined by savage civil wars.

Among the structural problems facing Africa's command economies are:

- Official prices that ignore market realities and have spawned flourishing black markets;
- A lack of incentives to production, savings and private investment;
- Excess liquidity caused by central banks printing money to finance state companies, resulting in falling currency values;
- Exchange rates held down artificially. One dollar buys 66 Angolan kwanzas at official rates, 800 on the parallel market;
- Lack of basic goods means external aid is used to buy essentials rather than for productive investment;
- A shortage of trained managers with experience of free market conditions.

Finding the right solutions will not be easy.

Free market moves, which are likely to result in higher consumer prices, could increase hardship for populations already mired in poverty.

Credit can be reined in and interest rates increased to encourage savings and reduce the amount of money in circulation. But governments may find that this brings on a new set of economic problems including a slowdown in economic growth.

Devaluation of national currencies eventually gives them more weight, but could also provoke a fall in confidence in banking systems and governments.

African governments have begun selling off state-owned companies in a bid to improve efficiency and boost state funds.

Mozambique has privatised 120 so far and the process is expected to accelerated in the next five years. But there is a cost too. The Angolan newspaper Jornal de Angola recently estimated that privatisation plans would slash 75 000 jobs. — Sapa-AP.

Gloomy future is seen for SA

49

Sowetan 23/10/91

Sowetan Correspondent

SOUTH Africa is facing a gloomy future with rocketing prices.

So says Professor Andre Boshoff of the University of Pretoria Post-Graduate Management School.

He told a meeting of the SA National Council on Alcoholism and Drug Dependence that in five years South Africa would be "largely impoverished and only pockets of wealth" would still exist.

He said he could not give an optimistic picture of the future South Africa. He expected inflation to remain above 10 percent annually which was a "disastrous, cancerous situation for any economy".

He said the "haves" were growing slowly and the "have nots" rapidly.

Unemployment could only be called catastrophic and was going to become more serious.

Imports would become very expensive because of the poor rand exchange rate.

Outside investors would not come to the country because of the level of violence.

He said those living on a fixed incomes, pensioners included, would struggle in the years to come.

He said Sanca would have an enormous task trying to cope with an increase in alcohol and drug abuse.

Wealth gap is narrow

Sowetan 23/10/91

(49)

THE redistribution of income process has been under way for the past 20 years in South Africa, but the business community has failed to point this out to the proponents of nationalisation.

This was said by the executive director of the SA Institute of Race Relations, Mr John Kane-Berman.

The benefits of redistribution, however, had been too narrowly spread because of low growth and unemployment, he said.

Speaking in Durban at a meat traders' conference yesterday, Kane-Berman said that, in the 1980s, black wages in the manufacturing sector increased by 29 percent, while whites' wages in the same sector increased by only one percent.

He explained that one of the reasons for the rise in rightwing political support in South Africa was the "massive redistribution of personal income from white to black", over the past two decades.

"Despite the persistance of huge backlogs and inequalities, gaps have been narrowing between black and white.

Redistribution in South Africa was being experienced in the form of trade unionism, urbanisation, deregulation, education and training, upward mobility on the jobs ladder, and the budget.

He explained that, while business argued against nationalisation and redistribution of wealth by refering to international failures of this system, they "dont look at their own doorstep" when debating the issue.

African National Congress president Mr Nelson Mandela had recently reiterated his challenge to businessmen to provide an alternative to nationalisation to address economic inequalites in South Africa, but alternatives were already in practice in the form of free unionisation and budgetary redistribution.

"Black unionisation has spread this redistribution, although it was being spread too narrowly because of low growth and rising unemployment," Mr Kane-Berman added. - *South African Press Association.*

ANC's economic perspective discredited

Star 24/10/91 (49)

The Freedom Charter's economic perspective is completely discredited, not only by events in the socialist countries, but also by events both in Africa and Sweden.

You often hear the ANC talking about a mixed economy. Examples of such economies which were oriented to capitalism are Zaire and South Africa. Zaire nationalised all mines and natural resources but the national treasury only benefited Mobutu and his cohorts.

Yet in SA, where many large enterprises like the steel industry, railways, posts and telecommunications, etc., were State-owned, this benefited only a white minority because all these enterprises relied on the taxpayers' money to become viable.

Workers in these enterprises were the most unproductive. In SA poor whites were upgraded because the majority of other races were mercilessly exploited.

If the wealth of the whole country was redistributed, everyone would receive a only few hundred rands.

The new concept of levies on assets to redress economic inequalities is another variant of the above. The pathetic call by ANC president Nelson Mandela to business to come up with alternatives is an open admission of ANC/SACP bankruptcy of ideas.

They had been brainwashed with the communist planned economy teachings. It is ironic that these "experts" cannot today be employed in the former socialist countries.

The other Western-trained ANC economic experts are just confused university academics who have never owned and run a small business. Confusion reigns supreme within the ANC.

Mjolie Shwabada

Evaton

B/Day 24/10/91

A vote for capitalism

INEQUALITIES in SA were the result of the racially exclusive manner in which apartheid was applied and not capitalism, Foreign Affairs deputy minister Renier Schoeman said in Scotland yesterday.

(49)

Schoeman, addressing businessmen and community leaders in Glasgow, said it would therefore be a mistake to substitute a socialist system for capitalism in SA.

Experts foresee economic recovery

Sowetan 24/10/91

By JOSHUA RABOROKO

SANLAM'S economists foresee an improvement in general economic activities for 1992.

The upswing will progress slowly, however, chief economist Mr Johan Louw says in his latest economic survey.

The present recession has now lasted about 30 months, compared to the average 17 months for recession since World War 2.

Louw regards it as significant that the intensity of the present downswing is considerably lower than that of the previous two recession phases.

The recession can to a large extent be attributed to the weak and uncertain growth of the agricultural sector.

Louw regards the following as signs that the economic downswing is bottoming out:

- The leading economic indicator has been showing an upward tendency since January;
- The public sector's current expenditure is showing a reasonably sharp and expansionistic increase;
- The change to VAT forms part of a fiscal package that should encourage private consumer spending as well as capital investment by companies; and
- The continued improvement in the balance of payments and the lifting of sanctions;

PR facade hides true state of SA's development efforts

B/Day 24/10/91.

ERIC LOUW (49)

WHILE it is widely acknowledged that entrepreneurship plays a vital role in the economy, there is not much agreement regarding how, or even whether, entrepreneurs should be assisted in the process of starting and growing their businesses.

With the possible exception of lobbying for appropriate regulation, attempts to stimulate entrepreneurship amount to interventions in a complex socio-economic system, the full effects of which are difficult to control and measure. If development organisations really knew what they were doing we could safely applaud their efforts. Unfortunately, this is not the case.

Present-day entrepreneurship promoters are rather like 19th-century physicians, who understood but poorly their patients' bodies and their diseases. They based most of their treatments on supposition, heuristics and trial and error.

Through lack of knowledge and skill, many doctors did far more damage than good. Happily, succeeding generations of doctors learned from the mistakes of their predecessors and from research. The fruits of their learning are obvious.

If entrepreneurship promotion succeeds in traversing its own learning curve, it will become a genuinely useful instrument with which to pursue goals such as job creation, economic growth and the equalisation of wealth. Perhaps one day it will be possible to prescribe, with confidence, specific entrepreneurship-promotion measures to treat specific economic ailments, but we are nowhere near the point at present.

Despite what many entrepreneurship promoters would like their sponsors to believe, and despite the fact that there are many dedicated organisations trying to assist entrepreneurs, it is not possible to claim that entrepreneurship promotion has had a positive net effect on job creation, economic empowerment and growth. It is important to understand why the impressive statistics trotted out by development organisations are not to be trusted, and why this misinformation can be damaging.

First, the opportunity costs of funds channelled to a particular programme are seldom brought into the equation. In the light of this country's resource crisis, it is not enough to demonstrate that funds are being well used — it is imperative that the funds be used in the most effective way possible. It is inexcusable to tie up funds in a programme that is inching towards a goal when there may be other programmes that could race towards that goal. In this regard, it is important to distinguish programmes that address the causes of SA's economic problems (such as Bantu education and mercantilism) from those which merely patch up the symptoms.

Second, the question of marginality is seldom discussed. It would be easy to quote examples of less-than-scrupulous organisations claiming to be able to transform our economy. However, it is more instructive to examine the position of a major player with a high degree of integrity, such as the Small Business Development Corporation.

The SBDC claims to have "promoted 280 000 job opportunities at an average cost of R3 831 per job" since its inception (Marketing Mix, September 1991). This devalues the entrepreneurs' contributions in terms of creativity, effort and their own money. It also ignores the possibility that many of the entrepreneurs who were given subsidised loans could have funded their businesses in some other way.

Are we to believe the SBDC has single-handedly created more than 5% of the formal jobs in SA? If that is the case, then the commercial banks, which lend vastly more money to small businesses than does the SBDC, must have created the rest of the jobs — an absurd conclusion. And if the SBDC is really so good at creating jobs, perhaps it would be wise to give them a few billion rands more so they can wipe out unemployment completely. In reality, while some development organisations may make useful contributions, these contributions are marginal at best.

Third, many organisations avoid tackling the really difficult problems. They inevitably take the line of least resistance and help clients who are accessible and easy to work with. They thereby exclude clients who may have a greater need and excellent potential, but who are difficult to serve.

It is, for example, easy to provide subsidised loans to white clients who come close to meeting commercial loan criteria. It requires a more innovative approach to set up a viable lending operation for black clients not able to get bank loans. Organisations which shy away from this challenge and channel most of their funds to white entrepreneurs cannot claim to be a vehicle for black economic empowerment. They, however, often make such claims, using smoke-and-mirror tactics to conceal rather than reveal what they are doing. For example, while the SBDC supports more black than white entrepreneurs, it channels close to two-thirds of its funds to whites.

Finally, interventions can distort markets, displace jobs, create dependency and shield beneficiaries from competitive forces — to the ultimate detriment of the economy, other businesses and even the beneficiaries themselves.

The real problem with these distortions is not so much that development organisations are less effective than they might be, but that the motivation to improve their effectiveness is blunted. Because their "customers" (the beneficiaries) have far less power than conventional customers, development organisations are less sensitive to market forces than commercial organisations. Development organisations do not need to be good at development in order to survive — they need to be good at fund-raising and fund management.

Any genuine attempt to evaluate the effectiveness of a development organisation's work is a direct threat to its management's vested interests. As a consequence, evaluation projects are sometimes rigged to produce results that support the organisation's propaganda.

Alternatively, when objective independent evaluations are performed, the results are seldom made available to the public. It would be useful if evaluations of Development Bank of SA programmes were more widely available. As it is, however, the net effect is that learning grinds to a halt, old mistakes are repeated when they can ill be afforded and stakeholders are lulled into believing the country's problems are being taken care of.

This article is not an attempt to criticise the work of development organisations — it is entirely possible that some excellent work is being done. But little effort is devoted to discovering what is being done well and what poorly, while a great deal of time and energy is devoted to shaping perceptions.

The article also implicates the funders of development organisations whose first priority is often to get as much PR mileage out of their sponsorship as possible. Even though research may be the best tool for helping development organisations to become more effective, who wants to sponsor such an unphotogenic activity, especially when it cannot be translated into a specific number of grateful beneficiaries? Worse still, the results of research may take some of the warmth out of the glow induced by other activities.

The time has come for development organisations and their sponsors to drop the PR facade and start building on what is of real value behind it. If they fail to do this, then the facade will be torn down anyway, together with anything of value.

There is a growing cynicism among the purported beneficiaries of entrepreneurship development. Unless development organisations can demonstrate the value of their work, "entrepreneurship promotion" may become a dirty phrase in the SA of the future.

☐ **Louw is senior consultant at the Wits Business School's Centre for Developing Business.**

Warning bells should be heard

(49) Sowetan 24/10/91.

LONDON - Mystified? Despairing? How does one describe the reaction of businessmen here to the latest pronouncements by the ANC on economic policy?

Outside the Foreign Office (which receives daily analyses), there can be few people in [illegible]tin who know what the devil is going on in So[illegible] Africa.

Even businessmen with close contacts cannot be expected from this distance to be able to decode the daily rhetoric. It was simple before the Enlightenment (February 1990): there were goodies and baddies, and it needed no great effort to make up your mind. Now it's all fogging over.

South Africa should not push its luck. Incomprehension begets indifference and indifference begets switch-off. Already, the media's eyes glaze over when South Africa's name is mentioned, because the pattern is no longer understood.

Sanctions evoke no more than a knee-jerk interest, and even reports of violence are read more for the horror than for what they reveal about the state of politics.

When businessmen's eyes start to glaze over, the warning bells should be heard.

Sanctions evoke no more than a knee-jerk interest in Britain today, and even reports of violence are read more for the horror than for what they reveal about the state of politics.

Ritualistic

Not only the ANC is to blame. What are people here to make of the almost ritualistic slaughter of innocent blacks by hit-men with AK-47s?

The Government's denial of complicity makes sense - the killings threaten the negotiations process and frighten off foreign investors. But why are the legendary security forces unable to catch the killers - because they can't, or because they won't? Either explanation is deeply worrying.

Businessmen I have spoken to make some pertinent comments on the ANC's economic pronouncements (nationalisation, repudiation of foreign debts, seizure of one-third of personal assets over 10 years - all subject to explanations, qualifications and codicils).

First, they accept that the ANC, after 30 years in exile, is still finding its feet; that it is perfectly entitled to address the issue of "redistribution", whatever this means; and that a measure of rhetoric, even a large measure, is to be expected, because of the impatient activists snapping at the ANC's heels.

But, they say, the ANC understands as well as anyone else that South Africa's economic recovery (as Mr Louis Shill, chairman of Sage, told a SA Foundation forum here recently) has become a race against time.

When statements are made on economic issues, therefore, the consequences must be weighed. The feeling about the ANC here is that it does not know where to draw the line between playing games and playing for real.

The ANC cannot tell foreign investors one day that they will be nationalised, the next day that they will not be nationalised, then that they will be nationalised again, and now that they will be nationalised only with compensation.

Snakes and ladders

It cannot play snakes and ladders with economic policy. Investment does not work like this.

It takes time to make investment decisions and then to implement them - sometimes two or thr[illegible] [illegible]ars may elapse between the two points.

If the ANC wants foreign investment, as indeed it does, it will have to play by the rules of investment. If it knows of other rules, it should say so.

Second, and this is what really worries businessmen here, it seems that ANC economic policy is becoming more, not less, contradictory, that the future is becoming more, not less, opaque, and that the ANC is getting itself more, not less, into the mire.

The conclusion that is drawn from this analysis is that the ANC's dilemma is deep-seated, and that it is entangled in contradictions that are becoming unmanageable.

The organisation was unable to reply definitively whether Mr Cyril Ramaphosa or Mr Tito Mboweni were stating official policy, because there is no official policy.

The best it could manage was to say that ANC policy was in a state of "flux," but that it would be clarified at conferences later this year or next year.

The ANC repeatedly has pleaded with South African business leaders to suggest an alternative to nationalisation and "redistribution," warning that otherwise it would have to impose its own (unpalatable) policies.

The reason for the strategy has been ex-

The understanding of businessmen here, however, is that some of South Africa's conglomerates have responded to this plea by inviting talks on the whole issue, but that the ANC has been evasive - that it has dodged the talks, saying it is not ready for them.

This raises the whole question of how tenable the ANC's strategy is of making do with discussion papers and working documents instead of drawing up policies.

plained often enough: if the ANC makes the

CYRIL RAMAPHOSA

transition from liberation movement to political party, defining its policies in the process, it will lose members (and leaders).

So it wants to postpone the policy decisions until it is safely in power.

This is perfectly natural: the ANC knows the days of its existence as a "broad church" are coming to an end, and the option of prolonging the "liberation" format is the eminently desirable one.

But the question potential investors are asking is whether this strategy can be reconciled with their own need for definitive directions and unambiguous policies.

Recovery

It is the same with sanctions. The ANC feels the only leverage it has over the Government is international economic pressure, but this same pressure postpones the day when the country's recovery can begin.

The question these investors are asking goes right to the heart of the ANC as a challenger for political power.

Can it resolve the contradiction between wielding economic pressure and mobilising its supporters on the one hand, and participating in South Africa's reconstruction on the other?

If the ANC can answer this question, the future might look a little less opaque.

- Sowetan Correspondent

Call for economic forum

Sowetan 24/9/91

(49)

By JOSHUA RABOROKO

SOWETAN VAT SEMINAR

TRADE Unions called for the establishment of a negotiating forum to involve all major players in the economy.

The call was made by the Congress of South African Trade Unions and the National Council of Trade Unions at the *Sowetan's* VAT crisis seminar yesterday.

Cosatu general secretary Mr Jay Naidoo told delegates that a much deeper malady in the country existed than VAT. The fact that the Government continued to take unilateral decisions despite the fact that it was by no means representative of the people.

He said there was a broad consensus on what problems faced the South African economy.

Rampant poverty, large-scale unemployment, lack of housing and decent schooling.

The economy's heavy reliance on the export of minerals and agricultural products and the lack of development in the manufacturing sector.

Naidoo said: "The Government and big business are either trying to solve these problems unilaterally or in a piecemeal way. Thus we have seen the initiation of a numerous micro-economic restructuring framework.

"The process will not only be rejected by the majority of the people but it can be dangerous and ineffective in the absence of a national framework which has the support of the major players.

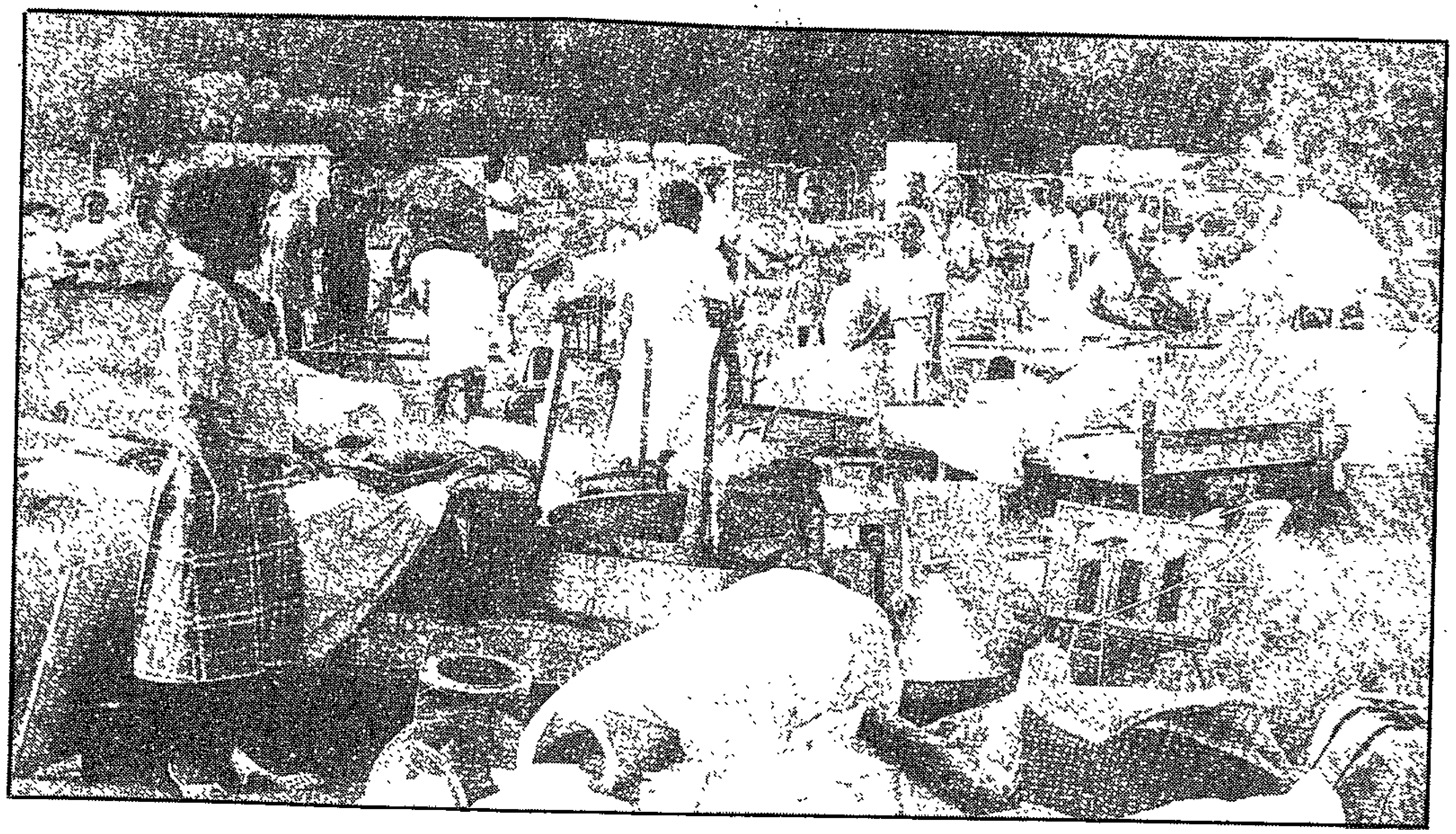
"That was why small and big business, the Government and political organisations should come together to solve the problems, he said.

How's this, Mr Mandela?

Star 25/10/91.

(49)

Even as Nelson Mandela challenged business to come up with an alternative to nationalisation, senior Johannesburg Consolidated Investment (JCI) economist Ronnie Bethlehem was putting the finishing touches to his proposal for a "Growth and Development Strategy" for South Africa. SHAUN JOHNSON and MAGNUS HEYSTEK summarise the painstakingly researched and complex JCI argument. The core of the thesis is that you need an economic accord before the political negotiations are completed, and that you can give to the "have-nots" without taking from the "haves".



Homelessness and the housing shortage . . . the bleakest elements in an already bleak situation. Ronnie Bethlehem (above) believes he has an answer to the mess South Africa finds itself in.

THE SOUTH African economy certainly needs a "kick-start", according to the JCI proposal, but the key to success lies in sustaining it. The JCI proposal goes along with ANC president Nelson Mandela's view that there is no way of addressing South Africa's critical economic problems, and its horrendous imbalances, without a "national development strategy". But, Mr Bethlehem says: "We would go further and add things, producing a growth and development strategy.

"South Africa is a small, open economy heavily dependent in its industrial dimensions on the global economy. Therefore we have to formulate policy having regard to the uncertainties of a market system." But uncertainty in this sense brings opportunities, he says, and the only thing really holding SA back is social and political instability. "South Africa is actually a very exciting country in its potential — not a rich country, but an extremely exciting investment opportunity, attracting risk capital, let alone loan capital."

Mr Bethlehem believes the economic debate has progressed from a "growth versus redistribution" debate to something more sophisticated where the concepts are not seen as mutually exclusive. "There's a huge deprived population, and it was thought there was no way you could address it without taking from haves to give to the have-nots.

"I don't believe the haves need be hurt at all. If the State is going to be a leader in this transformation, it is not going to do so by direct intervention in the economy, but by acting through market forces and creating the incentives for the private sector to deliver the wherewithal of improving the disposition of the deprived masses."

According to Mr Bethlehem, this "may mean restructuring consumption downwards as far as the First World economy is concerned. But the way to do that is not to wave a finger in the face of First World consumers and say 'gentlemen, you've being spending too much and enjoying yourselves too much'. It is to give them the incentives, through high levels of personal savings, to generate the flow of funds to finance capital formation and other activities that are focused on the restructuring of the South African economy."

At the outset, JCI believes a Growth and Development Strategy (GDS) will be "dead in the water" if it is the exclusive proposal of one interest group — it must be "commonly owned by Government, political organisations, communities and organised business and labour".

Mr Bethelem says businessmen should not be frightened of using the word "restructuring", as "market economies restructure themselves all the time". Demographics is in any event forcing restructuring in SA, he says, and the question is the form in which it takes place.

Unemployment

The JCI proposal does not shy away from granting the State a role in both growth and redistribution, as long as this is done in tandem with the market. To put the enormity of the problem into context, Mr Bethlehem sets out a "vicious cycle of past failure", describing in detail "the South Africa we're trying to escape from".

He shows that from 1960 to 1990 unemployment increased from 1,5 million to 6 million, with an average unemployment growth rate of 4 percent each year. Employment, by contrast, grew at only 0,7 percent in the 1980s.

He sets out four scenarios. *Bleak House* is a maintenance of the economic status quo. *Great Expectations* says that employment grows at a rate sufficient to balance off the increase in the economically active population. This requires a "highly unlikely" growth in employment for the rest of the decade at 4,2 percent a year and of GDP at 13,1 percent.

The third scenario is called *Pipe Dream*: Employment grows by 8,5 percent a year (a million people a year) and abolishes unemployment by the end of the century. This would require annual GDP growth of at least 8,5 percent: "You would require an extraordinary and sustained globally environmental improvement in South African circumstances for that to happen."

The fourth scenario is in fact the JCI proposal, called *Faith, Hope and Foreign Bankers*. "We say you've still got GDP growth at a higher rate than employment growth, you achieve a balancing off of the growth of economically active population with the growth of employment. That in a sense is the best long-term objective we can have — that you stabilise unemployment at this present level . . . as the population increases, employment as a percentage of economically active population starts to diminish."

The JCI proposal illustrates inequality in SA in great detail, highlighting homelessness and the housing shortage as perhaps the bleakest elements in an already bleak situation. The population is restructuring itself, says Mr Bethlehem — the black share of total urban population will be 75 percent in the year 2010, from 29 percent in 1900. "There is a net population transfer occurring from the rural to the urban areas, from the agricultural economy to the industrial economy."

JCI believes the only way to save the industrial economy is to decouple it from the rural economy.

He offers a stark analogy: "Off the beach are three drowning men. The lifesaver goes out to save them. He must know when he gets there that he is not going to be able to say to them: 'Gentlemen, I can save you one at a time', because they're going to be grasping at him irrationally. If he doesn't go there with a way of saying 'look, I will give you something to hang on to while I save the first guy and then come back and save the second guy', all four of them are going to drown.

"What we have got to do here in a sense is while we concentrate on the industrial dimensions of the society — because this is where South Africa is going to be saved in the large measure — we have to simultaneously formulate a rural renewal strategy."

An additional problem for SA, says the proposal, is that the restructuring of the body politic — let alone the economy — is in its early stages. "We haven't yet started on negotiations for a new constitution, we're waiting for a multiparty conference, we're waiting for a government of national transition, we don't know whether we're going to have a constituent assembly."

This leads to a key conclusion: "The economy can't wait for all this to be sorted out. So we need not only a peace accord, but an accord on the economy. And we have to design it to be commonly owned."

This would require addressing the pressing economic and social problems now, while the political problems are still being debated.

"We're not putting the State into the role of building houses and training artisans — you can leave that to the construction sector, formal and informal. The purpose of the restructuring of State expenditure is to create the bottom-line incentive for the private sector. Debt is going to arise here with home ownership — that debt has to be securitised and built into the asset structure of the financial sector somehow.

"You would see it happening not through compulsion, by the mechanism of investment, but rather through the mechanism of the market through positive real interest rates creating the inducement to the private and financial sectors." The social accord is the crucial foundation for this.

The JCI proposal emphasises the intricate linkages involved, whereby everything from construction to education to living conditions affect the efficacy of the other.

JCI sees some of the funds for such projects coming from the "post-apartheid dividend" — cuts in defence spending, and the abandonment of the failed, expensive Government decentralisation effort.

Kick-start

Central to the GDS is a "restored growth path". Mr Bethlehem says a permanent upward trend is probably impossible in the short term, but one can envisage overlapping "growth phases".

"Phase one, your kick-start phase, has a limited durability.

"Therefore we must have a vision of what comes beyond kick-start in terms of balance of payment, employment, inflation, interest rates . . . how all these things relate to one another. The State is not going to come up with a grand command plan forcing the relationships. It all has to happen in the context of market adjustments — you allow the thing to happen through the market process but you also have to have a vision of the logical sequence."

Mr Bethlehem argues: "We want to convert South Africa into a country largely in current-account deficit, the deficit of which is now being financed by capital inflows. In phase one there is going to be no escaping the fact that some of those inflows will be debt inflows, but what you want to do is to provide that you are already beginning to see net capital inflows. For that to happen you have got to get rid of the financial rand.

"By the end of phase three, risk capital inflows are the most important element of the financing of the current account deficit debt capital."

The GDS provides for a restructuring of income and ownership, to address the marked "deficiency of black shares of both income and wealth". This would occur both through market processes and share incentive schemes. Home ownership is seen as one of the most important vehicles in this regard.

It is envisaged that, as in the Soviet Union, there could be "joint ventures between capitalist, limited liability companies and more socialist-style co-operative enterprises". This would lead to "expanded black participation in the economy".

"It is through joint ventures between the formal and informal economy that so much will come. You could even imagine in the agricultural sector joint ventures between conservative white farmers and emerging black small enterprises. Joint ventures is a magic way of approaching the problems of SA."

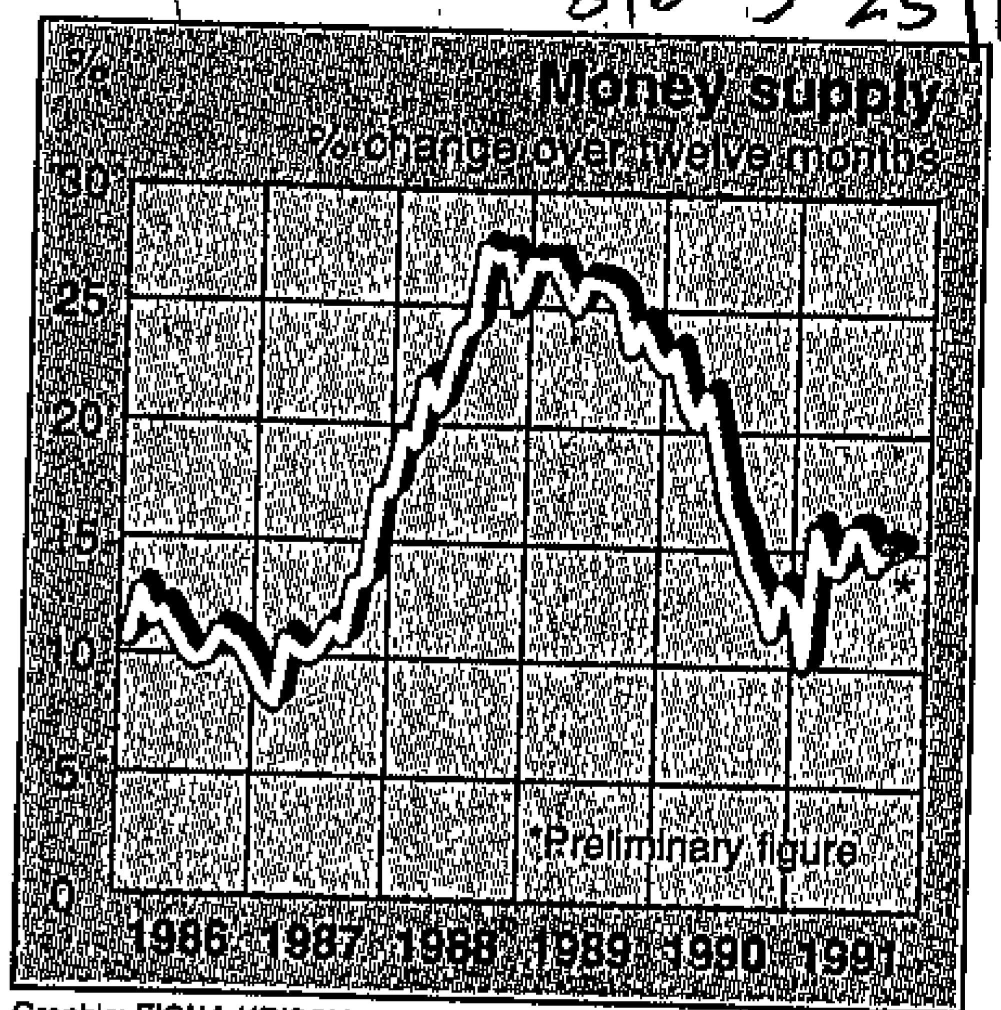
JCI's GDS has been presented to, among others, the Reserve Bank and businessmen. It is hoped that it will get a much wider airing. For Mr Bethlehem, the crucial purpose at this stage is to get people to "start asking themselves the critical questions. Because we are going to have a new government at some time in the near future, and that government is going to have to do things, to take initiatives. And if we are not anticipating the questions, we are going to be done for.

"The main object of this exercise is to get those questions discussed. We're right at the beginning of the process, and it's frighteningly late already. But the one thing we cannot do is nothing." □

M3 figure moving to target

B Day 25/10/91. (49)

SIMON WILLSON



Graphic: FIONA KRISCH Source: SA RESERVE BANK

BROAD money supply growth remains well above the authorities' guidelines for calendar 1991, but the rate of monetary expansion most keenly watched by the Reserve Bank continues to dip towards the Bank's target range.

Figures released yesterday by the Bank show the annual rate of growth in M3, the broad measure of money in circulation, at a preliminary 15,1% in September against growth in the year to August of a final 15,2%, revised from a preliminary 14,5%.

Although the change in year-on-year M3 growth is minimal, the rolling increase in M3 based on the average for the fourth quarter of 1990 has been falling steadily

☐ To Page 2

M3 figures

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☐ From Page 1

towards the 8%-12% guideline set by the authorities earlier this year. The rolling M3 increase to September slowed to 15,1% from 16,7% in August — it stood at 23,4% as recently as May.

Bankorp chief economist Nick Barnardt said it was clear from the September M3 figures that the year-on-year increase in the aggregate for the fourth quarter of this year would be above the 8%-12% guideline, with an outturn close to 15%.

This figure was, however, still highly distorted by reintermediation associated with the Deposit-Taking Institutions Act. A more accurate picture was gained by looking at the underlying trend between February and September this year.

"The seasonally adjusted, annualised rate of increase in M3 between February and September looks like a single-digit figure. We foresee that the year-on-year change in M3 will also decline to single digits during the first and second quarters of next year."

Barnardt said such a slowing underlying trend should contribute to a reduction in official lending rates during the course of next year, as it would reflect a slowdown in the demand for credit.

A possible further distortion to the money supply aggregates mentioned by Barnardt was the impact of the introduction of VAT. There had been a clear trend of postponement of capital expenditure until after the implementation of VAT. There was a matching expectation that corporate spending on capital products would, therefore, rise once the tax was levied.

BUSINESS

SA companies: Take the money and run?

W Mail 25/10-31/10/91.

49

Are the big companies getting their cash out in case they're nationalised? Maybe not, but money has been flowing out of the country.

REG RUMNEY reports

A COMMONLY held belief is that — never mind foreign companies disinvesting — local firms themselves have been "disinvesting" from South Africa.

They have, according to this view of things, pre-empted nationalisation by funneling huge amounts of money into subsidiaries overseas.

Worse, there is a belief that big companies have somehow circumvented South Africa's exchange control regulations to get money out.

One shibboleth has to be disposed of immediately: some South African-owned companies abroad have been there for so long it is fairly pointless asking where the money came from originally. For instance, De Beers has been an international operation since the 1930s. So while its separation into a South African arm and a foreign one was clearly aimed a wrong-footing any sanctions attempts, it does not represent disinvestment.

Economix director Azar Jammine notes that because of the devaluation of the rand over the past 10 years sums held overseas that did not seem large when they were taken out now seem huge in rand terms. This might give some the idea that huge amounts of money were taken out.

But the perception that companies are either ready to ship their money out, or have already started doing so, isn't helped by the culture of secrecy that pervades South African business.

For instance, section 15 a of the Companies Act allows companies to apply to the Registrar of Companies to hide from public scrutiny certain information for strategic reasons.

Companies registrar Mossie Janse van Rensburg admits, though he cannot say how often, this provision is used to suppress information about offshore subsidiaries and associates of South African companies.

Also, permission would be necessary from South Africa's exchange control authorities.

Given that offshore companies about which the public may know nothing have been set up, have these been used to ship large capital sums out of the country to pre-empt nationalisation or in anticipation of a black government coming to power?

Jammine reckons that the moment it became obvious large sums were being moved out the government in power would move to block the exit.

This is not to say money has been taken out of the country. Jammine surmises the reason the wealthier citizens of South Africa haven't emigrated is that they have already feathered financial nests in other countries.

But there has been a big "capital flight" from South Africa during the past 20 years — or rather it is estimated there has been a big flight of capital, for by the nature of the phenomenon it isn't easy to determine.

That throws up another problem: when a company takes money out a country to invest it elsewhere, when is it a commercial decision to maximise profits and when is it capital flight?

Is capital flight caused only by political fears or economic factors?

A paper by BW Smith and EA Mocke, published in the latest *SA Journal of Economics*, discusses the definitions and the measurement of capital flight. They estimate — depending on means of measurement — capital flight from 1970 to 1988 to be between \$13-billion and \$22-billion.

The authors conclude, through the use of a complex econometric model, that both political and "pure" economic factors are important in explaining capital flight from South Africa.

The economic factors include exchange rate overvaluation, poor macro-economic conditions and the availability of foreign exchange.

"The results also provide for the explanation of 'normal' capital outflows, particularly trade-related flows, included in the capital flight measures."

How to stop capital flight? Thinking in African National Congress circles is that the government hasn't acted purposefully or strictly enough in preventing capital-flight.

But here the focus should shift to individuals and smaller companies.

Anglo economist Gavin Keeton argues outflows from bigger companies are easily traced, because they have to present public accounts. Individuals, he says, have much more latitude to dodge exchange control.

It has been remarked that without exceeding civilised norms of policing it is difficult to act against phenomena such as over and under-invoicing — ie getting a friendly overseas company (or one you own) to charge too much for something you import into the country, and then having that company deposit into your (illegal) foreign bank account the difference between actual worth and amount paid; or charging a company too little for something you export, and once again having that company deposit into your foreign bank account the difference.

Exchange control itself has had bad side-effects.

Jammine reckons it was a mistake for the government not to allow companies to invest funds abroad in the early 1980s when money was flowing in because of the high gold price.

The conglomerates would then not have been forced to buy up local companies, so increasing economic concentration in South Africa.

All of which points up the desirability — the practicality is another matter — of liberalising the investment environment rather than tightening controls again.

In a small corner of the globe, communism thrives despite all. Yes, it's SA

W Mail 25/10 — 31/10/91 (49)

GAYE DAVIS ponders the riddle of why the SACP gets stronger while world communism gets weaker

COMMUNISM may have been blown out of the water on the other side of the globe, but in South Africa, the party's not yet over.

Those who believe the South African Communist Party should disband in the face of the failure of its ideology elsewhere should note that the SACP is now bigger than ever before in its 70-year history.

It doesn't necessarily follow that the party is also stronger. But in the months since its unbanning early last year the SACP has emerged as something of a beacon of hope for those elsewhere in the world who, while they might now eschew communist doctrine, still cherish a socialist ideal.

On December 4, SACP delegates will gather in Soweto to debate a new manifesto and ratify a constitution during the party's first legal conference inside South Africa since 1950.

By then, party officials hope membership will have swelled from a mid-September tally of 16 626 to "between 20 000 and 25 000" — a base on which they plan to build.

In themselves, the figures are hardly startling. But it should be remembered that the party only emerged above ground early last year; that most of its skilled cadres have been engaged primarily in building its alliance partner, the African National Congress, and that it has had to deal with a radically changed political situation both locally and internationally.

For sociologist Eddie Webster, the party is both stronger and weaker: "To many activists, it stands for a more radical redistribution of wealth than does the ANC and is stronger in the sense that it enjoys more support than before.

"Paradoxically, it is also weaker, in the sense that a lot of the ideological cement that's held it together has to be re-thought and alternatives fleshed out. It lacks a clarity of vision or a programme to back it up. Whether the party rises to this challenge at its congress remains to be seen. It's certainly too early to start writing obituaries."

To write the party off as a future political force would be to miss a fundamental point: that the whirlwind of change which swept through Eastern Europe and the Soviet Union barely ruffled the consciousness of the majority of its supporters in South Africa.

Charles Nqakula, convenor of the party's national organising committee, identifies the biggest single problem confronting the SACP as its present inability to reap the wealth of support it enjoys among people who remain convinced that "socialism is the answer to all our problems".

"There has been a slowness in our putting infrastructures on the ground because the cadres are doing ANC work. But this has nothing to do with people not wanting to join the party," Nqakula said.

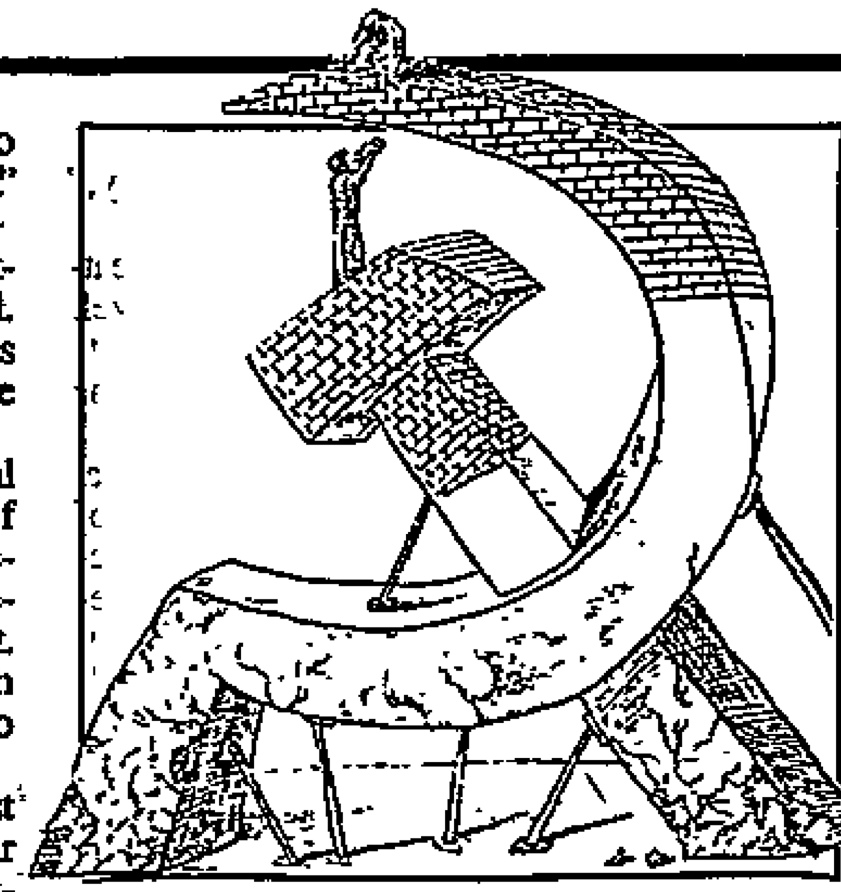
It has, however, had quite a bit to do with creating ideological confusion at grassroots level. Why should activists join the party when its immediate aims extend no further than getting the ANC up and running?

For Dr Mike Morris, of the Centre for Social and Development Studies at the University of Durban-Westville, the paramount challenge facing the party is the need to establish itself as independent of the ANC and the labour movement. But he believes the party is ill-equipped — both organisationally and ideologically — to step into the future.

"Given the party's inability to confront its past and the fact that it has no current policies bar those of the ANC, I can't see it maintaining political coherence. Either it will collapse into the ANC or whittle away to a hard core of supporters.

"It is not building an alternative socialist perspective, but asking people to build another organisation. It needs to establish itself as an independent force," Morris said

But internal leadership group member Jeremy Cronin sees nothing anomalous in the party's present role: it is working towards its first goal — achieving a national democratic transformation



take years, according to Cronin. Only then will the way lie open for the party to achieve its ultimate goal — a socialist state.

This is why the party has been able to accept that it will not be getting Umkhonto weSizwe's Chris Hani, because the ANC's need for him is greater. For the same reason general secretary Joe Slovo will not be available for re-election.

This is also why the party is giving the impression of being caught in a leadership crisis. When party veteran Raymond Mhlaba (71) was tipped recently to become Slovo's successor, critics charged that the SACP was headed back to the dinosaur era.

But perhaps the post might go to someone like Charles Nqakula: now 49, he was born and bred in Cradock and later worked as a journalist in the Eastern Cape until his banning in 1981. He founded the Veritas news agency in 1982 before going into exile in 1984. After undergoing military and political training in Angola, the Soviet Union and East Germany, he covertly re-entered South Africa to emerge above-ground just before the ANC's June congress.

Mhlaba and Nqakula mirror what observers see as the old and the new within the SACP: an old guard nostalgic for the strength of the Russian bear at a time when the rest of the world has turned its back on the ANC; and more innovative thinkers happy to jettison old ideological baggage to forge a new socialist vision.

Cronin believes an emerging perspective within the party holds the key: the view that socialism cannot work in the absence of democracy — and that the stifling of democracy by a relentless bureaucracy lies at the roots of communism's collapse abroad.

"To understand this is to better understand the party's strength in South Africa," he said. "In Eastern Europe, mass-based organisations withered. Here they are robust."

Traders flock to fair in Bulawayo

B/Day 25/10/91

MICHAEL HARTNACK

HARARE — SA companies have snapped up exhibition space at next April's Central African Trade Fair in Bulawayo following the removal of a Zimbabwean ban on their participation.

Trade fair GM Graham Rowe told the Zimbabwean Financial Gazette 27 SA exhibitors had confirmed their participation and another 20 were expected.

President Robert Mugabe's government has also rescinded 11-year-old bans on participation by South Korean and Taiwanese exhibitors, but they have not responded.

The presentation of an SA government stand at the fair was reportedly mooted by diplomats when they met their Zimbabwean counterparts in Pretoria last month, to discuss re-negotiation of the 1964 "most favoured nation" trade agreement Zimbabwe inherited from the Rhodesian government.

Zimbabwe's reaction is not yet known.

South Africans have not participated since 1979.

Because of the increase in the number of exhibitors, only limited space could be offered each one, said Rowe.

Germany aims for stronger SA links

B/Day 25/10/91. 49

BILLY PADDOCK

GERMANY hoped to develop and intensify economic co-operation and other relations with SA to help strengthen the economy, German Agriculture Minister Ignaz Kiechle said yesterday after meeting Foreign Minister Pik Botha in Pretoria.

Favourable political and economic development in SA would have a positive impact on neighbouring countries and could be a driving force for stability in the sub-Saharan region, he said in a statement.

Botha said he was pleased Germany would continue to contribute to southern Africa and other parts of the world in need of development despite the tremendous demands made on it in the reconstruction of east Germany in a new unified Germany.

During their meeting he had explained to Kiechle the difficulties of designing a new constitution and had emphasised the necessity of economic growth in southern Africa in order to support whatever constitution was agreed upon, Botha said.

"Without economic growth there will be no future for any of us in South or southern Africa."

Kiechle said southern Africa should pull together economically and politically and only if SA survived would the rest of southern Africa have a chance.

Earlier Kiechle held discussions with President F W de Klerk on bilateral relations between the two countries.

De Klerk said they had exchanged information on the progress of German reunification and the economic challenges flowing from it. "I also gave him some indication of plans to improve agriculture in SA and broaden private property ownership through development schemes."

Kiechle said he and De Klerk had agreed peace was possible in SA only with economic development.

Kiechle also met Agriculture Minister Kraai van Niekerk, ANC secretary-general Cyril Ramaphosa, members of the ANC Land Commission and representatives from other groups including agricultural, business and research organisations.

German Agriculture, Food and Forestry Minister Ignaz Kiechle examines a wooden African statuette at a curio shop in central Johannesburg yesterday. Kiechle, who is on three-day visit to SA, met President F W de Klerk, cabinet ministers and ANC officials yesterday. Kiechle said Germany hoped to help strengthen SA's economy.

Picture: ROBERT BOTHA

Churches maintain stand on sanctions

B/Day 25/10/91

CAPE TOWN — There should be no general lifting of sanctions against SA until violence was controlled and agreement reached on an interim government, representatives of local and international churches said in a major policy statement in Cape Town yesterday.

The document, known as the Cape Town Statement, is the outcome of a four-day conference held under the auspices of the World Council of Churches and the SA Council of Churches.

It called for the establishment of a peace-keeping agency with all major political groups represented, for a general amnesty for political prisoners and exiles, and for restitution for blacks who had lost land and opportunities under apartheid.

University of Cape Town theologian Prof Charles Villa-Vicencio, one of the drafters of the statement, said in an interview that details of what sanctions could be lifted were not discussed because the church was not competent to make these decisions. — Sapa.

PAC puts blame on SA business

(49)

THE PAC has blamed domestic business rather than sanctions for the poor state of the country's economy.

PAC first deputy vice-president Johnson Mlambo told journalists after a conference in Botswana - aimed at drawing up an economic policy for a non-racial democratic South Africa - that sanctions should be maintained for the meantime.

But he added: "Sanctions played only a minor role in the poor performance of the South African economy.".

Mlambo said the PAC believed South Africa had suffered over-reliance on primary production and too little emphasis on other sectors, particularly manufacturing.

"An important issue we learned from this conference is that the very people who call out against sanctions, the domestic business corporations, are the ones who practice sanctions. They externalise the country's assets and come back as external investors." Sowetan 25/10/91

Mlambo said South Africa's external assets had grown to R56 billion in 1988.

But he said foreign sanctions against Pretoria should stay until a constitutional assembly was elected to draw up a new constitution.

He said the PAC was undaunted by the demise of communism in Eastern Europe.

"We are in no way intimidated by the collapse of totalitarian systems in Eastern Europe. The PAC believes that socialism can be practised within the framework of a democracy," he said. - *Sapa-Reuter.*

Economists unfazed by trade surplus dip

49 CT 25/10/91

SA's trade surplus dipped to R1,47bn in September after soaring to R1,89bn in August.

But economists pointed out yesterday that it was still an encouraging figure and forecast that, with the lifting of sanctions and an expected improvement in the world economy, it was likely to remain at a high level.

Figures released by the Customs and Excise yesterday show that exports dipped in September to R5,76bn from R6,10bn in August. But they were nearly R1bn above the R4,81bn of exports in September last year.

Imports rose to R4,29bn from R4,21bn in August and R3,63bn in September last year.

Exports between January and September rose to R48,98bn (R44,82bn). Imports were also higher at R36,94bn (R33,49bn).

The trade surplus for the first nine months of this year was R12,04bn (R11,33bn).

Boland Bank chief economist Louis Fourie said the higher import figures showed there was "more buoyancy in the economy than is generally thought. Import volumes are higher than they were in the 1986 downturn."

He thought the recession in the US, UK and Europe had reached its lower turning point, which meant markets for SA exports would improve.

"I am optimistic about our exports next year, given the opening up of new markets as sanctions disappear."

Old Mutual chief economist David Mohr said: "R1,47bn is still quite a big surplus and our balance of payments (BoP) position is still encouraging."

Amalgamated Banks of SA (Absa) economist Jeremy Sicelmore said the trade surplus in August had been abnormally high. One reason for this was that the Government had released surplus stocks of oil for use on the domestic market, cutting the import bill.

He said the slight decline in exports, month on month, was "either seasonal or a bit of a quirk.

"The figure of R1,4bn is still a very good surplus and we expect it to continue at that level."

Sanlam chief economist Johan Louw said he thought imports had reached "a core level" and were unlikely to come down further. "The dip in exports is not enough to worry about. We can expect fluctuations from time to time."

Safto economist Bruce Donald said there had been a 27% rise in imports of textiles. Imports of footwear and accessories had risen by 71%. But this was "likely to take a knock in future months as the performance of SA's retail sector flattens."

Donald said SA's exports were "improving steadily after a dismal export performance in the first quarter of the year."

KENNISGEWING 986 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 30ste dag van September 1991

	1991-09-30	1991-08-31	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	10 306 112 064,00	10 105 766 166,00	200 345 898,00
Deposito's:			
Regering	4 745 672 650,64	4 902 829 765,88	(157 157 115,24)
Provinsiale administrasies	605 348 026,01	595 052 704,44	(10 295 321,57)
Depositonemende instellings	995 770 400,54	1 049 943 524,43	(54 173 123,89)
Ander	110 884 774,90	88 420 320,99	22 464 453,91
Ander laste	10 760 343 438,66	10 171 816 745,70	588 526 692,96
	R27 603 963 217,86	**26 993 661 090,55**	**610 302 127 31**
Bates			
Goud	5 383 636 627,00	5 411 247 895,85	(27 611 268,85)
Buitelandse bates	2 630 585 528,19	2 549 651 337,81	80 934 190,38
Totaal aan goud en buitelandse bates	**8 014 222 155,19**	**7 960 899 233,66**	**53 322 921,53**
Binnelandse bates:			
Gediskonteerde wissels	1 902 440 000,00	2 309 440 000,00	(407 000 000,00)
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 116 739 387,44	1 119 585 168,64	(2 845 781,20)
Sekuriteite:			
Regering	572 161 094,64	499 704 688,54	72 456 406,10
Ander	1 122 985 044,00	1 122 985 044,00	—
Ander bates	14 875 415 536,59	13 981 046 955,71	894 368 580 88
	R27 603 963 217,86	**26 993 661 090,55**	**610 302 127,31**
Rand per fyn ons	886,82	911,76	(24,94)
Goudbesit in fyn onse	6 070 721	5 934 948	135 773

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 8 Oktober 1991.

NOTICE 986 OF 1991

49

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of September 1991

	1991-09-30	1991-08-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 306 112 064,00	10 105 766 166,00	200 345 898,00
Deposits:			
Government	4 745 672 650,64	4 902 829 765,88	(157 157 115,24)
Provincial administrations	605 348 026,01	595 052 704,44	10 295 321,57
Deposit-taking institutions	995 770 400,54	1 049 943 524,43	(54 173 123,89)
Other	110 884 774,91	88 420 320,99	22 464 453,91
Other liabilities	10 760 343 438,66	10 171 816 745,70	588 526 692,96
	R27 603 963 217,86	**26 993 661 090,55**	**610 302 127,31**

	1991-09-30 R	1991-08-31 R	Change R
Assets			
Gold	5 383 636 627,00	5 411 247 895,85	(27 611 268,85)
Foreign assets	2 630 585 528,19	2 549 651 337,81	80 934 190,38
Total gold and foreign assets	**8 014 222 155,19**	**7 960 899 233,66**	**53 322 921,53)**
Domestic assets:			
Discounted bills	1 902 440 000,00	2 309 440 000,00	(407 000 000,00)
Loans and advances:			
Government	—	—	—
Other	1 116 739 387,44	1 119 585 168,64	(2 845 781,20)
Securities:			
Government	572 161 094,64	499 704 688,54	72 456 406,10
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	14 875 415 536,59	13 981 046 955,71	894 368 580,88
	R27 603 963 217,86	**26 993 661 090,55**	**610 302 127,31**
Rand per fine ounce	886,82	911,76	(24,94)
Gold holdings in fine ounces	6 070 721	5 934 948	135 773

C. J. SWANEPOEL,
General Manager.

Pretoria, 8 October 1991.

(25 Oktober 1991)/(25 October 1991)

KENNISGEWING 987 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

ARTIKEL 30 VAN DIE WET OP DEPOSITONEMENDE INSTELLINGS, 1990

KANSELLASIES VAN REGISTRASIES: ABSA MOTORBANK BEPERK, ALLIED BANK BEPERK, ALLIED BOUVERENIGING BEPERK EN VOLKSKAS BANK BEPERK

en

NAAMSVERANDERING: UNITED BANK BEPERK

Hierby word vir algemene inligting bekendgemaak dat die registrasies van **ABSA Motorbank Beperk, Allied Bank Beperk, Allied Bouvereniging Beperk,** en **Volkskas Bank Beperk** as depositonemende instellings op 1991-09-30 gekanselleer is nadat hulle bates en laste na **United Bank Beperk** oorgedra is, waarna laasgeneomde se naam na **ABSA Bank Beperk** op dieselfde datum verander is.

(25 Oktober 1991)

NOTICE 987 OF 1991

SOUTH AFRICAN RESERVE BANK

SECTION 30 OF THE DEPOSIT-TAKING INSTITUTIONS ACT, 1990

CANCELLATIONS OF REGISTRATIONS: ABSA MOTORBANK LIMITED, ALLIED BANK LIMITED, ALLIED BUILDING SOCIETY LIMITED AND VOLKSKAS BANK LIMITED

and

CHANGE OF NAME: UNITED BANK LIMITED

It is hereby notified for general information that the registrations of **ABSA Motorbank Limited, Allied Bank Limited, Allied Building Society Limited,** and **Volkskas Bank Limited** were cancelled as registered deposit-taking institutions on 1991-09-30, following upon the transfer of their assets and liabilities to **United Bank Limited** whereupon the name of the latter was changed to **ABSA Bank Limited** on the same date.

(25 October 1991)

KENNISGEWING 988 VAN 1991

SUID-AFRIKAANSE RESERWEBANK

ARTIKEL 30 (B) VAN DIE WET OP DEPOSITONEMENDE INSTELLINGS, 1990

KANSELLASIES VAN REGISTRASIES AS DEPOSITONEMENDE INSTELLINGS VAN STANDARD KREDIETKORPORASIE BEPERK EN STANDARD BANK KORPORATIEWE FINANSIERING BEPERK

Hierby word vir algemene inligting bekendgemaak dat die registrasies van **Standard Kredietkorporasies Beperk** en **Standard Bank Korporatiewe Finansie-**

NOTICE 988 OF 1991

SOUTH AFRICAN RESERVE BANK

SECTION 30 (B) OF THE DEPOSIT-TAKING INSTITUTIONS ACT, 1990

CANCELLATIONS OF REGISTRATIONS AS DEPOSIT-TAKING INSTITUTIONS OF STANDARD CREDIT CORPORATION LIMITED AND STANDARD BANK CORPORATE FINANCE LIMITED

It is hereby notified for general information that the registrations of **Standard Credit Corporation Limited** and **Standard Bank Corporate Finance Limited** as

POLICY

ACKNOWLEDGEMENT:
LEARNING NATION is published by NEW NATION and developed and edited by the SACHED TRUST. SACHED generates the material through networking with service organisations, lobby groups and freelance writers. NEW NATION produces and distributes the supplement

THE ECONOMY 1

(49)

New Nation (Learning Nation) 25/10 – 31/10/91.

One of the most heated policy debates has been the one about economic policy. Even before the ANC and other previously banned organisations had established themselves in the country, the ruling class and its newspapers like the Star, the Business Day the Cape Times and others started to pressure the ANC about whether it supported capitalism. Why is the ruling class and its supporters so concerned about the ANC's economic policy? What can we do to shape a future economy for South Africa? In this article we will look at the issues facing the democratic movement in the debate on economic policy.

THE IMPORTANCE OF ECONOMIC POLICY

An economic system is the way all the goods and services in a country are produced and distributed among the people in that country. Under capitalism the production of goods like food, clothes and houses is geared towards making profits for the owners of the factories, mines and shops. It is clear that since the economy is concerned with what goods are produced and how they are produced it forms the basis of all the areas of policy like education, health, housing and land. The economic system also determines the kind of government a country has. In capitalist countries for instance, the capitalists always ensure that the government protects private property. We can see therefore why economic policy is very important and why all the oppressed people, especially the working class, have to take the debate on economic policy seriously and participate in it.

MASS STRUGGLE AND ECONOMIC POLICY

The ruling class and its spokespeople always like to argue that economic policy must be formulated by "experts". They say that economic policy is too "complex" or difficult to be understood by ordinary workers and youth. This view is also emerging within working class organisations. As a result many issues are being discussed in small committees where ordinary workers do not participate. But throughout the years, workers and youth have waged many struggles that have raised issues around economic policy. In the course of struggles in the townships it has become clear that the lack of provision for housing and high rents are related to an economic system that emphasises profits. It has also become clear that Bantu education was closely linked to an economy based on cheap labour. The struggles against privatisation of health services also show that ordinary workers are taking up questions of economic policy in their daily struggles. At the moment one of the big battles taken up by workers and their organisations is the struggle against VAT. It is clear that the struggle against VAT is a struggle over how the economy is run and in whose interests it is run.

It is incorrect to say that the discussion of economic policy can only be undertaken by experts. **Economic policy is the bringing together of all the demands that have arisen in the course of many struggles around education, wages, housing, taxation, union recognition, retrenchments and many others.** The key issue facing organisations is how the demands and aspirations that have emerged in the struggles will be brought together to ensure an economy that emphasises the interests of the working class.

THE ECONOMIC CRISIS

The current debate on the economy is taking place during a serious economic crisis in South Africa as well as in other capitalist countries. The Eastern European countries and the Soviet Union, whose economies have been run along Stalinist bureaucratic lines, are also experiencing a deep economic crisis. In South Africa, as in all capitalist countries, the economic crisis has led to serious erosion of the living standards of the working class. **Large-scale retrenchments** have affected workers in many industries and it has become impossible for school leavers to find work. In 1990, 80 000 jobs were lost in mining. The **health** of the working class has also **deteriorated** sharply. The number of children who die soon after birth has escalated sharply and TB, which is caused by poverty, has increased within the working class. Prices have been rising very fast, especially food prices, which means that the working class now **has less to eat** than before. For instance, food that cost R100 in 1985 now costs R220. The economic crisis has also has also meant that **fewer and fewer houses** have been built. Those people in the township that bought houses with the help of building societies have lost their houses following their failure to pay high bonds. Even among the white middle classes, **many have gone bankrupt** and lost all their property. Many **small companies have closed down** and they have been taken over by the big capitalists.

THE CAUSES OF THE CRISIS

The basic cause of the crisis comes from the fact that capitalism is a very **unstable economic system**. As an economic system capitalism goes through periods of growth and periods of decline. What keeps the ups and downs quite smooth is the fact that even in a downturn the bigger capitalists can find sections of the economy to invest in a way that they can ensure a new upturn. In South Africa however capital is not being invested. **In fact profits made are mostly leaving the country or being kept by the banks and insurance houses rather than being invested.** Between 1970 and 1988 as much as **R65 billion rand** has left the country. But at the same time that so much money is leaving the country and the bosses are not investing in major new enterprises, the capitalists who control the economy and whose main aim is profit try to find other ways to increase their profits. This leads to fierce competition among capitalists; to the introduction of new machines and to retrenchments and so greater unemployment.

THE RULING CLASS'S RESPONSE

The capitalists in South Africa have not built any new factories partly because of wanting to be certain that their property will be secure in the new South Africa. Despite this the state is already taking measures to restructure the economy in favour of the capitalists. The state has begun to **privatise** companies like Sasol, Escom, the Post Office and many previously state-owned companies. The state has also begun phasing out subsidies on important items like bread and transport. Health services are also being privatised and through VAT the state is also **shifting the tax burden** from capitalists to the masses of the people. Through its policy of **deregulation** the state is also attempting to weaken the trade union movement and reverse the gains that have been made on the shopfloor. As a result of deregulation the capitalists will be protected by the state against paying a living wage, maintaining safety standards and recognising many worker rights that have been won in the past.

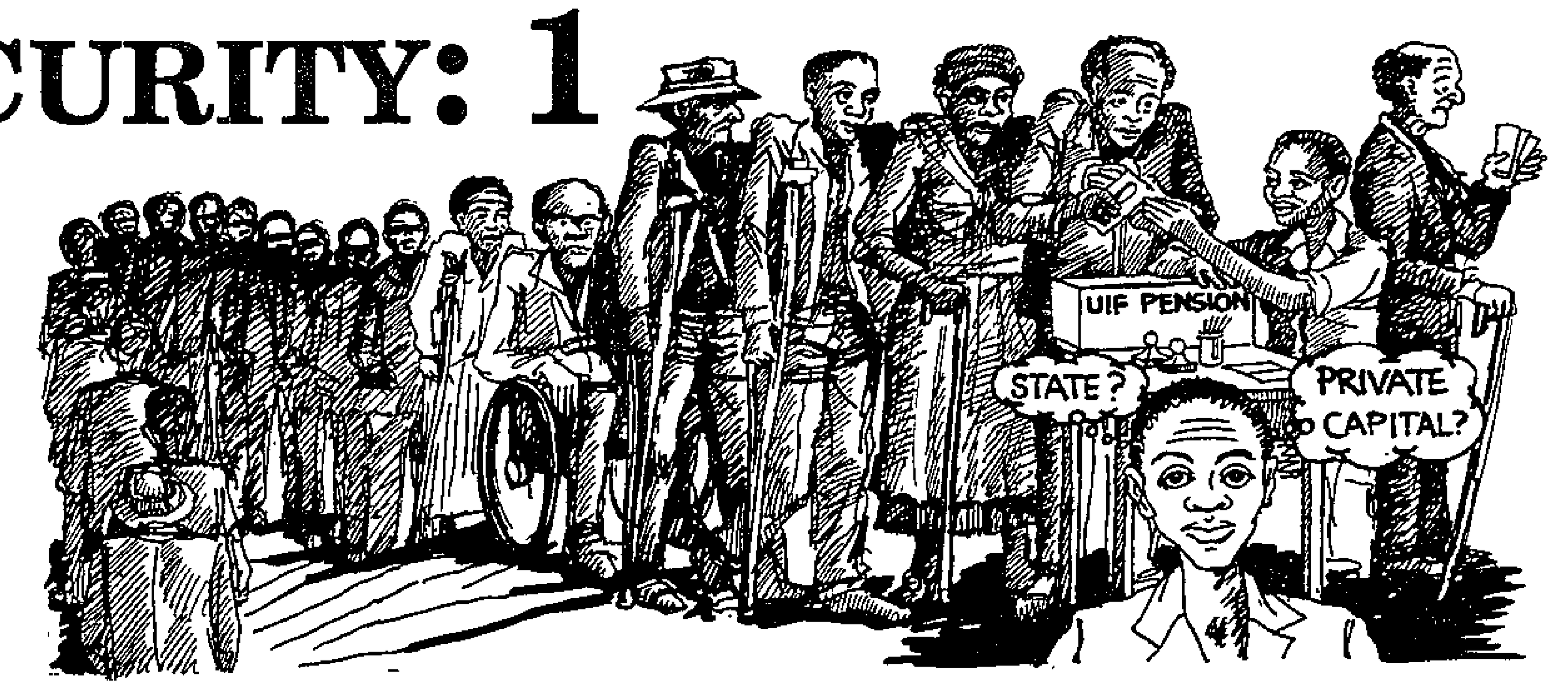
Through its restructuring the state is entrenching private property and capitalism. The state's restructuring - especially its privatisation — is also making the economic crisis and its effects worse. We have seen that the basic source of the crisis lies in capitalism and its search for profits. The entrenchment of private property can therefore only lead to further crisis and to the deterioration of the living standards of the working class.

It is clear that the state is undertaking serious restructuring of the economy already. Any formulation of economic policy must therefore map out a programme of action to counter what the state is doing now. Economic policy can clearly not be about what will only happen in the future. It must be about how to respond to the current problems facing the working class and its organisations.

Next week we will look at the choices facing the working class and its organisations in its debate on economic policy.

POLICY

SOCIAL SECURITY: 1



New Nation (learn Nation)

Social Security For All

25/10 - 31/10/91.

Mass organisations are seeing a need to ~~take~~ up struggles around social security issues like unemployment and retirement. This is not a sudden development. In 1983 workers embarked on spontaneous strikes in many areas over the government's proposal to freeze pension fund contributions. This would have meant that workers who lost their jobs would not get refunds of their contributions until they reached retirement age. But workers argued that most of them do not reach retirement age - only 1% of black workers actually reach retirement age. The strikers also argued that is when they are unemployed that they actually need the money most. The retirement money is also too little to live on anyway. Finally, the state withdrew this proposal.

CURRENT SOCIAL SECURITY DEMANDS

A the moment workers' organisations like Cosatu are making their own proposals. They have demanded that a Living Pension should be paid by the state to everyone. At Cosatu's recent Fourth Congress they called for the state old-age pension to be equalised immediately on a non-racial basis. Here are some of the other calls Cosatu has made around social security:

* We oppose the decentralisation of state old-age pensions to bantustan governments. There should be one single scheme for all South Africans.
* We call for better access for pensioners to receive their pensions, and more information to be available to everyone to help people claim their state old-age pensions.
* All state employees should receive the same benefits. Presently higher-paid workers have much better schemes. Usually it is white, coloured and Indian public servants who are given these benefits, at the expense of the mass of lower-paid workers and black taxpayers who provide most of the money.
* People with temporary jobs should get the same benefits as permanent workers.
* We call for one national provident fund in each industry, rather than separate funds in companies. Most workers only keep their jobs between four and seven years so they never build up enough reserves in any one fund to make up a sufficient pension.

These national funds should be controlled by workers because most of the money comes from workers' contributions. Workers want to be able to invest this huge pool of money in worker colleges or whatever their social needs might be. There was an estimated R7 528 million just in contributions in 1986; about R4 386 million was paid out.

Workers are also calling for a **Living Unemployment Insurance Fund** benefit. This would then provide for households where the breadwinners have no job and are too young to qualify for pensions. The state should extend the existing programmes of public works e.g. building roads.

Other benefits include illness, maternity, dependants' and adoption benefits.

This fund covers less than 46% of the population. Domestic workers, casual workers and farmworkers are among those excluded. (This figure does not include the bantustans or it would be lower still.)

The number of workers employed in state job creation schemes is dropping: from 30 121 in 1985/86 to 10 988 in 1987/88.

Other, similarly administered, state benefits which you can claim include a blind pension, a war veteran's pension, a disability grant, a parents' grant, a foster-care grant and a children's grant.

The demand for a Living Unemployment Fund looks at the more than six million people who are unemployed, or about 43% of the economically active population. Most of these people are young, including work seekers who have never had a job. This unemployment rate is rising at the rate of one million every three years. So, we can see that the economy is going to have to change very radically to provide all the jobs that are needed.

It is also very difficult to claim Unemployment Insurance Fund when you lose your job. There are many forms. Claimants have to wait at least two months and the money is less than half of what you were earning when you had a job. You will only receive one week's pay for every six weeks you worked, up to a maximum of six months. You also have to prove that you are looking for a job.

CURRENT OLD-AGE PENSION SCHEMES

Mass based organisations are presently struggling against a system where the state old-age pension is different for Africans, coloureds, Indians, and whites. For black pensioners, claiming pension money is hard. People have died waiting in pension queues outside in the cold or the heat or the rain. Pensioners are robbed. Clerks defraud pensioners. Most banks and building societies will not open accounts for pensioners, because pensioners are forced to withdraw their money almost immediately. For most white pensioners, the money is paid into accounts or sent to the post office.

There are also huge race-based differences in the provision of other facilities for housing and feeding the old, ill or the young.

STATE POLICY

From the time of the tricameral Parliament in 1983, the state has responded to its ongoing fiscal crisis by trying to shed responsibility for pensions and unemployment benefits. It has called for the private sector and individuals to take over responsibility for providing for retirement. The government says that private agencies should take over social welfare programmes such as feeding schemes and creches for children. The state wants social security schemes to be privatised.

The state is also persisting in dividing people by race. Pensions and unemployment benefits are different, and administered differently, according to the race to which you are alleged to belong. More recently the state has been saying that each community must provide for its own, according to their accepted standards. This comes to the same thing: the old and workless in squatter townships will suffer compared to those in retirement villas or drawing civil service pensions in the suburbs.

Even after February 1990, when De Klerk's government pledged itself to pay R2 billion to schemes to share out the country's wealth, nothing has changed. Again, as the state puts the squeeze on workers through the new 1 October Value Added Tax (VAT) on most goods and services, the state is promising to "redistribute" more money to the poor. Recent estimates say this would come to about R2,25 per household per month, or barely enough to buy two loaves of bread. This is if the money even reaches most poor township families.

The Minister of Finance said in his Budget speech last year that 40% of the Budget would be devoted social services like education, health, housing and welfare. Where did it go?

Businesses are not accepting this handover of state responsibility. Many bosses refuse to negotiate provident funds. In the chemical industry, workers in some companies have fought strikes of over two months long without winning a national industry-based fund. Most bosses are rejecting the right of workers to fight together on a national level, and bargain for social security benefits centrally. Employers are also rejecting industry level funds which would cover the unorganised.

Instead the majority of bosses are attacking workers daily through retrenchments to keep their profits up. We also know that bosses are retrenching workers to keep their profits up.

WHO DOES THE STATE CARE FOR?

You try answer this question based on your daily experience. You might like to think about how Workmen's Compensation works. The laws largely operate to protect bosses; e.g. by preventing workers from taking legal cases against their employers when they are injured on duty. Racial discrimination on social security benefits is built into the laws. The laws also penalise most workers e.g. unemployment and Workmen's Compensation benefits are never enough because they are directly linked to incomes and therefore for most black workers they are calculated on less than half of already low wages. Under this system of apartheid capitalism, we have a situation in 1987 where the Africans who were 74% of the population earned 27% of the income, while the whites who were 14% of the population earned 62% of the income. We think we need a system where benefits are the same for everyone and are linked to the cost of living. What do you think? We will have more on Social Security next week.

Why Coase matters

FM 25/10/91.

(49)

Henry Kenney is a lecturer in the department of business economics at Wits

The award of the 1991 Nobel Prize for Economics to Ronald Coase is a belated act of justice to a man who should have received it long ago: he has for many years been an outstanding figure in the world of economics.

But Coase is more than the typical ivory tower theorist of popular fancy. His contribution to the understanding of economic systems is both huge and highly relevant to the real world. Once we grasp the arguments we see why some of the diehard rationales for State intervention and regulation are no more than poor economics and special pleading.

Coase has written much but his reputation mainly rests on what has come to be known as the Coase Theorem, expounded in a 1960 article, *The Problem of Social Cost*, which made him famous in the profession.

Before this article a standard justification among economists for government intervention in the economy was based on the notions of "market failure" and "externalities." A classic example is that of the firm which pollutes the atmosphere in its pursuit of profit. As nobody owns the air the firm does not bear the costs of pollution. It will then generate an amount of pollution which is undesirable from the point of view of society.

These costs are borne by third parties who have no say in the levels of pollution. As the costs are not reflected in market prices they are known as external costs.

In short, the market is supposed to have failed and government must do something about correcting the externalities, like imposing direct controls or effluent taxes.

Coase's work on social cost came to change the way economists saw the role of government. His argument was startlingly simple: as long as legal entitlements or property rights are well defined, and the costs of transacting are zero, then market forces will ensure an efficient allocation of resources. This, briefly, is the Coase Theorem.

One of Coase's examples will illustrate the point. A wood-burning locomotive emits sparks that set fire to farmers' fields. Before Coase, economists would have held that the way in which property rights were defined would determine the outcome. If farmers had the right to enjoin the railroad and prevent it from operating as long as it emitted sparks, then the damage to them would be negligible. But if the railroad could operate as it pleased the damage to farmers from sparks would be substantial.

Coase argued that it is irrelevant who owns the property rights. All that matters is that they should be clearly defined, for legal entitlements can be bought and sold.

In our example, if farmers have the right to enjoin the railroad, they can sell this right. In other words, the railroad can buy the right to emit sparks. Alternatively, if the railroad has the right to emit sparks, it can sell the right. Farmers will then pay the railroad for a legally binding promise to cut spark emissions. In each case there will be an optimal amount of emission, arrived at by exchange.

The point of all this is that the railroad and the farmers have an incentive to trade legal entitlements with one another as long as there are potential gains from trade. The law proposes but the market disposes. If property rights are clearly specified and the costs of transacting are zero the different parties will bargain their way to efficiency.

The policy implications of the Coase Theorem are fairly straightforward. Markets "fail' because property rights are not or cannot be clearly specified. Once they have been specified, market forces will sort out the allocation of resources. It follows that the traditional argument for government intervention based on market failure and external effects suddenly loses much of its potency.

It does not follow that there is no role for the State in economic affairs. There is, however, no prima facie case for intervention.

It is justified only when, as with the provision of public goods such as defence, market forces will not do the job. As we now know, there is also "government failure." The costs of intervention by politicians and bureaucrats who pursue their own self-interest cannot blithely be ignored or wished away.

Reach agreements

Coase's basic message is that institutions matter. Private parties will have an incentive to reach agreements with one another when there are gains from trade. However, transaction costs, namely, the costs of doing business, entering into contracts and enforcing them, are usually significant.

The challenge then becomes to devise institutions which will minimise such costs. As Coase said of his theorem: "It is in any case but a preliminary to the development of an analytical system capable of tackling the problems posed by the real world of positive transactions costs."

He has provided strong theoretical reasons why some institutions should be better than others at reducing the costs of doing business, most obviously privately owned firms as against nationalised firms. After Coase, the case for State intervention in the economy can never be the same again.

Stop standing in the wings, banker tells business leaders

Star 17/10/91.

By Michael Chester (49)

A top banker has urged business leaders to play a far bigger role in helping to shape a new socio-economic era "rather than stand in the wings while the drama is played out by others".

The appeal was made yesterday by Standard Bank managing director Dr Conrad Strauss at the annual national convention of the South African Chamber of Business, held in Pretoria.

In an open rebuke, Dr Strauss said: "The failure of the business community to present a coherent view of what constitutes a desirable future economic structure for this country must be a source of concern to thinking South Africans of all shades of opinion.

"There is not one voice, nor is there one body, which can credibly claim to represent business interests as a whole in any discussions with those who purport to represent the black majority.

"Economic prospects for South Africa rest on more than an analysis of financial and economic technicalities.

"They also hinge on the response of powerful and influential bodies and individuals to the expectations of the people.

"At the moment, the stage is being dominated by players whose economic ideas and pronouncements are of dubious value, whose view of the world is coloured by the inequalities and injustices of the past and who see solutions to our problems through simplistic measures," Dr Strauss said.

"We have to present rational proposals in a timely way through a single, representative, umbrella business platform.

"Such a national business forum would represent one of the few components of South African society that is not ideologically driven and is therefore flexible enough to develop processes and structures that meet the legitimate needs of the people."

Unless this was done, there would be no peace or prosperity in the country, Dr Strauss told the businessmen.

Germany seeks stronger SA ties

Star 25/10/91 49

Germany reaffirmed its interest in strengthening the economy of South Africa yesterday.

The visiting German Minister of Agriculture, Ignaz Kiechle, said after meeting Foreign Affairs Minister Pik Botha in Pretoria that he hoped to intensify good relations between the two countries and develop stronger economic co-operation.

He said later in a statement that favourable political and economic development in SA would have a positive impact on neighbouring countries and could be a driving force for stability in the region.

Demands

Mr Botha said he was pleased Germany would continue to contribute to southern Africa and other parts of the world in need of development despite the tremendous demands that would be made on it in the reconstruction of the eastern region of unified Germany.

This was reassuring and a welcome statement on his part.

Mr Botha said that during their meeting he had explained to Mr Kiechle the difficulties of designing a new constitution and emphasised the necessity of economic growth in southern Africa in order to support whatever constitution was agreed upon.

"Without economic growth there will be no future for any of us in South or southern Africa," Mr Botha said.

Mr Kiechle said southern Africa should pull together economically and politically. Only if South Africa survived would the rest of southern Africa have a chance.

Mr Botha and Mr Kiechle described the meeting as constructive, friendly and straightforward. Mr Kiechle said he would convey the information he had been given to Chancellor Helmut Kohl.

Earlier Mr Kiechle met President de Klerk, with whom he held in-depth discussions on bilateral relations between the two countries.

Mr de Klerk said at a news conference that they had exchanged information on the progress of German reunification and the economic challenges flowing from it.

Said Mr de Klerk: "I also gave him some indication of plans to improve agriculture in South Africa and broaden private property ownership through development schemes."

Agreed

Mr Kiechle said he and Mr de Klerk had agreed that peace was possible in SA only with economic development.

"People can only live peacefully together if there is a sound economic base."

Mr Kiechle will be meeting Agriculture Minister Dr Kraai van Niekerk and representatives from black opposition groups, and agricultural business and research organisations, before departing for Namibia on Sunday. — Sapa.

Cards on the table

FM 25/10/91

(49)

Cosatu general secretary Jay Naidoo explains why a general strike against VAT has been called for November 4 and 5.

***FM*: Will this strike be a damp squib — like the last two stayaways?**

Naidoo: We are confident that the majority of our members and a much larger body are going to come out on this issue. Skyrocketing prices are central in the minds of people, black and white, in their daily lives and the economic situation of the majority is being steadily eroded by this government.

Could you suggest a better alternative to VAT?

We have not opposed VAT in principle. We said, zero-rate basic foodstuffs, water, electricity, medical services; make provision for small businessmen; allow a process of negotiation so that maybe we can arrive at a different way to implement VAT. The problem has been the intransigent attitude of government on this issue, particularly the Minister of Finance, which differed very substantially from its approach in reaching the peace accord.

Is VAT not being used for the bigger goal of forcing government into some kind of joint economic policy-making forum with Cosatu?

Absolutely — and it is a legitimate demand. We have a government that represents only a white minority. It is logical that the rest of the people and their organisations will demand the right to a say, especially in this transitional period, relating to policy that may impact on a future democratic SA.

Doesn't Cosatu have a socialist agenda? If so, it's hard to see a joint economic policy body with business and government agreeing on fundamentals.

That's why we've stated previously that an economic forum really has to deal with concrete issues — the structural crisis that faces this economy and how to create growth, provide jobs, meet people's needs and become internationally competitive. To do that we really have got to leave behind the "isms" and identify the problems and solutions to them. There's got to be an agreement that establishes a national framework within which we operate and within it there will be rights and responsibilities. The key issue is to establish a national economic reconstruction programme, not go about it piecemeal.

Barend du Plessis has said this must wait for the multi-party conference.

We cannot develop an economic future for SA as a working group of the all-party conference. Secondly, the government's view is that organised business and unions have no role in the multi-party conference. Thirdly, the economic future of this country is not a side issue of a political agenda, that's why we insist on two equally important agendas that must run concurrently.

Are you encouraged by Du Plessis' remarks at the IMF about the "invaluable assistance" that "a type of social accord between government, business and labour" can provide?

We would be encouraged if Barend du Plessis said that to us directly and if we are then able to negotiate in good faith the kind of accord that is required. We will not accept government determining what is good for us, which they've done for 40 years. If they accept the principle that any process has to be jointly agreed, then let them come and talk to us.

Does Du Plessis' statement open the way to calling off the strike?

The ball remains in the government's court. We are open to a negotiated settlement of the VAT crisis and it depends very much on what proposals they put forward. We are not calling the strike in order to be vindictive, as the *FM* suggests, but to pressurise government into a process of bona fide negotiations. If we can do so, the strike is not necessary.

Is the aim of the strike not part of a plan to ensure Cosatu's place in an interim government, distinct from the ANC?

Cosatu wants an interim government that represents a government of national unity, for clear economic and political reasons. But we know that there's got to be a levelling of the playing fields, so that there's an understanding that no individual organisation is going to dictate the agenda. This is central to Cosatu's interests. There's been no suggestion in Cosatu that we want to be represented in an interim government. There is debate and a commitment from us to enter forums where issues affecting SA's future would be determined.

Can the strike be seen as an act of political symbolism aimed at ensuring support for the ANC ahead of the all-party talks?

The call for a general strike arose from a very deep anger people feel about the misuse of taxpayers' money following Inkathagate, the CCB, white elephant projects such as Mossgas and so on. There's a lot of anger, that a government, at the point of transition and saying it wants to negotiate, introduces a restructuring process that creates adverse conditions for us.

'Mixed economy before socialism'

PAC opts for pragmatism

Star 26/10/91 (49)

KEN VERNON

A TOP-LEVEL planning conference of the Pan Africanist Congress, convened to map out an economic programme for South Africa, has concluded that while a socialist state remains the organisation's ideal, rapid economic growth via a mixed economy is the immediate priority.

Cloistered

"PAC policy is that there must be a redistribution of wealth in South Africa, but the conference decided that redistribution must be fuelled by economic growth," said Johnson Mlambo, PAC deputy president and conference chairman.

The more than two dozen economists from the PAC and its affiliated organisations were cloistered for almost a week at a motel outside the Botswanan capital of Gaborone to come up with the economic recommendations, which are to be presented for approval to a PAC national conference scheduled to be held early next year.

"This conference is an important step in the formulation of an overall economic policy for the PAC," said Mr Mlambo. "We have arrived at what we feel is an understanding of the basic nature of the South African economy — its strengths and weaknesses — as well as its problems both at present and in the future."

He painted a bleak picture of the present state of the economy, saying it had been in decline since the 1960s and remained unattractive for foreign investment.

He said the short-term nature of the country's debt structure made it vulnerable to external pressures, and that the conference had been struck by the small role played in the economy by the manufacturing sector.

The conference highlighted the housing shortage and high unemployment — saying that up to 45 percent of potentially economically active blacks were unemployed or underemployed — as other major problems.

"Unemployment is of particular concern among the youth. Violence will not abate while these youths are on the street instead of at work," Mr Mlambo said.

"We also suffer from a massive underdevelopment of our manpower resources that must be resolved, but we feel the present regime is trying to circumvent this problem by turning to Eastern Europe for skilled workers instead of launching training programmes here."

Benefited

The conference also looked at what it termed the "high level of externalisation" of assets by major corporations.

"These are the people who benefited the most from apartheid and now are conducting what amounts to sanctions against South Africa by transferring assets abroad," said Mr Mlambo.

The conference had come to the conclusion that any solution to these problems would need to be an "all-sided approach involving various forms of ownership".

This included private ownership, parastatal ownership and State ownership, he said, but at the same time he ruled out any large-scale nationalisation.

He said the PAC appreciated the negative impression nationalisation would have on organisations such as the World Bank and International Monetary Fund.

Asked if this pragmatic approach meant the PAC had abandoned its socialist ideals, he replied that while socialism remained the goal, "we realise that in the post-liberation South Africa, we must be flexible."

Achieve

"We must balance our desire for redistribution with the need for economic growth, because we realise that redistribution can only come from growth and we need a growth rate of at least 10 percent or more."

Asked how the organisation planned to achieve this growth, he said the PAC could not say offhand, but the understanding of the nature and structure of the economy revealed at the conference was vital to any future solutions.

'Upturn fuelled by loans, not exports'

(49) CT 26/10/91

By AUDREY D'ANGELO
Business Editor

THE economy is bottoming out and there should be real growth of between 2% and 3% next year, says Southern Life economist Mike Daly.

But, because the English-speaking countries are still struggling out of recession, he thinks SA's recovery next year will be fuelled by the availability of finance from overseas and not by increased exports.

Meanwhile, he warns in his Economic Commentary for the fourth quarter, unemployment is still rising and lower pay increases will slow down growth in spending power.

This, together with continuing high interest rates, means there is little scope for consumer spending to rise.

But he expects prices to come down next year in reaction to falling demand.

Daly says it is "a tragic setback" that the inflation rate will average 15% for 1991 compared with 14,3% in 1990, after such a long period of high interest rates. "Next year should see an average (inflation) rate of 13,7% as the positive effects of VAT come through.

"In addition, there will be the delayed reaction of prices to the lack of excess demand in the economy and the low rate of money supply and credit growth in recent months."

Discussing the expected improvement in the international economy and its effect on SA, Daly says: "With average real economic growth in the major industrialised countries expected to rise to some 2,5% in 1992 from an estimated 1,1% this year, the 2½-year downward cycle in commodity prices should come to an end within six to nine months.

"Japan and Germany should begin to recover from their expected mild recessions in the second half of 1992.

"For SA the benefit of higher dollar prices for its metal and mineral-based exports is therefore some way off.

"The local economic upswing which should take hold from the first quarter of 1992 will therefore not be export-led, or, initially, even export-accompanied.

"Export prices and volumes will, however, play a positive role in the second half of 1992, boosting the gold and foreign reserves further.

"Rising reserves imply an increasing ability to afford the accompanying surge in imports — particularly of machinery for fixed investment purposes — and there will be a strong inflow of liquidity through the balance of payments, driving down money market interest rates."

Daly continues: "It is the lifting of foreign financial sanctions and the potential reversal of the past seven years' foreign capital outflows that will provide the windfall for SA as the recession comes to an end."

QUESTION 4 (50 MARKS)

Mr Bond owns a company, Goldfinger Enterprises, which manufactures thunderballs and other electronic equipment. The business' trial balance at 31 March 1985 is as follows:

Goldfinger Enterprises

Trial Balance at 31 March 1985

	Dr.	Cr.
Accounts Payable		35 150
Accounts Receivable	34 800	
Bad Debt expense	2 610	
Bank		7 092
Capital - J. Bond		150 000
Land and Buildings, at cost	43 000	
Motor Vehicles, at cost	44 360	
Plant, at cost	85 200	
Provision for Doubtful Debts		1 740
Provision for Depreciation 1.04.1984		
- Motor Vehicles		5 850
- Plant		4 100
Purchases	115 800	
Rent Received	4 412	
Repairs and Maintenance	8 200	
Salaries and Wages	19 200	
Sales		174 850
Stock 1.04.1984	21 200	
	R378 782	R378 782

The following additional information should be taken into account:

1. Depreciation has always been calculated on the straight line method. The following rates were applicable:

   Plant : 10% per annum

   Motor Vehicles : 25% per annum

   On 1 April 1984 management decided to change the basis of depreciation as follows:

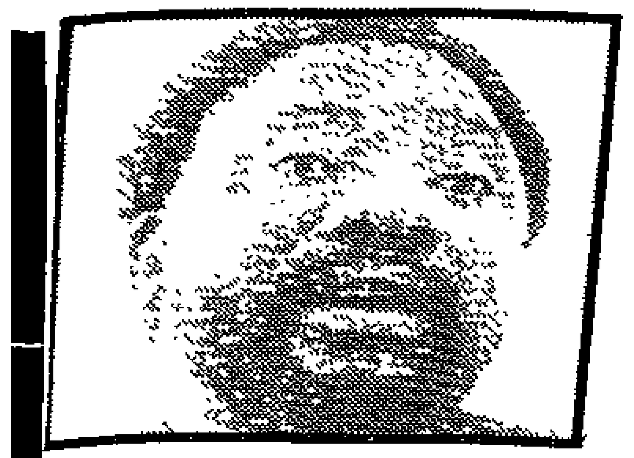
The only way to raise the dough

Anyone really interested in giving blacks a chance in the new South Africa should not talk about redistribution — they should ask: what are the best ways of promoting economic growth, writes HENRY KENNY

was safe to go into the water . . .

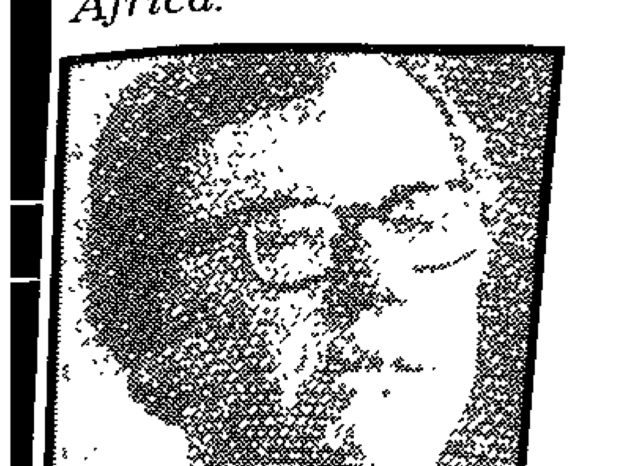
NELSON MANDELA: Resurrects the ghost of nationalisation.

"The obsessive harping on redistrubiton suggests not only the most primitive grasp of how economies work, but also an eagerness to go for racial confrontation."



CYRIL RAMAPHOSA: Threatens that overseas "investors in apartheid" would not be repaid by an ANC government.

"It suggests that the ANC's ability to absorb is limited, that it is depressingly unqualified to take over the most developed economy in Africa."



ALLISTER SPARKS: Cites Japan and the other Pacific Rim countries as "the most striking examples of State intervention within a market economy". Are there two kinds of State intervention in his view: the bad variety and the good variety, depending on who wields power?

"All over the world politicians and bureaucrats differ very little from one another. Give them a chance to abuse power and they will. That is the history of Nationalist rule and it is the history of African rule in Africa. There is no reasons to assume that an ANC government will be any different."

SUDDENLY, the ANC has come down with a bad case of foot-in-the-mouth disease. Or, to vary the metaphor, just when you thought it safe to go into the water again.

Not to put too fine a point on it, what the world, and itself, sees as South Africa's government-in-waiting has been doing its best to ensure that there is nothing left to inherit when white rule goes. What other construction can one put on the recent verbal onslaught by the ANC on the willingness of businessmen to invest in the new South Africa?

When Nelson Mandela was released in February last year he lost no time in shouting the odds about nationalisation. ANC fans and wishful thinkers played down his foolish demands. After all, who could blame him for being a bit out of touch? And for a while it did seem as if the ANC was prepared to adapt to a post-socialist world and to heed the fate of its ideological bedmates in Eastern Europe. Now, however, it looks as if the Bourbons, who have learnt nothing and have forgotten nothing, can take a few lessons from the ANC.

Mandela's recent resurrection of the ghost of nationalisation, Cyril Ramaphosa's threat that overseas "investors in apartheid" would not be repaid by an ANC government, and idiotic statements about swingeing levies on wealth — all these suggest that the ANC's ability to absorb is limited, that in fact it is depressingly unqualified to take over what is still the most developed economy in Africa.

We can accept, of course, that there is a problem. The history of white rule in South Africa, both before and after 1948, is dismal evidence of the ability of human beings to deny to others a common humanity.

The victims of pass laws, forced removals and Bantu Education testify to a past which has made the future alarming to contemplate. The chief economic legacy of apartheid has been a truly stupendous waste of human resources.

That many blacks would have been better off in the absence of policies which systematically prevented them from realising their talents is beyond dispute. Yet it is not so clear that, without apartheid, black poverty would have disappeared.

The wretched economic performance of post-colonial Africa shows that independence cannot guarantee growth. That model of African socialism, Tanzania, has become a byword for impoverishment and corruption. In spite of the horrors of white rule, South Africa still seems a paradise to the thousands of Mozambicans who enterprisingly in search of the jobs they cannot get at home. In short, it is only a matter of left-wing faith that in SA the whites are rich because the blacks are poor.

Yet we can already see an orthodoxy emerging to save the ANC from the consequences of its own economic illiteracy and

"Without economic growth we can forget about redistribution. In developed countries the quality of the labour force improved as education spread, while fertility rates declined as growth increased the demand for labour. Redistribution will look after itself during economic development."

ignorance. Now we hear that the leaders of the ANC are actually reasonable and pragmatic types with no ideological attachment to nationalisation.

Show them another way of redressing those inequalities between white and black — apparently all due to exploitation and exclusion — and they will go for it.

The search is now on for countries where State intervention supposedly wrought economic "miracles". West Germany, Japan, South Korea, all lessons in the shaping of market forces from above, by presumably wise and benevolent politicians and bureaucrats who apparently have no problems in discerning the national interest and directing economic forces to promote it.

The new faith was touchingly and naively put by Allister Sparks (The Star, October 16) when citing Japan and the other Pacific Rim countries as "the most striking examples of State intervention within a market economy".

What did the trick was "the ability of the State to discipline powerful private interests, and to direct the banking system to channel credit into specific sectors in accordance with a national strategy of socio-economic development".

To people like Sp... State which knows what has to be done and has no difficulties doing it. Just direct the banking system to channel credit into the appropriate sectors and what comes out at the other end is your national strategy accomplished. Simple, really.

The funny thing is that no one should be more aware than Sparks of the disasters that can come from State intervention in the economy. For years he has been telling us, mostly correctly, just how bad the Nationalists are. Or are there two kinds of State intervention in his book: the bad variety and the good variety, depending on who has their hands on the levers of power?

Are we asked to believe that once the ANC is in charge and provided we have a "national consensus" on "the urgent need to promote rapid economic growth, and the urgent need to promote structural readjustment and the redistribution of wealth" (no problem of choice here: we just decide we want both), we can expect a stiff dose of the desirable sort of intervention?

All over the world, politicians and bureaucrats differ very little from one another, or from the rest of us. They are flawed human beings who can be relied upon to pursue their own interests first and the national interest second, assuming that such power and they will. That is the history of Nationalist rule in South Africa and it is the history of African nationalist rule on the rest of the continent.

There is no reasons to assume an ANC government will be any different. The obsessive harping on redistribution (all those rich whites, you know) suggests not only the most primitive grasp of how economies work but also an eagerness to go for racial confrontation. Take from the whites who have and give to the blacks who don't.

It may be astute poltics but let us not kid ourselves that here we have disinterested statesmanship at work, whatever the stale rhetoric about redressing inequalities and structural readjustment.

"Redistribution can only come through growth, which means that if it has anything to do with the ANC it will not happen. To judge by its spokesmen's statements and its insistence on fighting for sanctions, nothing could be further from the mind of the ANC than rapid economic growth."

about redistribution. Such evidence as we have indicates that during the course of economic development, wealth and income inequalities at first widen sharply and then narrow sharply. In developed countries the quality of the labour force improved as education spread, while fertility rates declined and growth increased the demand for labour. To a degree, redistribution will look after itself during the course of economic development.

Those who have a fixation about inequalities in South Africa will be startled to hear that something similar has been happening here, especially since 1970. In that year, whites received 72 percent of total income and blacks 20 percent. By 1985 a dramatic redist... had risen to just over ... per cent. Ideologues may complain that the inequalities are still immense and that it is all very wrong, but the trend is quite clear.

Where income inequalities have been widening is within the black population. The greatest unemployment is among blacks. Many, if not most, would be happy to take jobs in the modern sector at pay less than the "slave wages" currently received by trade unionists. Of course, they do not have a hope, for the unions keep them out. This is something the ANC never whinges about. After all, it relies strongly on the unions for support.

Just ask Cyril Ramaphosa.

If they are really interested in redistribution which will give blacks a chance in the new South Africa, the ANC and its apologists should ask themselves what are the best ways of promoting economic growth. They should stop wasting their time trying to find successful examples of State-directed capitalist development.

JAPAN, West Germany and South Korea do not really testify to the wonders of bureaucratic direction. The State can do certain things, like providing public goods such as defence and infrastructure, but knowing better than the market is not actually what it does best.

Prolonged growth does not only bring with it a reduction of inequalities of wealth and income. It provides the resources which will make transfers to the poor possible.

In South Africa, blacks have always suffered from gross discrimination in education. The content of their teaching has been inferior, and public funds allocated to black pupils per head have been far less than those going to whites. It is the enlargement of the human capital to the disposal of blacks, through better training and education, which will make them more competitive in the marketplace and help to further narrow inequalities.

It can come only through growth, which means that if it has anything to do with the ANC it will not happen. To judge by the recent statements of its spokesmen and its insistence on fighting losing battles for sanctions, nothing could be further from the mind of the ANC than rapid economic growth.

Still, we should not be too despondent. If we wind up as another African socialist basket case we will at least feel quite at home in the Organisation of African Unity.

☐ *The author is a senior lecturer in the department of ...*

"I tell you it won't rise without this."

Even as Nelson Mandela challenged business to come up with an alternative to nationalisation, senior JCI economist Ronnie Bethlehem was putting the finishing touches to his proposal for a "Growth and Development Strategy" for South Africa. **SHAUN JOHNSON** and **MAGNUS HEYSTEK** summarise the JCI argument.

Here's another plan, Mr Mandela

(49) ARG 26/10/91

The South African economy certainly needs a "kickstart", according to the JCI proposal, but the key to success lies in sustaining it.

The JCI proposal goes along with ANC president Nelson Mandela's view that there is no way of addressing South Africa's critical economic problems — and its horrendous imbalances — without a "national development strategy". But Mr Bethlehem says "we would go further and add things, producing a growth and development strategy.

"South Africa is a small, open economy heavily dependent in its industrial dimensions on the global economy.

"Therefore we have to formulate policy having regard to the uncertainties of a market system."

But uncertainty in this sense brings opportunities, he says, and the only thing really holding SA back is social and political instability.

"South Africa is actually a very exciting country in it's potential — not a rich country, but an extremely exciting investment opportunity, attracting risk capital let alone loan capital."

Mr Bethlehem believes the economic debate has progressed from a "growth versus redistribution" debate, to something more sophisticated where the concepts are not seen as mutually exclusive.

"There's a huge deprived population, and it was thought there was no way you could address it without taking from haves to give to the have-nots.

"I don't believe the haves need to be hurt at all. If the state is going to be a leader in this transformation, it is not going to do so by direct intervention in the economy, but by acting through market forces and creating the incentives for the private sector to deliver the wherewithal of improving the disposition of the deprived masses."

According to Mr Bethlehem this "may mean restructuring consumption downwards as far as the first world economy is concerned. But the way to do that is not to wave a finger in the face of first world consumers and say 'gentlemen, you've being spending too much and enjoying yourselves too much'.

"It is to give them the incentives to, through high levels of personal savings, generate the flow of funds to finance capital formation and other activities that are focused on the restructuring of the South African economy."

At the outset, JCI believes a Growth and Development Strategy (GDS) will be "dead in the water" if it is the exclusive proposal of one interest group — it must be "commonly owned by government, political organisations, communities and organised business and labour".

Mr Bethelem says businessmen should not be frightened of using the word "restructuring", as "market economies restructure themselves all the time".

Demographics are in any event forcing restructuring in SA, he says, and the question is the form in which it takes place.

The JCI proposal does not shy away from granting the state a role in both growth and redistribution, as long as this is done in tandem with the market.

To put the enormousness of the problem into context, Mr Bethlehem sets out a "vicious cycle of past failure", describing in detail "the SA we're trying to escape from".

He shows that from 1960 to 1990 unemployment increased from 1,5 million to 6 million, with an average rate of growth in unemployment at over 4 percent each year. Employment, by contrast, grew at only 0,7 percent in the 1980s.

"Unemployment has increased from 25 percent of the economically active population to 43 percent in 1990 — and it is almost certainly over 45 percent today."

If things continued as they were, in the 1990s "we'd be creating maybe 530 000-odd new jobs and the economically active population would increase by over 4 million."

He sets out four scenarios. "Bleak House" is a maintenance of the economic status quo. "Great Expectations" says that employment grows at a rate sufficient to balance off the increase in the economically active population. This requires a "highly unlikely" growth in employment for the rest of the decade at 4,2 percent per annum, and of GDP at 13,1 percent.

The core of that argument is that you need an economic accord before the political negotiations are completed, and that you can give to the "have-nots" without taking from the "haves".

The third scenario is called "Pipe Dream": employment grows by 8,5 percent a year (1 million people a year) and abolishes unemployment by the end of the century. This would require annual GDP growth of at least 8,5 percent.

"You would require an extraordinary and sustained globally environmental improvement in South African circumstances for that to happen."

The fourth scenario is in fact the JCI proposal, called "Faith, Hope and Foreign Bankers".

RONNIE BETHLEHEM

"We say you've still got GDP growth at a higher rate than employment growth, you achieve a balancing off of the growth of economically active population with the growth of employment.

"That in a sense is the best long term objective that we can have — that you stabilise unemployment at this present level ... as the population increases, employment as a percentage of economically active population starts to diminish."

Mr Bethlehem believes this is "possible, if you stabilise (the country). Because while you will still have this huge aggregate unemployment, the whole tone and climate of your society begins to change in a dramatic fashion and you start to create hope for people."

The JCI proposal illustrates inequality in SA in great detail, highlighting homelessness and the housing shortage as perhaps the bleakest elements in an already bleak situation.

The population is restructuring itself, says Mr Bethlehem — the black share of total urban population will be 75 percent in the year 2010, from 29 percent in 1900. "There is a net population transfer occurring from the rural to the urban areas, from the agricultural to the industrial economy."

KEN OWEN ON SUNDAY

S/Times 27/10/91.

(49)

THE crumbling of sports sanctions is nice, but it's play-play stuff. Japan's decision to lift commercial restrictions, on the other hand, has cleared the way for another burst of social change that may just accomplish the transformation of South Africa which we all know to be necessary.

As matters stand, we are like a pack-train caught in the middle of a torrent. We can't go back, we can't stand still, we must go forward. Instead, we churn in confusion.

The confusion arises from the dispute between liberals and socialists, which has continued for more than half a century in this country, whether political and social transformation is best achieved by economic growth, or whether it requires revolution.

The liberal thesis, sometimes called the O'Dowd thesis since it was formulated by Anglo-American's Michael O'Dowd in the early 60s, holds that economic development — growth — is the most powerful engine of social change.

It does so not simply by creating more wealth to "trickle down", as the economically illiterate would have it, but by creating new roles for people and by allowing entire classes of people to break out of old restrictions — whether of feudalism or apartheid.

Liberals can look back with satisfaction. The rapid growth of the 60s, to cite only one example, created the shortages of skilled labour in the 70s which led in turn to the emergence of powerful trade unions which became instruments of radical change. Other pressures built up as people flocked to the cities for jobs, breaching all the obstacles of apartheid.

John Kane-Berman of the Institute of Race Relations has recorded in meticulous detail how ordinary people, moved by forces such as urbanisation or labour shortage, have quietly demolished apartheid's laws and conventions, and transformed vast areas of our national life.

As O'Dowd had predicted, economic growth in a capitalist system swept away South Africa's semi-feudal system, as it had swept away feudalism in Europe.

Simultaneously, the more ferocious theory of the socialists that demanded a revolution led by a "vanguard party" has been discredited, and abandoned even by the vanguard party. The ANC, which used to believe in making the place ungovernable, now seeks economic growth, assiduously if not always sensibly.

THE trouble is that the conversion is incomplete. It's not easy to junk the intellectual habits of a lifetime just because one has realised that revolution, like smoking, is harmful to health. Odd bits of revolutionary theory linger, and confuse.

For me, as for most people who have actually experienced deprivation, the eradication of poverty is a passion; like Shaw, I have thought of criminalising poverty, and punishing people for being poor, but this is not a popular view. Most modern reformers assume that the poor, like monks and hermits, are people of greater virtue than the rest of us, and they like to reward poverty by giving alms. The incentives to be poor are improving all the time.

You can see the problem: social reformers, here as elsewhere, tend to emerge from the middle classes and, driven by the guilt of wealth rather than the fear of poverty, they struggle not to eliminate poverty but to achieve equality. To establish equality is infinitely more difficult than merely to overcome poverty — God having created all men unequal, it is not easy to undo His work — and it seems achievable only by making everybody equally poor.

THE people who seek equality are most reluctant to accept the methods of democratic capitalism which, it has been shown in many places, are most effective in overcoming poverty. They prefer the methods of class warfare — sanctions, attacks on the social order which they regard as oppressive, ungovernability, or, in appropriate circumstances, confiscation of wealth, and ruinous taxation.

That is why, even today, despite all the evidence that economic stagnation is destroying the black youth and that economic growth is their only hope, the churches call for sanctions, and tut-tut at the Japanese for offering economic growth and a general, if unequal, prosperity.

Of course, the churches have always shown a preference for poverty, which it regards as a prerequisite for spiritual growth, and it still has a tendency to resort to anathema — the old bell, book and candle stuff — as an enforcement mechanism. Sanctions, viewed as a kind of drumming out, must appeal to the church.

Among the young, too, the methods of revolution exert a continuing appeal. The degenerate beasties who roam the townships are understandably loth to give up arson and murder just because their elders have decided, at long last, that wealth is better created by work than by destruction.

Anyway, neither the ANC nor the vanguard party nor the leftish academics nor the clerics nor the militant housewives, though they no longer pursue revolution, can quite bring themselves to support the methods of their old liberal foes. Economic growth may, as Karl Marx noted, be the most awesome force for social change, but it's neither sexy nor popular.

South Africa, to get back to the point, is poised for another burst of economic growth. Iron ore from Sishen, coal through Richards Bay, a massive venture in stainless steel, a burgeoning industry in catalytic convertors, diamonds from Venetia . . . we are beginning to see the benefits from the late Wim de Villiers' idea of using excess power generating capacity and ample rail transport to sustain an export drive. VAT will help. And the union movement has been made cautious, if not timid, by the army of unemployed outside the gates.

JAPAN has opened a door, and run up a banner. This country is ready to be accepted into the family of successful nations; it is poised to take off, and to join the nations that have, by and large, overcome poverty, and can afford the much more difficult quest for social justice. We need only to shed the myths of revolutionary theory, and turn to the ways of peace.

Economy 'set for uphill trend'

B/Day 28/10/91. (49)

LINDA ENSOR

CAPE TOWN — The economy is in the process of bottoming out, with the destocking phase almost at an end and real government spending buoyant, says Southern Life chief economist Mike Daly in the assurer's latest quarterly Economic Comment.

However, Daly rejects the widely held view of an export-led recovery in the initial phase of the upturn because of the likelihood of low dollar prices of its commodities continuing for some time.

The dollar gold price is not expected to provide a windfall as it has in past recoveries, given the low inflationary external environment and positive real interest rates in the US.

Daly suggests that the windfall will come from the lifting of foreign financial sanctions and the reversal of foreign capital outflows.

He sees a deceleration in destocking giving a boost to economic performance, at least technically.

"Following a renewed sharp inventory drawdown in the second quarter of R5,9bn after R4,9bn in the first, and destocking totalling some R3bn in 1990, destocking can only take place at a much reduced rate from now on.

"It is likely therefore that the third quarter of this year will signal the final turning point for the economy."

Daly says real economic growth could reach about 2-3% next year after a small decline this year and predicts that the local economic upswing should take hold from the first quarter of 1992.

A further weakening in personal disposable income is likely and there is little hope, Daly says, of personal consumption expenditure rising by more than 0,5% this year after the 1,5% increase in 1990. However, the surge in real government expenditure, mainly on higher salaries and wages, over the past three quarters should soon exercise a positive effect on domestic demand.

Fixed investment by the private sector will fall by about 5% for the year.

Minimal growth in real retail sales is likely for the rest of the year and the indications are that new manufacturing orders received will remain low until year-end. Manufacturing production and sales should therefore continue to fall, and inventories of raw materials and finished goods be reduced. Growth in the durable goods sector should fall to about zero in the second half.

The inflation rate will rise before the year end, Daly believes, as VAT and higher excise duties come into operation. He expects an annual inflation rate of about 15% this year compared to last year's average of 14,3% and 13,7% in 1992.

"Interest rates have not been reduced to the extent that was previously thought possible and we will have to await 1992 for the first significant easing of monetary policy." Daly says the first half of next year may see lower interest rates.

He forecast single figure growth in M3 on a year-on-year basis by next February for the first time since early 1987.

ANC route is not the way to enrich SA

(49)

Sowetan 24/10/91

"NATIONALISATION" is the word that will be most remembered from the first speech made by Mr Nelson Mandela after being released in February last year. The fact that he was simply confirming an aspect of the 1950s Freedom Charter seemed to escape many people.

Whatever else, he did South Africa a favour by effectively placing economic policy at the centre of our political debate, where it should have been all along.

Mandela has recently repeated the challenge/threat: Present the ANC with a viable alternative or it will retain its policy of nationalisation.

He should be taken very seriously. In South Africa, there is unacceptable wealth, income, opportunity and skills gaps which require urgent attention. No political leader or organisation which ignores these imbalances has any hope of gaining or retaining the support of the majority of the population. Not surprisingly, the economic status quo is politically untenable.

South Africa is a middle-income country, but has very unequal income distribution along racial lines. The problem is compounded by the conspicuous affluence of many whites as reflected by their luxury houses and motor cars. This gives rise to the belief of many have-nots that ours is a wealthy country and all that is needed is a fairer distribution of the "goodies" for everyone to be comfortably off. If only it were so!

IS nationalisation the way to a better new South Africa? In response to a recent challenge by the African National Congress, KEN ANDREW, Democratic Party spokesman on finance, argues that it is not.

That is not the only area of confusion. The nationalisation debate gets off to a false start as a result of the misuse of terminology and the incorrect, implied assumption that the objectives of eliminating poverty, providing for adequate and rising standards of living and removing inequality are the same thing, which they are not.

Eliminating poverty requires the diversion of resources to the poor, having sufficient resources to divert and/or having rising standards of living that substantially improve the position of the very poor. Nationalisation has no record of achieving any of these things in the most effective way.

Adequate and rising standards of living can only be achieved as a result of strong economic growth with appropriate redistribution. Nationalisation would considerably impede this process.

Inequality can be removed by confiscation and re-allocation.

Such a "redistribution of poverty" would destroy our economic prospects for decades to come. In practice, redistribution via growth within a non-discriminatory legal framework and with positive measures to address historical imbalances is the only way to address the inequality that exists within our country.

A problem with Mandela's challenge is that it is based on a false premise. He talks of nationalisation redressing economic imbalances, but it is not clear precisely which of our imbalances he is referring to. More specifically, he has been quoted as saying that nationalisation is "the only effective way of ensuring that there is equal distribution of wealth".

This is simply not so.

Nationalisation without fair compensation is confiscation and if that is what the ANC has in mind it should say so. Confiscation would enable an ANC government to redistribute wealth more equally in the short term, but the resultant flight of capital and skills would ensure South Africa's indefinite impoverishment.

Nationalisation with fair compensation results in the State incurring large debts to raise the funds required to buy the businesses it wishes to nationalise. Many studies have shown that the amounts required to service that debt will far exceed the money received by way of profits or positive cashflow from the nationalised businesses.

The net result is that the State will have less funds available for other programmes, including social services and development projects.

To the extent that a government uses nationalised businesses to further non-economic objectives, which it could do to benefit the have-nots, it would reduce the profitability of those businesses and so increase the burden on the fiscus.

It would also, in the process, reduce the total wealth of the country as a whole.

Nationalisation can enable the State to increase its direct control over certain business sectors if it so wishes. However, the sellers of those businesses would then be in a position to use the proceeds to start or acquire new businesses and they would simply shift their efforts from one sector to others, or find ways of getting their money out of the country as far as possible.

The assertion then that nationalisation is a means of bringing about an equal distribution of wealth is false.

The challenge we face, the alternative we should be seeking, is how to meet three key objectives as rapidly as possible: the elimination of poverty, an increase in standards of living and a reduction in inequality. I believe these objectives are complementary.

One needs to be careful of making international comparisons.

In rather the same way as the devil is said to be able to quote the Bible to serve his own purposes, economists always manage to find evidence somewhere in the world to prove their own theories.

Nevertheless, it would be foolish to ignore the experiences of others where the evidence points overwhelmingly in a particular direction.

A recent study of 21 developing countries over a period of 35 years indicated an unambiguous correlation between reducing poverty and per capita economic growth.

Management

The World Bank's 1989 study of Sub-Saharan Africa commented extensively on State involvement. Comments included: "Weak public sector management has resulted in loss-making public enterprises, poor investment choices, costly and unreliable infrastructure, price distortions and hence inefficient resource allocation."

The proposed strategy for sustainable and equitable growth "aims to release the energies of ordinary people by enabling them to take charge of their lives. The State would no longer be an entrepreneur, but a promoter of private producers. Africa needs not just less government but better government - government that concentrates its efforts less on direct interventions and more on enabling others to be productive".

The Prime Minister of Mozambique, Mr Mario Machungo, put it bluntly: "Central planning and nationalisation do not work. They fail to produce economic growth. I can tell you. We have tried them."

There is no doubt that, as a means to an end, economic growth is crucial. It will impact on poverty by economically empowering the poor through employment creation. It will raise standards of living. It will provide an opportunity for reducing inequality. And it will enable the state to embark on ambitious developmental programmes.

Dr Nicoli Natrass (Indicator SA Vol 8 No 3) has pointed out that the developmental impact of redistribution policies depends crucially on the growth rate and on maintaining external and domestic macro-economic balance.

"A stable and favourable environment for accumulation and growth must be created. If South Africa is to attract the foreign investment necessary to ensure rapid and sustained expansion in employment as well as prevent capital flight out of the country, then development policies must be highly sensitive to the growth imperative."

How to balance redistribution with financial discipline

B/Day 30/10/91. **ALAN FINE** (49)

UNIVERSITY of the Western Cape economics department head Prof Lieb Loots has devised, in consultation with the ANC's economic policy department, a hypothetical fiscal plan for the first five years of an ANC government.

Loots argues that a substantial redirection of state spending priorities could make significant inroads into correcting the inequalities of the past without increasing the size of the current budget deficit before borrowing of 3,4%. The plan assumes an average 3% growth in GDP in the period, and envisages a gradual growth in the proportion of tax to GDP from 30,1% to 32,9% over a hypothetical five-year period from 1991/92 to 1995/96 (table 1).

The plan is detailed in a paper "Appropriate fiscal policy for sustainable redistribution" delivered recently by Loots to a meeting of the SA Fiscal Association. It is a refined version of an earlier ANC response to the 1991/92 Budget.

Loots argues that a post-apartheid budget must break the "vicious cycle of low investment, low employment growth and poverty".

On the revenue side, Loots examines international tax structures and concludes that there is only a limited possibility for increasing significantly the share of personal income tax. Further, he says, both corporate tax and VAT/GST are already excessive.

He argues, therefore, for a new set of taxes designed "to have no or little disincentive on work and investment". He suggests a minimum business tax which, because it would be levied on taxable income (rather than on profits as is the case with company tax), would not penalise efficiency. Since it would widen the tax base, it could allow for a reduction in the corporate tax rate.

Secondly, he proposes a capital gains tax. Although it would not yield a great deal of revenue in itself, it would, as the Irish Tax Commission argued, "prevent avoidance of income tax by switching income gains into a form in which they are regarded as capital gains".

Thirdly, while rejecting on the grounds of both feasibility and desirability a tax on net wealth (such as the proposal which recently caused an uproar) he advocates three taxes on capital. These are a capital transfer tax (an estate and donations tax) comparable those in many advanced countries; a national property tax which would be an extension of local governments' rates system; and a land tax which would be earmarked for small-scale farming.

Table 1

Estimated tax revenue of general government (Rm 1991 prices)					
	1991/2	1992/3	1993/4	1994/5	1995/6
GDP	313 000	321 000	331 000	342 000	356 000
Tax revenue	96 000	102 000	108 000	112 000	117 000
Tax as % of GDP	30,1	31,8	32,6	32,7	32,9
Tax increase (over and above 1991/2)	-	6 000	12 000	16 000	21 000

Source: LIEB J LOOTS

Table 2

Government per capita social spending, 1986/7 (Rand)					
	White	Coloured	Indian	African	Total
Actual spending	879	564	547	214	361
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Source: S VAN DER BERG, 'REDIRECTING GOVERNMENT EXPENDITURE', IN MOLL ET AL, REDISTRIBUTION, 1991

Loots acknowledges the imponderables which make calculations of additional revenue from these measures very difficult. However, he estimates that the new taxes, together with a growth rate rising from 2% to 4% over the period, would provide an additional R55bn (at 1991 prices) in government revenue — including regional and local government — in the five years to 1995/96 (table 1).

He further assumes that defence expenditure could be reduced — a so-called peace dividend — from 4% to 2% of GDP, and apartheid structures in the civil service abolished, freeing an additional R18,8bn over five years.

Drawing on the work of Stellenbosch University economist Servaas van der Berg, Loots also illustrates the effect a racial equalisation of per capita social expenditure would have (table 2). Using 1986/87 figures, Van der Berg has shown that introducing parity without increasing total expenditure would mean a cut of almost two-thirds in white per capita social spending. It would also be reduced by a lesser amount for coloured and Indian citizens.

Loots explains that the reason for the range of the parity figures (from R307 for whites to R398 for coloured people) has to do with demographic factors. Because the white population is older, less would be spent on education. And, presumably, a relatively low proportion of whites would qualify for a state pension. Education and pensions are the two largest components of spending.

Finally, stressing that his work is not a firm policy recommendation and is "purely illustrative", Loots presents a view of how the extra funding obtained over the five-year period could be used (table 3).

The guiding principles, he says, are: parity in per capita spending; spending on stability to improve investor confidence; social investment in human resources for improved productivity; and facilitating industrial restructuring to ensure greater international competitiveness.

Such a fiscal programme would assist the quest for stability by rapidly providing as many people as possible with evidence that the new dispensation was benefiting them, and also set the economy on a new growth path. Loots says it would be "a dramatic confirmation of the new government's determination to maintain macro-economic balance by not financing additional expenditure through huge tax increases (top income tax rates can even be lowered) or much higher borrowing.

"Indicating how such a programme can be implemented over a period of time and presenting it in the context of a national development strategy can serve to enhance confidence and to ensure the mass of new voters that their interests are receiving serious attention even if it will dampen their perhaps over-optimistic expectations," he concludes.

Table 3

Additional income and expenditure over five years		
		R bn
Additional tax (1992-6)		55,0
Additional debt servicing		15,0
Net addition to revenue		40,0
Abolishment of apartheid (savings)		18,8
		58,8
Total additional expenditure:		
Urban development:		
Subsidy of R12 000 for 1,2m houses	14,4	
Township upgrading	5,0	19,4
Education:		
School building and teacher training	7,5	
Adult literacy	0,6	
Employment training	5,0	13,1
Rural development:		
Establish 150 000 small farmers	6,5	
Short-term employment for 1m people	0,3	6,8
Health and welfare:		
Equalise pensions	11,0	
School feeding scheme	2,5	
Nutrition for pregnant mothers	2,5	
Primary health clinics	0,3	16,3
Industrial restructuring:	3,2	3,2
		58,8

Source: LIEB J LOOTS

Wits Centre for Policy Studies director Lawrence Schlemmer at yesterday's launch of the Human Sciences Research Council book Policy Options for a New SA. Picture: ROBERT BOTHA

Schlemmer sees role for statutory council

B/Day 30/10/91 (49)

BILLY PADDOCK

SA NEEDS a formal device such as a multiparty statutory council with expert subcommittees to solve major national problems and prevent the country's transition from breaking down, says Wits Centre for Policy Studies director Lawrence Schlemmer.

He writes in the Human Sciences Research Council book, Policy Options for a New SA, launched in Johannesburg yesterday, that the process of government will be substantially beyond the control of politicians and their planners.

Given government's large scope and role in SA's transition, the deep structural imbalances and conflicts in society which had to be addressed, and contradictory pressures and demands on government, special elements were required.

One element often suggested was a social contract between major parties allowing opponents to suspend competitive antagonisms sufficiently to allow co-operation in solving problems.

Approved

"Such pacts and alliances are needed, but they are also predictable and subject to breakdown," he says, proposing a more formal arrangement to assist government in addressing the problems.

He suggests a statutory council or councils with subcommittees, composed of relatively impartial experts nominated by parties and approved by a two-thirds majority of the legislature.

"Their role might be to examine any proposed legislation or policy at the request of any party in the legislature, in order to attempt to resolve issues of conflict and to point to unforseen consequences."

They would then have the power to refer matters back to a cabinet with recommendations, operating much like the President's Council.

Schlemmer said at the launch there was a tendency for parties to raise proposals in public without proper regard for their consequences. A statutory council would prevent this from happening and could point the way forward.

In the book, he says a move towards equity in public spending must bear some results before political transition, because existing differentials and inequalities between constituencies will intensify ideological tensions during negotiations. He believes social stability, investor confidence and economic growth under a new dispensation will be eroded by the actions of a new government obliged to rapidly redress backlogs.

Careful analysis had shown that racial parity in state expenditure could not be achieved before 2000, and then only with government expenditure rising to 31% of GDP and the economy growing an average of 5% in real terms over the period. Virtually all the tax returns of increased economic growth would have to be channelled to social spending.

"One of the greatest challenges to government in this period of transition is how to pro-actively eliminate discrimination and redress inequity of opportunity without creating a culture of what in the US is referred to as 'entitlement'."

In a referendum at least seven of every 10 white voters were likely to reject a negotiated settlement which did not reserve substantial power for whites in an organised constituency. This was likely to make majority-based parties antagonistic.

More subtle minority safeguards not aimed at any particular group were required, but these were more difficult to sell to the white constituency.

"Government has the invidious task of identifying the soundest long-run methods of minority protection and of convincing its constituents of their effectiveness," says Schlemmer.

Africa can become an economic giant

(49)

Sowetan 30/10/91

By JOSHUA RABOROKO, reporting from Cameroon

YAOUNDE - South Africa's State President, Mr FW de Klerk and ANC president Mr Nelson Mandela should play a role in the process of economic recovery and unification of the African continent in a post-apartheid era.

They should provide a forum for businessmen in Africa to discuss and explore opportunities in a changing continent, an All-Africa business conference was told here yesterday.

Opening the conference - dubbed Sidco '91 - Cameroon Secretary of State for the Ministry of Industrial Development and Commerce Mr Louise Marie Abogo Nkono said Africa had great potential and resources to become an international economic giant.

He called on African leaders, including De Klerk and Mandela, to take the challenge in making that dream a reality by co-operating and establishing contacts with other African states.

The conference is intended to make leaders and decision-makers aware of opportunities in agriculture, food, energy, transport and tourism and the development of the informal and small business sectors in Africa.

Some 600 delegates from more than 30 countries in Africa are participating in the conference. The conference is also expected to make important decisions on the role of women.

The chairman of the Paris-based Movement for Dialogue and Co-operation, Mr Desire Atangane Onamembele, who is organising the conference, said Africans must wake up and develop their economy after many years of suffering as a result of struggles against "imperialistic rule and other conflicts."

He said businessmen and politicians must come together and build a strong economy.

How to balance redistribution with financial discipline

B/Day 30/10/91.

ALAN FINE

(49)

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Source: LIEB J LOOTS

Grim outlook for economy

Star 31/10/91.

(49)

By Derek Tommey

A sliding rand and the Government's dire need for extra cash are expected to result in a stiff increase in the price of petrol next year.

This warning comes from the Bureau for Economic Research (BER) at the University of Stellenbosch, probably the oldest independent economic research unit in the country.

The bureau has not held back the punches in its forecast for the first half of next year and catalogues a set of dismal developments that make disturbing reading.

These include continued high interest rates and inflation, a weakening rand, a low level of consumer spending, increased personal taxes, reduced employment and more social unrest.

However, it does believe that the downswing is bottoming out and that a new upswing should start in the current quarter of this year, though this is likely to be slow and hesitant.

It also sees an improvement in the trade surplus and current account.

But it says economic development in South Africa is largely determined by political factors.

"At present, uncertainty reigns supreme and the confidence levels of businessmen are low."

The bureau says it is likely that this state of affairs will be maintained for the rest of this year and next.

"The implication is that new investment will remain sluggish and this will dampen the tempo at which jobs are created. As a result the climate will favour political and social unrest."

The bureau believes the Government will use the price of petrol as a fiscal policy instrument, and that it will increase the price by 17c a litre after next year's budget in March.

Depreciate

This means the petrol price will have been increased by 25 percent since the second quarter of this year, it says.

The bureau forecasts that the rand will depreciate against the dollar by about seven percent this year and by a further 10 percent next year, which could put pressure on the consumer price index.

As changes in the price of petrol have a profound influence on inflation, the bureau believes prospects for a substantially lower inflation rate are small.

It forecasts an average rate of 15,2 percent for 1991 — though still close to 16 percent at the year-end — followed by an average rate of 13,7 percent next year.

Hopes for any income tax cuts in next year's Budget are unlikely to be fulfilled because the Bureau expects the steady rise in the tax rate of the past three decades to continue.

Average personal tax rates were six percent in the 1960s, 7,7 percent in the 1970s, 8,8 percent between 1980 and 1984 and 11,3 percent between 1985 and 1990, it says.

It expects this percentage of income paid in direct taxes to rise to about 13 percent next year.

The bureau also sees little chance of an increase in employment next year and actually forecasts zero growth after a decline of 1,7 percent this year.

It expects interest rates to remain high. It says prospects for substantial cuts in the near future are not good because of inflation.

VAT will exert an upward pressure on prices and could set an inflationary process in motion. The Reserve Bank is unlike to cut Bank rate in these circumstances.

Another factor likely to influence the Reserve Bank is next year's deficit before borrowing, which could be as high as five percent of gross domestic product.

The expectation is that real interest rates will remain unchanged at about five percent on average during the forecast period.

With consumer spending under pressure, the bureau expects a decline in sales of durable and semi-durables goods.

It says sales of non-durables will remain stable and it sees a continuation in the steady growth in expenditure on services.

Closing the wealth gap

Sowetan 31/10/91 (49)

THE arguments against nationalisation have been well articulated in the Press.

My personal view is that the nationalisation card will be cashed in during the negotiation process as consensus emerges on economic policies. In other words, nationalisation will not survive negotiation.

But what will remain is the valid challenge issued by ANC president Mr Nelson Mandela to the business community to find constructive alternatives to close the wealth and income gap between the haves and have-nots.

ANC president Nelson Mandela has accused the business sector of not coming up with alternatives to nationalisation. In his annual report Anglo American's Clem Sunter (pictured left) said something was being done - although not enough. This is an edited version of his report.

I would like to go over some of the steps that have already been taken by us in pursuit of this goal.

I do not want to convey the impression that we are satisfied or we want to rest on our laurels - there is a long way to go. But equally, I want to dispel the impression that nothing has been done and we are starting from scratch.

Let us start with the revenue cake. I would like to give you some figures on the distribution of the Gold Division Revenue.

In 1970, black labour costs were 7,8 percent of our total revenue in the division. In 1990, the figure was 23,9 percent. So the slice of the cake attributable to black labour costs has tripled between 1970 and 1990.

As far as white labour costs are concerned, they were 14,7 percent of total revenue in 1970, 12,5 percent in 1990. So, in fact, that slice has slightly declined.

As far as dividends are concerned, in 1970 the figure was 23,7 percent and in 1990 it had declined to 7,3 percent. So, in fact, the slice of cake attributable to dividends has actually gone down by a factor of three.

As far as capital is concerned, it is interesting that our capital as a slice of the cake increased from 10,4 percent in 1970 to 12,8 percent in 1990, so I think that says something for our confidence in the future of the gold mining industry.

It shows that we are investing more in our future as a percentage of revenue than we were 20 years ago.

Let's look at the wage rates themselves. The compound growth rate in the average black wage per person from 1970 to 1990 (excluding the effects of inflation) was 20,2 percent a year. For whites it was 12,6 percent compound and the Consumer Price Index went up during that period by 12,3 percent compound.

In real terms, between 1970 and 1990 black wages increased 4,4 times whereas white wages were almost flat.

'We may find we are not competitive in areas of skilled labour'

Indeed, in the last few years the latter have eroded in real terms. This is a cause for concern, because if the economy picks up next year, we may find we are not competitive in some of our skilled labour categories.

Taking the ratio of an artisan's wage to the wage of a black novice on surface, in 1970 the ratio was 26 to 1; that has fallen to about 5 to 1 now. In fact, the minimum that we pay on surface now is R565 a month. I know that people will say that we started from a very low base in 1970, and indeed we did.

Moreover, our wages now do not compare favourably with industrial wages. That figure of R565 is probably half of what many industrial companies are paying.

But that is why we embarked on a policy of negotiating bonus schemes which share profits on the basis of gold price improvements and hopefully we will shortly negotiate to finality the principle of bonus schemes based on productivity improvements.

These will have the potential of closing the gap between mining and industrial wages, particularly in good times, but not at the expense of the mining industry.

The second thing I want to refer to is what is colloquially called the sharing of power. We tend to call it employee participation in the mining industry.

Let me give you some figures which show the increase in size and complexity of Anglo's Gold Division.

We milled 23 million tons in 1970. In 1990 the figure rose to 46 million tons - exactly double. In addition, we treated at Ergo and the Joint Metallurgical Scheme in the Free State 54 million tons of dump material.

'There has definitely been a downward shift in power'

In 1970 the recovered grade of our mines was 17 grams and we produced 388 tons of gold. In 1990 the grade was 6,1 grams a ton and we produced from the mines 238 tons of gold plus 16 tons of gold from Ergo and JMS to give a total of 254 tons of gold.

Our labour force in 1970 was 117 000 and it is now 181 000.

Examples of increased complexity in our operation are the reduced grade, which has put pressure on us to use more selective mining methods, grade control, improved plant recoveries, and also better management accounting systems.

Our operations are deeper, they are hotter and further from the shaft. So we have greater logistical problems underground which have inevitably impacted on productivity.

The gold price prior to 1970 was fixed and, as we all know, it is fairly volatile now. Inflation in those days was running at 2,5 percent, which is very different to what it is today. With the growth of trade unions, much more time is spent on industrial relation matters.

With the increase in complexity of the Gold Division since 1970, power has flowed down the division. We have regionalised - I think we might call ourselves a federation now.

It is very different to 1970 when we had our consulting engineers here in head office and planning was very much centrally done. Many of the decisions taken on the operations were centralised.

We are now fully decentralised, where much of the power of the division lies in the hands of our regional general managers who in turn have passed on a proportion of that power to the mine managers, and so on to the section managers, all the way down the shafts.

Particularly, this is the case with our marginal shafts where many of the creative ideas for reducing costs and increasing productivity underground have come from the employees themselves.

So, by policy and necessity, there has definitely been a downward shift in power in the division.

The third item I would like to refer to is what we call merit-based manning in the division.

I would like to give you some figures on our programmes. We have a pre-university, after which its students go on to university. In our pre-university bursary scheme, we currently have 19 black students.

In our scholar scheme, which is the university scheme itself, we have 71 black students, which is roughly half of the total students that we support in terms of taking degrees which are relevant to our business: mining, engineering, metallurgy, personnel and accounting.

We have six black in-service bursars and 59 learner officials. We have 69 learner miners, which is about 45 percent of the total learner miners. We now have 331 black certificated miners which is some 13 percent of our total population of miners.

We have 12 shift bosses, five plant metallurgists, 10 surveyors, 158 personnel officers and eight accountants.

In terms of apprentices, we have 216 black apprentices, which is 18 percent of our total apprenticeship pool, and we have 109 black artisans, which at the moment is only three percent of our total artisan pool.

In the more senior management ranks, we have one junior mining engineer, four metallurgical graduates and three hostel managers. This is only a start.

The fourth area concerns our social responsibility contributions. At the moment the Gold Division is giving a little less than R18 million to the Anglo American and De Beers Chairman's Fund, in addition to which we plan to contribute R9 million, which is about 4,5 percent of the Gold Division's dividends.

The ratio compares quite favourably with figures internationally. In addition to that, the regions are pursuing separate community initiatives. I cannot give you the details on that, but for anybody who would like to see what our regions are doing, they only have to contact Mr James Duncan and we would certainly take them down.

So these are the type of exercises we are going through to try and provide a constructive alternative on the lines which Mandela has suggested. As I said, we are certainly not complacent.

All we are trying to show is that we are setting off down a path to provide that alternative.

'We are setting off down a path to provide an alternative'

Flexing muscles over scorned tax

Star 31/10/91 49

Disagreement over the introduction of VAT has set the Government and South Africa's biggest labour groupings on a collision course. Unless there is a last-minute resolution of the dispute, the unions have vowed to call out their members on a two-day general strike starting on Monday. The strike call is supported by, among others, the ANC, PAC, the National Council of Trade Unions and the Azanian People's Organisation. In an interview with MIKE SILUMA, Congress of SA Trade Unions general-secretary Jay Naidoo (left), who has been personally involved in the campaign to reform VAT legislation, and whose federation is party to the strike call, warns of even more conflict in the next few months if the Government continues to "unilaterally restructure" the economy.

IT HAS been said that Cosatu and other unions are merely using the VAT issue as an excuse to confront the Government on the formulation of economic policy, ahead of constitutional negotiations. Is that the case?

At a political level we have said very openly that we are an independent organisation and that the trade union movement, as part of civil society, intends to play a key role in the present transition and in a post-apartheid South Africa in determining the political and economic future of this country. We have a legitimate right to demand that the Government halts the unilateral restructuring of the economy because we are in a transition period.

At the economic level, the imposition of VAT is going to have an adverse impact on the lives of millions of people who at present live below the breadline. Without effective mechanisms to control price abuse, VAT will lead to a rise in the cost of living.

We have committed ourselves to make VAT unworkable (and) are planning to broaden the campaign in the new year to include the non-payment of PAYE. It is unacceptable to us that a white minority Government in this transitional period can continue to dominate the structures of decision-making at the economic and political level.

The demands that we are making around VAT, including the setting up of a forum for macro-economics negotiations, are aimed at putting pressure on the Government to see that there has to be a process of bona fide negotiation of political and economic issues.

For us, coming from a constituency that has been historically deprived of access to resources and wealth, it is absolutely essential that political change must also be accompanied by economic change, so that the issue of the vote is linked to the provision of jobs, housing, education, etc.

The Government is unilaterally restructuring the economy at every level through measures including privatisation and deregulation. We are concerned that this will perpetuate the domination of white minority interests.

What would persuade the unions to call off the strike?

Our doors are still open. The Government must zero-rate basic foodstuffs, medical services, water and electricity. It must make concessions to small business and negotiate poverty relief programmes. Linked to that, the Government must agree to set up a macro-economics negotiating forum.

The forum — to include Cosatu and Nactu, the major employers, the Government, consumer organisations and the major political parties — would discuss economic changes consistent with the political transformation taking place.

The strike may be perceived as directed primarily at the employers. Is it?

Employers could have played a central role in resolving the issue. But throughout the negotiations, the Government was basing its entire argument on the fact that big business was geared up for VAT's imposition.

SA Chamber of Business and Afrikaanse Handelsinstituut representatives insisted that big business was entirely behind the Government and that there would be chaos if the Government did not go ahead with the introduction of VAT. (The employers') hands are not clean.

When approached by us to intervene, the SA Consultative Committee on Labour Affairs said they were not prepared to take a stand on the issue. We warned them that unless big business was seen to be moving to pressure Government to negotiate, we were going to have a situation where there would be conflict between us and the Government, with employers stuck in the middle.

Couldn't the strike be seen as a breach of the Peace Accord, of which Cosatu is a signatory?

No. The Peace Accord, in fact, entrenches the right of organisations to protest. It restrains those organisations that want to use violence to protest. What we have said is that the strike is voluntary, that there must be no force used. We have made provision for mechanisms to prevent the use of force, or to monitor the extent to which violence is used against us. In our view the strike is absolutely voluntary.

What of the economic damage (in lost production and pay) likely to be wrought by the strike?

Our view is that it is because of resistance in the last few years that the Government has entered the process of negotiations. We know it's going to be an economic burden we will have to carry. But we are determined to stop the devastation of the economy — in relation to the majority of our people — by not allowing the economic policies of the National Party to continue unopposed.

What we are doing is protecting the integrity of the future economy and ensuring that when we put in place a new system it is jointly decided by all the major players. □