

ECONOMY
GENERAL

14 • March • 1975

17 • DEC • 1975

BLACK ROLE

A committee under the chairmanship of Sam Mot-suenyane, President of the National African Federated Chamber of Commerce, has decided that the Black man's share in the economy and the problems of Black businessmen in urban areas (and in the homelands) needs further study.

ASSOCOM, the AHI and BENBO are all involved. Accordingly, to get certain basic information, the Bureau of Market Research has been asked to undertake a study on the attitudes of Blacks towards Black businesses, and on the role on the Black man in the South African economy.

The Small Business Ad-

COMMERCE Feb. 1975

visory Bureau has also been asked to make a study of the problems of the Black businessman in South Africa. It is hoped that these studies will be finalised by mid-year.

~~(1) 28~~
~~(2) 377~~
~~(3) 101~~
(4) 47
~~(5) Capital~~

Evening the odds

(47)

F.M.
14/3/75
① 47
② 1504

Simon Brand, Deputy Economic Adviser to the Prime Minister:

At least some of the reservations you express (*FM* February 28) about the realism of the assumptions in the latest Economic Development Programme, some of which you find it appropriate to describe as "distinctly odd", are based on misunderstanding of the basic model and procedures used in drawing up the EDP.

First, in respect of the assumption about the inflation rate, it must be pointed out that all projections in the EDP are expressed in real terms, ie, in constant base year (1973) prices.

From a purely arithmetical viewpoint, therefore, what the actual inflation rate over the programming period will be, does not affect the projections at all. However, from an *economic* viewpoint it must, of course, be taken into account that the high rate of inflation of the past few years may have had an autonomous modifying influence on income distribution and spending behaviour in the economy, and in this indirect way might affect the realism of the projections.

This would be relevant especially if such high rates of inflation should persist over the rest of the programming period, but whether that would be a realistic assumption is in itself at least open to question. Be that as it may, we only have historical experience of these high inflation rates for a few years, which means that there is as yet no reliable statistical basis for estimating the nature and strength of such hypothetical effects.

In view of this, no adjustments were made in the projections to account for them. The only reason that the inflation assumption was explicitly referred to in the EDP was to alert the reader to this qualification to which the projections are subject. As you may notice at a second reading, this is in fact spelt out explicitly in paragraph 93 of the published EDP, and some of the possible implications are pointed out elsewhere in the document.

With regard to the assumption about the level of the gold price, your remarks would seem to suggest that an increasing gold price should have been assumed, or at least one which is much higher than that actually adopted for purposes of the EDP projections.

Although in the EDP model all domestic prices are held constant it is, of course, necessary to allow for international price tendencies in projecting the international terms of trade. Consideration of exactly such uncertainties as those surrounding our future oil bill led to the assumption about the gold price which was in fact used.

The fears that you express about the effect of this assumption are unfounded, since in the projections of physical gold output, which were arrived at in consultation with the Chamber of Mines and the Government Mining Engineer, such factors as the expected relationship between escalating costs of gold mining and the gold price were taken into account as fully as is practicable.

Coming to the questions you raise about labour you are fully justified in pointing out the difficulties surrounding the measurement of employment in agriculture — with the present state of knowledge, anybody's guess in this regard can perhaps be made out to look as distinctly odd as you regard ours to be, and it is hoped that research in this field will help to clarify the matter.

On the other hand you seriously understate the provision made in the EDP for the better use of Black labour.

Although it is not spelt out specifically in the latest EDP as it was in the previous one and, as I believe, was explained to your correspondent in discussions with the EDP staff last week, the projected composition of the labour force is based, to begin with, on an extrapolation of the historical trend in the Black/White labour ratio.

This trend, which in the projection of GDP growth is not treated merely as an arithmetical change, but taken to reflect fuller use of Black labour at rising occupational levels, is then adjusted upward to allow for an acceleration in the rate at which this ratio increases. The 30 000 Blacks who, as stated in paragraph 162 of the EDP, "will have to perform work previously done by Whites", are an additional allowance over and above what is allowed for by this established procedure, to take into account specifically the additional momentum gained in recent years in introducing Blacks into higher-level jobs.

It would, as you suggest, be possible for a "non-government body" to draw up an alternative EDP and to make different assumptions in respect of the use of Black labour. Such an effort would have very little meaning as an indicative programme if it should assume away government policy.

However, even if its only purpose should be to make an objective estimate of the "cost of apartheid", it is open to question whether its authors would want to assume a much more rapid rate of upgrading of the Black labour force than has been assumed for purposes of the EDP. Discussions in the sectoral advisory committees in the course of drawing up the EDP certainly did not give the impression, generally speaking, that even abstracting from government

policies, the rate at which Black workers are introduced into and trained for more sophisticated jobs can be stepped up very appreciably in the medium term.

There is, of course, nothing to prevent any non-government body from drawing up such alternative growth projections for the economy.



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A sour lemon

With so much additional State spending, tax increases were inevitable. But there is an even higher price to pay for government's profligacy. The cost-of-living will soar

The national interest demands that each group in the economy should now do its share in the fight against inflation — John Vorster, March 21 1975.

The Prime Minister is absolutely right. Inflation is sapping the strength of the economy and has to be tackled from every angle. On Wednesday Senator Horwood outlined government's share in the fight. It amounts to:

(1) The Reserve Bank's decision "as a matter of policy" to let the money supply rise at an annual rate of 43% in the final quarter of last year.

(2) An increase in government spending of 19%.

(3) Price raising tax increases on beer, spirits, cigarettes, fortified wine, petrol and kerosene, which will obviously encourage wage demands.

Some share. Some fight.

If Vorster thinks he can get away with calling for more restraint from business and households while his own departments of State go on yet another spending spree, he is mistaken.

In truth, as far as fighting inflation is concerned, government has completely destroyed its own credibility. Which is a very serious matter.

If one looks at the next two or three years there are reasons for considerable disquiet. Hopes of rolling back inflation to the levels we were used to before the seventies have been utterly dashed. And each and every businessman and wage-earner with an eye on the future will now have to enter the jungle war of wage and price if he is to have any chance of maintaining his relative share of the economic cake.

When it comes to restraint all bets are now off.

How has the country got itself into this awful mess? Essentially because it has allowed the public sector to gobble up far too great a share of the economy's limited resources. The public sector's profligacy has to be paid for, and it's being paid for through inflation.

Senator Horwood said the Budget's top priority was defence. What an indictment. Why do we need to give defence top priority? Because we have

failed to create the sort of society that would be acceptable to the majority of our citizens and hence to the majority of our neighbours.

There is a price for ruling the country the way we do. And it has now to be paid.

Horwood added that the second priority was the provision of an adequate economic infrastructure. No one will quarrel with that. The railways, harbours and telephone service in particular need to be expanded. But that is no reason why total government spending should rise by 19%.

And remember that the 19% is not the result of general public sector wage and salary increases. Those have still to come — and will no doubt ensure that the rise in government spending in 1976-77 is even higher.

All of which raises the question: what will the Budget do to the business climate? Horwood said his aim was that the Budget should be "moderately stimu-

latory." With business slowing down on a wide front that is fair enough.

A really sharp deflation was out of the question, because of worsening inflation — whether Horwood prefers to call it cost-push inflation or demand-pull is not relevant. However, a mild boost to business could be defended to prevent the slowdown from turning into a full-scale recession.

But where is the boost? Certainly the overall Budget deficit before borrowing — the difference between expenditure and revenue — is a massive R1 125m. This is the net amount by which the Budget will boost disposable incomes; for expenditure by the government is income in the hands of businesses and households.

Adding R827m for loan repayments, the Treasury's total borrowing requirement is R1 952m. Of this figure at most R1 389m is to be financed from the economy's current savings.

The balance — R563m — is to be

BUDGETS ON A CASH BASIS*

	1971-72	1972-73	1973-74	1974-75	1975-76
	Rm				
RECEIPTS:					
Inland Revenue.....	1 675	1 907	2 395	3 580	3 981
Customs & Excise.....	821	756	768	964	1 092
Loan recoveries etc.....	185	142	187	325	364
	2 681	2 805	3 350	4 869	5 437
EXPENDITURE:					
Revenue Account.....	2 497	2 800	3 461	4 256	5 052
Loan Account.....	855	803	986	1 246	1 510
	3 352	3 603	4 447	5 502	6 562
Total deficit (excluding borrowings).....	671	798	1 097	633	1 125
REDEMPTIONS:					
Domestic.....	244	488	292	467	744
Foreign.....	76	109	68	46	83
Total borrowing requirement.....	991	1 395	1 457	1 146	1 952
FINANCING:					
Foreign loans (including renewals).....	221	266	223	334	309
Domestic loans.....	299	581	397	415	855
Public Debt Commissioners.....	200	240	275	300	400
Non marketable loans debt (including loan levy).....	238	129	145	99	134
Stabilisation Account etc.....	—	161	407	—	29
Reduction in cash balance.....	33	18	10	—2	225
	991	1 395	1 457	1 146	1 952

*These are all forecasts, not outturns.

financed through an addition to the money supply: R309m is to come from abroad in the form of foreign loans (if SA's borrowing record is as good as he claims why did he not budget to borrow more?), while R254m is to be drawn out of the Treasury's accumulated kitty.

However, against this it must be stressed that a sizeable portion of government spending will leak to businesses abroad, especially defence spend-

ing. So the net injection of disposable income may be considerably less than R1 125m; and the net injection of liquidity may be considerably less than R563m. Indeed, the net injection of liquidity may even be negative.

In any event these are only broad sums that hide the Budget's impact on specific sectors of the economy.

Plainly there is to be no relief for companies. Those making fixed invest-

ments before June 1979 will benefit from the investment allowances, which have been improved. And there are minor concessions in respect of UPT and employee housing.

On the other hand the Loan Levy on companies has been doubled from 2,5% to 5% of company income tax. The additional levy is expected to yield R48m.

Far from offering relief from inflation,

Here is a summary of the measures announced in the Budget:

Income tax: Abatement for over 60s increased from R400 to R600.

Maximum deduction from married women's earnings up from R600 to R750. The Department of Inland Revenue and the Standing Commission on Taxation will further investigate taxation of married women.

Maximum deductions for contributions to pension and retirement annuity funds increased from R1 250 and R2 500 to R1 500 and R3 000 respectively.

Tax-exempt lump sum retirement benefits paid by employers and pension or retirement annuity funds raised from R9 000 and R30 000 to R12 000 and R40 000 respectively.

Maximum of R1 000 per dwelling, as the basis for employers' deductions for housing provided for employees, increased to R2 500.

For tax purposes, any long-service bonus to military trainees will be spread over the entire training period, instead of being taxed only in the year in which it was received.

Income earned from the sale of farms under the Homelands consolidation programme will be taxed separately (at a reduced rate) from ordinary taxable income.

The Standing Commission on Taxation to investigate the feasibility of using inflation accounting for tax purposes.

Estate Duty: Ceiling on duty-free deductions from deceased estates in respect of investment in government stock and life assurance policies raised from R50 000 to R70 000, of which not more than half may be from the proceeds of insurance policies.

Investment allowances: Present allowances (15% on factory buildings and 25% on machinery in urban areas, 40% and 60% respectively in "economic development" areas) all raised by 5%. Date of expiry of allowance extended from 30 June 1978 to 30 June 1979.

Beneficiation of minerals: Additional investment allowance of 20% for

BUDGET ROUND-UP

machinery and 15% for buildings in a beneficiation plant not connected with a mining company.

Similar allowances — in addition to 100% write-off of capital expenditure already allowed — for mining companies which undertake advanced beneficiation. These concessions will apply initially for five years.

Undistributed profits: No abolition of UPT, though Inland Revenue is studying all company tax in depth. However, ploughbacks of profits, other than dividends, up from 45% to 55%. For public companies only, ploughback of dividend receipts raised from 25% to 35%.

Petrol duties: Abolition of non-statutory petrol levy of 0,275c per litre. But a 2c per litre increase in Customs and Excise duties on petrol and similar hikes on other petroleum products. Proceeds to Sasol II, oil stockpiling programme; and other strategic oil projects.

A further 0,25c per litre fuel hike for the National Roads Fund to finance road construction.

Net effect is a jump of 1,975c per litre in the price of petrol.

Duty increase of 1c per litre on kerosene, diesel oil and residual fuel oil at present subject to a partial rebate of duty. Also a new Excise duty of 3,7c per kg on liquid petroleum gas — government users will get a rebate.

Liquor: Duty on imported and local beer raised by 2,4c per litre (0,9c per pint). Similar increases on fortified and sparkling wines. No change in duties on unfortified wines.

Customs and Excise duties on spirits up 33,6c per litre (0,9c per tot).

Cool drinks: A duty of 0,7c per litre on non-alcoholic beverages.

Tobacco: Stamp duty on all cigarettes raised by 1c per 10; on cigarette tobacco by 1c per 50 grams; and on cigars by 10c per kg. Duty on pipe tobacco unchanged.

Loan Levies: Increase in company Loan Levy by 2,5% of company tax. Only diamond mining companies are exempted

Normal company tax plus surcharge now stands at 41% and the Loan Levy at 2% of income.

Social pensions: Whites' social pensions raised by R7 per month, with a further 10% increase on bonuses payable to war pensioners. Similar increases for other races will be designed to narrow the gap between pensions paid to different races.

Improved allowances for children's homes, foster parents, places of safety, old age homes, children of "settlers" and institutions for the handicapped.

Urban transport: An announcement "in due course" by the Minister of Transport on the recommendations of the Driessen Committee.

THE BIG SPENDERS

Estimates of expenditure on revenue, loan and SWA accounts

	Rm		% Increase
	1974/75	1975/76	
Defence and Armaments Board	754,2	1 054,8	39,9
General Administration	293,1	314,1	7,2
SAR&H	319,9	472,0	47,5
Police and prisons	261,7	293,5	12,2
Community services	89,7	104,8	16,8
Education	306,1	376,8	23,1
Health	102,9	122,8	19,1
Housing	92,9	108,4	16,7
State water schemes	164,0	166,6	1,6
Agriculture	175,8	174,6	-0,7
Farm subsidies	121,8	121,9	0,1
Other economic services	136,5	157,4	15,3
Transfers to provincial administrations	1 210,9	1 403,2	15,9
Care of children, mothers, the aged, ex-servicemen, mental patients	219,7	247,6	12,7



which has meant sharply higher taxation based on fictitious profits, the Budget is actually going to squeeze corporate cash flows. And there is absolutely nothing to improve the stock exchange climate and make it easier and less costly for companies to raise funds in the capital market.

There can be no doubt, too, that the substantial increases in indirect taxation are going to hit certain types of household spending. Manufacturers of

products on which the higher taxes are to be levied—beer, spirits, cigarettes and so on — will obviously feel the pinch. So will other products and services as households find their real spending power squeezed by higher prices.

The poor will be squeezed unmercifully. For one thing this Budget is certainly not a poor man's Budget. If one of government's aims is indeed to narrow the racial income gap, then the message obviously has not got through to Horwood.

He has provided a bit of tax relief for the over 60s — increasing the maximum special abatement allowed from R400 to R600 — if they happen to be White, Coloured, or Asian. But there is not a whisper of anything similar for Africans.

They get no automatic relief of the kind allowed other people. An African man can only get an income tax exemption if he can prove to Bantu Administration that he is over 65 — a difficult task since it's only in recent years that



registration of births has become compulsory.

And whatever increased expenditure is planned for Black housing, health and education — particularly outside the Homelands — was not significant enough to warrant special mention.

Horwood is putting up White social pensions by R7 — presumably from a maximum of R57 to R64 — as from October 1. He adds that "steps have been taken to reduce the existing gap in

THE STATE OF THE ECONOMY

Referring to the state of the economy as "a temporary phase of consolidation after the attainment of a cyclical peak", Senator Horwood pinpointed economic conditions as follows:

● **Growth:** Real GDP and GNP rose during 1974 by 7,2% and 10% respectively. Over the past two years, real *per capita* GNP has risen by an annual average rate of 7%.

The growth rate for this year will be lower, but "should nevertheless still be relatively high, and we may even look forward to a new upswing towards the end of 1975".

● **Investment:** Gross and net real fixed investment each jumped by 8,5% last year. Gross real investment by manufacturers was up 22% and real capital stock 6,4%. Real private consumption spending increased by only 5,2%.

Gross domestic savings rose R1 023m to more than a quarter of GDP.

● **Agriculture:** Farmers' income rose 29% last year. Only wool and karakul farmers were worse off than in 1973.

● **Mining:** Volume of gold output declined by 11,2%, but the average free market price was up 66%. Value thus rose by 45% to R2 565m.

The volume of other mining production during January-October 1974 was about 12,5% up on 1973.

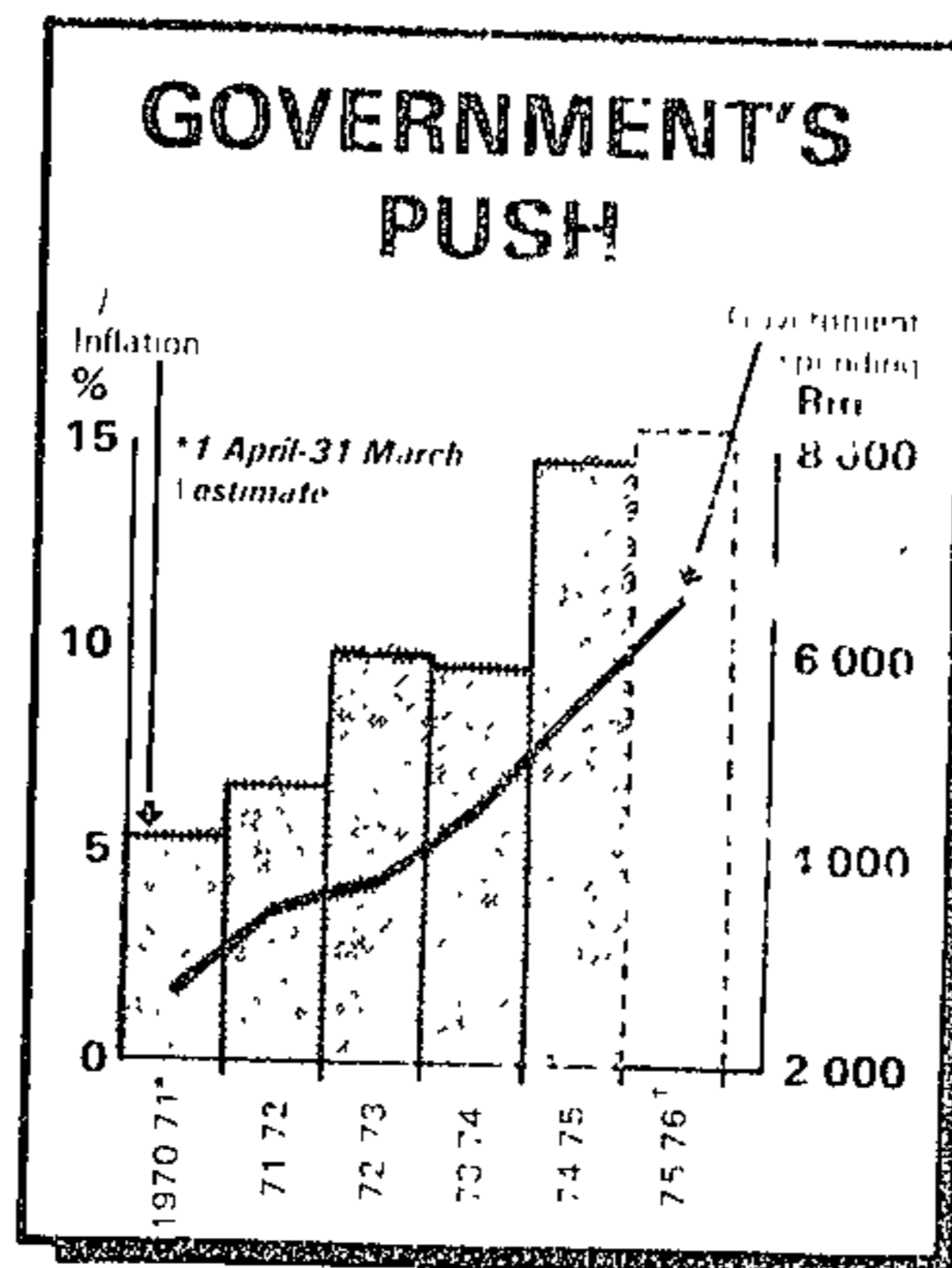
● **Commerce and Industry:** Factory output rose 6% in 1974, but the increase occurred mainly during the

first half of the year. Utilisation of manufacturing capacity fell slightly from 91% in February to 88% last November.

Motor vehicles sold remained constant as against 1973. The building industry levelled off, but construction maintained a fairly high growth rate.

Volume of retail sales increased by 6,8%; wholesale sales by 9,9%.

● **Inflation:** Average monthly increase in the consumer price index was 11,6% last year. Wholesale prices of imports soared 27,7%, compared with 16,9% for local wholesale prices. Food prices were up 18,4%.



A slowing in inflation abroad and an easing in the rate of increase of food prices suggest "there are reasonable grounds for hoping that our rate of inflation will reach a turning point in the coming months."

● **Balance of payments:** 1974's current deficit was R836m — 3,7% of GDP. But there was a net capital inflow of R741m, most of it in the second half.

Net private sector inflows amounted to R598m while R143m went to government and banks. Over the year total reserves dropped by R67m.

Import values rose at a slower rate from the third quarter, and during the second half of the year volumes in fact declined.

● **Wages and salaries:** Average *per capita* earnings in non-farm sectors during the first nine months of last year were 15% up. Real earnings rose 4% — in the case of non-Whites, 9,2%.

● **Money supply:** Money and near-money increased 22%; 1% less than in 1973. In the last quarter of 1974, the annual rate of increase rocketed to 43% mainly the result of banks' net claims on the public sector.

"The present indications are that, apart from seasonal shifts in funds, these broad monetary tendencies will still continue for some time to come."

Bank credit to the private sector was up R1 101m, but the flow of funds to building societies was lower last year than in 1973.

pensions" paid to other groups, but does not give any details.

What's the bet that, in terms of rands, the pension gap between Whites and Africans will be widened? The maximum African pension is currently a miserly R11,50.

The Excise duty on illuminating and heating kerosene will be going up from 3c a litre to 5,2c. For those tens of thousands of Black households who use it to warm their homes and cook their food

this will come as a shock. It seems a pretty heartless thing to do.

On current account, the Bantu Education Vote goes up from R59,9m to R68,9m — a trifling amount in view of the parlous state of African education. The *increase* in Defence spending alone is four to five times the total current account spending on Bantu Education. How's that for priorities?

In fact, looking at the Budget overall one gets the suspicion that détente has

everything to do with defence and very little to do with a serious attempt to promote social and economic justice and equality of opportunity among the peoples of SA itself.

Budgets belie political rhetoric. Dealing in rands and cents they accurately mirror the real priorities of a governing Party. It's a chilling thought because this Budget, like its predecessors, does little or nothing to tackle the basic cause of so much frustration and discontent.

GIVING WITH ONE HAND . . .

For industry, the Budget contains several important concessions. But these are worth a lot less than the Budget's additional burdens.

Investment allowances: Horwood's decision to avoid corporate tax changes based on "inflation accounting" may well be justified by the current state of the art. But any attempt to compensate for inflationary burdens by increasing investment allowances alone, is to tackle only part of the problem.

Those industries that have recently completed investment programmes, and now discover the cash flows arising from them squeezed by an inflation they never budgeted for, would have found greater consolation in improved rates of depreciation and a cut in the company tax rate itself.

Loan levies: Welcome as investment allowance is, the decision to increase the loan levy (anticipated to bring in R48m) deserves censure. It's obviously a step in the opposite direction and will put corporate liquidity under further pressure.

But that's only half the story. The increases in excise taxes are bound to dampen demand.

Cool drinks

Soft drink manufacturers are puzzled over Horwood's statement that they must absorb an effective duty of 0,7c a litre.

Current position is this; where no fruit (or veg) juice is used (such as soda water) duty is 1,76c a litre. Where fruit juice content is under 5% (eg lemonade) duty is 0,1c a litre. And over 5% fruit juice there's no duty.

What the Minister has now done is to tighten up the fruit juice content rebate. Now only drinks with 70% pure juice or more will pay no duty. So the carbonated minerals and synthetic crushes, even those half and half products, are faced with the tax increase. On the other hand, it's good news for Appletiser fans.

Booze: While SA's tipplers begin dig-

ging even deeper into their pockets for those extra cents, the breweries, if not the bottle stores, remain unperturbed. Though the public will have to fork out another R39,2m or so for its grog, the message will surely be: "Carry on drinking".

There may well be a few rueful glances at another 2,4c per litre on beer, 2,4c per litre on sparkling and fortified wines plus another 33,6c per litre on spirits but the tills will not remain silent for long.

For their part the breweries will be passing on, with immediate effect, an extra 2,4c a litre on cost prices. That means quarts of beer will now cost another 2c each (23c per dozen) while cans and dumpies will cost another 1c each.

Announcing the increases the Minister said: "The retail price of beer should not rise by more than 1c per container of 375 millilitres and I shall expect manufacturers, in fixing the increased price of beer in containers of different sizes, to give due consideration to the interests of the consumer".

The price increases are fixed at cost and whether or not the wholesalers and bottle stores leave it at that remains to be seen.

They may not. Rebel's Sammy Linz, for one, is clearly quite unhappy at recent price rises dished out by manufacturer and merchant and terms the rises, at best, "unfortunate".

To begin with special deals from the breweries have now been discontinued.

Furthermore, there's the news that the breweries are to charge the bottle stores a 50c deposit on 12 quart boxes — and that extra cash has to come from somewhere.

Linz is also glum about price rises on fortified wines. Just two months ago the bottle stores had to accept an 18% price rise and now the effective 3%-5% rise on, say, a 90c bottle comes as another knock.

Similarly, two months ago the merchants put up spirit prices by

10% or so and Wednesday's hike of 33,6c per litre (25c per bottle) was therefore termed by one bottle store as: "very, very stiff".

Could the hefty price rise in spirits prompt a swing to beer? A stoical SAB man, Laurie van der Watt, refuses to be drawn but the situation "is being studied," he says with just a touch of optimism.

Petrol: The increased petrol price will hit everybody, and in more ways than one. The hike of 2c per litre means it will cost the average motorist another R1-plus to fill his petrol tank.

Motor industry

For the motor industry, it's another nail in the coffin. Earlier this week motor men were eagerly telling the *FM* that they were confident of a cut in sales tax on passenger cars to help boost stagnant sales. Instead, motoring has been made more expensive.

But the consumer will feel the petrol price rise in other areas. It means that distribution costs will rise. These, where the goods are not price controlled, will be passed on so a host of consumer durables, foods and services will cost more.

The mining industry is pleased enough with the tax concessions proposed for those carrying out minerals beneficiation. The Minister has followed the recommendations of the Economic Advisory Committee which, like the industry itself, has seen that greater beneficiation at home provides a greater return than the mere export of untreated ores.

However welcome the move, the industry hopes that sooner than the tabling of the Bill in June, it will have discovered just what, for example, "advanced" beneficiation is, and, as important, just whom the Inter-Departmental Committee proposed by the Minister will involve.

Applications for the allowances, it turns out, will be individually reviewed by the committee.

15 APRIL 1975

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For written reply:

Gross national product

131. Mr. L. F. WOOD asked the Minister of Statistics:

- (1) What was the gross national product for the latest year for which figures are available;
- (2) what was the (a) estimated and (b) actual (i) percentage and (ii) amount allocated to (aa) research, (bb) health in the Republic and the homelands, respectively, (cc) social welfare services, excluding rehabilitation services, and (dd) rehabilitation services;
- (3) what was the (a) estimated and (b) actual (i) percentage and (ii) amount allocated to (aa) education and (bb) housing in respect of each race group.

The MINISTER OF STATISTICS:

The following figures are in respect of the financial year ended 31 March 1974.

(1) R19 050 million.

(2) (a) Not available.

	Percentage of gross national product	Amount R million
(2) (b) (aa)	0,22	42
(b) (bb)		
Republic	2,4	449
Bantu Homelands	0,3	59
(cc)	1,3	250
(dd)	not available	
(3) (a)	not available	
(b) (aa)		
Whites	2,99	569
Coloureds	0,43	82
Asians	0,19	36
Bantu	0,53	102
(bb)		
Whites	0,40	76
Coloureds	0,23	44
Asians	0,10	18
Bantu	0,25	48

The expenditure include the expenditure of all Government bodies.

Insufficient local capital for public

STAR 22/4/75

sector spending

Neil Bohrmann

Unless sufficient capital flows into the country, the money and capital markets will be under increasing pressure from the rise in public sector spending.

The table indicates Department of Statistics expectations of Public Sector (Government and allied bodies) spending during the next three years.

It can be seen that the department estimates that spending will rise from R3 108m in 1974 to R4 250m in 1977, an increase of 37 percent. But these estimates are calculated on current prices and if double figure inflation continues during the next three years, public sector spending could be around R6 000m in 1977.

Statistics of the South

African Reserve Bank shows that public sector spending represented some 40 percent of overall gross domestic investment in the country during 1974. Local savings of individuals, corporations, the surplus of the government and depreciation amounted to R5 900m.

But a capital inflow of R741m was needed to

finance the balance of the Republic's investment requirements.

A huge increase in public sector spending, means that a shortfall of savings is likely to occur. To supplement this shortfall a large increase in foreign capital is necessary.

And besides the required jump of foreign capital into South Africa,

the balance of payments must improve as well. One can only hope that a world economic recovery will occur during the next two years to boost exports and hence the gold and foreign exchange reserves.

ALTERNATIVE

The alternative is heavy borrowing on the local capital and money markets and a continuation of high interest rates.

The table shows that new construction will represent 67 percent of total spending this year. The department estimates that private construction firms will be awarded R1 946m of these contracts.

These estimates indicate that the construction and engineering firms will be bolstered from any economic decline in the private sector.

ACTUAL AND EXPECTED CAPITAL SPENDING OF PUBLIC SECTOR—1974 to 1977 (R-mill)

	1974	1975	1976	1977
New construction	2 072	2 473	2 789	2 860
Purchases of machinery & equipment	867	989	1 088	1 220
Purchases of land & buildings	169	204	185	170
TOTAL	3 108	3 666	4 062	4 250

Handwritten notes:
 2072
 2473
 2789
 2860

TRANSVAAL PUBS OPEN TO COLOURED AND INDIANS

By HANS STRYDOM

THE 230 000 Coloureds and Indians in the Transvaal have been entitled for years to sleep, eat and drink in all White hotels in the province without being aware of this right. This applies to 711 hotels.

This amazing disclosure only on grounds of a person's conduct or dress. The right enjoyed by Coloureds and Indians in the Transvaal to enter White hotels extends also to Coloureds and Indians from other parts of the country visiting the province, but it does not extend to Africans. However, the new Liquor Amendment Bill, introduced this week, authorises the Minister of Justice, upon receiving an application by a hotel or restaurant and a recommendation from the National Liquor Board, to

or colour at these hotels, but Le Roux's evidence that a licensee's right of admission power cannot be exercised solely on the grounds of race

open any hotel in South Africa to Coloureds, Asians and Africans.

Visiting Blacks and Black diplomats will be able to stay at any hotel in the country by right derived from their entry into the Republic. This will not apply to migrant workers, however.

The opening of hotels to all races is seen as the most significant move the Government has made since its Ambassador at the United Nations, Mr Pik Botha, visited last November that race discrimination would be

On the rights of Coloureds and Indians in the Transvaal, Mr Le Roux stated that they could take up accommodation and drink at 711

hotels in the province. "A coloured and an Indian can walk into any hotel in the Transvaal, as we understand the legal position, and if he wants to have a drink or eat a meal in the afternoon, he is free to do so, if the licensee allows him," he said.

"Group Areas legislation does not prohibit his presence in the hotel. That is my submission." He explained that the licensee's right to refuse admission could be exercised only under certain circumstances — for instance, when a customer was drunk.

"But if the client takes the matter to court, the licensee will have to furnish the magistrate with satisfactory reasons for his refusal." Mr Gordon Waddell, Progressive Party MP for Johannesburg, North, asked: "Is the management of an hotel, for example, the Carlton Hotel, not entitled to turn away a client at its discretion?"

Mr Le Roux replied: "No, unless for example, the client is drunk."

Visitors

Bank chief warns on cash crisis

Sun Times
Bus Times
27/4/75

By RALPH HELLER
UNLESS South African business men find new ways of raising capital there will not be enough work for the extra 11-million people of all races who will be on the labour market by the year 2000.

This is the view of Piet Liebenberg, chairman of Finansbank, who says "the biggest problem facing industrialists today is the supply of risk capital."

"Our stage of development requires that we have to expand the economy so that there is enough work for everyone."

"It is estimated that by the turn of the century, there will be 19.6-million workers in South Africa — 2.3 times the 8.3-million who were active in 1970."

Mr Liebenberg points out that in the next 25 years the African labour force is expected to leap by 148 per cent, the Coloureds by 128 per cent, the Indians by 96 per cent, and the Whites by 85 per cent.

South Africa, he feels, has almost everything going for it — a stable government and under-exploited human and natural resources. The only

limiting factor is capital which will have to be raised internally and internationally in highly inflationary times.

The vastness of the capital requirements can be gauged by the fact that the country's gross domestic investment is expected to total R36 134 million at the turn of the century — six times as much as the R5 865-million of 1974.

The projections for the year 2000 are based on the Economic Development Programme for 1974-1979. All figures are based on 1973 prices.

"Creating the infrastructure for a population which will double within the next 25 years, will not be possible without massive foreign assistance in the form of capital and skills."

"There is this enormous daily accumulation of surplus funds in the Middle East, against falling reserves."

Continued on Back Page

Bank warning

Continued from Page 1
in the West and other countries.
"If one assumes that such capital and skills will be forthcoming, then it may be said that South Africa is standing on the threshold of an unprecedented period of wealth and development."

"It is therefore important that every possibility be utilised to promote the interests of South African in this respect, and that is why the present detente policy in Africa is so important."

"Internally, we have to devise new ways in which companies, which would have raised capital through the Johannesburg Stock Exchange, can now do so."

He feels that local banking and other financial institutions should be more effectively marshalled to achieve this. While citing Germany in the post World War II period as an example, Mr Liebenberg acknowledges that this could lead to the banks and others dominating the economy.

"But based on this experience we could build in checks and balances to avoid this."

"There is no other way out, and the financial sector will have to rise to the challenge and be much more dynamic than they have been in the past."

"They will — just as they support organisations like Escom — have to find ways and means of supplying risk capital for companies, which in these inflationary times, are finding their borrowing capacities increasingly hampered."

In exchange for this finance, Mr Liebenberg envisages the institutions obtaining a stake in the company. This could take the form of a profit-participating preference share — which forms part of permanent capital — thus avoiding the charge of bank encroachment.

"In this respect the IDC has done a tremendous amount, but one can't expect them to carry the burden for the whole country. Besides which, that is not its function."

Annual report

Finansbank yesterday published its annual report, which shows that taxed profit for the year which ended March was R800 000 — a 20 per cent increase over fiscal 1974. This rise in earnings per share from 19c to 23c is rather academic as it comes after transfers to secret reserves.

A final dividend of 3c per share has been declared, making a 6c total for the year, compared with 5c previously.

Total assets have gone up by a quarter to R51.5-million and capital and reserves from R2.7-million to R3.2-million, in the period under review.

Finansbank shareholders include Sentrust, Griffon Holdings, Manufacturers Investment (Jacobson family), and Federated Employers In-

amount each, as do members of the Finansbank management team, Johannes Hamman and Dr Leon Porter. Laurie Korsten, formerly with Finansbank, also holds about 8 per cent.

Mr Liebenberg's family interests control a further 10 per cent. Among the further 100 individual shareholders, who hold the balance of the equity, is Raymond Ackerman.

Laurie Korsten, one of the founders and an ex-director of Finansbank, has set up on his own.

His new Johannesburg-based company, Corporate Acceptances, will handle all aspects of financial investigating and planning and advise on mergers and takeovers.

Mr Korsten has been joined by Donald Woods, currently personal assistant of Charles Fiddian-Green, executive chairman of the Renies group, and Gordon Maddock, a former manager at Finansbank.

125 held after riot at school

① 47
② 312

STAR 30/4/75 Pretoria Bureau

Heavily armed police have quelled a riot at Hammanskraal High School, outside Pretoria, and arrested 125 students for public violence.

A police spokesman said today that a riot erupted at the Mchaube High School in Hammanskraal yesterday.

Eight teachers, including the headmaster, Mr W F. Majokane, allegedly were assaulted, some of them seriously, by scholars during the riot which apparently started because of student discontent with the teaching body at the school.

Most of the detained students were boarders. They were taken to the Hammanskraal police station in six police vans. All the rioters had gathered at the male dormitory when the police, armed with automatic weapons and tear gas, arrived.

The injured teachers, two of them in a serious condition, were admitted to the Jubilee Hospital at Hammanskraal.

A police spokesman at Hammanskraal said that when he and his 13 men arrived at the school about 400 rioters had gathered.

AGGRESSIVE

"They were very aggressive, daring us to shoot at them. They refused to obey our orders, so I called for reinforcements which soon arrived.

"With their arrival the riot was soon over."

Most of the detained students had shouted Black Power slogans and shaken clenched fists at the police.

The Hammanskraal spokesman said the police had been heavily armed because when news of the riot reached them they did not know what to expect and had gone to the school prepared for the worst.

They did not use the firearms or the tear gas.

About 300 students were detained. After questioning 125 were held in connection with allegations of public violence. They are expected to appear in the Hammanskraal court soon.

Reports say the telephone line to the school was cut, and the door of the headmaster's office was ripped off its hinges. School crockery and equipment was smashed in the riot.

MANUSCRIPT

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2 May 1975

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Revaluing of South African gold reserves

*12. Mr. T. ARONSON asked the Minister of Finance:

- (1) Whether he has given consideration to revaluing the South African gold reserves, if so,
- (2) whether the current reserves are to be revalued; if not, why not

The MINISTER OF NATIONAL EDUCATION (for the Minister of Finance):

- (1) In the light of international monetary developments during the past year and the decision of the French Authorities in January 1975 to revalue their official gold holdings at a price equivalent to dollars 170.40 per ounce, I have naturally given consideration to revaluing South Africa's gold reserves.
- (2) No final decision has yet been taken in this regard. Although, as I have indicated earlier, I favour the idea in principle, there are various matters in this connection which require further consideration, and the authorities are giving attention to these matters.

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Down goes the gold reserve — but it's ^{Sun Trib (Fin)} ^{11/5/75} ⁽⁴⁷⁾ nothing to worry about

REDUCED deliveries of new metal from the mines have led South Africa to reduce its store of reserve gold held by the Reserve Bank by close on R7 million — valued at the old official price of 42,22 US dollars an ounce — in just three weeks.

But the outflow of gold from the reserves has been small in terms of quantity compared with what the old official pricing suggests, since all was sold on the free market at around four times the former fixed price.

And the temporary reduction in the reserves held in State coffers is nothing to be alarmed about. The Government has been pursuing a policy of buying foreign currency to pay for imports while the US dollar, to which the rand is linked, has been riding high against

Financial Reporter

other international currencies.

When the dollar slides — if it slides — the policy of retaining gold will be reintroduced.

By buying other foreign money during a period when the dollar is strong, South Africa is paying less for its future imports than it would have to do if it used a weak dollar, bought with a strong rand.

There are signs that the trend is now being reversed and that foreign exchange holdings — though run down by R5,4 million last week to R198,5 million — are strong enough to meet immediate import demand. Chief sign is that this week the Reserve Bank retained R100 000 of newly mined gold, for the first retention in more than a month.

Behind the reduced rate of delivery of newly mined

gold, which had to be compensated for by sales from reserves, was the pressure for Kruger Rands, sold directly by the Chamber of Mines.

In the wake of the embargo on the coins in Britain and the development of a black market there, demand is expected to slow temporarily until dealers in Europe have off-loaded stocks.

That means that more gold will flow to the Reserve Bank in the form of bars for sale on world markets in line with foreign currency requirements.

Just how much gold was sold in the three-week run down is problematical, but it was probably not much more than 6 000 ounces or about a quarter of the 24 000 ounces which would have been needed to earn R7 million (10,5 million dollars) at the old price.

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Looking for the turn

Businesswise, the next twelve months will be quiet. But there are signs that some of our economic woes are receding

Economists are smiling again. From being harbingers of gloom and doom for nearly two years, they are now trying to spot the upturn.

The world's troubles may not yet be over. The US recession has still to bottom out and Britain is a long way from solving slumpflation. But, as *Time* put it a fortnight ago: "Economists and businessmen who sight an upturn are not just using their imaginations: there really are signs that the slump is braking to an uneven halt." And in the UK the socialists have at last shown signs of realising the seriousness of their country's plight.

What about SA? Though the slowdown continues, there are signs that in the months ahead the economy will be marking time rather than going into a lump. There are hopeful signs, too, on the inflation front.

A lot depends on the balance of payments. At the beginning of the last upswing in October 1972, gold and foreign exchange holdings stood at a healthy R916m, rising to R1 269m by the following July. But, since the present slowdown started last August, there has been a drop in the reserves which last week stood at R724m.

Though import volumes are falling, costs remain high: spending was R449m in March against last October's record 485m. Inflated prices and infrastructure demands make it unlikely that 1975's imports will be lower than last year's.

As for exports, this year will see another excellent farm season — the maize crop is expected to be only 0,5m tons short of last season's record — but prices for both farm and mineral exports won't match last year's highs.

Foreign borrowing programmes, the overseas financing of trade credit and, especially, substantial long-term investment from abroad should ensure a healthy capital inflow, though the pound's continuing slide adversely affects leads and lags as traders speculate on a devaluation of the rand.

Despite capital account optimism, the uncertain trade picture makes a high rand price crucial — remember that

45% of last year's total export receipts came from gold sales. Average price in 1974 was around \$165 per ounce and a level well above that this year is vital to keep the balance of payments sound.

All in all, chances are that the reserves will not rise much this year. Will they be adequate to fuel the next upswing? At a R800m-R850m level, probably not. But this is really a misleading figure. With gold valued at current free market prices, reserves of that order would be worth well over R2 000m. Church Square could also give the economy a tremendous psychological fillip by revaluing the gold content at the free market price.

But even if the balance of payments does not pick up, domestic liquidity will be taken care of by continued heavy government spending. This has been the case for several months already, as evidenced by falls in short-term interest rates. In fact, it seems that availability of

is being spent on imports, relatively non-productive defence items, and infrastructure. Spending on TV is still hesitant, and even when it really picks up — probably towards the end of this year — there is no guarantee that money spent on TV will not be diverted from other items. And, with their profit margins squeezed, companies are unlikely to boost consumers' incomes by granting big pay rises this year.

So it's no wonder the latest opinion survey by the Stellenbosch Bureau for Economic Research shows 58% of manufacturers are able to raise output without additions to capacity.

The fall-off in demand is, of course, a blessing as far as inflation is concerned. Indeed, a few straws in the wind suggest that inflation may already have peaked. While the consumer price index leapt 14,1% last year, and 15,2% and 14,7% in the 12 months ended January and February 1975 respectively, it eased

THE PUNDITS' PREDICTIONS

The *FM* asked some well-known economists to guessmate the course of six vital economic indicators over the next six months. Here's what their crystal balls predict

	Real GDP growth for 1975 %	Inflation rate (Dec 1974-75) %	Change in foreign reserves by Dec Rm	Bank min lending rate (end-Dec) %	RDM 100 (end-Dec)	Gold price (end Dec) US\$
Merton Dagut (Nedsual)	3	15,5	+50	12	230	220
Jan Hupkes (Federale Volks)	4,5	16	+100	13	230	220
Arthur Hammond Tooke (FCI)	4,5	12,5	+75	11,5	255	195
Robert Kraft (Tucsa)	5	11,5	+50	10,5	240	170
Attie de Vries (Stellenbosch Bureau for Economic Research)	3,5	8	+100	11	220	180
Arnold Pretorius (Afrikaanse Handelsinstituut)	4	11	+50	11	235	180
<i>FM</i>	3	13	+100	11	230	170

cash is no longer seriously inhibiting business expansion.

A more serious disincentive to new investment (and the cause of stagnation in factory output where there was in fact a small decline since last July) is the slackening of consumer demand, due mainly to inflation.

Massive public spending will help stimulate investment, though much of it

back to 13,7% in the year ended March 1975. The wholesale price index for March was unchanged from February.

True, recent ripple-creating price hikes on petrol, fertiliser, cement, milk and other items (with more still to come) have not yet had their full effect. But it is possible that two factors could minimise their influence on the overall inflation rate:

The rate of increase in prices of imports and food — the two chief components of last year's price spurt — has slowed markedly in recent months; and slackening demand is discouraging manufacturers and merchants from passing on the full extent of cost increases.

Despite these propitious signs, it's improbable that this year's inflation rate will be below double figures.

The big question now is: when will the upswing start?

The uncertain outlook for exports, coupled with last year's credit squeeze and a massive inventory build-up, means that economists (including the PM's Economic Advisory Council) who were predicting a revival before the year's end have had to redo their sums.

Barclays' economist Johan Cloete, for one, reckons that, on the basis of

past performance of three leading indicators (merchandise exports, foreign reserves and industrial share prices), the next business upturn will not come until the first or second quarter of next year.

So, it looks like another lean year ahead. But with a real growth rate of around 4% still on the cards for 1975, SA will have weathered the world's worst post-war recession remarkably well.

SA becoming 'nation of foreign shopkeepers'

47

By DAVID PINCUS

SOUTH AFRICA is being turned into a nation of foreign shopkeepers and industrialists by a steady stream of moneyed people slipping out of "liberated" African countries, and also away from Europe.

A large percentage — if not the majority — of businesses and factories being sold in South Africa are now being bought by people who until recently had similar operations in other African countries, and in some European countries.

Most of them come here for a few weeks to look around, decide what they want, then take out the necessary residence papers, and buy.

How they get their money out of their former countries is something of a mystery. Some, it is believed, use funds they established in Swiss banks when they saw which way the wind was blowing. Others have found their own ways, and will not divulge them.

The reason why people from former Portuguese colonies are flocking to South Africa is obvious, but Europeans are coming here because of the relative industrial and commercial peace and quiet, and as one said:

"So eager are these people to invest their money in South Africa that business brokers have reached a point where they have more buyers than sellers for certain types of businesses and manufacturing operations."

I was told this by two leading business brokers in Johannesburg, Hillbank Business Sales, and Barnabas Plein.

Hillbank is "scratching around for the small and medium-sized operation," while Barnabas Plein is "having great difficulty getting operations big enough to interest some of our clients."

Six of the last 10 businesses sold by Hillbank were sold to foreigners, and four of the last 10 sold by Barnabas Plein were bought by foreigners.

It's rather sad to think that foreigners appear to be more confident about the future of South Africa than South Africans themselves," said David Wilk, a director of Hillbank, who is in charge of selling factories.

However, the fact is that many of our inquiries come from Italians, Germans, Britons, although mainly from people who have left Mozambique and Angola.

The majority of them have between R40 000 and R150 000 available in cash, and are looking for either retailing operations, or for small or medium-sized fac-



Cosmas Mullinos, sells retail for Hillbank . . . "There are ways and means."



David Wilk, in charge of Hillbank's factory sales . . . Short of small and medium types.



Gerald Abrahams, of Barnabas Plein . . . Short of the big stuff.

tion's retail operation selling, said he asked several of his clients how they were able to get their money into South Africa. Invariably the answer was a bland, "there are ways."

Gerry Abrahams, managing director of Barnabas Plein, had calls for businesses from a wider spectrum, ranging from those with R5 000 to invest in a fish and chip shop, to industrialists from Europe with millions to invest in South Africa, and, from some South African finance houses, who now wish to diversify.

Surprisingly, he has not had any direct approaches from people in Britain. This leads him to believe

that some finance houses are, in fact, acting as fronts for people in Britain who want to invest in South Africa without letting the trade unions there know of their intentions.

"The situation at the moment is that we are short of the bigger businesses and factories to sell," Gerry Abrahams told me.

"The reason is simple. The man in the street is having difficulty finding the extra few thousand to put down as a deposit for his own small business, but the bigger man has all the money he needs, so the bigger businesses and factories go first.

"To give you an indica-

tion of how easy it is to move bigger concerns: I advertised three businesses with a total selling value of R1,25-million in the SUNDAY TIMES at the end of January.

"Two of them have already been sold, and we are negotiating now for the sale of the third business. Had it not been for the fact that the business was in the throes of moving to a border area it would have been sold weeks ago.

"The response to the advertisement was incredible. For the first two months after it appeared I did virtually nothing other than attending to genuine inquiries."

MORE BLACKS HI CONGRESS

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See also pages 25/5/75

Special Correspondent

WINDHOEK. — Deliberations at this week's Afrikaanse Handelsinstituut annual congress pinpointed three specific areas that are disturbing the South African business community and threatening to hamper seriously the healthy growth of the economy.

It was concluded that top priority should be given to the task of finding solutions to these problems or of reducing their effect.

Congress delegates devoted most of their time to expressing concern over:

The unavailability of investment capital and the fact that there is just not enough money around to fund all those projects planned for the next five years by private and public sectors, and which are necessary to ensure the economy grows at the EDP desired rate of 6,4 per cent a year;

The increasing encroachment of State-controlled enterprises and the growing demands from the public sector on the

money supply, at the expense of the private sector;

The tenuous relations between Black and White on the shop floor, the growing shortage of skilled workers and the need to make better use of the country's large pool of Black labour.

It was emphasised by Dr Frans Cronje, chairman of Nedbank and Syfrets-UAL, that it was imperative for social, economic and political reasons that South Africa grow at a faster rate than the other industrialised nations of the world.

The country had so far failed to achieve that, he said, although it certainly had the potential to do so. Obstacles in the way were the shortages of investment capital and skilled workers.

South Africa faces the problem of having to find R40 000-million for various capital projects over the next five years — a daunting prospect.

Delegates expressed the view that it was inevitable the country would have to face up to shortages in the money supply. As a consequence a plea was made, directed mainly at the Government, for a look at priorities and so those capital projects, which were not essential at this time, could be discarded.

There was a general expression of concern at the encroachment of State-controlled activities on the economy, and the increasing level of expenditure by this sector.

One delegate said it was disquieting to note that State expenditure was increasing at a considerably faster pace than the growth rate of the GNP.

Capital demands from this sector were exerting heavy pressure on the money supply, hampering attempts by the private sector to maintain a satisfactory growth rate.

It was emphasised that the problem of investment capital

was only likely to be overcome if the country remained a free enterprise society, and not if State control was increased.

The AHI's immediate past president, Mr Chris Bisschoff, asked whether in view of the worsening money supply position many political priorities — homeland financing was mentioned specifically — should be reassessed against the background of economic feasibility.

On this he asked for the consolidation and independence of the homelands to be speeded up to lessen their dependence on South African capital.

On the labour issue, a warning was sounded that the way in which the Government handled labour matters — about 10 Government bodies are involved — could lead to a confrontation, a worsening of Black-White relations and possibly industrial unrest.

There was an urgent need for co-ordination on this question and the establishment of an adequate manpower policy to control the demand and supply of labour.

Handwritten notes:
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Index linking —economists are divided

STAR 28/5/75

Staff Reporters

At a symposium organised by Tucsá, a panel of economists was sharply divided on the practical advantages of index linking in South Africa.

Index linking means that economic contracts such as wages, loans and savings are linked to changes in the cost of living. For example, if an acceptable cost of living index rises by 15 percent, then wages, the value of loans and savings must automatically rise by 15 percent.

The panel included Dr J. Cloete, Barclays Bank's chief economist; Dr J. Hupkes, chief economist of Federale Volksbelegings; Mr Robert Kraft, economist of Tucsá; Miss Joan Knox, and Professor Arndt Spandau of Witwatersrand University's economics department. Chairman of the panel was Mr George Palmer, editor of the Financial Mail.

SYMPTOMS

The two academics and Mr Kraft said they thought indexing could be applied in South Africa, but the other economists disagreed.

All the economists admitted that indexing tackled the symptoms and not the root cause of inflation. They talked about lowering the rate of inflation or keeping inflation at present levels. They did not firmly state that indexing would end inflation.

Dr Hupkes said that partial indexing was not a feasible proposition in South Africa. If wages were only linked to a cost of living index, for instance, there would be unfair pressure on other groups

and sectors of the economy.

"If we want indexing," he said, "then we must go the whole hog."

Dr Cloete remarked that there was already partial indexing in South Africa. Building contracts, rental agreements and some recent wage agreements were examples.

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Supplement to RSM

29/5/75-

The youngster is no an industrial giant

THE SMALL, comparatively youthful Vaal Triangle — Vanderbilpark is 32 years old and Sasolburg 22 — has developed into the most highly industrialised complex in the Republic.

This remarkable expansion stems from Iscor's Vanderbilpark steelworks, Sasol's oil-from-coal plant, the Vaal River, South Africa's most important waterway, Escom's power stations and Vereeniging's major steel processing factories.

It is from the Vaal River basin that the vast engineering and gold mining projects of the Witwatersrand, Free State and the Vaal Triangle obtain supplies of power, and water.

Within its three major points — Vereeniging, Vanderbilpark and Sasolburg — are the biggest concentration of heavy in-

dustries and power in Africa.

There seems to be no limit to present and potential development. Iscor is spending over R500 000 000 on extensions to its Vanderbilpark works of which the new North Works has the proportions of another integrated steelworks.

The Dorbyl group, consisting of two of South Africa's greatest steel engineering companies, Dornier Long and Vanderbil Engineering Corporation, is building a new roll foundry and machining complex at Vecor's Vanderbilpark works costing R4 750 000.

At Sasolburg, AF & CI has announced that, in association with Sentrachem, it is to build a huge new complex of coal-based chemical plants, to be named "Coalplex", whose major constituent will be a

PVC plant with a capacity of up to 100 000 t a year.

This major project is to cover an area of 50 ha and will cost about R250-million. This will bring the company's investment over a period of five years to a staggering R310-million — the other part of which was spent on the construction of the new nitrogen complex at Modderfontein.

One of Sasol's latest ventures is the establishment of a plant costing several millions of rands for the processing of crude tar acids, and should be commissioned in the middle of next year.

The local demand for refined tar acids has grown to such an extent that refining facilities on a much larger scale than have so far existed are now called for in the Republic. Local authorities and in-

dustries throughout the triangle are preparing for the explosion which must follow this industrial growth. It is reliably estimated that the population, now 380 000 (135 000 Whites) will rise to 628 000 (200 000 Whites) by the end of the century.

Plans to accommodate the newcomers are already well advanced. The Mayor of Vanderbilpark, Mr Gustaf du Toit, announced recently that the town was growing so quickly that 6 386 residential erven were to be developed immediately.

At Sasolburg 500 residential erven are being developed. In addition, AF & CI's "Coalplex" will employ 1 750 more workers, of whom 600 will be White. This has involved the company in the construction of 450 houses and 50 flats in Sasolburg's municipal area.

Furthermore, single quarters for 50 Whites, a 60-roomed apprentice hostel, a hostel for 1 500 Blacks and a housing scheme for Blacks are to be developed.

This will mean an addition of about 10 per cent to Sasolburg's White population. The consequent increases in spending power and more fringe industries and commercial organisations can only be of considerable assistance in accelerating the development of the town.

At Vereeniging the private sector is building homes at the rate of 1 250 a year and the town council has announced that nearly R2-million is to be spent on housing for three language groups.

The council is building a R5-million civic centre complex; the highest prior-

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Consultants to aid Meyererton's development

jected undertaking and taken the unusual step of inviting the people of Meyererton to submit suggestions.

The council is showing sound judgment, initiative and vision in dealing with the problem caused by the fact that the various townships were developed individually and without any preconceived plans.

Facilities

There was no co-ordinating controlling body to site the industrial areas to the best advantage and this is being aggravated by the rise in population.

Looking ahead, the council has now taken steps to consolidate all the undeveloped industrial land into one township. Furthermore, a farm about 435 ha in extent has been acquired. All the services and facilities, including railway sidings, will be available.

The growth of Meyererton in recent years indicates clearly that commercial houses, industries, the country's biggest financial undertakings and the public in general have every confidence in the town's future and the way in which its affairs are being administered.

The consultants have also been invited to submit a development plan which will act as a guide to growth.

Busting

The central business area plan has been submitted and is being studied by the council.

Rapidly growing Meyererton is set against the hills of the Suikerbosrand and the Transvaal highway and straddles the picturesque Klip River, which has its source near Johannesburg, 46 km away.

The municipal boundaries were extended in 1950 and again in 1963 to include the townships of Rothdene, Kliprivier, Riversdale, Meyererton Farms, Ophir, Agricultural Holdings and part of the farm Rietfontein.

This bustling town has a white population of 14 000 and an effective growth rate of 11 per cent a year.

The total municipal valuation of "greater" Meyererton is R35 646 035 with an assessment rate, levied on land only (R16 792 165) of 4c in the rand. Ample water supplies are obtained from the Rand Water Board and electricity from the Electricity Supply Commission. A reticulated waterborne sewerage scheme is at present being installed by the council at a cost of R4-million.

Several heavy and light industries, some of national importance, are flourishing in Meyererton and with the services and amenities which the town has to offer the potential is impressive.

Congestion

The plan drawn up by the council's consultants for the development of the future business centre has as one of its main objectives the prevention of the problems caused by congestion — as suffered by many cities in this country and overseas.

Adequate parking facilities will be provided and the separation of vehicular and pedestrian traffic is envisaged.

The council has published details of this pro-

has been acquired.

Until that dream becomes a reality the Vaal Triangle is making full use of the Potchefstroom University campus. All its property and equipment will be transferred to the new university when it is eventually built.

There has been high praise for the Vaal Triangle College for Advanced Technical Education which is meeting an urgent need in this area and is giving outstanding service to young men and women. It was established to provide post-matriculation education and training in commerce and management, electrical, mechanical and civil engineering.

The college buildings are to be extended and equipped at a cost exceeding R2-million.

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municipal area.

Furthermore, single quarters for 50 Whites, a 60-roomed apprentice hostel, a hostel for 1 500 Blacks and a housing scheme for Blacks are to be developed.

This will mean an addition of about 10 per cent to Sasolburg's white population. The consequent increases in spending power and more fringe industries and commercial organisations can only be of considerable assistance in accelerating the development of the town.

At Vereeniging the private sector is building homes at the rate of 1 250 a year and the town council has announced that nearly R2-million is to be spent on housing for three language groups. The council is building a R5-million civic centre complex, the highest prior-

ity is to be given to a regional aerodrome which is to serve the Vaal Triangle and which is so planned that it will satisfy the present and future requirements of the most rapidly-growing industrial complex in Southern Africa.

Vereeniging is also to build a R2-million national produce market which will serve the Transvaal south of the Witwatersrand and the northern Free State; a dangerous level crossing is being eliminated at a cost of R1-million and R2 710 000 is being spent on reconstructing and doubling the northern access to Vereeniging.

An autonomous university for the Vaal Triangle has become a practical proposition and a magnificent site on the Transvaal bank of the Vaal river in Vanderbijlpark

out the 500 rest-houses and young's mul-

'Abandon labour apartheid'

57AR 29/5/75

Own Correspondent

DURBAN — The time had come for the "withdrawal of discriminatory labour legislation" which was hampering economic growth, said Dr H J J Reynders, Director of the Federated Chamber of Industries.

Apart from this, such laws induced despondency and frustration which reduced productivity, and discouraged investment by entrepreneurs because of uncertainties caused by the restrictions.

Dr Reynders said: "A continuous re-assessment is needed of social and legislative restrictions which hamper the more productive use of the total labour force."

Whites should accept the inevitability of the increasing economic integration in most parts of the country.

REQUIREMENT

The preparation of Blacks for greater participation in the economy was the first requirement for adequate future growth. This demanded the progressive abolition of job discrimination and more flexibly applied influx control.

On the part of the Black man, Dr Reynders said: "He must shed traditional attitudes inimical to progress. He must accept the profit motive, shed his leisure preference, learn to save, not demand too much in too short a time and not fight with impatience for changes."

In a four-hour address to the Change Orientation and Planning Seminar of the Stellenbosch Graduate School of Business held in Durban, Dr Reynders repeatedly suggested that Blacks and Black policy held the key to the success-

ful future growth of South Africa.

But at the moment "Government policy restricts growth in South Africa."

Delegates were told that job reservation only affected three percent of South Africa's total labour force. Moreover the Government was turning a blind eye to infringements of the law.

Dr Reynders said the reason job discrimination had not been repealed was a political one because it was not the type of thing that could be announced on a political platform when votes were needed.

Referring to migrant labour, he said that, apart from its social effects, it also had a detrimental effect on productivity and could not provide a stable pool of workers that was needed by industry.

He said: "A committee has been appointed to investigate the migrant labour system. What will happen, I don't know. I have my own ideas, but these I won't say in public."

1-209
2-132
3-132
4-110
5-47
6-110
7-200
8-135

HANSARD 17

Q .1082

3 June 1975.

47

Amount required for real gross fixed investment

*5. Mr. G. S. BARTLETT asked the Minister of Finance:

What percentage of the amount of R5 432 million calculated according to Table 6.2 on page 65 of the Economic Development Programme for the Republic of South Africa, 1974-'79, as being required for real gross fixed investment in the main branches of production in the Republic for 1975, will be generated from (a) domestic sources, (b) foreign loans, (c) direct foreign investment and (d) other sources.

The MINISTER OF FINANCE:

According to the Economic Development Programme (EDP) projections, adequate domestic savings will be available in 1975 to cover the amount of R5 432 million required for gross fixed investment. The EDP projections for a particular year represent an average or a tendency value and will therefore not necessarily correspond with the realized values.

Approximately 4 per cent of the total investment (including inventory investment) will, however, have to be financed from foreign sources. The EDP does not distinguish between foreign loans and direct foreign investment.

Growth rate below target

(47)

Cape
Times
3/6/75

JOHANNESBURG. — It is clear in 1975 that South Africa's growth rate will fall short of the EDP target, the Standard Bank group says in its latest review.

The bank says that during a slowdown, growth is not the only yardstick by which to measure economic performance. It is well known during a phase of slackened economic activity that the country's intake of imports from abroad should tail off or decline.

The consequent upward movement of the gold and foreign exchange reserves should inject fresh liquidity into the economy and with the demand for money growing more slowly in line with the pace of activity an appreciable easing in monetary conditions should follow.

Financial institutions should find themselves more liquid, short-term interest rates should decline and an overall appreciation of industrial share prices should follow.

Slackness in the volume of retail sales and the resultant build-up in stocks should induce cutbacks in industrial production and investment outlays.

Unemployment should correspondingly increase, and these factors should together promote a slower rate of increase in both prices and wages, the bank said.

Clearly, the bank says, we are a very long way from being ready for a take-off into a new boom. — Reuter



Tilting at windmills

F.M.
6/6/75

47

The latest burst of inflation is not the result of profiteering. It is the result, somewhat delayed, of government's profligate spending and Church Square's incontinent monetary policies

Price hikes all round and Eugene Roelofse's tiff with Price Controller Joep Steyn, organised commerce, and his former bosses on the Consumer Council have once again focussed the spotlight on inflation.

The psychological impact on our politicians of day-after-day headlines, critical editorials and probing questions in the House about consumerism, price control and buyer exploitation has been great. The Cabinet has placed inflation back on the top of its agenda and is giving urgent attention to the Economic Advisory Council's proposals (*FM* May 2).

This new concern is certainly warranted. Recent price rises have brought home the fact that inflation is like a veld fire. Extinguish it in one place and it ignites with renewed vigour in another.

For several months this year it seemed as if inflation was slowing (see graph). Compared with the same months in 1974, the consumer price index rose 15,2% in January, 14,7% in February and 13,7% in March. Wholesale prices in March showed no increase at all over February levels. Food and import prices, especially, were rising more slowly. These two components of the index were widely blamed for last year's prices spiral.

But in April, the annual inflation rate bounced up again — to 14,6%. Food prices leapt by no less than 19,7% and the wholesale price index jumped again to stand 18,3% above its level of a year ago. Thus SA cannot escape another

dose of double-digit inflation this year, and indeed, with the exception of Britain and Australia, will probably end up with the highest 1975 inflation rate of any industrial country.

Two developments are behind the latest spurt:

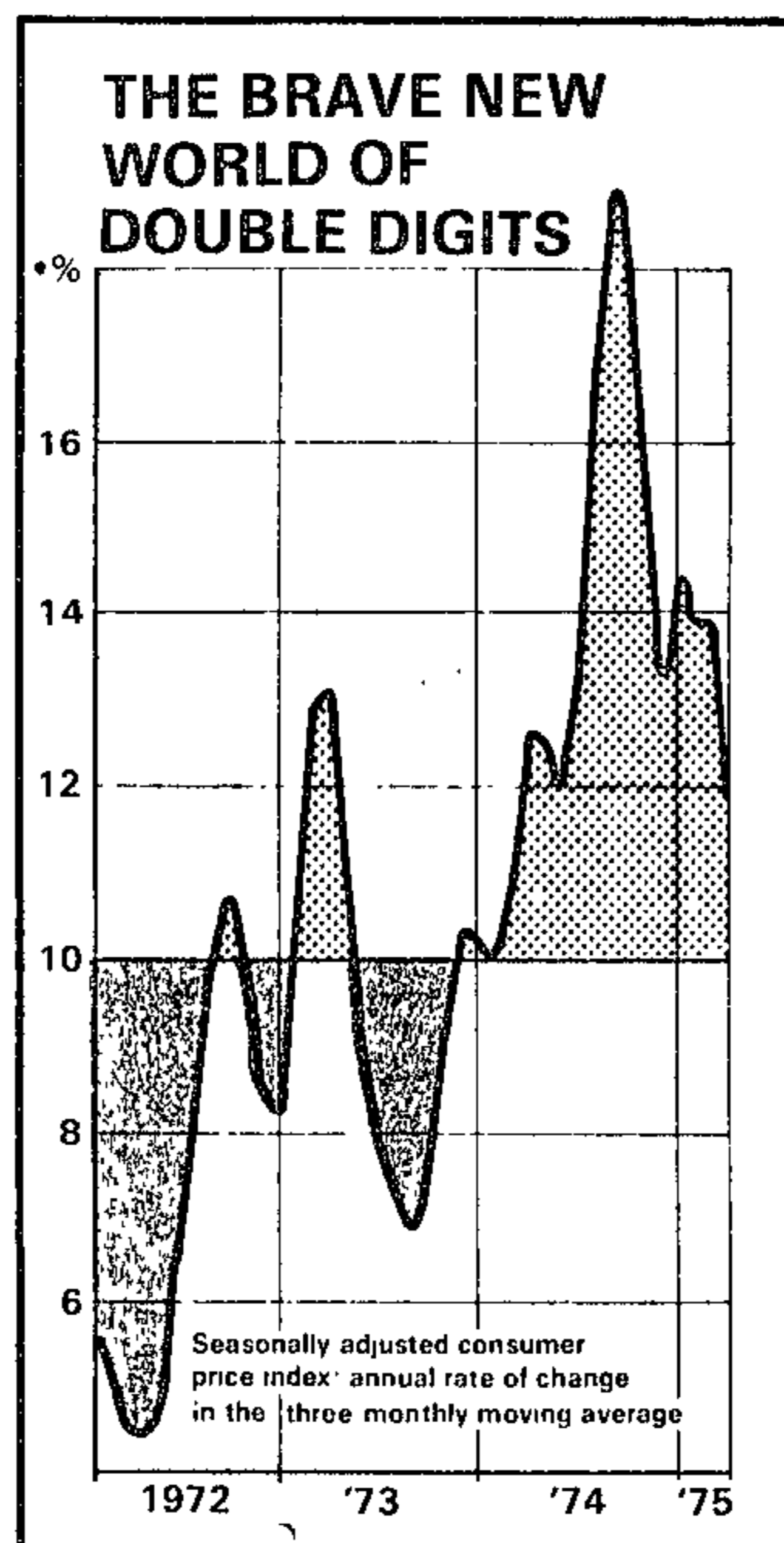
- The growth of the money supply. This slowed considerably around the middle of last year, helping to curb inflation in the early part of this year. But since then it has again risen enormously: in the three months to February, growth in the money supply (seasonally adjusted and compared with the previous three months) was running at a stunning annual rate of 36%, mostly as a result of heavy government spending.

In real terms that is a jump of about 20%. As night follows day, a still higher rate of inflation must follow.

Monetarist Milton Friedman puts it aptly: "No measures are likely to produce long-continued inflation or to cure long-continued inflation unless they affect the long-term rate of monetary growth". The truth of this is shown in the recent experience of the US and Italy, to name only two countries that have managed to slash their inflation rates, chiefly through restrictive money policies.

And if there is to be any chance at all of at least containing inflation in SA, Church Square will have to limit growth of the money supply to the current rate of inflation plus the economy's expected real growth rate. That is to between 15% and 20%. And, actually to push inflation down, it will have to limit it to less than 15%. That would probably cause a protracted economic recession. But it is the only way.

- The second villain is price control



itself. Among the products whose prices have recently risen substantially are: milk, maize, butter, coal, fuel, glass, bricks, oilseeds and cool drinks. All have one thing in common: they are price controlled.

What has happened is this. Rapidly rising costs have eaten into profits to such an extent that supply has been endangered, and the Price Controller has had little option but to allow firms to recover cost increases. In short, consumers are now seeing the dark side of price control, the side they prefer to close their eyes to when advocating it. Inflation hits producers of price-controlled items as hard as it hits others. There comes a time when even they must be allowed to put up their prices substantially in order to make a reasonable return.

That time is now. Last year's price control has become this year's inflation and there is little that can now be done to soften its legacy. Joep Steyn would be wise to allow the further applications now before him, even if they do mean a further immediate and significant spurt of price rises. If he does not, he will only

have himself to blame when he is confronted with a batch of applications for even bigger increases in a few months' time.

Delay would be particularly unwise bearing in mind that within a few months another sort of inflation — explosive wage demands — is likely to be ignited. For almost a year, many workers, both White and Black, have seen their earnings eroded by rising prices. They have been remarkably complacent about it, but pressures for more pay are starting to mount, and pretty soon the dyke could break.

Among the wage agreements expiring later this year are those of the textile and leather industries as well as the furniture industry in the Western Cape and Natal. A host of unscheduled wage demands may also be made. It is believed that public servants, as well as Railway and Post Office workers, have asked for wage indexation and an immediate pay rise. And to avoid a recurrence of the Durban strikes, it is vital for private business not to allow the pace of Black wage hikes to slacken.

What, then, is to be done? Certainly, more comprehensive and intensive price controls are the very opposite of what is needed.

A more determined attack on restrictive trade practices and a stronger, more aware consumer movement would help curb monopolistic profits where these are a factor. And greatly improved Black education, coupled with the abolition of racial job bars, would promote greater efficiency and more competition in the over-protected labour market. Also, a dearer rand would help — at the cost of export income — to curb rising import costs.

But the real cause of SA's inflation — let there be no mistake — is the steady slide into permissiveness by the fiscal and monetary authorities. In other words, by the Cabinet and the Governor of the Reserve Bank.

Until this slide is reversed, the cancer of inflation will continue to spread, decimating savings, distorting investment and crushing the weak until the body in which it is growing — our free-enterprise economy — is itself endangered.

Do not write
in this
margin

both favour its introduction in wage agreements and have made this a priority in their discussions with management.

Kraft points out indexing of wages would make it unnecessary for unions to include projected rises in cost of living in wage agreements. He thinks it would go a long way in putting out inflationary fires within the economy, as consumers would no longer feel compelled to make un-needed purchases today in order to avoid tomorrow's higher prices. He even believes it would greatly reduce the potential for wage strikes.

Wally Grobler, of the Railway Artisan Staff Association, says if Minister of Transport Louwrens Muller refuses indexing (and all Railway staff associations have asked for it), he'll have to find other ways to compensate workers for the present 15% rate of inflation.

Wits economist Joan Knox, long a crusader for indexing, feels it should be introduced as a tool of monetary policy to help government fight inflation. She proposes that government issue index-linked bonds, which, she believes, would make long-term investment more attractive.

On the other hand, Seifsa's Errol Drummond probably represents the view of many employers when he says "it would work only in a dictatorship like Brazil. It's the kiss of death to the free enterprise system." (To which economist Knox retorts: "If we don't stop inflation private enterprise will be finished".)

Where does the truth lie? Would indexing, as many unionists say, stop inflation in its tracks?

Answers are hazy and incomplete as there are no examples — with the exception of Brazil, which isn't analagous with the South African economy — of industrialised Western countries introducing indexing on a sustained, economy-wide

basis. And in Brazil, indexing has by no means ended inflation. Far from being a panacea, indexing is used only because inflation is such a chronic, ongoing, problem that instead of fighting it any longer in economy simply learns to live with it.

Psychologically, indexing is an admission of defeat in the battle against inflation. Furthermore, just what kind of indexing is proposed? The indexing of industrial council agreements only, which any good trade unionist would favour? Or indexing throughout the economy? The latter implies a drastic level of government intervention in the economy: it's an uncharted course, where basic market mechanisms are tampered with. Everything from loan agreements to pension funds and monetary and fiscal policies are affected. And unless government tightened its belt and balanced its accounts, there is not even the assurance that the rate of inflation would measurably decrease.

Other problems abound:

- Is the present Consumer Price Index an accurate measure that can be applied to all sectors of the consumer society in calculating periodic adjustments to be made throughout the economy?; and
- How does one tackle the question of social equity? Lower income groups (which in this country means Blacks) are disproportionately affected by inflation, as they spend a higher percentage of earnings on such items as food and basics. Food costs have been rising, for example, at a rate of over 19% over the last year while the CPI records an increase of only 15%.

Certainly there is a case for making some concessions to indexing: the case of old age pensioners, who have no bargaining power, is probably a special one. It could do no harm for government to build cost of living escalators into national pension schemes.

But in the end the battle against inflation will be won only when the government bites the bullet and comes to grips with its own accounts, which, more than anything else, have fuelled the inflationary fires.

INDEXING

Would it help?

F.M. 6/6/75

47

As inflation continues unabated, the lobby for introducing some system of index linking into the economy gathers strength. But should wages, pensions, loans, *et al*, be automatically linked to rises in the cost of living? Is this the best way to attain a stable relationship between prices and income in times of double digit inflation?

Increasingly, economists, trade unions, and some businessmen are saying yes. Robert Kraft, of Tucsas, and Att Nieuwoudt, of the Confederation of Labour,

W/E ARGUS (Bus Argus) 7/6/75

ON CAPE

By Tom Hood

IMAGINE, if you can, three thousand million rands . . . roughly the total assets of Barclays, the country's biggest bank. That's the amount to be spent in the Cape on big State projects in the next few years.

And this estimate is certain to escalate with inflation.

The cost works out at R720 a head for the entire White population. Or R120 a head for the total population, including every woman and child.

Where is the cash coming from to pay for all this?

Much of it from overseas loans, many of which are already arranged. A lot of it from money raised in South Africa — requirements that could strain the local capital market.

The projects were summarised this week by Mr J. C. Heunis, Minister of Economic Affairs, who said the Cape was destined to be the scene of some of the greatest capital expenditure in South Africa.

R500-million at least on the Sishen-Saldanha iron-ore project. More than half is already spent.

R660-million for the first stage of Saldanha's steel plant, if it goes ahead.

R600-million for a nuclear power station.

R37-million on Table Bay harbour extensions.

An independent estimate puts the cost of all the country's published developments at R37 thousand million over the next 10 years.

Included are railways and private industrial projects such as gold mines, paper mills and chemical plants.

The R37 thousand million is calculated to be twice as much as the total assets of all the banks, insurance companies and building societies put together.

R365-million by the Cape Provincial Administration on new assets over four years. More than R317-million will go to private construction firms.

R156-million by divisional councils, of which R156-million will go to private construction firms.

R60-million and more on the P. K. le Roux dam on the Orange River.

R400-million by Cape local authorities, of which R294-million is for construction firms.

R33-million by Bantu Affairs administrative boards (R27-million for private sector).

Billions more will be spent on State projects elsewhere, including R910-million for an enriched uranium pilot plant; R666-million on a second Sasol, plus several harbour developments such as Richards Bay.

These developments are so large that they present a major problem of financing, conceded Mr Heunis this week.

As a nation we shall have to bend every effort to step up our total level of real savings — personal, corporate, the public sector — to an extent which will enable us to finance these vast capital outlays in a sound non-inflationary manner from our own genuine allocations of resources to savings as far as humanly possible.

It is true that we can, and almost certainly will have to, finance part of these outlays by borrowing capital abroad.

But it is in our interests to finance as much as possible of our expenditure from local resources, because the great bulk of the goods and services involved will be locally manufactured and supplied, and foreign capital not spent on imports can add to our money supply in a somewhat inflationary way.

It was part of general policy to encourage personal and company savings. If companies were to save they must make profits from which those savings could be set aside.

The Government and its economic advisers were aware of the importance of profits in industry and commerce as a source of finance for growth.

Mr Wolfgang Thomas, senior lecturer in economics at UCT, estimated that finance for most of the

projects had already been arranged, largely by foreign loans plus Iscor capital for the Sishen-Saldanha scheme and the Saldanha steel plant.

Finance for the nuclear power station would probably be arranged by the firm to get the contract, other capital coming from Escom.

"We are probably straining the country's capital resources, but we have no choice," he added.

"Every semi-developed country goes through a period when its resources are strained, but we have to do it in the interests of long-term employment."

Interest rates ease further

Sun Times
(Bus Times)
8/6/75
47

By JAN NIEMAND

SHORT-TERM interest rates continued to fall sharply in the money market this week with banks flush with funds. Acceptance credits were available at more than 2 per cent below the cost of a prime overdraft.

Recent remarks by the Secretary for Finance, Mr Gerald Browne, to the effect that a strong upturn in the economy could be as far as two years away, confirmed the view that interest rates must come down sharply from the high levels that ruled in 1974.

Demand for bank credit is proving to be less than anticipated in some quarters and the pressure for a reduction in rates by existing borrowers must be building up rapidly.

Prime overdraft rate is now 12 per cent, with most companies paying considerably more than this, while the cost of a 90-day prime banker's acceptance credit is as low as 9.5 per cent.

Short-term Government stock is also trading at far lower rates following the recent issue of three-year stock at 6.5 per cent, which attracted R414-million.

An example quoted in

the market this week was the Government stock maturing in two years on April 15, 1977 which is trading in the millions at 5.98 per cent indicating that there are fat profits available for those who subscribed to the recent Government offer.

Twelve-month Negotiable Certificates of Deposit, which has been a dead market for some time, were sought this week in the 9 per cent area compared with 9.8 per cent for six-month paper only a month ago.

Dealers are confident that the market will continue to be awash in funds with downward pressure on rates across the board.

As yet there has been no reaction at the long end of the market with Escom, for example, pitching its R15-million long-term issue at 10.85 per cent, a shade higher than the previous issue.

However, it is expected that within a month or so long-term rates will start to reflect the extremely liquid state of the market.

In the industrial share market there are already signs of an upward adjustment in prices as yields fall to match conditions in the money market.

A sizeable problem

Iscor, Anglo, Sanlam . . . muscle power
under the microscope

F.M. 13/6/75 (47)

The newly appointed commission on monopolies is expected to devote much of its attention to the question of economic concentration. It should avoid the Big is Bad fallacy

In business, bigness can have advantages and disadvantages. Whether on balance it is in the public interest will depend on what it achieves. That surely must be the central point for the newly appointed monopolies commission to remember as it ponders — as its terms of reference demand that it does — “economic monopolistic power conglomerates”. Precisely what those words mean we do not know. What we do know is that there need be nothing bad about bigness as such. Only an abuse of bigness can be bad.

Having said that let us hasten to add that we are well aware that the state of competition in SA leaves much to be desired and that we welcome the commission's appointment. Free enterprise's aim to survive is justified only if free enterprise is competitive enterprise. And at the end competition — and not the Price Controller — is the only effective guarantee consumers have against being taken for a ride. While every businessman publicly stands for competition, privately far too many support it only as long as it is in somebody else's market.

The sharp edge of competition, which not only guarantees fair prices, but efficiency, technological progress and greater productivity as well, can be blunted in many ways. Among them: collusion over prices, market sharing, restricted entry, aggressive competition designed to establish single-seller situations and out-and-out monopolies.

SA law differs from that in the US. In America the mere fact of a diminution of competition is sufficient for restorative action, eg the breaking up of powerful commercial groupings. In SA competi-

tion not only has to be diminished, but it has to be shown that this is also, in each specific case, contrary to the public interest, difficult though this concept is to define.

This is a sound principle and it should apply no less when considering the question of economic concentration. Bigness *per se* is not necessarily against the public interest. Indeed, in a developing country like SA, its advantages can often outweigh any disadvantages. Consider the need for economies of scale on the production line; consider too the desirability of having big business groups when it comes to approaching foreign capital markets for development funds.

Nevertheless it is true that there is a continuing temptation for all those with exceptional economic muscle to use it

improperly. The influence the big battalions wield behind the scenes often never surfaces into the daylight. It is also quite wrong to imagine today that the Hogenheimer legend only fits conglomerates run by English-speaking tycoons. For every Harry Oppenheimer there is a Lens Wassenaar. For every Donald Gordon there is a Pepler Scholtz. For every Frank Dolling there is a Jan Marais. For every Punch Barlow there is a Wim de Villiers.

Take the entertainment industry. Who controls both major cinema chains, against whose decisions no addict of celluloid can appeal? Sanlam.

And what about key price leaders like Iscor, a State monopoly? And what about the political muscle power of the IDC?

STOP THAT PRICE FIXING!

The US magazine *Business Week* last week gave a word of advice to businessmen wishing to avoid charges of price collusion.

Business Week suggests you:

- ⊙ Don't agree with your competitors to raise or maintain selling prices.
- ⊙ Don't co-ordinate discounts, credit terms, or conditions of sale with your competitors.
- ⊙ Don't talk prices, markups, or cost structure at trade association or other meetings.
- ⊙ Don't agree with your competitors to rotate low bids on contracts.
- ⊙ Don't agree with competitors to

uniformly restrict production or to shut down plants in order to keep prices up.

- ⊙ Don't conspire within your industry to lower prices in order to discourage customers from ordering substitute materials or product types.
- ⊙ Don't force suppliers to boycott price-cutting competitors.
- ⊙ Don't join with competitors in fixing maximum prices in purchasing from suppliers.
- ⊙ Don't agree with competitors to buy up distressed merchandise simply in order to keep prices from coming down.

ONS MOET WALGC

See also PUBLIC SECTOR - State Enterprises

Staatskorporasies meng te veel in

OOR die afgelope halwe eeu het die Staat, regstreeks en onregstreeks, stap vir stap algaande dieper en dieper in die private ekonomiese sektor van die volkshuishouding ingedring.

Regstreeks het die staat in die private bedryfsektor soos hierna verwys, ingedring.

In 1922 is die Elektrisiteitswet deur die Parlement aangeneem. Hierdie wet maak voorsiening vir die benoeming van 'n Elektrisiteitskommissie wat onder toesig van 'n Elektrisiteitsbeheerraad staan. Dit is die plig van die Kommissie om te sorg vir die opwekking van elektrisiteit vir die verskeidenheid van elektrisiteitsbehoefes van die land en veral vir die koördinerende en sentraliserende van sodanige opwekking. Die wet maak ook voorsiening vir die onteining van alreeds bestaande opwekkingsondernemings.

Voor die totstandkoming van die Elektrisiteitsvoorsieningskommissie — Evkom — in 1922 was elektrisiteit opgewek deur verskeie van die groter munisipaliteite en op grootskaal deur die Victoria Falls Power Company — VFP — veral vir die myne.

Die opwekking van elektrisiteit deur Evkom, saam met VFP tot dit oorgeneem is in 1945, het van 1928 toeneem van 1,422 miljoen mW uit 'n totaal van 2,300 miljoen mW tot 53,000 miljoen mW uit 'n totaal van 64,800 miljoen mW in 1964. Dit is 82 persent van die elektrisiteit tans deur die Republiek gebruik.

In 1928 is 'n wetsontwerp aanvaar om voorsiening te maak vir die ontwikkeling van 'n yster- en staalnywerheid. Die wet het voorsiening gemaak vir 'n aanvangskapitaal van £3 500 000 bestaande uit £500 000 Staats „A” aandele en £3 000 000 „B” aandele wat aan die algemene publiek aangebied moes word. Die publiek het min belang gestel in die voorgestelde bedryf. Beide die „A” en „B” aandele is toe deur die Staat opgeneem.

Die Yster- en Staalkorporasie — Yskor — is toe opgerig en het in 1934 staal begin produseer. Aanvanklik het Yskor met heftige kompetisie van die staalkartel in Europa te doen gekry. Daar is toe in die Doeane wet voorsiening gemaak vir die heffing van spesiale invoerregte op staal. Dit was bekend as die „CIF” skema. Hierdeur het Yskor daarin geslaag om kop bo water te hou. Met die uitbreek van die Tweede Wêreldoorlog in 1939 het die toestand vir die bedryf oornag verander en Yskor het van krag tot krag gegaan. Aanvanklik het Yskor 180 000 ton staal per jaar geproduseer. Deur ontwikkeling en uitbreiding is produk-

het Yskor die beheer oor 'n aantal ondernemings wat 'n verskeidenheid van produkte uit staal vervaardig. Twee van die grootste van hierdie ondernemings is die Unie-Staalkorporasie, die oudste en tweede grootste staalproduserende onderneming in Suid-Afrika, en Dorman Long Vanderbijl Korporasie, bestaande uit 'n amalgamasie van Dorman Long (Afrika) Beperk en Vanderbijl Ingenieurskorporasie Beperk, seker twee van die grootste op hulle gebied in Afrika. Hulle het op hul beurt geamalgameer met Stewarts en Lloyds, die grootste vervaardigers op die gebied van besproeiingsbenodigdhede.

Spoorweë

Dan is daar die Sishen-Saldanha-baai-projek wat nou onderneem word. Hierby kom die ontwikkeling van semi's-werke wat 'n aanvanklike jaarkapasiteit van drie miljoen ton beplan wat uiteindelik moontlik tot 12 miljoen ton verhoog sal word. By hierdie onderneming van Yskor word Voest-Alpine A.G. van Oostenryk bygetrek. Hierdie werke sal voorbloeke, knuppels en platblokke hoofsaaklik vir uitvoer bedoel produseer. Die kapitaalkoste van hierdie semi's-werke word teen huidige pryse beraam op R660 miljoen.

Die hoofdele van die Saldanha-baai-projek bestaan uit drie ondernemings, naamlik myn, spoor en hawe. Met die totstandkoming van die Unie in 1910 is die spoorweë van die vier kolonies die Kaap, Transvaal, Natal en die Oranje Vrystaat geamalgameer tot 'n eenheidstelsel. In die Grondwet is bepaal dat geen spoorweë sonder die toestemming van die Parlement mag gebou word nie. Daardeur is aan die SA-Spoorweë 'n monopolie gegee. Yskor, 'n staatskorporasie in hoofsaak toegespits op die produksie en verwerking van staal, hou nou ook 'n spoorweg wat deur homself en ook deur ander vervoerders gebruik sal word, soos verneem word. Hoe rym dit? Het staatskorporasies onbeperkte vryheid?

Yskor se operatiewe kapitaal beloop tans R1 344 400 miljoen met die uitsondering van Metkor wat R41 250 000 beloop. Dit gee enigsnis 'n idee in watter mate Yskor staatsgefinansierde en beheerde bedryf tot die volks-

werp, bespoedig en voortgesit word.

Wat sub (b) betref was daar nie alleen 'n oorvleueling met die funksies van die Raad van Handel en Nywerheid nie maar daarby het die NOK geen dwingende magte om dergelike doelstellings te bewerkstellig nie. Alleen die Raad kan die nodige aanpassings bewerkstellig deur veranderinge in die doeanetarief struktuur aan te bring.

Met sy oorspronklike doelstelling sub (b) het die NOK nie veel vordering gemaak nie, om die rede reeds genoem. In 1942 is die doelstellings van die NOK gewysig deur die toevoeging van 'n nuwe sub (a) wat dit in staat stel om met die goedkeuring van die Goewerneur-generaal enige nywerheids-onderneming op te rig en voort te sit. Die reedsbestaande doelstellings subs (a) en (b) is saamegevoeg tot 'n nuwe sub (b).

Die Korporasie het dit nie moontlik gevind om sy reeds bestaande oogmerke uit te voer nie, om die redes genoem en ook as gevolg van sy gebrek aan kennis en ondervinding. Met die oprigting van nuwe nywerhede was dit

I. Parlementêr Gemagtig	1978	II. NOK. aandele
R109 750 000	SASOL	R109 750 000
R 7 784 000	FOSKOR	R 7 784 000
R151 054 000	GRENSWYWERHEDE	R125 894 000
R112 871 000	NOK. ALGEMEEN.	R 87 661 000

geensins beter gesteld nie. Die Korporasie het weinig of geen kennis aangaande die probleme waarvoor nuwe nywerhede te staan kom, gehad nie. Die Raad van Handel en Nywerheid moes toe die kassatnings uit die vuur haal en vir 'n lang tyd dien as voedvrou om die NOK se babas aan die lewe te hou. Dit was veral die geval met die tekstielbedrywe en ook ander.

Die aanvangskapitaal van die NOK was 10 miljoen rand bestaande uit:

- een miljoen aandele van een rand bestempel „A”, en
 - nege miljoen gewone aandele bestempel „B”.
- Beide aandele is deur die Regering opgeneem. Verder is voorsiening gemaak in die oprigtingswet vir die vermeerdering van die aandeelkapitaal na gelang van die behoefte aan groter kapitaal-fondse. Dit is veral gedoen deur die uitreiking van meer „B” aandele. Ook is bepaal dat die „A” aandele, wat deur die Regering gehou

£17 500 000 „B” aandele van £1 elk. Die aandele is deur die Regering geneem. In die volgende jaar is die aandele weer vermeerder tot by £30 500 000 deur die uitgifte van addisionele „B” aandele van £1 wat ook deur die Regering opgeneem is. Dit was om te voorsien in die oprigting van Sasol. Beide Foskor en Sasol is opgerig onder sub (a) as staatsbeheerde ondernemings.

Oor die volgende twintig jaar is die aandeelkapitaal van NOK van tyd tot tyd verder vermeerder deur die uitgifte van „B” aandele, ook deur die Regering gemagtig en opgeneem, om te voorsien in die steeds toenemende behoeftes van Foskor en Sasol, maar ook van ander bedrywe deur NOK opgerig onder sub 3(a). Die finansiering om te voorsien in die behoeftes van bedrywe opgerig onder 3(a) het aanvanklik die finansiering onder 3 (b) verreweg oortref.

Oor die jare het die NOK se bedrywighede gestrek oor 'n steeds wye uitbreidende terrein. Behalwe Foskor en Sasol was daar tekstiele, insluitende wol, katoen en kunsvesels; metale, ingenieurs- en masjienewerk; verwerking van landbouprodukte, sagte drank en ingemaakte vrugte; leer en leerprodukte; skeepvaart en lugvaart; konstruksiewerke; hout en hardbord; verwerking van steen, klei en hardware; drukkerie, en nou ook die kweek van tee. Die finansiering van hierdie bedrywighede kan as volg ingedeel word:

Soos sal blyk uit die voorgaande ontleding het die NOK feitlik in elke afdeling van die nasionale volkshuis-houding ingedring. As gevolg daarvan was daar ernstige kritiek van die kant van die private sektor oor die onbillike konkurrensie van Staats-

ondersteunde bedrywe opgerig en gefinansier deur die NOK, wat toegang het tot onbeperkte Staatsfondse.

Die vraag kan baie pertinent gestel word: was daar werklik 'n behoefte aan die stigting van 'n nywerheids-ontwikkelingskorporasie? Hierop gee die NOK self die antwoord. In die jaarverslag van die NOK vir 1953 het die Voorsitter gesê dat weens die inflasie na die oorlog en die volop geld wat toe beskikbaar was, was die aanvraag ná die NOK se hulp minder as wat verwag was. Daarteenoor het die vaste kapitaalbelegging in sekondêre nywerhede in die Unie in dieselfde tydperk met £214 000 tot £35 000 000 vermeerder.

Die oprigting van Foskor het die besorgdheid van die kant van die privaat sektor oor die bedrywighede van die NOK seer sekerlik nie verminder nie, veral oor die wyse waarop te werk gegaan is met die oprigting daarvan.

Die dreigende tekort aan fosfaat gedurende maar veral onmiddellik ná die Tweede

dat vir die dertiening ook die ander maat-amptenare haas alles moes gedek kleins in

DR. ... **su** ... **werheit** ... **dat die** ... **deur d** ... **sluk he** ... **rasies** ... **bruik** ... **dingin** ... **voel da** ... **me wat**

het ook 'n Private Unie - Ontginy, is in al voorsitter v: direkteur van treer. 'n Ty naam van verander Ontginningsk verdere ont deur NOK

Aan die Pa and Vermic is R700 000, betaal waar py in sy v. Merensky se sir Ernest on ke bedryf op deur die mat het toe R7 kleims geëis, voorheen teen die Regering :

Die aanva Foskor was R van die aande gering opgene tussenkoms is aan Fosko lening van die Regering stel om kleims te ko getoon, was d belegging in F lik R7 784 000

Vaal town to spend R21-m on services

RDM
16/6/75

VAN DER BIJLPARK is to spend R21-million on capital works over the next three years to keep pace with the phenomenal growth of this huge steel centre.

This was announced by the town's management committee chairman, Mr J. M. (Vlooi) van Rooyen, who said the greater part of the money would be absorbed by services to new and developing townships.

Mr Van Rooyen said expansion of the town's electricity and sewerage reticulation undertaking would cost a great deal of money — particularly the sub-station to serve the new townships south of the Parys road and the sewerage in the south-eastern areas.

VAAL TRIANGLE: FRANK DAY

"New supply and storm-water drainage in the new areas will also impose a heavy drain on the council's coffers," he said.

In its plans for the next three years the council also made provision for the development of the riverfront into one of the finest pleasure and recreation resorts in the country, said Mr Van Rooyen.

If this undertaking was carried out as planned the ultimate cost would be about R2 500 000 and the council was hoping to get State aid for the project.

The big capital works programme would be largely financed through loan funds. A loan of R5-

million was being negotiated through a Johannesburg bank.

A TEACHER and a newspaperman, both from the Vaal Triangle have been selected as coaches to the Vaal provincial team of boys and girls who will compete in the huge gymnastade in West Berlin.

They are Miss Mickey van der Merwe, who lives in Sasolburg but teaches at the Lettie Fouche Commercial High School in Vanderbijlpark and Mr Jakkie Dominicus, who is on the reporting staff of the Vaal Weekblad.

Miss Van der Merwe will coach the girl's team of five, including a reserve.

Mr Dominicus is to coach the team of four boys, one of whom is Gawie, son of Mr G. J. P. Vorster, Sasol's chief mine surveyor and one of the first men transferred to Sasol 2.

Mr Dominicus was himself a gymnast of note and Miss Van der Merwe was a member of the first South African team to compete in a gymnastade — in Vienna in 1965.

Vereeniging

VEREENIGING Rotary's "Educate Sharpeville and Sebokeng" youth essay project was an outstanding effort to provide the young people of those two African townships with better educational opportunities, Mr H. R. Reid, managing director of Vereeniging Refractories, said last week.

Mr Reid presented the president of the Vereeniging Rotary Club, Mr Reg Mason, with a cheque for R2 000 from the Anglo American group Chairman's Fund.

Thanking Mr Reid and the fund, Mr Mason said his motto during the coming year would be: dignify the human being, and the essay project was designed to do just that by educating Africa's youth.

3 problems for Sasol II planners

RDM 16/6/75

By JOHAN BUYS

WITH the turning of the first sod in the Giant Sasol II on the Eastern Transvaal highveld, only months away, three major problems are facing the oil-from-coal project even before its planners have moved into the area.

They are: inadequate road and rail links to the site between Evander and Trichardt, 144 km from Johannesburg, and the moving of a whole African township.

Construction on Sasol II, the biggest project ever to be tackled in this country, is expected to start between October and January next year and massive loads of equipment and material will have to be transported to the area.

The road linking Evander, Trichardt and the Sasol project with the Reef, source of most of the equipment and material, is in a poor condition from Springs to Leslie.

It would not be able to withstand the weight of

the heavy lorries transporting the equipment between the Reef and the new Sasol site over the next four to five years.

In addition Trichardt is served by a single railway line from Springs, one from Lourenço Marques and one from Durban through Volksrust.

To convey the equipment and material for the new Sasol town and industrial complex that will rise on the virgin Eastern Transvaal soil, marshalling yards or new sidings will have to be built.

These transport problems will have to be sorted out by the time the R1 000-million project is tackled.

To add to the initial planning problems, the Driefontein African township with its 5 800 inhabitants lies in the area where the White town for the Sasol construction workers is to be built.

These African families will have to be resettled elsewhere. The Bantu Affairs Administration Board has bought land in Devon nearby for African housing. It is estimated that the new African township

to accommodate the vast Black labour force for the Sasol project will be second in size only to Soweto.

Meanwhile the demand for housing in Evander and Trichardt has soared. Sasol has taken 180 houses in Evander and options on stands at Trichardt for its new office complex.

Private people are finding it difficult to get housing at Evander since the announcing of the Sasol project.

Sasol planners will initially move into the house of Mr Graham Allen, on the 1074 morgen farm "Goedehoop" it has bought from Mr Hilton Allen and his two sons.

The Evander Town Council which is to provide essential services, has already held meetings to plan for the demand the Sasol project will make on the town.

At Trichardt land prices have soared to such an extent that a stand which was valued at between R250 and R350 was auctioned for R1 500. Its owner, Mr J. van Onselen, Town Clerk of Evander, has already received offers of R4 000 for it.

Overdrafts to cost less

STAR 18/6/75

Neil Behrmann
Standard Bank is to cut its minimum overdraft rate by one percent to 11 percent on June 26.

The minimum charge on overdrafts is presently 12 percent.

Leading customers can expect to benefit by the move.

Other banks are likely to follow, but Trust Bank, Nedbank and Barclay's said they had not decided to cut overdraft rates yet. The man in the street pays between 12 and 14 percent on his overdraft.

But with the reduction in the minimum overdraft rate his lending costs should decline too.

Mr. Gordon Oxford, chief general manager of Standard Bank, said the bank had decided to cut the overdraft rate because of "the marked increase in liquidity" in the banking sector.

He believed there would be sufficient cash around for some time.

In line with the decrease in the overdraft rate, Standard intends to reduce interest payments on deposits.

At the moment an investor can obtain 9,5 percent on money which is deposited for 12 months at the bank and eight percent on 30 days' deposits.

But a bank spokesman would not disclose the new rate of interest on deposits.

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inflow saver

R327m helps payments

By **HOWARD PREECE**
Financial Editor

RDM

19/6/75

A WHACKING net capital inflow of R327-million helped South Africa effectively to break even on the balance of payments in the first quarter of this year. This is shown in the Quarterly Bulletin of the Reserve Bank.

There was a shortfall of R319-million on current account which, with a loss of R13-million on valuation adjustments, gave a net drop of R5-million in the gold and foreign exchange reserves.

This was reflected in a drop in the foreign exchange holdings of the private bank sector.

The holdings and the gold assets held by the Reserve Bank rose by R22-million.

The impact of falling gold production — down 9 per cent in the first three months of this year — is seen in the value of net gold output of R638-million.

GROWTH RATE

The average gold price was 2 per cent higher than in the last quarter of 1974, but the value of net output fell by R75-million.

Confirmation that a maximum real economic

growth rate of 4 per cent this year can be expected is given by the bulletin.

The bank expects a rate of between 3 per cent and 4 per cent, which is marginally lower than previously expected. As the bank says, however: "These estimates still compare favourably with those for most developed countries."

Even so, it is a pertinent reminder that there is a lot of difference between increasing the target rate of the Economic Development Programme to an average annual growth of 6.4 per cent and achieving it. The hare is not so easily cased.

It is also not going to be so easy as some think to get the next boom moving.

DOWNWARD

Mr Gerald Browne, the Secretary for Finance, has warned that no strong revival can be expected in the economy before the end of next year.

The Reserve Bank says: "The economy has now been in a downward phase of the business cycle for more than nine months."

The net capital inflow of R327-million in the first quarter of this year brought the total inflow to R961-million in the nine months ended March 31, 1975.

Merchandise exports rose from R754-million in the last quarter of 1974 to R932-million in the first quarter of 1975. Imports edged up from R1 606-million to R1 641-million. However, both exports and imports rose by 43 per cent in relation to the levels of the first quarter of 1974.

GAP

But exports normally pick up faster in percentage in the first quarter of the year, and even a real growth rate this year of 4 per cent will almost certainly result in an increase in the balance of trade gap from last year's R2 573-million.

And as the Reserve Bank says: "Notwithstanding the increase in exports during the first quarter of 1975 a declining trend was noticeable in the monthly trade figures from January to April, probably as a result of adverse conditions prevailing abroad."

Money and near-money supply rose by 15 per cent in the first three months of this year after increasing by 44 per cent in the last quarter of 1974.

1) 47
~~2) capital~~
~~3) 66~~

Greater monetary discipline is the only way to douse the fires of inflation. So government must learn to curb its big-spending habits

F.M. 20/6/75
47

Flooded with money

Inflation is solely and entirely a question of the quantity of money — Friedrich A von Hayek, one of the world's leading economists, writing in The First National Bank of Chicago's Report of May 1975.

Whether one agrees with the great Austrian economist or not, there is little doubt that the double-digit inflation of the past couple of years has been closely linked (certainly in SA) with massive increases in the money supply.

There is little doubt, too, that without further huge increases in the money supply, it would be impossible for the general price level to continue rising as fast. It is true that the existing pool of money could be turned over more rapidly, but that would hardly be enough to finance price rises on the scale now being experienced.

One would therefore have expected the money supply to be one of the features of Chris Heunis's long-awaited *magnum opus* on the subject of inflation. It is. Four lines are devoted to it.

Lest that appraisal sounds ungenerous, let it quickly be added that those four lines are, (or, more correctly, could be) by far the most important.

"The increase in the money supply,"

they read, "should not be allowed to become excessive in relation to the actual or expected increase in the GDP and the appropriate interest rate mechanism should be effectively applied."

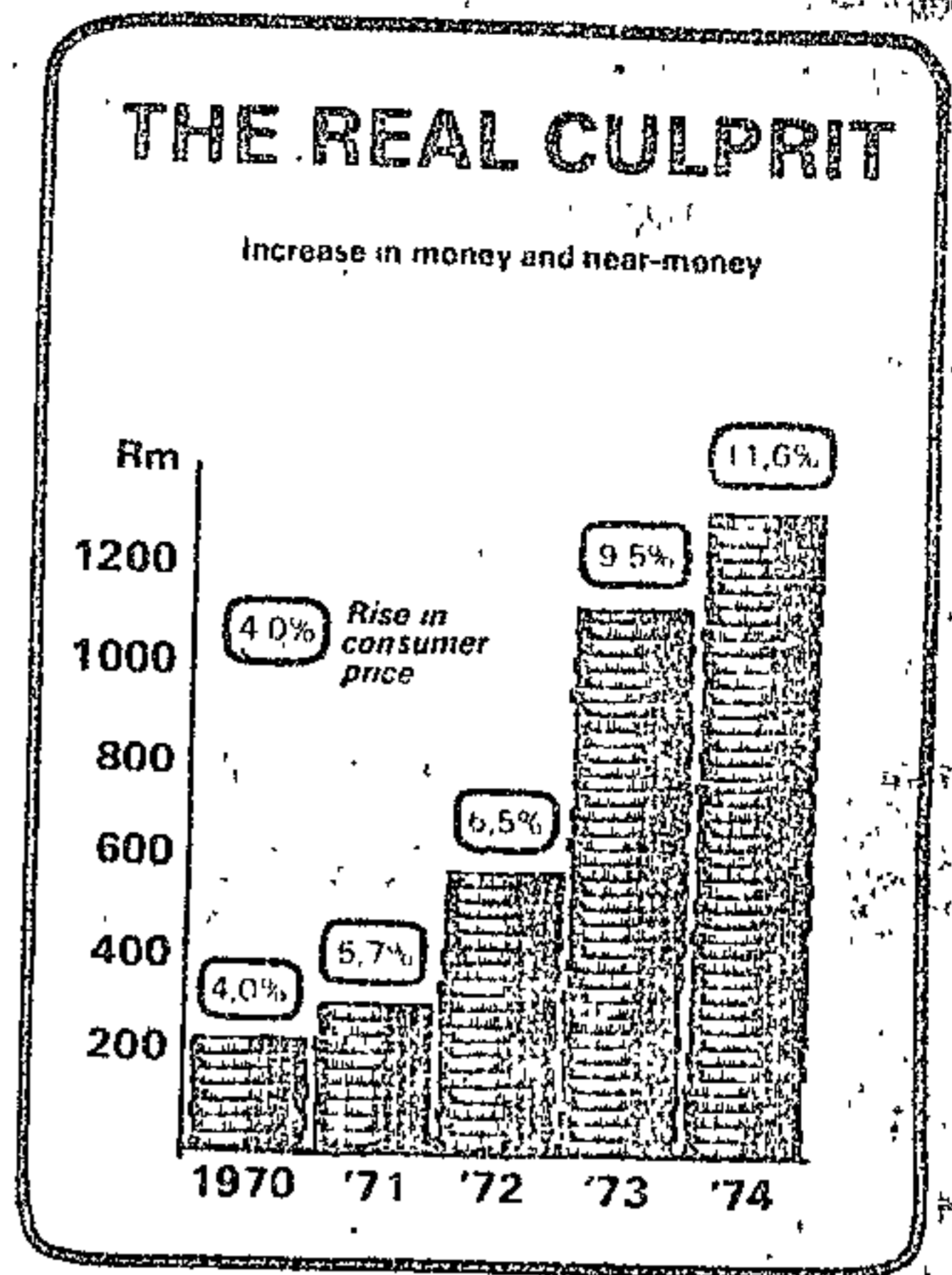
The key word of course is "excessive". Until it is defined, the whole programme of action is not worth the paper it is written on.

In fact, the same criticism can be levelled at every part of the programme. There are plenty of good intentions, but as Dr Johnson once observed, hell is paved with those.

For instance, the programme aims at "a cutting back of expenditure, where possible, at all levels of government..." What does "where possible" mean? And how much of a cut is envisaged?

Again: "The education and industrial training of Blacks in White areas (in townships and industrial complexes) should be stepped up". To what figure does that raise the 1976-77 Bantu Education Vote? By which date will free compulsory education for all be introduced? When will we see fully fledged technical training colleges for Africans opened in urban areas?

In fact, the programme, which also calls for wage and price "restraint"



(where does that leave the laws of supply and demand?) is rendered almost totally ineffectual by its vagueness. Its only use, if indeed it has one at all, might be to persuade the Governor of the Reserve Bank, Bob de Jongh, who is supposed to be an independent guardian of the value of our money, that a great number of people are now very cross at the way the currency is being debased and that the time has come for greater monetary discipline.

Not for a sudden, severe, disruptive liquidity crunch, but for a gradual yet relentless return, within two or three years, to a position where, from one business cycle to the next, the money supply is allowed to rise by an average of no more than 10% pa, which ought to be plenty to finance SA's real growth potential. And, equally vital, to a position where the government stops grabbing more and more resources at the expense of the private sector.

SA needs to curb monopolies

Cape Times
24/6/75

DLF7
2/1/75
5/2/75
4/3/75
2/24/75

DAVID SHRAND welcomes the appointment of a commission of inquiry on the subject.

CAPITALISM has been described as "the law of the jungle" principally because it involves economic warfare on a "tooth and claw" basis. Although the free-enterprise system results in various irregularities and bottle-necks, it is a self-adjusting mechanism which ultimately operates in the interests of the consumer.

Under the capitalist system the profit motive dictates the economic trend. It is the incentive which influences entrepreneurs to take risks in the investment of their capital. This principle has been acknowledged in Russia, recently, where the profit motive has been integrated into the economic system as a stimulus to increased production. Economists agree that competition which is prompted by the profit motive is the greatest incentive to production and that any check to competition lessens the aggregate product.

The economic law of demand and supply, if allowed free play, will ultimately iron out any irregularities that may result in the process of adjustment. One of the greatest threats to the smooth operation of the competitive system is the emergence of monopolists whose aim is to control the market by regu-

lating supply and in devious other ways holding the consumer up to ransom.

In most countries legislation has been introduced to prevent monopolists displacing the economic system. In this connection South Africa has followed suit.

In 1955, the South African Government placed on the Statute Book the Regulation of Monopolistic Conditions Act, which is designed to prevent or control monopolistic conditions in South Africa. In terms of its provisions, the Board of Trade and Industries is entrusted with the administration of the Act and since 1955 has undertaken various investigations, among which may be mentioned the biscuit industry, tyre manufacturers, motion pictures, electrical equipment, the liquor trade, tobacco manufacturers, the building industry and an investigation into the Central News Agency set-up.

The principle entrenched in the Regulation of Monopolistic Conditions Act is that monopolies are not in the interests of the public and that appropriate measures must be taken to excise any monopolistic growth from the economic system.

Monopolistic practices may take various forms such as arrangements among purchasers to restrict output or to maintain fixed selling prices or to prevent new entrants into the market.

Although the Government has with one hand sought to

destroy monopolies, it has with the other hand created them in violation of the principle enunciated in the Regulation of Monopolistic Conditions Act.

The Government has supported monopolistic conditions in the wine industry which is rigorously controlled. Similarly, various primary agricultural products which fall under the control of the marketing boards are in effect a monopolistic device to protect the farmers. The marketing boards are specifically excluded from the provisions of the Regulation of Monopolistic Conditions Act.

It has been estimated that primary agricultural products handled by the various marketing boards amount to at least R400m a year. This is an estimation made many years ago and today the figure will be substantially in excess of this figure. Most of the important agricultural products have been placed under control and the farmer has thus been relieved of the pressure exerted by the competitive system. The prices of these various agricultural commodities are maintained on an artificial level to enable producers to derive a greater measure of profit than would otherwise accrue to them in normal circumstances.

The Government has argued that this principle of control is essential in order to maintain orderly marketing.

Throughout the world governments have arrogated to themselves monopoly rights and South Africa is no exception. This trend is manifest in various fields of the economy. For instance, the Motor Carrier Transportation Act endows the Government with monopolistic powers over the conveyance of any person or goods on any public road by a motor vehicle. The South African Government has also created monopolies in various other fields, namely, Iscor and similar organizations.

Apart from governmental interference in the competitive system in South Africa, there are various organizations in the private sector which have achieved monopolistic status.

Take-over bids

Tell-tale signs that a monopolistic trend exists in South Africa are evidenced by the various mergers and take-over bids that have now become an everyday feature of South African economic life. The American Government has taken a serious

view of the proliferation of mergers in the US and has introduced legislation to circumvent their occurrence. A similar approach should be adopted by the South African Government as the merger of industries dealing with similar commodities and take-over bids constitute a stepping-stone to the creation of monopolies.

The Board of Trade and Industries should be more actively engaged in investigating the various industries in South Africa and should be prompted into action on the slightest suspicion of a monopolistic trend manifesting itself in the economy.

The recent appointment by the Government of a commission of inquiry into monopolies and conglomerates with powers to recommend new laws to curb price-fixing is timely and essential in the light of economic developments taking place in South Africa today.

(47)

Pound fall forces down rand

27/6/75

The Argus Financial Staff

THE Government made a devaluation of 4.7 percent in the value of the rand against the United States dollar today. The rate fell

from 1.47 to 1.40. This has been forced by the serious fall in the value of sterling.

The Reserve Bank said the new public buying rate is 1.4035 dollars and the new public selling rate is 1.3965.

The Minister of Finance, Senator Owen Horwood, is expected to make a statement about the devaluation today.

Among its effects, the step will make imports dearer and give inflation another push.

But it will also give a boost to exports and improve the country's vital gold earnings.

The devaluation was forced on the Government by the serious fall in the value of the pound in the past few days. Yesterday sterling reached a new low on European money markets equal to a devaluation of more than 27 percent.

South Africa's gold sales of R3 900-million a year are made chiefly through the London market and the sterling fall obviously posed a serious threat to the mines' income.

Exporters of fresh and canned fruit from the Western Cape stand to benefit. Recently they have been hit by price advantages of European competition money.

STERLING CRASH

Sterling's crash stems from the lack of confidence in the rest of the Western world about Britain's ability to halt inflation and recession.

The devaluation is the rand's third change this year.

In February the value increased from 1.48 to 1.49 dollars, and in April it fell from 1.49 to 1.47.

While not unexpected in financial circles, the amount of the change is more than expected.

by
TOM
HOOD

DEVALUATION BOOSTS TRADE

W/L AR&US (Bus. N.) 28/6/75

A HIGHER inflow of foreign capital, improved balance of payments and a boost to business next year are three benefits expected to flow from yesterday's 4,7 percent devaluation of the rand.

This is the view of economists after a first study of the explanation by the Finance Minister, Senator Owen Horwood.

But it will also add some fuel to inflation as machinery and a wide range of imported goods from

clothing to car parts will become dearer. Overseas holidays will also cost more.

The amount of the devaluation is higher than many economists expected, chiefly because the Government is abandoning the system of frequent small changes in the exchange rate to keep the rand in line with other currencies.

Fewer but larger upward or downward changes will be the rule in future.

The devaluation has little to do with the state of the South African economy. Indeed, the Johannesburg Stock Exchange shrugged it off with barely a yawn yesterday.

It is largely a technical adjustment forced on the Government by falls in other currencies, chiefly the plunging pound.

The Minister calculated that the rand's external value has risen to about 1 percent above the value it enjoyed for many years before the 1967 sterling devaluation.

The downward move of the rand is regarded by economists as inevitable, triggered by sterling falling to an effective devaluation of more than 27 percent this week.

The Government was forced to act to safeguard South Africa's export markets — Britain is the

Mineral sales hit record high

By Joe Neppe
THE extent of the country's dependence on the mining industry was shown this week when Mr A. W. S. Schumann, president of the Chamber of Mines, disclosed that the total value of South Africa's mineral sales in 1974 approached a record R4 000-million.

This was 38 percent up on 1973 and more than double the sales of 1972. Mr Schumann said gold increased by 46 percent in value, coal sales 31 percent, antimony 56 percent, copper 30 percent, nickel 55 percent and manganese 48 percent. There were also important rises in the value of other minerals. Mining, including semi-processed minerals, accounted for 68 percent of total exports.

The industry's percentage contribution to the gross domestic product was the highest since World War 2. Referring to diamonds, Mr Schumann said South African diamond production,

excluding South West Africa, amounted to 7,5-million carats in 1974 and sales were 7,0-million carats valued at R142,9-million. World sales of diamonds last year through the Central Selling Organisation totalled R849,1-million, a decrease of 7,8 percent from 1973.

Record levels were achieved during the first half of the year, and the reduction in total sales was caused by the marked deterioration in economic conditions throughout the world in the second half.

Mr Schumann said the long-term outlook for platinum remained 'encouraging.' He said the free world platinum demand remained buoyant during most of 1974 and with total production amounting to about 2,8-million ounces, exceeded the level of 1973 by about 400 000 ounces.

The revival was expected to be led by a revival of the American economy. But so far there is no real upturn in the United States — only the rate of decline is slowing down.

Although prices of imports are bound to rise and add to South African inflation, prices here are still generally below the level of other countries, including Britain.

As a result, sales of fruit, gold, platinum and other exports should benefit.

This in turn could stimulate more business and bring about the hoped-for revival of the economy towards the middle of next year.

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1. Jan
- 1975

Devalued rand 'will increase prices'

28/6/75
Cape Times Political
Correspondent

THE United Party's chief finance spokesman, Mr David Baxter, predicted yesterday that the devaluation of the rand by 4.7 percent against the dollar would give prices a sharp upward push and add "another unnecessary twist to the spiral of inflation". The rate fell from 1.47 to 1.40, forced by the fall in the value of sterling.

He said that the Government's decision only confirmed its "lack of determination and courage" to use the strength of the South African economy to maintain the value of the rand and thereby make a real and disciplined contribution to the fight against rising prices.

"This devaluation means that we shall have to pay more for our imports," Mr Baxter said. "How many times have not Government spokesmen laid the blame for much of the inflation on rising prices of imports? Yet now we have a step which instead of resisting this position will exacerbate it."

South Africa, he said, had already suffered enough from the price explosion which followed the devaluation of the rand by 12.4 percent in December, 1971.

"This devaluation may be a smaller one, but it will give prices a very sharp and unhealthy upward push at a time when the Government should be taking every possible step to avoid such a development."

DECISION

Mr Baxter said the Government's decision to devalue the rand clearly followed the weakness of sterling — a currency based on "one of the unhappiest economies in the world and certainly one which is suffering from an appalling rate of inflation."

The Minister of Finance, Sen O. P. F. Horwood, said in his statement that although the Government was "reluctant" to take any step which would

exert upward pressure on prices, it should be remembered that the average external value of the rand had increased to a level about one percent above November, 1967.

● The Cape Times Correspondent from Johannesburg reports that millions of dollars' worth of foreign exchange have been flowing out of South Africa in successful anticipation of a devaluation. By yesterday it was assuming flood proportions.

Devalued rand aids pay bids

The rand devaluation of 4.76 percent, announced yesterday, is inflationary, say financial experts, and will add weight to demands for higher pay by South African trade unions representing hundreds of thousands of workers.

Among the workers involved in negotiations are all the country's 150 000 public servants, all teachers, some 85 000 textile industry workers, municipal employees in Cape Town, Johannesburg and other major centres, and workers in the clothing, furniture and building and electrical industries.

With a firm undertaking by employers that, in future, wages and salaries will be adjusted automatically in line with the official cost of living index.

PREDICTION

Similar demands are expected to be made by the Public Servants Association, which represents about 150 000 workers, and the matter is

expected to be placed before the Cabinet not later than the end of August.

Senior trade union officials throughout the country predicted this week that many smaller unions would soon be pressing for rises and that no sector of the economy would be immune.

The director of a lighting firm, which imports goods from Europe and Japan, says that the devaluation will add to the spiral cost of living, writes Neil Behrmann.

Mr Carl Weinberg, director of Consolidated Lighting, the firm imports goods from France, England, Europe and Japan — said: "The devaluation is highly inflationary."

"I do not agree that it is just a 4.76 percent devaluation against the dollar. It is devaluation against all the currencies."

An importer of watches said it would increase the cost of imports, which may have to be passed on to the consumer.

"What the Minister is virtually saying is that we are pushing up prices by another five percent."

The executive chairman of a television manufacturing firm, said the devaluation would not make a material difference to the cost of components for television sets.

A foreign exchange dealer said the devaluation was effective immediately against all currencies.

The rand had been devalued because of fears that money would flow out of the country because of speculation against our currency.

Bankers said they did not feel the cost of living would be materially affected.

Reserves of R1 000m in sight

*See Times
(Sun Times)
29/6/78*

By JAN NIEMAND

THE LEVEL of South Africa's gold and foreign exchange reserves can be expected to rise in the weeks ahead following this week's 4.76 per cent devaluation of the rand against the dollar.

The increase in the reserves will flow from a reversal of the massive currency speculation position which South African business men trading abroad have built up in recent months.

These speculative positions, estimated to total at least R200-million, have developed as South African business men held funds abroad while settling their dollar and other foreign accounts as rapidly as possible.

Now this trend will be reversed, giving a substantial boost to the economy. All other factors being equal, the reserves could well rise towards and above the R1 000-million mark compared with this week's level of R766-million.

Local interest rates, al-

ready under heavy pressure due to lack of demand for credit in a recessionary economic situation, can be expected to continue their sharp fall.

The Newcastle R5-million long-term issue was heavily oversubscribed with R11.8-million offered, while Escom quickly reacted to the rand devaluation by announcing a cut in its long-term rate from 10.75 per cent to 10.50, with similar reductions in shorter rates.

The money market reports that there has been growing institutional interest in long-term Government stock, with the recent trading level of 9.50 per cent under severe pressure.

At the short end, 90-day bankers' acceptances have been trading at 6.50 per cent, while the cost to prime borrowers of this type of credit is now well below 9 per cent, indicating that the 11 per cent minimum lending rate of the big banks must be due for another reduction, with subsequent pressure on the Bank Rate.

Devaluation booster for gold mines

By HOWARD PREECE

Financial Editor

RJM 30/6/75

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THE decision to stop floating the rand and devalue it against the dollar from a central parity of \$1,47 to \$1,40 will add about R60-million revenue to the gold-mining industry over the second half of 1975.

The Treasury will, in turn, scoop in about R30-million of that through profits tax on the mines.

Last year gold mine revenue was nearly R2 500-million.

The average gold price was around \$155 as received by the mines.

On present evidence it will be higher this year, but total revenue — before the devaluation effect — was looking to be about the same because of lower production.

But the devaluation — which is particularly important because of the promise that parity changes in future will, as was traditional until 15 months ago, be made only in absolute necessity — has given the mines a 5 per cent windfall.

It is 5 per cent and not 4,76 per cent — the official devaluation figure — because of the "two arithmetic" of a devaluation. Gold, for example, is priced in dollars. What matters to the mines, however, is the converted rand price.

The effective devaluation equation is then 5 per cent. It works the same way that as a rise from 100 to 101 is an increase of 1 per cent a fall from 100 to 99 is a move of more than 1 per cent.

How much the 5 per cent is worth depends on output and gold price.

But over the second half of this year, it seems likely to be about R60-million compared with the revenue outlook pre-devaluation.

The devaluation has been generally welcomed. But there has been criticism.

A spokesman for the South African Foreign Trade Organisation said: "From a trading point of view, Safto welcomes the devaluation because of the favourable affect it will have on South Africa's vital exports."

But Professor Arnt Spandau, head of the department of business economics at the University of the Witwatersrand, commented: "If anything, there should have been a revaluation of the rand as this devaluation will have a considerable inflationary

affect on the South African economy.

"I believe it could push up inflation by about 1 per cent.

"Although the devaluation will aid exports, I see no point of artificially supporting exports."

Mr A. G. Briggs, chairman South Africa British Trade Association, said: "The devaluation is by no means unexpected and I believe it will assist in redressing the balance of trade figures between Britain and South Africa.

"The devaluation of the rand is particularly important because of South Africa's exports to Britain."

TRAVELLERS

Mr Errol Lizamore, international division economist of the Standard Bank, said: "Because of the recent slump in the gold price and the less favourable export prospects, the Government's decision almost certainly takes into account the relatively low level of the country's gold and foreign reserves and the need to curb speculative outflows of capital.

"This is a direct benefit to South African exporters and in terms of sterling exporters to the United Kingdom will now receive about R1,61 for every £1 compared to the previous rate of £1=R1,53. This will assist them in maintaining their share of this important market.

"However, the cost to the traveller will rise because the dollar is now costing more in terms of rands than before. For instance — to buy £100 travellers' cheques will now cost R161 instead of R153.

"There is one other effect on the man-in-the-street. Imports from abroad will cost more, and this effect is bound to be felt in an increase in the cost of

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Economics of detente

Cape Times

2/7/75

THE ECONOMIC implications of the détente moves between South Africa and other African states will come under close scrutiny at an international congress to be opened at Bellville tomorrow by the Minister of Economic Affairs, Mr J C Heunis.

The two-day congress has been organized by the Stellenbosch local committee of the International Association of Commerce and Economics Students, which has its headquarters in Brussels. The theme will be the economic interdependence of countries in Southern and Equatorial Africa.

LEADING SPEAKERS

Guest speaker will be a former head of military intelligence in Israel, General Meir Amit. Economists and businessmen from several African countries have accepted invitations to attend the congress.

Speakers will include Dr Norman Raditapole, permanent secretary for agriculture in Lesotho; Mr A Anson Lloyd, chairman of the SA Sugar Association; Dr Willem de Villiers, managing director of General Mining; and Dr Henry Olivier, one of the driving forces in the Cabora Bassa scheme in Mozambique.

Dr Jan de Loor, Deputy Secretary for Finance, and Mr Raymond Parsons, executive director of the Associated Chambers of Commerce of South Africa, will also deliver papers.

Dr Frans Cronje, head of Nedbank, will be chairman of tomorrow's session of the congress, and on Friday the chair will be taken by Prof J L Sadie of the Bureau of Economic Research at the University of Stellenbosch.

SA call for trade links in Africa

ARGUS
3/7/75

GREATER economic co-operation between the states of Southern and Equatorial Africa was advocated by the Minister of Economic Affairs, Mr J. C. Heunis, at Bellville today.

Spheres which he suggested as holding potential in this respect were:

- Increased trade exchanges between the nations of the region, to offset losses of marketing opportunities by their geographical isolation from the big markets of the world and the tendency towards agricultural protection among the developed nations.
- Joint initiatives for diverting to this region a greater portion of the investment capital and trained manpower available elsewhere.
- Joint exploitation of the region's tourist attractions.

SA OFFERS

From South Africa's side, it could offer other states in Southern and equatorial Africa:

- Technical proficiency in the agricultural, pastoral and mining fields.
- Limited amount of capital to promote the economic advancement of the region as a whole.
- Medium-term credit facilities to help other states to finance the purchase of capital equipment from South Africa and industrial, mining and infrastructural projects of an income-generating nature using expertise of South African companies.

Mr Heunis was addressing the congress of the South African branch of the international Association of Commerce (AIESEC) on the growing inter-dependence of the states of equatorial and Southern Africa.

COMMON INTEREST

He believed the states of the area had been inclined to place too much emphasis on their differences, instead of looking at the many fields in which they shared a common interest and in respect of which co-operation could bring lasting benefits to their peoples.

It was necessary that all differences between the nations of the area be removed before they could live in peace and work together for their mutual benefit.

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SA move criticised

ARGUS 3/7/75

MR BRIAN MACLEOD, director of the Cape Town Chamber of Commerce, said today the rand could have been revalued instead of devalued by 4,76 percent as was done last week.

Mr MacLeod, who has just returned from a trade mission to Europe, said he had gained the impression that if the rand had been increased

in value in terms of European currencies, South Africa's position in Europe would not have been seriously affected. The devaluation was unnecessary and inflationary, he said.

It was a precipitate move and not a very wise one. I feel the Government should have waited to see what happened to the pound. There are already signs that the pound has strengthened.

The Government should also have taken a careful look at how sales not only to Britain but to Europe would have been affected if it had maintained the value of the rand or increased it.

Mr MacLeod queried the necessity of devaluing the rand to protect the British markets.

Other countries which are major suppliers have not devalued and, furthermore, our reserves and balance of payments are in a healthy state.

There has been a lot of speculation against the rand. If the Government had held on for six months, it could well have found its position in British markets would not have been seriously affected.

Mr MacLeod pointed out that devaluation would not encourage further investment and warned that it could affect the flow of money into South Africa.

Reasons STAR 3/7/75 for rapid

progress

Mr J J Kitshoff, chairman of the Industrial Development Corporation, listed six reasons why "we are so enthusiastic about our industrial development and why the rate of progress has been so gratifying."

- Stability of Government. Communication between Government and industry was close and cordial and getting better.

- The belief in both business and Government in the superior merits of the private enterprise system.

- The Government's open-door policy to foreign capital, which it threatened equitably and hospitably.

- South Africa endowed with mineral and agricultural resources.

- It had plentiful, low-cost power.

- It had big manpower resources, especially in the hidden reserve of potential skills among Blacks.

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STAR 3/7/75

Africa's giant in investment

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Half of all foreign investment in Africa goes to South Africa, the chairman of General Mining, Dr W B Coetzer said.

Although South Africa is on the tip of Africa and houses only six percent of its population, its production is nearly half that of

all other African countries, he said.

South Africa generates half the continent's electricity and carries 60 percent of its railway freight.

Dr Coetzer added that direct and indirect foreign investment in South African businesses rose at an annual rate of 11 percent from 1966 to 1972.

ESTIMATE

During this period, it increased from R2,286m to R4,700m in 1972 and represented 21.5 percent of all new investments in South Africa.

Dr Coetzer estimates that the value of all foreign investments in South Africa — both private and public sectors — exceeds R9,000m.

He said potential growth areas in the South African economy are:

- The spending power of the Blacks.
- The development of

South Africa's infrastructure.

• The television, construction, textiles, engineering and chemical industries.

He believes the mining industry will grow faster than other sectors in the South African economy.

South Africa's internal affairs had faced severe criticism but, once critics had made the effort to visit the country, their attitude changed completely.

This view was expressed by past president of the SA Federated Chamber of Industries, Mr Harold Morecombe, addressing the conference.

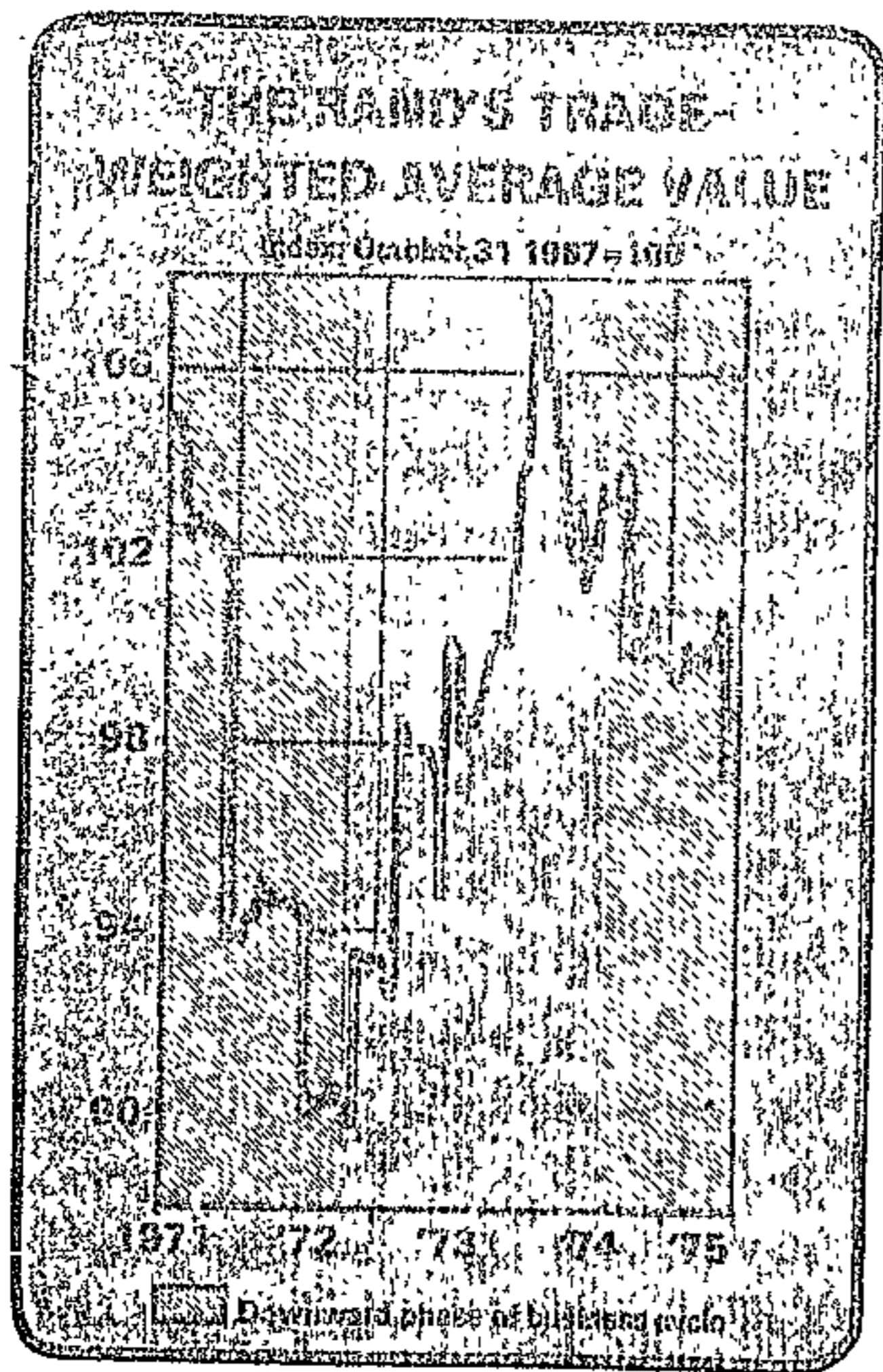
He stressed the need for businessmen all over the world to work closely together because of the understanding and mutual trust built up through business links.

South Africa, he said, had a remarkable record of industrial peace and a large slice of the free world's resources.

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F.M. 4/7/75

Financial Mail



Devaluation was forced on SA by a misguided exchange rate policy. Thankfully, that policy has now been abandoned and future exchange rate decisions will be based on more fundamental issues — like inflation

The chastened rand

The old familiar ways have their attractions after all. After a year of "independent managed floating" the rand, like the prodigal son, has returned home — much chastened — to the dollar. And, by all accounts, a long and reasonably stable association is once again in the offing.

How much damage was caused by the rand's adventures with that "trade-weighted basket of currencies" cannot be quantified. But it would have been considerable, especially since March. With the dollar strengthening and the pound weakening, SA's currency steadily appreciated, creating, in the words of Finance Minister Owen Horwood, "the expectation that, in terms of the existing SA exchange rate policy, the rand would be adjusted downwards against the dollar in a series of small steps" (his italics).

The result (which would have been very different had the rand been truly floating) was a massive drain on the foreign reserves, with importers speeding payments, exporters delaying repatriation of proceeds, domestic credit being substituted for foreign trade credit and the inflow of private capital generally being delayed.

The magnitude of the drain cannot be judged from published figures (which include official short-term loans). But from remarks made by commercial bankers last week it could have been enormous.

Whether the run on the rand would not have happened had the pre-June 1974 exchange rate policy been in force all along is debatable. But what can be said

with a fair degree of certainty is that the run would probably have been much smaller, and last week's devaluation perhaps unnecessary.

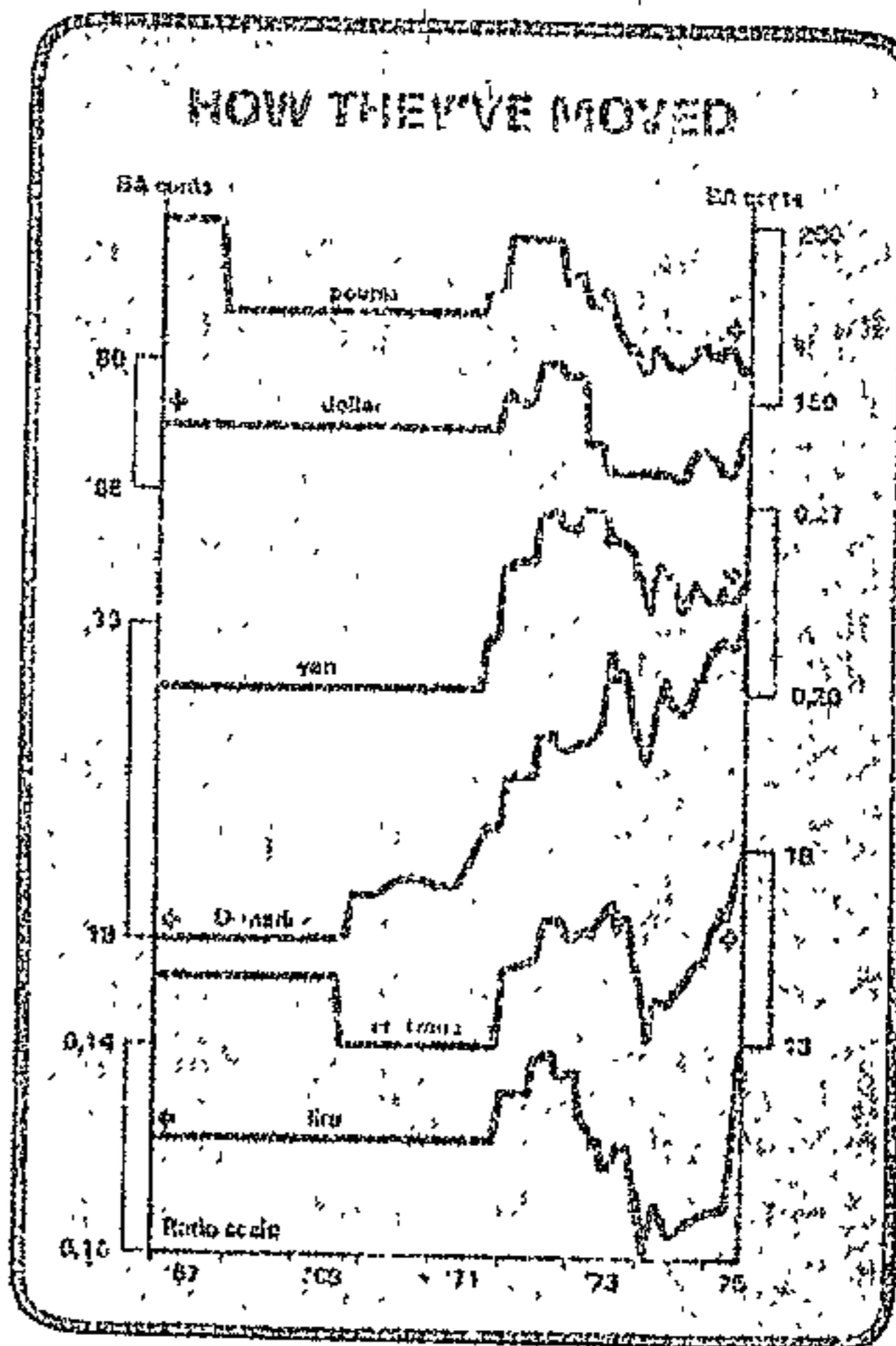
Indeed, it can be argued that the latest devaluation could still have been avoided if the Reserve Bank had followed advice and announced, even as late as the first week of June (ie before the present sterling crisis started), that it was abandoning "floating" and reverting to the old policy at the then existing exchange rate of \$1,47, or even at a slightly higher rate, say \$1,48. Those who had already sold rands short would have burnt their fingers, speculation against SA's currency in the weeks ahead would have been less intense, and probably the rand could have safely ridden out the current crisis in London, with the Reserve Bank borrowing whatever was necessary to support it.

For, fundamentally, the balance of payments still looks pretty sound. The current deficit has been running at only 4% of GDP during the past year and will probably start to narrow once overseas economic conditions improve. Also, the long-term capital account remains fairly strong.

So there was certainly no need to devalue for underlying balance of payments reasons; SA's trade balance could easily have withstood the 2%-3% appreciation in the average external value of the rand that would have taken place over June had there been no cut in the rand's dollar quotation.

But that is now a hypothetical issue. The rand was devalued — by 5% — and instead of appreciating by 2%-3% over June, its average external value fell by 2%-3%.

Over time the depreciation, if it is not completely wiped out by a further weakening of sterling and strengthening



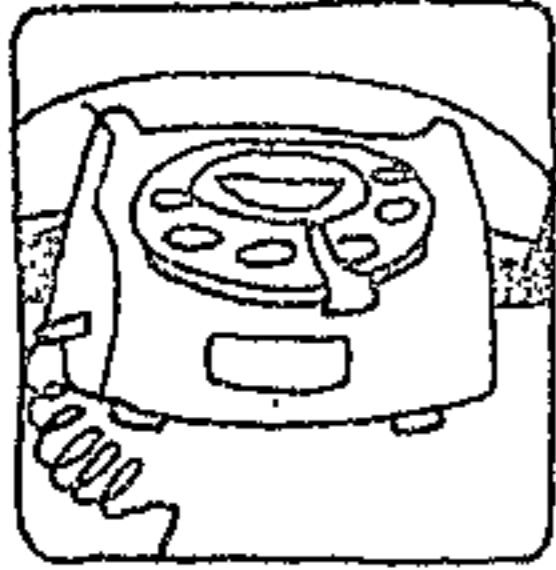
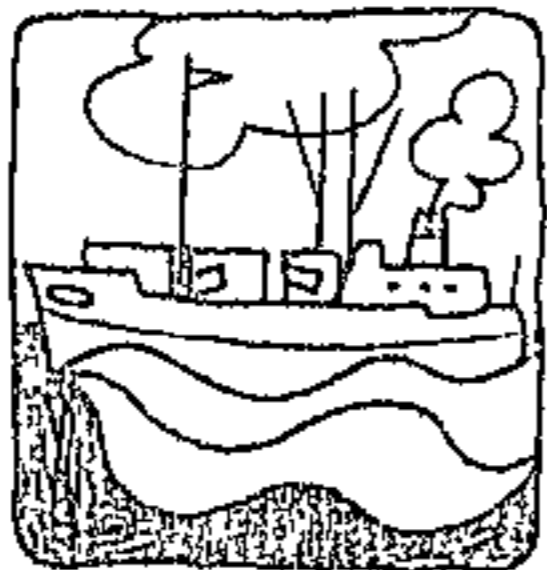
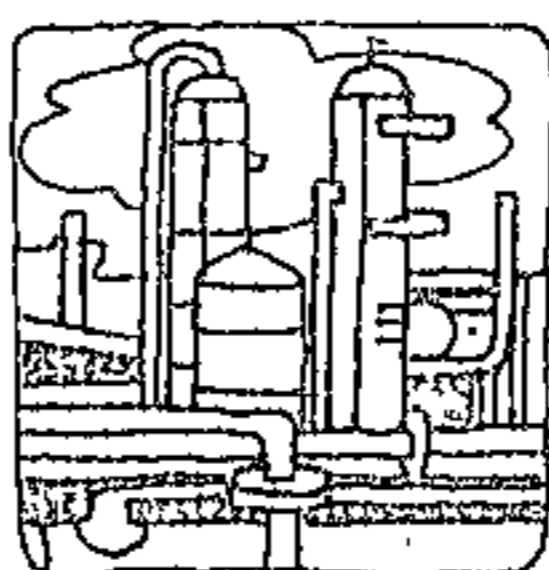
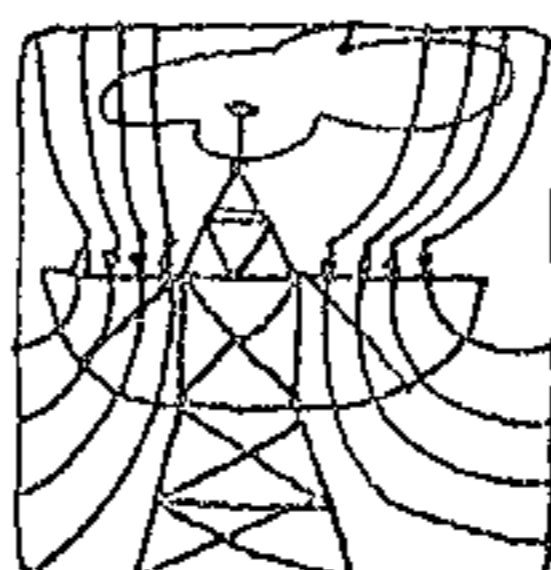
of the dollar, should help — granted, ever so marginally — to raise earnings and create jobs in export and import-competing industries, thereby softening the impact of SA's current economic downswing.

The price of this advantage is of course a higher cost of imported goods and foreign services, which ultimately has to be paid by the consumer through a still higher cost-of-living.

Which raises again the vexed question of inflation. Now that the exchange rate mechanism has been put back on a firmer footing (and that other starter of runs on the rand — artificially low interest rate ceilings (remember Christmas 1973?) — is a thing of the past) one of the tests facing Pretoria over the next year or two will be whether the rate at which costs rise in SA is to be faster or slower than the average abroad. If it is faster, the rand will become genuinely overvalued and another devaluation, this time for fundamental balance of payments reasons, could well become unavoidable.

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R2 100m. Telecommunications	R2 000m. Containerisation	R1 092m. Sasol	R4 350m. Power supplies	CAN WE AFFORD THEM ALL?
				

Vast projects are in the pipeline. Government and business should get together to set priorities and co-ordinate capital spending

The need for priorities

Can we afford containerisation (± R2 000m); four big new power stations (± R4 300m); Sasol II (± R1 000m); Sishen-Saldanha (± R600m); uranium enrichment (± R900m) and a giant ethylene cracker (R100m)?

Should Escom's new HQ take precedence over extensions at St Helena gold mine? Would R6m not be better spent on harbour improvements than on a new opera house for Pretoria? Is a TV service for Africans not more important than a new office block for civil servants?

In short, what are our capital spending priorities?

Senbank's Chris van Wyk, Rand Bank's Jan de Necker and Saambou's Albert Marais are three of the many business leaders who have recently urged that the setting of development priorities should itself be given top priority. The country's resources simply cannot meet all the demands which are going to be made on them in the next few years without unleashing another gale of inflation, dislocating capital markets, and creating new bottlenecks.

The latest Economic Development Programme estimates gross investment for 1974-79 at R37,7 milliard (at 1973 prices) if an average annual growth rate of 6,4% is to be sustained. Allowing for an annual 10% inflation this jumps to over R50 milliard or about three times the combined assets of all SA's banks, building societies and insurance companies. No wonder Albert Marais told the Afrikaanse Handelsinstituut recently: "We are worried at the possible disruption in our money and capital markets which would result from the mobilisation of such vast sums of money".

Problem is that traditional sources of finance are not limitless: internal savings

(as a percentage of GDP) are stagnating; foreign borrowing potential is not a bottomless pit; and it would be foolish to allow the non-gold current account deficit to continue to widen.

The plethora of major projects now in the pipeline (see table) will not only strain our finances. Even Pretoria's new-found concern for stepping-up industrial training for Blacks plus accelerated immigration will not provide enough skilled manpower for Sasol II, the uranium enrichment plant, the Sishen-Saldanha scheme and the Post Office telecommunications system, to name but a few.

Raw material shortages, port congestion, telecommunication breakdowns and inadequate transport facilities are further reasons why the country cannot afford to let every government department, provincial administration, local authority, public corporation or private sector enterprise to rush headlong into expensive projects without fully considering whether each justifies the extra pressure it will put on limited resources.

There are encouraging signs that — at least as far as its own spending is concerned — Pretoria is beginning to recognise the need for priority planning. The fact that rocketing government spending inevitably diverts resources from — in many cases more beneficial — private sector projects is only now being accepted by economic planners.

In 1970 the Franzsen Committee proposed the creation of a Cabinet committee with a permanent secretariat to determine public spending priorities. It also recommended that "the forward planning of total government expenditure, before being considered by the Cabinet committee, should be submitted to the PM's Economic Adviser for his recommendations and comment, especially with regard to the effect the expenditure will have both from the point of view of the broad national interest and, in par-

If you doubt the extent of SA's capital commitments, take a look at the list below. It gives approximate costs (at current prices) of some of the big projects planned for the next 5-10 years.

Global figures for the economy's big spenders are equally eye-opening. By 1985, Railways' annual capital outlays are expected to reach R1 600m or almost one quarter of total fixed investment last year.

Over the next five years, at least a dozen companies have capital programmes each exceeding R200m. And those of Iscor, Sasol, Escom and the Post Office (not to mention central government) each run into thousands of millions of rand.

Project	Estimated cost (current prices)
PO telecommunications.....	R2 100m
Containerisation.....	R2 000m
Duvha power station.....	R1 380m
Maitla power station.....	R1 300m
Koebeg power station.....	R1 250m
Sasol II.....	R1 021m
Coal mining expansion.....	R1 000m
Uranium enrichment plant.....	R910m
Sishen-Saldanha scheme.....	R603m
Kriel power station.....	R420m
Drakensberg pump storage scheme.....	R310m
Low density polyethylene plant.....	R270m
Coalplex (PVC from coal plant).....	R210m
Titanium and zirconium project, Richards Bay.....	R200m
Production of nitrogen and derivatives (AE&CI).....	R132m
Elandsrand gold mine.....	R120m
Deelkraal gold mine.....	R100m
Ethylene cracker.....	R95m
Free State Saaplaas extension.....	R81m
Sasol gasification expansion.....	R71m
St Croix ore-loading terminal.....	R70m
Highveld Steel expansion.....	R66m
Sappi expansion.....	R60m
Expansion at Sapref refinery, Durban....	R60m
Defence headquarters, Pretoria.....	R55m
Anglo-Alpha expansion (Dudfield plant).....	R47m
African TV service.....	R45m
Foskor plant extension.....	R35m

ticular, on development in the private sector".

The Cabinet committee was formed soon afterwards. It considers the budget of central government including capital allocations to the provinces, SAR&H and Post Office. But, Secretary for Finance Gerald Browne tells the *FM*, "due mainly to shortage of staff able to undertake necessary preparatory work" the committee has not yet been able to deal with capital spending of local authorities and public corporations. The larger local authorities nevertheless submit their capital budgets to his Department for approval.

Public corporations' capital projects are also coming under the magnifying glass of the PM's Economic Adviser Piet

Riekert. While not going so far as laying down specific priorities, Riekert and his staff have taken a first step by urging Sasol and Ucor to reschedule their expansion programmes to avoid simultaneous demands on scarce resources. It is hoped to extend this co-ordinating function to the programmes of other corporations.

Another important step towards government priority planning (though still falling short of it) is the introduction of the planning-programming-budgeting system (PPBS). This obliges departments to identify long-range objectives and to draw up suitable long-term budgets. The Treasury is thus able to control spending on various broad government functions carried out by a number of departments, such as agriculture and education (as opposed to existing control of short-term spending by individual departments).

The first phase of PPBS (the identification of objectives and the preparation of estimates, without interfering with existing activities or functions of departments) will be implemented in fiscal 1976-77 by the Departments of Health, Forestry, Agricultural Technical Services and Defence.

According to Browne, "it was decided as in other countries, not to involve all

departments simultaneously in view of the comprehensiveness of the innovations involved, the shortage of experienced staff and expertise in developing, implementing and operating a system of this nature, and in recognition of different needs and problems which exist in different departments".

Insofar as priority planning requires the fullest possible information on all large projects, these innovations are a big step in the right direction. But they still fall short of proper priority determination and project co-ordination. And a further deficiency is that private sector plans (and to a lesser extent those of public corporations) do not come under official scrutiny.

The authorities face a dilemma in trying to include the public corporations and private enterprise. Even the PM's Deputy Economic Adviser Simon Brand, reckons it would be unacceptable for government to lay down which company will have its new plant and which will not. He doesn't think Pretoria could reasonably expect businessmen to submit for its scrutiny their investment plans.

One compromise would be for businessmen to have a say in deciding which public and private sector projects should get the green light, which should be

delayed, and which scrapped altogether. One way of implementing this would be for Minister of Planning Jannie Louw to appoint a high-powered committee representing both public and private sectors to which could be co-opted representatives of bodies whose investment plans were under consideration at any particular time.

This committee, using the PM's Economic Adviser's office as a secretariat, would examine each project above a certain size (say R25m) and advise whether it was in the national interest and within the country's means for work to proceed as proposed by the department, corporation or company concerned.

In this way, business and government could help each other ensure that available resources are allocated most effectively, without the coercion which is anathema to all businessmen and most (enlightened) public servants.

Whether we have the spare-economists, accountants, engineers and other top professionals needed for such complex evaluations is another question. We don't yet seem able to handle broad economic policy-making sensibly, let alone embark on sophisticated cost-benefit comparisons of (say) Sasol II and Iscor III in the Nuclear Age.

THE UNIVERSITY OF THE CAPE PROVINCE

DEPARTMENT OF ECONOMICS

LECTURE NOTES

ECONOMIC DEVELOPMENT IN AFRICA

Lecturer: DR. J. H. VAN DER MERWE

Lectures are held in the Lecture Theatre B. 14 at 8.30 a.m. on Mondays, Wednesdays and Fridays, starting Monday 1 March 1976.

Topic	Date	Time
Introduction: Practical Arrangements	1 March	8.30 a.m.
The Economic History of Africa	8 March	8.30 a.m.
Development of African Politics	15 March	8.30 a.m.
Trade and Development	22 March	8.30 a.m.
Industrialization and Development	29 March	8.30 a.m.
Regional Development	5 April	8.30 a.m.
Urbanization and Development	12 April	8.30 a.m.
Transport and Development	19 April	8.30 a.m.
Energy and Development	26 April	8.30 a.m.
Water and Development	3 May	8.30 a.m.
Land and Development	10 May	8.30 a.m.
Population and Development	17 May	8.30 a.m.
Conclusion	24 May	8.30 a.m.

Good government, like justice, must not only be done. It must be *seen* to be done. Yet, sadly, its operations are becoming less and less visible.

Not only does this make it difficult to judge performance, it also breeds uncertainty about existing policies and future trends. With more enemies (real or imagined) than most other countries, our rulers are particularly publicity-shy. But don't they sometimes carry secrecy too far, especially in matters affecting business?

Consider the following:

- Government has refused to release details of the Ocean Freight Agreement it negotiated with the SA-Europe Conference Lines. Yet the Agreement (which governs Conference shipping services between SA and Europe, including freight rates) vitally affects most of our trade with Europe.
- Secrecy often surrounds applications to the Price Controller for price increases and the criteria for granting or refusing them. Normally details are not even made available of products for which price hikes have been refused.
- Equally tight secrecy surrounds the discussions of the Economic Advisory Council. The chairman has a fit whenever anything leaks out; beyond its carefully edited and long delayed reports. Yet most of the time it considers the most mundane topics and adopts the most unadventurous views one can think of.
- Senator Horwood threatened last year

The red tape jungle

F.M. 4/7/75

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Pretoria's decisions are too often clothed in secrecy. More open government won't open our flanks to the enemy — and it'll do a lot for the Cabinet's popularity rating

to stifle criticism of public corporations. "I'm responsible for Iscor now", the Minister fumed, "and I'm not prepared to see Iscor's name dragged through the mud by people who are not fit to tie the shoelaces of the members of Iscor's board or its senior management ... As soon as it can be done in the next session you will see what is going to be done about this ... I am interested in the fact that no unjust accusations will be made against people who cannot defend themselves, ie public servants, Iscor and Iscor's board, and the boards of other public corporations."

Thank goodness nothing has come of Horwood's threats --- yet!

○ Until recently, prospective investors in South West Africa's mineral wealth were not allowed access to government's geo-

logical surveys. An "open file" system was introduced only after complaints by a Nationalist MP.

○ Government has refused to publish the full report of the Straszacker Committee investigating the siting of Iscor's semis plant; and

○ It has refused to give full answers to many Parliamentary questions because "statistics are not readily available" or "it is not regarded as being in the public interest".

Admittedly, security sometimes justifies a Minister not answering a question. But, to take some examples from the most recent Parliamentary session, is there a good reason for the Minister of the Interior refusing to disclose how many British citizens require visas to visit SA? For the Minister of Public Works



saying his department's priority programme for capital works is only for internal use? For the Minister of Economic Affairs refusing to give any information on countries which claim to have imposed trade boycotts on SA?

Compared to the House of Commons, where question time is an occasion for lively debate, probing supplementary questions and important policy statements, Tuesday and Friday afternoons in the House of Assembly usually have as much excitement as old ladies' tea parties.

Perhaps government's biggest avoiding tactic when it comes to articulating policy is the appointment of commissions of inquiry and departmental committees (which currently number about 70, excluding permanent committees). Reports, when published at all, are often released so late as to be of minimal public interest.

The Petrick Committee's report on SA's coal resources is a classic example. It has taken five years to complete and, because of translation delays, it will still be several months before it becomes available to the public.

Another long-winded exercise is the recently-appointed Commission on Monopolistic Practices. It's expected to take up to *four years* to do its job. Compare this with the five months needed by US Vice President Rockefeller's committee investigating the Central Intelligence Agency.

Just what bureaucratic dilly-dallying can result in is spotlighted by the Controller and Auditor-General's latest report on the accounts of a statutory body, the Meat Board. His four-page review for the financial year ending Sep-

tember 30 1973 was released only two weeks ago. (Companies are obliged to release their final accounts within six months of the year end.)

Basic cause of government reticence is that more and more power is being vested in ultra-secretive Cabinet Ministers and ultra-cautious civil servants at the expense of Parliament, the Press and the public.

This trend towards a technocracy is not in itself a bad thing. Indeed, it is largely inevitable in a fast-developing country where neither Parliament nor Jan Burger has the time, skill or inclination to take much interest in the way the country is being run.

Trouble is that in SA, unlike the US and Britain, ministerial and bureaucratic power is not tempered by an appropriate degree of public accountability, whether formal or informal.

Prog leader Colin Eglin says important decisions taken recently by the Cabinet without any reference to Parliament include the desegregation of the SAR's luxury trains, the Nico Malan theatre and the approval of mixed rugby teams. Moreover, Prime Minister Vorster didn't bother to make a single speech in Parliament for the last two-and-a-half months of the session, while the man often regarded as his successor, Information and Interior Minister Connie Mulder, was absent from Cape Town for about one-and-a-half months.

Unisa's Prof Willem Kleynhans ascribes Parliament's demise partly to the decline of the opposition — both in terms of numbers and quality.

On a more informal level, Pressmen have nicknamed Foreign Minister Hilgard Muller "Dr No" because of his con-

sistent "no comment". Civil servants rarely give information which isn't specifically asked for and often avoid questions by claiming they are not empowered to speak to the Press or public.

Worst of all, one of the few officials who does have authority to answer questions — Joep Steyn — is usually too tied up to answer them. The demeanour of ministerial private secretaries also leaves much to be desired.

There are, of course, exceptions. Among the more forthcoming departments are Agriculture, Finance, Transport, Planning, the Railways and the Post Office. Those few civil servants and ministers who regularly take employer organisations, trade unions, the Press and individual businessmen into their confidence will agree that confidences are rarely broken.

Indeed, more general publicity for government's actions usually does more good than harm. Take the recently announced anti-inflation programme. Though originally compiled as a confidential document (even the official Press release was marked "confidential"); government was forced to release it to the public after parts had been leaked.

The ensuing public debate undoubtedly contributed to the Cabinet's speedy decision to implement the programme and certainly did no harm. Goodness knows how many similarly "sensitive" documents are around.

It's time that politicians, businessmen and the Press demanded to know more about the decision-making process and more about how the decisions were arrived at. Pretoria might discover a more open government is also a more popular one.

Question.....
Write on both sides of the paper

...of the ...
...A ...
...NCDs ...
...flexible ...
...problem ...

In any event, ... the Association of ...
...on Wednesday ...
...the Government ...

The danger, of course, is that any formula, however carefully designed, will fail to reflect accurately enough the ...
...the banks have to pay for their money, and that Bank rate will therefore remain an unsuitable determinant of the cost of bank credit. A formula might also suffer what rate competition has recently emerged in the field of bank credit costs.

So why is a change necessary at all? Why not leave the position as it is and allow market forces to determine overdraft rates? If the authorities wish to nudge lending rates one way or the other, why not do so indirectly by making more use, among other things, of SA's sophisticated discount market to influence the quantity of money and the level of bank liquidity?

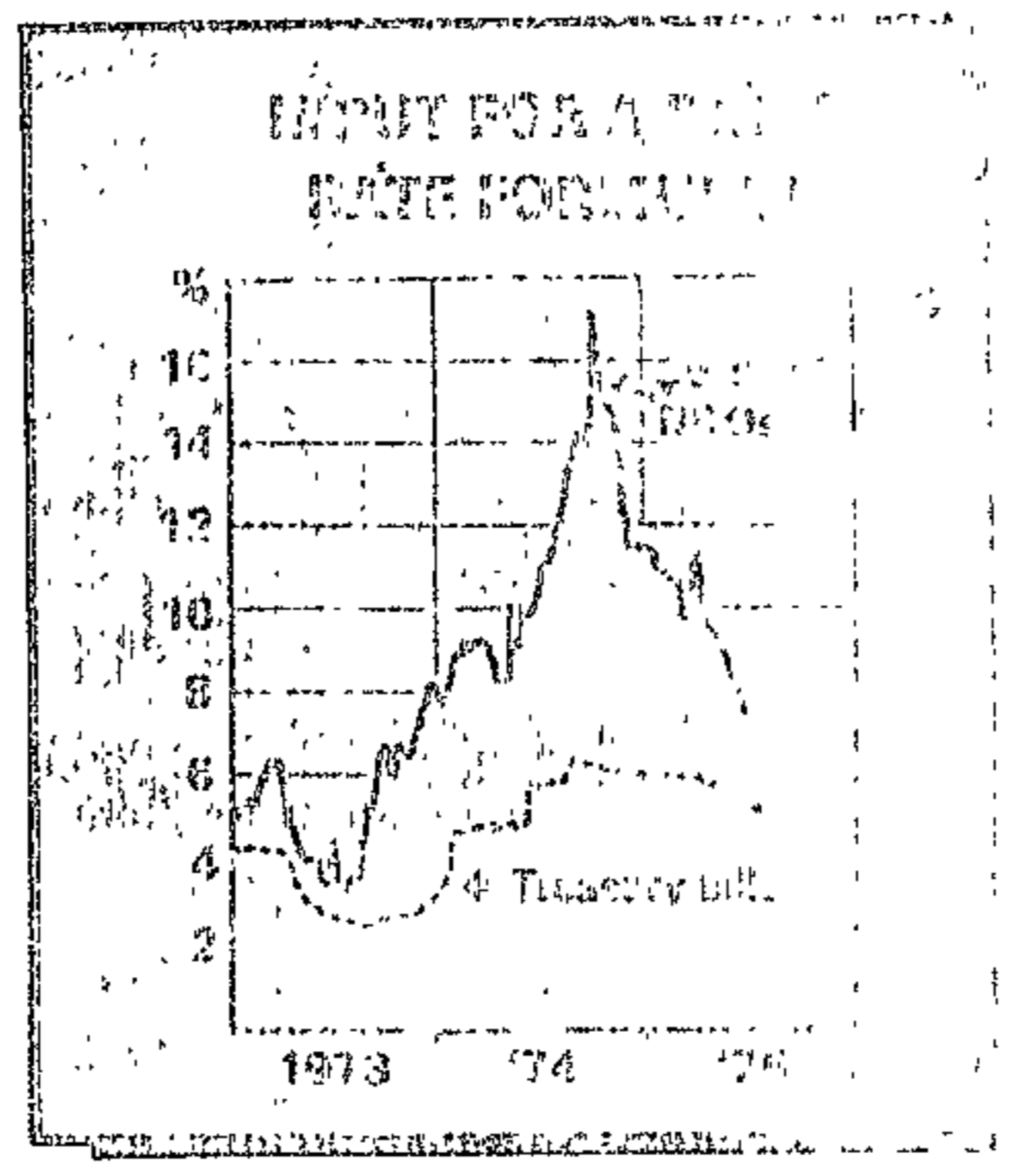
Obviously, lack of competition between the banks regarding lending rates could be a problem. But, as the recent move by Standard Bank illustrated, market forces cannot be thwarted indefinitely. If rates in the money market are coming down, and bank lending rates are not, the grey market thrives and banks lose business.

Do not write in this margin

commercial banks last year raised their fine overdraft rate to a level above Bank rate plus 2½%. That used to be the traditional link.

By breaking it they rendered Bank rate totally ineffective as a means of influencing the cost of credit to their customers -- clearly, from Church Square's point of view, a very serious matter.

Last year the problem was one of the



cost of credit rising above the level signalled by Bank rate. But over the next few months (if liquidity continues to improve) it could be a question of the bank's refusing to reduce the cost of credit in response to a possible cut in Bank rate.

From the banks' point of view, the difficulty last year was that Bank rate bore no relation to what they were having to pay for their funds, not even the funds they borrowed from the Reserve Bank. This could easily happen again. So the

BANK RATE

F.M. 4/7/75

New formula?

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One of the more intriguing talking points in banking circles these days concerns moves to resurrect Bank rate. The banks have apparently been doing intricate sums to see if and how the rate could once again become an effective instrument of monetary policy.

Background is the fact that the com-

SA needs a lot from overseas

RDM
4/7/75

R. V. C. H. R. I. S. CAIRNCROSS
Industrial Editor
 THE value of new fixed investment in South Africa over the next 10 years could reach R60 000-million, according to Dr W. B. Coetzer, chairman of General Mining, who stresses that a good percentage of the funds will have to come from foreign sources.

He said at an international seminar in London yesterday that the level of indirect and direct investment by foreigners amounted to almost 22 per cent of all new investment in the private sector.

The seminar's theme is investment opportunities in South Africa.

Dr Coetzer said that in value terms all foreign investments in South Africa, in both the private and public sectors, probably exceeded R9 000-million, of which more than 50 per cent came from the sterling area.

Because of the growth projections for the South African economy, investments from abroad would be welcomed. He accepted, however, that there were certain constraints — exchange controls, regulations — which must be irksome and inhibiting to some overseas investors.

BLOCKED RAND

Specific reference was made to the blocked rand system, which many potential foreign investors have claimed to be one of the main restrictions dissuading them from putting money into South Africa.

Dr Coetzer said there was a sincere wish on the

part of the country's monetary authorities to break down the image built up by this blocked rand system.

He believed the abolition of the official gold price of \$42.22 an oz and the possibility that inter-central bank clearing could soon be effected in gold would cause the authorities to introduce changes to South Africa's exchange system.

"I, personally, am very hopeful that we will see some relaxation of restrictions on the outflow of foreign capital in the foreseeable future," Dr Coetzer said.

The Secretary of Finance, Mr Gerald Browne, gave a clear hint that the South African Government was giving serious thought to changing the blocked rand system.

He said that while it had been necessary in 1961 to impose restrictions on the withdrawal of capital from the country, "we are at present reconsidering the whole system of blocked rand and I hope it may be possible to introduce more flexibility into the system."

UPTURN

According to Reuters bankers in South Africa said yesterday that while no major change or scrapping of the system was envisaged, a proposal to make non-resident blocked rand cash balances transferable was being considered.

If such a proposal were accepted, the bankers said it would allow potential United States and European buyers of South African shares to bypass the London market and buy direct in Johannesburg.

Stockbrokers see a potential upturn in business as a result, believing also that the blocked rand pool

would be more fluid if cash balances were made transferable.

They also pointed out that because of the controls on the market by the British authorities, London had lost its position to New York as the major overseas market for South African gold shares.

Because of the location of the investment seminar, it is worth noting that, almost without exception, speakers believed that a tempting feature which would encourage British industrialists to invest in South Africa was that there is no "threat" of nationalisation.

"I need hardly say that expropriation or nationalisation of foreign investments are completely alien to our philosophy," was how Mr Browne phrased it.

Attention was also drawn to the fact that South Africa has little industrial unrest and is not subject to the type of crippling trade unionism prevalent in Britain; that the South African economy is aggressively capitalistic, and that the tax structure is not as prohibitive as elsewhere.

NR6US 4/7/75

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EUPHORIA DANGER SEEN IN DETENTE

IT WOULD BE dangerous to see recent detente moves in Southern Africa from the standpoint only of the Republic of South Africa, the chief economist of the SA Federated Chamber of Industries, Mr A. Hammond-Tooke, said in Bellville today.

The fact is that detente, like happiness, means different things to different people, he told the congress on economic interdependence between countries in Southern and Equatorial Africa.

Mr Hammond-Tooke said in a paper to the congress it would be foolish for anyone in South Africa to believe great new vistas of economic imperialism had been opened up, or even that South Africa could and should become the great catalyst for development on the continent.

VITAL ROLE

I believe that we in South Africa have an important and indeed vital role to play in the future of Africa. I do not believe however, that we should be apostles for a new pan-Africanism, preaching the kingdom of economics as the new religion of salvation of the continent, he said.

Referring to economic conditions in Africa, Mr Hammond-Tooke said unemployment was increasing in most independent Afri-

can territories and food production was decreasing in some states.

He felt it was necessary to dispel the present 'aura of euphoria' which had tended to creep into thinking in South Africa in regard to detente. If South Africa were to assist countries in Africa, it had to be fully cognisant of the real problems that faced them in development.

We must beware of the self-righteousness of the Samaritan who gave alms to the poor, Mr Hammond-Tooke said.

There was a danger South Africa might be pictured as the font of all aid and economic assistance and claims on South Africa from neighbouring territories, including its own Bantu homelands, might become an intolerable burden on its economy.

In providing economic aid to Africa, South Africa had to become acutely aware of the fact that interdependence implied a measure of dependence.

Claims for economic assistance on South Africa from other countries in the sub-continent could be expected to increase substantially. South African business should continuously expand the Republic's production capacity in the expectations of the new trade and aid demands.

ARGUS 4/7/75

Top-level speakers discuss Africa

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STUDENT delegates from almost every South African university are among those attending the congress on economic interdependence in Southern and Eastern Africa, now being held in Bellville.

A feature of the discussions has been the keen interest shown by delegates in developments in Southern Africa and in prospects for co-operation between states.

The congress was organised by a committee of students of the University of Stellenbosch, under the auspices of the SA branch of the International Association of Commerce and Economics Students.

Speakers who presented papers include General Meni Amit, a former military intelligence chief of Israel; Mr. A. A. Lloyd, deputy president of the SA Foundation; Mr. A. Hammond Tooke, chief economist of the SA Federated Chamber of Industries; Dr. J. H. de laar, Deputy Secretary of Finance; and Dr. W. J. de Villiers, managing director of the General Mining and Finance Corporation Limited.

YOUR MONEY'S SALES IN S.A. SAYS EX-EINVOY

Net/Mean, 3/17/72

LONDON—It is difficult to avoid the sensation that the Third World is closing in on South Africa, Sir Arthur Snelling, a former British Ambassador to Pretoria, said yesterday at a seminar here on investing in the Republic.

Pretoria, sitting astride the Rand's main lifeline to the sea, were within 400 km of Pretoria.

The writing was on the wall for the Rhodesian Government after ten years. South West Africa would undergo a major constitutional change before long.

South Africa's dramatically increased defence expenditure was understandable in this situation, he said.

An African military invasion of the Republic could be ruled out as suicide. Infiltration and guerrilla activity would not succeed.

Economic pressure would be more serious. The Achilles heel of the Republic was, paradoxically, the size of its foreign trade and investment.

"A thorough-going economic boycott by Black Africa, backed by the new strength of oil-rich Nigeria, supported perhaps by the Arabs and some of the Asians could be effective if it forced British, European, North American and Japanese firms to sever their connections and their trade with South Africa, as the price of being allowed to continue their operations in other parts of the world."

He was not saying this would happen, but it was a danger which had to be assessed.

Attempts would be made at such action but, like sanctions against Rhodesia, they would fail through lack of enforcement.

Britain would oppose any such boycott plan. If peace were to return to major world trouble spots it would radically change this position. Attention would be focused on Southern Africa.

But if one considered this to be a remote possibility, one could dismiss the threat to South Africa.

He did not think the homelands would become a focus of discontent and a source of trouble on South Africa's frontiers.

White typical leaders further north in Africa tended to be socialist, the typical African ruler, actual and prospective, in Southern Africa was inclined towards conservatism.

He put complete trust in Chief Kaiser Matanzima of the Transkei and Dr. Ceteric Phatudi of Lesotho when they said

47

DRIVING UP MORE LABOUR UNITS

See Trib (CA) 6/17/75

A SECOND ROUND of labour unrest is possible when the tempo of economic activity picks up again, says Len Thorne, director of Natal Employers' Association.

The apparent Black labour calm could be filling employers into a false sense of security, he says. And the storm could break at the beginning of next year if economists are correct in their predictions of an economic upswing.

Mr Thorne believes the labour scene is quiet now because of the low level of economic activity. Workers are afraid trouble with employers could result in loss of jobs.

Demand

But their opportunity will come with an economic upturn and the corresponding increase in the demand for labour. Black workers will be in a better bargaining position and will not fear

BY CHRISTOPHER MORRIS threat to their employment.

Industry should take advantage of this period of calm to take stock of the situation and decide whether there is communication and negotiation channels are sufficient to stand up to the pressures and stresses of a strike situation, he said.

This, especially, applies to Natal, which leads the country in labour development, he says.

Trouble

"One way of avoiding trouble in the future is to recognise that we cannot afford to differentiate on the grounds of race. A basic requirement of labour peace is that the work force is not considered by employers to be merely a set of units but rather as productive individuals irrespective of colour."

"If we don't live in the ivory tower atmosphere of South Africa, we would

BY CHRISTOPHER MORRIS have been a labour marketplace.

"But we aren't allowed a marketplace because our politicians have told us that four men out of five cannot yet be involved in wage negotiating procedures."

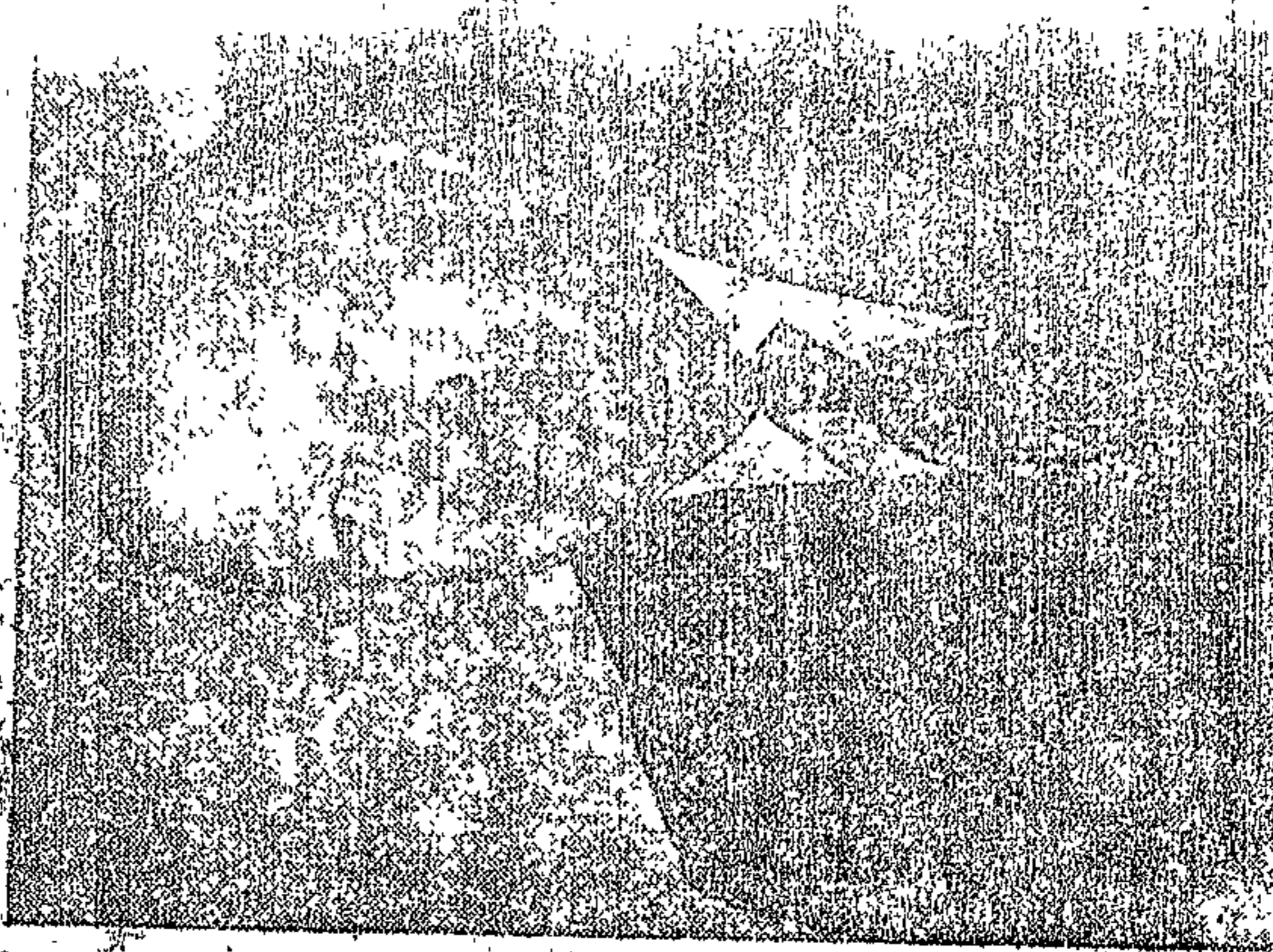
Future

Mr Thorne stressed that the establishment of a Black middle class, with a stake in the country's future, "because it had something to lose" would go a long way to bringing about future economic and political stability.

Furthermore, a fishness on the part of the employer to grant wage increases at a rate to keep up with the inroads of inflation would mean a disruption in the smooth flow of industry.

Workers had learnt in 1973 the power of unrest and had grasped some knowledge of negotiating procedures, he says.

NEXT YEAR COULD BE DANGER TIME, SAYS NATAL LABOUR EXPERT



Mr Len Thorne; Workers aren't a set units

Second seminar planned

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8/7/75
Cape Times Correspondent

LONDON. — The international seminar on investment in South Africa held here last week was so successful that a second one will be staged in West Germany in February.

Already two West German banks have offered firm sponsorship for the seminar and an offer to hold a similar meeting came from Monte Carlo.

Angry confusion among the Labour Party left-wing and the Anti-apartheid Movement was never channelled into active demonstrations and many delegates at the seminar knew nothing of the political protests.

Mr John Killip, organizer of the seminar, said: "This is the most successful conference I have organized. I can assure you there will be several announcements fairly soon on big investments in

South Africa and the Homelands."

Although the conference was held behind closed doors, he said most of the 170 delegates, from all over the world, expressed interest in going to South Africa to research investment possibilities.

"As the British and European adviser to the Bantu Investment Corporation I can assure you that I will make plans to fly industrialists to South Africa as soon as they give us firm assurances that they are prepared to invest."

Most South African Government critics were amazed at the size and scope of the conference and bewildered that it could be held in London with a Labour Government openly opposed to apartheid. The Labour Party Central Office threatened to lodge an of-

ficial complaint with the Department of Trade which sent an observer to the seminar. The threat was withdrawn after the Department of Trade said the observer had not taken an active part.

"I expect that depends on how you define 'active', but we have decided to drop the protest," a Central Office spokesman said. South African delegates were openly intrigued at the idea of seeing a demonstration against them.

"I have often wondered what these things are like," Dr Johannes Adendorff, managing director of the Bantu Investment Corporation, said when 40 anti-apartheid demonstrators picketed the entrance to the seminar. The South Africans photographed them after deliberately avoiding using the internal corridor from their suites to the conference

hall at the lush Intercontinental Hotel where the seminar was held.

Mr Killip said many of the delegates had ill-defined ideas of the true political situation in South Africa.

"The claptrap in the British press about South African politics has clouded the view of many of them, but at the seminar we were able to assure them that even in the long term their investments would be safe. They were particularly impressed with assurances from Chief Kaiser Matanzima that the Transkei would move peacefully into independence."

3.

Reserves
ARGUS 9/7/75
rise by
R5.9-m

(47)

Capital

Financial Staff

RESERVE Bank figures today show the devaluation of the rand on June 27 has reversed the outflow of money from the country.

Total foreign exchange reserves rose R5.9-million to R741.9-million last week, the first week since devaluation.

The reserves dropped steadily for months before that, ending in a R30-million fall in a week until the Government acted.

The country's gold holding of almost R521-million rose only R200 000 last week, indicating that the rise in the reserves came mostly from overseas money.

APARTHEID A CANCER, SAYS ECONOMIST

(47)

Start 11/7/74

Warning was sounded today by a Wits University professor that while South Africa enjoyed a glowing record of economic progress, the division of Whites and Blacks had created "a cancer in our society."

Professor Joubert Botha, head of the department of economics at Wits, told business leaders and racially mixed students from all the main universities: "We ought to allow economic forces to follow their natural course and relax some of the more glaring impediments to vertical mobility in the labour market."

"If we refuse to do so, economic forces will eventually compel us — perhaps with unpleasant consequences. Then we may indeed fear for the economic survival of this country."

NO NEED

Professor Botha was opening the 8th congress of the International Association of Commerce and Economic Students, a two-day conference called in Johannesburg with the theme "Southern Africa's economic survival."

On basic statistics, he conceded, there appeared no need to fear the future. Over the last 10 years, the real growth rate of South Africa had pushed ahead by 5.4 percent — compared with only 4 percent in the United States and 2.8 percent in Britain.

Between 1963 and 1973, the index of physical volume of production had almost doubled. The inflow of long-term capital in the private sector amounted to R2,000 million — boosted to R2,300 million if the Government and banking sector were also counted.

GOLD DESIRED

The future of gold, which netted South Africa nearly R10,000 million

Michael Chester,
Financial Editor

than it has been for a long time, which is another reason why we should be optimistic about our economic future."

More items that set the mood of optimism:

- R100-million being sunk into two new gold mines.
- Plans for a R1200-million programme to switch freight to containerisation.
- R1000-million going into coal pipelines to Richards Bay.
- R400-million steelworks at Saldanha Bay.
- Capital expansions of R400-million in the chemical industry.

RAMPANT

"There is a spirit of entrepreneurship rampant in this country which is unique in a world where private enterprise is becoming more and more subjected to state interference."

Even so, a huge question mark hung over Southern Africa — caused by labour relations.

Professor Botha said the accumulated economic effect of current policies on Black labour defied calculation.

"The amount of fumbling with Black labour issues is unbelievable — and we have not come to the end of it yet."

In 1948 the Fagan Commission found that:

- The idea of total segregation was "utterly impracticable."
- The permanent settlement of Blacks in the Urban areas should be acceptable as an unalterable fact.
- The movement from country to town had a background of economic necessity.
- In the urban areas there were not only Black migrant labourers, but also a settled, permanent Black population.

TRAUMATIC

Today, official policy

ility of the authorities to frame a policy which would provide our millions of Blacks with a future. At the moment their future is uncertain.

"The idea of total segregation, rejected by the 1932 Native Economic Commission, was nevertheless tried out — and has been proved to solve nothing."

RELUCTANT

"We now realise, but we are reluctant to admit, that the Fagan Commission was correct when it concluded that a permanent Black urban population was an unalterable fact."

"We are now putting our hopes on a new idea: completely independent Black states. But we know that these states cannot absorb the urban Black population. And economists know that they cannot be economically viable for a long time to come."

"We must remember that independence proper brings with it not only flags and anthems but also impediments such as independent monetary systems, customs tariffs, foreign aid of a possibly dubious kind, and a limitation of the home market."

Stop the wage war—Barclays

Sun Times (Bus Times) 13/7/75

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By COLIN CAMPBELL

THE Government could be forced to step in with compulsory controls to try to beat inflation unless employers and employees stop playing the wage/price game, the chief economist of Barclays National Bank, Dr Johan Cloete, warns.

Even if such self-imposed discipline over wage and price increases should mean a loss of profit, commerce and industry should be prepared to make the necessary sacrifice — for the long-term advantages far outweigh possible short-term losses, he adds.

In its latest "Business Brief", Barclays is generally optimistic about the economic prospects for South Africa, but deals at length with the dangers of a continuation of the pace of inflation.

The next strong business revival will be contingent on at least some reduction of inflation, but this doesn't look like happening in the near future.

As for any appreciable improvement in the "real" economic situation of consumers and of economic units, this will be dependent on the balance of payments being substantially in surplus and credit more freely available.

For this to happen, we shall have to wait for a general improvement in the industrialised economies overseas — and we

are unlikely to start benefiting from such an improvement until next year.

Because of the delicate state of the economic situation, Government measures concerning the change in the money supply and the level of Government expenditure will have to be clearly quantified, otherwise they are not likely to be effective.

"It also remains to be seen to what extent these monetary controls can be applied in the prevailing situation, when the economy is in a recession, and some pump-priming will obviously be required if the downturn in the economy is to be prevented from going too far."

Dr Cloete said current economic life is far removed from the text-books on economics, and prices seen in the market are seldom, if ever, market-clearing "equilibrium" prices in the classical sense.

If the present-day inflation is to be overcome, he said, the strategy being played by employers and employees — where each tries to defend his relative position at all costs — must be changed or rectified.

"If we don't stop playing this game, or at the very least reduce the intensity with which it is being played, we are not going to overcome inflation without inflicting considerable damage on the economy."

17/7/75

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Some of apartheid's costs can be measured, others cannot. But there is little doubt that they far outweigh the alleged benefits

Costs and benefits

Last week's anti-inflation manifesto committed government to the use of cost-benefit analyses by all departments. Right on. Here are some departments and policies that are crying out for the fine toothcomb treatment.

● For a start, group areas and residential segregation. Some Whites may believe that "White by night" cities and suburbs enable them to sleep soundly. Maybe that's a benefit — for them. But the cost is borne by Blacks who have to live miles out of town. And it looks as if the economy will start feeling the ripple effects: is the Newcastle bus boycott a foretaste of what is to come as rising costs hit transport companies and Blacks become more resentful of having to pay fares which are that much higher because of the long commuting distances resulting from residential segregation?

● Communication. Newcastle raises a second point. Why is it only *after* a boycott has begun that the bus company starts suggesting discussions with the passengers? So how about a cost-benefit analysis of government's whole approach to communication with city Blacks? Do Urban Bantu Councils play an effective role?

Why not also look at the obvious alternative: accord Blacks full citizenship rights so that they can elect spokesmen to city councils and deal with problems there?

Then, of course, there's the question of Black trade unions versus works and liaison committees. How about a full cost-benefit analysis of both systems?

Colour bar

Jobs. White workers may benefit from the industrial colour bar. And some coloured and Indian workers whose jobs are protected may also benefit. But the costs to the country — though unquantifiable — are enormous: an artificial skills shortage, leading to the high cost (and often rapid turnover) of White labour; failure to develop fully the capabilities of Black workers because, for example, they are barred from serving apprenticeships. So we get one alarming projection after another of what SA's skills shortfall will be in a mere five years' time: one estimate puts it at a staggering 10%.

What implications does this have for productivity? For the economy's ability to produce enough to meet domestic demand, let alone compete in world

markets?

● Education. The skills shortage is of course also related to the policy of Bantu Education. When the system was imposed in the early Fifties, the then Native Affairs Minister, Dr Hendrik Verwoerd, decreed that there was no place for Africans in so-called White SA above the level of certain forms of labour and that their education should stand with both feet in the Bantustans. Even today, there's little evidence of a real change of policy.

True enough, government is now encouraging industrialists to train Africans for "semi-skilled" jobs in the common area, but there's still a ceiling on how far up the jobs ladder they can go. The anti-inflation manifesto itself persisted with airy-fairy ideas about Border Areas, when it should have accepted the necessity to train Blacks for the fullest participation in industry in the metropolitan areas.

● Migratory labour. And what about a cost-benefit analysis of the migratory labour system? Employers have benefited in one sense: migrants' wages are low, and it is cheaper to build compounds for "single" men than homes for families. But what of the costs? One need only look at the violence in mine compounds over the past two years, resulting in about 140 deaths, production losses, and the exodus of thousands of workers.

It is known that the police are under orders to handle mine violence with kid-gloves because government — and the industry — fear another Sharpeville, which is about the last thing SA can afford.

● Defence vs housing. The defence vote has increased more than 20-fold since 1960. Yet only a few weeks ago Defence Minister Piet ("Wapen") Botha himself said that the military formed only 25% of SA's peace efforts: the other 75% was a battle for the hearts and minds of the people.

Coming from a minister hardly known for dove-ish views, that's quite an admission. And it's a theme which is becoming commonplace in military speeches these days. The Chief of Army Staff (Logistics), Major-General Gert Boshoff, also warned recently that the battle against terrorism is 20% military and 80% socio-economic.

But one wonders if the message from the military has got through to the Cabinet. In the current fiscal year the

increase in military spending (R256m) is much more than the total to be spent on Bantu Education (R151m).

An important part of the socio-economic battle is going to be the defusion of the housing time-bomb. In Johannesburg's African townships, for example, it has been estimated (*FM* March 7) that 14 000 families are in need of housing. For the cost of a single Mirage (R2m), government could build 1 666 standard-size houses in Soweto (R1 200 each, according to the West Rand Bantu Affairs Administration Board). So for less than the cost of nine Mirages, Johannesburg's African housing backlog could be eliminated.

Low productivity

So how about cost-benefit analyses of buying Mirages and building houses? And of providing schools for Africans? For the cost of one Mirage, government could build between 40 and 50 schools. Not only would this go a long way towards winning hearts and minds, it would lay the foundations for a better African labour force. A major cause of low productivity in SA is the failure over the years to provide proper education for the bulk of our workers. The drop-out rate for African school-children is still appallingly high: only a tenth of those starting school reach the secondary standards. A rand "saved" by penny-pinching the African education budget 10 years ago is probably R10 in lost productivity now.

The costs of schools and houses are easy to measure. The benefits — which include non-quantifiable factors like happiness, opportunity, family stability, less crime — are much more difficult. But it's our bet that if government made a really concerted attempt to tackle the Black housing and education backlogs *now*, it would be able to call a halt to the massive increases in military spending.

● Prisons and pass laws. It's also worth taking a look at prisons. The 1975-76 Budget vote on Revenue Account is R66m, with an expected daily prison population of 99 000, costing taxpayers 183c per prisoner per day. On Loan Account R12m has been voted for the extension and improvement of existing, and the construction of new prisons, with a staggering amount of R149m "to be provided later".

Expenditure improving prisons is welcome. But why so many people in jail in

the first place? About a third of the people in prison every day this year are going to be pass offenders. And Natal University's Professor Barend van Niekerk calculates that, statistically speaking, *one in every four* adult Africans is arrested *each year* for technical infringements of laws applicable only to Africans. Again, some of the costs are quantifiable: police and warders' wages; building more jails; the salaries of a vast army of Bantu Administration *apparatchiks* shunting people around from pillar to post. But what of the other costs? Black resentment of discriminatory laws, family disruption, inconvenience to employers and lost production when workers are whisked off in police vans.

Nor should it be forgotten that Sharpeville, the blackest day in SA's history, began with a peaceful protest against the pass laws. The costs: tough exchange controls; universal opprobrium; escalating defence spending.

● Resettlement. A cost-benefit analysis is long overdue. The costs of physically moving people from so-called Black spots are quantifiable. But what of the enormous human costs, and the seeds of resentment which this policy is sowing? Resettlement is making the Bantustans even more overcrowded. What implications does this have for agricultural viability?

● Decentralisation. The costs of creating jobs in border areas and Bantustans are very high, especially where social and economic infrastructure (telephones, roads, railways, etc) is minimal. And what are the costs to industry of the Physical Planning Act? These should be carefully weighed against the benefits.

In some of their more fantastical flights of fancy, uncompromising ideologues still talk of Black workers being sent to live in dormitory villages (such as Itsoeng) in the Bantustans and then commuting to work by high-speed trans-

port. Can SA really afford such nonsense?

In short, it is apartheid itself which needs a cost-benefit analysis. Blacks in SA have seen Frelimo liberate Mozambique; they see the prospect of white rule coming to Rhodesia; and they see the prospect of a settlement in South-West Africa.

None of these events will leave South Africa untouched. Nor are Transkei independence, the desegregation of the Malan Theatre, the opening of hotels to favoured Blacks, or even Botha's promises to the UN going to leave them off — or, as P W Botha says, touching their hearts and minds.

The battle is really a socio-economic — and therefore a political — one. All but the most obtuse White Africans must know in their hearts that this battle can only be won by the abandonment of apartheid in all its forms.

SA faces huge investment bill

RD 17/7/75

(47)
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Industrial Editor
STRESSING the importance of a rapid expansion of the South African economy, Mr R. A. Setter, managing director of the Rand Bank, said yesterday that about R150 000-million would have to be invested over the next 10 years to ensure this development took place at a satisfactory rate.

He told businessmen at a function in Durban that if the events of the past 10 years were used as a guide, South Africa would have to find at least R15 000-million of this amount from overseas capital markets.

Reviewing the past decade, he noted that total investment amounted to R35 800-million, of which 90 per cent was obtained from domestic sources.

Mr Setter said the prime reason for dynamic economic and industrial growth was to provide job opportunities for the rapidly expanding Black labour force.

Every year 230 000 Black workers enter the labour market, of whom 140 000 are males.

This indicated what pressures existed and would exist to accommodate productively new workers coming into the labour market.

Political peace was inevitably dependent on economic peace and full employment.

DIMINISHING

It should be realised that South Africa's most important asset — gold — was a diminishing asset, which meant that in the long term the industrial sector would

have to replace it as the major foreign exchange earner.

But he warned that South Africa dare not be satisfied with mere replacement of foreign exchange earnings and would instead have to increase these earnings considerably to finance expensive capital equipment, much of which would have to be imported.

He drew attention to South Africa's mineral resources as a potential foreign exchange earner, maintaining that it was not maximising this earning potential.

This was partly because this industry was still underdeveloped, but mainly because these minerals were being exported in a raw state instead of being beneficiated.

Mr Setter said the rapid development of the homelands was also of importance to the future well-being of South Africa.

Unfortunately, the tempo of development in these areas had been slow.

AGENCY

Mr Setter blamed the "so-called agency situation" — in terms of which permanence of presence was not guaranteed — and

the absence of developed infrastructural services as the main factors holding up homeland or border area development.

"I would like to see the stimulation of homeland development through greater concessions, even if this means placing the homeland industrialist in a stronger competitive position than his White area counterpart.

"Some consideration must also be given to the establishment, on a permanent basis, of White industries in Black areas with partnership being the cornerstone."

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ZULU LIMIT ON BOTTLE STORES

African Affairs Correspondent

NONGOMA — Chief Gatsha Buthelez announced yesterday that Zulu businessmen would in future be allowed a maximum of only one bottle store licence each.

The Kwazulu Cabinet had also decided that if anyone owns more than 25 percent of the shares in a company running a bottle store, he should not be granted another bottle store licence in his name.

Chief Buthelez explained that the Cabinet was trying to prevent monopolies and was hoping to distribute business opportunities as widely as possible among Zulus.

The Chief has invited three members of the Associated Chambers of Commerce of South Africa to sit on his liaison committee.

Rapid development for industrial peace

Financial Reporter

Jan Feb

20/1/75

47
14/1
21/1/70
17/1/1975

STANDARD BANK'S managing director Roy Setter laid it on the line for Durban businessmen this week when he said rapid economic development was a priority in the search for industrial — and political — peace.

Prime reason for the necessity of industrial development was the absorption of newcomers on to the Black labour market every year — 230 000 workers annually, and this figure is likely to grow.

This is aggravated by the growing numbers of Black workers who are forsaking the mines and the fields for the factories.

The second reason is that economic development means better utilisation of labour resources, which is essential, especially when it is borne in mind the relatively small number of Whites who are economically active and who have to provide, almost without exception, all management, personnel and business leadership.

The improved utilisation of Black labour in skilled and better paid jobs has the added advantage of creating a Black middle class which is a "prerequisite for the emergence of the Black entrepreneur — someone already needed and who will assume a greater importance in the future."

Reason number three is the effect it will have on balance of payments in a

time when gold is a diminishing asset and an increasing share of our agricultural output is being consumed locally. Industry will have to make up the potential losses in foreign exchange.

And foreign exchange will be needed for the economy if it is to grow.

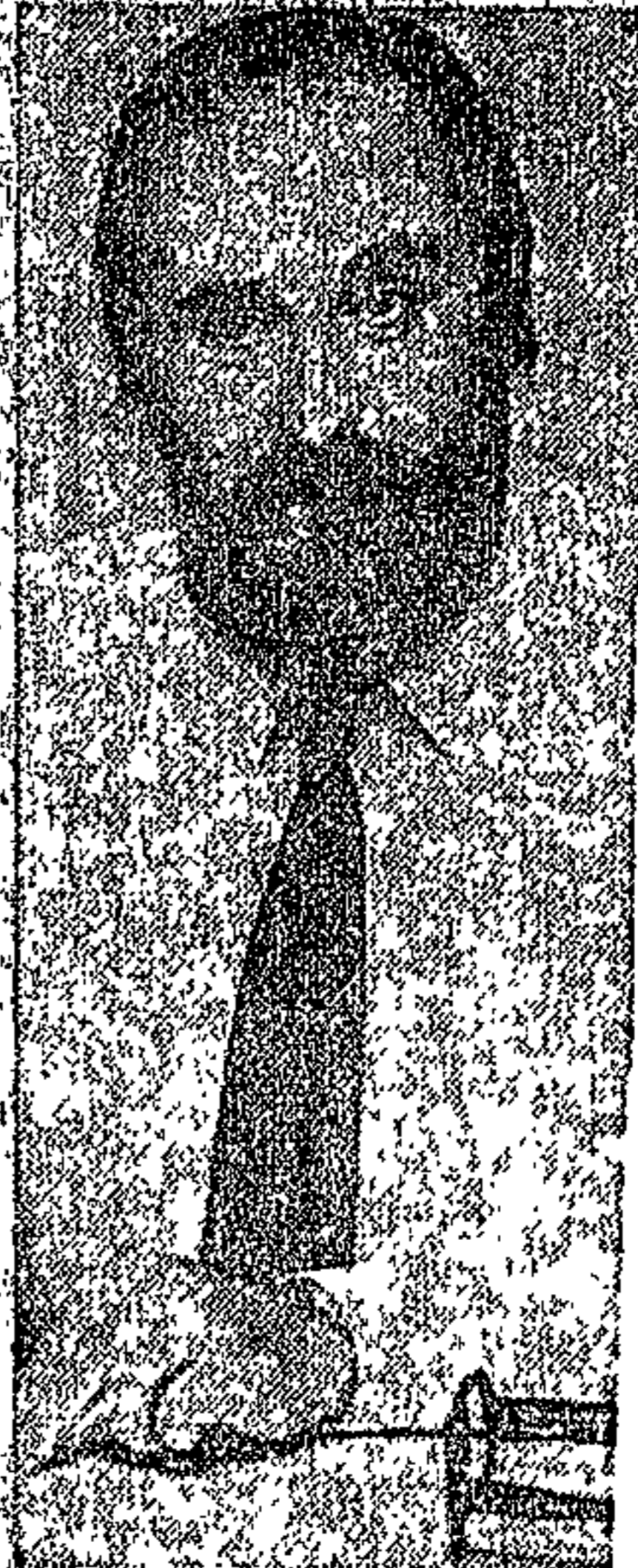
"If the past decade is used as a guide, it would seem we are going to have to find at least R15 billion in the next 10 years in the overseas capital markets.

"I have been asked whether I consider this figure to be realistic. My answer is yes, but subject to the presence of dynamic economic and industrial growth.

"We will also need political stability in Southern Africa," he added.

On the question of gold, Mr Setter was optimistic. "I am confident of the role of gold in the future and feel with expected upturns in world economies, its role will become more important.

"Western governments are now beginning to reflate their economies without having solved the problem of inflation and I anticipate hitherto unknown levels of inflation during the next economic upturn which should start early next year. This will have an influence on the price of gold and demand will remain high."



Roy Setter... utilise labour

Would you invest in South Africa? Whether your conscience likes it or not, plenty of people are doing so: after years of persistent deficit, since 1965 every year has seen a net inflow of long-term private capital which, after a hiccup in 1973, reached a peak last year of R562-m.

Which is just as well: despite gold sales which, at around R2,317-m a year, are running three times as high as at the start of the 1970s, South Africa almost as persistently runs a current deficit.

It was nearly R794-m last year, and now, despite an economic slowdown since last autumn, is running rather faster than that at an annual rate of R1,125-m, about 5 percent of gdp.

In contrast, official reserves amount to some R198-m of SDRs and currencies, plus 18-m ounces of gold which the central bank dutifully values at an official price of about R496-m.

Short-term capital swings have recently moved in South Africa's favour thanks to a change in exchange rate policy: instead of a managed float of the rand in terms of a trade-weighted basket of currencies, it has recently been pegged to the dollar at a rate that meant an effective 5 percent devaluation.

In short, South Africa is all right so long as foreigners keep putting money in.

Local financiers and the Finance Minister, Mr Owen Horwood, have been abroad recently, not least in London, to persuade them that they should, while some large concerns, among them the state-run railways and harbours, have been to the Euromarkets for medium-term money.

In the short term, capital needs remain high. Gross fixed capital formation was rising throughout last year, both in money terms and as a percentage (about 27 percent) of gdp, and, despite the general slowdown, has so far remained at high levels in 1975. And future needs are huge. They include:

- Nearly R1,986-m for telecommunications.
- Nearly R2,516-m for two coal-fired power sta-

Will South Africa get the overseas billions it needs for economic expansion programmes? The Economist (London) examines both the programmes and the prospects.

Outside cash crucial to SA economy

STAR
28/7/75



FINANCE MINISTER HORWOOD approaches overseas investors.

tion of the R562-m Sishen-Saldanha iron ore scheme in the south-west, plus a possible steel mill.

• Something over R662-m in chemical plants, notably a R265-m polyethylene plant and a R198-m plant to produce PVC from coal.

Whether South Africa gets this, and more, that it needs over the next five to 10 years will depend in part on foreign investors' judgments about the political risks.

The outsiders' assessment will be based partly on the success — and he has not done badly so far — of Mr Vorster's attempts to get on better with Black Africa (and keep guerrillas out of White-ruled Africa), but more on the way he manages his own Black subjects.

And here the splendid schemes outlined above may not all be as helpful as they might seem.

There is no proof that raising Black South Africans' living standards will lessen their political consciousness, but at least they demonstrated with strikes in 1973-74 that lowering those standards increased it.

And uranium enrichment or chemical plants are not exactly the best way of providing a living for largely unskilled Blacks, and so multiplying the Black middle class with a stake in stability.

Black people would benefit directly far more from investment in unglamorous things like Black agriculture, education and housing.

Foreign investors are hardly going to rush into financing such things, even if ways were found of inviting them to. Yet their funds, in the long term, might be safer if they did.

tions, and a further R1,158-m for a nuclear one. These estimates assume imports of additional power from the Cabora Bassa plant in Mozambique.

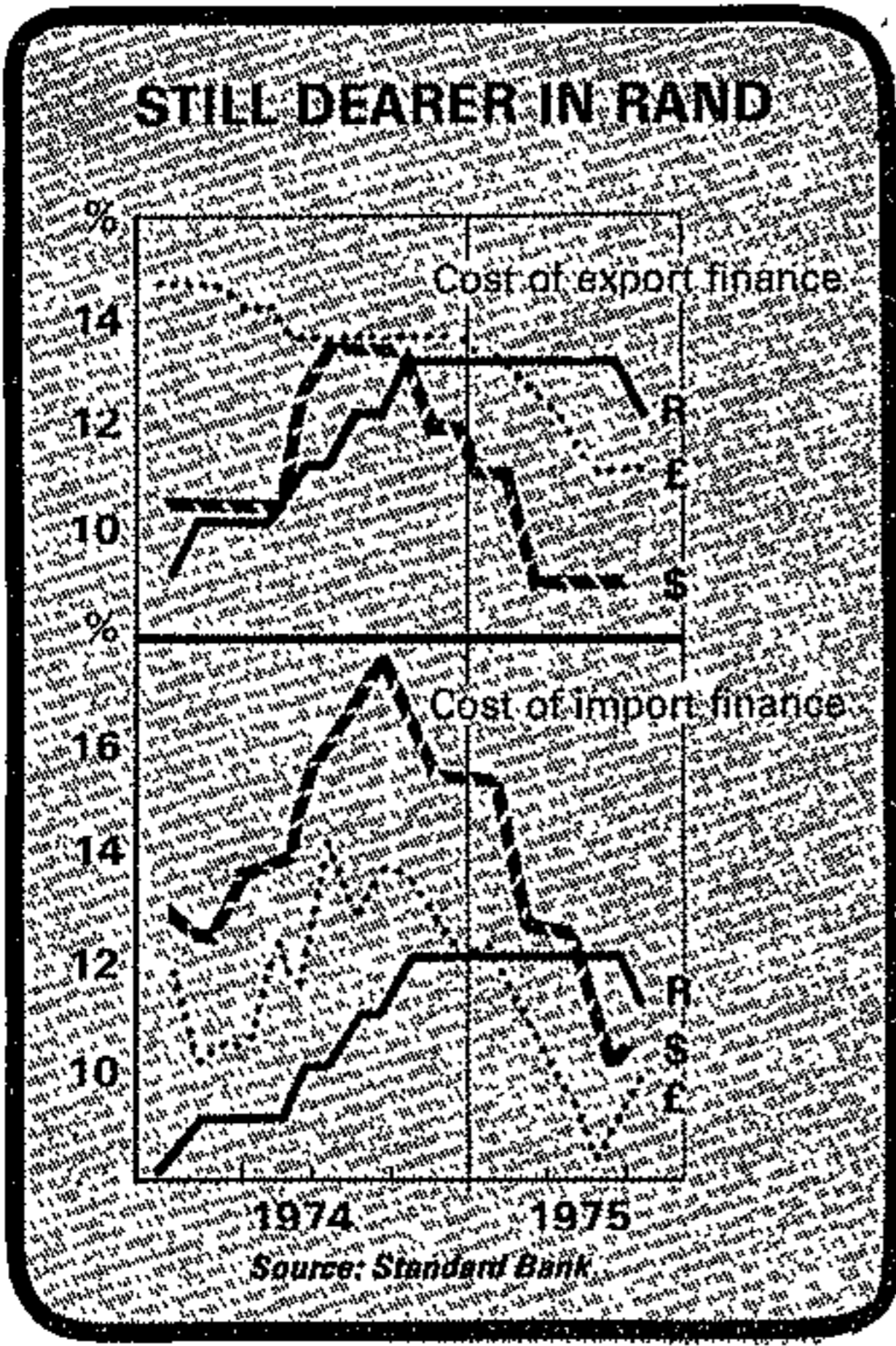
• Possibly R860-m for a uranium-enrichment plant, still awaiting a government go-ahead.

• A second oil-from-coal plant, at R927-m, to ensure against the (slim?) risk that other suppliers — Iran is the largest one — will join the Arabs' official boycott.

• Maybe R927-m in new coal ventures, near R198-m for two new gold mines; as much again for a titanium and zirconium project at Richards Bay on the east coast; comple-

47

8/8/75



The foreign reserves are under pressure because interest rate differentials are narrowing, and because some people still think the rand will be devalued. What should be done?

A ticklish problem

① 47
2-78A
Capital

Who would have thought it possible? The economic downswing is now entering its second year, imports are slipping, the foreign reserves are still worth more than R2 000m — yet what is Church Square's chief concern? It is the balance of payments.

The Bank claims it has no worries about the underlying trends of imports, exports, the gold price or long-term borrowing, or about the size of the current deficit (which for calendar 1975 looks like being larger than for 1974).

Rather, it is concerned about the drain on the reserves, caused, it believes, by persistent speculation against the rand.

In a bid to stem this speculation, Horwood last week crossed his heart that he would not devalue, and early this week the banks were summoned to Church Square where the Governor, Dr Bob de Jongh, repeated the pledge.

A further Ministerial announcement, with measures designed to make the pledge stick, is expected. What form will the measures take?

In the first place, there are likely to be some exchange control measures. The banks will no doubt be reminded that it is generally against the rules for importers to transfer funds abroad prior to shipment, or for exporters to hang on to foreign exchange for longer than 30 days. In addition, steps will probably be taken to make it easier for traders to take out forward cover against exchange rate risks.

One suggestion is that the "seven-day" rule should be abandoned; it precludes traders from taking out forward cover later than a week after the underlying transaction.

Another is that the Reserve Bank

should be prepared to offer its 1% forward cover for longer periods than six months.

Next, there are likely to be measures to encourage more foreign borrowing, and here one suggestion is that Church Square should stop turning down applications by local businesses to borrow abroad, just because the money is to be used for "unproductive" purposes.

Some people think the Bank should go even further and offer forward cover facilities to borrowers, as it does to importers and exporters.

It is also possible that De Jongh will permit the banks themselves to borrow abroad, although with so much liquidity around they would need quite a bit of encouragement to do so. One possibility would be to reduce their liquid asset requirements against foreign liabilities (and perhaps even go further and raise them simultaneously against local liabilities).

Also on the exchange control front, it has been suggested that the rules governing blocked rand ought to be relaxed to encourage the inflow of long-term foreign funds.

Horwood has rightly emphasised that there will be no tightening of import control, so the next important policy area is interest rates.

The graph shows that, even after including the cost of forward cover, it is marginally still cheaper to finance imports and exports overseas than to use local overdraft facilities. However, acceptance credits (and the grey market) are a good deal cheaper than overdrafts and if overseas rates continue to harden traders could turn more and more to local facilities.

Bear in mind, too, that the banks are flush with excess cash because government is spending heavily and commerce and industry, faced with a deepening recession, are busy de-stocking.

The banks would therefore be only too willing to extend further credit to importers and exporters.

Does this mean Church Square should now attempt to prod local interest rates upwards? It could do so in several ways.

The acceptance rate could be edged upwards by ruling that the banks should hold a smaller proportion of their liquid assets in acceptance paper (or alternatively, if it were practicable, a ceiling could be placed on their use for foreign trade financing).

On a more general level the Reserve Bank could embark on open market operations — ie start selling securities on the cheap — to harden rates in the money market. And if that were not enough it could start raising the banks' supplementary deposit requirements, which would immediately lead to a firming of rates all round.

In short, the Reserve Bank has a large armoury of weapons should it wish to use them. The more drastic ones, like raising supplementary deposits, or liquid asset ratios against local liabilities, would strike a severe blow against business (and stock exchange) confidence, which would be damaging to the whole economy. They should therefore be used only in the event of a serious balance of payments crisis — which the present one is not.

It is true that the gold price could take a knock if the Reserve Bank were forced to unload a large part of its gold stock to buy foreign exchange. But both the Bank and the rest of the public sector have extensive overseas borrowing facilities (as well as the option of postponing certain foreign loan repayments) and if necessary these should be used to the full to tide the reserves over the current crisis.

For after all, if the authorities are so sure that the basic balance of payments is sound, and that there will be no devaluation, they should not be afraid to back their view with hard cash.

Cape Times 11/8/75

Bank rate goes up

PRETORIA. — The increase in the ratio of minimum liquid assets to short-term liability to the public in respect of commercial banks and other financial institutions as from July 31 was designed to reduce excess liquidity in both the bank and the private sector, and to reinforce the firming tendency recently shown by short-term interest rates, the Governor to the SA Reserve Bank, Dr T.W. de Jongh, said in a statement here yesterday.

Dr De Jongh said: "In addition to the measures announced today by the Minister of Finance to counteract speculation against the rand as reflected mainly in the present unfavourable leads and lags situation in South Africa's balance of payments, and to encourage the inflow of capital in general, the Reserve Bank has decided to make the following adjustments to its monetary policy:

"(1) The bank rate is increased from 8 to 8½ per cent per annum with immediate effect.

"(2) From the date of certification of its monthly statement (BA form No. 7) for the month ended July 31, 1975, each commercial bank shall be required to maintain liquid assets (including reserve balances) amounting to not less than the aggregate of:

- (a) 40 percent of its short-term liabilities to the public,
- (b) 2 percent of its medium-term liabilities to the public,
- (c) 5 percent of its long-term liabilities to the public, and
- (d) 10 percent of its liabilities under acceptances.

"Since these ratios were

formerly 45, 20, five and 10 percent, respectively, this implies an increase in the commercial bank's minimum liquid asset requirements of four percent of their short-term liabilities to the public.

"(3) As from the date of certification of its monthly statement for the month ended July 31, 1975, each banking institution other than a commercial bank or a discount house shall be required to maintain liquid assets (including reserve balances) amounting to not less than the aggregate of:

- (a) 27 percent of its short-term liabilities to the public,
- (b) 2 percent of its

medium-term liabilities to the public;

(c) 5 percent of its long-term liabilities to the public, and

(d) 10 percent of its liabilities under acceptances.

"For these banking institutions this implies an increase in their minimum liquid asset requirements of 2 percent of their short-term liabilities to the public.

"The required notices to give effect to these changes will in due course appear in the Government Gazette.

"(4) The above measures will be accompanied by appropriate adjustments in the Reserve Bank's transactions in Government securities and interest rate policy in general," he said. — Sapa

Govt relaxes exchange curbs

Cape Times 11/8/75

PRETORIA. — Announcing the Government's decision to relax exchange control restrictions on incoming funds, Senator O. P. F. Horwood, Minister of Finance, said:

Last week, in replying to questions put to me on South Africa's new exchange rate policy, I reaffirmed that the practice of making small and frequent adjustments to the rand-US dollar rate had been abandoned and ruled out any possibility of a devaluation of the rand in terms of the dollar in the foreseeable future. I also stated that further steps would be taken to correct the unfavourable "leads and lags" situation which had been arisen in South Africa's balance of payments and to encourage the inflow of capital in general. I now announce that these steps will be the following:

● (1) Monetary policy.

Appropriate adjustments to monetary policy will be announced by the Reserve Bank today.

● (2) Exchange control.

(a) Sympathetic consideration will be given to applications by local entrepreneurs to borrow funds abroad for periods of not less than six months, provided that such funds are not destined for property development, speculation or consumer credit. This represents a relaxation of the existing control over incoming funds, as foreign loans were previously only approved for "manufacturing and other productive" purposes. The relaxation will extend to foreign borrowings by South African exporters in anticipation of receivable payments.

(b) Sympathetic consideration will also be given to applications by authorized dealers in foreign exchange to raise funds abroad in their own name for the financing of South African foreign trade and for other approved purposes.

BLOCKED

(c) It has been decided in principle that blocked rand will be made directly transferable between non-residents. However, in view of the need to hold further discussions in this regard with authorized dealers in foreign exchange and other interested parties, the details of this new arrangement and the date from which it will take effect will be announced at a later stage.

(d) Control in terms of exchange control regulation 3(1)(F) over local borrowing by the "foreign-controlled" South African firms will be extended by the inclusion under local borrowing of:

- (i) Certain defined leasing arrangements,
- (ii) Factoring (with recourse), and
- (iii) Certain defined "lease-backs".

Particulars as to how this measure will be applied in practice will be furnished by the exchange control authorities to authorized dealers.

TRANSITION

In respect of existing arrangements under these headings, firms affected by this regulation will be afforded a reasonable

and export receipts. Authorized dealers are specifically required to ensure, firstly, that importers do not transfer funds abroad in payment of imports prior to the date of shipment or despatch of the relative goods to South Africa, and secondly, that export proceeds are remitted to South Africa within 30 days after the receipt of payment. The authorities view these malpractices in a very serious light and will not hesitate to deal severely with those who contravene the regulations.

COVER

● (3) Forward exchange cover

(a) The normal maximum period for which the Reserve Bank will grant forward exchange cover in respect of imports will be extended from six to 12 months.

(b) The change in respect of such cover will remain 1 percent per year.

(c) The Reserve Bank will also consider granting forward exchange cover on application for periods longer than 12 months if required for the importation of capital goods with long delivery periods and/or under extended credit arrangements.

DEALERS

(d) Applications for forward exchange cover by authorized dealers in respect of foreign loans raised in their own names and approved by exchange control will be favourably considered.

(e) The present requirement that forward exchange cover must be arranged within seven days after the foreign transaction is concluded, is abolished. Importers and exporters will in future have the option of covering forward at any time within the relevant liability period. — Sapa

Bank rate up, no further devaluation

Cape Times 11/8/75

Cape Times Correspondent

JOHANNESBURG. — The bank rate has been increased from 8 percent to 8.5 percent in a battery of measures announced yesterday in a bid to end speculation about a

further devaluation of the rand.

The Minister of Finance, Senator Owen Horwood, has staked his political career on a firm "no devaluation" pledge.

Tens of millions of rands have poured out of the country over the past two weeks as devaluation speculation grew.

The bank rate increase was announced by Dr T W de Jongh, the Governor of the Reserve Bank, who backed it by increasing the compulsory ratio from 45 percent to 49 percent of liquid assets to short-term public liabilities that commercial banks must hold.

This will help push up short-term interest rates including overdrafts — home loan rates should not be affected — with a risk of jolting business confidence at a time when the economy is already moving in low gear.

But there are sweeteners. Senator Horwood is making it easier for banks and businesses to borrow overseas and is speeding up plans to relax the "blocked rand" rules — rules which deter some foreign investment in South Africa.

(See page 6)

RDM 11/8/75

Tougher bank controls

A RELAXATION of the exchange control restrictions on incoming funds so as to improve the facilities for forward cover, was announced in a statement here today by the Minister of Finance, Sen O. B. F. Horwood.

At the same time the Governor of the Reserve Bank, Dr T. W. de Jongh, announced an increase in the bank rate from 8 to 8½ per cent with immediate effect.

Other adjustments in monetary policy announced by the Reserve Bank include an increase in the minimum liquid asset requirements of commercial banks of 4 per cent of their short term liabilities in the public and 2 per cent in the case of banking institutions other than commercial banks or a discount house.

These adjustments in the monetary policy were in addition to the measures announced by the Minister of Finance, Sen Horwood, to counteract speculation against the rand as reflected mainly in the present unfavourable leads and lags situation in South Africa's balance of payments position, and to encourage the inflow of capital in general, the Reserve Bank said.

The new measures would be accompanied by appropriate adjustments in the Reserve Bank's transactions in Government securities and interest rate policy in general.

They formed part of a conservative credit policy which at present had two principal objectives, the Reserve Bank said.

The first was to strengthen the balance of payments in general and, in particular, to correct the

unfavourable leads and lags situation.

The second main objective was to reduce the rate of inflation by preventing domestic credit and the quantity of money and near money from rising at an excessive rate.

In taking these various steps, the Reserve Bank said the monetary authorities remained fully conscious of the need to maintain a satisfactory rate of real economic growth in South Africa.

The relaxation of exchange control restrictions announced by the Minister of Finance and the new monetary measures taken together could assist in providing adequate funds to South African enterprises thus sustaining economic expansion, while at the same time helping to redress the balance between domestic and foreign financing of the Republic's expanding production and trade, the Reserve Bank said.

In the final analysis, the curbing of inflation and the maintenance of a sound balance of payments position remained essential prerequisites for a sustained high rate of real economic growth.

Senator Horwood said: "Last week I reaffirmed that the practice of making small and frequent adjustments to the rand-US dollar rate had been abandoned and ruled out any possibility of a devaluation of the rand in terms of the dollar in the foreseeable future."

I also stated that further steps would be taken to correct the unfavourable "leads and lags" situation which had arisen in South Africa's balance of payments and to encourage the inflow of capital in general. I now announce that these steps will be the following:

- Monetary policy. Appropriate adjustments to monetary policy will be announced by the Reserve Bank.
- Exchange control. Sympathetic consideration will be given to applications by local entrepreneurs to borrow funds abroad for periods of not less than six months, provided such funds are not destined for property development, speculation and consumer credit.

This represents a relaxation of the existing control over incoming funds, as foreign loans were previously only approved for manufacturing and other

authorities to authorised dealers

In respect of, existing arrangements under these headings, firms affected by this regulation will be afforded a reasonable transition period within which to move to a position of full compliance with the new requirements.

- In addition to the new exchange control measure, a circular has been sent to authorised dealers instructing them to ensure full compliance with the existing regulations in regard to import payments and export receipts.

Authorised dealers are specifically required to ensure, firstly, that importers do not transfer funds abroad in payment of import prior to the date of shipment of the relative goods to South Africa, and secondly, that export proceeds are remitted to South Africa within 30 days after the receipt of payment

The authorities view these malpractices in a very serious light and will not hesitate to deal severely with those who contravene the regulations.

The normal maximum period for which the Reserve Bank will grant forward exchange cover in respect of imports will be extended from six to 12 months.

The Reserve Bank will also consider granting forward exchange cover on application for periods longer than 12 months if required for the importation of capital goods with long delivery periods and or under extended credit arrangements.

Application for forward exchange cover by authorised dealers in respect of foreign loans raised in their own names and approved by exchange control will be favourably considered.

Capital
productive purposes. The relaxation will extend to foreign borrowing by South African exporters in anticipation of receivable goods.
Sympathetic consideration will also be given to applications by authorised dealers in foreign exchange to raise funds abroad in their own name for the financing of SA foreign trade for other approved purposes.
• It has been decided in principle that blocked rand will be made directly transferable between non-residents. However, in view of the need to hold further discussions in this regard with authorised dealers in foreign exchange and other interested parties the details of this new arrangement and the date from which it will take effect will be announced at a later stage.
• Control in terms of exchange control regulation 3(1)(F) over local borrowing by foreign controlled South African firms will be extended by the inclusion of certain defined leasing arrangements, factoring (with recourse) and certain defined "lease backs".
Particulars as to how this measure will be applied in practice will be furnished by the exchange control.

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Overdraft rates up

RDM 12/8/77
Financial Editor

MINIMUM overdraft rates have been increased from 11 per cent to 11.5 per cent by all the major banks.

This follows the increase in Bank rate from 8 per cent to 8.5 per cent announced yesterday. But Mr David Alston, director of the Association of Building Societies, said yesterday

that home loan mortgage rates would remain at 10.5 per cent.

The overdraft increase will have a negligible effect on the cost of living. Had there been a further devaluation of the rand — which Senator Horwood, the Minister of Finance, has firmly ruled out — it would have pushed up the prices of overseas goods.

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That the Prime Minister's Economic Advisory Council has gone multiracial? (2472) 153 F.M. 15/1 B/75

The Secretary of the EAC confirms that H P Abdoll of Elsie'srivier ("a member of the Coloured group") and S E Bham of Warmbaths ("a member of the Asian group") were appointed to the Council in June.

Abdoll (33) comes from the deep Karoo and obtained a diploma in commerce from the University of the Western Cape. He joined the Spes Bona Savings Bank in 1964 and was branch manager at the Athlone branch until his appointment as bonds manager at Spes Bona head office. He is married with two children.

Bham (45) is one of the big general dealers in Warmbaths. He has a B Com from an Indian university and has been trading in SA since 1952. He is married with seven children.

The appointments follow a promise by the PM that non-Whites would be brought into the Council.

JSE CHIEF SAYS: WE'RE POISED FOR GROWTH IF...

By Esmond Frank

SUN TRIBUNE (FIN) 17/8/75

THE ECONOMY is poised for growth, says Mr Eric McKie, president of the Johannesburg Stock Exchange.

But the economic future depends on the price of gold and an inflow of foreign investment capital, which, in turn, depends on relaxation of exchange control and on political stability.

He said this week that the outcome of the Rhodesian talks, due to be held before the end of the month, could have a vital bearing on the prosperity of Southern Africa.

An amicable solution to the Rhodesian problem would do much to re-establish confidence in the region as an area for foreign investment.

But an over-night transition to majority rule in Rhodesia would repel rather than attract foreign capital because of the economic chaos experienced in most other independent Black states.

A gradual transition over 10 to 15 years would probably be in the best interests of Rhodesia and Southern Africa.

Mr McKie welcomed the statement by Senator Owen Horwood, Minister of Finance, that it had been decided in principle that blocked rands would be made directly transferable between non-residents.

Blocked rands are funds realised when foreign-owned assets, such as shares, are sold in South Africa. In terms of the regulations — designed to prevent an outflow of capital — blocked rands can be transferred only by buying or selling South African gilt and gilt-edged securities.

Mr McKie said foreign investment must be encouraged, either directly or through the stock exchange.

"There is no doubt in my mind that problems related to the blocked rand and its non-transferability, and other related problems, have resulted in a vast amount of foreign investment by-passing the Johannesburg Stock Exchange."

The exchange had asked

the Reserve Bank to allow blocked rands to be used for subscription for any rights issues.

The Government had not allowed foreign investors to use blocked rands to take up rights of the recent Free State Saaiplaas and Deelkraal issues.

"The continuation of such a policy, in my opinion, can only damage the investment image of South Africa in the eyes of foreign investors."

"Increased stock exchange activity would psychologically enhance the country's image as an area for investment."

Important

The stabilisation of the gold price at a minimum 170 dollars for 1975 was of the greatest importance to balance of payments.

"As there appears to be



And the big 'ifs' are gold and foreign cash

waning of interest by overseas investors.

Contributory factors included:

- A levelling off of the uninterrupted rise in the price of bullion that sustained the higher volumes of 1974.

- The growing fear the faction fights, strikes and the repatriation of mineworkers to their homelands would disrupt gold production.

- The accelerating costs of production when measured against the behaviour of the volatile bullion price.

- Political events in Mozambique and Angola.

United Kingdom investor interest in South African equities was dampened by the imposition of a 25 percent surrender of the investment currency premium and the widening of this premium to new high levels.

"Although many of

Borrow abroad: Horwood gives signal for industrial spending spree



Senator Horwood: He's made it easier to borrow on foreign money markets

SOUTH AFRICA is poised to enter the 1980s on the back of a R10 000 million capital spending spree that will entrench the country as the industrial powerhouse of Africa.

And to underline the urgency of this massive capital generation, Minister of Finance Horwood this week encouraged big business to borrow abroad.

For it is obvious the vast amounts required to finance the ambitious projects either under way or on the drawing board cannot be raised locally.

However, a prerequisite for large cash inflows from overseas is investor-confidence in the future of South Africa.

For this reason, detente moves are as important economically as they are politically.

The fruits of an improving image on foreign capital markets are already being reaped. Escom, which will need R915 million before the end of 1977, found no difficulty in raising R27 million from German investors last month.

At home, Senator Horwood made it easier for the private sector to borrow on foreign markets by relaxing previous restrictions on borrowing abroad and also improving facilities for forward cover.

Such moves will help finance the huge developments planned here. They include:

SASOL 2. This is expected to come on stream in 1980-1981 at a cost estimated at R1 050 million.

ISCOR: Long-term plans for expansion and modernisation of its three steelworks and seven mining centres have been estimated at R3 240 million. This does not include capital requirements for the ore export scheme or the proposed semis works at Saldanha.

IMPROVEMENTS to the Durban refinery: Shell and BP are planning to spend R50 million in the next three years.

ETHYLENE cracker at Durban: This will cost Sappref R60 million between 1976 and 1979.

POLYPROPYLENE plant at Durban: Shell is to spend R30 million on this by 1980.

PHOSPHORIC acid plant at Richards Bay: Triomf is to build this for R70 million.

COAL-BASED chemical plant at Sasolburg: AE & CI has received Government go-ahead to spend R220 million on this plant which is planned to come into operation in 1977.

TUGELA-VAAL water scheme: Estimated cost R178 million.

The list goes on: Sentrachem's polyvinyl chloride plant (R75 million), Saffripol's coal-based acetylene plant (R100 million), Foskor's Phalaborwa plant (R40 million), oil exploration (R20 million).

Then there are the development programmes planned by the railways and harbours; tentative capital expenditure needs have been put at R870 million for this year alone, including the new oil pipeline from Durban to Johannesburg (R82 million).

Containerisation will involve huge sums. It entails buying 10 large and four small ships and upwards of 500 000 containers plus handling equipment. Saldanha Bay's dock complex is estimated at another R100 million.

How to keep South Africa capitalist

● In business jargon, the theme of two important seminars — the second being held in Cape Town this week — is "Change-orientation and planning". It means simply, "How to keep South Africa capitalist".

COMMUNIST countries have clear-cut, long-term objectives and effective planning and coordinating machinery. The West — the Free World — does not. Result: tremendous progress of communism at the expense of the West. South Africa, too, needs clear-cut objectives for its free enterprise system. Otherwise, warned speak-

ers at a recent business seminar, the country will "continue to drift into economic socialism". A second such seminar on "Change-orientation and planning" is being held at this week in Cape Town.

"Creeping socialism" is the title of one talk being given on how to protect the free enterprise system. Another address will be on "The need for Black and White partnership for economic survival".

The first seminar, held in Durban in May, and this week's Cape Town meeting were both arranged by the Graduate School of Busi-

ness of Stellenbosch University, and the speakers have been top men, both Black and White, in the public and private sectors. At the end of this week's seminar specific suggestions will be put forward regarding the functioning of a "directed capitalistic economy" in South Africa and what the roles of State and free enterprise should be.

The Durban seminar concluded, among other things, that Blacks must also do their bit for free enterprise, by showing both economic initiative and political maturity. A list of their conclusions, drawn up by the Stellenbosch Business School, could be pointers to the suggestions that will emerge after Cape Town.

For one thing, the Durban meeting decided, the State must be given more economic "direction". power, and top businessmen should become much more actively involved, together with top civil servants, in planning, coordinating and directing State functions.

The functions of the State should be designed in such a way as to improve the climate for free enterprise. While, just as business needs clear objectives and more planning in a free enterprise society, so that huge organisation, the State.

Moreover, national goals should concern themselves not only with growth and job opportunities, but should also aim specifically at the establishment and strengthening of a prosperous, broadly based middle class.

This deliberate, high priority conversion of the "have-nots" among all races to "haves" would if was felt contribute to political, economic and social stability.

Other conclusions reached at the seminar concerned Black progress and homeland development. Decentralisation generally and homeland development particularly, are typical areas where the State should perform a "directing" function without interfering with free enterprise.

Where the training of African labour and the building up of an entrepreneurial African middle class is concerned, the private sector has been too inclined to see this as the exclusive responsibility of the Government.

Instead Blacks, especially homeland Blacks, should be given large-scale opportunities for on-the-job technical, administrative and managerial training in White and Indian businesses.

Where necessary, influx control regulations should be amended to permit this.

The aim of all help to the African must be to help him help himself — from grass root level upwards.

In certain African countries where the first desire was for prestige projects and large capital-intensive industries, the average standard of living dropped because there was neither the infrastructure nor sufficient skills to support such an "upside down" superstructure.

Increasingly, traditional Black advancement are being removed and "the time has now come for Blacks to start showing real initiative in improving their own economic conditions".

While for a considerable time Blacks will still need White assistance in fields such as technology and management, "there is no longer a valid excuse for economic indolence" as many successful Black entrepreneurs have already proved.

There is still some reluctance on the part of both local and overseas investors to invest in the homelands because there is as yet no overwhelming evidence that there is a sufficient number of Blacks capable of providing the skills and that drive needed for economic success.

"No investor will willingly invest if he expects his property to be nationalised, or to become unprofitable because of maladministration, corruption or violence."

To inspire confidence not only local and overseas investors, but of all races in South Africa, there is an urgent need for Blacks and Whites to continue to cooperate by both leading that they possess the maturity, the wisdom and restraint, that is so sadly lacking in many African countries where independence has meant bloodshed, lawlessness, poverty and corruption.

It is up to the Blacks to provide this evidence since the opportunities now exist.

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Credit abused, says banker

RDM 26/8/75

Staff Reporter

DURBAN. — Credit in South Africa was being greatly abused, the chairman of the New Republic Bank, Mr H. E. Joosub, told the bank's annual general meeting in Durban yesterday.

"It appears to me that in the extension of credit something is radically wrong," he said.

Mr Joosub said consumer credit for the past two-and-a-half years to the end of December 1974 increased from R1 475-million to an estimated amount of R2 300-million.

This was an increase of 56 per cent.

During 1974 summonses were issued in more than 538 000 cases of bad debts. Civil judgments were

granted for 253 000 cases involving a total amount of R56,4-million.

"These figures are proof that the granting of credit is no longer founded on sound business principles," Mr Joosub said.

He said it had now become important for Blacks to be represented, and even to hold directorships in public bodies.

"At present this group is only a consumer who is making a major contribution by way of consumer spending and labour."

The time had arrived for the larger financial business, industrial and mining entrepreneurs to consider inviting members of "our group" to serve on boards and have a say in the functioning of their institutions, he said.

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Disciplined rand good for shares

By ELIZABETH ROUSE

A DISCIPLINED rand means healthier economic growth prospects and the share market should therefore have a firmer undertone, says a broking house analyst.

The view that the rand is to be disciplined by a phase of dearer money is supported by the increase in the long-term gilt rate to 10 per cent.

"The rate of economic recovery may thus be slowed down and industrial share price consolidation may be prolonged," says

the analyst.

South Africa's foreign exchange reserves — even at current levels — have been propped up by overseas borrowing, a fact which argues that imports are running far too high.

It may, therefore, be inferred that the shift to a higher interest rate plateau is more meaningful than a correction of leads and lags in foreign trade capital movement.

Higher interest rates and the resultant confusion in money and capital markets have caused Holland Street

RDM

26/8/75

What the brokers say

trading to slow.

However, the analyst says the more volatile Wall Street took the rise in United States prime and Treasury bill rates badly. The Dow Jones industrial index has slipped about 80 points from the year's high. American authorities are on the horns of a dilemma. Firstly, a higher pattern of interest rates could help to cripple the incipient economic recovery by al-

lowing it to be overwhelmed by the leads and lags of the inflationary forces set in motion last year.

Secondly, more expensive money would result in a flow of fate-sensitive funds into the United States. These would have to be sterilised through stringent controls on the banking sector at a time when a more lenient policy is required to

stimulate new investment and employment.

Another analyst says the current indecision in the behaviour of the Dow Jones index suggests that stalemate in money policies may be prolonged.

This hardly augurs well for Holland Street because wall Street dominates both the London and the Johannesburg market.

Most brokers avoid commenting on the South African scene in the words of one broker "it is difficult to offer valid market comment with turnover at such

an abysmally low level."

He says bids for or offerings of stock of any magnitude can, in many cases, upset superficial price levels to such an extent that one is led to question the realism of quoted prices.

An investment analyst has turned even more gloomy than usual about the market and his only advice is to stay liquid. He believes that the price anyone will pay for an ounce of gold is a measure of instability rather than stability.

1 471
2 Capital

47

Reserve

STAR 26/8/75

Bank guns turn on inflation

Neil Behrmann

The efforts of the monetary authorities are concentrated on strengthening the balance of payments and counteracting inflation.

This appears to be the main policy objective which has emerged from Governor of the Reserve Bank, Dr T W de Jongh's annual address today.

"A high rate of real economic growth remains a major objective in the longer perspective," said Dr de Jongh, but it "will depend to a great extent on the progress made in the months ahead in curbing inflation and maintaining a sound balance of payments position."

WORRIED

It is evident from the address that the governor is very worried about the inflationary effects of the present government spending spree.

He said that the huge R885m increase in bank credit to the government sector was the main contributor to the 19 percent jump in the money supply during the year ended

June 1975. This increased government short term borrowing arose because government consumption spending rose by 12 percent during the year.

In fact more than R600m of the R885m increase in bank credit to the government occurred during the first half of this year.

Government spending not only fueled inflation, but contributed to the leads and lags situation and the consequent speculation against the rand.

The spending helped pull down interest rates below levels seen overseas. It also eased liquidity so that banks were able to finance importers. These trends lead to an outflow of cash as importers paid their bills quickly with local finance and the speculation against the rand is now history.

The Reserve Bank has urged the Government to cut down on spending and to analyse the costs of large capital intensive projects.

"We should not attempt to live beyond our means," warned Dr de Jongh.

The governor is confident that economic conditions will improve, but the recovery will be heavily dependent on a sustained business revival overseas.

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Capital

Govt
STAR 28/8/75
wages:
freeze
expected

Labour Reporter

Hopes for pay adjustments to restore the real income of about 500 000 Government employees to the level of July last year have been shattered.

In his call for sacrifices from all sectors of the economy in a concerted onslaught against inflation, the Prime Minister, Mr Vorster, refrained from announcing a wage freeze.

But all concerned believe that Government intends setting an example in the public sector which had its last general increase in July 1974.

Informed sources believe a six-month pay freeze for State employees is in the offing.

The Prime Minister's radio appeal last night is seen among trade unions as having provided private employers with a strong weapon to ward off pay demands in commerce and industry.

Current and pending wage negotiations which are expected to be affected include those in the motor industry and the banking sector.

Most other industries, such as the building,

To Page 3, Col 5

1 47
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Inflation appeal

From Page 1

engineering, leather, textile and mining industries, had pay rises recently.

Comments from organised labour today made it clear that trade unions and staff associations were prepared to accept Mr Vorster's appeal.

But labour leaders emphasised that they would only do so on the proviso that commerce and industry also made sacrifices.

Trade unions "noted and observed" Mr Vorster's request for sacrifices, said Mr Wallie Grobler, general secretary of the Confederation of Labour.

But he warned that they would keep a close watch on the contribution by commerce and industry.

Mr Robert Kraft, assistant general secretary of the Trade Union Council of South Africa, said TUCSA welcomed and endorsed the appeal.

The chairman of the Public Service Commission, Mr J H C van Zyl, said he would get in touch

with staff associations to see "what arrangements we can arrive at with regard to the requests already submitted."

He was referring to demands for increases to be tied to the Consumer Price Index.

The Public Servants' Association, railway unions and post office workers submitted their demands several months ago.

The CPI rose by more than 14 percent in the 12 months ending in June.

Mr R de Wet, Transvaal general manager of a leading supermarket chain, said his group fully supported Mr Vorster's call.

However, he stressed the group would not support a price freeze as this was impossible to implement and control and would push up administrative costs.

"The Government must encourage consumers to spend less. The authorities must tighten the money supply to curb overspending," he said.

(See Pages 29 and 31)

Public service pay hit

John Patten,
Political Correspondent

The Minister of the Interior, Dr Mulder, said in an interview today that the question of when civil servants would get their next pay rise had not been settled.

He was commenting on public service pay after

the radio appeal by the Prime Minister last night that workers in the public service and State-controlled organisations hold back pay demands temporarily.

Dr Mulder said it was expected that staff associations would be influenced by Mr Vorster's call in any steps they might take.

He expected them to

continue negotiations with the Government, possibly seeking improved fringe benefits instead of wage and salary increases, or possibly postponing negotiations for a time.

The United Party's chief spokesman on Public Service matters, Mr Lionel Murray, MP, said Mr Vorster's request meant civil servants would have

to carry a heavy burden in fighting inflation in the private sector.

Mr Servaas, chairman of the strong Public Association, said he has not decided our representatives ready being consulted the Government. leave it there deration."

Vorster stops short of a general freeze

STAR 28/8/75

Neil Behrmann

The Prime Minister's appeal to businessmen and workers to control price and wage increases, follows the tougher monetary stance of the Reserve Bank.

He has stopped short of legislating a general freeze of wages, prices and profits.

The Reserve Bank is tightening the money supply to curb inflation and has urged the government to cut its spending.

Mr Vorster said that he decided to make his appeal because inflation is a serious threat to the country's economic and social system. It is eroding valuable monetary assets and capital in both the private and public sectors.

The dangers of capital erosion have been spelt out by the doyen of South African economists,

Professor Ludwig Lachmann, so the government seems to have finally accepted that political platitudes like "learn to live with inflation" or we can "grow out of inflation," are false.

Mr Vorster said that to alleviate the inflation problem, the government is relying on voluntary contributions and sacrifices of all sections of the community. It does not intend applying an incomes policy.

Business and labour are fortunate that the government does not intend implementing the restraints on wages, prices, and profits familiar to Britain.

Hopefully these groups — which have all played their part in the inflationary process — will heed

his call. And hopefully, also, the government will also follow its declared intention and curb its spending.

Mr Vorster said that the Government intends to cooperate closely with consumer, labour and business groups.

TOP PRIORITY

The top economic priority at the moment is the fight against inflation. This policy should in turn counter the balance of payments problem and protect the rand. Measures which are being applied are:

- A tight control on the money supply and higher interest rates

- Curbs to Government spending.

- Voluntary restraint on the part of business and workers to relax demands on prices and wages.

The policy could be successful, provided imported inflation continues to slow down.

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Drastic cuts in council and State budget

STAR 29/8/75

Political Staff

The Government, Provincial Administrations and municipalities now face drastic cutbacks on their spending, especially on non-essential services and projects.

It became clear today that the State itself intends setting the example in the fight against inflation cutbacks and salary

curbs at all levels of government.

This follows a statement by the Minister of Finance, Senator Horwood, earlier this month that the Government was relying on the full co-operation of the public sector.

Treasury and other Government spokesmen expected today that the appeal to State departments, Provincial authorities, municipalities and other public bodies, might now be "formalised" in

the form of concrete suggestions about areas where savings could be affected.

The suggestions might come directly from the Cabinet Committee dealing with inflation.

With the Government's anti-inflation drive based on a voluntary contribution by all, it could be expected that the main stimulation would have to come from the authorities, a State Treasury spokesman said.

The Transvaal provincial and Pretoria municipal authorities could not give a firm indication today of the projects that might be affected by the curbs.

The Transvaal provincial secretary, Mr J G van der Merwe, said the executive committee might meet soon to discuss possible further savings.

The director of Provincial Works, Mr I D P Burger, said the province was already operating under an expected deficit of R6-million for this financial year.

"Our funds are so limited that we cannot help making all possible savings. It is also clear we cannot expect to get much in terms of the additional estimates this year," he said.

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De Jongh . . . realism at last

Monetary policy, says Governor de Jongh, is now aimed at curbing inflation and righting the balance of payments. If you want to know what happened to growth, ask Senator Horwood

Reaping the whirlwind

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② 252
③ 78A

F.M. 29/8/75

The most significant piece of economic news in the past seven days was not the Governor's annual address. Nor was it even the announcement that Pretoria is to float a long-term loan yielding a record 10%. Nor the PM's call for wage and price restraint.

Important though these developments are, they are not half as crucial as the assurance, given last week by Finance Minister Owen Horwood, that government is finally making "every effort" to curb its spending.

It has been excessive government expenditure more than anything else that has boosted the money supply, thereby worsening our latest balance of payments difficulties and underpinning our high rate of inflation. And it is because of our BoP and inflationary problems that Church Square has been forced to make a major course correction in its monetary policy.

A little over six months ago, when the first signs of recession became apparent, the Reserve Bank was only too happy to see a rapid rise in the money supply and a fall in interest rates. Yet paradoxically, with the recession now biting more deeply, it has decided to tighten its grip on the money supply and raise rates.

From the point of view of domestic economic conditions, the timing of this switch could hardly have been less appropriate. As the next story shows, most economic indicators are pointing decidedly downwards and — were it not for our inflation and balance of payments problems — it would normally be time to expect some further reflation of demand, rather than a new drive to tighten credit.

That excessive government spending is indeed largely to blame for this setback is clear from remarks made last week by Governor Bob de Jongh.

Government consumption expenditure, in real terms, he pointed out, rose by

no less than 12% in 1974-75 (compared with a 1% rise in fixed investment and a 3.5% rise in household spending). This, coupled with a lower rate of increase in revenue receipts, led to a substantial increase in the Exchequer's overall deficit, which compelled government to draw down its balances with the Reserve Bank and borrow from the banks.

As a result, the net claims of the banking sector on the government sector rose by no less than R885m — the chief cause of the increase in money and near-money.

This has definite inflationary implications. As De Jongh points out, while the recent inflation was more a reflection of upward adjustments of government-administered prices and rises in import prices and salaries and wages, strongly rising government spending has been and remains a decided threat to price stability.

ing on the BoP, De Jongh was quite specific. The increase in official outlays had played a major part in bringing about unfavourable leads and lags during the second quarter of this year.

"It did so in three ways. Firstly, it contributed directly to a further increase in the supply of money and near-money. Secondly, it provided banking institutions with excess liquid assets and thereby made it easier for them to expand their domestic credit to the private sector in substitution of foreign trade credits. Thirdly, it assisted materially in bringing down domestic interest rates to levels which, in some cases, were lower than comparable rates overseas."

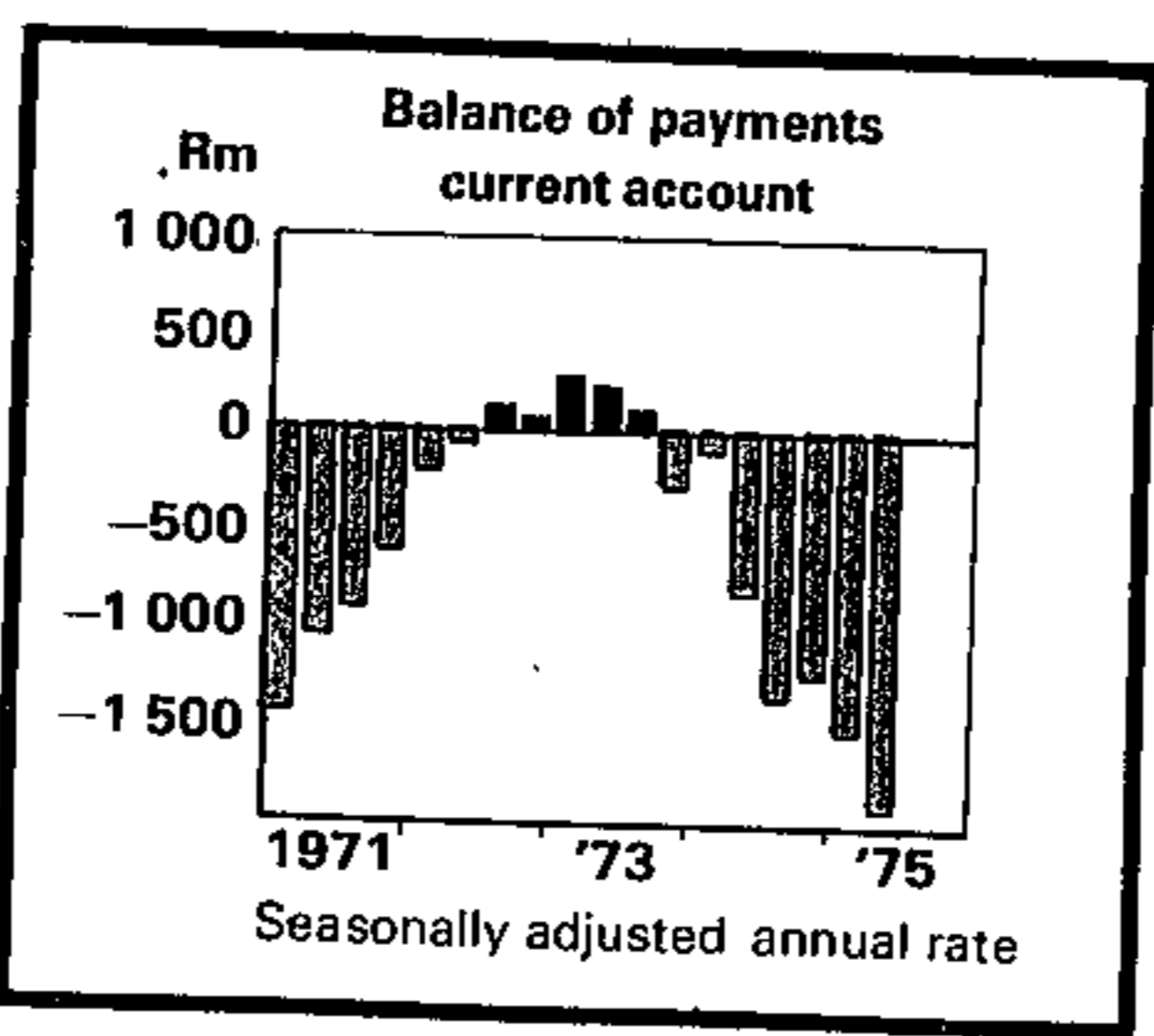
In other words, it all boils down to excessive government spending — something which the *FM* roundly condemned at the time of the March Budget, but which Senator Horwood strongly defended on the curious grounds that "strict fiscal and monetary policy is not, in today's conditions, the proper remedy against inflation".

The chickens have certainly come home to roost.

Hopefully, the latest government stock issue will repair some of the damage by channelling more of the nation's savings into government coffers. At least then a smaller proportion of government spending will need to be financed through the creation of new money.

But a proper solution must wait until government prunes its spending. Diverting savings from the private to the government sector means higher interest rates, tighter money and — consequently — stagnant private sector investment. And without sizeable increases in private investment one can bid goodbye to the Economic Development Programme — and its 6%-plus growth target.

Horwood's announcement that government is now at last "making every effort to economise on expenditure" is therefore the most welcome news SA has heard for a long time.



"In any analysis of the current inflation in SA," he says, "account must be taken of the potential inflationary effect on demand of the increase in real government consumption expenditure of 12% during the year ended June 1975, particularly in view of the fact that the net claims of the banking sector on the government sector increased substantially during this period."

As for the effect of government spend-

Wage curb

call tempts

the bull

THIS WEEK'S call by the Prime Minister, Mr B. J. Vorster, for wage restraint has injected a new and seemingly bullish element into the local investment picture.

The inflationary conditions of the past few years have seriously affected the financial health of the entire South African economy. Therefore anything which helps to moderate inflation, as Mr Vorster's call should do, can only be good for the country and for investors.

However, the share market showed little immediate reaction to Mr Vorster's call. One probable reason is that investors would like to see what response this achieves. Another reason is that there are fears that the Government's call for wage restraint could be linked with a call for profit restraint.

The difficulty here is that while probably every one in business agrees that no company should make excessive profits in these inflationary times, it is not easy to determine what rate of profit companies should be allowed to make.

The point is that what could be regarded as a reasonable profit in times of zero inflation could be hopelessly inadequate when inflation is rampant, such as at present when depreciation rates go through the roof and the capital requirements of business are greatly multiplied.

The test is that the Government should apply wage restraint which would

For investors in industrial shares this has been another dreary week on the stock exchange. But they have been able to draw some comfort from the continued run of healthy company profits that are being reported. Statements of profit increases are still heavily outstripping those of profit reductions.

Another cause for comfort was the steady rise in the foreign exchange reserves. These are now at their highest level for eight months and if the Government's plans to draw funds into the country are successful, as they are expected to be, a further rise in the reserves is on the cards.

Increased reserves means greater liquidity, lower interest rates and more money for investment in industrial shares.

Investors in gold shares have had a disappointing week as well with the gold price fluctuating around the 161 dollars an ounce mark. They have also had to contend with reports that the United States may hold another gold auction later this year and that the International Monetary Fund could also become a seller of the metal. But this need not be against the metal's interests.

It appears the major Western states have reached an agreement that

But, considering the Commonwealth finance ministers' squabble at their meeting in Georgetown, Guyana, this week about how the proceeds from the sale should be used, there are obviously high expectations about the price which will be obtained for the IMF gold.

But in current market conditions a good price will only result if central banks are allowed to buy it. And this seems a strong possibility, seeing it is their gold being sold.

Accordingly, the proposal that the IMF should sell part of its gold stock could in fact be a Trojan horse to open the way for resumed central bank dealings, in gold on a large scale.

If this were to happen, gold's rehabilitation as a medium of international exchange would then be complete.

This week AE and CI, the country's biggest chemical enterprise, announced it had raised R45-million by way of two debenture issues — one carrying a 12.75 percent coupon and 12 options to subscribe for AE and CI shares, and the other with coupon of 13.125 percent but with no option rights.

These are attractive rates of interest and in contrast to previous debenture issues by other companies, AE and CI is also offering these debentures

materially reduced.

But I believe this fear is exaggerated. Nevertheless, it is clear that the Government's anti-inflationary plans and their

monthly rate — about one sixth — should be sold in the free market and the profits used to aid the developing nations.

So far it is not clear

there will be no restrictions on the quantity of debentures for which shareholders can subscribe.

Those investors

member of one of the six specialist committees appointed by Minister of Economic Affairs Chris Heunis to draw up concrete anti-inflation proposals, welcomes the voluntary element in the appeal, and thinks it will work provided the entire country swings behind it.

A spokesman for the Public Servants Association commented: "We will not at this stage go for wage and salary increases, on condition that the private sector and other divisions of the public sector show similar restraint."

Speaking for the unions, Robert Kraft, economist and assistant general secretary of Tucsa, and a member of two of the anti-inflation committees, said:

"We reiterate the commitment we made earlier this year, to exercise great wage restraint. I think it was a good speech by the Prime Minister."

Dr Errol Drummond of Seifsa, who sits on a record-breaking four of the six committees, added:

"The announcement is a desirable step in the light of the inflationary period through which we have been, and the guidelines no doubt will lead to positive steps in arresting the current spiral."

The six committees have the following broad terms of reference:

- **Publicity and educational campaign** (chairman: Dr Lawrence McCrystal, Executive Director of the Grocery Manufacturers Association). The campaign will be aimed specifically at each of the various interest groups in the economy — commerce, consumers, industry, and so on.

- **Short-term productivity of the labour force** (chairman: Dr Sebastiaan Kleu, Chairman of the Board of Trade and Industries) This committee is to recommend steps which can be taken to promote productivity in the short-term.

- **Long-term productivity of the labour force** (chairman: Johan Botha of the Department of Labour). It will deal with labour productivity matters in the long-term.

- **Fiscal and monetary regulations and policy** (chairman: Johannes Kitshoff, chairman of the IDC). The committee is looking into the effects of monetary and fiscal measures on the rate of inflation, with particular reference to the rate of expansion of the money supply.

- **Legislation and regulations** (chairman: Dr Piet Riekert, Economic Adviser to the PM). This committee will examine cost-increasing effects of existing and future legislation, and will aim at taking remedial steps.

- **Salary, wage and price increases** (chairman: Joep Steyn, Secretary for Commerce and Price Controller). This body is expected to recommend a formula for limiting salary, wage and price increases, to be applied voluntarily by the private and public sectors.

WAGE DEMANDS Backing the PM

Reactions to the Prime Minister's appeal last week for wage and price restraint have been unanimously favourable.

Export industries in particular are pleased that Vorster recognised the need to give exports special encouragement in an export-led economy. Comments Wim Holtes of Safto:

"We were delighted to note that the export industries were specifically mentioned. An export orientation is now much more reflected in government policy."

The appeal has also been welcomed by the mining industry. Tom Main, economist at the Chamber of Mines, points out that costs in the mining industry have already outpaced inflation and are now increasing at a rate of 25%-30% pa.

Dr Hennie Reynders of the SA Federated Chamber of Industries, a

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Regering nie alleen te blameer vir 'sluipende sosialisme'

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SACE-RAPPORT
7/9/75

Deur PROF. R. R. TUSENIUS

„SLUIPENDE SOSIALISME” is 'n wesenlike gevaar in Suid-Afrika. Maar dit is nie regverdig of realities om die Regering in hierdie verband te kritiseer sonder ook ander aspekte — soos byvoorbeeld (potensieel) skadelike magkonsentrasie in die private sektor — tege-lykertyd in oënskou te neem nie.

Dit was een van die gevolgtrekkings waartoe die deelnemers gekom het wat vanjaar se Verandering-Oriëntasie- en Beplanningseminare in Durban en Kaapstad bygewoon het. Hierdie seminare is deur die Nagraadse Bestuurskool van die Universiteit van Stellenbosch georganiseer.

Onopsigtelik

Dr. Albert Wessels het sluipende sosialisme gedefinieer as die onopsigtelike proses van staatsindringing in ekonomiese aktiwiteite, nie soseer in die beheer en kontrole van die volkshuishouding nie, maar in sy daadwerklike toetreding daartoe en deelname daaraan.

Hy het egter benadruk dat daar gewaak moet word teen 'n algemene veroordeling van die toetree van die staat tot volkshuishouding. Eerder moet daar 'n duidelike afbakening en erkenning wees van die velde waartoe die staat wel en nie moet toetree. Sosialisering kan gebore word, nie net uit opstand van die arbeid nie, maar ook, geleidelik, uit die strewe van 'n staat om homself te handhaaf, byvoorbeeld in die lig van 'n stygende internasionalisering van die handel en nywerheid, in sy

die gemeenskap as 'n geheel te ontgin (bv. Foskor) of om suiwer strategiese redes (bv. Soekor).

Dr. Wessels het die opinie uitgespreek dat die huidige Minister van Ekonomiese Sake die begrip van vrye mededinging nie net onderskryf nie, maar dat hy bereid is en reeds besig is om stappe te doen om staatsdeelname in die privaatbedryf te beperk.

In verband met die probleem van „wie doen wat” in die volkshuishouding moet daar egter sekere basiese feite in gedagte gehou word. Dit word teenwoordig algemeen aanvaar dat private sakeondernemings in die sisteem van vrye entrepreneurskap nie net 'n verantwoordelikeheid aan hul aandeelhouers het nie maar ook aan hul werknemers, hul kliënte en die samelewing waarin hulle opereer.

Hierdie vier „korporatiewe verantwoordelikehede” bestaan ook vir staatskorporasies, maar dit kan nie ontken word nie dat die klem in baie gevalle verskillend sal wees — en selfs moet wees. By private besighede moet die nadruk op die winsmotief op die verpligting teenoor hulle aandeelhouers lê, sowel in verband met beslissings waar om te investeer, watter prysbeleid te volg ens. ens. By staatskorporasies sal by baie beslissings die nadruk meer op die landsbelang kan en

saamstem dat die winsmotief die mees suksesvolle, langtermyn-ekonomiese gangmaker is wat die selfsugtige mensheid nog ontdek het om die gemiddelde welvaart van die massa te verhoog.

Die optimale antwoord op die „wie doen wat”-vraag vereis deurdringende, objektiewe gedagtewisselings tussen al die betrokke partye, nie 'n oppervlakkige dogmatiese antwoord van een enkele belangegroep nie.

Die tema dat dit nie net noodsaaklik is om krities na die staat se aktiwiteite te kyk nie, maar dat die private sektor ook dringend sy hand in eie boesem moet steek, het dwarsdeur die seminaar na vore gekom. Mnr. R. Raymond Ackerman het die bestaan van onwettige prysooreenkomste en die beperking van vrye konkurrensie skerp gekritiseer. Hy sien dit as een van die faktore wat pryse hoër opstoot as wat die geval sou wees indien die markmeganisme werklik vry sou wees.

Mnr. Len Abrahamse het

verwys na die feit dat dwarsdeur die Westerse wêreld sakelui te dikwels die belange van die publiek vergeet het en amper tot elke prys net maksimale winste nagestreef het. Hy sien dit as een van die kapitalisme se groot tekortkomings.

Dr. Sandra van der Merwe het gesê dat verbruikersbewegings die direkte gevolg is van die misleidings en wanpraktyke waaraan party besighedsmanne hul skuldig maak. Dit laat die publiek krities en selfs negatief teenoor die stelsel van vrye ondernemerskap staan.

Vaderland

Met al sy tekortkominge bly hierdie stelsel van vrye ondernemerskap nogtans die mees produktiewe sisteem om werkgeleentheid en welvaart te skep in 'n klimaat van redelik persoonlike vryheid. Baie meer so as die alternatiewe wat sosialisme en die Kommunisme bied. Maar dit is o.a. deur mnr. Jan de Necker en dr. Hennie Reynders benadruk dat ons nasionale „koek” baie meer regverdig tussen al die bevolkingsgroepe moet verdeel word, en dr. Wessels sê in hierdie verband:

„Die agitator en die terroris is iemand wat niks het te verloor nie. Die mens bly maar 'n materialis — vaderlandsliefde hou dikwels op by die punt waar jy nie meer 'n

stukkie van die vaderland besit nie.

„Die kapitalistiese stelsel wat private eiendomsreg as hoeksteen het, is ideaal geskik om hierdie stabiliserende politieke invloed in Suid-Afrika uit te oefen. Dit is ons plig om die ideologie van vrye ondernemersvorm ook aan ons tuislandse leiers oor te dra.”

Die staat is verantwoordelik om 'n land te bestuur, te beheer en om dit welvarend en sterk te hou. Aangesien die omvang van hierdie verantwoordelikeheid in ons moderne gekompliseerde, kompeterende wêreld net nie kan groter word nie, is dit logies om te verwag dat die absolute en relatiewe rol van die staat ooreenkomstig sal toeneem. Dit is dan ook dwarsdeur die wêreld die neiging.

Wat Suid-Afrika betref, is reeds die dringende wenslikeheid genoem dat daar duidelikeheid moet kom in verband met die gebiede van die volkshuishouding waartoe die staat wel en nie moet toetree.

Wat betref die staat se beplanningsmeganisme was die algemene en sterke gevoel tydens die seminare dat dit nie voldoende doeltreffend is nie, veral wat betref die skakeling en koördinasie tussen verskillende departemente en die bepaling van nasionale en interdepartementele prioriteite.

En Park
insien, insluitende gordyne en
tet al die geneve
mes-egte huise vir werknemers op
atmosfeer ve
om tuis...
Staalmonter,
2 kinders,
11 jaar al besig met

Caltex spending R96-m in Cape

By GORDON KLING

CALTEX OIL in South Africa is to embark on a R96-million expansion programme. It will increase the capacity of its Milnerton refinery in Cape Town by 70 per cent in the largest industrial project yet undertaken in the Western Cape.

Bill Marshall Smith, Caltex managing director, said yesterday design and engineering studies are well advanced. The expansion is necessary to meet the growing market for refined products. It will be in two stages.

Mr Marshall Smith says the expansion also reflects Caltex's optimism about the South African economy.

Even with fuel conservation measures, the buoyancy of the economy has created corresponding growth in the petroleum industry, although now from a lower base.

Expand

"The Government has allowed us to expand our facilities to meet this growth up to 1983."

The first stage of the project is designed to improve the yield of refined products and is scheduled for completion in March 1977.

The second stage, to increase capacity, is to be completed in July 1978. A date has not been set for the start of construction.

The expansion will raise



Picture by TERRY SHEAL

Bill Marshall Smith . . . Expanding refinery capacity.

the capacity of the refinery from 61 000 barrels a day (about 3-million tons a year) to 105 000 barrels a day (5-million tons a year).

This indicates that Caltex is looking for a growth in petrol consumption of nearly 7 per cent for South Africa. The new facilities will include a crude distillation plant, a catalytic cracker for petrol and sulphur removal and recovery plants.

Mr Marshall Smith says they will double the size of the refinery.

Local content will make up one-third of the total R96-million expenditure. Mr Marshall Smith says the expansion will result in foreign exchange savings

of about R30-million a year.

"The project is to be financed by a combination of internal funds (Caltex), local short to medium-term borrowings, and possibly some offshore loans." He was unwilling to comment further on this.

Second

The enlarged Caltex refinery will move ahead of Mobil's Durban plant into second place, behind the combined Shell-BP, Sapref, refinery, also in Durban, which is due for expansion around 1980.

Caltex, which is scheduled to move into new Cape Town headquarters

towards the end of 1977, is one of the few big oil companies still active in exploration work here.

The parental exploration arm, Chevron, has leases on the West Coast south of the Orange River mouth and on the Agulhas Bank.

Mr Marshall Smith says: "It's known that offshore drilling is enormously expensive. We wouldn't be searching if we didn't have reasonable expectations."

Caltex Oil (SA) is owned directly by Caltex Petroleum, which in turn is held 50-50 by Texaco Inc. and Standard Oil of California (Socal). Socal is known outside the US as Chevron. It has been operating here since 1911.

Dispatch 11/9/75

R75m for oil probe

CAPE TOWN — The State-backed Southern Oil Exploration Corporation (Soekor) will spend at least R75 million on an intensified offshore search for oil over the next three years — R25 million more than the amount spent since the offshore probe started in 1967.

This was said yesterday by the managing director of Soekor, Dr P. J. van Zijl. He said two rigs had been contracted to drill a series of wells off the west coast and along the Agulhas Bank.

One rig — the Sedco K — was due to leave the North Sea next week and is expected to arrive on site 40km north-west of St

Helena Bay by mid-December.

The Sedco K will drill three holes in the bay area and one off the mouth of the Olifants River.

Afterwards it would move to the Southern Cape coast to drill holes along the Agulhas Bank between Struisbaai and Cape St Francis.

They would have to wait until mid-1977 for the other rig.

The drilling was being viewed as a more optimistic, particularly off the Southern Cape coast.

A strike yielding 50 000 barrels of oil a day would be considered a viable proposition. — SAPA.

(1) ~~244~~
(2) 47
(3) ~~260 B~~

FREE ENTERPRISE

A new voice

F.M. 12/9/75
① Capital
② #7
③ 28

47

"Capitalism will die simply because there is no one left to defend it." — Joseph Schumpeter, the celebrated economist.

Not in SA, it won't. Right now capitalism has defenders aplenty. A group of businessmen this week announced they intend forming a Free Market Foundation (FMF) and Assocom is also working on ways to brighten its tarnished face.

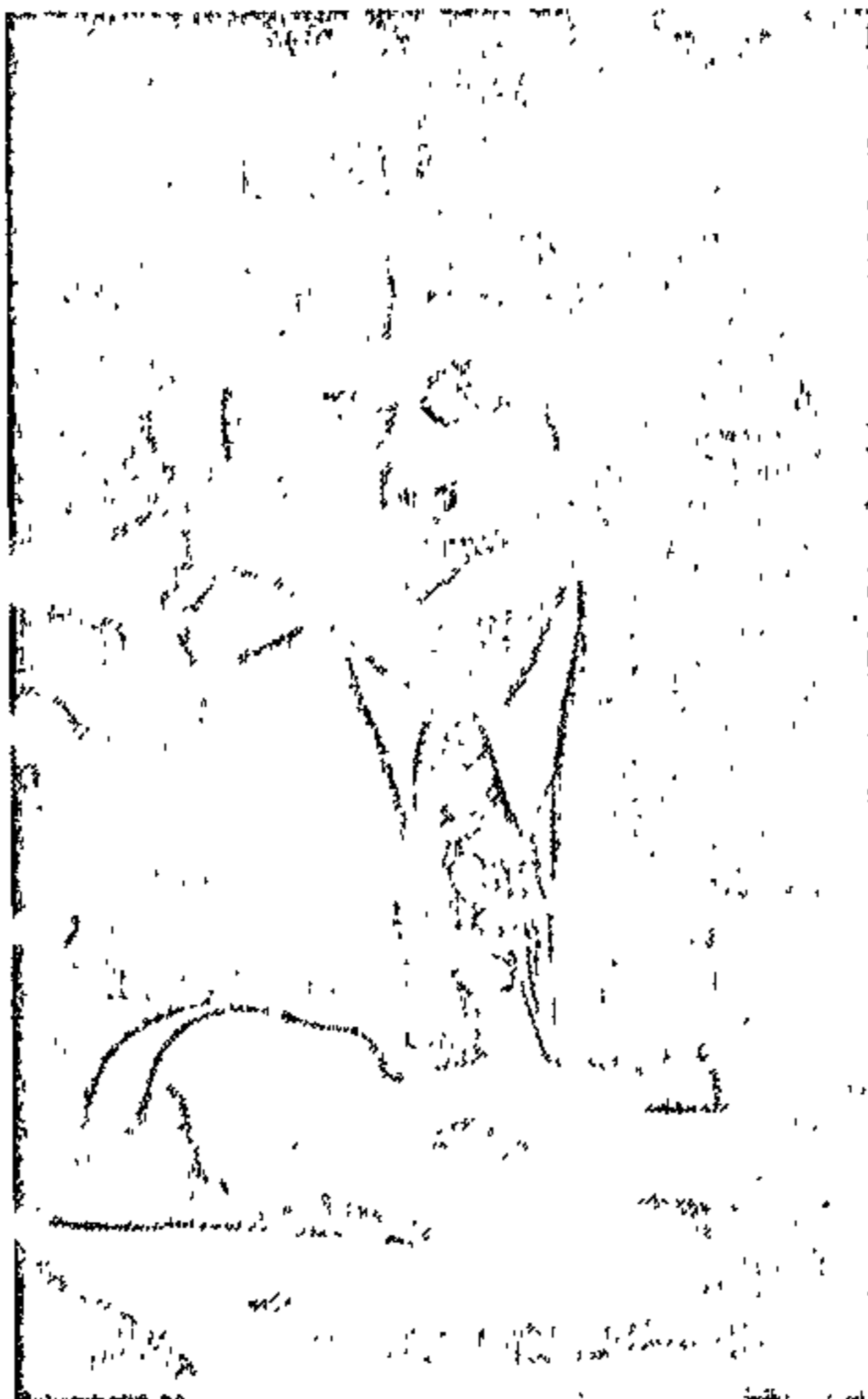
The stated aim of the Foundation is "to ensure that business has a voice at its own trial. The FMF will provide businessmen with the intellectual ammunition they need to protect themselves from unwarranted public pressure for interven-

tion against business — and the confidence to sell SA to foreign investors, buyers and the world at large as a bastion against creeping socialism and ultimately totalitarian control".

Amongst their aims the FMF intends using to convince the public that not all business is bad business are a consulting and advice service on the functioning of the free market and courses, lectures and seminars on such subjects as the rôle of profits in a sound economy.

and functions of high profits and rising prices. Whether SA needs the FMF is less certain. After all, one of the basic functions of Assocom, FCI and other employer bodies is to put the case of private business to government and the public (though admittedly that isn't always the same as expounding free market principles). In fact, the case for enlightened capitalism was put last Monday by Assocom Executive Director Raymond Parsons when he spoke at length on the social responsibility of business. These bodies have the resources, organisation and influence which the FMF will take many years to build up. The fact that it has been established therefore suggests a lack of initiative and insight on their part. Rather remedy that than fragment their efforts further.

1029



Raymond Parsons . . . enough already?

It would not be a bad thing if it kicked off taking a line on government's price and wage restraint proposals. If these are really necessary, then the market mechanism plainly does not work.

The FMF also plans to investigate consumer complaints and "to hammer home to business that it is in its own best interests to maintain a constant control over the quality of its products and practices".

The five men behind the FMF claim the support of several well-known businessmen and it's hoped the organisation will be formally set up before the end of the year. Its backers are already discussing with Assocom possible areas of cooperation and the FMF will possibly have some representatives on the Assocom committee which has been working on the same theme for a year.

According to investment consultant Fred Macaskill, one of FMF's backers, a separate identity will be maintained since Assocom "has many vested interests and doesn't consider those of consumers".

It's certainly high time business explained to a sceptical public the causes

SA warned:

ARGUS 18/9/75

① 150A
② 336
③ 47

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Pay rises cannot match inflation

SOUTH AFRICANS must be made aware that they cannot expect pay rises to match the increase in the cost of living, Professor J. L. Sadie of the University of Stellenbosch, warns in the latest survey by the Bureau for Economic Research.

He says: 'The excess demand at present being experienced in South Africa is, for the most part, not of an ordinary cyclical nature requiring bridging operations, but the result of a radical reduction in the effective supply of goods at our disposal.'

'It is most simply explained by saying that because of a rise in oil prices — ignoring increasing prices of other imports — and in defence expenditure, we have to produce and sell abroad upwards of R1 000-million worth of goods more than in 1973 just to maintain our living standards in real terms.'

IMPOVERISHING

This impoverishing force has been hidden from us while the prices of our gold, agricultural produce and minerals were rising. But these have stopped rising, or have come down precipitously in some cases, while climatic conditions do not make for record crops.

'The public has to be informed that a significant portion of the rise in the consumer price index reflects just this impoverishment and that it is not possible to compensate a community for such an event.'

OUTLOOK

BLEAK

— BUREAU

THE South African economy has moved with jarring speed from a 'boomflation' to a 'slumpflation' while, at the same time, the balance of payments on current account is beginning to present a problem, the Bureau for Economic Research of the University of Stellenbosch says in its forecast for 1976.

The forecast, compiled by Mr A. J. M. de Vries and Mr M. B. Dagut, says that with the gold price still in the doldrums, and no convincing sign of a upturn in the demand for exports in view, the outlook cannot be other than bleak.

'The economy has still to go through an adjustment process which must entail a decline in the rate of increase of "real" aggregate demand.'

'The decline, which is now occurring, has come about because price increases are reducing the

Finance 24

purchasing power of money incomes.'

In this environment the authorities seem to have a choice between only two basic policy options: They can either accede to or successfully resist for a period the pay rises that will be sought as compensation for the erosion in the purchasing power of money.

REAL GROWTH

If they are able to resist demands for increased pay, the review visualises an aggregate real growth rate for 1975 of 2,5 percent, compared with 7,2 percent last year and a growth rate in 1976 of about 3 percent.

It is expected that the economy will be subject to a crunch in the last quarter of 1975 and the first quarter of 1976. After that there will be a slow recovery gaining conviction.

Economic crunch 'looming' for SA

STAR 18/9/75

Michael Chester, Financial Editor

South Africans must brace themselves for months of sharp austerity and an economic crunch at Christmas and the New Year aimed at turning the tide on inflation.

The warning is spelled out by the Bureau for Economic Research at Stellenbosch University in an analysis released today on prospects for 1976.

If the inflation tide is not held now, the BER fears, consumer prices could be soaring higher by 18 percent a year by Christmas and accelerating by a disastrous 30 percent a year by the end of 1976.

The BER forecasts that the battle order for the next 15 months will be:

● The Government will refuse salary and wage increases in its own sphere until mid-1976 at the earliest and will follow a fairly restrictive monetary policy.

● Private sector employers will exercise a fair degree of restraint in granting pay increases under the discipline of falling profits and a slower pace of business.

● Imported inflation will have less impact on domestic prices because imports will be cut back.

● The Government already pledged to an anti-inflation campaign will ensure that increases in agricultural prices will be held down.

● No more increases in railway charges or postal and telephone rates over the next 15 months.

● Companies will be more anxious to hold down selling prices because they will have to meet keener competition with inflation.

Page 3, Col 7.

Crunch 'on way' for economy

STAR 18/9/75

From Page 1
cutting into public spending.

The BER believes that if the austerity measures are a success—led by action to hold a hard brake on pay increases for several months—the rate of inflation will be cooled down to below 8,5 percent by the end of next year.

Its forecast is based on the assumption that the Government will follow a strategy that will first tackle inflation with harsh action and wait until well into 1976 before putting gentle pressure on the economic accelerator again.

The scale of the problem is put in perspective by estimates that soaring costs of oil imports and defence spending mean that South Africa now needs to boost its export earnings by as much as R1 000-million a year over 1973 earnings simply to stand still on living standards.

Increases in the national wages and salaries bill — likely to stand at 16,6 percent for 1975 — will be trimmed back to 15,1 percent next year.

Even then, wage earners may have to wait until mid-year before pay rises restart in earnest.

The BER gives a firm prediction that increases in wages and salaries may be demanded at the end of 1975 and the start of 1976 — but they will not be granted.

There will be no new increases granted to workers in the public sector during the rest of 1975. And employers in the private sector will exercise restraint in meeting pay demands based purely on rises in the cost of living.

However, towards the middle of next year it may be wise to begin stimulating the economy once more. First evidence may be seen with pay increases — "relatively satisfactory" but perhaps coming in phases — in the public sector.

Also, if inflation is cut back as forecast, the muscle of the buying power of the rand will be restored, meaning that extra rands in the pay packet, although fewer should stretch further.

(See Pages 31 and 34)

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Worst yet ahead,

Natal Mercury 18/9/75.

say economists

Financial Reporter

SOUTH AFRICA'S economy has yet to reach the low point of the current downtrend, the Bureau for Economic Research at Stellenbosch says in its report examining the 1976 outlook. In short, the worst is yet to come.

This has been brought about by the increase in oil prices and the large defence budget — in addition to falling commodity prices and the impact of inflation on other imports. To match this, exports will have to be at least R1 000m higher than they were in 1973 (R3 500m) if living standards are not to drop.

Buoyant prices of gold and agricultural products have masked the effect on the nation's purse of the drastic and dramatic oil price rise until now.

Now, says Professor J. L. Sadie, head of the Bureau, the public must be warned that a large part of the rise in the consumer price index has come about because our sales of goods abroad are not matching the bill for imports.

GOLD PRICE

While the gold price is down and commodity prices have tumbled and record crops will be missed because of poor weather, everyone will have to tighten his belt.

Wage increases are expected to slow down — but not necessarily for Black workers. Stellenbosch has computed a 18 percent increase in the national bill in 1974; a rise of 16,5 percent this year and another of 15 percent next year.

The average worker earning R20 a month in January 1974 should be getting about R36 by the end of next year. A salaried man earning R500 at the beginning of the period should rise to R790; but with the need to lift Black wages the upper salary levels will probably suffer in the increased stakes.

PRICE INDEX

The slow rise in incomes will be compensated, say the Stellenbosch economists, by a slowing of the consumer price index. This was up 14,5 percent for the first six months of this year and 11,6 percent in 1974; but the economic crunch and wage freeze should reduce the 1975 rise to 12,5 percent and the 1976 rise to 8,5 percent.

For a change the Government appears to have done what the economists recommend. The report was written in August, before the wage freeze and said that unless there was strong Government action the consumer price index could be rising by 18 percent a year by December and accelerating towards 30 percent by next December.

The forecast rise in the

consumer price index will be governed by the clamp on Government and private sector salaries, a reduction in imports and of imported inflation, steady agricultural prices, postal, telephone and rail rates and increase in competition.

ENERGY PRICE

An increase in wholesale prices is expected as well as rises in energy prices in the next 15 months.

Bonds and private home building will probably be as restricted as in 1973 with strong competition expected for savings and the long-term interest pattern not expected to move.

The stock exchange will probably be seen as a suitable area to raise funds and companies with weak balance sheets will probably go for rights issues. Yields on non-mining shares will improve as corporate profits are seen to get better.

Spending by individuals is expected to take a nose-dive this year — the increase in 1974 was 17,8 percent; it should be about 15,5 percent this year and 11,5 percent next year.

The economists consider that spending patterns will change significantly — clothing and footwear sales should be down this year as spending on homes and essentials rise.

FURNITURE

Sales of durable goods will rise after a two-year decline, with furniture expected to be hard hit by falling sales.

Towards the end of the period, as incomes rise for the poorer sectors of the economy, spending on semi-durables — especially clothing and footwear — will rise.

Examining the more complex issues, the report considers that the gross domestic product was 7,2 percent in 1974, will be 2,5 percent this year and only 3 percent next year. This should be seen against a planned growth rate in the economic development plan of a much higher figure.

The adjustment in output will continue until mid-1976, when it is expected to rise in line with the anticipated improvement in the German, Japanese and American economies.

Sectoral growth will be hard hit in the wholesale and retail trade and in manufacturing. Less spending will result in stock run-downs, followed by lower orders from manufacturers.

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Haak points way to revival

Natal
Library
1919/75

PRETORIA — The latest projection by the Bureau for Economic Research of Stellenbosch University underlined the fact that South Africa was at present experiencing a consolidation phase in which the combating of inflation should enjoy the highest priority, the president of the Afrikaanse Handelsinstituut, Mr. Jan Haak, said here yesterday.

The latest drop in the gold price came at an inopportune moment for South Africa and would have a detrimental effect on earnings from the country's most important import product and the balance of payments position, Mr. Haak said.

With the slow revival in overseas countries it could not be expected that there would be a dramatic increase in South Africa's export earnings, and the economy would consequently have to subject itself to the limits laid down by the balance of payments.

Greater discipline would have to be exercised in the management of the economy during the coming year, both by the public and the private sector.

"It is essential that businessmen should not become pessimistic but should make realistic use of the consolidation phase to get their affairs in order, to promote productivity and to make their own contribution in the fight against inflation. In this way a sound foundation will be laid for the next economic revival," Mr. Haak said.—(Sapa.)

① 47
② Capital

HOW SA

Days of
panic on
the JSE

JOHANNESBURG

SEPTEMBER 21, 1975

LOST R1 330 m IN

SUNDAY
EXPRESS

A WEEK

PANIC SELLING wiped R1 330-million off South African share values this week in one of the biggest plunges on the Johannesburg Stock Exchange since the dark days of 1969.

And the total loss over the last 10 trading days now stands at R2 600-million.

The plunge comes at a bad time for the South African economy, which has suffered a number of other blows and was just ap-

proaching the crunch point in its year-long downswing.

It almost certainly means the long-awaited recovery is going to be delayed.

And for the ordinary man it means austerity times

By DON ROBERTSON
Financial Editor

ahead as the economy remains depressed, prices continue to rise — and the Government is forced to curb wage increases to stop inflation getting out of hand.

These are the things which made it such a black week for the economy. . . .

● The price of gold dropped another 13 dollars an ounce — making it a fall of 26,40 dollars since August 28.

● It was this drop in the gold price which triggered the R2 600-million slump on the JSE.

● The interest rate on home loans went up — and, although a new differential rate was introduced to lessen the blow for the little man, it is bound to hit South Africa's R1 000-million-a-year property market.

Warning

● Meanwhile, the prestigious Stellenbosch Economic Unit, in a report prepared even before the gold price and stock exchange plunges, warned of crunch times ahead and a bleak 1976.

● And leaked news of the Government's plans to fight inflation made it clear that, in addition to freezing wages for civil servants, there would be enforced curbs on salary increases for people working in the private sector as well, for at least the next 12 months.

The fall in the gold price is the most important of all these, because that is the backbone of the South African economy.

Last year gold sales earned us R2 500-million in foreign exchange, and helped ward off the effects of recession in other parts of the world.

Now the drop is threatening to cut R800-million off those foreign exchange earnings — and at a time when the Stellenbosch experts have warned that we need to increase our exports

● TO PAGE 3

How SA lost R1 330

● FROM PAGE 1

by R1 000-million a year, anyway, if we are simply to stand still on living standards.

We need the extra money because of the huge sums we are paying for oil imports and on defence.

The thing that has caused the gold price to fall was a decision by the International Monetary Fund to abandon the official price

of 42,22 dollars an ounce, and sell 25-million ounces from its stockpile, to help developing countries.

This immediately affected the free market, which is where we sell nearly all our gold.

The danger now is that with our foreign earnings down so sharply, the Government will find itself in balance of payments trouble — paying out more overseas than it is getting in.

That could force it to devalue the rand to earn more from its gold sales and reduce imports.

But that would mean more inflation.

It may also be forced to increase the interest rates to attract more foreign money.

And that would almost certainly send up the house loan rates again — and generally increase prices.

Imports to cost more

*More Cape Times
20/19/75*

Boost to inflation

Rand devalued 17,9 pc

Bid to improve SA's balance of payments

SA's balance of payments

Cape Times Correspondent

JOHANNESBURG. — The rand has been devalued against the United States dollar by a massive 17,9 per cent with effect from today.

No rise in TV sets — for a while

JOHANNESBURG. — In spite of devaluation no increase in the price of radio and TV receivers was expected in the next four to six months, Dr Boris Wilson said last night.

Dr Wilson, chairman of the Co-ordinating Council for the TV industry and chairman of the SA Radio and TV Manufacturers Association, said: "Most manufacturers of radio and TV receivers have to order well in advance to have stocks for the next four to six months. As new orders are placed or components have to be replaced there is no doubt about a price increase."

Car prices and motor spares could rise by 10 percent. But when the new prices will be introduced will depend on the amount of stocks held by the South African motor manufac-

The Minister of Finance, Senator Owen Horwood, said in a statement that the action was taken to strengthen South Africa's balance of payments.

He said it would also prevent a further slowing down of the South African economy. Senator Horwood conceded that the move was inflationary, but promised that the Government would take steps to contain inflation.

Yesterday's shock move follows a wave of speculation on the future of the rand. Last week, as the gold price plummeted and the United States dollar strengthened on world foreign exchange markets, millions of rands were withdrawn from South Africa as a precaution against devaluation. Banks estimate that 250m dollars were bought by speculators on Friday alone.

The size of the devaluation, which itself was not unexpected, took economists and business men by surprise.

This does not mean that your savings in banks and building societies will be reduced by 17,9 percent. But it does mean that a wide range of imported goods will cost substantially more and it adds a new twist to the inflationary spiral. It also means that you will be able to buy less with the same amount of rands if you go overseas.

With export orders will also get more rands for their sales.

Another beneficiary is local industry. The prices for imported goods will go up and more people will switch to buying domestically produced goods. This will help to revive flagging sales and boost the internal economy. And it will also make the Republic's export goods cheaper in the British market which is still our single biggest trading partner.

Car prices

But it also means belt-tightening for all South Africans, as the standard of living in real terms will also fall. The price of cars and petrol will go up. The liquid asset requirements of the banks will also be raised soon.

This means credit will become that much harder to get. It also means that there will be pressure on bank lending rates and interest rates will probably

① 47
② 246
③ 784
K. Copland

Cape Times 21/9/75

Swift reaction to rand devaluation

MR JAN HAAK PRESIDENT OF THE AFRIKAANSE HANDEL- SINSTITUUT

and the devaluation of the rand would of necessity have an inflationary effect particularly because of higher prices for oil and raw materials and other equipment.

These, he said, would inevitably become more expensive.

Mr Haak, a former Minister of Economic Affairs, said the current high inflation rate could lead to a quick erosion of the devaluation benefits.

This made it even more imperative that all sections should support the Government's anti-inflation programme, details of which would be announced soon.

"If we are successful in our inflation fight the benefits of devaluation can be exploited and the foundations laid for further growth when economic recovery starts among South Africa's overseas trading partners."

The sharp drop in the price of gold with the increase in the value of the US dollar made the rand devaluation unavoidable.

Mr Haak claimed that swift reaction of the Government had ruled out

any speculation against the country's economy.

The devaluation could assist in adjusting the balance of payments without serious sacrifices in growth.

This would lead to a more balanced economic growth and make possible a better and more stable business planning climate.

The devaluation, Mr Haak said, should encourage local industrial development and make South African products more competitive with imported goods.

The rand income from gold mining and export of metals and minerals would be much higher while other exports would also be stimulated.

The devaluation would also stimulate the inflow of overseas capital, particularly as speculation against the rand would be eliminated.

A UNITED PARTY SPOKESMAN

said that the devaluation by a massive 17,9 percent was a grim indication of the way in which South Africa's balance of payments and internal fiscal policies had been allowed to get out of hand.

"Rapidly rising external payments on oil and defence have to some ex-

tent been unavoidable. They have, however, been accompanied by extravagant overspending by the Government and by gross negligence in controlling the priorities of state corporations.

"These permissive fiscal policies were based on the facile assumption that the widening gap in our balance of payments could for ever continue to be bridged by an ever increasing gold price. Now Russian grain purchases and the progressive demonetization of gold, both of which were predictable, have temporarily weakened the gold markets. The Government has improvidently left itself no option but to resort to the desperate remedy of devaluation.

"It is a desperate remedy because, as with certain drugs, the side effects can be more severe than the disease it seeks to cure. In terms of the weakened rand, defence and oil costs will rise much higher. Inflation, which already threatens the very foundations of our economy, will grow even worse.

"Taxation will be increased to unprecedented levels. Our sustained growth on which the so-

cial and political peace of South Africa ultimately depends will be seriously undermined. Certain sectors of the economy will receive short-term benefit from devaluation.

"Significant is the fact that whereas some three years ago when the price of gold was around 42 dollars South Africans enjoyed a fair measure of prosperity. With gold presently selling at three times this amount the Government has been unable to contain costs of living, and South Africans are all significantly worse off. In the long run we will all lose because of the present devaluation. Sunday the 21st of September is a black day in the economic history of our country.

"In the absence of Mr David Baxter, MP Constantia, who is overseas and who is the United Party's chief spokesman on financial affairs, this joint statement is issued by Mr H A van Hoogstraten, MP Cape Town, Gardens, UP spokesman on economic affairs and by Mr Derek de Villiers, MP, secretary of the UP caucus secretariat, with the approval of Sir De Villiers Graaff."

MR GORDON OXFORD Chief general manager of the Standard Bank of South Africa,

said the rand devaluation and increase in liquid asset requirements meant there was likely to be further upward pressure on interest rates and that the availability of credit would be reduced.

It would mean adjusting the whole economy and living standards and the cost of imported products such as motor cars were bound to rise.

Mr Oxford said that because gold played such a central role in the economy, the Minister of Finance, Senator Horwood, had been forced to protect the profitability of the gold mines and indirectly to prevent any further pressure on the gold price.

If people speculated against the rand as importers paid off overseas commitments, short-term money left the country and the gold and foreign reserves came under pressure and the Reserve Bank was forced to sell more gold.

With the gold price under pressure, this was not an attractive prospect.

MR DANIEL FRANZSEN, Deputy governor of the Reserve Bank,

said the Reserve Bank hoped to announce, as soon as possible this week, the new liquid asset ratio requirements for banking institutions.

Liquid asset requirements for commercial banks are: Short assets 49 percent, 28 percent medium term, 5 percent long term and 10 percent under acceptances.

Devaluation wrong —
Schwarz: Page 4.

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- ④ 246

Devaluation: Cost of Living is now expected to soar

47
46

The Argus Correspondent

AKUJ
22/9/75

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JOHANNESBURG. — Today's 17,9 percent devaluation of the rand is the latest in a huge series of blows against the value of money. There are more to come.

Businessmen were unanimous today in predicting heavy increases in the cost of living.

Rand is worth 55,28p

ONE RAND is worth 55,28 British new pence compared with 67,32 before the weekend's 17,9 percent devaluation of the rand against the American dollar. The value of the rand has dropped to 1,15 dollars compared to 1,4 dollars previously.

Big stores pledge: No profiteering

The Argus Correspondent

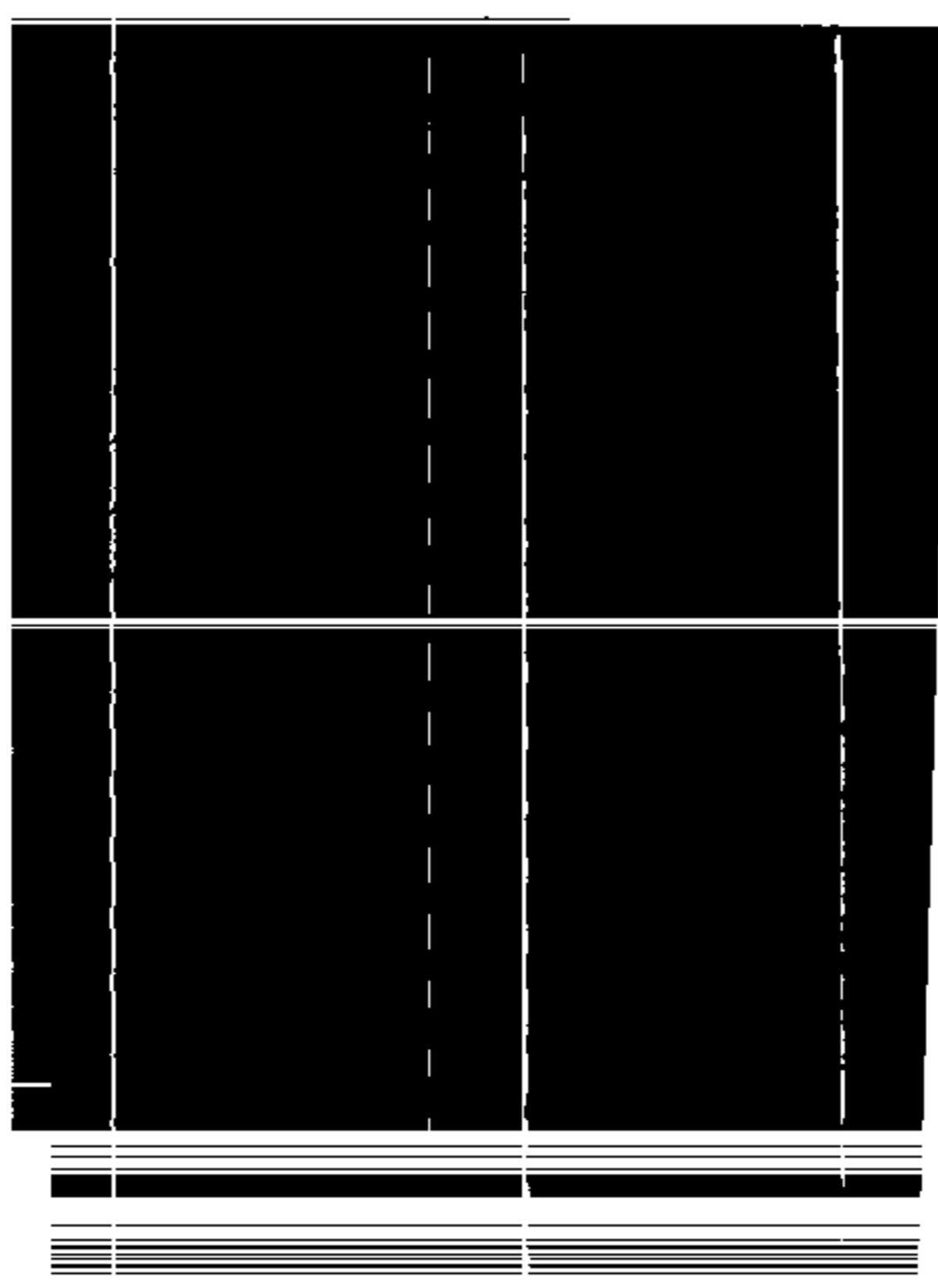
JOHANNESBURG. — Major retailers today promised not to use devaluation as an excuse to increase prices of imported goods already in stock. One warned, however, that some retailers would 'jump on the bandwagon' and increase prices immediately

Among products whose prices are expected to rise most as a result of the devaluation and the expected increase in the oil price are:

- Fertilisers, most of which are oil-based.
- All agricultural products—largely as a result of increased fertiliser and transport costs.
- Meat. The Cape Wool-growers Association was asking for an increase in the floor price of lamb and the agricultural union's meat committee wanted increased floor prices for beef, mutton and pork, even before the devaluation.

Higher

- Increased prices of grain feeds, fuel and transport arising from the devaluation will force them to ask even higher prices.
- Steel, with its chain-reaction effect on a wide variety of manufactured products.
 - Plastics and chemicals, many of which are oil-based.
 - Processed foods as a



FACULTY OF ARTS

DUPLICATED

Department

Reference

Date.....

Number of

Stencil 1

Not urgent

Signature

FOR DUPLICATION

Date of completion

DUPLICATED

Department

Reference

Date.....

Number of

Stencil prepared

Not urgent

Signature

FOR DUPLICATION

Date of completion

Mr Cyril Atkinson, managing director of OK Bazaars, said any retailers who increased prices of goods in stock would be 'profiteering' at the expense of the public.

He said his organisation would do everything in its power to hold down prices.

However, it was inevitable that the increased cost of imports would affect the price structure throughout South Africa.

INSTRUCTIONS

Mr Raymond Ackerman, head of Pick n Pay, said most big stores had already completed their Christmas buying and prices of these goods should not be increased.

'Instructions have already been issued to our stores that they are not to increase the price of any commodity already in stock,' he said.

'I fear, however, that a lot of people will take advantage of the devaluation and slap on big increases,' he said.

The vice president of Checkers, Mr Bob Harvey, said the policy of his group would be to hold the price of goods already in stock.

He said it was too early to tell whether people would cut back on spending as a result of devaluation.

All three major groups said they did not expect to be too dependent on imports.

DEMAND

Mr Ackerman said his group would take a voluntary cut in imports.

Checkers would import only where there was a demand from customers for imported goods.

Mr Atkinson said the OK was fortunate that it had embarked on a policy of buying South African goods many years ago.

He said devaluation offered the Government a glorious chance to end retail price maintenance on petrol.

With oil prices going up, competition for petrol sales offered a positive way of offsetting the price hike, he said.

Promise on holding down prices

The Argus Bureau

PRETORIA. — South Africa's price control machinery would do everything possible to cushion the effect of the devaluation of the rand on the cost of living, the Deputy Price Controller, Mr E. G. de Beer, said in Pretoria today.

Fortunately the country was in a better position now than it had been after the last currency adjustment, in 1971, to control the prices to the consumer of imported goods, he said.

As a result of that devaluation, price control had been applied at the importer level to a wide range of goods, particularly agricultural equipment and domestic appliances.

These need not be increased in price immediately, since in many, though not all, cases there were quite big stocks on hand.

result of higher fresh food, packaging and transport costs.

● Transport—a result of increased fuel prices.

Mr Martin van Achterberg, managing director of one of South Africa's leading township development and building companies, predicted the overall cost of new houses would rise by between 5 and 7 percent in the next year.

He said the building industry used a great deal of petrochemical products and because of the anticipated increase in the oil price, building costs would rise further.

Homes

Coupled with devaluation, higher bond rates could force the man-in-the-street to buy more conservative homes.

In the long term, there would be a greater demand for high density, low-rise homes.

Mr D. Kennedy, executive director of the South African Property Owners'

TOWN

postat

iry

.....Signed.....

Rand devalued 17,9% DDC

Dispatch
22/9/76

(47)

JOHANNESBURG — The rand has been devalued against the American dollar by a massive 17,9 per cent with effect from today.

The Minister of Finance, Senator O. Horwood, said in a statement that the action was taken to strengthen South Africa's balance of payments.

He said it would also prevent a further slowing down of the South African economy.

Sen Horwood conceded that the move was inflationary but promised that the Government would take steps to contain inflation.

Yesterday's shock move follows a wave of speculation on the future of the rand. Last week, as the gold price plummeted and the American dollar strengthened on world foreign exchange markets, millions of rands were withdrawn from South Africa as a precaution against devaluation.

Bankers estimate that 250-million dollars was bought by speculators on Friday alone.

The size of the devaluation, which itself was not unexpected, took economists and businessmen by surprise. This does not mean that your savings in banks and building societies will be reduced by 17,9 per cent. But it does mean that a wide range of imported goods will cost substantially more and it adds a new twist to the inflationary spiral. It also means that you will be able to buy less with the same amount of rands if you go overseas.

The main plus factor is that it will greatly restore the foreign exchange earnings of the gold mines. Gold accounts for about 50 per cent of our overseas earnings. We produce about 77 per cent of the world's gold output.

At the new rate of 1,15 United States dollars to the rand (formerly 1,40 dollars to the rand) the price received in rands

from gold sales will be restored to around the level of late August when the gold price stood around 160 dollars.

Last Friday gold closed at 137 dollars an ounce in London.

It will also enable the Reserve Bank, which sells our gold, to withhold more of current mine production from the market if it has to in an attempt to stabilise the price. The price has been depressed by heavy selling from institutional and private holders overseas following the International Monetary Fund intention to sell 25 million ounces to aid Third World countries.

The diamond, platinum, and other mineral producers who export their output will also benefit by earning more in rand terms from their sales. Those coal mines with export orders will also get more rands for their sales.

Another beneficiary is local industry. The prices for imported goods will go up and more people will switch to buying domestically produced goods.

This will help to revive flagging sales and boost the internal economy. And it will also make our export goods cheaper in the British market which is still our single biggest trading partner.

But it also means belt-tightening for all South Africans as our standard of living in real terms will also fall. The price of cars will go up about 10 per cent and petrol will also go up. The liquid asset requirements of the banks will also be raised shortly. This means credit will become that much harder to get. It also means that there will be pressure on bank lending rates and interest rates will probably rise again before too long.

This will come on top of the recent rise in the bond rate which raises the cost of housing.

Expenditure on defence is expected to soar above R1 000m during the 1976/77 financial year.

No increase in the price of radio and TV receivers was expected in the next four to six months.

The whole cost structure of the country will be affected because our imports largely consist of machinery and equipment, and partly fabricated goods. All these automatic price increases from the devaluation will have to be passed on either directly or indirectly to the public in the end.

Leading trade unionists last night demanded assurances from the Government that a tight grip be maintained on prices.

The president of the Railway Artisans Staff Association, Mr Jimmy Zurich, said railwayworkers would have to review their undertaking not to make new wage demands until April next year if devaluation resulted in a spate of price increases.

"We are faced with a serious slump in our living standards and unless it can be shown by the Government that equal sacrifices are being made by all factors of the economy, we cannot be expected to accept a wage freeze."

This is why inflation is likely to get much worse before it gets better. Higher inflation and tighter, more expensive credit means that the country's economic prospects in 1976 have worsened considerably.

This makes it all the more essential that the Government takes speedy and firm measures to control inflation and cut back sharply on its own spending. — DDC.

Black Monday for the economy

By Reg Williams

Business Editor.

EAST LONDON — Following Senator Horwood's announcement that the rand from today is devalued by 17,9 per cent, South Africans can look forward to an unhappy Christmas and a bleak future. The cost of living will rocket, the Prime Minister's plea for wage restraint will most certainly be ignored — necessarily rather than through bloody-mindedness — and the South African motor industry, in particular can expect a serious recession.

Senator Horwood gives several reasons for the Government's decision to devalue by this ridiculously high margin, and none of them, I feel, hold water.

It would seem the Government had relied heavily upon the current recession showing an upturn by the end of the first quarter of 1976 — a dangerous assumption at the best of times and one that smacks of speculation.

The price of gold having tumbled recently is another of the reasons, yet following the IMF meeting, Senator Horwood himself publicly expressed confidence that the price would rise again once the "misapprehension regarding the future of gold" had been cleared up. Another dangerous assumption, once more smacking of speculation.

There is even further speculation in Senator Horwood's expectations following devaluation. That it should curb speculation against the rand is true, but whether this will improve the net inflow of long and short

term capital remains to be seen. As Senator Horwood says, the world recession is taking longer to settle down and turn upwards again than had been anticipated. Therefore, countries overseas who might normally be tempted to invest capital in South Africa, must watch their liquid assets most carefully, and few will have money to spare for investment here.

What is more, much of the normal investment is by the bigger overseas banks and financial institutions, in the way of loans to the Government for major projects. And to help combat the spiralling inflation, one thing the Government must do is stop spending so much money, particularly on idealisms.

Gold mining incomes (in rand values) and exports will, of course, benefit, but all imports will soar in price — by at least 20 per cent. According to Mr Horwood, this should stimulate industrial production in South Africa. But goods made for internal consumption are not likely to benefit by much, as with the soaring inflation there will be less money to spend and South Africans will have to tighten their belts.

And Mr Horwood's major move to help combat the consequent inflationary effect of devaluation is pitiful to say the least. He has decided to increase further the liquid asset requirements of banking institutions, which means there will be less money

available for loans.

But the biggest, and most destructive blow of all is the effect devaluation will have on fuel and car prices.

At present the pump prices of petrol at the coast are 15,8c (93 octane) and 16,5c (98 octane) a litre. With the anticipated — and almost certain — ten per cent increase to come from next month's meeting of OPEC ministers, these prices will rise by at least 28 per cent to 20,2c and 21,1c per litre respectively. These are equivalent to 91,8c and 95,9c a gallon.

Diesel, too, will rocket from 16,2c to 20,7 a litre (73,6c to 94,1c a gallon), while lubricating oils will rise on average from 38c per 500ml can to 49c.

And this does not take into account the possibility of a rise in profit margins for owners of filling stations, who have been making representations to the Government on those lines for some time, and whose hand will be well strengthened by this increase. They could receive an extra five per cent, which would push 98 octane petrol above the R1 a gallon mark at the coast.

High fuel prices, of course, have a rippling effect right through the economy, and all prices, particularly food, will be badly affected. And so the vicious circle.

Today is certainly Black Monday in South Africa's economic history, and after all he has said about the economic situation in the past, the least Senator Horwood can do is resign with immediate effect.



SEN HORWOOD... action taken to strengthen balance of payments.

Drastic effect on inflation says Recsei

EAST LONDON — The devaluation of the rand could not have come at a worse time as far as the government campaign against inflation was concerned, the president of the Border Chamber of Industries, Mr R. A. Recsei said here yesterday.

"The devaluation will have a drastic effect on the rate of inflation," Mr Recsei said.

He added there appeared to be no choice but to devalue under the present circumstances.

"The effect on industry will depend on what type of industry is involved. Exporters will benefit, while the majority of industries which depend on importing goods will have to put their prices up," he said.

The president of the National Association of Automobile Manufacturers of South Africa, Mr L. Borman, agreed with Mr Recsei.

"The recent strengthening of the dollar and decrease in the price of gold made it inevitable that the rand be devalued.

"This will favour the exporters but will generally add to inflation," he said.

The motor industry would feel the devaluation through increased prices in car and truck parts and also in fuel price increases.

"In addition to this imported motor tools and equipment used for local content manufacture will increase in price, having a long-term effect on the industry," Mr Borman said, adding that he had not yet had a chance to compile any facts or figures on the probable effect on the industry.

A representative of an East London firm which exports to overseas markets, Mr M. L. Philips, said: "It will mean that in those countries aligned with the dollar, such as the United States and West Germany, our product will be available to the public at a much cheaper rate.

"For example an item valued at R7.00 needs to be valued at 90 dollars at

statement on how considerable until I have all the relevant facts at my fingertips," he said. — DDR.

Step up the export drive and use marketing expertise.

A United Party statement said it was a grim indication of the way in which South Africa's balance of payments and internal fiscal policies had been allowed to get out of hand.

"Rapidly rising external payments on oil and defence have to some extent been unavoidable. They have, however, been accompanied by extravagant overspending by the Government and by gross negligence in controlling the priorities of State corporations.

"It is a desperate remedy, because as with certain drugs the side effects can be more severe than the disease it seeks to cure. In terms of the weakened rand, defence and oil costs will rise much higher. Inflation, which already threatens the very foundations of our economy, will grow even worse.

"Taxation will be increased to unprecedented levels. Our sustained growth, on which the social and political peace of South Africa ultimately depends, will be seriously undermined. Certain sectors of the economy will receive short term benefit from devaluation. Significant is the fact that whereas some three years ago when the price of gold was around 42 dollars South Africans enjoyed a fair measure of prosperity. With gold presently selling at three times this amount the Government has been unable to contain costs of living, and South Africans are all significantly worse off." — SAPA.

present. This will cost 9.02 dollars with devaluation," he said.

The president of the East London Chamber of Commerce, Mr T Peters, said he would have to consider the matter before making any comment.

"This devaluation will be fairly far reaching and the implications considerable. I cannot give any

Economic holiday over says Schwarz

JOHANNESBURG — The economic holiday was over and the man in the street was in for a rough time "as of today," Mr Harry Schwarz, the Progressive Reform Party spokesman on finance said yesterday.

Mr Schwarz, a former banker, said the action of the Minister of Finance in devaluing the rand was wrong, and different methods could have been used to buck up the economy.

Devaluation was wrong because:

The present uncertain position of gold required an act of confidence by gold's greatest protagonist, not an "act of despair."

It would cause a massive bout of inflation.

Devaluation was a last resort. Many other remedies could be used instead.

In its present state South Africa needed massive growth to improve the lot of the underprivileged. This measure would create problems in merely maintaining their present living standards.

Alternative measures the government could have taken were:

- Assist marginal mines.
- Encourage foreign borrowing, and subsidise foreign trade.

Unions warn Govt on prices

Cape Times Correspondent

PRETORIA. — Trade union leaders in the public and private sectors yesterday warned the Government that if devaluation led to a spurt in the price spiral, a barrage of realistic wage and salary demands was certain.

The Government, they said, would have to police the private sector to ensure that the sacrifice workers were called on to make was being shared equally by manufacturers, wholesalers and retailers.

The secretary of the 200 000-strong SA Confederation of Labour, Mr Wally Grobler, said devaluation would materially increase the inflation load, and the Government should be warned that the wage and salary earner was not prepared to carry this load on his own.

ABSOLVED

The secretary of the Posts and Telegraphs Association, Mr L J van der Linde, said that unless the Government could clearly demonstrate it had a full control over prices and profits in the private sector, staff associations were likely to feel absolved from their commitment to moderate wage claims.

The president of the Railways Artisan Staff Association, Mr Jimmy Zurich, agreed with Mr Van der Linde.

The president of the Public Servants' Association, Mr S D de K Venter, said his association would sharpen the watch on prices.

"And if prices continue to rise following devaluation, we would then have to consider what action to take."

Misleading comments

Cape Times Correspondent

PRETORIA. — The Minister of Finance, Senator Owen Horwood, said yesterday that he considered much of the comment "which is doing the rounds" on the likely inflationary effects of devaluation was exaggerated and misleading.

In a statement in Pretoria he said the prices of a number of imported goods had eased off lately, because of the depressed conditions in countries from which the goods were obtained, and this counter-acted whatever rise might take place in the cost of imports.

The industries which would benefit most from the devaluation — the mines and export industries — would be expected to proceed with responsibility in regard to their wage and salary policy.

"In other words, to practise wage restraint in terms of the Prime Minister's injunction to the country."

South African manufacturers who imported part of their materials would justifiably raise their prices near the full extent of the devaluation.

"Finally, I must correct a comment which I regard as misleading — that the devaluation will lead to a fall in living standards."

By safeguarding the balance of payments, by curbing the otherwise excessive loss of capital which would have left the country, by giving a boost to the mines and export industries, and by encouraging the inflow of capital, the devaluation of the rand would have precisely the opposite effect.

● Senator Horwood said in an SABC television interview last night that he was convinced the price of gold would recover once the present speculation had ceased, once the Russians had stopped selling gold to buy grain, and once the industrial demand for gold recovered as the price fell.

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Unions point gun at Government on prices

Staff Reporters

THE trade union movement yesterday raised a gun to the Government's head — warning that if prices rise unjustifiably because of devaluation there will be no wage restraints.

They threatened a barrage of compensatory wage and salary demands if the Government failed to police price rises properly.

The warning came from both the multiracial 210 000-strong Trade Union Council of South Africa (Tucsa) and the 200 000-strong SA Confederation of Labour, as well as from the Posts and Telegraphs Association and other unions.

The labour movement is committed in principle to limit wage demands, except in the case with very low pay workers.

But their qualification all along has been that Government and business must do their bit as well.

The senior vice president of Tucsa, Mr Lief van Tonder said: "We in South Africa cannot wait until we have an inflation rate



ANNA SCHEEPERS
... "fanning flames"

of over 20 per cent before we take decisive action.

"For any action then will be so severe and harsh that the dangers of social friction will be tremendous."

The secretary of the Confederation of Labour, Mr Wally Grobler, said devaluation would materially increase the inflation load, and the Government should be warned that the wage and salary earner was not prepared to carry this load on his own.

He warned that at the slightest indication that the Government was "rattling on the workers" the trade union movement would demand rises which would fully compensate for the erosion of the rand over the past 18 months.

The secretary of the Posts and Telegraphs Association, Mr L. J. van der Linde, said: "We want more than an assurance from the Government. We want clear proof — we want to be able to see — that prices are not being raised, save in the most exceptional circumstances."

The president of the Railways Artisan Staff Association, Mr Jimmy Zurch, agreed. "We are tired of generalisations from Government sources that everything possible is being done. This is not enough," he said.

The president of the Public Servants' Association, Mr S. D. de K Venter, said his association would sharpen the watch on prices.

Mr Robert Kraft, economist and assistant general secretary of Tucsa, said:

"Our major fear is of a sudden proliferation of unjustifiable price increases.

"Too much will be charged on imported goods and there will be price increases on items that should not be affected by devaluation."

He warned that trade unions would insist on "very strong State action" if there are unwarranted rises in prices.

"Last time, there was a 12½ per cent devaluation, many firms took the public for a ride. There were no controls," Mr Kraft said.

Some Tucsa unions, though, say that workers cannot afford a drop in the value of the rand.

Senator Anna Scheepers, president of the Garment Workers' Union, said workers earning R200 a week or more could be expected to make sacrifices, "but not those earning R150 and R200 per month. We can't compromise them".

She said: "If the profits of companies have to drop, then they must drop. Devaluation will increase all prices. It will fan the flames of inflation".

Up, up go the prices

23/9/75
Cape Times Correspondents

JOHANNESBURG. — The South African motor industry — reeling under the impact of the rand devaluation — is initiating an unprecedented wave of price increases, some starting immediately.

This is just one of the many branches of the economy which have been affected by the devaluation. Consumers are in for a significant increase in the cost of living, with retailers predicting steep price rises of domestic commodities.

All Datsun car prices will be hiked between R140 and R240 today and before the week is out Mazda cars and trucks will cost anything from R160 to R350 more.

Mr Peter Whitfield, marketing director of Datsun-Nissan South Africa, said Datsuns had been increased between five and seven percent immediately.

"Car prices will increase an average of 10 to 12 percent in the next three to six months," he said.

Mr Colin Adcock, managing director of Toyota, said: "The long-term effect could be something like 30 percent on the price of a car by the

end of next year."

Mr Fred Butler, sales director of Illings Mazda, said the company would formulate its new prices today. "The increases will become effective this week and will be between five and 7 1/2 percent."

Petrol prices will be increased by three cents a litre, unless new increases by the oil-producing countries are absorbed by the Government.

Consumers' commodities which will be most affected are:

● Coffee, tea and food— with a base of imported raw material.

● Soap and detergents with a raw material base.

● Household goods such as plasticware, glassware, crockery, hardware and tools.

● Imported liquor lines.

● Luxury import goods such as cigarettes and perfumes.

● Photographic equipment.

● Television sets manufactured from imported components.

● Machinery and business machines possibly by 22 percent.

● Fertilizers—most of which are oil-based.

● Farm produce—due to rising transportation and fertilizer costs.

● Meat.

● Canned foods.

Other price rises which will add to the inflationary spiral are:

● Transport due to increased fuel costs.

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SA move seen in U.S. as ominous sign

Argus 24/9/75

The Argus Bureau

WASHINGTON. — South Africa's massive rand devaluation was seen by monetary officials at the Treasury and at the International Monetary Fund as another ominous sign that the economic pressure on middle-level countries is becoming unbearable.

The annual report of the International Monetary Fund warned that the 'more developed primary producing countries' — the category which includes South Africa — faced a combined deficit on balance of payments this year of 12 000-million dollars.

The other primary producers in the same category are Australia, New Zealand, Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey and Yugoslavia.

Most are in dire trouble because the industrial powers are, in effect, passing on their oil deficits.

BEARING UP

Monetary officials showed little inclination to criticise the rand devaluation even though, until a month or so ago, South Africa seemed to be bearing up rather better than most primary producing countries.

For one thing, the pressure of oil deficits and the related recession in the major industrial countries has caused more than 100 legal devaluations, mainly among the smaller countries, in the past year.

Moreover, officials here pointed to a number of specifics in the South African situation. Among them were the weakening in the prices of commodity exports, the strengthening of the dollar against all currencies, and the weakening of sterling.

LAST STRAW

While these pressures could be absorbed by South Africa, the drop in the gold price caused by the uncertainties in the wake of the decision to sell part of the IMF gold stock was the last straw.

While officials displayed an attitude of understanding, some unofficial sources

Where the blame lies

F.M. 26/9/75

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Devaluation has starkly exposed the weakness of the economy and the currency. These are the men responsible.

Nine men are primarily responsible for the disastrous weakening of the currency. In five short years they have succeeded in reducing its purchasing power to 41c and its value against the dollar by 21% despite a fourfold increase in the gold price. They will put up all sorts of defences and make all sorts of excuses. They will try to blame the oil sheiks, the speculators, the IMF, William Simon, overseas inflation and local businessmen.

Don't fall for it. While lower gold prices and higher oil prices are the immediate cause of our troubles, their origin lies much deeper and much closer to home.

Sunday's devaluation is the culmination of a period of profligacy in Pretoria which has allowed national spending to keep racing ahead of national income and thus to destroy the value of our money. And the men who are mainly responsible are the nine on our cover.

Over the past few years national expenditure has been exceeding national earnings by a frightening and debilitating margin because:

- Finance Minister Dr Nico Diederichs in 1973-74 allowed consumption spending by the public authorities to jump by no less than 23%. Despite double digit inflation he then allowed total government spending to increase by a further 24% in 1974-75 although real GNP rose by only 2% in the year to June 1975. This set in chain a massive rise in total expenditure unmatched by real output at home or by earnings abroad.

Not surprisingly inflation gathered pace to reach 18% in the third quarter of 1974, with the current deficit on the balance of payments soaring to a daunting annual rate of R1 700m by the first half of this year.

This SA could clearly not afford.

- Senator Owen Horwood, who took over Finance at the beginning of the year, then proceeded to pour petrol on the fire with a Budget which increased government spending by another 19%, although by this time he should have known that real GNP could not possibly grow by more than 3%-4%.

This in itself was dangerous enough. In addition he so overestimated revenue that he was forced before many months were out to borrow from the banking system to finance the shortfall. There is nothing more inflationary than that.

A side effect was to bring short-term interest rates down, encouraging traders to switch to local rather than foreign credit, thus eroding the foreign reserves further. This in turn put a question mark over the rand's exchange value and encouraged an even bigger outflow of money which Pretoria had to disguise with even heavier foreign borrowing.

THE REAL COST

The rise in the rand cost of imports after Sunday's devaluation is, of course, much more than 17,9%. Here's the arithmetic:

- Last Friday it cost 71c to buy \$1 of imports;
- On Monday it cost 87c ie 22,5% more;
- Prior to June 26 \$1 of imports cost only 68c. So rand import costs have in fact gone up by 28% in less than three months and by 30% since mid-1974 — apart from any increase in fob costs.

- Since 1972 Dr Bob de Jongh, Governor of the Reserve Bank, went merrily ahead providing money and credit to finance a level of overall domestic expenditure which he ought to have known we simply could not afford once the balance of payments went into deficit.

In both 1973-74 and 1974-75 he allowed the quantity of money and near-money to expand by no less than 19%, which meant that by this year costs and prices were rising faster than those of most of our trading partners. This also eroded the value added to national income by gold mining and other export industries and blunted the competitive edge of many of our import-competing industries.

Horwood and De Jongh should also be

indicted for completely misinterpreting the effect of the recent gold decisions of the IMF and the US Treasury. They fell into the trap of believing their own propaganda.

- P W Botha, Minister of Defence, has saddled the country with an arms bill it could afford only by making immense sacrifices. Those sacrifices will now have to be made — not after open debate in Parliament of the higher taxes and cuts in living standards involved (which would be the politically honest way to have done it) but through inflation and devaluation which come like thieves in the night.

The fact that the majority of the population, living as it does close to or below the poverty line, is unable to make such sacrifices is also cause for grave concern. One result is likely to be a groundswell of resentment which could erupt into violence if suitable compensating mechanisms are not quickly introduced.

So our massive rise in defence spending could well prove counter-productive. Military strength has been achieved; but at the cost of economic weakness and the risk of widespread discontent.

- M C Botha, Minister of BAD, for his part, appropriated far too large a share of national resources for creating an enormous and largely unproductive empire within an empire. His fast expanding army of petty bureaucrats has drawn more and more potentially productive people into policing others instead of training and educating them.

- Marais Viljoen, Minister of Labour, failed to realise the urgency of relaxing racial barriers to productivity if SA were to pay her way. And he remains totally dominated by those White unions which continue to insist on the exclusion of Africans from most skilled jobs. Productivity, therefore, has been able to rise nowhere near fast enough to match rising demand.

- Louwrens Muller, when he was Economic Affairs Minister, implemented a string of misguided industrial policies which helped lumber the economy with an excessively high cost structure and a dangerously low investment rate in price controlled basic industries. The difficulties of the steel, cement and coal industries on the one hand, and the high cost of motor cars and TV sets on the other, are obvious examples.

He was also the one who put the more modest, shorter-term St Croix project on ice in favour of the longer-term, more ambitious Saldanha scheme. This put an immediate and massive strain on the country's resources — with no export earnings to show for it until 1976 at the earliest.

- The present Economic Affairs Mini-

ster, Chris Heunis, continues to repeat the mistakes of his predecessor.

And finally we are in this situation because PM John Vorster, and his advisers, overlooked the simple truth that SA could not have its cake and eat it. Instead of disciplining his Ministers he allowed them to proceed with expensive programmes which, in the aggregate, the economy had not the slightest chance of

One of the most incredible assertions ever made by a South African Minister of Finance was made by Senator Horwood on Monday. It rivals Harold Wilson's classic gaffe on TV when he asserted after the 1967 sterling devaluation that: "The pound in your pocket has not been devalued."

This is what Horwood is reported to have said:

"I must correct a comment which I regard as quite misleading — that the devaluation will lead to a fall in living standards."



He claimed that, by safeguarding the balance of payments, by effectively curbing the otherwise excessive loss of capital which would have left the country through speculation against the rand, by giving a real boost to

the mines and the export industries, and by encouraging the inflow of capital, the devaluation of the rand would have precisely the opposite effect.

It would stimulate economic expansion in South Africa, he said, against the dismal background of economic depression in Europe, the US and elsewhere.

"In the prevailing circumstances, failure to take this corrective action would, in my view, have had very grave consequences for the entire South African economy."

The *FM* invited comments from economists on the Minister's statement. This is what they have said:

"This seems a very strange statement to me. I can't agree with it because the additional income generated in SA from exports will probably be more than offset by the increased cost of imports."



— Dr Johan Cloete, Chief Economist, Barclays Bank.

"The devaluation as such will invariably lead to a decline in living standards.

This is so because of the inflationary

being able to afford unless the gold price kept going upwards. And instead of insisting on early, tough action against inflation, he allowed precious time to slip by. The country is still waiting for an anti-inflation programme to be unveiled.

The rise in the gold price since 1970 provided SA with a wonderful opportunity to put economic growth on to a sound footing by following conservative

fiscal and monetary policies and by investing in projects carefully selected to raise productivity and exports.

By squandering this opportunity, by a reckless gambling on the bullion price, and by rendering the economy and the currency vulnerable to any passing weakness in the gold market, Vorster and his colleagues have done our economy a grave disservice.

Can you believe it?

Minister of Finance, Senator Owen Horwood believes devaluation will not lead to a fall in living standards. Many economists disagree

effect inherent in devaluation. If a way could therefore be found through which the inflationary effect of devaluation could be neutralised, it is of course true that devaluation can start off a higher growth rate.

"The government was placed in a very tight spot as a result of the decline in the gold price. After devaluation it is however more important than ever to stage an effective anti-inflation campaign. If we are not effective in increasing productivity and fixed investment in the private sector, it is most unlikely that inflation will come under control. To be successful in stimulating investment and productivity at this stage is, however, not going to be very easy."

— Professor F J du Plessis, Chairman of Senbank.

"The devaluation is likely to lead to a lowering of living standards if prices should rise, as they must, and wage demands are not met. If wage demands are met, the effect of the devaluation may be nullified.

— Professor Joubert Botha, Department of Economics, University of the Witwatersrand.

"Devaluation involves a temporary check to living standards — the extent depending upon the margin of unused capacity in the economy. This, in turn, is the outcome of the stage in the business cycle in which the devaluation takes place and the policies which are followed in the aftermath of the devaluation decision.

"Exchange rate changes can, in the longer run, enable a country's output to rise as fast as the underlying increase in efficiency, but they cannot magically produce a faster increase than that, and they need to be reinforced by appropriate internal policies if they are to maximise their benefits.

"In this instance, all the ingredients for such a coherent internal policy — in the monetary, fiscal, labour and incomes spheres — are contained in the government's anti-inflation programme, which is still to be implemented. If the gains from devaluation are to outweigh the losses, the same degree of urgency with which the devaluation decision was taken

seen against the background of the series of currency adjustments which we have had since August 1971.

"If a loss of capital for speculative reasons is stopped through a major devaluation, a structural measure has been taken to combat what appears to be a temporary phenomenon. A more selective measure which would not have affected the whole economy would have been a tightening of the foreign exchange regulations accompanied by a strong ministerial statement to the effect that it was only a temporary measure."

— Professor Joubert Botha, Department of Economics, University of the Witwatersrand.

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must now be invested in the implementation of the anti-inflationary programme.

"South Africa must aim to eventually be in a position to revalue."

— **Raymond Parsons, Executive Director, Assocom.**

"Clearly, a devaluation decreases real income. In fact, that must be the intention of any devaluation, because the intention is to reduce imports and increase exports, which means a reduction in the

supply of goods available for domestic consumption.

"In other words, you devalue because you have been overconsuming.

"The fall in the gold price has also reduced our real income because it has reduced our ability to import — and in a sense devaluation has confirmed that.

"Had we postponed devaluation, the profit-loss situation on the gold mines would have deteriorated, but the rest of

us could have continued to consume at the previous higher levels, so long as our reserves did not run out.

"The position is complicated by the capital account because the more you borrow abroad, the higher will be the level of imports you are able to afford. However, only short term movements of capital are affected by exchange rate predictions." — **Brian Kantor, University of Cape Town.**

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PRICES AND WAGES *F.M.* A new ball game *26/9/75*

While the men at the Department of Finance were preparing for devaluation, Department of Commerce officials were working on the much-heralded anti-inflation package agreed to by government officials and private sector groups (*FM* last week). Has the devaluation torpedoed any chance of success the anti-inflation plan might have had?

Judging by responses to the *FM*'s inquiries, Senator Horwood's *shokku* has cost the wage and price restraint plan much of its credibility and Pretoria is going to find it difficult to make a voluntary commitment stick. As one prominent industrialist put it: "It's a different ball-game now. With something as inflationary as this devaluation, it will be every man for himself. We'll give a horse laugh if government tries to implement this plan."

Most sceptical of the plan's chances now are the trade unions.

Delegates at this week's Tucsa conference expressed fears that commerce and industry will profit out of devaluation by using it as a pretext to put up prices even where the shrunken international value of the rand does not justify doing so.

Referring to the "tremendous sacrifices" trade unions are expected to make in the battle against inflation, Ronnie Webb of the Motor Industry Combined Workers' Union — and a Tucsa vice-president — told the *FM*:

"We are disappointed that government negotiated dishonestly and did not take the unions into its confidence when devaluation was in the offing."

Senator Anna Scheepers of the Garment Workers' Union echoed:

"We were not consulted about devaluation. Why should we then be part of the anti-inflation contract if large numbers of our members are going to suffer? Our agreements in the OFS and



Grobler, Scheepers and Altman . . . will they still play ball?

Northern Cape expire in November 1976. We will start negotiating about May, and we are going to put in for big increases — at least as large as the CPI increase. I can only foresee trouble arising out of the devaluation."

Says Ray Altman, general secretary of the National Union of Distributive Workers:

"I am very worried that devaluation will be even more inflationary than we are led to believe. If imports go up 17,9% in price, by the time the goods reach the consumer that 17,9% will be very much more."

"It is always easy to tell whether the trade unions are playing the game when it comes to wage restraint simply by measuring wage demands against the Consumer Price Index. But it is very difficult to pin down employers. We, in our union, will support Tucsa in its participation in the government's anti-inflation programme, but we will want a very firm assurance from the government on price increases if we are to consider ourselves bound by the package."

"If the CPI rises to unprecedented heights I can foresee that unions will not consider themselves bound any longer".

Jimmy Zurich, president of the 20 000-strong Railways' Artisan Staff Association, endorses Tucsa views:

"My feeling is that the rise in the CoL will continue unabated. The work of the inflation committees will be negated by devaluation and I can expect pressure to build up among my members for a reconsideration of our agreement to hold back until next April on wage demands."

However, speaking as secretary of the RASA, Confederation of Labour chief

Wallie Grobler added: "I don't think we will renege on the April bargain. But the inflation rate then could well influence the size of our demands."

Ken du Preez, general secretary of the SA Engine Drivers, Firemen and Operators' Association, articulates the mood of organised labour:

"The devaluation is disturbing on all accounts. There will be reaction — it's easy to control wages when you have the goodwill of people. But when they pick up the paper and see that the price of the car they were going to buy has gone up, what must they think?"

So it looks as if the plan's chances will hinge on the ability of commerce and industry to hold down prices.

An encouraging omen was the joint appeal of Assocom, FCI and Afrikaanse Handelsinstituut presidents on Wednesday for restraint in marking-up prices on existing stocks of goods affected by devaluation, though it's a pity they didn't broaden its scope to include imports brought in *after* devaluation.

WAGE CURBS

Referring to our report last week on recommendations to government in regard to wage and price restraints, the restraint period for employers and workers will, we understand, be six, not 12, months — the 12-month period was apparently contained in an earlier proposal.

In addition, the package would allow companies to pass on only 70% of *all* "unavoidable" cost increases, including hikes on imported goods.

Move after urgent
meeting of Cabinet

47

Govt acts on car prices

1) 150 n
2) 47
3) 28
4) 192

25/9/75

Cape Times Correspondent

JOHANNESBURG. — The Minister of Economic Affairs, Mr Chris Heunis, yesterday effectively froze the prices of motor vehicles and spares to pre-devaluation levels.

Those manufacturers who have already increased their prices to compensate for the 17,9 percent rand/dollar adjustment were told they must revert to the price levels ruling on September 19, pending clearance of higher prices by the Price Controller.

It is not yet clear whether the authorities intend to extend this price-freeze to other products.

The price freeze decision was apparently made at an urgently-convened Cabinet meeting.

In his statement yesterday, Mr Heunis said: "In view of the statements made by various motor manufacturers on price increases of motor vehicles and spare parts after the devaluation of the Rand, and in the light of numerous complaints and inquiries received by the Price Controller, the Government has requested motor manufacturers not to raise any price before they have been fully motivated and cleared with the Price Controller."

"Those undertakings which have already increased their prices after devaluation have been requested to restore their prices to the levels ruling before September 19, and to clear the increases with the Price Controller first."

'Direct order' ***

Motor manufacturers approached for comment yesterday see this "request" as a direct order

Devaluation hits State corporations

①/ISOA ②/200B ③/47

RDM
25/9/75

BY GERALD REILLY
ESTIMATED costs of expansion programmes of the big State corporations, including the South African Railways, Iscor, Sasol and the Post Office have soared since the Government decision this week to devalue the rand by a massive 17.9 per cent.

It is understood that the first phase of Iscor's 10-year R3 200-million expansion programme, costing about R1 000-million, is nearing completion, and that future plans are being scaled down for a number of reasons.

The decision to go slow on expansion, it was learnt, was taken some time ago. The reasons then were the great difficulty being experienced in recruiting skilled workers to man the Newcastle works, and the expanded plants at Iscor in Pretoria and at Vanderbijlpark, as well as international monetary uncertainties.

The massive devaluation has further convinced Iscor of the need to extend the time limit for the completion of the 10-year programme.

However, work is expected to continue at normal tempo on the Sishen-Saldanha project.

Eighty-five per cent of the materials and equipment being used in the development of the harbour and the railway line is manufactured locally.

Most of the other 15 per cent has already been imported.

Asked yesterday how Post Office expansion would be affected by devaluation, the Postmaster General, Mr Louis Rive, said the Government had clearly indicated that essential infrastructure development must continue. The current financial year's capital development costs amounted to R213-million, Mr Rive said.

Although the bulk of equipment was manufactured locally, a fair amount still had to be imported. For instance 75 per cent of switching gear was manufactured locally.

However, although Mr Rive declined to comment, it is clear that it is going to cost the Post Office substantially more since devaluation to achieve its growth targets.

In the 1974-75 financial year SA Railways spent nearly R400-million on purchases. The greater proportion of this amount was spent locally.

The expansion of Railways is regarded as basic to the country's economic growth and it is hardly likely that significant cuts will be made for the 1976-77 financial year.

A Railways headquarters spokesman said the extent of next year's purchases was not yet known but foreign purchases would obviously cost about 20 per cent more.

A Sasol spokesman said imported plant and equipment would now cost more.

Most of the estimated cost of the R70-million gasification expansion programme had been spent. However, devaluation would affect purchases which are still to be made.

Asked whether the devaluation would affect the Sasol Two timetable, he said most of the initial construction would be with local materials.

However, the processes to be used at the new plant and the equipment which would have to be purchased abroad had not yet been decided on.

It was impossible, therefore, to say at this stage how devaluation would affect the total expenditure on Sasol Two.

① 47
② 246
③ 150A
'Some price hikes valid'
Cape Times
26/9/76

JOHANNESBURG. — Mr E. G. de Beer, Deputy Price Controller said yesterday that many companies which increased their prices immediately after devaluation were justified in doing so.

"Many people who complained about price increases felt the companies must obviously have had the stocks in before devaluation, but in most instances we found the stocks had not actually been paid for, because of things like the extended credit systems these companies have," he said.

The price control office had issued special instructions to the regional inspectors to be on the lookout for price adjustments and to ensure that existing stock that had already been paid for was not increased in price.

Asked whether he had made recommendations for any further price freezes, he said he could not comment.

● Sapa reports from Pretoria that the Post Office has decided that as a result of devaluation and the fluctuation of sterling exchange rates, it had temporarily suspended payment of all British, Irish and Malawi postal orders as well as all Rhodesian and Malawi money orders.

● Mr Henny Irving, director of Union Castle Safmarine, said yesterday that sea fares will not be increased before October 1, but by then an increase in crude oil prices could make the price increase "substantial".

THE high economic growth rate being pursued in principle by the authorities is mainly aimed at creating maximum job opportunities for Blacks.

This was clearly spelt out in the official Economic Development Programme released in March.

The document says that at a 6.4 per cent average annual growth rate between 1974 and 1979, it is hoped to cut Black unemployment from 366 000 (5.8 per cent of the economically active Blacks) in 1973 to 314 000 (4.1 per cent) by 1979. Most of the unemployed are in the homelands.

However, the validity of two major assumptions seriously requires closer scrutiny.

● Is a high economic growth rate the ideal generator of

ECONOMIC POLICY

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Creating jobs is

jobs for Blacks in the long run?

● Is there really a critical Black unemployment problem?

Referring to the first question, many leading economists are at odds with the approach by the authorities. In particular, Professor Ludwig Lachmann, former head of the Department of Economics at Wits University, says if the authorities wish to keep Black unemployment at low levels by using inflationary

means (such as a high growth rate), they will defeat their own means.

Senbank's economist, Mr Adam Jacobs, agrees. He says the South African economy just can't take the strain of 6.4 per cent growth at this stage. Critical capital, management, skilled labour and transport bottlenecks will arise.

Dr Frans Cronjé, Chairman of S.A. Breweries and of Nedsual, reflects just how impossible the challenge is:

LEON K

"At the moment there are only 180 000 skilled workers in all the Nonwhite groups. Yet over the next five to ten years the country will need an additional 2-million skilled Nonwhites if it is to grow at an annual rate of 6.4 per cent or more"

Dr Johan Cloete, Barclays Bank's Chief Economist, argues that increased investment per se, which is a requisite for growth, does not necessarily lead to a large an

High growth will not ease surplus

From page 3

are those in the EDP — 366 000 in 1973.

Professor Jan Lange, the prominent Free State economist, estimates that Black unemployment is increasing at a rate of 100 000 a year. However, he has no idea of what the cumulative figure is.

Professor Lange says if it is assumed that about 1 per cent of the Black population enters the labour market annually, 69 000 jobs have to be found in the homelands and 75 000 outside.

However, only about 40 000 new jobs are created in the White private sector each year, while fewer than 80 000 industrial jobs have been created in the homelands in the entire period since 1960.

On the basis of the above figures, it would seem that the overall situation is most unhealthy. However, this is a misleading assumption. Consider these factors:

Firstly, every Black adult male South African in sound health has the right to work on our mines (he has a priority right to a job over any foreigner).

Demand for Black labour on our mines at present is 450 000, yet the actual complement is only 74 per cent of this. Moreover, workers from within the country's borders now account for only 30 per cent of the total mine labour force.

Many local Black unemployed (and those not economically active) are in this

for healthy adult males there to leave agricultural production to women and children.

Thirdly, there should be only negligible unemployment in the White metropolitan areas, as in terms of influx control regulations, if a Black cannot find employment in a given White area, he is obliged to return to his homeland.

And fourthly, Blacks are rapidly entering areas of employment that were previously the preserve of Whites. Conditions today are geared to encourage, not discourage, this.

Having said all this, it could be argued that the authorities should scale down general growth targets (to make them less inflationary) and instead concentrate on carefully defined areas of action. Here are four leads: ● Step up the family planning campaign. Mr Jacobs says that it's not the present unemployment situation that is potentially explosive, but the future situation. And we can't pursue a high growth rate for all time to keep up with a high population growth. The present South African annual population growth rate of 2.7 per cent is 35 per cent higher than the world average.

● Dr Cloete maintains that if the mines continue to improve their wages and working conditions (which they can well afford to do), this will have a positive effect. He says that in the past, the mines were not competitive

intensive than manufacture and there is a cash market for agricultural commodities anywhere in the world. Manufactured goods generally face stiff competition.

● Professor Lange disagrees with Dr Cloete's line of emphasis. He maintains that greater attention should be given to the development of manufacture in the decentralized areas.

However, at this stage such differences of opinion are really insignificant. What is important is the consensus that development must be stepped up at all costs in the backward areas.

In a nutshell, Pretoria would be well advised seriously to rethink its economic priorities.

Reserves jump to 18-month high

RDM
2/10/75

Mining Editor
THE RESERVE Bank's gold and other foreign reserves for the week ended September 26 jumped by R147-million to R916 012 199 — their highest level since March 1974.

The rise reflects the drawing down of South Africa's gold tranche with the International Monetary Fund. This tranche, which was probably taken in currencies and SDRs, was worth around R92-million.

The balance of the remaining increase reflects the revaluation of the Bank's holdings of foreign exchange and SDRs following the devaluation.

The surprising feature is the modest R1 291 110 rise in gold holdings to R530 563 143. This retention level of around 1,35 of gold represents only about 8,8 per cent of current output.

This amazed London bullion dealers who — based on their actual market experience — expected retentions to be much higher. Several dealers thought South Africa must have effected a direct sale to some overseas monetary agency.

Reuter reports that South Africa recorded a R457-million deficit on current account of the balance of payments in the second quarter of 1975 compared with a deficit of R346-million in the first quarter and a deficit of

R103-million in the second quarter of last year, the Reserve Bank said.

The Bank said in its quarterly bulletin that at annual rate the deficit increased to R1 901-million in the second quarter from R1 518-million in the first quarter.

This occurred in spite of a slight decline in merchandise imports and resulted from a sharp rise in service payments to foreigners, coupled with small decreases in the net gold output and merchandise exports.

Net gold output was R615-million in the quarter ended June compared with R638-million in the first quarter and R648-million in the second quarter of last year.

The Bank said annualised net gold output fell to R2 436-million in the second quarter due to a sharp drop in the gold price. This was only partially offset by an increase in the volume of gold production.

The Bank said service payments to foreigners amounted to R2 583-million annualised on second quarter figures.

Net short-term private capital inflow declined to R28-million in second quarter from R223-million in the first quarter.

Overall there was a net inflow of capital of R472-million in the quarter compared with an inflow of R355-million in the first quarter and an outflow of R39-million in the second quarter of last year.

There was a marked increase in the net inflow to the central Government due mainly to a sharp rise in official overseas loans to strengthen the balance of payments.

- ① 47
- ② 78A
- ③ 83
- ④ Capital

47

No cheering at business talks

RJM
2/10/75

47

① 47
② Capital

MINING EDITOR
THE THEME of the NDMF's business outlook conference, which began yesterday, could only be described as bearish.

Dr J. Cloete, Barclays National Bank economic consultant, saw little if any real growth in South Africa's economy next year, despite the devaluation.

The only hope would be another exceptional agricultural season.

Devaluation was more likely to increase the current account deficit. He could see only a moderate balance of payments surplus.

Dr Cloete was also bearish about the inflow of long-term funds on capital account, noting that overseas investors were unlikely to be inspired by South Africa's recent economic performance.

Rand Bank managing director Mr R. A. Setter could only see an economic upturn coming during the third quarter of 1976.

He also expected government infrastructure spending to remain high and he saw the bulk of this expenditure, which is often criticised as inflationary, as productive and economically essential.

The manufacturing industry will be hit by inadequate liquidity and shortage of favourable long-term capital over the next 12 to 15 months, he said.

This leads him to expect "a number of takeovers, mergers and insolvencies" next year. The same also applies to the commercial sector.

Anglo American Corporation technical director Mr M. C. O'Dowd saw the whole of 1976 as a "recession year" and could see "no joy for the capital goods sector."

Capital investment — excepting gold mining — "has some way still to go downwards."

He could not see costs on the mines falling next year.

On an equally bearish note he could not see any "further big increases" in the gold price "for some time to come." But Mr O'Dowd also considered further substantial falls unlikely or short lived.

He thought the Government was likely both to raise taxes and cut back on capital expenditure. The public corporations would probably also cut back.

He only hoped the Government didn't go in for an overkill on expenditure cutbacks. This would worsen the recession, he said.

Dr P. J. Rieckert, economic adviser to the Prime Minister, tried to inject a cheerful note. There is very little reason to feel dissatisfied with the economy's achievements in the recent past, the present situation, or to feel overly pessimistic about the future.

The real GDP for the first half rose at a higher annual rate than the projected 6.4 per cent — due to high Government expenditure in 1974, the lagged effect of agricultural expenditure coming from last year's excellent season.

Prospects look reasonable for another good agricultural season and the continued rise in average real wages and salaries, particularly for non-Whites.

Retco managing director Mr J. G. Ward saw no significant upturn in the property market before 1978. He called on the State to make bond repayments tax-deductible and raise the loan constraint "unrealistic since the Zulu rebellion," to R23 000.

Forsyth and Ozanne managing director Mr L. M. Ozanne saw 1976 as "an unpredictable year" for consumer goods because no one yet knows what effects the Government's anti-inflation measures will have on consumer spending.

Anglo American Corporation economic consultant Mr A. B. Dickman saw inflation as the major enemy.

He could see the consumer price index rising from its present level to an average of around 14.5 per cent for 1975 and accelerating to a 17.5 per cent average in 1976.

If inflation is not to escalate further from that point, wage and salary increases lower than the rise in the CPI have to be accepted and the growth rate must decline.

Provided there is continued discipline over wage and salary increases inflation could be slowed to a rate of around 12 per cent by December 1976.

Heunis offers State aid to ore processors

47

RDM 2/10/75

By CHRIS CAIRNCROSS
Industrial Editor

PORT ELIZABETH. — The Government has devised a new export incentive scheme designed to stimulate increased activity in the processing of the country's large store-house of minerals and ores for export.

This was announced by the Minister of Economic Affairs, Mr Chris Heunis, in a speech read out for him by Mr P. J. Theron, Secretary for Industries, at a banquet last night marking the close of the Federated chamber of Industries' annual executive council meeting.

Mr Heunis, who is ill, said the scheme is the result of recommendations of a committee appointed recently by the Economic Advisory Council.

The export scheme goes into immediate effect and will last for five years.

Mr Heunis said that while it is clear little or no help is required from those corporations already processing minerals for export, there are other industries which, being only marginally profitable, may need help to develop their productivity "to the great advantage of the economy."

He said prospective processors of local minerals for export may now apply to the Department of Industries and other authorities for assistance.

Mr Heunis outlines the following forms of assistance:

- The rebate of 25 per cent on the prime bank lending rate applicable under the export promotion scheme may be extended to exports classified under the processed minerals category.

At the present prime rate, this concession amounts to a non-taxable subsidy equal to about 1.25 per cent of the value of the annual exports of processed minerals.

- Loans by the Industrial Development Corporation for part of the capital requirements of a processor at "attractive" rates, with a minimum of 6 per cent against a normal rate of 12 per cent.

The higher the portion of

the product exported the lower will be the rate of interest.

- Beneficiation allowance in terms of the Income Tax Act to a maximum of 20 per cent of the cost of equipment, and a maximum of 15 per cent of beneficiation plants.

Mr Heunis said these allowances may be granted in addition to allowances normally available to manufacturing and mining undertakings, and in addition to any tax concessions for which the operation concerned may qualify in terms of the decentralisation scheme.

- A rebate of up to 20 per cent on the cost of electric power.

- In cases where railage costs are an important

factor and adversely affect the possibilities of export, railage rebates will be allowed on the transport of the main raw materials to the processing plant, and of the products to the coast.

Mr Heunis said that as a general criterion it will normally be a requirement that there should be a substantial input of local raw materials, of about not less than 50 per cent.

"Processing should also be real — say an added value of at least 100 per cent."

flotation and milling processes.

"Assistance in terms of the processing scheme will, therefore, not be available to undertakings based on production principally for the domestic market," he said.

"If they should need support to operate on this market, the traditional channels of assistance by means of customs tariff protection and the normal facilities of the IDC are available."

Mr Heunis said that those companies producing mainly for the domestic market but having surpluses which they wish to export, could qualify for assistance in terms of the existing export promotion scheme.

- (1) 47
- (2) Capital
- (3) 78A
- (4) 189
- (5) 210

'Time to question borrowing policies'

RDM
2/10/75

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- ① 47
- ② Capital
- ③ 150 A
- ④ 170
- ⑤ 78 A

PORT ELIZABETH. — The recent devaluation, while dramatising the structural problems associated with the country's balance of payments, was also the inevitable consequence of longer and more fundamental problems of the economy, Mr Dan Benade, FCI president, said yesterday.

"It highlights, for instance, the whole question of the adequacy of industrial protection, the competitiveness of the South African economy and the relative rate of domestic inflation."

Mr Benade said it also raised the question whether we are investing our borrowings wisely.

"It is only good business to use borrowed capital for investment in adequately productive areas, to permit the eventual amortisation of external loans," he said, pointing out that many businesses have gone bankrupt on the policy of borrowing to maintain uneconomic operations.

Referring to the battle plans being made to eradicate the cancer of inflation, Mr Benade attempted to pour cold water on suggestions that the "disciplines of unemployment should be allowed to settle the excessive demands of wages and prices."

He said international experience has shown unemployment has failed to reinstate the "iron law" of markets.

"Dare we in Southern Africa play the supply and demand game with our workers, to which the president of Rhodesia's Association of Industrialists has alluded?" Mr Benade asked.

He warned that however necessary it becomes to reduce inflation levels, the momentum of growth — "so essential to the smooth transition of events in Southern Africa" — must be maintained.

"We must remind ourselves that we live in an environment which is intolerant to failure."

"It behoves all of us, therefore, to study the mistakes of others and to take timeous and concerted action to protect our very survival."

Mr Benade said the country's present circumstances did not permit us to hold the view that "things will have to get worse before they get better."

He said that South Africans have, for years, been talking about financing Government expenditure in non-inflationary ways; of making better use of total national resources; of determining expenditure priorities; and of wasting less.

"But I do not see sufficient evidence of the sort of co-ordinated planning needed to implement these measures. Now is the time when a co-ordinated strategy must be made explicit."

When the rand was devalued Lesotho's Finance Minister lost no time telling the world that his country had not been consulted by the South African Government.

A day later, news came from Botswana that they had in fact been advised of the decision 24 hours before it was implemented. Presumably, Lesotho and Swaziland had been advised too.

Consulted or not, the BLS countries could not conceivably have dissuaded South Africa from this measure. The devaluation thus draws attention once more to these countries' awkward problem of being heavily dependent upon the weals and woes of an economy vastly larger and diversified than their own.

More than once these small developing economies have found that the timing and extent of big brother's decisions have clashed with their own vital interest in readily available credit and investment funds at low interest rates; low-cost imports; and ready access for their exports to the South African market.

So far, the disadvantages of customs and monetary union with South Africa have been outweighed by the substantial benefits accruing through their share in the union's customs and excise revenues — a total of R66,4-million in 1974/75 as against R48,9-million the year before.

Furthermore, the common market for agricultural and industrial products is as reliable a safety net as the three countries can hope for in a chaotic world economy.

Roughly 210 000 BLS citizens are working in South Africa—over 150 000 from Lesotho, about 50 000 from Botswana and over 10 000 from Swaziland.

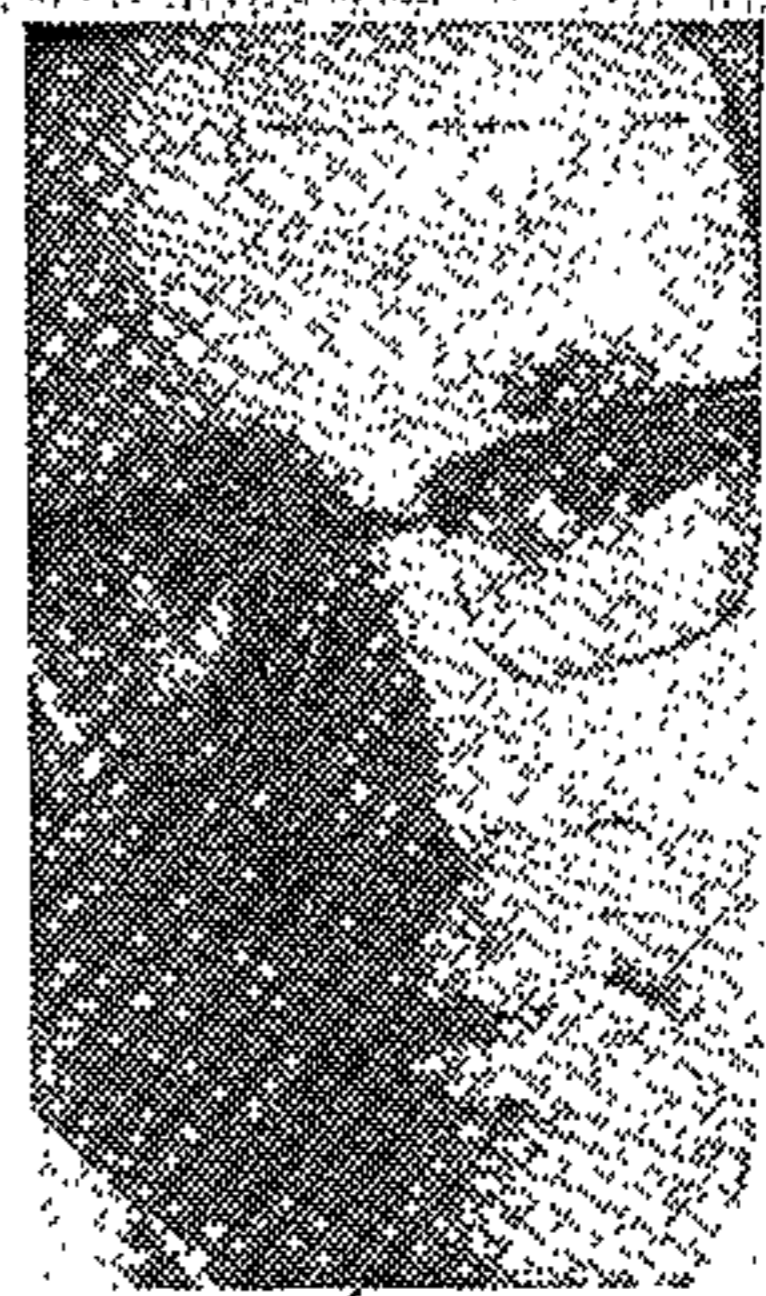
The roughly 80 000 Basotho on the gold mines alone may earn R57-million in 1975 and

DR ERICH LEISTNER, deputy director of the Africa Institute and a former Professor of Economics at the University of South Africa, examines the effect of devaluation on Botswana, Lesotho and Swaziland — all part of the rand currency area.

BLS states hooked to rand

Star
2/10/75

47



DR LEISTNER

over 20 percent a year, with its inevitable impact on investment, growth and employment. Events in the world at large will be a principal determinant in this respect.

For BLS, South Africa in many respects is the "world economy." About seven times as many Basotho are employed in the Republic as at home, and twice as many Tswanas work here as in Botswana. To the extent that devaluation stimulates exports, particularly of our agricultural and mineral products, demand for workers from BLS will increase.

At the same time, these countries stand to earn about 18 percent more from the present volume of overseas exports of primary products — Swazi-

land from sugar, iron ore, asbestos and woodpulp; Lesotho from wool and mohair; Botswana from copper, nickel, diamonds, and beef.

will continue to benefit from the mining industry's rapidly rising wage rates. This, in turn, will boost the assets of the new Lesotho Bank which is entitled to hold 60 percent of Basotho mine wages by way of deferred pay.

Where does the recent devaluation come in? Its effect on BLS will largely depend on two developments — firstly, the course of inflation in South Africa and hence in the whole of the rand currency area; secondly, the extent to which the 17,9 percent devaluation will lead to larger export earnings and smaller imports for the area.

Pessimists already point out that sterling and other currencies are weakening against the dollar and that we may lose the competitive start in exports quite soon, and get smitten by inflation at the frightening rate of

land from sugar, iron ore, asbestos and woodpulp; Lesotho from wool and mohair; Botswana from copper, nickel, diamonds, and beef.

However, in view of contractual and other selling conditions, it seems unlikely that post-devaluation prices for these products will significantly raise the volume exported.

Imports into BLS are predominantly from South Africa, and the prices of these imports can reasonably be expected to rise by one-fifth within a year or so. Normally, Botswana's and Lesotho's balances-of-trade are heavily adverse, and these price increases would therefore entail yet further deterioration. Swaziland with its positive ba-

lance stands to gain.

On the other hand, these losses would be compensated by the increased rand-value of foreign loans and financial aid, though to what extent is difficult to say.

In so far as devaluation stimulates an economic upsurge in South Africa, this would entail larger transfers to BLS from the rand area's customs and excise revenues, and higher earnings by their citizens employed here. However, there are probably few who are optimistic about the prospect for such upsurge.

In sum, BLS are likely to be affected by the consequences of devaluation far more via the state of the South African economy than via their own links with the rest of the world. The Transkei and homelands that hesitate to opt for independence, would possibly be reassured if they saw that South Africa in major decisions on economic policy does seriously take into account the interests of its weaker neighbours.

RDM 2/10/75

Riekert defends state of economy

THE pessimistic views being expressed about the South African economy were unjustified, the Prime Minister's Economic Adviser Dr P. J. Riekert, said in Johannesburg yesterday.

He described the present position as one of temporary consolidation after two years of rapid growth, and predicted another fast growth period in the near future.

Opening the Business Outlook conference of the National Development and Management Foundation, Dr Riekert said the real gross domestic product actually rose at a higher rate than the projected 6.4 per cent for the first six months of this year.

GOOD

According to calculations from the latest figures, a real growth rate of between three and four per cent this year could confidently be expected. This was particularly good in view of the expected negative growth rate of the seven most important member countries of the Organisation for Economic Cooperation and Development.

"I find the pessimistic view of affairs frequently encountered recently difficult to justify," he said.

Dr Riekert said he did not want to pretend that South Africa had no problems, but the future was not nearly so dark as recently painted in many circles.

Pointing to recent economic trends, he said retail and wholesale sales, manufacturing production and fixed investment in manufacturing had all shown increases after dropping at the end of last year.

DARK

Among the factors responsible for the recovery in business conditions were the high growth rate of government expenditure last year, the lagged effect of agricultural expenditure on income generation and the continued rise in average real wages and salaries, particularly in the case of Blacks.

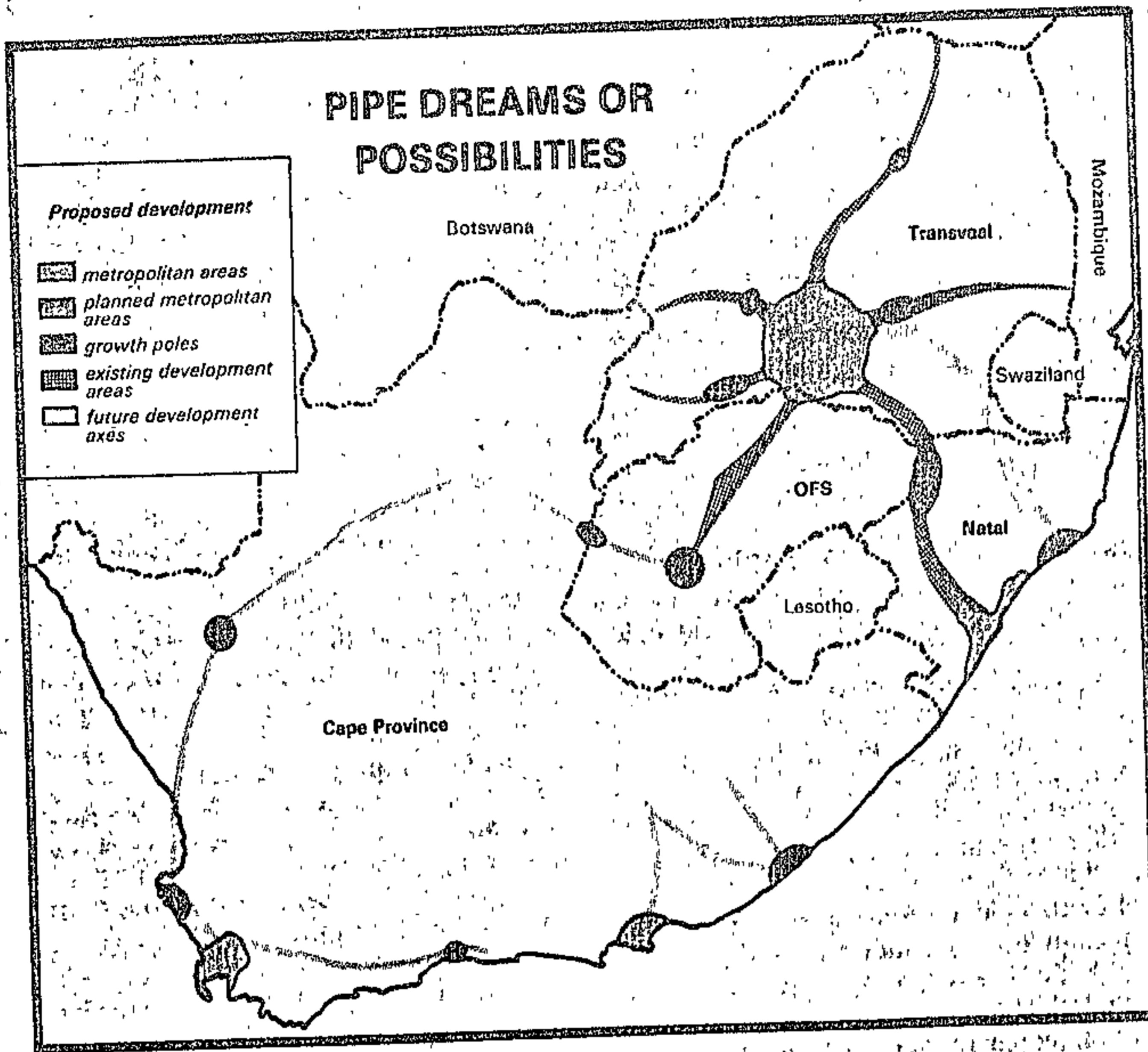
It now seemed certain that agricultural production and exports would be some two per cent less than last year's record figure, but still high relative to normal years. Exports would be boosted by devaluation.

If the trend in the manufacturing industry to July could be kept up for the remainder of the year, the growth rate would be about five per cent.

"The South African economy is now in an ideal position to take fast and effective advantage of any stimulus in the coming 12 months," he said.

"Even if this stimulus takes a while to come as does not seem impossible, it means in any case that the recession in South Africa will be shorter and less serious than in most other industrialised countries." — Sapa.

F.M. 3/10/75 (47)



What about the cities?

The particular brand of decentralisation advocated by the National Physical Development Plan gets a drubbing from the professionals

The primary objective of the National Physical Development Plan (NPDP) is to encourage a more balanced distribution of population, because of the potential problems of overconcentration in the urban areas on the one hand, and depopulation of rural areas on the other. — Willem Visagie, Director of Physical Planning.

Stimulating development in Pietersburg, Richards Bay or in any of the other growth poles will not solve the problems of congestion, pollution and crime in the PWV. — Professor Denis Fair, Director of the Urban and Regional Research Unit, Wits, in a paper in the SA Geographical Journal September 1975.

SA's first National Physical Development Plan, tabled in Parliament last March, is drawing scathing criticism from professional planners. Their main point, expressed in several speeches at the recent National Development and Management Foundation (NDMF) seminar on the Plan, is that it assumes

decentralisation is the solution to urban problems.

The objective of the plan is to encourage decentralisation of economic growth (for political, social and economic reasons) and a more even distribution of economic benefits.

The Plan cuts the country into 42 regions (excluding Homelands) grouped in seven categories:

• Metropolitan areas — PWV, Cape Peninsula, Durban/Pinetown/Pietermaritzburg and PE/Uitenhage — for which Central Guide Plan Committees to co-ordinate urban planning have been formed;

• Planned metropolitan areas at Saldanha, East London/King Williams Town and Richards Bay, which are expected to develop into metropolitan areas within the foreseeable future;

• Growth poles which will take root without much stimulus and are far enough from the urban areas to become independent cities — such as Rusten-

burg, Witbank/Middelburg and Klerksdorp/Potchefstroom;

• Principal towns, such as Kroonstad and Nelspruit, in which regional (as opposed to local) services will be concentrated;

• Growth points selected to stimulate industrialisation in border areas and the Homelands;

• Regions in which no principal centre has emerged, encompassing towns like Caledon/Swellendam, Graaff-Reinet and Aliwal North;

• Development axes linking metropolitan areas, and those linking metropolitan areas and growth areas such as Richards Bay.

According to the Plan, this grouping "is the first step towards a policy of more balanced physical development and land use. The next stage will be to draw up guide plans and development programmes for every region and sub-region as this becomes necessary". Already plans are underway to break down the Economic Development Programme projections on a regional basis.

Government has a number of ideas in its sleeve for encouraging decentralisation. There are the old "sticks" of labour quotas and restrictions on availability of industrial land in urban areas. And "carrots" of investment incentives and concessions will continue. Most important, government hopes to channel private investment to particular areas by applying or withholding vital infrastructure.

The Plan's critics claim decentralisation is only half the story. "The big problem," says planning expert Professor Wilfrid Mallows, "is the big cities, and we see no evidence in the NPDP that central government is prepared to tackle this problem."

Wits' Town Planning Professor N. Patricios agrees: "It is fair enough to point out the problems attributed to over-concentration: high land prices, increased crime, pollution, traffic congestion, etc, but there is no indication in the Plan that the authorities intend dealing with the social and physical problems of the vital economic generators of the country."

The plan lacks a clear statement on objectives for the large cities. If growth is to be curtailed, the businessman is entitled to know why, how and by how much. "And," says Mallows, "if our resource base is to be optimised, largely through concentration and the regular economies of scale, the impediments to the urban areas must be tackled vigorously."

Counters Visagie: "The question of the metropolitan areas will be fully dealt with in individual guide plans. The national plan cannot be expected to give this type of detail, but the metropolitan areas demarcated do show ample scope for



Fair, Patricios and Mallos . . . pinpointing the problems

with. For example, the PWV's boundaries include cities like Brits and Delberg."

The table shows the important rôle which metropolises will continue to play in the country's economic development. Patricios points out that modern planning theory no longer sees urbanisation as undesirable, and even argues that, if properly guided, this process can be accelerated without unduly aggravating problems of rapid urban growth.

On the other hand, without the economic growth generated by these areas, it will be difficult to finance the establishment of "counter-magnets" to distribute economic and social benefits more equitably. Experience in other countries has shown that when an undeveloped growth pole is located near an existing metropolitan area, the effect of efficient transport links tends merely to expand the urban and market catchment area of the metropolis. Not only does the establishment of a growth point aggravate problems which it was designed to solve, but the benefits which should accrue are drained off to the metropolis.

It is the designation of growth poles in Johannesburg, Witbank/Middelburg, Klerksdorp/Potchefstroom which will only strengthen, not weaken, the policy of the PWV. Similarly, the creation of Atlantis, a new Coloured city from Cape Town, could aggravate other City's difficulties.

These satellites do little towards reducing costs of congestion, pollution and land prices in urban areas. Adds Patricios, it is increasingly being shown that the only way of stopping growth altogether in metropolitan areas, such diseconomies of scale have to be solved within the metro-

politan areas themselves, by intra-metropolitan decentralisation and by improvement in the physical and social environment of the cities." In other words, decentralisation to adjacent rural areas — as the NPDP recommends — is not the answer to urban problems.

Intra-metropolitan decentralisation — the encouragement of growth in several cities so that, in the case of the PWV, instead of the dominance of Johannesburg and Pretoria, a more even spread evolves — is already taking place.

Natal University's Chris Rogerson has looked at the movement of manufacturing industry from Johannesburg between 1960 and 1972. Of 266 factories which moved, nearly 70% selected a site on the Witwatersrand, whilst only 26 (10%) relocated in government-sponsored decentralised areas. Moreover, of the 28 000 workers transferred only 6 000, a mere 500 a year, went to decentralised locations.

These findings confirm a further criticism of the NPDP. Patricios urges that "The strategy should focus on processes rather than location. The mere indication that a region is to be a planned metropolitan area is not sufficient. Experience shows that even legal instruments are not powerful enough to compel locational behaviour."

So it's not surprising to find that dispersion is not taking place to the desired degree.

On the contrary, evidence shows that the White population and consequent economic activity (especially in the rapidly growing tertiary sector) is still polarising in the urban areas.

The attractions of economies of scale, market concentration and specialised labour in the cities still outweigh the sticks and carrots.

What's more, Fair notes that "the current agglomerations — which are essentially the end-result of past growth — are themselves a significant influence on future growth".

What are therefore needed, at this stage in the country's economic development, are policies designed to retain the benefits accruing from concentration without exacerbating urban problems. As proposed in the PWV guide plan, short-distance decentralisation within the metropolitan areas should get most encouragement. Such a strategy stands a much better chance of success than the dispersion of economic activity to inaccessible and unattractive growth poles. Attention can later be shifted to those outlying areas (such as Richards Bay) which enjoy accessibility to existing and future markets.

Such a reframing of policy would satisfy the objectives of efficiency and equitable distribution of economic benefits.

In short it is founded on sound economic principles rather than pie-in-the-sky ideology, which is unfortunately still the starting point for official thinking on decentralisation.

REGIONAL ECONOMIC ACTIVITY

	Gross Geographical prod 1968	Manuf prod 1968	Total pop 1970	White pop 1970
	%		%	
METROPOLITAN AREAS				
PWV*	41,37	52,63	19,19	39,92
Cape Peninsula	11,95	14,37	6,23	12,08
Durban/Pine Town/Pietermaritzburg	10,64	14,74	6,68	9,19
PE/Uitenhage	3,94	6,61	2,45	4,21
Sub total	67,90	88,35	34,55	65,40
PLANNED METROPOLITAN AREAS				
East London/King William's Town	1,84	1,62	1,63	2,44
Richards Bay	0,66	0,95	0,49	0,46
Saldanha	0,56	0,41	0,50	0,73

* Pretoria, Witwatersrand, Vereeniging

By 3/10/75
CHRISTOPHER
MORRIS

RIEKERT'S FAST-GROWTH SPEECH JUST AN ATTEMPT TO BOLSTER BATTERED CONFIDENCE

THE Economic Development Programme, unveiled by the Government in February amid high hopes, lies in tatters, despite this week's speech to the contrary by the Prime Minister's Economic Adviser, Dr P. J. Riekert.

This is the view of leading economists to whom I spoke this week, who believe Dr Riekert's remarks that South Africa will enter another fast growth period in the near future are "highly optimistic."

One said he could only assume Dr Riekert was trying to bolster confidence in the private sec-

tor, badly hit by devaluation and the clampdown on banks' liquid asset ratios — "because I can see no other reason for his statement."

Another called for a new EDP.

The point consistently made by the economists was that the high rate of inflation expected as a result of devaluation will outweigh any advantages it may bring; and inflation hinders growth.

This happens on two levels. According to Wilsey Kilian, of the Bureau for Economic Research at the University of Stellenbosch, companies are paying tax and dividends on imaginary profits, higher than real profits, in the absence of inflation accounting.

"While companies pay tax and dividends on paper profits, real capital needed for investment and growth are constantly being reduced. Thus on a macro economic level, we are not generating enough real capital to increase our growth."

Inflation, he points out, also leads to a cut back in consumption in the medium and long term.

"People initially spend when faced with inflation on the principle of 'buy now before prices rise.' But in the longer term, if one looks at the practice overseas, people work up a resistance to these price

increases and cut back on expenditure and hence a fall in markets."

Nor will a high growth rate be achieved until overseas demand picks up.

"Our economy is very dependent on overseas trade and the EDP target assumed a more favourable external sector than we have had up to now," says Andre Hamersma, chief economist at the Standard Bank. Allied to this is the future of the gold price, which has enormous feedback on our growth.

Stimulate

According to Mr Hamersma, the real growth rate this year will be in the region of 3 percent and next year "I don't even see it reaching 2 percent."

This was endorsed by most economists, although some projected a 3 percent real growth rate next year.

But all agreed that it should pick up in 1977/1978. Overseas economies, they predict, will be starting to move up and that will stimulate growth in South Africa. Guessimates were of a growth rate of 5 to 6 percent then.

So growth until then will be in the doldrums, and devaluation has not helped; not only will it bring in its wake harmful inflation, but nor will it do much to stimulate the

volume of our exports, the economists say.

"Our exports really depend on the economic conditions overseas and they are not price elastic. Devaluation will help the gold mines, for instance, to get more revenue, but it won't help them sell more gold" Mr Hamersma said, and this applies to all our mineral and agricultural exports.

What are the consequences of failing to achieve the 6,4 percent growth?

According to Mr Hamersma, a rise in unemployment, particularly among Black workers, will be one which could endanger social stability.

Another is that South Africans are going to have to adjust to a lower standard of living as "the cake will not grow as fast as we would have liked."

The latest Senbank Economic Opinion concludes "that while there will be certainly some short term benefits (from devaluation), the inflationary consequences will erode a large part of the hoped for long term advantages..."

"A new growth phase starting from a rate of inflation of around 13 percent must lead to a much higher rate of inflation two years hence and inevitably to a much greater eventual correction."

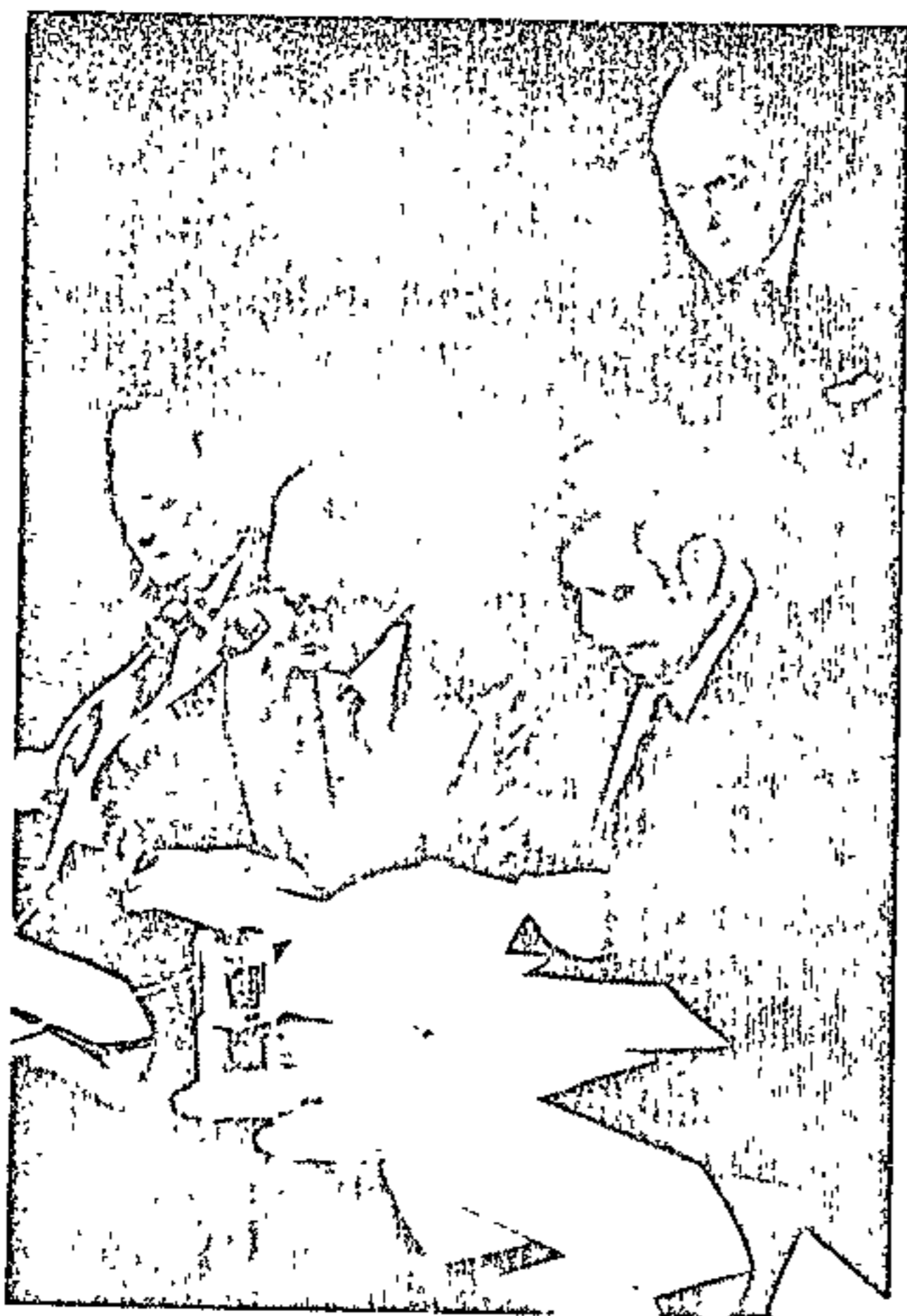
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47
SUN TRIP
(6-10-75)

INTATTERS



The Manifesto . . . a politician's delight

No doubt the anti-inflation Manifesto is a politician's delight. Its 70-odd proposals will provide plenty of scapegoats for those who seek to shift the blame for inflation away from the real villains — the Cabinet and Reserve Bank — and onto the shoulders of businessmen and their employees.

But as far as effectively fighting inflation is concerned, its 28 pages of vague promises, evasive commitments and lack of new ideas may well prove to be not worth the paper they are written on.

Certainly it is no mean achievement for the heads of 25 diverse private and public sector organisations to agree on any wide-ranging wage-price-policy package. All credit to them for that. But in the final analysis, its success will be judged not by the degree of consensus achieved on Tuesday but by the rate of inflation next year. What with devaluation and the government's explosive borrowing requirements, that will almost certainly remain up in the stratosphere of double digits.

The cornerstones of the programme are firstly, the commitment by some upper and middle income workers to limit wage demands for the next six months (see box on next page); and secondly, the promise by some firms earning more than 15% on total capital before tax and interest (whatever that may mean) to pass on only 70% of "unavoidable" cost increases (what then is an avoidable cost and how much of that may be passed on? 100% or 0%?) in the form of higher prices.

Since simple arithmetic shows that

The road to Hell

Unfortunately most of the good intentions in Tuesday's Social Contract are irrelevant to the rate of inflation. And if they deflect attention away from its real cause, which is unsound government finance, they could be downright dangerous

these constraints are not likely to have much of a *direct* effect on the rate at which costs and prices are rising, presumably it is hoped that the main impact will be psychological, ie there will be a dampening of inflationary expectations. But since inflationary expectations are likely to be as high as ever in six months' time, the programme may well have merely bought time at the cost of distorting the whole fabric of private business:

- Cost-raising factors already in the economy are going to send prices soaring sooner or later. A petrol price shock is around the corner and the overall inflationary effects of devaluation have still to take their toll. Hefty jumps in rail tariffs are also on the cards.

- Voluntary restraint (or a compulsory wage and price freeze for that matter) is not in itself a change in expectations. It is merely acquiescence in the postponement of those expectations.

Though the Manifesto lays down that neither workers nor firms may recoup their sacrifices after the end of the six-month restraint period, how on earth will anyone be able to determine the motives behind each fraction of a price increase or wage demand after next March? Or is the government's intention to extend the programme after then?

- Many companies are already seriously under-capitalised. Long-term loans at reasonable rates are difficult to come by and Holland Street is in the doldrums. Quite rightly the anti-inflation plan recognises that companies will have to finance more and more of their capital requirements from profits — government even undertakes to investigate tax incentives to help firms plough back more.

Yet incredibly, the same plan provides that 30% of almost all cost increases will have to be absorbed by profits, while no business (with a few exceptions) will be

DEAR BOSS,

In the past year, I have continued to make my contribution to this company and to the State. In the first instance I have worked hard and conscientiously, improving, at least to some degree, my productivity as my responsibilities have widened.

At the same time I have always responded to calls by management to cut down on costs when necessary. And it is with some pride that I look back on yet another year in which the company has, through good management and good sense, achieved its profit goal.

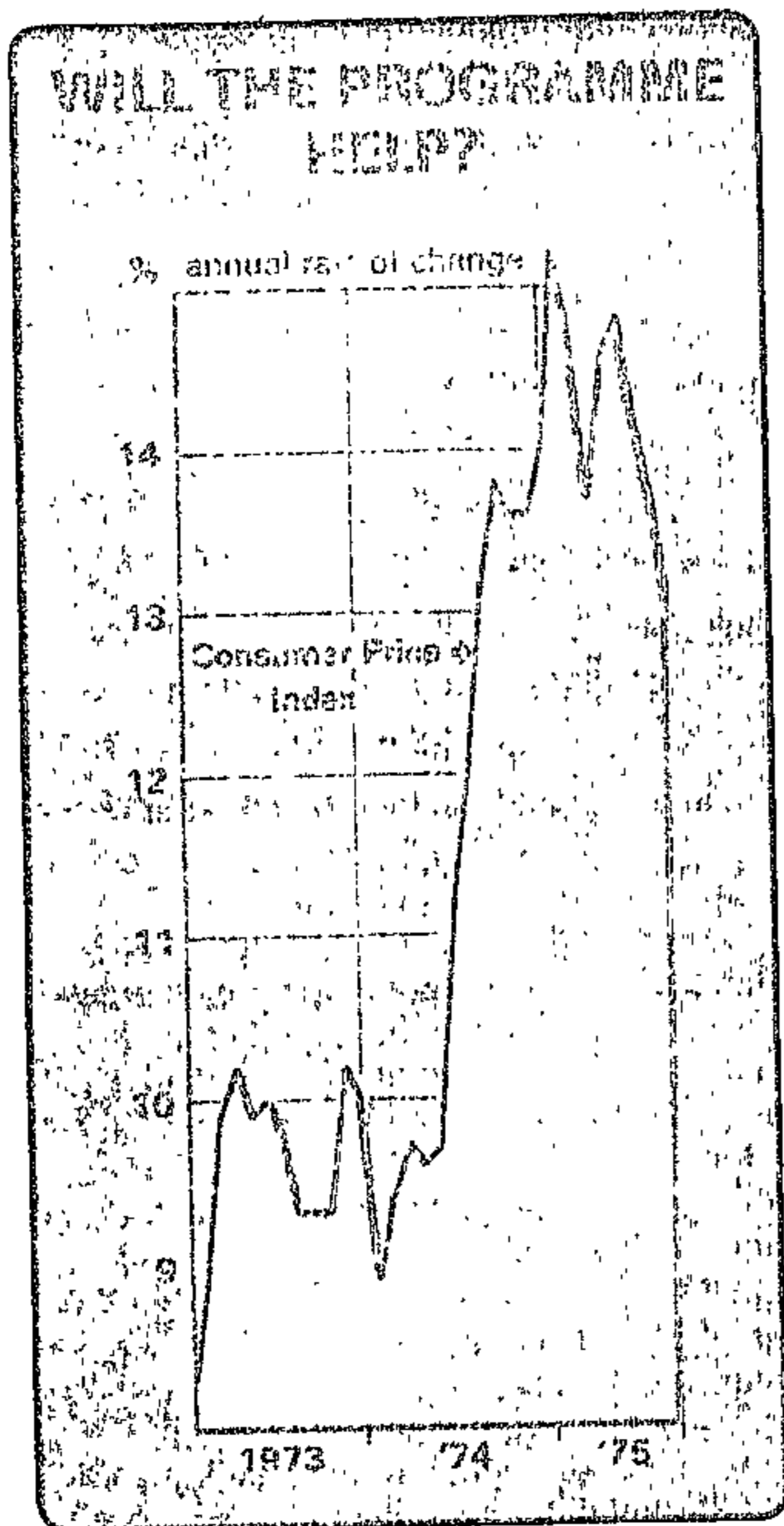
As to my contribution to the State, I have continued to pay my taxes, on income and on goods bought; I have even managed to save a little, have incurred no credit obligations — in short, though not without a struggle, have managed to live within my means.

I am most discouraged, therefore, that the State should think to penalise me, by suggesting that you limit what salary increase you intend for me this year as a reward for my labours, as part of a more-than-somewhat belated exercise to combat inflation.

I see no signs of the State having fulfilled its obligations to its citizens. It certainly has not lived within its means; its spending has been profligate, its debts unchecked. Where have been its efforts to increase productivity? I still cannot telephone a government department after 16h00 nor can I pay my electricity account or telephone account after 15h30 (the offices are closed).

That we have grave inflation and that it must be controlled I don't deny. But must I and thousands like me be made scapegoats?

Your faithful employee.



allowed to post price increases "merely with the object of raising its level of profitability".

○ The curb on profits is of course likely to seriously damage corporate financial structures. Corporate credit ratings and companies' ability soundly to finance new investment will suffer. So will their ability to raise Black wages, particularly if a large part of their workforce is earning below PDL levels and thus not only

desperately in need of decent wage hikes but also exempt from ceilings on their demands.

Is it wise, for example, to suppress Iscor's efforts to restore its viability for yet another six months? Indeed, the restrictions on company profits could lead to a thousand Iscor-type situations, but in their case without the prospect of unlimited amounts of taxpayers' money to keep them in business.

Private enterprise and wage earners are being called on to make specific and hurtful sacrifices. Yet the real villain of the inflation piece — government — is hedging its commitments with any number of if's, and's and but's. It will prune its spending "wherever possible", and then only spending "which bears no relation to productive capacity and infrastructure". (Is Defence then a candidate for major cuts? We doubt it.)

It will ensure that the money supply does not rise "excessively" in relation to GDP (even though it is helping it so to rise right now). It agrees merely "to give consideration" to the removal of infrastructure bottlenecks and to the establishment of capital spending priorities.

What does all this mean in terms of hard cash? Not much, judging by Pretoria's past record of permissive finance and its refusal to commit itself to specifics now.

Another disappointment is the total lack of any meaningful or explicit commitment to better use of the country's labour resources. There is no sign in the programme that Pretoria has agreed to a sufficiently fast Black advancement in semi-skilled and skilled jobs. Indeed, a large number of the proposals dealing with labour are merely designed to communicate more effectively to businessmen *existing* government policies on immigration, Black training and productivity.

And do we really need yet another seminar on productivity such as the NDMF has agreed to at age?

Admittedly the package has its moments (even though they are far removed from the basic causes of inflation). Government undertakes to simplify procedures for the registration of black labour. It will investigate the possibility of extending the system of spot fines for minor offences and will again look at its policy on road transportation permits for private business.

Laudable as they are, measures such as these will have no effect at all on the wage/price spiral so long as inflation is not tackled at its roots. What the plan fails to recognise is that the basic cause of inflation in this country is not excessive profits, exorbitant wage demands, shortage of immigrants and creches, or wrongly-trained architects.

VOLUNTARY?

Wednesday's *Star* quotes Dr Lawrence McCrystal, chairman of the anti-inflation sub-committee dealing with publicity, as saying that "price increases will not be permitted merely to enable firms to raise their level of return above what previously prevailed".

What does he mean by "permitted"? We thought this was a voluntary programme.

Our inflation is the result of misguided fiscal, monetary and exchange rate policies which have encouraged the nation to live beyond its means to try to accomplish too many things at the same time, and without facing up to harsh economic realities.

We simply cannot afford a government borrowing requirement which this year could be R1 000m up on last year; we just cannot go for rapid growth and at the same time successfully protect the balance of payments, shore up the price of gold and fight inflation; we certainly cannot go in for huge increases in defence spending without paying the price in higher taxes; and most certainly we cannot have a massive devaluation without both aggravating inflation and accepting cuts in living standards.

Inflation will not be cured by price and wage curbs, nor by well-intended but incredibly vague promises in a manifesto. Besides a tight money policy to shore up the balance of payments, and pave the way for sounder growth in 1977, what we need now are *immediate* tax hikes to finance the yawning government deficit in a non-inflationary way, coupled with specific cuts in public spending and, above all, an honest and realistic admission by our politicians that a drop in living standards over the next few months is both necessary and inevitable.

WHO'S ALLOWED WHAT

Workers are asked to build into wage demands, based on cost of living increases and negotiated after October 1, only 70% of the rise in the consumer price index from October 1-March 31 next year. Demands for increased pay based on productivity, supply and demand, etc, are unaffected.

All rises in the rate of inflation outside these six months can be claimed in full.

In practice, says Tucs General Secretary Arthur Grobbelaar, the curbs will work like this: Assume a wage agreement comes up for annual renegotiation on January 1 next year and that the rise in the CPI is 10% from January to September and 4% from October to December 1975. The union will be entitled to claim the full 10% for the first nine months of the

year and 2,8% for the last three months. In other words, instead of asking for a 14% increase, the union will be entitled to claim only 12,8% as CoL compensation.

In addition, when the next wage settlement comes up in December 1976, workers can put in for only 70% of the CoL increase between January and March, but for the total increase from March to December.

All workers below a still-to-be-determined Minimum Living Level are exempt from the curbs. The programme also makes no provision for those whose wage and salary increases are based on productivity, promotion, job reclassification, automatic annual reviews or blackmail. Nor are restrictions placed on improved fringe benefits.

INVESTMENT IN 1976

47

KEYNOTE ADDRESS BY THE HONOURABLE THE MINISTER OF FINANCE,
SENATOR OWEN HORWOOD, AT THE FINANCIAL MAIL'S ANNUAL
INVESTMENT CONFERENCE, JOHANNESBURG, 14 OCTOBER 1975

For Release : 14h15 on 14 October 1975

I am pleased to have this opportunity to give the keynote address at an investment conference at a time when certain persons, certain newspapers and a financial journal, in particular, appear to be doing their best to impose a mood of pessimism and gloom on the investment scene in South Africa. I firmly believe that this pessimism is exaggerated and indeed, in many important respects, is ill-founded and misplaced. I shall try this afternoon to justify my confidence.

To often, we in South Africa seem to forget that there is such a thing as a business cycle. It may no longer be true to say, in this space age, that what goes up must come down, but in an economic context it is certainly untrue to say that what goes down must continue to go down. Yet this is the impression created, I regret to say, not only by some sections of the financial press, but even by some economic commentators from the academic world.

Background to the Devaluation

I should like to begin with the background to the recent devaluation of the rand. It is important that the reasons for the devaluation and its consequences, should be clearly understood, especially in the light of the considerable confusion which appears to prevail on both counts. For the past year South Africa has been in the downward phase of the trade cycle. This is nothing unusual, particularly after the exceptionally rapid growth which we experienced in 1973 and 1974, when our gross national product rose by a phenomenal 20 per cent in real terms over the two-year period. Nor has the downswing been exceptionally severe; we still have very little unemployed and a positive growth rate of the order of almost 4 per cent,

in strong contrast to many overseas countries where the growth rate is negative and unemployment has reached very serious proportions.

Again, it is normal during the earlier part of a cyclical downswing for South Africa to experience a deficit in its current balance of payments, since exports in this phase generally flatten out or decline more rapidly than imports. At a seasonally adjusted annual rate, the deficit on current account during the first half of 1975 amounted to R1 700 million, which is a large amount, but not excessively large, on past experience, in relation to the Gross Domestic Product.

A large part of the current deficit was covered by a normal inflow of foreign capital, and it was possible to meet the rest by means of official borrowing. Here again the amount of such borrowing was considerable but by no means excessive in relation to the Gross Domestic Product - and certainly much smaller, relatively, than the amount of borrowing which has had to be undertaken by many other oil-importing countries during the past year.

Again in accordance with normal cyclical trends, it was reasonable to expect that our imports would show some further decline in both volume and value, and that our exports would start to rise in value with the economic recovery in North America, Western Europe and Japan. Until fairly recently it was generally anticipated that this recovery would begin in the second half of this year.

Therefore, although we had occasional problems arising, for example, from "leads and lags" in the payments for our imports and exports, we had every reason to expect that we could ride out the downward phase in our current balance of payments until a more favourable trend set in - and this despite the fact that gold production declined as lower grade ore was mined and that the gold price on the private market fell from an average of \$183 per fine ounce in December 1974 to \$164 in June 1975.

Two important recent developments radically altered these prospects. The first was a substantial downward revision

in the economic forecasts for most industrial countries, particularly in Western Europe. It now seems clear that the recession will be deeper and the recovery later and slower than had previously been anticipated. Even in the United States, where there are some signs that the economy has turned the corner, there is uncertainty regarding the speed of the recovery and even as to its sustainability. This meant that an improvement in our exports could not be expected until much later than had previously been thought likely.

The second factor was the rapid and substantial fall in the price of gold on the private market. I shall deal at greater length with the causes of this decline and with the further prospects for gold, but the fact which had to be faced was that the gold price fell from \$164 per fine ounce in June to about \$135 just before devaluation, and that it was impossible to say how long the weakness of the gold price would last.

Two consequential factors were also of importance. The first was that the decline in the gold price led to a resumption of speculation against the Rand, with a resultant further drain upon our reserves. The second was that the weakness of the gold market made it difficult to draw upon our gold reserves, that is, to sell additional quantities of gold in the market, without further depressing the price.

The Devaluation and its Implications

In these circumstances the decision was taken on 20 September to devalue the Rand. It was not, as our less discerning critics have been saying, a panic decision; it was not the result of bungling and mismanagement; it was not a revelation of any grave weakness in the economy or a consequence of wrong financial and economic policies extending back over a lengthy period of time. It was in fact a necessary and common-sense adjustment to new and strong adverse factors in the balance

of payments which could not reasonable have been foreseen - and most certainly were not foreseen by those critics who, with the wisdom of hindsight, appear to know all the answers today.

The extent of the devaluation, 17,9 per cent, was fairly substantial. But it was essential to establish the credibility of the new rate of exchange, so as to eliminate the possibility of renewed speculation against the Rand both here and abroad, and, indeed, to secure the reversal of the existing leads and lags. Moreover, it was necessary to provide for the possibility of a further temporary fall in the gold price and also the possibility of a further strengthening of the dollar, which would of course lessen the extent of the Rand's depreciation against other currencies - a circumstance which has apparently escaped the attention of the critics of the devaluation move.

It has been said that devaluation will lead to a reduction in living standards in South Africa. I believe this misses the point. With the decline in the foreign currency value of gold and of so many of our other export products, which BEGAN LONG BEFORE THE Rand was devalued, naturally, other things being equal, South Africa would be less well off than before. But this is not the result of devaluation; it is the inevitable consequences of a decline in prices overseas, which, I repeat, set in well before devaluation was ever considered.

The devaluation was a deliberate measure aimed at encouraging exports and discouraging imports. While its immediate effect will be a tendency for import prices to rise, it will at the same time lead to some contraction in the volume of imports, and this will in itself restrain and limit the possible inflationary effects - which, I may say, I believe have been grossly exaggerated in some quarters.

While the volume of exports is perhaps unlikely to rise markedly in the very short term, so long as our overseas markets are still in recession, nevertheless, since export prices for our products are in many cases fixed in terms

of foreign currency, post-devaluation export earnings in terms of Rand should certainly increase. (It is, of course, complete nonsense to say, as has been averred, notably by two academic economists in the Star newspaper of September 26, 1975, that the volume of our exports will have to increase in proportion to the devaluation in order to maintain the level of our export earnings in terms of foreign currency).

In terms of the foregoing exposition it follows that the devaluation, by stimulating exports at the expense of imports, will have a stimulatory effect on the economy at large. In the present situation where the South African economy is running at less than full capacity, this circumstance, together with the concomitant contraction in the volume of imports, will, in my view, counter-balance the likely inflationary consequences of devaluation, and thus safeguard living standards in South Africa.

We are variously told that we should not have devalued the Rand but should have adopted alternative measures, such as import control, borrowing abroad or a policy of rigorous deflation as a solution in the present situation.

Import control as a solution in the present situation is manifestly impracticable: the third round of import permits have already been allocated; and, for such a measure to have any hopes of being even partially successful, the degree of import control imposed would have to be so severe as to have serious adverse effects on important sectors of the economy, and on growth overall. In addition, of course, there are the likely far-reaching repercussions on our relations with G.A.T.T.

To attempt to remedy the sort of balance of payments situation, which I have been at some pains to describe in this paper, by borrowing from abroad, on a substantially short-term basis, is not a corrective action but, at best, a temporary expedient; and, in any case, to push foreign indebtedness of this kind beyond the limit deemed to be financially prudent would be quite unjustified.

Those who advocate deflation as the solution to our problem know full well that, to have any tangible effect, the deflationary measures would have to be far-reaching and drastic. To impose drastic deflationary measures on the South African economy at a time when the world economy is in the grip of the worst depression since the Great Depression of the early Thirties would, in my view, be manifestly absurd.

Perhaps those who have so vociferously condemned the devaluation will now tell us what the effect of the proposed alternative measures will be on living standards in South Africa.

Future Prospects :

(a) Gold

I should like now to turn to the future prospects for the economy, and I want to deal firstly with the prospects for gold. For this purpose, I must go back a little to the "understanding" on gold reached by the Interim Committee of the International Monetary Fund at the end of August.

This understanding was the result of long-drawn-out negotiations between the major powers, especially France and the United States, and represents a compromise between the various views on gold.

According to the understanding, gold is on the one hand no longer to be the base or numeraire of the international monetary system. The fixed official gold price (at present \$42,22 per fine ounce) is to be abolished, and the Fund is to sell one-sixth of its gold (25 million ounces) for the benefit of developing countries and to "restitute" one-sixth the member countries at the present official price.

On the other hand, the understanding recognises that gold holdings form an important part of official reserves and should be made usable again for official monetary transactions, that is, to meet balance of payments deficits. Monetary authorities are therefore to be permitted to buy and sell gold among themselves at market-related prices and, and this

is important, to buy gold in the private market (instead of only to sell in that market as at present). There is also an agreement outside the Fund that, for an initial period of two years, the total stock of gold now in the hands of the Group of Ten (that is, the major industrial countries) and of the Fund will not be increased. Other members of the Fund may, if they wish, adhere to this agreement.

The understanding has been represented in some quarters as a major step towards the "phasing out" of gold as an official monetary asset. This is not my view, and it is not the view of many gold experts, both private and official, outside South Africa. On the contrary, I believe it entrenches and, indeed, gives new life to the monetary role of gold.

To see why this is so, it is only necessary to compare the new understanding with the situation which has prevailed in practice during recent years. For some time now, monetary authorities have been prohibited from entering into gold transactions among themselves at prices higher than the completely unrealistic "official" price of \$42,22 per fine ounce, and have also been prohibited from buying gold in the private market. This naturally led to an immobilisation of official gold reserves - gold sank to the bottom of the pile and was practically never used.

For some years there was even a measure of support for maintaining this situation indefinitely as a deliberate means of demonetising gold. It was also seriously proposed at one stage to empower the I.M.F. to sell all its gold in the private market. Worse still, consideration was given to encouraging or even compelling monetary authorities to sell their gold to the Fund in exchange for newly-created Special Drawing Rights, thereby giving the Fund even more gold to sell on the private market.

How different the situation is now! All these proposals for what was to have been the early demonetisation of gold have been firmly rejected. Under the new understanding,

official gold reserves will become usable again, and central banks will be able to buy and sell gold at realistic prices among themselves and in the private market.

The importance of this is emphasised by the fact that gold still constitutes, at the old official valuation, nearly 20 per cent of the official reserves of the non-Communist countries. If gold were to be revalued at its present price in the private market, as would be logical under the new understanding, its percentage of official reserves would approach 50. For several individual and important countries, the percentage would be considerably higher.

I am convinced, therefore, that the new understanding will give gold a more important and meaningful monetary role than it has had for some time. It will enhance its importance as a primary reserve asset and make it more usable as such, and it will in effect increase its official price, not to a new fixed level, but to a fluctuating one which is at present over three times as high as the old official price of \$42,22 per fine ounce. If this is "phasing out" gold, we could do with more of the same.

Possible a more important immediate factor affecting the gold price has been the fear that the Fund, in terms of the new understanding, will dump 25 million ounces of gold on the private market. Here again I think the reaction has been exaggerated and that the market has failed to take a number of facts into account, and again my view is shared by many eminent authorities outside South Africa.

Firstly, the entire understanding on gold is dependent on agreement being reached on the vexed question of fixed versus floating exchange rates. The matter will be discussed at a meeting of the Interim Committee of the I.M.F. in Jamaica next January, but it is clear from the discussion at the Fund's Annual Meeting last month that there is still a wide divergence of views on this subject and it is anybody's guess whether agreement will in fact be reached.

Even if this hurdle is overcome, it is generally agreed that the Fund under its present Articles is not permitted to sell gold directly on the private market. The Articles will therefore have to be amended, and this is a laborious process involving legislative action in many countries which could take many months, or even years, to complete.

It would probably be possible, under the existing Articles, for the Fund to sell some gold to its member countries. But these countries would not necessarily sell such gold on the private market - indeed, the history of the past few years shows that monetary authorities are extremely reluctant to part with their gold even when in serious balance of payments difficulties.

Furthermore, under the agreement among the Group of Ten, sales of the Fund's gold in the private market can be counterbalanced by purchases by national monetary authorities, and the same would apply to future gold auctions held by the United States. The importance of this is that there need be no net sales of gold even if the I.M.F. should sell.

In any event, even after its Articles have been amended, the Fund would certainly be under strong pressure from the developing countries to sell its gold in such a manner as to realise the maximum profits, since this would determine the amounts of assistance these countries would receive from the operation. I may mention that I have also received assurances from the highest quarters in Washington that there is absolutely no intention that gold should be sold in such a way as to disrupt the market.

In the light of all these considerations I am convinced that the new understanding will in the longer run be favourable for gold and that the unfavourable market reaction was based on a mistaken interpretation of its terms. This view is not merely wishful thinking or

propaganda, since it is shared by the majority of experts, mostly non-South African, with whom I have spoken, or whose written views I have seen.

(Thus, a leading American investment newsletter, Deaknews, has headlined its latest issue with the words "Gold returns. SDR's R.I.P." The I.M.F.'s gold action, says the newsletter "has laid the once supposed 'paper gold' tiger (the SDR) to rest. The freeing of the central banks to enter the gold markets has created the first step in a new gold-backed monetary system. For the present, the dollar centre the system, but when the dollar falters gold is the only alternative".

Another view is that of Congressman Henry Reuss, Chairman of the Banking and Currency Committee of the U.S. House of Representatives an influential figure on the Joint Economic Committee of Congress and one who has long adopted an anti-gold stance. Only last week Mr. Reuss announced that he would oppose any implementation of this month's I.M.F. agreement. And since any ratifying legislation must pass through his committee, his stand is crucial to the I.M.F. ever being able to put its gold plan to work.

Looking to the January 1976 meeting of the Interim Committee of the I.M.F. at Jamaica, where the thorny third leg of the "package deal" has still to be discussed - floating versus more stable exchange rates based on par values - Mr. Reuss said "The interim committee is scheduled to meet in January to hash over its package of principles once again. Then the IMF executive directors and then the governors must agree.

"Then the complete package of reforms on quotas, gold and exchange rates will have to be submitted to each government for its parliamentary approval, including to US Congress.

"I serve notice now that I shall oppose any distribution of IMF foreign aid to the greedy rather than the needy, as the IMF interim committee principles propose".

And only a few days ago Mr. Henry Fowler, a former Secretary of the U.S. Treasury and one of the fiercest of all American opponents of gold, warned Congress that the Interim Committee's "Understanding" on gold may backfire on the United States, and that it was "far more likely to increase that reduce the rôle of gold in the monetary system". Dr. de Jongh and I have been saying precisely this ever since the Interim Committee's communique on the gold "understanding" appeared on 31 August. Of us the sponsors of this Conference have said "Horwood and de Jongh should (also) be indicted for completely misinterpreting the effect of the recent gold decisions of the I.M.F. and the U.S. Treasury. They fell into the trap of believing their own propaganda".)

There have, of course, been other factors adversely affecting the gold price in recent weeks, notably the possibility of further Russian gold sales in order to pay for grain imports. These factors are essentially temporary and, once they have been removed, the future course of the gold price is likely to depend mainly upon the state of the world economy and particularly upon the course of world inflation.

While inflation in some countries has diminished during the past year, there is a wide measure of agreement that, once the expected economic recovery in the industrial countries is firmly under way, a strong revival in inflationary pressures may be expected. Moreover, in the next inflationary boom there will be two factors favouring gold which did not exist during previous inflationary periods. The first is that citizens of the United States are now legally entitled to hold gold - and the market there, after a disappointing start, is already showing signs of increasing vitality. The second is that under the new understanding, if it comes into effect, monetary authorities would be free to buy any gold sold by the Fund, the United States or other monetary authorities.

While, therefore, it may take a little time for the adverse factors in the gold market to work themselves out, I am confident that the prospects for gold in 1976 and beyond are promising indeed.

Future Prospects

(b) The Economy

I return now to the broader prospects for the South African economy.

The economy is still running below full capacity and - despite the fillip given by devaluation to the export industries and to local manufacturing industry - I would not expect a really rapid upsurge until economic recovery overseas is well under way.

While I have already indicated that this recovery may be slower and later than originally expected, I do not think we should be unduly pessimistic about this. The turn-around in the United States economy must surely be reflected, after a relatively short interval, in the economies of Western Europe and Japan.

As regards the balance of payments, the immediate effect of the devaluation is likely to be a reversal of leads and lags (which may be quite considerable), and, as I concluded earlier, a contraction in the volume of imports, (though import prices generally will tend to increase), and an increase in the export earnings, though the benefit of this may not accrue in the very short term.

In the medium term - and certainly during the course of 1976 - I would expect economic recovery overseas to exert a favourable influence on our economy. The extent to which our export industries will be able to take advantage of an improvement in overseas markets will depend inter alia

on our success in containing inflation so as to preserve the advantage gained by devaluation. The same applies to the ability of our industry to supply the local market in competition with imported goods.

As regards inflation, I have already indicated that the effect of devaluation can be quite limited so long as higher prices curtail the volume of imports, and the secondary inflationary effects are contained. The rate of increase in the consumer price index has in fact been declining since the third quarter of 1974, and the decline in the rate of increase in the wholesale price index has been even more marked. The devaluation and the increased oil price are likely to arrest this trend temporarily, but, provided we can break the expectation of future rapid price increases, we should be able to keep this effect to a minimum. Here the collective programme against inflation can play a decisive role.

In an economy running below full capacity a severe credit squeeze would be out of place, and this forms no part of our financial strategy at this juncture. For this reason the decline in State revenue arising from the fall in gold mining and other profits, and the consequent probable upward pressure on the money supply, do not disturb me unduly at present. In the medium term, however, it is obviously desirable not to allow the money supply to increase to such an extent as to threaten an upsurge of demand inflation when the upswing in our economy gets under way. This will pose a delicate task for financial policy in the year ahead.

It is clearly essential that the Government should exercise the greatest possible restraint in its own expenditure at this time. For a number of reasons, this is no easy task. Firstly much State expenditure is in respect of contractual commitments which cannot be avoided. Secondly, a large proportion of expenditure, especially on the capital side, relates to the provision of essential infra-structure, often of particular

importance to the export trade (the railway links to Richards Bay and Saldanha Bay are examples), and much of this expenditure cannot be postponed without serious detriment to the economy. Other expenditure, such as that on defence, carries a high national priority. There are many more factors I could name, but I can assure you that the Government is determined, in accordance with its undertakings under the collective campaign against inflation, to scrutinize closely the whole range of State expenditure at all levels and to prune ruthlessly those services which are not urgently necessary.

I should like to conclude with some remarks on the longer-term prospects for the South African economy. Much of what I want to say will be familiar to many of you here today, but I think that too often we tend, amid the pressing problems of the moment, to forget the longer-term trends which must eventually determine our future and which, to some extent, should influence our investment plans now.

Two major problems appear to confront the world economy over the next generation: food and energy. I think South Africa is well placed with respect to both these problems.

Broadly speaking, South Africa is self-sufficient in regard to its food supplies. We import such items as tea and coffee and, in some years, a portion of our requirements of wheat, but we are also substantial exporters of a variety of food products including sugar, citrus and deciduous fruit (both fresh and preserved), maize, fish and fish meal. I am confident that our farming community will be able to step up our food production to keep pace with the requirements of our increasing population, and that this will be an important positive factor for the future strength of our economy.

As regards energy, most of you will know that South Africa
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is less dependent than most countries on outside sources: imported petroleum accounts for only about 25 per cent of our energy requirements. The construction of Sasol II, the large new plant for the production of oil from coal, is well under way: when it comes on stream in 1980 it will, together with the existing smaller oil-from-coal plant, produce about 25 per cent of our total petroleum requirements as well as a number of other petro-chemical products of considerable industrial importance. We are also continuing the search for natural oil, both on land and off-shore.

The bulk of South Africa's present energy needs is supplied from coal, either directly or through coal-fired power stations situated on the coalfields. Our reserves of coal are very large and we expect to export substantial quantities in the near future. We also have large reserves of uranium and the process of uranium enrichment developed by our nuclear scientists promises to be the most efficient in the world. Nuclear power will be generated from 1980 onwards, particularly to serve industrial areas situated far from the coalfields.

Apart from being able to supply the bulk of our own requirements of food and energy, South Africa is also a storehouse of a great variety of mineral products which the world needs. The Republic is a major producer and exporter of antimony, asbestos, chrome, copper, diamonds, iron ore, lead, manganese, platinum, vanadium and zinc, and important new projects in these fields are being developed. Special encouragement is given to the local beneficiation of minerals.

I did not mention gold in the list because I think it deserves to be singled out for special treatment. On the demand side, I have already given reasons for my confidence in the future. On the supply side, although production has fallen off in recent years, the Republic is still by far the principal

world producer and is responsible for about three-quarters of the output of all non-communist countries. The drop in our production is mainly due to the policy of mining lower-grade ore as the price has increased; this prolongs the effective lives of the mines but reduces the output of gold in the short run. With the opening up of new gold mines this trend is likely to be arrested, and it appears in fact that production is likely to be stepped up in the years ahead.

Manufacturing industry has shown remarkable development, both in size and in sophistication, in recent years, and there is every reason to believe that this trend will be continued. Its development is, of course, a vital factor in providing employment and rising living standards for all sections of our population.

This brings me to another important aspect of our long-term economic development, namely, the future growth of our non-White market in South Africa. The average standard of living of our Black and Brown people has risen rapidly and I have no doubt that it will continue to rise. The average wage of non-White employees in the non-agricultural sector increased in 1974 in real terms, that is, after allowing for price increases, by no less than 9,2 per cent, as against an average of 4 per cent for all employees. A recent Commission of Inquiry estimated that while the number of passenger motors owned by Whites would increase from 1 400 000 in 1970 to 4 million in the year 2000, the number owned by non-Whites would increase over the same period from 150 000 to no less than 2 700 000. The implications of this for the total South African market, not only for motor-cars but for all consumer goods, are obvious.

There is one facet of our economy on which I feel somewhat unhappy. I say this with great hesitation in this forum, but nevertheless I say it in all seriousness, that the standard of much of our financial and economic

journalism hardly measures up to the achievements of our economy in other fields. I am not referring to the criticism of the Government which certain financial journals frequently express; that is their right and any Government or public figure must expect such criticism. But I am worried about the evident failure of a large part of our financial press to understand and interpret economic events correctly and to present a balanced picture to its readers. In all sincerity, I hope that we can see some improvement here in the future. This, however, is a less important point. With the many positive factors for economic growth to which I have referred, and with a stable Government which believes in and actively promotes private enterprise, I am confident that the investment prospects for the South African economy are second to none.

In conclusion, I should like to congratulate the Financial Mail on securing such a distinguished galaxy of speakers for this conference. I have no doubt that the papers will be interesting and thought-provoking, and I wish you every success.

ISSUED BY THE DEPARTMENT OF INFORMATION
AT THE REQUEST OF
THE MINISTRY OF FINANCE.

PRETORIA
14 OCTOBER 1975.

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VIR VRYSTELLING : 15 OKTOBER 1975 OM 11H00.

JAARKONGRES VAN DIE MOTOR INDUSTRIEË-FEDERASIE,
PORT ELIZABETH, WOENSDAG, 15 OKTOBER 1975.

OPENINGSREDE GELEWER NAMENS SY EDELE DIE MINISTER
VAN EKONOMIESE SAKE DEUR DIE SEKRETARIS VAN HANDEL.

Sy Edele die Minister van Ekonomiese Sake, wie ongelukkig weens onvermydelike omstandighede nie vandag die formele opening van u kongres kan waarneem nie, het my gevra om weer eens sy opregte verskoning vir sy afwesigheid aan u oor te dra, en om u ook alle sukses op u beraadslagings by hierdie geleentheid toe te wens.

En, waar ek nou in sy afwesigheid die openingsplegtigheid van hierdie kongres moet waarneem, is dit vir my 'n voorreg om u,

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as die verteenwoordigers van 'n organisasie met wie ek vir lengte van jare so dikwels samesprekings oor sake wat u belange raak, gevoer het, weer eens te kan toespreek.

You are meeting at a time when a variety of international developments in the political, financial and economic fields are still casting deep shadows over the fields of fortune of many nations.

The steep oil price increases which followed on the international energy crisis of the late 1973, have struck severe blows at the economic stability of many countries. The industrial nations of the Western World have been plunged into conditions of recession which have created grave difficulties for those countries which depend solely or mainly on the export of primary

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products.

The international economic setbacks of the past two years have brought in their wake important political changes in a number of countries - changes which have been fanned by high rates of inflation, negative or low rates of economic growth and a strong public demand for increased Government controls over the economies of these countries. And, in the field of international monetary policy, certain developments have occurred which have caused a substantial decline in the price of gold.

South Africa has, of course, been directly affected by some of these developments, particularly, by the depressed state of the economies of our main trading partners and the decline in the gold price. And our country like all other oil importing countries, will of course also be affected by the latest 10 per cent
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oil price increase announced by the OPEC-countries.

But, even after making due allowance for all the unfavourable factors which at present exert their influences on the domestic economy, I am still convinced that South Africa can face the future with well-founded optimism. I particularly feel, also, that the leaders of our private sector - and that applies equally to the leaders of the private sector groups which are affiliated to your organisation - should discard any feelings of hesitation or pessimism which they may harbour as to the economic future of our country. There are already positive signs that some of our difficulties, such as the problem of the current account and our balance of payments, the low rate of economic growth and the high rate of

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inflation are being relieved. It is my firm conviction that, given the necessary initiative and perseverance of, as well as continued close co-operation between the Government and all our private sector interests, we shall be able to overcome the economic difficulties with which South Africa, like so many other countries, is at present being confronted.

Die Motor Industrieë-Federasie behels 'n aantal belangrike groepe van werkgewers en werknemers in die Suid-Afrikaanse motorbedryf. Die Regering is terdeë bewus van die waarde van die dienste wat hierdie groepe aan die gemeenskap lewer. Dit is dan ook te begrype dat hy, by die formulering van beleidsbeginsels wat die belange van hierdie groepe mag raak, voortdurend ag sal slaan op die wenslikheid om hulle voortgesette welsyn sover moontlik te bevorder.

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U sal egter begryp dat die Regering, by die uitvoering van hierdie ingewikkelde en verantwoordelike taak, heel dikwels die uiteenlopende belange en standpunte van verskeie groepe van die gemeenskap moet versoen. Sy besluite moet dus ook noodwendig gegrond wees op wat hy, na die beste van sy oordeel, in die breëre belang van die land as geheel in teenstelling met die seksionele belange van bepaalde groepe van die gemeenskap, beskou.

En, wanneer die Regering dus soms besluite mag neem wat volgens u beskouinge miskien nie reg aan u besondere belange laat geskied nie, moet u nie sy optrede in hierdie verband vertolk as 'n aanduiding dat hy onsimpatiek teenoor u belange staan of die waarde van die dienste wat u aan die gemeenskap lewer, nie ten volle begryp nie.

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Dit is immers 'n kardinale beginsel van alle demokratiese opvattings van die begrip van verantwoordelike landsbestuur dat enige Regering wat sy verpligtinge teenoor sy kieserspubliek wil nakom, by die formulering van sy beleidsbeginsels, asook by die implementering van hierdie beginsels, die breëre landsbelang bo die seksionele belange van indiwiduele groepe van die gemeenskap sal plaas.

This, in fact, is the very essence of the art of good govern=ment which is by far the most difficult of all fields of art to be mastered by human beings. It is not so difficult for individuals in our society to master the art of music, of painting or of sculpture, to name but a few fields of art regularly practised by many people in most countries of the world. But proficiency in the art of good government can be attained only after many many

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years of experience and intensive study by those responsible for exercising the functions of government. And such proficiency can be achieved only by the Government which, in the formulation of its policies, constantly applies its mind to the necessity for doing those things which, in the light of its own judgement of the needs and circumstances of all sections of the community, will best serve the interests of the community as a whole, as distinct from the welfare of individual groups of society.

Ek meen dat ons hier in Suid-Afrika, as 'n betreklike jong land met 'n groot verskeidenheid van ingewikkelde probleme van sy eie, met reg daarop aanspraak kan maak dat ons reeds ver gevorderd het in ons pogings om die kuns van verantwoordelike landsbestuur te bemeester.

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Dit is natuurlik verstaanbaar dat ons Regering nog steeds 'n groter mate van bedrewendheid in hierdie kuns moet nastreef, veral waar hy met so 'n voortdurende toeloop van nuwe en uiters ingewikkelde vraagstukke te kampe het. Maar desondanks voel ek tog dat u, as belangrike deelnemers aan die ekonomiese bedrywigheede van ons land, in hierdie tye van gewigtige ekonomiese gebeure op sowel die inter-nasionale as die nasionale gebied, die toekoms met 'n geruste gemoed tegemoet kan gaan in die wete dat die Regering van hierdie wonderlike land van ons reeds talle positiewe bewyse gelewer het van sy besondere bedrewendheid op die gebied van verantwoordelike landsbestuur.

Ek begryp natuurlik dat daar verskeie persone en groepe in die land is wat steeds die standpunt huldig dat ons Regering se oordeel van watter vorms van staatsbeleid en -optrede ten beste die belange

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van die land as geheel sal dien, bevraagteken kan word. Maar desondanks wil ek dit tog vandag onomwonde aan u stel - en dit is nie slegs my mening nie maar ook die mening van verskeie buitelandse gesaghebbendes met wie ek in onlangse tye persoonlike kontakte gehad het - dat Suid-Afrika homself beslis gelukkig kan ag dat hy, in hierdie tye van besonder ingewikkelde nasionale en internasionale vraagstukke, 'n stabiele Regering met 'n hoë mate van bedrewendheid op die gebied van verantwoordelike landsbestuur het op wie al die inwoners van ons land kan staatmaak om hierdie ingewikkelde vraagstukke suksesvol die hoof te bied.

In South Africa our Government has of course developed its own particular procedures for consultation with all sections of the community in the execution of the mandate which the electorate

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has entrusted to it. Thus, there is a constant exchange of information and ideas between the Government and the private sector on all aspects of policy which affect, or may affect the latter's interest.

I can think of no more outstanding example of this process of close consultation between the Government and the private sector than the extensive discussions which we, from the side of the Government, have had during many months with all interested groups of the private sector about the collective programme of action against inflation. The finalisation and signature of this voluntary programme of restraints and constructive contributions towards the raising of production and productivity throughout the economy stand in sharp contrast to the conflicts which have developed between the Governments and private sector groups of

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other countries where direct state controls have been introduced in an effort to stem the tides of inflation.

The implementation of our programme of action against inflation is based entirely on the principle of mutual trust and the individual sense of responsibility of all the groups who signed this document in Pretoria on 7th October. And I have no reason to believe that any of the signatories of this contract would purposely go back on any of the commitments they have assumed under the action programme.

I would, therefore, address a strong appeal today to all these groups to refrain from attacking each other in public if one or more of them should have reason to believe that any of the other groups are not faithfully carrying out the commitments assumed

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by them in terms of the collective programme of action against inflation.

This is not the time for individual groups to start throwing stones at each other in public if any of them should feel that one of the groups is not carrying out its part of the contract. If any of the signatories to the collective programme of action should feel that one of the other signatories is not implementing its part of the contract, the only correct procedure for them to follow would be to put their grievances on a confidential basis to my Minister. The Minister would then have these grievances immediately investigated by the Working Group of Government and private sector representatives which he has appointed to review from time to time the progress made with the implementation of the programme of action.

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Die sukses van ons Aksieprogram teen Inflasie sal hoofsaaklik beïnvloed word deur die mate waartoe alle groepe van die gemeenskap en dit sluit in ook al die verskillende groepe wat nie ondertekenaars van hierdie dokument was nie - hulle heelhartige samewerking aan die Regering sal verleen by die eerbiediging van die beginsels van selfbeheersing ten opsigte van verhogings van lone, salarisse en pryse wat in die Aksieprogram neergelê is. Die plaaslike nuusmedia kan in hierdie verband 'n uiters waardevolle bydrae tot die sukses van die Aksieprogram lewer deur voortdurend die publiek op 'n positiewe wyse in te lig oor die doelstellings van die Aksieprogram en oor die alternatiewe situasies wat vir ons bevolking as geheel geskep sou word indien die Aksieprogram nie sou slaag nie.

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My Minister het my spesiaal gevra om by hierdie geleentheid die Regering se opregte dank en waardering aan die plaaslike pers oor te dra vir die konstruktiewe wyse waarop die grootste meerderheid van hulle op die aankondiging van die Aksieprogram gereageer het. Terselfdertyd het hy dit betreur dat daar sekere publikasies en verslaggewers in ons land is - en hulle is gelukkig verreweg in die minderheid - wat by hulle reaksies op die Aksieprogram sekere standpunte verkondig het wat 'n groot gebrek aan objektiewe beoordeling van die doel en die gees van die Aksieprogram openbaar.

In opdrag van my Minister wil ek nou ook graag iets sê oor 'n verskynsel wat homself onlangs in 'n toenemende mate in ons gemeenskap geopenbaar het, en wat sy oorsprong regstreeks te wyte het aan die probleem van standhoudende prysstygings waarmee Suid-Afrika

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reeds vir 'n aantal jare te kampe het.

As gevolg van herhaalde berigte in ons nuusmedia oor prysstygings en die winsposisies van private sake-ondernemings in Suid-Afrika het daar 'n algemene indruk by die publiek ontstaan dat die prysstygings in ons land suiwer te wyte is aan onregmatige winsbejag en uitbuiting van die publiek deur ons private ondernemings.

Dat daar wel onder die huidige omstandighede gevalle van prysuitbuiting van die publiek deur sake-ondernemings in die land voorkom, sal geen regdenkende persoon kan betwis nie. En niemand sal ook die feit kan betwis dat daar talle ongewenste handelspraktyke in die land voorkom wat ons verbruikers in 'n hoë mate benadeel nie.

Hierdie misbruike is ongelukkig 'n inherente kenmerk van alle

17/...

kapitalisties-georiënteerde ekonomiese stelsels, en is nie 'n verskynsel wat suiwer tot Suid-Afrika beperk is nie.

My Minister het dit dan ook reeds duidelik gestel dat hy met behulp van al die wetsmagte tot sy beskikking drasties sal optree in 'n poging om 'n einde aan hierdie vorms van uitbuiting van die publiek te maak. Hy het ook die publiek verseker dat hy nie sal huiwer om, indien nodig, bykomstige wetsmagte van die Parlement aan te vra ten einde hierdie ongerymdhede uit ons ekonomiese stelsel te verwyder nie.

However, I want to sound a serious note of warning today to all our people to guard against the temptation of branding all price increases as forms of exploitation of the public, and as a reflection of unjustifiable profitmaking by private enterprise at the expense of the consumer in this country.

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The Government has consistently stated its firm belief in the desirability of maintaining our private enterprise economic system and of preserving the profit motive as the principal generator of the individual entrepreneur's willingness to apply his business talents and financial resources towards the expansion of economic activity in the country. And the Government has also repeatedly stressed that the freedom enjoyed by private enterprise in this country to pursue the profit motive does not confer on the private entrepreneur a licence to exploit the consumer.

But it is, at the same time, imperative that we, as a nation, should refrain from creating amongst ourselves a psychological atmosphere in terms of which legitimate profit-taking by private

19/..

enterprise would be branded as a sin against the community, and as a swear-word which should be avoided at all costs.

The act of legitimate profit-taking constitutes one of the essential ingredients of our type of economic system. If this form of profit-taking had to be removed from our economy, and if, with this object in mind, the Government had to respond to the frequent pleas by our public for more direct controls in order to reduce the profits of private enterprise, we would speedily turn this country into a socialist state.

A well-known overseas political observer recently told me that one of the main reasons for the intense international political agitation against South Africa was the fact that our country was being regarded by international socialism as the last remaining stronghold of the traditional form of capitalistic economy, and that

20/..

our economic system had to be broken down before international socialism could succeed in its efforts to conquer the world.

It is abundantly clear now that there exists a direct correlation between the rates of inflation of overseas countries and the speed at which many of these countries are being drawn into the folds of socialism. This movement towards socialism invariably removes the incentive of the profit motive and stifles the willingness of private enterprise to risk its human and financial resources in the pursuit of higher rates of economic growth. What is more, it undermines the willingness of private enterprise to invest in new productive capacity, and it also transfers to Governments the responsibility for such investments as well as decision making in

21/..

respect of what sort of investments would be, economically speaking, in the best interests of the community as a whole. And, finally, it stifles the incentive for workers to work more productively and to earn higher wages and salaries through higher levels of output.

I submit that all our people, who have so much at stake in the economic and social advancement of our country, should resist, with all the powers at their disposal, this growing trend towards socialistic thinking in our society which regrettably is being fanned by certain sectors of the press, which frequently carry large headlines about price increases and the profits of private undertakings without, however, also giving its readers the other side of the story.

En die ander kant van hierdie storie is heel eenvoudig - naamlik, indien die Regering regmatige winsneming deur die private sektor in Suid-Afrika met regstreekse beheermaatreëls aan bande sou lê, sou hy kapitaalvorming uit winste met die oog op nuwe investering in die ekonomiese ontwikkeling van ons land asook die skepping van

22/...

nuwe werkgeleenthede vir ons snel vermeerderende bevolking ontmoedig wat noodwendig daartoe sal lei dat die Suid-Afrikaanse ekonomie sal stagneer en dat ons dan ook met 'n ernstige werkloosheidprobleem en sosiale onrus te kampe sal kry.

Ek glo nie dat die publiek, mits hulle reg deur ons nuusmedia ingelig sou word oor die implikasies van hierdie aangeleentheid, bereid sou wees om die posisie te aanvaar waarin Suid-Afrika hom onvermydelik sou bevind indien regmatige winsneming deur ons private sektor, met inbegrip van sodanige winsneming deur ons pers, as 'n ewel beskou en deur regstreekse vorms van staatsbeheer aan bande gelê sou word nie.

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23.

Ek wil graag afsluit, mnr. President, deur aan u en al u kongresgangers 'n uiters geslaagde kongres en 'n aangename samesyn hier in Port Elizabeth toe te wens.

UITGEREIK DEUR DIE DEPARTEMENT VAN INLIGTING OP
VERSOEK VAN DIE DEPARTEMENT VAN HANDEL.

PRETORIA.

15 OKTOBER 1975.

Staggering in the dark

Depression and inflation between them have shattered investor confidence. They have also shattered the pundits' crystal balls

F.M. 17/10/75

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If ever there were a need for a one-armed economist, it was at the *FM's* conference this week on Investment in 1976. On the one hand, things were bad but could improve. On the other, they were bad and might worsen.

It was a hazardous season for economic forecasting. The gold price has taken a beating. The stock market is in retreat. Inflation mounts, the rand has suffered a hefty devaluation. bank liquid asset requirements have been tightened, and the world economy is taking longer than anticipated to recover (see previous story) from the worst depression since the 1930s.

In the circumstances, it would take a brave man to stick out his neck. Fortunately, there were several.

For Finance Minister Owen Horwood, who delivered the keynote address, negative thinking had reached unreasonable proportions. He had confidence in business cycles, and he wasn't alone. It was a theme repeatedly mentioned, most forcefully by Hambro Life chief executive Mark Weinberg. "Investment managers" he said, "are better for having lived through a depression."

On the SA scene, naturally enough, theorising concentrated particularly on the future of the gold price. As usual, Horwood was bullish. The recent IMF "understanding" gave new life to the monetary role of gold because official gold reserves would again become usable, being bought and sold by central banks among themselves and in the private market. If the metal were to be revalued at its present price in the private market, "as would be logical under the new understanding", it would jump from 20% of official reserves in non-communist countries at the old official valuation, to 50%. The understanding would enhance its importance as a primary reserve asset, and make it more usable as such.

Horwood was supported by Rothschild's Robert Guy, chairman of the London Bullion Market, who considered it "unlikely that gold will disappear for some considerable time from the international monetary scene".

It was essential, he argued, that for the IMF to be successful in its selling, it should also be successful in convincing buyers that sales will be conducted in such a manner as not to depress the price. Central banks would not buy if the price did not merit support, and the free market would not buy unless the sales

"are orderly and initially phased over perhaps a longer period than may have been envisaged".

There were "far too many vested interests in ensuring that the price maintains at the very least its current levels".

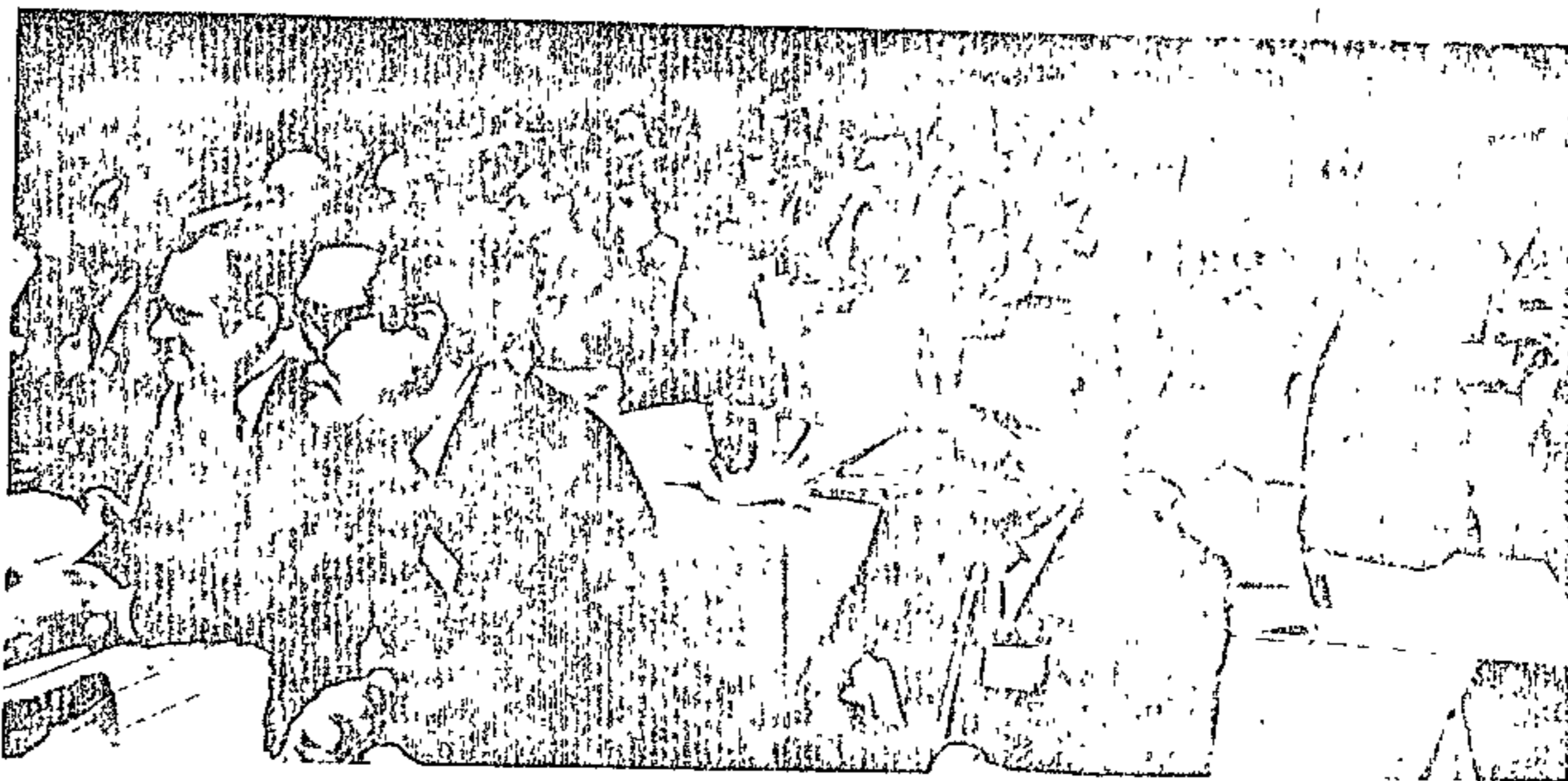
As with Horwood, Guy too believes that with the threat of a new bout of international and even greater inflation, the strength of gold will correspondingly grow.

At the local investment level, Sage GM Alf Field concurs. He sees a "reasonably positive year for gold" and "cannot rule out" a sudden, sharp increase in its price.

inflationary profits and bear little relationship to the ability to pay dividends.

High gearing, viewed with favour four years ago, is viewed with extreme caution these days as spiralling interest rates have knocked returns on capital employed. And instead of the "financial conjurers" who used to be in vogue, when cash in the bank was considered a sign of unaggressive management, analysts today seek a track record of management which actually knows the businesses it is running.

As for fixed interest investments, Weinberg held out little hope that lost



FM's investment conference . . . goodbye go-go, hullo caution

However, without a "very sharp rise in the gold price in the immediate future", he predicts a downtrend in the industrial equity market which could take the *RDM* index from its current 193 to 150 and possibly lower, a decline which "should last at least until the second quarter of 1976, but could well last somewhat longer".

Should the gold price drop to below \$128/oz for an extended period, the *RDM* index could fall to "well below" 150.

Adding to this gloom was Weinberg's reminder that in the UK equities had failed as a hedge against inflation.

However, investment criteria had radically changed and, provided the investor knew what to look for, he enjoyed a reasonable prospect of seeing his wealth restored.

The new criteria, though well known, are worth repeating. Earnings and PE ratios now take second place to dividend yields and the prospect of continued dividend payments — particularly since reported earnings are often boosted by

fortunes would be recovered.

Nor did Senbank's chairman, Fred du Plessis. Rates could hardly come down, he said, because of the vast sums needed for financing capital projects in the pipeline, and because the inflation rate (on which long-term interest rates largely depend) is likely to be higher next year. Further, a possible official policy action would be to restrict a rise in interest rates at the risk of causing a new issue to fail, which would in turn strengthen investor anticipation that rates would rise.

If investors take the view that rates are going to harden during 1976, which certainly appears to be Du Plessis' view, his advice would be to "postpone investment in long-term securities for some time".

All in all, though, the future seemed unusually cloudy and delegates could depart in little more than enlightened confusion. As Weinberg summed up the investment mood for 1976: "The imponderables have become so large and difficult to assess that rational analysis is really impossible."

FCI priority is easing inflation

Fight against rising prices

The Argus Bureau

PORT ELIZABETH. — The fight against rising prices was the main theme of the three-day convention and executive council meeting of the Federated Chamber of Industries this week.

In spite of some strong language about the recent rand devaluation, delegates were unanimous in the crucial opening session that damping down inflation must be their number one priority.

The view of the FCI executive is that the inflationary impact will amount to about another four percent on top of the existing rate, but it is adamant that gloomy predictions of runaway inflation rising to 30 percent next year are far wide of the mark.

APPROVAL

FCI economist, Mr Arthur Hammond-Tooke drew approval from the Secretary for Finance, Mr Gerald Browne, for his sober assessment of the economic position as the convention opened.

Mr Hammond-Tooke told delegates that the months to come would be a lean time for industry but the effects would not be uniformly felt.

With slow industrial growth this year, capacity utilisation and investment level low, and unemployment rising, the picture was gloomy, he conceded.

RUNAWAY

'But just how serious is it?' he asked. 'I cannot give precedence to forecasts of runaway inflation. The real long term growth potential of this economy has been assessed at 6,5 percent a year which is high by international standards. Changes under adjustments in the economy and the social structure will have to be made if this is to be attained.'

'We will no longer be able to depend on our abundance of natural resources to carry us through.'

'All is not well with the structural position of our economy. There is an unhealthy reliance on imports. We have been borrowing internationally to satisfy our demand for capital.'

'But over recent months there has been a full consensus among businessmen that there must be a collective programme against

'A workable programme against inflation has been put forward. With this package I don't think there are any major technical problems facing our economy that we cannot overcome.'

The convention heard from Mr Tjaart van der Walt, Deputy Secretary for Commerce, that the Government anti-inflation plan would be announced on October 7.

EXCESSIVE

Mr Browne said the reaction to devaluation had been excessive and he agreed with the FCI calculation of a 4 percent effect on inflation which he pointed out would be a 'one-time' effect.

He said a sustained upturn in the economy would depend on conditions overseas. With the first sign becoming evident that the United States economy has turned the corner, he felt the improvement here would not be too far away.

Dr B. A. van Staden, head of the economic section of the Reserve Bank, pointed out that the im-



MR R. D. SMITH . . . industry in for a difficult period.

pace of devaluation would be imposed on a falling trend in prices.

Mr R. D. Smith, president of the Cape Chamber of Industries, said industry was in for a difficult six to 12 months.

'But devaluation will ease some of the blockages facing exporters,' he said.

'In the canning industry for example a 40 percent

increase in the cost of tin-plate has caused serious problems, but devaluation will make our products very much easier to sell'

Mr Ernst Hausmann of the Transvaal Chamber of Industries said he found 'incredible' the statement by the Minister of Finance, Senator O. P. F. Horwood, that the country was on the verge of another unprecedented upsurge.

RECESSION

He felt the anti-inflationary measures would cause a recession before there was an upturn and the effect of devaluation on the man-in-the-street would be very severe.

Mr Hugh Archibald of the Natal Chamber of Industries said industry would not be able to absorb 30 percent of its cost rises as it had undertaken to do.

Though the FCI had calculated a four percent inflation, this was for the economy as a whole. Industry inflation as a result of devaluation would be much higher, he said.

Handwritten notes and a circled number '47' in the top right corner.

Public is fed up with business malpractices, seminar warned

ARGUS
21/10/75

Financial Staff

THE PUBLIC — even the informed public — are genuinely fed up not only with the business malpractices of the minority but also with the not always completely honest high-pressure selling practices of the majority, says Professor R. R. Tusenius, director of Stellenbosch's Graduate School of Business.

Speaking as chairman of a NDMF seminar on Marketing within the Law in Cape Town, Dr. Tusenius

also said: "The free enterprise system will have a difficult task selling itself as long as the public continues to read with alarming monotony of cases where fraudulent manipulators succeed in stealing millions from creditors and shareholders — especially if the system permits the same individuals to repeat their crimes time and again."

He welcomed the steps by commerce and industry in South Africa to defend the free enterprise system, to educate the public about the advantages of free enterprise and to counter the wave of anti-free enterprise sentiments and propaganda flooding the Western world.

OVERHAUL

However, when planning this campaign, it should be borne in mind that many aspects of the free enterprise system were in urgent need of an overhaul.

"Not only ignorance causes anti-profit and anti-free enterprise feelings among the public.

"There is more to the problem than informing the public that the pursuit of the profit motive by the individual generates a higher standard of living for the masses.

"Or telling them that much of today's record company profit increases that are daily headlined in the Press are in reality overstated or may even be losses after the effects of inflation have been taken into account."

The campaign should acknowledge that some of the excesses of the marketing orientation era of the fifties and sixties have justifiably led in the seventies to the birth of consumerism.

The business community should demonstrate, especially in these times of inflation, that marketing and persuasion bordering on dishonesty were not synonymous.

"The malpractices of the dishonest minority should be eradicated as soon as possible for the sake of the continued existence of the system of free enterprise.

COMPETITION

"Those who restrain competition to the detriment of the public, who fix prices, who make excess profits, who mislead the public with false promises, should be severely dealt with.

"It is a sad but well-known fact that many professional crooks and law-evaders simply laugh at the law and at law-enforcement machinery."

If present legislation was insufficient, the law must be changed. If the power or facilities of those whose duty it was to investigate alleged irregularities were insufficient, then those powers or facilities must be extended.

"In the long run the public will judge the system of free enterprise on the basis of what its experiences, not by what it is told."

Economic model will help forecasts

RDM 23/10/75

By JOHN IMRIE

A MODEL of the South African economy — virtually an "economic brain" — is being constructed which will help predict in advance with a far greater degree of accuracy the results of economic policy decisions.

Dr Simon Brand, Deputy Economic Adviser to the Prime Minister, said yesterday that the short-term economic model constructed with the help of the Reserve Bank's computer was still something of a "toy".

"We are at present trying out imaginary economic policy decisions on it, but in future it should enable us to first test the effects of important steps like devaluation or tax changes before implementing them," he said.

The model is known to be regarded as "dangerous" in some Government circles, officials fearing that it might take over their decision-making function.

"This is nonsense. The model is simply a means of getting better information on which to

base decisions," Dr Brand said. Similar models are in use in countries like Holland and are employed by some universities in the United States.

The model consists of a mass of information programmed to show the effects of any changes to the economy.

At present, economists know more or less what will happen if certain things are done, like tightening up or easing the money supply, but the model should be able to provide a far more detailed picture of what will happen

The project is being supervised by Dr Brand and Dr Braam van Staden, head of the Reserve Bank's economics department.

Leading economists in the private sector yesterday welcomed the move.

Mr Merton Dagut, of Nedsa, said he had been aware of the project for some time and it was an "essential tool for anyone who wants to work out what the results of a particular policy measure will be".

See Man who talks money to the PM — Page 21.

① 47
~~② Capital~~

By DAVID ALBINO

THE go-ahead this week for the R70-million St Croix ore berth scheme, which it is estimated will eventually earn South Africa about R100-million a year in foreign exchange, is only the tip of an iceberg in a massive development planned for the area.

Experts this week agreed the ore berth and adjacent development would provide the boost desperately needed by the depressed Port Elizabeth area to bring its economy into line with other major centres in South Africa.

According to Port Elizabeth's former mayor, Mr James Kleynhans, one of the scheme's most ardent champions, the future of the city as an expanding industrial centre depended on the go-ahead for St Croix.

And Mr David Morit, head of a major South African land development and research company which prepared the overall land development plan for the area, said the ore berth will prove to be the catalyst for the development which will put the Port Elizabeth complex on a firm economic footing.

Farmer

The ore berth and marshalling yards take up only 5.3 percent of the 8 sq km development site which is largely owned by dairy farmer Mr Edgar Crews.

Although approval for the development scheme

has not yet been given it is expected the ore berth go-ahead will make this a certainty.

The massive development proposals include:

- A petrol refinery and tank farm.
- A large landscaped industrial complex.
- A modern residential area serving workers in the area and in the city as well as providing holiday accommodation along the attractive coastline.

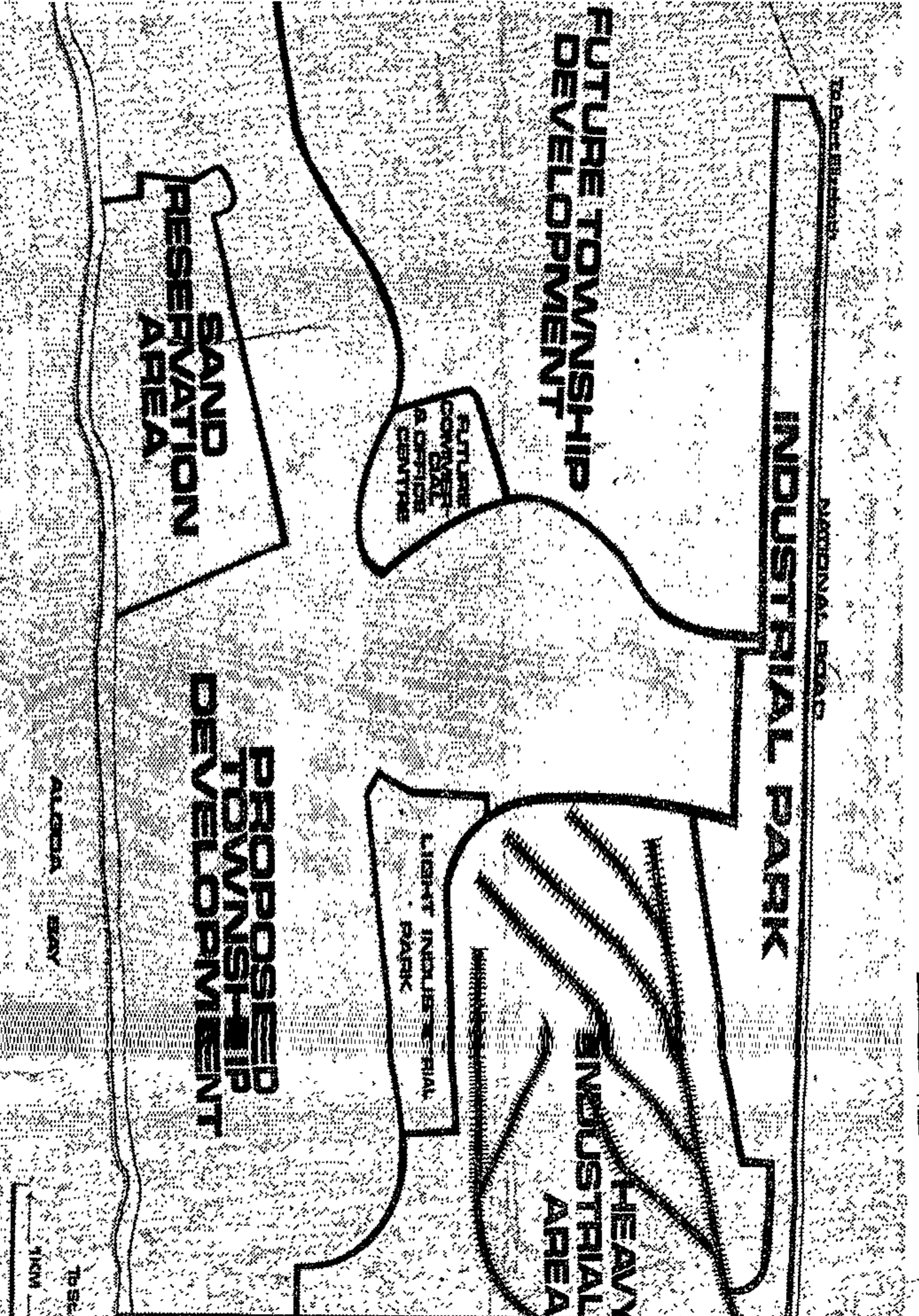
Desalination

The area set aside for industrial development at St Croix is more than a third of the total industrial area of the Cape Peninsula.

According to a report prepared by Mr Morit's company on the development a number of important industries could be established immediately because of the high quality sand in the area.

- A cement works.
- A desalination plant to provide industrial fresh water and salt.
- Brick products using the silica obtained by extracting limestone from the sea sand.

FUTURE TOWNSHIP DEVELOPMENT



MAP shows the proposed development of Hougham Park which is expected to be approved following the go-ahead for the St Croix ore berth this week. The total industrial area planned for the development is more than a third in size of the Peninsula's industrial area.

The building of the ore berth could boost South Africa's ore exports tenfold. According to Mr Peter Wilhelm, chairman of Consolidated African Mines, the scheme could earn South Africa an extra R100-million a year in foreign exchange.

Long-term

He predicted the cost of the scheme could be written off in 20 years by exporting 15 million tons of ore a year for which the scheme is designed.

According to the development report the lack of a deep sea ore berth in South Africa means that small carriers have to be used with the result that ore exporters have not been able to secure significant long-term contracts.

Brail for example, by using large ships and in spite of the extra distance of 3 600 nautical miles, could land ore in Japan at R212 less a ton than South Africa two years ago.

The St Croix ore berth will be able to handle in 24 hours the same amount handled by the Port Elizabeth harbour facilities in one month.

One of the major developments expected to follow the building of the ore berth is the moving of the petroleum storage tanks at present in the city to the St Croix site. The facilities in the city now occupy about 95 percent of the available space and there are difficulties involved in raising the height of the tanks.

The tanks are also seen as a safety hazard because of their proximity to residential areas and the petrol road tankers are a traffic danger because they have to pass through the heart of the city.

Lack of space will force the oil companies to build a new oil berth and tank farm away from the harbour and this could be moved to St Croix, says the report.

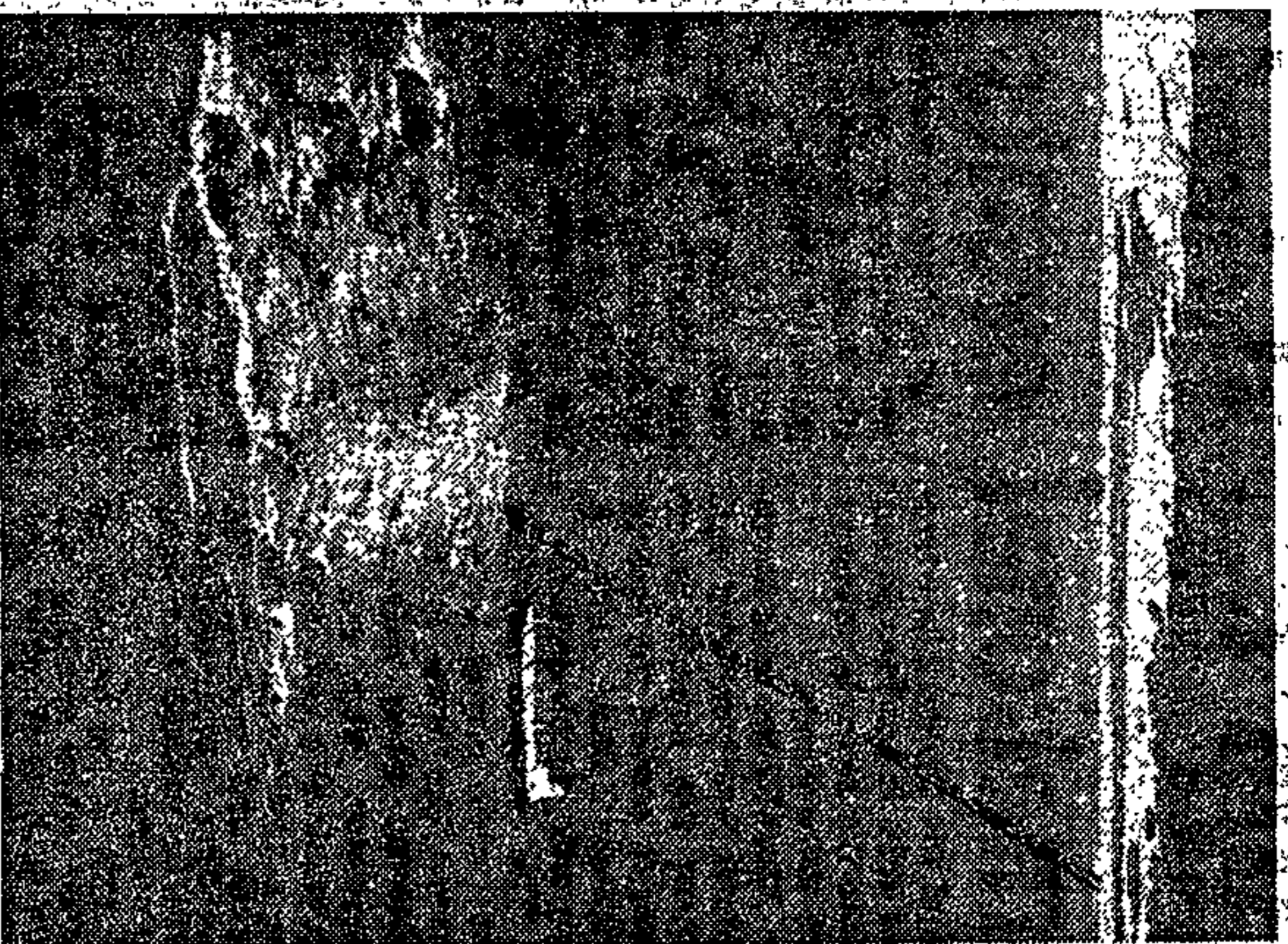
An oil berth could be combined with the St Croix ore loading berth and this would further enhance the economic viability of the scheme.

enthusiasm in the city this week. Among the promoters people who commented on the decision were: Mr Dan Rossouw, Port Elizabeth's Mayor, who said the news was simply fantastic and was proof of confidence in the city and the entire Eastern Cape.

Mr Theo Aronson, MP for Walmer, said he hoped the move would lead to further industrial expansion for the area and to other ancillary projects for the city.

Mr Walter Kingwill, MP for Port Elizabeth Central, said the scheme would be of great value to South Africa's economy.

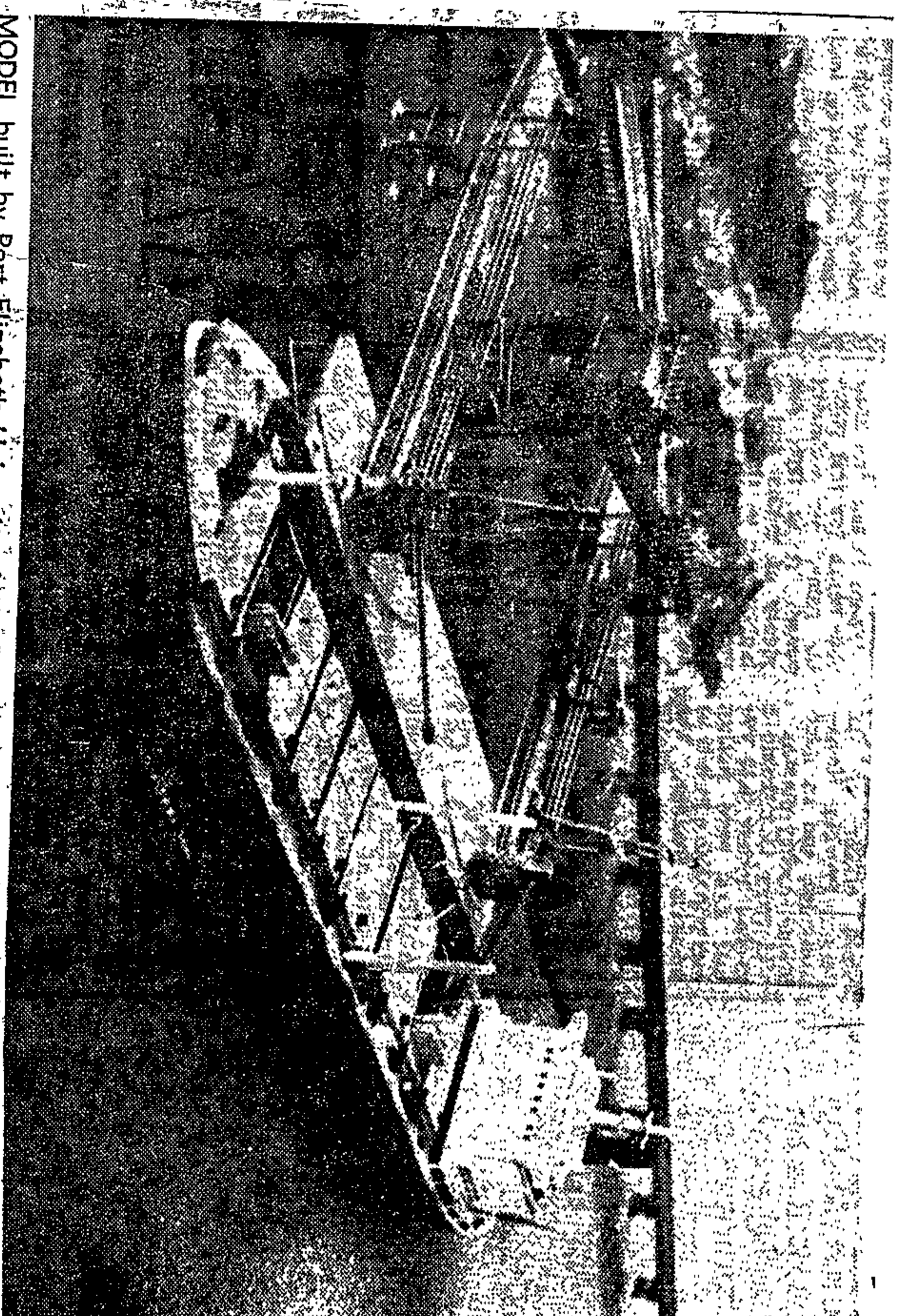
Mr G. C. H. Polasek, President of the Midland Chamber of Industries, said: 'I have always believed the Government would ultimately realise a sensible scheme — a particularly valuable to us now that our exports are so much more attractive as a result of devaluation.'



AERIAL VIEW of St Croix island in Algoa Bay. The dotted line shows where the 2 km conveyor will be built to carry ore from the mainland dump to the shiploading berth on the island.

St Croix

Only the tip of an iceberg



MODEL built by Port Elizabeth University show the ore shiploading berth, which will be built on St Croix island. The trestled conveyor in the background will bring ore from the inland. When it meets the island it divides and carries the ore to two movable arms which load the ore into the tanker.

Protection

Thus the conveyor belt will only touch the island, the main purpose of which will be to provide protection from wind and sea. And bird life on the island will be virtually unaffected as the ore loading facilities will be on a side rarely used by the sea birds.

Our Weekend Argus Correspondent in Port Elizabeth, reports that news that the Government has given the go-ahead for the R70-million St Croix oil berth was greeted with

Co-operation

Mr Jan Hagen, president of the Afrikaanse Sakekamer, said he was convinced that only the tremendous co-operation between the various civic and business organisations in Port Elizabeth and surrounding areas had made the scheme possible.

Mr Stuart Galloway, president of the Port Elizabeth Chamber of Commerce, said he hoped the construction of St Croix would be started as soon as possible. South Africa cannot afford further delays. We need the export revenue to boost our lagging balance of payments. He added that St Croix would be an essential amenity to provide diversification of industry in the Eastern Cape.

'PIPE-DREAMER' EDGAR GETS THE LAST LAUGH

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By Peter Gosses
PORT ELIZABETH.

Two Government decisions in the past two weeks have made a dairy farmer near here, owner of some of the hottest pieces of real estate in South Africa.

People said it was far-fetched and believed the ore berth project would never come about any way. Then, two weeks ago the Minister of Economic Affairs, Mr J. C. Heunis, announced Government concessions for processing minerals before export and this week he announced the Government green light for St Croix.

At the age of 34 he became president of the East Cape Coastal Agriculture Union and soon after president of the South African Agricultural Union.

While the St Croix backers battled for seven years for Government approval for the scheme, Mr Crews went ahead and had his satellite industrial town planned.

MR EDGAR CREWS, a Port Elizabeth dairy farmer, on whose farm the St Croix ore berth scheme is to be built.



A few short weeks ago the plan of Mr. Edgar Crews of Houghton Park Ceres, to establish a vast new industrial town with its own homes, and recreation areas for the in with St Croix ore berth project was looked on as a pipe dream.

This means Mr Crews's master plan for an industrial town drawn up by expert consultants is virtually assured of acceptance.

The St Croix scheme and any processing plants for iron ore will be established on Houghton Park, his eight-square kilometre farm which lies between the sea and the national road between Port Elizabeth and Grahamstown.

I bought this farm in 1946 for R20 000 because being on the coast so close to Port Elizabeth I was sure that it would increase in value. Of course I did not realise then that it could become the centre of an industrial town, Mr Crews said.

He had moved to the coast from the Transvaal where he had been secretary at the Chamber of Mines and had gained a BCom from the University of the Witwatersrand.

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JOHN IMRIE

INA BRAND tends to blame her husband, partly anyway, for South Africa's rising price structure.

"She has a misconception of the powers I have at my command," sighs Dr Simon Brand, 37, father of five and Deputy Economic Adviser to the Prime Minister.

Railways

And even if he had the power to run South Africa's economy as he liked, he would have no instant solution to inflation or the problem of providing jobs for the country's rapidly growing population.

"If you had asked me that when I was a university professor a few years ago I might have had very much clearer ideas on the subject," he replied.

Going back further to 1955, the Brand family living in Hatfield, Pretoria, would have been astonished if anyone had suggested then that their son Simon was to become a professor, never mind an economics adviser to the Prime Minister.



Success Story DR SIMON BRAND Deputy Economic Adviser to PM

For Simon Brand's father was a Railways worker, an assistant stores supervisor when he retired, and his mother worked in a shop to help put him through school.

There were no overblown expectations in the Brand family, although Simon did hope to become a farmer, an ambition which, for

Farming

When it became clear that a farming career was out, Simon Brand joined the Department of Agricultural

Economics and Marketing

later gaining an MA degree at Stanford University in California with the aid of a Rockefeller Foundation fellowship, and followed this up with lecturing posts at Pretoria University and the University of South Africa.

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The man who talks money to the PM

Economists as a breed tend to be strongly opinionated people, the more flamboyantly radical and outspoken among them gaining adherents to their views from different ends of the political spectrum.

Practical

Simon Brand, however, has a practical approach to South Africa's economic problems which reflects his down-to-earth family background.

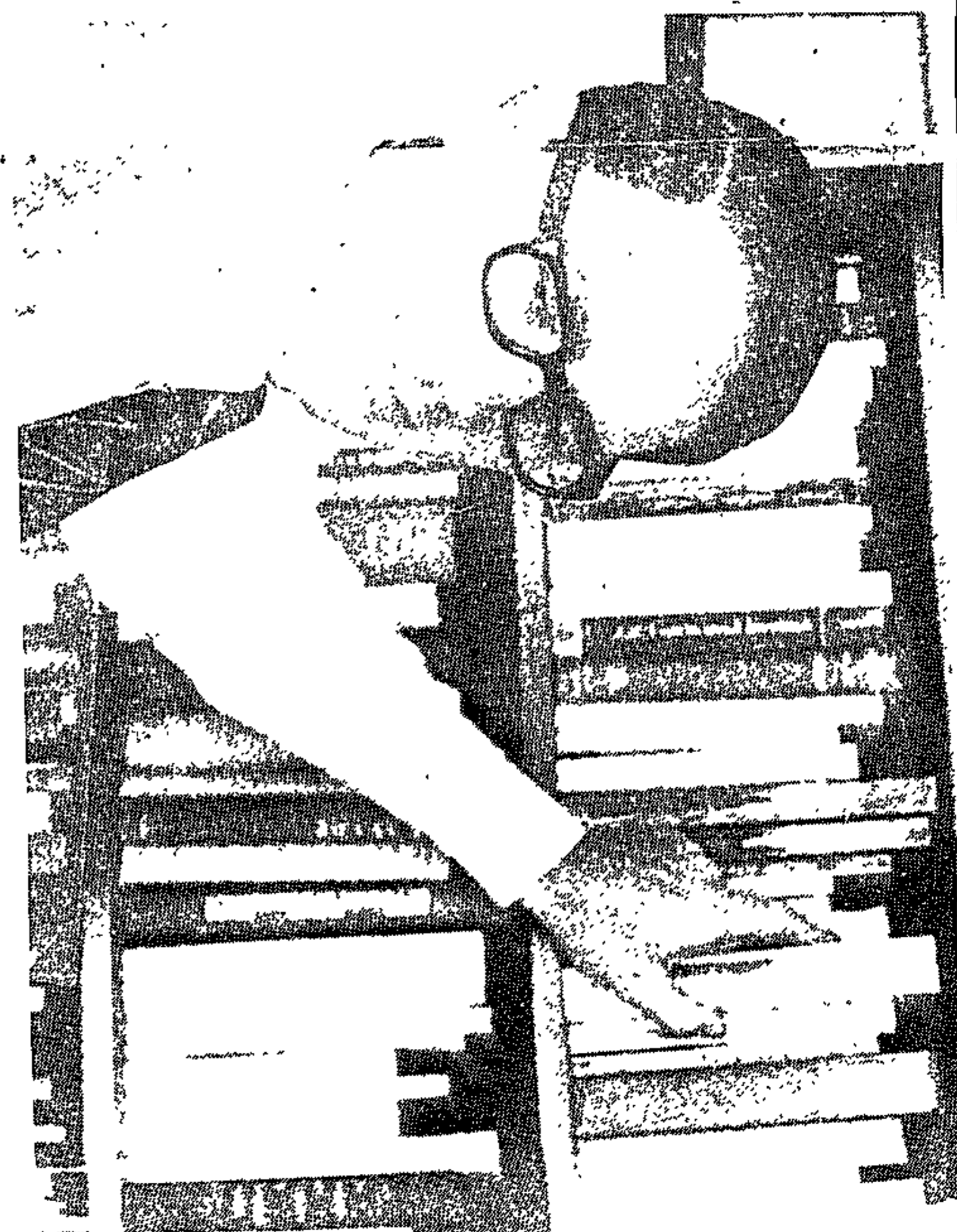
He believes: • Inflation in South Africa is

in large measure fanned by the fact that "we do not have very competitive markets in most sectors of the economy — there are a lot of monopolistic arrangements."

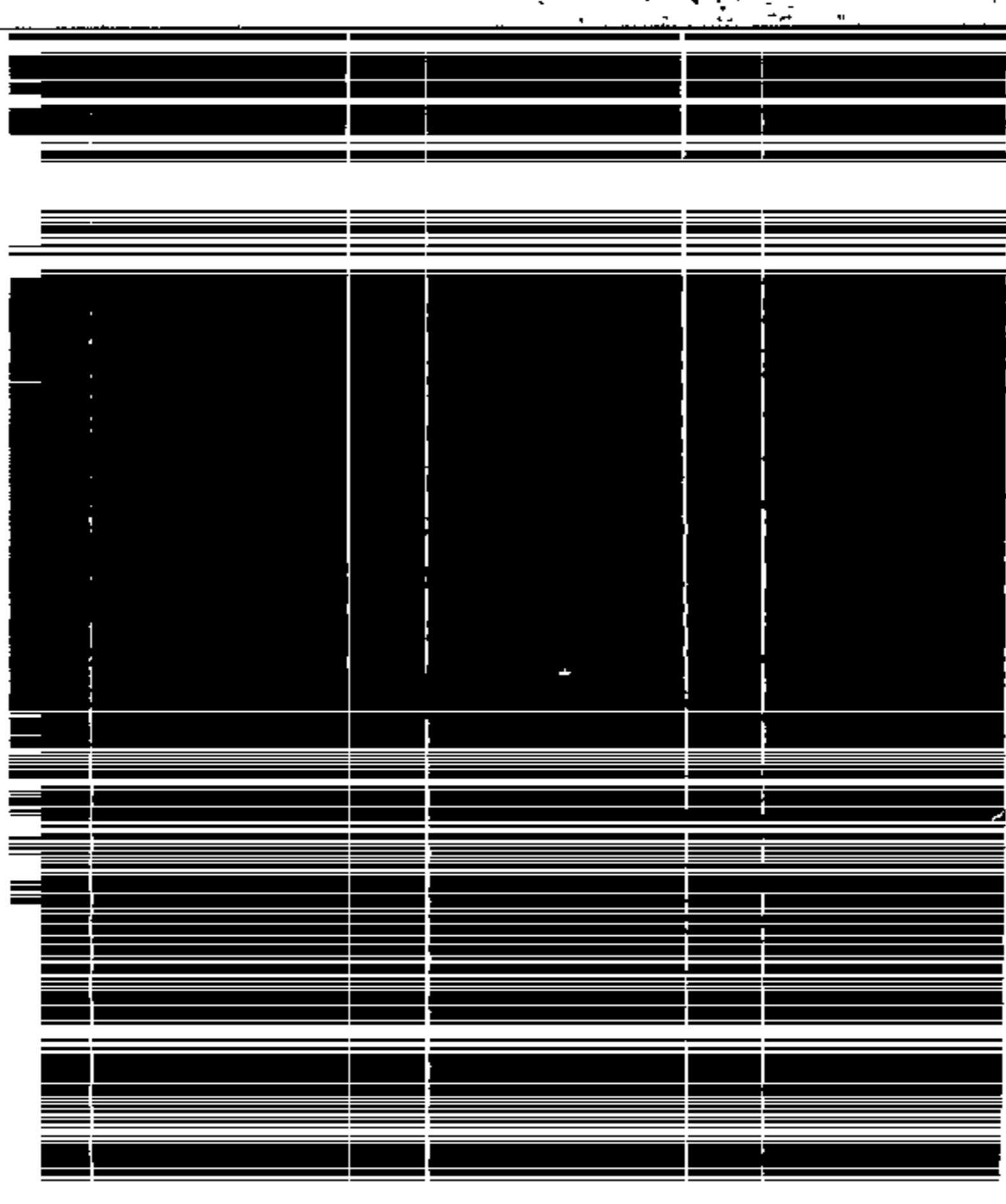
to bring profits down to this level, but firms earning more than this figure should not pass on cost increases."

South Africa in the time ahead can be spared brilliant mistakes in its economic strategy. Simon Brand strikes one as a man who would tender practical advice based on clear analysis. Perhaps that is the farmer in him.

• See Page 27



DR SIMON BRAND... practical approach to economic problems.



24/10/75

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Plan to bolster private enterprise

By CLIVE EMDON

THE subject will be the merits of capitalism and the free enterprise system, and the pupils will be the Government, consumers, businessmen and even school children.

These are the ingredients of a long-term research and education project to be launched by the Association of Chambers of Commerce (Assocom) within the next few months.

The executive director of Assocom, Mr Raymond Parsons, said yesterday the project, already termed commerce's "counter-attack" in the Press was no such thing. It did not relate directly to the Gov-

ernment's programme to combat inflation, but to a world problem — "increasing lack of confidence in private enterprise".

He said it was the duty of the business community through organised commerce and industry to present a long view of the future of the competitive system.

"The benefits of competition must be positively demonstrated and not left to the vagaries of ill-informed opinion."

Bound up with the need to inform and educate government at all levels, consumers and businessmen themselves, and school children, was the need "to promote economic liberal-

ism as a key to the survival of the capitalist system"

Mr Parsons said discussions at the recent International Chamber of Commerce Congress in Madrid related closely to the relationships and balance of power between governments, private enterprise, trade unions and the general public.

The talks centered on how private enterprise could come to terms with the mixed economy of today and still retain a positive role in the economic system.

It was established that there had been no satisfactory alternative to the market economy and

emphasised that profits were fundamental to social progress.

Mr Parsons said acute inflation had led people to question the system. "The result has been that the case for capitalism had largely gone by default. Hence the need for a long-term educative project for all."

Mr Parsons is to spend the next two weeks addressing Chambers of Commerce round the country on the Government's plan to fight inflation. He will also gauge the effectiveness of the campaign so far.

He declined yesterday to list the proposals he will be outlining during his tour.

47

EMBARGO : 5TH NOVEMBER, 1975 AT 20h00
ADDRESS DELIVERED BY THE SECRETARY FOR COMMERCE AT THE TENTH
CONVENTION BANQUET OF THE SOUTH AFRICAN SOCIETY OF MARKETERS,
JOHANNESBURG, 5TH NOVEMBER, 1975

Meneer die Voorsitter, Ere-gaste, Dames en Here:

Toe die Suid-Afrikaanse Vereniging van Bemerkers my genooi het om u vanaand by hierdie gesellige onthaal te kom toespreek, was ek gevra om u onder meer ook in te lig oor die prysbeheer- en ander maatreëls wat as krisismetodes aangewend kan word om die stabiliteit van die Suid-Afrikaanse ekonomie te herstel.

Ek vermoed dat die woord "krisismetodes" waarskynlik per abuis by u vereniging se versoek aan my ingesluit is.

Ek/.....

-2-

Ek wil dit vanaand onomwonde aan u stel dat daar hoegenaamd geen sprake van 'n krisistoestand in die Suid-Afrikaanse ekonomie bestaan nie. En daar is ingelyks ook geen sprake van enige krisismaatreëls wat nou van Regeringskant toegepas moet word nie.

Ek wil egter geredelik toegee dat daar gedurende die afgelope jaar of meer 'n buitengewone sameloop van 'n aantal ongunstige faktore voorgekom het wat die algemene stand van die Suid-Afrikaanse

ekonomie/.....

ekonomie ongunstig beïnvloed het. Maar in hierdie opsig het Suid-Afrika homself beslis nie in 'n unieke posisie bevind nie aangesien talle ander lande eweseer gedurende die afgelope jaar of twee met besondere ekonomiese probleme te kampe gekry het.

Ek wil egter vanaand ons ondernemersgroepe in die private sektor maan om hulself nie vanweë die huidige toestande van slapte in die Suid-Afrikaanse ekonomie aan oordrewe gevoelens van pessimisme en wantroue in ons land se ekonomiese vooruitsigte te laat uitlewer nie.

This subject, namely the tendency on the part of our

private/.....

private entrepreneurs to react in an unduly pessimistic manner towards periodic unfavourable developments in the domestic economy, is a subject to which I shall return again in the course of my address.

But let me, first of all, try to identify the unfavourable and the favourable factors which are present in the South African economy at this stage.

There are, at present, particularly four unfavourable

factors/.....

factors which adversely affect economic conditions in South Africa -

Firstly, the sharp decline in the growth rate of the economy which has been experienced by us since the third quarter of 1974. This rather pronounced change in our growth rate was preceded by almost two years of exceptionally favourable economic conditions when our growth rate reached a record figure of more than 7 per cent in real terms. It is significant to note that this high growth rate was achieved by South Africa at a time when many other countries had encountered sharp declines in their growth rates/.....

rates which had bordered on conditions of serious recession.

However, most experts were agreed that we could not have maintained our high rate of economic growth of the 1973/74 period for any length of time without sooner or later encountering serious problems of shortages of skilled manpower and of infra-structural facilities and other basic services, as well as shortages of productive capacity in the main sectors of the economy and of funds to finance this high level of economic activity. The decline in the growth rate which we have experienced/.....

experienced since the third quarter of 1974 must, therefore, be seen as an essential development which has enabled us to consolidate the progress achieved during the previous two years and to rectify those shortages which had already caused bottlenecks in various sectors of the economy.

Secondly, we have experienced during the past year a sizeable deficit on the current account of the balance of payments which, however, has been due largely to unfavourable monetary and other developments abroad over which the Government has had no control whatsoever.

Thirdly,/.....

Thirdly, we have been confronted during the past two years with rates of inflation which have caused hardships and economic setbacks to all the participants in the economic activities of this country. This very high rate of inflation admittedly poses a threat to South Africa's economic stability. But we have now succeeded in drawing all sections of the community together in a collective effort to fight this serious enemy and there is reasonable grounds for believing that the rate of inflation in South

Africa/.....

Africa will be kept at more acceptable levels during the next year or two. It is also important to bear in mind that the inflation rates of our main trading partners, which contribute in no small measure to the current waves of cost and price increases in South Africa, are now showing positive signs of a downward trend. And any measure of success which they may be able to achieve in their efforts to reduce their rates of inflation would undoubtedly also have a beneficial effect on the high cost of our essential imports which we have to buy from them.

Finally, /.....

Finally, we have experienced specific problems with the financing of our State expenditure during the current financial year, but these problems have, again, been due in no small measure to external developments and, particularly, the relatively sharp decline in the price of gold over which we likewise have had no control at all.

By way of contrast to these unfavourable factors which have exerted their influences on the present state of the domestic economy, there are also now in evidence a number of favourable

factors/....

factors which, in my opinion, could before long bring positive results to bear on economic conditions in our country. They are the following -

Firstly, there are a number of important development projects in the public sector which have either already been started, or which are to be started in the near future, and which will undoubtedly give a renewed stimulus to economic conditions in this country;

Secondly, in the agricultural sector we have experienced favourable crop conditions and good crops during the past season;

Thirdly,/.....

Thirdly, our non-gold exports have been maintained at reasonably satisfactory levels despite the unfavourable economic conditions which have been experienced by many of our principal trading partners;

Fourthly, there are now positive signs that a renewed upsurge of economic conditions in our main trading partners may not be long delayed;

Fifthly, there are also prospects of an early improvement

in/.....

in our balance of payments, partly as a result of the recent devaluation of the Rand which will discourage imports and give a stimulus to our export earnings, and which is likely to be accompanied also by a renewed inflow of foreign investment capital; and

Finally, the decline in the rate of economic growth in South Africa has relieved the pressure on our available trained manpower resources and has also created surplus productive capacity in certain sectors of the economy which could be utilized to advantage in order to cater for any new upsurge in domestic demand.

It/.....

It is my firm conviction that the favourable factors and circumstances for renewed economic growth in South Africa to which I have just referred, outweigh the unfavourable features of the domestic economy which I have identified as negative influence in the over-all economic prospects of our country.

Unhappily, however, our leaders in the private sector have allowed their assessment of current economic conditions and future prospects to be upset by the temporary setbacks to which I have just referred. Their pessimistic reactions to these unfavourable

development/.....

development are, of course, not a purely South African phenomenon. On the contrary, similar reactions frequently are to be found also amongst the private entrepreneurs of other Western countries. What is more, these reactions strike at the very roots of the duties and responsibilities which private enterprise has to perform under the rapidly changing conditions and circumstances in which the economies of most Western democracies operate today.

It has, in fact, become a common feature of private enterprise in most of the Western countries with capitalistic economies

to/.....

to interpret any unfavourable trends in their economies as signs that a crisis has emerged which will permanently impair their operations on an economically viable basis.

It may, therefore, perhaps be appropriate if I tried briefly to outline to you the conditions under which the private entrepreneur is expected to perform his functions and responsibilities under the rapidly changing conditions and circumstances today.

This is a subject which has recently received a great deal of attention and detailed study by political and business leaders

of/.....

of international repute. And, let me add, it is also a subject in respect of which traditional philosophies and approaches have gradually been modified by new trends of thought associated with the rapidly changing social environment in which Governments have to fulfill their responsibilities towards their electorates.

Since the end of the Second World War we have witnessed the emergence of constantly expanding demands on the Governments of most Western style democracies for increased state intervention

in/.....

in the economies of these countries in order to protect the sometimes widely divergent interests of the various sections of their communities and to maintain a satisfactory rate of economic growth as well as conditions of full employment.

What is more, these Governments are constantly being inundated with requests for new and better services to their population groups at a cost which frequently causes utter dismay and confusion to even the most astute financial experts in their Treasury Services.

The/.....

The constant public demands for new and more effective measures of Government protection against the inescapable fluctuations and vicissitudes of all Western style democracies have manifested themselves in radical changes in the basic philosophies of the private entrepreneur and the private consumer alike.

The private entrepreneur is continuously clamouring for more direct Government action so as to protect the earnings and the assets of his company against unfavourable trends in economic conditions. And the consumer, again, is constantly demanding new

forms/.....

forms of Government control of the domestic economy in order to protect him against business malpractices and price exploitation allegedly being perpetrated by the private entrepreneur.

It is small wonder, therefore, that democratically orientated Governments, in their efforts to reconcile the divergent demands of these two principal sections of the community, are frequently being confounded by the enormous complexity of this task.

Here in South Africa successive Governments have proclaimed

their/.....

their firm adherence to the private enterprise economic system in the belief that the sustained economic progress of our country could best be ensured if the private entrepreneur were allowed full freedom to apply his particular qualities of initiative, perseverance, and sound business judgement, as well as his available financial resources, in those directions where he feels that he may be able to make a profit as the just reward for his efforts.

The present South African Government, like its predecessors in office, has also repeatedly declared that it fully subscribes to

the/.....

the maintenance of this type of economic system, based on the initiative of private enterprise and the reasonable pursuit of the profit motive.

The accusations of certain critics that the Government is constantly busy creating an unwieldy bureaucracy by the imposition of new controls over, and restrictions on the activities of private enterprise, completely ignore the fact that many of the existing forms of Government intervention in our economy has been inspired largely by the increasing demands for, and high expectations of greater state protection or assistance in one form or

another/.....

another which so regularly emanate from all sections of our exceedingly complex community.

Although, as I have already stated, the Government fully subscribes to the concept of economic freedom for the private entrepreneur, it must necessarily base its policy decisions on the wider interests of the community as a whole, as distinct from the interests of individual groups of our society. And when the Government, as sometimes happens, has to introduce measures which appear to run counter to the interests of individual groups of the

private/.....

private sector, or of the private sector in general, such action should not be construed as a rejection of the traditional principles of free competitive enterprise to which it is committed, but rather as an effort on its part to strike a reasonable balance between the frequently divergent interests of our complex society so that the orderly development of the economy as a whole may be secured.

The Government fully recognises, and sets great store by the tremendously important contributions which the outstanding qualities of our private entrepreneurs have made towards this

country's/.....

country's economic progress. As a matter of general policy the Government is, therefore, opposed to the imposition of further state controls or restrictions on the freedom of action, and the freedom of decision making, of the private entrepreneur unless such state intervention is necessitated by the existence of malpractices in the private sector which prejudice the broader national interests; or by the existence of unjustifiable restrictions on free competition in the economy; or by the existence of acts of exploitation of the consumer by the private entrepreneur in his pursuit of the profit motive.

It/.....

It cannot be said with any measure of justification that state intervention which is aimed at eliminating these undesirable features from the economic life of our country, represents a negation of the principles of capitalism and a free enterprise type of economy, based on reasonable freedom for the private entrepreneur to pursue the profit motive, to which our Government has consistently pledged its full support.

On/.....

On the contrary, the Government, while fully supporting these principles, must necessarily also take account of the wider interests of the consuming public as a whole. And the freedom which it is prepared at all times to extend to private enterprise to pursue the profit motive does create certain specific responsibilities for the private entrepreneur who, in the exercise of this freedom, must perforce also fulfil his wider responsibilities towards the community as a whole.

There is nothing new in this particular philosophy. On the contrary, it is a concept which has gained general acceptance

during/.....

during the past decade or more by all Western style democratic governments as a result of their explicit recognition of the principle that the protection of the interests of the consumer necessarily had to be reconciled in a practical manner with the protection of the interests of the private entrepreneur. And, as a direct consequence of this new trend towards the basic philosophy of consumerism, we have witnessed the general acceptance by most Western style democracies of the viewpoint that, in his

pursuit/.....

pursuit of the profit motive, the private entrepreneur likewise has to exercise certain wider responsibilities towards the community as a whole.

I want to make it clear that the pursuit of the profit motive is an undisputed right of every private entrepreneur in this country. But the exercise of this right by him must be accompanied also by a clear recognition on his part of his specific responsibilities towards the rest of the society. In other words, the private entrepreneur must not merely seek to reap for himself the maximum financial rewards from his pursuit of the profit motive.

He/.....

He should, at the same time, also acknowledge that, concurrently with his pursuit of maximum material gain for himself in his exercise of his particular functions and operations in the domestic economy, he has a duty to serve the wider interests of the community as a whole.

The task of serving the interests of the consumer is, therefore, not solely one which rests on the shoulders of the Government alone, but is one which also imposes specific responsibilities on private enterprise. And I would plead tonight with

our/.....

our private entrepreneurs not to ignore their wider responsibilities towards the consuming public in whatever action they may find it necessary to take in the exercise of their legitimate rights in pursuit of the profit motive.

I have already referred to the fact that the South African economy, like the economies of many other Western countries, is at present passing through a period of adaptation to unforeseen and somewhat radical developments which, to a large extent, have had their origin outside our borders. However, it would be entirely wrong for our private entrepreneurs to allow their business

expectations/.....

expectations and their sense of good judgement to be distorted by the temporary setbacks which we have suffered during the past year or more in our pursuit of conditions of stable and sustained economic growth.

Fluctuations in economic conditions are an unavoidable feature of all capitalistic societies. And I know of no Western democratic Government which has, as yet, succeeded in eliminating these fluctuations from the business cycle. At best such a

Government/.....

Government could try to temper these periodic fluctuations in the growth rate of its economy, and to create a favourable climate in which its private entrepreneurs could adapt themselves to, and survive the periodic downturns in economic conditions and to plan adequately in advance for the next phase of upswing in these conditions. And this is precisely what our Government has been doing since the latest phase of downturn in the South African economy first manifested itself towards the third quarter of last year.

The present conditions of slackness in the economies of most

of/.....

of the Western democracies, including South Africa, may have lasted longer, and may also have been more pronounced than most experts had ever anticipated. This, again, is understandable if we only remember that the oil crisis of 1973/74 probably struck a more severe blow at the economies of the oil importing countries, and particularly the Western industrial nations, than any other unfavourable development which these countries ever experienced since the World Economic Depression of the Nineteen Thirties.

But/.....

But this does not in any way detract from the fact that these conditions of economic slackness will inevitably be followed by a new phase of economic growth. Indeed, there are already positive signs that the economies of a number of industrial nations are about to enter a new period of growth. And, once this happens, the beneficial effects of such a general economic revival in these countries will undoubtedly be felt also by other countries, including our own.

An essential feature of our type of economy is the willingness of the private entrepreneur to risk his capital and business talents/.....

talents in those fields of economic operation where he sees a chance of making a profit. And, let me add, the private entrepreneur who is not prepared to take a risk in the hope of making a profit, should not be in business at all. He should rather do something else.

If this cardinal principle of risk-taking by the private sector were to be removed from our type of economy, and if the private entrepreneur were to be adequately protected by the Government against all the important risks attached to his

particular/.....

particular line of business, then there would obviously be no longer any place for the private intreprenuer in our economy. Under these circumstances the responsibilities and the principal functions of the private entrepreneur would have to be taken over by the Government which means that we would have to discard our type of economy and would have to turn instead to socialism or even to a centrally planned economic system.

What, then, do we, from the Government's side, expect from private enterprise under the economic conditions at present prevailing in South Africa.

Firstly/.....

Firstly, we would ask private enterprise to co-operate to the fullest possible extent with the Government, and with our workers and our consumers, in fighting inflation which is our worst economic enemy at present. The Government is convinced that the battle against inflation could be won if everybody in the community were prepared to contribute in a positive manner to the collective efforts of the nation to kill this enemy.

Secondly, we would ask private enterprise to discipline

itself/.....

itself in its reactions towards the present unfavourable trends in the economy. Some of our private entrepreneurs have already acquired such a "fair weather" mental attitude towards their business operations that they are inclined to display excessively pessimistic reactions whenever there is a downturn in the economy. As I have already stated, periodic fluctuations in our type of economic system are absolutely unavoidable.

Finally, we are now passing through a phase of consolidation which should be used to best advantage by private enterprise in order to prepare itself for the next state of economic revival which,

I/.....

I am convinced, will not be long delayed. It would certainly be regrettable if our private entrepreneurs were to postpone this process of planning until the expected upturn in economic conditions had fully manifested itself and had, in fact, gained a maximum degree of momentum. We admittedly have spare capacity at present in certain sectors of the economy while the pressure on our available trained manpower resources has also been relieved by the prevailing conditions of relative slackness in the economy. But

this/.....

this is obviously the appropriate time for the private entrepreneur to prepare himself adequately for the next phase of economic revival. And he should do so by making timely plans for the expansion of his productive capacity and by devoting particular attention to the intensified training of his labour force as well as the introduction of properly conceived productivity programmes.

The next phase of upswing in the South African economy will almost certainly be generated by increases in domestic demand

and/.....

demand and a strong recovery of our export prospects as a result of improved economic conditions in our main trading partners. If our private entrepreneurs were to delay the expansion of their productive capacity as well as the training of their manpower and the introduction of positive programmes for productivity improvement until such time as the expected economic revival both here in South Africa and in other countries had gained full momentum, they might well find themselves inadequately equipped to reap

the/.....

the full benefits of these favourable developments. The net result would be that overseas suppliers would capture the largest portion of the increased domestic demand while our exporters would have to sacrifice their rightful share of the expanded export possibilities to their overseas competitors because of their inability to supply the increased needs of foreign markets.

I have the fullest confidence in the ability of our private entrepreneurs to avail themselves in a positive manner of the tremendously exciting possibilities which the future holds in store for private enterprise in South Africa. And I wish them great

success/....

success in their efforts to turn these exciting possibilities into concrete forms of wealth and higher living standards not only for themselves but also for the nation as a whole.

ISSUED BY THE DEPARTEMENT OF INFORMATION AT THE
REQUEST OF THE DEPARTMENT OF COMMERCE.

PRETORIA.

5 NOVEMBER 1975.

Mercury 6/11/75
**Managements
trim staffs**

Financial Editor

THE RECESSION is causing South African management to trim their staff complements. If employees resign or are placed on pension they are not replaced.

Miss Helen Gjerde, assistant vice-president of Manpower, a company which provides temporary workers, says that she has noticed this trend in local business. Miss Gjerde, who is based in Milwaukee, U.S.A., is touring South Africa's main centres.

"Management is taking a hard look at their employees to see where savings can be made."

In Johannesburg, the permanent work force was being reduced and not replaced.

Miss Gjerde said this was an opportunity for her organisation, which could provide a wide range of temporary people.

They could move in to deal with the "mini peaks" in business such as stocktaking.

TEMPORARIES

Also, "temporaries" were available for computer work, market research and handling the requirements of trade missions. This was in addition to providing clerks, typists and other trained persons.

Miss Gjerde said that she had been impressed by the aggressive and hard-working attitude of the South African business community.

An aim of her South African tour was to bring the local branches of Manpower up to date with the latest U.S. ideas on organising a service of temporary employees.

(1) 315
(2) 47
(3) 170

F.M. 14/11/75

Allocating the taxpayer's rand

Government spending must be contained. But achieving this will be an unusually complex and painful process

While most businessmen are planning their Christmas holidays, over in Pretoria they're burning the midnight oil. This year an excruciating exercise in fiscal pruning is underway. For unless government spending is drastically curbed in 1976-1977, there's no hope of winning the war against inflation or righting the

balance of payments.

Even in good times, deciding who should spend what is a complex process of political bargaining versus economic analysis in which the arts of persuasion, pacification and lobbying, inside and outside the Cabinet, come to the fore. For the Budget is as much the outcome of a

struggle for political priorities as it is an exercise in economic management.

In bad times, when it's a question not of how much more each department can spend but how much less, the bargaining process is that much more intense. This is roughly how it is working this year.

The Treasury has already asked departments to prune their additional estimates for 1975-1976. On top of this some are being pressed to keep 1976-1977 spending plans below the present year's; for others, limits on increases are proposed.

Out of this emerges detailed spending proposals which will, as likely as not, exceed a notional acceptable overall expenditure ceiling. Further pruning then has to be done and, in anticipation of this, shrewd departmental heads will have initially asked for more than they will happily settle for.

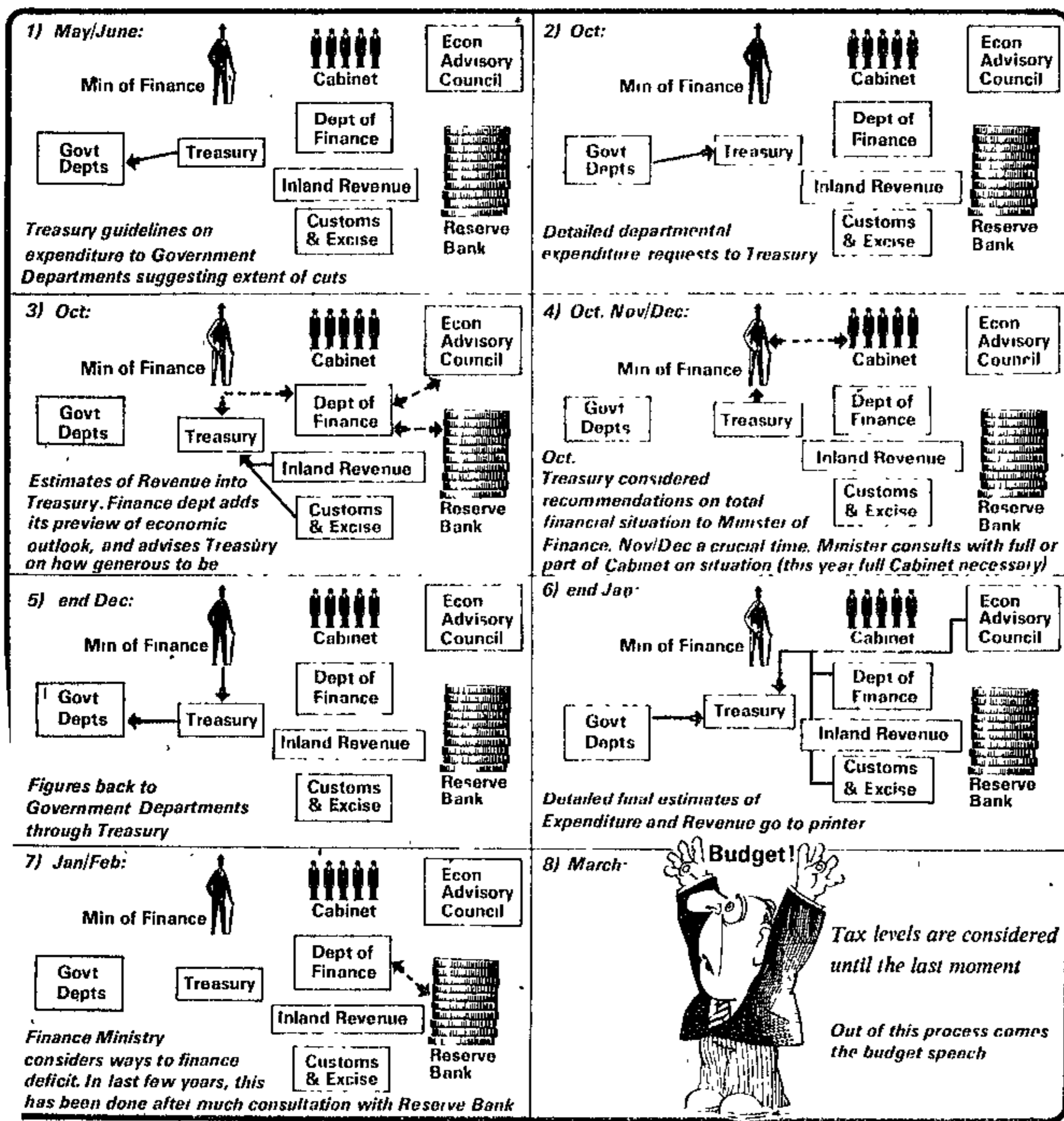
Final compromises are hammered out in Cabinet. Whether political muscle will win over mere cost-benefit argument and the anti-inflation imperatives, as it sometimes has in the past, remains to be seen.

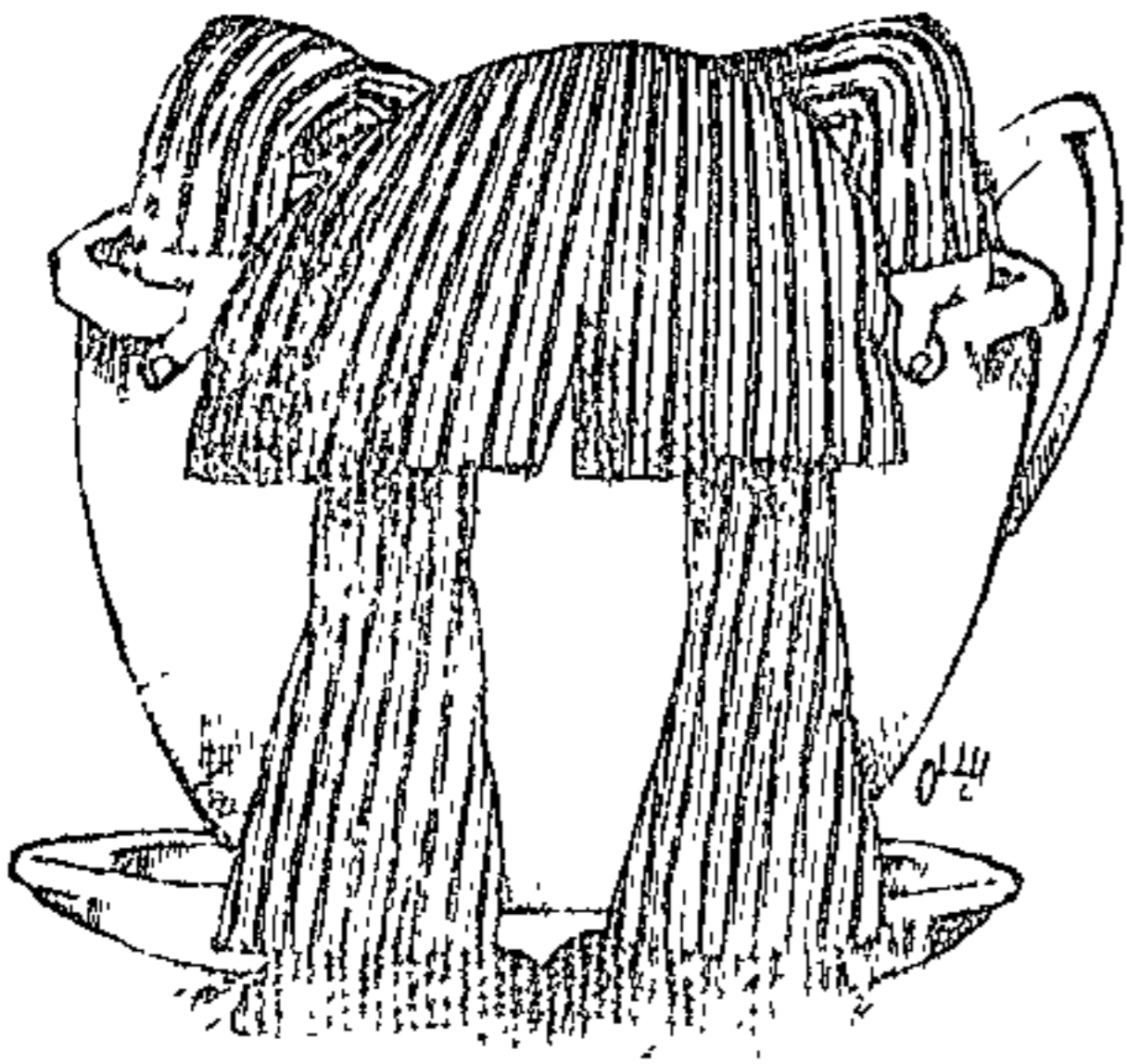
Since the size of the cuts have this time to be unusually large, something more fundamental than voluntary sacrifices from departments may be needed. Some departments (Sport and Tourism perhaps?) could well be stripped down drastically, while individual projects throughout the public sector should be critically re-examined and those items low down on the notional list of priorities postponed, scrapped, or scaled down.

Taxpayers, after all, employ governments to spend the money they contribute to the State in the most effective way. And Parliaments jealously guard their right to call governments to account.

The coming session will be a supreme test of both government's and opposition's skills in advocating and criticising their respective priorities — and of their courage in resisting pressures from their constituents to spend even more.

HOW GOVERNMENT SPENDING IS DETERMINED





Next year's economic outlook is bedevilled by imponderables.
And there's not much for our comfort

Peering into 1976

47

The Prime Minister's Economic Advisory Council met this week to review the economy. And its chairman, Dr Piet Riekert, agrees that in his 15 years of advising government he's never been more puzzled about short term prospects, particularly in view of conflicting reports of the upswing in the economies of our major trading partners.

Riekert is not alone. Recent predictions by economy watchers reflect a wide diversity of opinion (see box). While Finance Minister Owen Horwood asserts that "the downward phase was, and still is, comparatively mild", in contrast Stellenbosch University's Bureau for Economic Research forecasts negative growth early next year. *Rapport* endorsed this last Sunday: "We could have negative growth next year, or as old time economists would have called it, a straight-forward depression."

The US and Pretoria

The uncertainty has two basic causes:

- Doubts when the US and other major economies will eventually splutter into life; and
- The government's own spending and tax policies.

With exports making up nearly a third of GNP, the economy needs a revival in demand for our exports. And ironically a resurgence of inflation abroad would help by boosting the gold price.

Business cycles here traditionally follow those in the US, with a lag of nine to 15 months. Nonetheless, some pundits reckon this time we can buck the trend. They argue that high government and private consumption and investment spending could pull the economy out of the doldrums without the help of greatly improved foreign demand for exports.

But with the screws being tightened on government spending, the need to protect the balance of payments, an air of pessimism among businessmen, and lower real incomes as a result of falling profits

and the restraints of the anti-inflation programme, a recovery at home independent of resurgence abroad seems out of the question.

Assuming the US recovery does not falter and in the process picks the European and Japanese economies off their knees, one might expect SA's upswing to get underway some time in the second half of next year.

But the sorry state of government's finances could delay a meaningful turnaround until 1977. Figures for the first seven months of the fiscal year show current revenues up about R700m (31% on last year), but issues to departments up by a horrendous R1400m (48%).

Though there will be some slowing down in the rate of increase in spending for the rest of the year, current income is unlikely to improve and Pretoria will still have to find vast sums from other sources.

Prospects for next year aren't much better. No one seriously expects State spending to rise by less than 8%-10%, even with the heavy cuts Pretoria has promised. Events in Angola will give Defence Minister P W Botha the rationale he needs; and public service salary hikes are unavoidable. And, significantly, many government projects which provide lucrative work for the private sector will have to be pruned.

On the revenue side, uncertainty about gold mine profits, lower imports (and thus customs revenues), company earnings and the anti-inflation pact's pressure on profits, will all depress the flow of cash to Treasury's coffers. Finding enough revenue to meet expenditure in non-inflationary ways is going to give policy makers a big headache next year.

They have three ways to bridge the gap: all with unpleasant consequences: more use of short term bank credit; higher taxes; and more long term borrowing.

Bank credit to the private sector may

money) is inflationary and Senator Horwood has said he will avoid resorting to it as far as possible. Higher taxes, whether in the form of income taxes, excise duties, loan levies or sales duties, mean lower real incomes, falling demand and slack business. While more long-term stock issues may not succeed without pushing interest rates up further.

Awaiting a wages whirlwind

The effects of higher taxation can, of course, be offset by increasing incomes. Certainly, wage demands are going to come thick and fast next year. Railway and Post Office workers and public servants are in line for increases.

On the other hand, it's doubtful whether government will be able to afford increases which will even match the rise in the cost of living. And dwindling profits will make it virtually impossible for the private sector to grant substantial rises. In any case, observance of the anti-inflation pact will keep the increase in many pay packets below the inflation rate.

Even assuming some wage hike for everybody, the increase in incomes won't be able to keep pace with increased taxes and prices. Farmers, who have had to absorb enormous cost increases this year, will be pressing for price hikes in many basic commodities in 1976. Iscor's financial plight becomes more parlous by the day — there must be at least one big steel price increase next year. And judging by recent retail ads heralding the freezing of prices for the next six months, there will be a rash of hefty mark-ups after that.

There are other imponderables which won't improve the outlook, and could make it worse. One is agriculture. With seeds barely in the ground, maize men already agree next year's crop will not come up to those of the last two seasons. That's more, with a record US crop on the way and world prices are coming down.

WHAT THE EXPERTS' TEA LEAVES SAY

What's in store for the economy next year?

The *FM* polled six economists this week. The table gives their estimates of key indicators for this year and next though all warn that, with so many unpredictables, they may have read their tea leaves incorrectly.

Four of the pundits (and two others) were asked for their opinions about the

outlook for 1975 six months ago. It's interesting to compare some of the figures they plumped for then with those they offer now.

Take the gold price. Not one (including the *FM*) thought in May it would be lower than \$170 at the end of the year. Merton Dagut and Jan Hupkes optimistically reckoned it could be \$220. However Dagut in

May *did* predict a prime lending rate of 12% (unchanged) and his prediction of a 3% real GDP growth this year is only marginally revised.

Pretorius, Hupkes, Arthur Hammond-Tooke (FCI) and Robert Kraft (Tucsa) all thought real GDP growth this year would be 4% or higher. Inflation estimates varied widely, from De Vries' 8% to Hupkes' 16%.

	Current a/c deficit		Total gold & foreign exchange reserves — end Dec		Gold price — end Dec		Prime overdraft rate — end Dec		Real GDP growth (%)		Consumer Price increase — Dec-Dec	
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
Dr Johan Cloete — Barclays Bank	1 700	700	1 000	1 300	140	150	12	11	3	2	10-12	10-12
Mr Merton Dagut — Nedsuat	1 250	800	1 200	1 400	145-55	180	12	12	2.5	3	13	16
Dr Jan Hupkes — Federale Volks	1 700	1 100	1 050	1 300	145	160	12	12.5	2.5	3	12	14
Dr Arnold Pretorius — Handelsinstituut	1 300	1 000	1 000	1 200	145	160	12	11	2.2	3	13.5	16
Mr Tom Main — Chamber of Mines	1 800	1 000	1 000	1 200	145	170-80	12	8.5	3	2	14	10
Mr Attie de Vries — Stelbos B For Econ Research	1 400	750	1 060	1 300	145	155	12	11	2.5	1.5	14.5	8
<i>Financial Mail</i>	1 700	800	1 100	1 250	140	155	12	10	2.5	1	14	12

Deciduous fruit is also in for a rough time following huge European apple harvests.

A question mark also hangs over interest rates. The need to protect the balance of payments and to sustain investors' appetite for gilts and semi-gilts is forcing Pretoria to try to hold rates up as high and as long as possible. Though short-term rates are coming down fast, commercial lending rates are still high and likely to remain so for some time. Few businessmen will want to borrow for plant expansion with the twin clouds of

slack business and dear money overhead — especially if they think rates will come down later.

Nevertheless business was surprisingly buoyant in the third quarter. Imports topped R500m for the first time ever in July; car sales were at record levels in September; and TV sales suddenly came to life. But those who interpret this as a harbinger of better times ahead are in for a shock. Much of the spending was clearly in anticipation of hefty price increases later.

Piet Riekert and certain other govern-

ment officials, however, remain optimistic. They will no doubt have told the EAC we *can* have growth next year without harming the balance of payments or fanning inflation's fires. Riekert for instance, still believes real GDP can grow by 3% in 1976.

But *our* guess is that, with productive government spending cut to the bone, private incomes stagnating, interest rates high and Pretoria, rightly, at last giving top priority to the balance of payments and the fight against inflation, 1976 will be a tough, lean year.

Sto 24/1/75

'False economy' charge

Labour Reporter

Business management has been warned to avoid the false economy of cutting back on training in an effort to maintain profits.

This warning was sounded today by Dr Lawrence McCrystal, chairman of the publicity committee of the South African anti-inflation campaign.

He was speaking to 120 personnel managers at a symposium in Johannesburg today designed to promote productivity.

Dr McCrystal said many top business leaders limited themselves to short-term outlooks — which at a stretch took in next year's profits.

It was this kind of attitude which resulted in the

falling off in training expenditure.

If it became a widespread phenomenon, it would be nothing short of a disaster for the economy.

"We have been talking about improved productivity for years but the climate was not as right as it is now," Dr McCrystal said.

South Africa was in a position of a family whose main breadwinner had experienced the decline in income.

It was necessary to impress on people that they all contributed to the inflation spiral by expecting more from the economy than they were putting into it.

① 47

② ~~Manpower~~ training

Advisory. Star 9/12/75

Economic

47

standstill

for 1976

South Africa is to accept a virtual standstill economic policy in 1976 and wait for an economic revival among its trading partners.

This is rather than risk using artificial means to boost the South African economy.

The Prime Minister, Mr Vorster, said in a statement released in Pretoria today following a meeting of the economic advisory council that the real gross domestic product in 1975 was not expected to exceed the 1974 figure by much more than two per cent.

However, an export-led revival in the South African economy could start as early as the second half of next year, said the statement.

The council was agreed that a moderate acceleration of the rate of growth during 1976 was not only desirable but also completely compatible with the fight against inflation. But it was also unanimous that it would be inadvisable to apply a deliberately stimulating policy to bring about this economic revival.

(See Page 31)

The council felt there would be a definite danger attached to such a policy in that the pressure on the balance of payments could again increase as in 1975.

The present aim should be to increase the gold and other foreign reserves to a level which would place South Africa in a better position to withstand the uncertainties in the international economic sphere.

The council therefore felt that the next upward phase should preferably be sparked off by a revival in South Africa's exports.

The statement said the rise in the consumer price index, on a seasonally adjusted annual basis, slowed down from 18,2 percent in the third quarter of 1974 to 13,5 percent in both the fourth quarter of 1974 and the first quarter of 1975, 12,4 percent in the second and 11,9 percent in the third quarter of 1975.—Sapa.

(47)

F.

To be released: ~~Thursday~~ ¹⁰³ ~~morning~~ ^{December} 9 ~~October~~ 1975 at 12h00

STATEMENT RELEASED BY THE HONOURABLE THE PRIME MINISTER, ADV. B.J. VORSTER, IN CONNECTION WITH THE FORTIETH MEETING OF THE ECONOMIC ADVISORY COUNCIL ON 20 AND 21 NOVEMBER 1975, IN PREP

CURRENT AND EXPECTED ECONOMIC CONDITIONS

It was apparent from the information submitted to the Economic Advisory Council at its recent meeting that so far in 1975 the South African economy had in most respects moved sideways, with only a slight rise in the level of economic activity after the sharp drop experienced in the last quarter of 1974. It is true that the real gross domestic product grew at a higher rate in each quarter of 1975 than in the one immediately preceding it, but this growth took place from the low level reached in the last quarter of 1974, and present expectations are therefore that on the average the real gross domestic product in 1975 will exceed that of 1974 by not much more than 2 per cent.

The trend in the gross domestic product as a whole is o- merely a reflection of what is happening in the individual productive sectors of the economy. Although, firstly, agriculture has had an exceptionally good season for the second year running, it is expected that the contribution of agriculture to the real gross domestic product will be slightly lower this year than in 1974. Physical gold production, too, will still be lower in 1975 than in 1974 in spite of the fact that the almost uninterrupted downward tendency since 1970 has been reversed since the second quarter of 1975. In the rest of the mining sector, production showed an irregular, but generally upward, trend in the first half of this year, since when it has however levelled off.

Allowing for the seasonal pattern, the physical volume of manufacturing production has on the whole shown a fairly strong and sustained upward trend from the first quarter of 1975, but since

this rise started from the relatively low level attained in the fourth quarter of 1974, the volume of production during the first ten months of 1975 was only 1,46 per cent higher than during the corresponding period last year. Furthermore, it is clear, both from the official statistics and from the sectoral reports submitted to the Council by the various representative organisations, that the production of the different sectors of manufacturing industry showed widely divergent trends, so that as yet it can be said to be a general upturn in manufacturing production.

If one looks at the demand side of the economy it appears from the information the Council had at its disposal that the sluggish rate at which production is increasing in productive sectors such as mining and manufacturing can be accounted for by the inability of most of the components of expenditure in the national accounts to rise strongly. After the real fixed capital expenditure of the public authorities and of the public corporations had shown marked increases in the second quarter and the first half of 1975 respectively, and that of the private sector had begun to move horizontally along a high plateau, the real gross domestic fixed investment in all three these sectors dropped during the third quarter; net investment in inventories also levelled off in the course of the year; in spite of a considerable rise in the expenditure on durable consumer goods in the first and second quarters, which was largely due to sales of television sets and of new motor cars, private consumption expenditure has continued to show only moderate growth this year; and, as a result of the severe and rather prolonged recession experienced by South Africa's major trading partners, the market for South Africa's merchandise exports, has deteriorated further in the course of the year, as is evident from a slight decline in the seasonally adjusted volume of merchandise exports during the third quarter. As is to be expected, therefore, it appears from the Department of Statistics' quarterly survey of capacity utilisation in manufacturing industry that the main reason advanced by industrialists for the fact that there was an under-utilisation of capacity amounting to 12,0 per cent on the average was insufficient demand for their products.

In contrast with the trend in the other components of expenditure, however, the real consumption expenditure by the public authorities, although it rose at a lower rate during the third quarter than during the second, was 14 per cent higher over the first nine months of 1975 than during the corresponding period last year. The budget submitted in March 1975 was intended to exercise a moderately stimulating effect on the economy and, with a view to this, provision was made for a modest withdrawal of funds from the State's reserve balances during the present financial year. The Council appreciates the fact that, had it not been for this stimulus imparted by the Government's finances, the South African economy would have shown even less growth during 1975 than is already the case. In several of the sectoral reports submitted to the Council, e.g. that on the building and construction industries, the point was in fact emphasised that the fact that activity has still been maintained at a reasonable level was largely due to public sector programmes.

Nevertheless, the current expenditure of the public authorities increased at a faster rate during the first three quarters of 1975 than was originally expected. This more rapid increase was partly attributable to an exceptional concentration of Exchequer issues during the first half of the present financial year as well as substantial expenditures from the National Procurements Fund for essential supplies. In addition, the Exchequer's revenue during this period did not come up to expectations, as a result of the drop in the gold price. These developments in Government finances therefore contributed to the deterioration in the balance of payments, firstly, through the high level of imports purchased by the authorities, either directly or indirectly, and, secondly, because the consequent easing of the domestic money market conditions made it possible for the private sector to advance its foreign payments and delay its foreign receipts, which caused considerable pressure on the capital account of the balance of payments.

Under these circumstances it was necessary for the authorities to introduce a more conservative monetary policy in the course of the year, inter alia by tightening the liquid asset requirements for the monetary banks on two occasions, first on 11 August and again on 30 September 1975.

In spite of the high level of Exchequer issues during the first half of the present financial year the indications are that Government expenditure for the full financial year will not exceed the amount originally budgeted for by an abnormally large margin. In view of the drop in Government revenue as a result of the lower gold price and gold-mining income the amount which the Exchequer will have to finance from other sources than current revenue will be larger than originally budgeted for, but an attempt is being made to cover this deficit as far as possible from non-inflationary sources, e.g. by offering Government securities at attractive rates to the public.

Bearing in mind that for 1975 as a whole most western countries will still show negative rates of economic growth, as reflected in the average rate of growth of $-1\frac{1}{2}$ per cent in 1975 foreseen by the Organization for Economic Co-operation and Development for all the members countries of that organization, and that the less developed non-oil-producing countries are in even worse straits, the Council was agreed that South Africa, with an expected positive rate of growth of more than 2 per cent, irrespective of how low this might look as compared with what may be regarded as our potential rate of growth, has done well in the circumstances.

A growth rate of this order means, however, that the increase in the economy's output is lower than the natural increase in the country's labour force, and this after manufacturing production had moreover increased at a slower rate in 1974 than is required, according to the estimates in the Economic Development Programme, in order to create sufficient employment opportunities for all population groups. Although the number of Whites, Coloureds and Asians registered as unemployed has so far remained very low both in absolute terms and as a percentage of the available

force, the seasonally adjusted figure has nevertheless increased from a low-water mark of 7 150 in August 1974 to 10 928 in September 1975. This tendency points towards an easing in the availability of experienced and skilled workers, who up till now have been drawn mainly from these three population groups. In the light of the fact, however, that the percentage unemployed is still only about $\frac{1}{2}$ per cent, this is no cause for concern as yet.

Comparable statistics on unemployment among the Black population are not yet available, but it is estimated that from 30 June 1974 to 30 June 1975 the total employment of Blacks in those sectors for which the Department of Statistics collects regular data increased by 1,1 per cent from 2 409 000 to 2 435 000, i.e. by 26 000. Although this increase falls considerably short of the rate of growth in Black employment which, according to the estimates in the Economic Development Programme, is required to accommodate the increase in the Black labour force and in addition to reduce the existing underemployment among Blacks, the situation has been relieved considerably during the past year by the fact that the mining sector has, to a much greater extent than in the past, recruited Black labour from the Republic itself. The number of Black workers from South Africa working on the gold, copper and platinum mines increased from 92 732 on 30 September 1974 to 130 396 a year later, which has meant the creation of nearly 38 000 new employment opportunities for Black workers from South Africa. It also appeared from information supplied to the Council that Black workers had been dismissed in significant numbers in only a few sectors, such as the textile sector, which was hit particularly hard by the intensified international competition as a result of the world recession, and that in these sectors the devaluation of the rand had already given a new stimulus to the employment they offer. Although the Council therefore came to the conclusion that, so far unemployment arising from the slowing down in the rate of growth had not yet assumed serious proportions, several members pointed out that it could indeed become a problem if the economy should continue indefinitely to grow at the present low rate.

In this connection the Council was agreed, as at its previous meeting, that in the present state of the economy a moderate growth rate, even if considerably higher than that which will be attained this year, need not in 1976 be in conflict with the aim of the Collective Campaign against Inflation. As already mentioned, conditions are comparatively easy in the labour market, even as far as more skilled workers are concerned, while at the same time there is still a considerable underutilisation of physical productive capacity in the manufacturing industry. The building and construction industries, too, are at present operating below their full productive capacity. Under these circumstances a gradual acceleration of the growth rate during 1976 would therefore not lead to cost-raising bottlenecks - on the contrary, the fuller utilisation of productive capacity already in existence could even lead to a reduction of unit costs of production and in this way make a contribution towards the fight against inflation.

Although the Council was agreed therefore that a moderate acceleration of the rate of growth during 1976 was not only desirable but also completely compatible with the fight against inflation, it was also unanimous that it would be inadvisable to apply a deliberately stimulating fiscal and monetary policy to bring about this economic revival. The Council was of the opinion that there would be a definite danger attached to such a policy in that the pressure on both the current and capital accounts of the balance of payments could again increase as in 1975, whereas the present aim should be to increase the gold and other foreign reserves to a level which would place South Africa in a better position to withstand the uncertainties in the international economic sphere.

The Council therefore felt that the next upward phase in the South African economy should preferably be sparked off by a revival in South Africa's exports arising from an acceleration in the economic growth of our most important trading partners. Judging from the signs that a new phase of accelerated growth

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has already begun in the economies of certain of South Africa's important trading partners, and the various predictions which point to growth rates of from 3 to 5 per cent for the member countries of the Organization of Economic Co-operation and Development during 1976, after the negative growth rates of the past few years, such an export-led revival in the South African economy could possibly start as early as the second half of 1976.

In view of these considerations, the Council reaffirmed the substance of the recommendation made after its previous meeting in September this year. This is that the public authorities should continue to make real efforts to cut down their spending to as close as possible to the level which can be financed from their current revenue plus real savings, but that in the process of pruning the highest possible degree of selectivity should be exercised so as to give preference to spending which is related to the formation of productive capacity and infrastructure.

INFLATION

The rise in the consumer price index, calculated on a seasonally adjusted annual basis, slowed down from 18,2 per cent in the third quarter of 1974 to 13,8 per cent in both the fourth quarter of 1974 and the first quarter of 1975, 12,4 per cent in the second, and 11,9 per cent in the third quarter of 1975. This welcome downward trend began before the Collective Campaign against Inflation came into effect and can be traced to the decline in inflation rates experienced by most of South Africa's major trading partners, and also to some extent to the downward phase experienced in the South African economy, which had resulted in less pressure being exerted on the available factors of production than had existed in the last part of the upward phase up to the third quarter of 1974.

Had it not been for the devaluation of the rand by 17,9 per cent on 22 September, the downward trend in the rate of inflation could certainly have been expected to gain further momentum as a result of the Campaign against Inflation, with the rate of

inflation declining even further during the months ahead. The devaluation of the rand will undoubtedly halt this downward trend temporarily, but judging from the information at the disposal of the Council the inflationary effect of the devaluation should not be overemphasised. There is no reason to expect, for example, even taking into account the maximum effect devaluation could have on domestic prices, that the decline in the rate of inflation over the past four quarters will even nearly be cancelled out during the next quarter or two.

Although it goes without saying that the Council welcomed the downward trend in the rate of inflation, as well as the indications by the representatives of various employer and employees' organisations on the Council concerning the support which the Collective Campaign against Inflation is enjoying so far, certain members have expressed concern about possibly misleading interpretations by the general public of the aims of the Campaign against Inflation.

It would appear, firstly, that some people are under the impression that the aim of the Campaign against Inflation is completely to freeze prices in the economy, which is of course by no means the case, as is shown below. In general, consumers could gain much from a lowering of prices accompanying healthy competition, but it would be unrealistic to expect that the affected sections of commerce will in the long run be able to withstand the pressure of cost increases, and therefore of upward price adjustments to compensate for this. The wage and price formula accepted by the employer and employees' organisations under the Manifesto of Firm Undertakings makes express provision for the recovery of increased costs of means of production and the necessities of life by means of price and wage increases and merely restricts the extent to which such recoveries can take place.

This approach was adopted for the very reason that the Government and other affected parties realise only too well that the problem of inflation cannot be solved completely by only tackling its domestic causes, but that there are external factors as well

which lie beyond the reach of measures at the disposal of individual country. For this reason, amongst others, a decision was taken against any general price and wage control, as experience in other countries has repeatedly shown, can only be maintained for a limited period and is then usually followed by a renewed flood of price increases.

It must therefore be expected that, in spite of the Campaign against Inflation, prices will continue to rise and that the most that can be achieved by means of the Campaign will be a significant slowingdown of the rate of price increases. The Council considers it important that this point should be clearly understood both by the general public and by all the groups who have given their support to the Manifesto. Otherwise, the stage could soon be reached where disillusionment about the continuing rise in prices, even at a slower rate than would otherwise have been the case, could lead to reactions that would undo the favourable effects of the Campaign against Inflation.

The Council, secondly, felt that it was important to stress that the self-restraint formula for increases in salaries, wages and prices, although naturally drawing the most attention in the short term, should not be regarded as the only important element of the Campaign against Inflation. The medium-term and long-term takings given by the various parties in respect of the increase in production and productivity, and Government action in the fiscal, financial and other fields, such as legislation which might have an inflationary effect, are at least as important for the aim of keeping the rate of inflation within reasonable limits in the long run. About the necessity of this, if the long-term stability of the South African economy is to be secured, there was no disagreement within the Council.

I. BOUR MATTERS

Apart from the usual progress reports on the training and utilisation of the country's labour force received from the Council's Subcommittee for the Better Utilisation of Manpower, the Council at this meeting also received the results of studies undertaken by the Institute for Manpower Research of the Human Sciences Research Council concerning the demand and supply of manpower in South Africa by 1980. These studies again confirm that the adjustments which are continually taking place in the roles played by the different population groups in our occupational structure are essential for South Africa's continued economic growth. The results also confirm that, even with a sustained flow of immigrants, there will be such continued pressure on the available skilled labour force that White workers in general have no reason to fear that their job security will be endangered by the admission of Coloured, Asian and Black workers to more advanced job categories within the framework of the Government's policy that these adjustments should be made after close consultation between the employer and employee organisations.

As far as immigration is concerned, the migration statistics available up to and including August indicate that if the rate during the first eight months can be maintained, South Africa can count on a net immigration gain of about 36 000 persons this year. This excellent performance should do much to ensure that the availability of skilled labour will not constitute a bottleneck too soon when the next upward phase in the economy starts.

A few members referred to delays which had occurred in the recruitment and selection of immigrants, but it emerged from the discussion that such delays inevitably occur when applicants neglect to submit the required documents in time or when they are subject to certain legal disqualifications and the authorities administering the relevant laws first have to be consulted. The alleged delays are nevertheless being investigated by the Department of Immigration. It also appeared that bigger employers who regularly recruit immigrants overseas and detail personnel specially for this purpose, as well as the various specialised organisations recruiting immigrants overseas experienced

few problems in this respect. It would obviously be to the advantage of employers who recruit immigrants more sporadically and on a smaller scale to do so in the closest consultation with the Department of Immigration. The Department of Immigration has also published a manual to give guidance to employers who intend to recruit workers overseas for emigration to South Africa. It would be worthwhile for employers to study this.

DEVELOPMENT OF THE BLACK HOMELANDS

In response to a request made at the Council's February meeting this year the Department of Bantu Administration and Development at this meeting presented a comprehensive study, compiled by the Bureau for Economic Research on Bantu Development, on the progress of economic development in the Black homelands in the Republic and South-West Africa. From the report it appears, inter alia, that the combined gross domestic product (at current prices) of all the homelands in the Republic grew at an average annual rate of 3,7 per cent from 1959/60 to 1964/65, 6,2 per cent from 1964/65 to 1968/69 and 17,3 per cent from 1968/69 to 1971/72. Of course this acceleration in the growth rate partly reflects an acceleration in the rate of price increases. Even after allowing for this factor, however, there has obviously been an acceleration in real economic activity in the homelands which can be attributed to the expansion of the public administration as a result of the political development of the homelands, as well as to the economic development programmes which are increasing in scope in the homelands.

The scope of the political and economic development programmes launched by the Government in the homelands and the rate of expansion of these programmes can be gauged from the combined expenditure by the Treasury through the Departments of Bantu Administration and Development and of Bantu Education, the South African Bantu Trust, the homeland authorities and the development corporations. This expenditure has increased from R27 million in 1959/60 to a budgeted amount of R609 million in 1975/76, i.e. at an annual growth rate of 21,5 per cent. The

Increasingly important part played by the homeland governments themselves in these activities is illustrated by the fact that their expenditure amounted to no less than 55,3 per cent of the budgeted total in 1975/76 as compared with only 1,5 per cent in 1959/60. The fact that in 1959/60 the Pantu Investment Corporation (then the only development corporation for the homelands) spent only R44 000, or 0,2 per cent of the total, as compared with the R102 million, or 16,7 per cent of the combined total budgeted for the BIC, the Xhosa Development Corporation and the Pantu Mining Corporation in 1975/76, also illustrates the increasingly important role played by economic development in the homeland programmes. A continuing shift in emphasis in this direction, with a view to the highest possible rate of employment and creation of income in the homelands, is a central feature of the strategy on which the further development of the homelands planned. The Council was duly informed of the planning mechanism which had been set up on the basis of a programmed budgeting system in order to direct the activities of all the above-mentioned Government institutions concerned with the development of the homelands as efficiently as possible towards the chosen development strategy.

From the information given to the Council it is clear that, at this stage already, a firm foundation has been laid for the further acceleration of the economic development of the homelands and that the establishment of profit-oriented agricultural, mining, manufacturing and commercial undertakings, depending on the particular conditions in each homeland, will have to play an increasingly important role in this respect. The Council consequently focuses its attention on the contributions which, against this background, the private business sector could make towards more rapid development in the homelands.

Four ways in which the private sector could make a contribution emerged from the discussions. First, manufacturing or commercial undertakings could be established in the homelands under the agency system, or on such other conditions as the individual homeland governments might lay down, preferably with the ex

intention of making it possible for citizens of the homeland to obtain a significant share in the control and management of these undertakings. Secondly, the various representative organisations in commerce and industry could provide channels for advice on trade and industrial policy to homeland governments who wish to avail themselves of it. Thirdly, individual firms could make funds available for special educational and community projects in the homelands. Fourthly, individual businessmen could give of their time to provide direct business advice for homeland businessmen who, owing to their lack of knowledge and experience or other problems, often fail to run potentially profitable undertakings successfully.

Examples of each of these contributions, which have already borne fruit, were mentioned in the Council's discussions and the Council was in agreement that the private business sector could in these ways play a very valuable part in the continued economic development of the Black homelands.

THE GOVERNMENT'S VIEW

The Economic Advisory Council's diagnosis of the present situation, as well as its views on the prospects of the South African economy during the coming year, broadly corresponds with the Government's own interpretation of the available information. The Government agrees in particular with the Council's opinion that a moderate acceleration in the economic growth rate in the course of 1976 need not in any way be in conflict with the aims of the Collective Campaign against Inflation. In view of the great importance the Government attaches to the provision of sufficient employment for all population groups in South Africa, the assurance can also be given once again that measures which might hamper a natural recovery in the growth rate will be avoided as far as possible. At the same time the Government agrees with the Council that the necessity of a more favourable balance of the current and capital accounts of the balance of payments precludes an intentionally stimulating fiscal and monetary policy at this stage. This inevitably means that the present steps aimed at stringently cutting back the expenditure of public authorities will have to be continued. In the spirit of the Collective Campaign against Inflation the Government reaffirms

that, in accordance with the recommendation of the Economic Advisory Council, a protective attitude will be adopted as far as possible in this process of cutting back to those expenditures that are aimed at increasing the productive capacity of the economy and the creation of infrastructure.

As regards the Collective Campaign against Inflation as such the Government, like the Council, is anxious that unfounded expectations about the results of the Campaign should not be created among the general public and that the medium-term and long-term undertakings should be carried out just as resolutely as those applicable to the shorter term. The Government adheres to its view, which it has stated repeatedly, that in the fight against inflation a price and wage freeze can do more harm than good in the long run, and that sustained efforts by all groups in society over a long period will be necessary to keep the rate of inflation within tolerable limits. Care will be taken that both aspects will be given the necessary emphasis in the publicity and information programme launched as part of the Campaign.

Finally, the Government welcomes the interest shown by the Economic Advisory Council in the development of the Black homelands. The importance of the potential role which the private business sector could play, and has already played in many cases in this great task is fully recognised and appreciated and the Government will readily add its support to any constructive aid which may be offered in any of the ways suggested by the Council. With respect to the establishment of business undertakings in the homelands, I announced as far back as October last year that in future it would be up to the homeland governments themselves to lay down the conditions on which such undertakings could be established. As far as the role of organised commerce and industry is concerned, the Honourable the Minister of Bantu Administration and Development has already invited the various organisations to furnish the homeland governments with business advice on an organised basis. Contributions by individual firms and businessmen, be it in the form of physical participation in

development, funds or the provision of know-how, are also -
come provided such contributions fit in with the plans
the homeland governments concerned.

17/12/75
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THE following New Year message has been received from Mr. Graham Gallow, president of the Durban Chamber of Commerce.

S.A. must broaden industrial base

WHEN I consider the cause and effect of measures taken to adjust our economy I am frequently driven to wonder at the lack of co-ordination, both as to the measures being applied and to their timing.

I realise that these are all attempts to "fine tune" the economy to get the best performance out of it but I fear there are too many amateurs working on the economic engine at the same time. As a result, their efforts either cancel one another out and the economy delivers little power or otherwise it gives its passengers an uncomfortably rough ride.

During 1974 the economy grew in money terms by around 20 percent. But since something like 14 percent of this represented price inflation, something had to give, which it did in the last quarter.



MR. H. G. GALLOW

It happened rather suddenly and although it had been predicted, business sentiment tended to ignore the signs up until then.

Reaction, as (is often the case, was overdone

the lowering of expectations. It can, however, be pointed out that the economy itself was in any event about to force a reduction in living standards.

Price increases were already outstripping wages, profits were coming under pressure, genuine discretionary income was falling, as was evidenced by declining turnovers in furniture and other stores.

The emergence of some consumer restraint upon the urge to buy now in order to pre-empt price increase however was short-lived.

The massive devaluation of the rand has caused many to throw caution to the winds and to rush in to buy up stocks of imported goods before prices run away from them.

At the moment we are moving from price inflation, coupled with serious balance of payment problems into tightening restrictions and curbs on the economy.

SLOWDOWN

One does not need a crystal ball to predict a slowdown. The question is how far will the recession go and how long will it last? In particular, can it again be reversed by increased export earnings?

Let us hope that it will but I fear that, unless we learn a lesson from our past mistakes and change our habits there will come a day when the benevolent fate which

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Tutorials

and uncertain business conditions were worsened by the ensuing pessimism which has prevailed throughout 1975. Unfortunately, business sentiment is often influenced more by sheer mood than it is by empirical assessment of the relevant data. Up to the rand devaluation in September, there was just the possibility that income earners might have been prepared to accept some real cuts in living standards. The seemingly panicky devaluation of such a large provocation, admittedly aimed at protecting the country's balance of payments, simply negated entirely the progress being made in the war against inflation. As a result, income earners are now confused, somewhat cynical and while they know they should co-operate, they are waiting to see what others will do first. In his appeal to the public to support the fight against inflation the Prime Minister has called for sacrifices, for belt-tightening and for

has brought us unexpected bounty in the form of fortuitous export earnings from agricultural produce and gold will cease to do so. South Africa simply has to broaden its industrial base not only to provide the necessary growth which is so important for internal stability, but also to strengthen its balance of payments. Until this happens our economy will continue to oscillate disruptively and inefficiently. No analysis of the South African economy is complete without some comment on inflation.

MANIFESTO

While I believe that the manifesto signed in October between the Government and the private sector greatly strengthens the Government's hand in dealing with this evil, I categorically condemn inflation as a dishonest political act. It is nothing less than a fraud being perpetrated by debtor upon creditor.

We simply cannot continue to live with exploding inflation and to combat this evil we shall have to reduce some elements of demand. Since growth is implied for the economy as a whole this means that certain elements of demand will be expanding.

In consequence, we shall have to reduce others and in doing so we will have to consciously re-direct income away from the wealthy towards the poor.

WEALTH

Any continued concentration of wealth where it really is not essential and where much of it is economically sterile is simple indefensible in an economy which must grow at a fairly rapid pace in order to accommodate the transition of a predominant portion of its peoples from the Stone to the Atomic Age.

There are, however, signs, and I am encouraged by them that South Africans are beginning to grasp what is at stake and are starting to make greater efforts, to work harder to produce more, to forego pleasures and unnecessary luxuries.

I am also confident that, in this mood, the Collective Campaign Against Inflation will extend well beyond March, 1976. The economy will be greatly strengthened and after a period of belt-tightening we can look forward to a far better based period of expansion.

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ECONOMY
GENERAL

Heunis cuts back on import permits

Mercury Correspondent 30/11/76 AM

JOHANNESBURG—The Minister of Economic Affairs, Mr. J. C. Heunis, announced here yesterday that advance allocations for 1977 of imports of consumer goods, clothing, confectionery and alcoholic beverages will be 40 percent of the total issued for 1976.

Mr. Heunis added, in a statement, that he would "again give consideration during May, 1977, to the possible issue of further permit allocations.

"Furthermore, I have decided that for 1977, substantially the same import control policy as applied during 1976 will be maintained."

The Minister said the permits would not be automatically issued.

The total allocation of import permits this year amounted to only 70 percent by value of permits issued in 1975, made up of a 40 percent allocation in January and another 30 percent in June.

In view of Mr. Heunis's comments, it is more than likely that total allocations in 1977 will be maintained at a similar level.

Another 30 percent allocation is all importers could hope for in May. In fact, it could be even less if the country's balance of payments problems are not reduced.

The allocations are related to value which means that in real terms there will be a noticeable reduction in the volume of these goods coming into the country after inflation has taken its toll.

Firms must aid SA — professor

MAN'S freedoms must be defended not merely for the sake of free enterprise but for the sake of society, the director of the Graduate School of Business at UCT, Professor Meyer Feldberg, said last night.

Speaking at a dinner of the Life Underwriters Association, Professor Feldberg said in these times avoidance of any ideological conviction could be hurtful and tragic. It was disturbing that

many businessmen did not yet accept any ideological responsibilities to society. The effective manager can no longer say: 'I am a businessman and not interested in the vital social and political issues of our times and our country.'

INVOLVED

'We see all around us Government interference and encroachment on the free enterprise system. Such encroachment ultimately leads to an emasculation of initiative and the stifling of man's freedoms.'

Professor Feldberg suggested that one of the criteria for effective management should be the degree to which the businessman involved himself in the broad social, political and economic issues of the country.

'I do not believe the effective manager should ever subordinate profits to broad social goals. On the other hand socially responsible behaviour is essential to the long-term growth and profitability of the corporation.'

ABYSMAL

Businessmen complained about the unreliability of workers, absenteeism, labour turnover, productivity and loyalty.

'But are we concerned that our workers live in abysmal to mediocre conditions, jammed into crowded rooms with no privacy and inadequate recreational facilities?'

'Are we interested that many of our employees get up at 5 am to catch two buses and a train to be at work at 7 am?'

'Do we care? How can such people be expected to be loyal, productive or reliable?'

'Would we if we were in their place?'



Professor Meyer Feldberg

30/11/76 PRC/MS

Vorster sees favourable economy signs

PRETORIA. — The Prime Minister, Mr Vorster, said here yesterday that although the lowest point in the current domestic recession had not yet been reached, certain favourable changes had set in which should pave the way for a healthy economic revival in the foreseeable future.

In a statement following a meeting of the Economic Advisory Council this week, the Prime Minister said that although the council had been faced at its meeting with domestic conditions which had deteriorated further since its previous meeting in September, a more optimistic attitude had prevailed than had been the case then.

Against the background of the recession which had now had a duration of over two years, the difficult circumstances in the domestic economy and the favourable turn in the current account of the balance of payments, the council necessarily had to take note of the pressures which were beginning to mount for a selective stimulation of the economy.

Although the council was prepared to consider on their merit specific selective stimulative measures, it thought that the accent of policy should not be switched too hastily from restriction to stimulation.

Moreover, against the background of the information currently available, the council could not come to any other conclusion than that the Budget to be presented in March 1977 will still have to be restrictive, that Government

Continued on page 2

Vorster on economy

Continued from page 1

spending will still have to be strictly contained and that fiscal policy will still have to be supported by a restrictive monetary policy," the Prime Minister said.

Referring to the confidence of foreign investors in South Africa's ability to overcome its economic problems, the statement said the council was concerned about the damage that unfounded and exaggerated negative opinions on the South African economy — as expressed by some South African businessmen, economists and financial journalists — would cause to overseas confidence in South Africa's economic stability.

While the council was convinced that realistic commentary on trends in the economy and constructive criticism of economic policy could play a valuable role, it said that unfounded exaggerated negative commentary should be avoided as this could create the wrong impressions with foreign readers.

Referring to salaries in the public sector, the Prime Minister said there was general appreciation for the fact that employees of the State had had to make greater sacrifices in the fight against inflation than any other groups in the community.

● **Public servants may lose expected 5 per- cent increase**

Economy's next victims?

Argus
26/11/76

PRETORIA. — South Africa's stumbling economy is threatening to strike into two new areas of social stability — the desperate housing position, and the loyal corps of public service employees.

In the housing field:
● The Department of Community Development has stopped the allocation of all new loans for housing schemes till the end of the financial year, and will spend remaining funds only on schemes already in progress.
In the public service sphere:
● Public servants, railway and postal workers and teachers are in jeopardy of losing their expected pay increases of at least 5 percent which were due from January 1.

The Minister of the Interior, Dr C. P. Mulder, said in an interview this week that the Cabinet had not yet taken a decision on whether the additional 5 percent pay increases for public servants (which were mooted by the Government when the July increases were granted) would be approved. A decision would be

The Argus Correspondent

taken and announced, he said, before the Cabinet held its last meeting of the year early in December.
Dr Mulder said the Government was eager to alleviate the position of public servants and other public sector employees such as rail and postal workers and teachers, but admitted there had been no upturn in the economy since the July increases took effect — one of the conditions under which the further 5 percent pay hikes would be granted.
‘Naturally, if we can assist public servants, we will, but at the same time we must be responsible in our actions, otherwise we will lose everything we have gained,’ Dr Mulder said.

CRITERIA

The criteria on which the public servants pay issue would be decided would be ‘what a man is entitled to and what the economy can afford,’ he said.
The degree of staff shortage in the Public Service would not be a deciding factor. Dr Mulder said that the staff position in the public service was

better than in previous years, perhaps because in depressed economic conditions people valued the security offered by the civil service.
Meanwhile on the housing position, the Minister of Coloured Relations, Mr H. H. Smit, disclosed in a speech in the Free State this week that the financial position had necessitated drastic cuts in the allocation of funds for housing.

CONTRACTS

Allocated funds for housing he said, would not be used further than contracts already undertaken ‘no further contractual ties may be entered into even if they should be within the advances approved,’ he said.
The senior Deputy-Secretary for Community Development Mr A. V. W. Schoeman, confirmed the position on loans from his department. He said it was an abnormal situation brought about partly from the downturn in the economy and partly by the fact that bigger contracts were being signed and were being completed faster.
News by John Patten, 216 Vermeulen Street, Pretoria.

Vital report on economy due soon

25/11/76
 STAR

Labour Reporter

Businessmen and industrialists will know in the next few days how harshly the economic brakes will be applied next year.

A report on the findings of the Prime Minister's Economic Advisory Council is being prepared for possible publication at the weekend, it was disclosed today.

The council, which has been assessing the state of the economy, is believed to have paid particular attention to the mounting pressure points in industry and the threat of increasing unemployment.

PAY RISE

The report is not expected to broach the question of the five percent pay rise which was to be considered for civil servants. But all indications so far have been that this increase will not materialise.

With major industries in deep depression and unable to retain their normal labour force, let alone take on school leavers, the report is of crucial importance to the country.

In particular it will be scrutinised for any sign of increased spending or further cutbacks by Government bodies such as the Railways which sustain various private enterprises.

In view of the general uncertainty, the report is not expected to attempt concrete predictions beyond the first quarter of the new year.

Economy upswing 'will be slow'

CT
25/11/76

Staff Reporter

THE EXPECTED upswing in South Africa's economy will be slow, the bureau for Economic Research at Stellenbosch University has concluded in its November consumer report released yesterday.

From a postal questionnaire survey completed by 2 300 heads of White households between October 6 and 29 this year, the report concluded that a new upswing in the general economy will be very slow owing to the present pessimistic business mood and low consumer confidence which "cannot be restored overnight".

Domestic unrest and prevailing uncertainty about the future of South Africa's neighbouring states, according to the report, had done little to boost confidence.

Spending

Next year's expected upturn in the economy would probably be restricted to the primary sectors and consumer spending would probably not increase before the beginning of 1978.

The survey report pinpoints South Africa's relatively low level of gold and foreign exchange reserves as the most serious single economic problem in the country at present.

This problem, the report states, necessitates the present restrictive monetary and fiscal policy stance

which "will inevitably result in a further slowdown in general economic activity" and "will increase bankruptcies and unemployment".

However, the report predicts that the balance of payments and reserves position will improve during the first half of 1977 to such an extent that the authorities will, towards the middle of the year, want to adopt a slightly less restrictive policy stance which may lead to a revival in the general economy late in 1977.

The report predicts further that this revival:

- Will initially be rather slow.
- Will be confined mainly to the export sectors of the economy.
- Will not immediately filter through to the other sectors of the economy.
- Will not lead to a sharp increase in salaries and wages.

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VERKLARING VRYGESTEL DEUR SY EDELE DIE EERSTE MINISTER ADV. B.J. VORSTER, NA AANLEIDING VAN DIE DRIE-EN-VEERTIGSTE VERGADERING VAN DIE EKONOMIESE ADVIESRAAD, OP 22 EN 23 NOVEMBER 1976 IN PRETORIA.

Hoewel die Ekonomiese Adviesraad by sy pas afgelope vergadering te staan gekom het voor binnelandse ekonomiese toestande wat verder verswak het sedert sy vorige vergadering, in September vanjaar, was daar in die Raad 'n optimistieser gees aanwesig as twee maande gelede. Aanleiding hiertoe was gegewens wat daarop dui dat, hoewel die laagtepunt van die heersende binnelandse resessie nog nie bereik is nie, daar reeds sekere gunstige wendings ingetree het wat, soos die Raad by sy vorige vergadering in die vooruitsig gestel het, die grondslag behoort te lê vir 'n gesonde ekonomiese op-
lewing in die voorsienbare toekoms.

DIE HEERSENDE EKONOMIESE TOESTAND

Neigings in die individuele sektore

Die Raad het geen illusie gehad oor die moeilike toestand wat tans in die Suid-Afrikaanse ekonomie, soos in die van baie ander lande, heers nie. Die erns van die situasie het duidelik na vore gekom in die verslae wat deur die verteenwoordigers van die onderskeie sektore van die ekonomie beskikbaar gestel is. In die fabriekswese wat een van die belangrikste groei- en belastingbronne in die ekonomie is, was die produksie byvoorbeeld oor die eerste 9 maande van 1976 slegs 1,3 persent hoër as oor dieselfde maande van 1975 en in die loop van 1976 was die neiging van die fabriekswese produksie inderdaad afwaarts sedert die einde van die eerste kwartaal. Die ledige produksiekapasiteit in die fabriekswese het gevolglik toegeneem van 11,9 persent in Augustus 1975 en 12,9 persent in Mei 1976, na 14,3 persent in Augustus 1976. In die besonder is die motorbedryf swaar getref, met die verkope van passasiersmotors in die derde kwartaal vanjaar 31 persent, en dié

van handelsvoertuie 20,9 persent benede die verkope in die derde kwartaal van 1975. Ook met die fabrieksektore wat die motorbedryf en die bou- en konstruksiebedrywe voorsien, soos sekere vertakkings van die staal- en ingenieursbedryf, gaan dit besonder moeilik.

Benewens die motor- en verwante bedrywe ondervind die boubedryf steeds besonder moeilike omstandighede. Die konstruksiebedryf, wat tot betreklik onlangs nog 'n redelike vlak van bedrywigheid kon handhaaf vanweë onafgehandelde kontrakte met die openbare sektor, verloor in toenemende mate hierdie ondersteuning deurdat projekte voltooi word en die besnoeiing in die openbare besteding meebring dat nuwe werke nie onderneem kan word nie. In sowel die groot- as kleinhandel het die volume-omset in die derde kwartaal 'n daling getoon vergeleke met dieselfde kwartaal verlede jaar, terwyl die koers van toename in die waarde van groot- en kleinhandelsverkope reeds sedert die eerste kwartaal van 1976 dalende neigings toon. Die beraamde netto inkome van boere was in die derde kwartaal vanjaar wel 5 persent hoër as 'n jaar tevore, maar het in reële terme in werklikheid ook 'n daling getoon.

Aan die positiewe sy kon die Kamer van Mynwese rapporteer dat die waarde van Suid-Afrika se mineraleverkope, uitgesonder goud, oor die eerste nege maande vanjaar meer as 30 persent hoër was as oor die ooreenstemmende maande van 1975. Hierdie sterk styging het, soos die Raad by sy vergadering in Februarie vanjaar in die vooruitsig gestel het, hoofsaaklik voortgespruit uit die oplewing wat sedert die middel van 1975 in die belangrike nywerheidslande aan die gang was. Tesame met stygings in die uitvoer van verskeie landbouprodukte is dit dan ook weerspieël in 'n toename van 32,8 persent in die tonnemaat algemene vrag, en van 12,9 persent in die tonnemaat massavrag wat oor die maande April tot September vanjaar, vergelede met dieselfde maande van 1975, in Suid-Afrikaanse hawens verskeep is.

Neigings in die ekonomie in die geheel

Die beeld van die toestand in die binnelandse ekonomie wat blyk uit die verslae oor die afsonderlike sektore, word bevestig deur die jongste amptelike statistiek oor die ekonomie in die geheel,

wat deur die Suid-Afrikaanse Reserwebank aan die Raad beskikbaar gestel is. Hieruit blyk dat, hoewel die reële bruto binnelandse produk na verwagting in 1976 maar effens hoër sal wees as in 1975, slegs die landbou en die mynbou (uitgesonder die goudmynbou) van die tweede na die derde kwartaal van 1976 wesenlike toenames getoon het, terwyl die reële toegevoegde waarde van al die ander sektore in werklikheid gedaal het of min verandering getoon het. Uit die amptelike statistiek kom daar egter ook sekere gunstiger wendings na vore wat die Raad tot groter optimisme gestem het as wat bloot op grond van die toestande in individuele sektore afgelei kan word. Hierdie wendings is ook 'n bewys van sowel die toepaslikheid as die effektiwiteit van die ekonomiese-beleids-pakket wat oor die afgelope maande deur die owerhede toegepas is, met die steun van die Raad.

Die belangrikste wending wat daar in die derde kwartaal vanjaar te bespeur was, was die drastiese verbetering wat in die saldo op die betalingsbalans in lopende rekening ingetree het. Die waarde van die goedere-uitvoer het, teen 'n seisoensaangesuiwerde jaarkoers uitgedruk, vir die sewende agtereenvolgende kwartaal gestyg, van R4 454 miljoen in die tweede na R4 939 miljoen in die derde kwartaal. Hierdie welkome styging in die waarde van die uitvoer is egter in die derde kwartaal versterk deur 'n skerp afname in die waarde van die goedere-invoer, ook uitgedruk teen 'n seisoensaangesuiwerde jaarkoers, na R7 160 miljoen teenoor R7 652 miljoen in die tweede kwartaal. Aangesien die groothandelprysindeks van ingevoerde goedere nog teen 'n jaarkoers van 7,1 persent in die derde kwartaal gestyg het, moet hierdie daling in die waarde van die goedere-invoer uitsluitlik aan 'n afname in die volume van die invoer toegeskryf word.

Saam met 'n afname in die negatiewe saldo op die dienstebalans van R1 319 miljoen in die tweede kwartaal na R1 036 miljoen teen 'n jaarkoers in die derde kwartaal, wat in groot mate regstreeks verband gehou het met die daling in vrag- en assuransiebetalinge op die goedere-invoer asook met die binnelandse ekonomiese toestand, wat laer buitelandse dividendbetalinge tot gevolg gehad het, het hierdie neigings in die goedere-in- en uitvoer daarop uitgeloop

dat die tekort op die betalingsbalans in lopende rekening gekrimp het van R487 miljoen in die tweede kwartaal na R111 miljoen in die derde kwartaal, of teen 'n seisoensaangesuiwerde jaarkoers uitgedruk, van R2 108 miljoen na R1 070 miljoen.

Hierdie gunstige wending in die lopende rekening kan regstreeks teruggevoer word na die daling van die reële bruto binnelandse besteding en die verbetering in die owerheidsfinansies wat daar in die derde kwartaal ingetree het en wat gelei het tot die gekoördineerde en effektiewe toepassing van die beperkende monetêre beleid wat reeds sedert die middel van verlede jaar, en die konserwatiewe fiskale beleid wat in die Maartbegroting vanjaar deur die owerhede aanvaar is. Nadat die hoeveelheid geld en kwasi-geld in die eerste en tweede kwartale vanjaar nog, teen seisoensaangesuiwerde jaarkoerse uitgedruk, onderskeidelik met 15 en 18 persent toegeneem het, het hierdie toenamekoers in die derde kwartaal gedaal na 2 persent. Dié skerp afname was in groot mate 'n weerspieëling van 'n afname in die styging van die banksektor se netto eise teen die regeringsektor, van 'n seisoensaangesuiwerde bedrag van R638 miljoen in die tweede na slegs R162 miljoen in die derde kwartaal.

Op sy beurt is hierdie gunstige wending in die owerheidsfinansies moontlik gemaak, enersyds, deur 'n heelwat laer toename in skatkis uitreikings, en andersyds, deur 'n gesonder finansieringspa-oon. Skatkisuitreikings was naamlik in die derde kwartaal vanjaar slegs 4 persent hoër as in die ooreenstemmende kwartaal verlede jaar, teenoor 'n 40 persent-toename in die tweede kwartaal vanjaar vergeleke met dieselfde kwartaal verlede jaar. Voorts is hierdie kleiner toename in skatkisuitreikings gedurende die derde kwartaal, danksy groter lenings van die private nie-banksektor as in die tweede kwartaal, deur die Tesourie gefinansier sonder dat daar van bankkrediet gebruik gemaak moes word.

Verdere gunstige neigings in die Suid-Afrikaanse ekonomie was dat bykans al die komponente van die bruto binnelandse besparing gedurende die derde kwartaal van 1976 toegeneem het en dat die

inflasiëkoers, soos gemeet aan die styging in die verbruikersprysindeks, in die derde kwartaal sy dalende neiging voortgesit het deur af te neem na 'n seisoensaangesuiwerde jaarakoers van 10,8 persent nadat dit in die tweede kwartaal na 13,3 persent gestyg het. Die inflasiëkoers is ongetwyfeld nog te hoog, maar sou stellig na die devaluasie van die rand in September verlede jaar en die verhogings in indirekte belastinge en geadministreerde pryse in die eerste helfte van 1976 'n ongunstiger wending getoon het as dit nie was vir die uitwerking van die resessietoestand, die beperkende fiskale en monetêre beleid en die dissiplinerende uitwerking van die Gesamentlike Aksieprogram teen inflasie nie.

In die derde kwartaal vanjaar is die uitwerking wat die resessie op die reële binnelandse besteding gehad het, dus aansienlik versterk deur die gekoördineerde uitwerking van die beperkende fiskale en monetêre beleid sodat al die hoofkomponente van die binnelandse besteding in reële terme gedaal het van die vorige kwartaal af: die private verbruiksbesteding vir die eerste keer sedert die vierde kwartaal van 1970; die owerheidsverbruiksbesteding by al drie die owerheidsvlakke; en die vaste investering by die openbare owerhede, die openbare korporasies en die private sektor. Die boekwaarde van nywerheids- en handelsvoorrade het gedaal na dit oor die vorige veertien kwartale aanhoudend gestyg het, met die gevolg dat groot- en kleinhandelsvoorrade as persentasie van verkope gedaal het na 73 persent teenoor die betreklik hoë vlak van 77 persent wat in die eerste kwartaal bereik is.

Die ongewoon langdurige tekort op die betalingsbalans in lopende rekening het 'n fiskale en monetêre beleid genoodsaak wat die afwaartse neiging in die ekonomie versterk in plaas van teengewerk het. Benewens die beoogde gunstige uitwerking op die betalingsbalans, het dit dus ook onaangename gevolge gehad waarvan die Raad noodwendig kennis moes neem. Die moeilike omstandighede in die individuele sektore, waarop reeds gewys is, het ook ander ongunstige gevolge gehad. Die werkloosheid onder die Blankes, Kleurlinge en Asiërs het byvoorbeeld toegeneem van 'n seisoensaangesuiwerde jaarakoers van 11 492 in Desember 1975 na 13 368 in Junie en 18 993 in Oktober vanjaar, terwyl dit uit vergelykings tussen die toename

koerse van die werkgeleentheid van Swartes, enersyds, en die Swartes wat beskikbaar is vir werk, andersyds, duidelik is dat die werkloosheid en die onderindiensneming onder hierdie bevolkingsgroep ook verder gestyg het. Benewens die beskikbare oorhoofse statistiek, blyk ook uit verskeie sektorale verslae dat daar in sommige sektore na deeltydse werkskedules oorgeskakel word. Hoewel geskoolde werkers blykens die verslae nog geredelik werk kry en daar in bepaalde kategorieë selfs nog van tekort sprake is, vind daar ook reeds heelwat afdankings onder ambagsmangeledere en van minder geskoolde werkers plaas.

Nog 'n wending waaroor die Raad sy kommer uitgespreek het, was die daling in die netto invloei van buitelandse kapitaal van 'n maandgemiddelde van R160 miljoen in 1975 en die eerste kwartaal van 1976 na ietwat onder die R30 miljoen per maand in die tweede kwartaal en 'n netto uitvloei van R4 miljoen per maand in die derde kwartaal - en dit ten spyte van 'n netto invloei van R153 miljoen na die regerings- en banksektor in hierdie kwartaal. As gevolg hiervan het die vlak van die goud- en ander buitelandse reserwes nog nie die volle effek van die verbetering in die lopende rekening van die betalingsbalans getoon nie, hoewel die daling in die reserwes in die derde kwartaal vanjaar slegs R120 miljoen beloop het teenoor R395 miljoen in die tweede kwartaal. In September het die totale bruto reserwes met R32 miljoen gestyg en in Oktober het die reserwes wat deur die Suid-Afrikaanse Reserwebank alleen gehou word, met nog R15 miljoen gestyg. Hierdie stygings sou egter heelwat groter gewees het as die invloei van buitelandse kapitaal 'n ietwat groter omvang aangeneem het. Tussen die einde van Oktober en 19 November het die Reserwebank se buitelandse reserwes met 'n verdere R207 miljoen gestyg, hoofsaaklik as gevolg van die netto ontvangs van amptelike buitelandse lenings.

DIE EKONOMIESE VOORUITSIG EN DIE RAAD SE ALGEMENE BELEIDSAANBEVELINGS

Algemene benadering

Teen die agtergrond van die resessie wat nou reeds meer as twee jaar duur, die moeilike omstandighede in die binnelandse ekonomie

en die gunstiger wending in die lopende rekening van die betalingsbalans, moes die Raad noodwendig kennis neem van druk wat begin opbou vir 'n selektiewe stimulering van die ekonomie om die toestand te verlig in sektore van die ekonomie wat besonder swaar getref is deur die resessie. As gevolg van die tydsloering wat daar gewoonlik tussen die inwerkingstelling van stimulerende maatreëls en die werklike uitwerking daarvan op die ekonomie is, is die gedagte geopper dat daar nou reeds oorweging aan sulke maatreëls gegee behoort te word en nie gewag moet word tot die ekonomie mettertyd vanself 'n keerpunt bereik nie. By die oorweging van hierdie gedagterigting moes die Raad egter met 'n aantal faktore rekening hou wat nog tot versigtigheid maan.

In die eerste plek het verskeie lede hulle twyfel uitgespreek oor die omvang en die bestendigheid van die ekonomiese oplewing in die belangrike nywerheidslande waarmee Suid-Afrika handel dryf en oor die implikasies vir Suid-Afrika se uitvoer van die tekens wat daar tans waar te neem is van 'n verlangsamings in daardie oplewing. Daarbenewens het die Raad ook kennis geneem van die gesamentlike standpunte wat deur die regerings van die nywerheidslande ingeneem is ten opsigte van die gevaar van hernude inflasiedruk en die gevolglike noodsaak vir minder stimulerende fiskale en monetêre beleidsmaatreëls. Weliswaar is daar ook redes aan die Raad genoem waarom die oplewing in die nywerheidslande nog vir die duur van 1977 sy beloop sal neem, en die vooruitsig van sekere spesifieke uitvoerprodukte, soos ystererts en steenkool, is gunstig aan die Raad voorgeskilder. Ook wat die goudprys betref, het lede met 'n mate van voorbehoud kennis geneem van faktore wat tot 'n stewiger situasie in die goudmark meewerk, asook van belowende resultate wat in die jongste tyd met die verkope van Krugerrande behaal is. Per saldo het die Raad dit egter as verstandig beskou om nie die bydrae van die verwagte voortgesette verbetering in Suid-Afrika se uitvoerverdienste te oorskat nie.

Wat die invoer betref, is daar na die Raad se mening alle rede om te verwag dat dit verder sal reageer op die afname wat daar nou in al die komponente van die binnelandse besteding plaasvind, deels ook as gevolg van die effektiewe uitwerking van die gekoör-

dineerde beperkende fiskale en monetêre beleid. Daar moes egter ook rekening mee gehou word dat die goud- en ander buitelandse reserwes tans op 'n lae vlak is, dat daar nog aansienlike korttermynverpligtinge teenoor die buiteland is wat afgelos moet word, en dat daar volgens huidige aanduidings nie staat gemak kan word op 'n betekenisvolle invloed van buitelandse langtermynkapitaal in die onmiddellike toekoms nie. Selfs met 'n voortgesette skerp daling in die tekort op die betalingsbalans in lopende rekening sal dit gevolglik nog 'n geruime tyd duur voor die buitelandse reserwes opgebou kan word tot 'n vlak wat kan verseker dat 'n sterk oplewing in die ekonomie nie betreklik gou weer gerem sal moet word om die betalingsbalans te beskerm nie. Bowendien was die Raad ook die mening toegedaan dat die inflasiekoers nog heelwat verder behoort te daal voor die volgende oplewing begin. Die huidige dalende tendens van die inflasiekoers behoort wel voortgesit te word indien die beperkende fiskale en monetêre beleid gehandhaaf word.

Hoewel die Raad, soos hieronder sal blyk, bereid was om voorstelle vir spesifieke selektiewe stimulerende maatreëls op hulle meriete te beoordeel, was dit sy oorwoë mening dat daar nie oorhaastig 'n verskuiwing in die beklemtoning van beleid moet wees van beperking na stimulering nie. In die besef dat dit besondere sterk dissipline sal verg, meen hy derhalwe dat alles in die werk gestel moet word om sover moontlik by sowel die bestedings- as die finansieringsdoelwitte van die Maartbegroting te bly gedurende die oorblywende gedeelte van die huidige fiskale jaar. Daarby kon die Raad teen die agtergrond van die inligting wat tans beskikbaar is, nie anders nie as om tot die slotsom te kom dat die begroting wat in Maart 1977 ingedien staan te word nog steeds beperkend sal moet wees, dat staatsbesteding nog streng in toom gehou sal moet word en dat die fiskale beleid steeds ondersteun sal moet word deur 'n beperkende monetêre beleid. Slegs langs hierdie weg sal dit moontlik wees om die voortgesette verbetering in die lopende rekening van die betalingsbalans seker te stel en die inflasiekoers verder af te bring.

Die Raad het hom ook sterk ten gunste daarvan uitgespreek dat, wanneer die stadium wel bereik word waarin daar weer tot stimulerende maatreëls oorgegaan kan word, sodanige maatreëls nie die klem

moet plaas op 'n versnelling van die besteding in die openbare sektor nie, maar dat die grootste moontlike ruimte in die volgende oplewing gelaat moet word, en trouens die grootste moontlike aanmoediging gebied moet word, aan die private sakesektor om sy ledige produksiekapasiteit op te neem en daarna sy investering in nuwe produksiekapasiteit te verhoog. Langs dié weg sal verseker word dat die land die groot investeringe in die infrastruktuur wat oor die afgelope jare in die openbare sektor gemaak is, ten volle kan benut, terwyl die versterking van die goederestroom wat mettertyd uit 'n verhoging en beter benutting van die private sektor se produksiekapasiteit sal voortvloei, op die duur ook 'n belangrike bydrae sal lewer tot die bekamping van inflasie.

Benewens die gunstige uitwerking wat 'n voortgesette beperkende fiskale en monetêre beleid na verwagting op die lopende rekening van die betalingsbalans asook op die neiging in die inflasiekoers sal hê, en die regstreekse voordele van voortgesette finansiële dissipline in die openbare sektor op die langer duur, meen die Raad dat dit ook die kapitaalrekening van die betalingsbalans ten goede sal kom. Dit kan naamlik veel daartoe bydra om die vertroue van buitelandse beleggers te herstel in die vermoë van Suid-Afrika om sy ekonomiese probleme te bowe te kom en in die gewilligheid van Suid-Afrikaners om binne die land se vermoëns te leef. Verskeie lede wat gereeld met buitelandse beleggers en finansiers te doen het, het die mening uitgespreek dat hierdie ekonomiese faktore in daardie kringe swaar weeg. In dieselfde verband het die Raad hom ook vereenselwig met die kommer wat deur sekere lede uitgespreek is oor die nadelige uitwerking wat ongegronde en oordrewe negatiewe uitsprake oor die toestand van die Suid-Afrikaanse ekonomie deur sommige Suid-Afrikaanse sakelui, ekonome en finansiële joernaliste, op die herstel van vertroue in Suid-Afrika se ekonomiese stabiliteit in die buiteland het. Terwyl hy oortuig is dat realistiese kommentaar op neigings in die ekonomie, asook konstruktiewe kritiek op ekonomiese beleid, 'n waardevolle rol kan speel, wil hy 'n beroep doen dat ongegronde en oordrewe negatiewe uitsprake, wat wanindrukke mag wek by buitelandse lesers wat dikwels nie self na Suid-Afrika kan kom en dus nie hulle eie waarnemings van toestande kan maak nie,

vermy moet word.

Besondere beleidsaspekte

(a) Behuising vir Kleurlinge, Asiërs en Swartes

Gegewe die noodsaaklikheid vir 'n voortsetting van die gekoördineerde beperkende fiskale en monetêre beleid, was dit die oorwegende mening in die Raad dat by besluite oor enige selektiewe stimulerende maatreëls wat voorgestel mag word, die uitwerking wat die op die breër beleid kan hê, swaar moet weeg. Dit is byvoorbeeld eenvoudig 'n feit dat hoewel die motorbedryf besonder swaar getref is deur die huidige toestand in die ekonomie, sy produksie so 'n hoë invoerinhoud het dat enige noemenswaardige stimulering van die bedryf in hierdie stadium noodwendig die verbetering in die betalingsbalans sterk sal ondermyn. Daarenteen is die regstreekse invoerinhoud van behuising betreklik laag, hoewel daar natuurlik ook rekening gehou moet word met die onregstreekse uitwerking op die invoer wat deur enige vorm van inkomeskepping veroorsaak word. Die Raad was dus geneë om simpatieke oorweging te gee aan voorstelle wat geformuleer is deur 'n komitee wat hy by sy vorige vergadering aangewys het om ondersoek in te stel na bykomstige finansieringsbronne wat betreklik gou gevind kan word om die tempo van verskaffing van behuising aan Nie-Blankes te verhoog. In hierdie verband het hy ook die verligting van die bestaande behuisingstekorte, die versagting van die werkloosheidsituasie en die stimulus wat aan die onderbesette boubedryf gegee kan word indien sulke finansieringsbronne gevind kan word, in ag geneem.

Met die bespreking van die komitee se verslag het dit aan die lig gekom dat daar reeds ruim geleentheid bestaan vir werkgewers om 'n bydrae te maak tot die verskaffing van behuising aan hulle Nie-Blanke werknemers. Deur bemiddeling van die Departement van Gemeenskapsbou is dit byvoorbeeld reeds gedurende 1965 moontlik gemaak vir plaaslike besture om grond in Nie-Blanke groepsgebiede te verkry deur middel van fondse wat werkgewers bewillig en hierdie grond dan op 'n langtermynhuurbasis (van minstens 30 jaar) aan die werkgewers vir die oprigting van huise vir hulle werknemers beskikbaar te stel. Die grond bly die eiendom van die plaaslike bestuur en die werkgewers rig self die wonings op aan die hand van standarde wat deur die plaaslike bestuur beheer word. Die werkgewers is ook self vir die verhuur en instandhouding van die

wonings verantwoordelik. Na verstryking van die grondhuurtermyn word die huise dan die eiendom van die plaaslike bestuur. Gedurende die 1970 is 'n maatreël ingevoer om die verlenging van die huurtermyn opsioneel te maak vir 'n verdere tydperk wat nie die oorspronklike huurtermyn sal oorskry nie.

Gedurende 1975 is 'n skema in samewerking tussen die Kaapstadse Kamer van Koophandel en die Departement van Gemeenskapsbou uitgewerk om die voorsiening van behuising deur werkgewers vir Kleurlingwerknemers op 'n basis van huiseienaarskap moontlik te maak. Die grond word deur die plaaslike bestuur teen koste aan die werknemers verkoop en die oprigting van die wonings word sover moontlik deur die werkgewers gefinansier. Aan individuele werknemers word 100 persent-lenings vir die aankoop van persele en die oprigting van wonings dan deur werkgewers toegestaan of waar hulle nie alles kan bybring nie, word die nodige bystand onder waarborg van bouverenigings verkry. Die enigste beperking op die gebruik van hierdie skemas, wat reeds in sekere gevalle suksesvol uitgevoer is, is die gewilligheid van werkgewers om 'n deel van hulle fondse vir hierdie doel in plaas van in winsgewonder rigtings aan te wend.

Benewens bogenoemde skemas het daar onlangs in die Kaap, deur bemiddeling van die Departement van Gemeenskapsbou, twee nutsmaatskappye met 'n Kleurlinggroeps karakter as filiale van twee belangrike Blanke behuisingsnutsmaatskappye tot stand gekom om behuising op 'n huiseienaarskapgrondslag vir Kleurlinge te voorsien. Hierdie maatskappye is die Peninsula Community Association en New Garden Cities wat weliswaar nog nie heeltemal op dreef gekom het nie maar aan wie enkele maande gelede reeds 700 persele in Mitchell's Plain vir ontwikkeling onder leiding van die moedermaatskappye, naamlik die Citizen's Housing League en Garden Cities beskikbaar gestel is.

Wat behuising vir Indiërwerknemers betref, bestaan soortgelyke reëlins as vir Kleurlinge.

Ook wat Swart werkers betref, het die Departement van Bantoe-

administrasie en -ontwikkeling vanaf ongeveer 1970 'n reëling getref waarkragtens werkgewers by ooreenkoms met plaaslike besture (tans Bantoesake-administrasierade) behuising vir hulle werknemers op enkellopende of gesinsgrondslag in stedelike Bantoe-woongebiede kan voorsien met gewaarborgde besetting vir hulle werknemers vir 'n termyn waaroor die twee partye ooreenkom.

Hierdie reëling geld ook vir behuising in tuislanddorpe behalwe dat 'n drieledige ooreenkoms in sodanige gevalle aangegaan word tussen die werkgewer, die Suid-Afrikaanse Bantoe-trust en die betrokke tuislandregering. Aansienlike bedrae is reeds, hoofsaaklik deur groot werkgewers, op hierdie wyse belê en dra sover dit die werkgewer betref by tot 'n stabiele arbeidsmag met die voordele daaraan verbonde. Werkgewers het ook reeds aan Bantoesake-administrasierade lenings beskikbaar gemaak, dikwels teen verlaagde rentekoerse, om huurhuise vir hulle werknemers op te rig.

Sedert die onlangse instelling van die huiseienaarskema vir Swartes in stedelike Bantoe-woongebiede volgens 'n vorm van huurpagsstelsel, het finansiële instellings asook werkgewers ten behoewe van hul werknemers reeds met Bantoesake-administrasierade onderhandel om lenings aan hulle beskikbaar te stel wat deur die Rade op hulle beurt aan Swartes wat hulle eie wonings wens op te rig op lenings-grondslag beskikbaar gestel sal word. Sodanige werkgewers finansier ook hulle werknemers om volgens die huiseienaarskema hulle eie huise op te rig of te koop of kom hulle op ander wyses te hulp. Daar word verwag dat Swartes ook uit eie bronne 'n aansienlike bydrae sal maak tot hulle behuisingsvoorsiening en sal voortgaan om ingevolge reëlings wat reeds baie lank bestaan, hulle eie wonings te verbeter en aan te pas volgens hulle behoefte en smaak.

Die verteenwoordigers van die private sakesektor het op hulle beurt meegedeel dat daar tans deur werkgewersgroepe en ander instansies intensiewe aandag geskenk word aan moontlike maniere waarop bydraes in hierdie verband gelewer kan word.

Hoewel die Raad simpatiek gesind was ten opsigte van die versneling van die verskillende metodes waarvolgens behuising aan Nie-Blankes voorsien word, het uit sowel die verslag van die betrokke komitee as die bespreking oor die aangeleentheid geblyk dat daar nog heelwat knelpunte op die implementeringsvlak ten opsigte van Swartes lê, in besonder dit huiseienaarskap betref. Dit geld veral die moontlike bronne en termyn van finansiering en die terugbetalingsvoorwaardes daaraan verbonde, asook die aard van die sekuriteit wat werkgewers en ander finansierders kan bekom by die voorsiening van behuising aan Swart werknemers. Die Raad het dit derhalwe aan 'n klein komitee, verteenwoordigend van die departemente wat regstreeks met hierdie aangeleentheid gemoeid is, opgedra om van amptelike kant dringend hierdie implementeringprobleme te ondersoek en indien moontlik uit die weg te ruim, en daarvoor aan die Raad terug te rapporteer by sy Februarievergadering.

(b) Salarisse in die openbare sektor

Lede van die Raad het ook in die loop van die bespreking oor ekonomiese beleid besin oor die 5 persent-verhoging van salarisse in die regeringsektor wat vroeër vanjaar deur my in die vooruitsig gestel is vir vroeg in die nuwe jaar, onderhewig daaraan dat die ekonomiese toestand nie verder verswak nie. Die verteenwoordigers van die vakbonde het sterk daarvoor gepleit dat hierdie verhoging wel deurgevoer moet word. Hulle het hierdie standpunt gemotiveer op grond daarvan dat die vergoeding van werknemers in hierdie sektor oor die afgelope jaar of twee nie tred gehou het met dié in die private sektor nie. Ook het hulle aangevoer dat die tekens van 'n gunstiger wending in die ekonomie waaroor die Raad ingelig is, beteken dat daar wel nou voldoen word aan die voorwaarde wat gestel is toe die 5 persent-verhoging in die vooruitsig gestel is.

Daar was algemene waardering vir die feit dat van die werknemers van die Staat oor die afgelope paar jaar groter opofferings in die stryd teen inflasie geverg is as van baie ander groepe in die samelewing. Desnieteenstaande was die oorwegende mening dat die tyd nog nie geleë is vir so 'n algemene verhoging van salarisse van hierdie groepe nie. Soos reeds geblyk het, het die Raad bevind dat

hoewel daar skynbaar nou 'n keerpunt in die betalingsbalans bereik is, die binnelandse ekonomiese toestand steeds afwaarts neig en nog nie 'n laagtepunt bereik het nie. Op grond hiervan was dit die oordeel van die meeste lede dat daar nog nie voldoen is aan die voorwaarde wat vir die 5 persent-salarisverhoging gestel is nie. Daar is ook op gewys dat so 'n verhoging in hierdie stadium die taak van die Regering om binne sy begrotingsdoelwitte te bly, aansienlik sal bemoeilik en dat dit, in samehang met die beëindiging in Maart volgende jaar van die prys- en loonriglyne in die Manifest teen Inflasie, die verkeerde indruk kan skep dat die dissipline by loon- en prysbeslissings nou maar kan verslap. Hoewel hierdie lede nie die meriete van 'n aanpassing in die salarisse van werknemers van die Staat betwis nie en graag sal wil sien dat dit aangebring word sodra die binnelandse ekonomiese toestand dit toelaat, kon hulle dus nie hulle weg oopsien om aan te beveel dat dit in Januarie 1977 al geëkied nie.

DIE REGERING SE STANDPUNT

Soos die Raad, is die Regering bemoedig deur die tekens wat daar nou waargeneem kan word van 'n gunstiger wending in die betalingsbalans en sien hy daarin ook die bewys van die toepaslikheid en effektiwiteit van die gekoördineerde toepassing van sy beperkende fiskale en monetêre beleid wat vir geruime tyd reeds nagestreef word. Die Regering is dit egter ook eens met die Raad se standpunt dat die laagtepunt van die heersende resessie nog nie bereik is nie en dat die gunstiger tekens in die owerheidsfinansies en die betalingsbalans wat nou waargeneem kan word, nie moet aanleiding gee tot 'n vroegtydige verslapping van die beperkende beleid van die owerhede, of van die noodsaaklike prys- en loondissipline by die gemeenskap in die algemeen nie. Die Regering is vasberade om nie die resultate van die opofferings wat veral oor die afgelope jaar gemaak is deur al die lae van die samelewing, nou deur oorhaastige optrede ongedaan te maak nie en hy waardeur die steun wat hy hierin van die Ekonomiese Adviesraad geniet. Oor die kwessie van salarisse in die staatsektor sal afsonderlike verklarings deur die betrokke ministers gedoen word.

Die Regering is dit ook met die Raad eens oor die belangrikheid daarvan dat die buitelandse vertroue in die Suid-Afrikaanse ekonomie so spoedig moontlik herstel moet word en dat ongegronde en oordrewe negatiewe en afbrekende kommentaar in eie geledere nie daartoe bydra nie. Konstruktiewe kritiek is, soos die Raad dit ook stel, nuttig en altyd welkom wat die Regering betref. Dit sal egter jammer wees as die duidelike getuienis wat daar nou is van Suid-Afrikaners se wil om ons ekonomiese probleme vierkant in die gesig te kyk en gepaste stappe te doen om dit te bowe te kom, en die tekens van die sukses van daardie stappe wat nou na vore begin kom, nie ook na die buiteland in die regte perspektief oorgedra word deur almal wat in 'n posisie is om dit te doen nie.

Ek wil ook graag hierdie geleentheid te baat neem om die Regering se reaksie bekend te maak op 'n versoek wat die Raad by sy vorige vergadering gerig het, naamlik dat die opdrag van die Staande Advieskomitee oor Staatsmededinging, onder die voorsitterskap van die Sekretaris van Nywerheidswese, uitgebrei word, asook dat sekere aspekte van dié komitee se werksprosedure gewysig word. Die Kabinet het ingestem dat nie net die bedrywighede van die staatskorporasies wat onder die gesag van die Minister van Ekonomiese Sake ressorteer nie, maar ook van alle ander staatskorporasies, owerheidsondernemings en staatsdepartemente, ingeslote die provinsiale administrasies en plaaslike owerhede, by die werkterrein van die komitee ingesluit word. Voorts het die Kabinet ingestem dat alle nuwe bedrywighede wat deur hierdie instansies in die openbare sektor oorweeg word, maar wat buite hulle oorspronklike werksterrein lê, eers na die komitee verwys sal word om sy advies in te win, voordat 'n finale besluit geneem word. Reëlings is ook met die administrateurs getref vir sover dit die provinsiale administrasies en plaaslike owerhede betref.

FREE ENTERPRISE SYSTEM BEST
— Dr D

Sunday Times Reporter
 THE State President, Dr Nico Diederichs, this week called for a national campaign to make young people aware of the benefits of the free enterprise system.

Dr Diederichs, who was addressing the annual Sunday Times function in honour of the Top Five Business Men of the year, warned that unless the free enterprise system was encouraged and nurtured, society would suffer.

"Business must tell the people what the free enterprise system means," he said. "In many parts of the world there is a trend towards cradle to grave socialism in which risk-taking and initiative are being lost."

Dr Diederichs was selected as one of the Top Business Men of the Year in 1974 when he was Minister of Finance.

● See Business Times for the list of the 1976 Five Top Business Men of the Year.

State of S.A. study begins

Nat. Merc. 20/11/76

Mercury Correspondent

PRETORIA — The Prime Minister's Economic Advisory Council meets here on Monday and Tuesday as the economy struggles to slow down the slide into deeper recession.

The chairman of the council and the Prime Minister's economic adviser, Dr. Piet Riekert, said here yesterday that the whole sweep of the economy would be reviewed, including balance of payments, continuing inflation and prospects for the year ahead.

However, according to some members of the council there is little prospect of a dramatic change in the economic climate.

They pointed out that there were strong indications that the incipient recovery in the U.S., Britain and certain west European countries had sagged, and that a sustained recovery from the worst recession of the past 35 years was still not in sight.

The Minister of Economic Affairs, Mr. Chris Heunis, warned in an address to the Transvaal Federated Chamber of Industries on Thursday that the Government was determined to continue with its restrictive policy for the foreseeable future.

However, economists say that the economic

scene during 1977/78 financial year will be dominated by the escalating threat of larger-scale terrorist war on the SWA-Angolan border, and more intensive fighting between Rhodesia and the Mozambique terrorist forces.

This would mean significantly higher defence spending.

Not only would the volume of purchases be greater, but because of world-wide inflation they would also cost more.

And Mr. Heunis has warned of higher taxation next year "should there be any escalation in defence expenditure."

Two other vital issues will come up at next week's council meeting — growing unemployment and how best to counter it, and the pressing need to reduce imports to an absolute minimum.

The council's following meeting will be in February, a few weeks before the budget is tabled by the Minister of Finance.

The content of the budget is to a large extent determined by the recommendations of this meeting.

US organization formed to win support for SA

From TOM COPELAND,
Political Correspondent

1911/26g

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Own Correspondent

PRETORIA. — A group of conservative American businessmen in the United States has formed a vehemently anti-communist organization aimed at alerting influential Americans to the dangers of Soviet expansion in Southern Africa.

The organization, known as the American Concerned about South Africa 'Acsa' Foundation, has already begun a concerted educational campaign to win support for South Africa in the USA.

Acsa's two founder members, Mr Partick Wood, president of the August Corporation, and Mr Donald McAlvany, vice president of International Investors "the largest US mutual fund, specializing in gold mining shares," are currently in Pretoria as guests of the South African Government.

No understanding

In an interview yesterday Mr McAlvany said the main task of the foundation was to try to bring home to Americans the vital strategic and mineral importance of South Africa. And to convince influential business and political leaders that the US must come to the Republic's aid in the event of it being threatened.

American understanding of Southern Africa was, he said, almost non-existent as regards its strategic importance to the free world, its tribal cultures, its political realities, and its dangers from Soviet expansion.

"It appears that a major East-West confrontation that could ultimately determine the survival of the Free World is building up in Southern Africa."

The true conflict in Southern Africa was not racial or tribal, but was between communist and

non-communist Blacks and Whites.

While he agreed that racial discrimination existed in South Africa, he believed that with the "inept handling of our own US Black and Indian racial problems, we should be more tolerant and understanding of the complex South African problems."

The racial disturbances during the past few months had, he said, been triggered and orchestrated by a handful of well-trained militant agitators who were "highly skilled at mobilizing innocent students and fomenting disorder around legitimate grievances".

Massive support

Mr McAlvany believed, however, that it was imperative that the US should not allow its distaste for South Africa's racial policies to stand in the way of it giving massive support to prevent the country falling into the hands of the Soviet Union.

DD-19117

Exporters told to boost South Africa

JOHANNESBURG — South African exporters were asked yesterday to set aside part of their advertising funds to improve South Africa's image abroad.

The appeal was made at a meeting of the South African Foreign Trade Association in Johannesburg, by the deputy Secretary for Information, Mr Les de Villiers.

Mr De Villiers said there was no doubt South Africa's image abroad as a stable society had been shamed by the recent riots.

Overseas investors were showing a definite reluctance on the short-term adopting a wait-and-see attitude. But South African exporters could do much to mend the situation.

How about setting aside a portion of your regular advertising revenue for individual, or joint advertising efforts on behalf of South Africa abroad?

"Perhaps the time has arrived for exporters to set their sights on Africa as an export market, instead of taking the course of last resistance and following the beaten paths to Europe and America.

"In this fashion you may contribute to our dialogue and détente on this continent, and assist in making our economic inter-relationship a lasting and mutually beneficial one.

"Have you ever thought of producing a brochure or folder on South Africa's economy, wages and working conditions, its investment potential?" Mr. De Villiers asked. — DDC.

30/49.

Company liquidations rise by 20 percent

Industrial Reporter R/11/17/76

THE deepening recession, in South Africa has led to a 20 percent jump in company liquidations in the first nine months of this year compared with the similar period of 1975.

The latest short-term economic indicators published by the Department of Statistics in Pretoria show that 808 companies went under in the year up to the end of September, up from 676 in the previous corresponding period.

The implications for unemployment have already become apparent, with the number of jobless rising by 50 percent in the year up to the end of October.

There has also been a drop-off in the number of new company registrations.

Insolventcies of private individuals and partnerships have increased. The figures show 692 bankruptcies in the year to August compared with 623 in the similar period last year. Judgment for civil debts in the same period increased by about R1m to more than R56m.

Wage move welcomed

Argus 18 11 76

The Argus Political Staff
THE United Party's chief spokesman on finance, Mr D. D. Baxter, said today he did not think the latest move in the Government's anti-inflation campaign would cause any strong upsurge in either wages or prices.

Such an upsurge was unlikely in the present situation of underemployment in the economy, he said.

Mr Baxter, MP for Constantia, welcomed the announcement by the Minister of Economic Affairs, Mr J. C. Heunis, that from March 31 next year, wages and prices were to be left to find their own level.

Mr Baxter said: 'South Africa continues to be plagued by an inflation

rate higher than that prevailing in most other countries.

'It is, therefore, pertinent to realise that the most important reason for this situation is the past extravagance and financial mismanagement of the Government.

'We are paying in inflation a large part of the huge increases in Government spending of the past few years, some of which was on highly extravagant projects and much of which was for ideological reasons.'

Mr Baxter said that in an attempt to rectify the position, the Government had put the economy in a financial straitjacket.

Apart from the anti-inflation programme, which had imposed vol-

untary restraints on wages and prices — with a measure of hardship for wage earners—South Africans were also enduring taxation at levels which had only once been exceeded in the past 30 years.

In framing its next Budget, the Government would be faced with the dilemma of whether to continue to dampen the economy with high taxation aimed at reducing the rate of inflation, or to 'put back some steam' into the economy to provide more jobs and to use the country's resources more fully.

To continue too long with a dampening policy would be dangerous as it could force the country into a serious slump, he added.

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Slight easing in gold price

16/11/76
Star

Michael Chester,
Financial Editor

Gold eased back in early trading today from its new peaks around 140 dollars an ounce on world bullion markets but still held in an orbit bringing into South Africa an unexpected multimillion-rand windfall.

In Zurich, where SA sells the bulk of its bullion, the price today first sagged to 135.50 dollars but later moved above 137 dollars again.

On the London market, the key pace-setter on trends, where yesterday the price broke over 140 dollars temporarily, the first fix today set gold at 134.75 dollars.

Paradoxically, the halt to the new surge in the bullion price, which has bounded up from only a fraction above 100 dollars in August, was welcomed by the Treasury and the big gold mines.

Hopes now rest on a more stable price in the 130-140 dollar range, steering clear of a repeat of the 1974 gold rush and the dangers of massive reaction.

Mr Herbert Kautmann, senior vice president of the Swiss Banking Corporation, predicted in Johannesburg last week that the price during the next 12 months would touch 140 dollars on occasion, but would generally settle at around 130 dollars.

The enormous influence on South Africa's economic fortunes of moves in gold prices can be measured by a simple calculation that a movement of only 5 dollars an ounce, if held, means the

national income swivels as much as R100 million a year.

It was pessimism about price trends less than three months ago that

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SAAR 16/11/45

'Buy SA' campaign launched

Pretoria Bureau

"Buy South Africa"—but not blindly, was the message at yesterday's Pretoria launching of the campaign to boost sales of locally made goods.

Those who found the local product less value for money than the imported one should complain about it—to the shopkeeper, the manufacturer or the Consumer Council.

Speakers stressed that although the balance of payments situation provided

the impetus for the campaign, it was a short-term consideration and only a symptom of the long-term and deeper-lying reasons why local industry should be supported wherever it delivered value for money.

Apart from creating employment, greater consumption of South African-made goods permitted longer production runs, which in turn meant lower unit costs.

Lower unit costs enhanced the export potential of South African pro-

ducts — and the nation's economic recovery would be export led.

The chairman of the Consumer Council, Professor Leon Weyers, referred to the millions spent on imported articles for which there were local alternatives.

These things might be imported for prestige value, he said, but the country could not stand the tremendous drain they caused on foreign exchange.

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Buy SA^{CT} campaign launched

16/11/76

PRETORIA. — The "Buy South African-build South Africa" campaign will not rely on conferences, rallies and speeches to bring its message to consumers, the chairman of the Consumer Council, Professor Leon Weyers, said yesterday.

At the official launching of the campaign here, he said it had been planned to work at consumer level — in shops, across counters at cash-register points.

The South African consumer was being given a golden opportunity to prove his economic patriotism by supporting the campaign.

"This does not mean that the South African consumer should blindly buy locally produced goods of a poorer quality than the imported equivalent. He should make a point of informing the shopkeeper and the consumer council.

"We sincerely hope that consumers will all play their part in this campaign which is vitally important if we are going to get anywhere in reducing that massive R2 000m balance of payments deficit.

Professor Weyers also appealed to commerce and industry to participate actively in the campaign.

HORWOOD'S FORECAST: BETTER DAYS SOON

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Next. Marc
12/11/76

JOHANNESBURG — The Minister of Finance, Senator Owen Horwood, says the turning point for the economy is in sight and he advises investors to plan now for a rich reward.

"My message today is one of sober optimism. We have been through a difficult time, and we are not out of the woods yet," he told the Financial Mail investment conference here yesterday.

"But there is good reason to believe that the turning point is in sight, and the intelligent businessman and investor will already be laying plans for the better days ahead."

Naturally, risks were involved but he had faith in the intelligence and moral strength of the South African people.

"Those who share this faith, and who plan accordingly, can reap a rich reward."

Sen. Horwood said the strict fiscal and credit policy, and the import deposit scheme, were beginning to show their effect on the balance of payments, which should improve significantly next year.

Exports

Exports should increase with the economic revival of the country's main trading partners, imports were expected to remain low — although defence imports and a possible oil-price increase worked against this — and a significant fall in the gold price seemed improbable.

"On balance, I think we can look with confidence to a very significant improvement in our balance of payments on current account in 1977," he said.

The effect of political factors on the inflow of private capital should not be exaggerated, although Cuban intervention in Angola, developments elsewhere in southern Africa and the disturbances in South Africa had made some overseas investors hesitant.

The drive to build up reserves to a more satisfactory level may not be possible until a more substantial capital inflow was resumed.

Loans

Sen. Horwood recalled that in his Budget speech he provided for foreign loans up to R320 million, from which — although defence redemptions amounting to R200 million had to be subtracted — a net amount of R120 million. "This net amount has already been exceeded."

"A portion consists of our drawings on the International Monetary Fund, but a substantial portion consists of loans raised from private banking sources, and further loans of this nature are at present under negotiation." (Sapa.)

EMBARGO : 12:00 noon (S.A. Time) on Thursday 4 November 1976.

THE PRESENT AND FUTURE PROSPECTS
OF THE
SOUTH AFRICAN ECONOMY

Keynote Address by Senator the Honourable Owen Horwood, Minister of Finance of the Republic of South Africa, at the Seminar "Investing in South Africa", Dusseldorf, 4 November 1976

I am pleased and honoured to be here with you this afternoon and to speak to you on the prospects for the South African economy. The speakers at this seminar include a number of distinguished South Africans, some of whom may cover much the same ground that I shall cover in this address, but it may nevertheless be useful to state the Government's standpoint on these important matters.

The South African economy has been going through some difficult times and we are facing some tough economic problems. For this there are a number of general reasons common to other countries with similar economies, and in addition one or two reasons peculiar to the South African situation.

Because of its open economy and the important role of its foreign trade, South Africa is much affected by economic developments in the rest of the world, but its economic cycle tends to follow that of Western Europe and North America with a time-lag of several months. During 1974, for example, when the Northern hemisphere was already experiencing a severe economic depression, the South African economy was still growing, in real terms, at the high rate of 7 per cent per annum. By 1975 our growth rate had slowed to about $2\frac{1}{4}$ per cent, but even this was considerably higher than that experienced by many other countries. Our economy has, however, not yet started to show the revival now being experienced in Germany, in the United States and in many other industrialised countries, so that our growth rate this year will probably still be rather low.

The depression in our principal overseas markets gave rise to a marked deterioration in our terms of trade, which naturally affected our balance of payments adversely. Another important adverse factor has been the steep rise since 1973 in the price of oil, which, though relatively less important as a source of energy in South Africa than in most other countries, is nevertheless a substantial item in our import bill.

The factors which I have mentioned are applicable also to many other countries, but there are two additional factors which particularly affect South Africa. The first is that, since the Cuban intervention in Angola, it has clearly been necessary for South Africa to increase its expenditure on defence, and this includes a significant increase in imports of armaments and military equipment. The second factor is the fall in the price of gold, which since the end of 1974 has fallen from nearly \$200 per fine ounce to its present level of about \$115 per fine ounce. Since a drop of only \$10 per fine ounce represents a fall of about \$215 million or R187 million in the value of our gold production, as compared with total imports of about R6 700 million in 1975, the serious effect of this decline in price on our balance of payments is obvious. Of course the average price over the year 1974 was considerably lower than \$200 - in fact it was \$159 in 1974, \$141 in 1975 and \$129 during the first half of 1976, while the effect on the mining industry (though not on the balance of payments) was cushioned by the devaluation of the rand in September 1975. Nevertheless, the fall in the price has unquestionably had a profound effect on our economy.

All these factors led to a deterioration in our balance of payments on current account, from a surplus of R58 million in 1973 to a deficit of R948 million in 1974 and of R1 782 million in 1975. In relation to our gross national product these deficits were not abnormally high in comparison with similar cyclical phases in the

past, and in fact they were more than covered by an inflow of foreign capital. Nevertheless, it was obviously desirable that the deficit should be reduced.

Up to about the middle of 1975 it had been our hope and belief that the expected economic revival in our principal markets would be sufficient to rectify our balance of payments. When it became clear that this revival was going to come later and more slowly than practically all economists had predicted, and when furthermore we were faced with the additional adverse factors of the decline in the gold price and - a little later - the need to increase defence expenditure -- it became clear that additional measures were required.

Various measures to restrict credit were applied by the Reserve Bank from the middle of 1975. These measures proved inadequate to cope with the rapid deterioration in the balance of payments following upon the steep fall in the gold price in September of last year, and consequently it became necessary to devalue the rand by about 18 per cent in that month. We took this step with regret, but subsequent events have shown that it was necessary and justified in the circumstances.

We did not expect, of course, that the devaluation would solve all our problems instantly, and we have taken determined and far-reaching measures to put our balance of payments on a sound basis. In fact, the balance of payments has been, and still is, the Government's economic priority number one.

The Reserve Bank's credit policy is currently perhaps the most restrictive in our history, and during the first seven months of 1976 bank credit to the private sector rose at an annual rate of less than 4 per cent as compared with an increase of 17 per cent in 1975.

On the fiscal side, the Budget introduced last March was widely acclaimed as a realistic answer to a difficult problem. The problem arose from the fact that, while a restrictive fiscal policy was clearly necessary, political developments in Southern Africa equally clearly demanded a substantial increase in expenditure on defence, while the Government's revenues were adversely affected by the fall in the gold price and the general slowing down of the economy.

In the circumstances it was obviously essential to curb State expenditure other than on defence. This is no easy task, but the budgeted non-defence expenditure for the current financial year is only about 8 per cent above the level for the previous year. As this is below the current inflation rate this expenditure actually shows a decline in real terms. In addition, tax rates were increased over a wide range of direct and indirect taxes to ensure that the inflationary effect of Government spending will be kept to a minimum.

For various technical reasons the restrictive fiscal policy reflected in the budget did not show its full effect until about the middle of this year, but it has now begun to exercise a salutary effect on the economy.

Even the combined influence of the strict fiscal and credit policy proved to be somewhat slow in its effect on the balance of payments, and for this reason, as a temporary measure, the Government introduced an import deposit scheme last August. Under this scheme importers have to make a special deposit with the Reserve Bank equal to 20 per cent of the value of their imports. These deposits are repayable, without interest, after six months.

I am glad to say that all these measures are at last beginning to show their effect on the balance of payments. The fall in the level of our gold and other foreign reserves has been checked

and this level has in fact increased slightly during the past few weeks. I shall return later to a consideration of the further prospects for the balance of payments.

The strict fiscal and credit policy presently in force should also have a salutary effect on our other major economic problem, namely inflation. Our inflation rate, as measured by the rate of increase in the consumer price index, fell from 14 per cent in 1974 to 11,7 per cent in 1975, but during 1976 this decline has been arrested and the rate is still fluctuating around 11 per cent. This check in the reduction of inflation has been due mainly to unavoidable increases in certain administered prices, such as railway and electricity tariffs, and to the increases in indirect taxes announced in the Budget. We are certainly not satisfied with the position and will continue our efforts to bring down the rate of inflation.

The depression in our overseas markets and the restrictive credit and fiscal policies which we have had to adopt have naturally had a restraining effect on the growth of our economy: I referred to this point at the outset of my address. For the present, however, the rectification of the balance of payments and the reduction of the rate of inflation are our first priorities, and the resumption of our normal rapid growth rate will have to await a solution to these more immediate problems. Fortunately, the slowing down of our economy has up to now not been accompanied by the mass unemployment which afflicted Europe and North America until recently, though there has been some increase in Black unemployment in recent months.

I should emphasize that South Africa has not been alone in facing difficult economic problems. The recently-issued Annual Report of the International Monetary Fund includes some interesting statistics for the more developed primary producing countries, a category which, in addition to South Africa, includes Australia,

6.

New Zealand, Spain and several smaller countries of Europe. As a group, these countries showed a growth rate of only 1,6 per cent in 1975 as against 4 per cent in 1974. Their inflation rate in both 1974 and 1975 was 16,7 per cent. The group suffered a deterioration in its terms of trade of nearly 20 per cent between 1973 and 1975, and its balance of payments on current account showed a deficit of \$14 billion for each of the years 1974 and 1975 as compared with a surplus of \$1 billion in 1973. Given the special additional problems with which South Africa has been faced, I think that our record does not compare unfavourably with that of other countries in a similar stage of development.

What, then, are the prospects for the South African economy in the period ahead? Let me start with the question of growth.

South Africa's mineral and other resources have been described to you by other speakers at this Seminar, and they are such as to leave no doubt in my mind that a rapid rate of economic growth will eventually be resumed. This conviction is reinforced by the substantial number of capital projects which are likely to come into full operation during the next few years, including the two new harbours of Richards Bay and Saldanha (mainly designed for mineral exports), the heavy minerals project north of Richards Bay, the new oil-from-coal project, and many others. As I have explained, however, for reasons connected with the balance of payments and inflation we cannot afford to stimulate growth at present. The recovery in our growth rate must be export-led to be sound and sustainable. If economic recovery in the Northern Hemisphere proceeds as we hope, I think we can reasonably expect an acceleration of our growth rate in the course of 1977.

As for inflation, I have already pointed out that the falling trend has been temporarily arrested mainly because of recent unavoidable increases in certain administered prices. Once these increases have been absorbed, and given the continuation of the

present restrictive fiscal and credit policies, I expect that the decline in our inflation rate will be resumed. Certainly we shall not be satisfied until it is very much lower than its present level.

In this connection I should also make mention of our collective campaign against inflation. This is a voluntary agreement between the State, organized industry and commerce, and organized labour, providing inter alia for restraint in the determination of wage and price increases. Perhaps precisely because this is a voluntary agreement and not one imposed from above, I think it has been reasonably successful in preventing undue wage and price pressure in the economy.

The prospects for our balance of payments depend on a number of factors, of which the most important is probably the continued economic revival in our principal export markets. I am optimistic enough to believe that this revival will continue and that our exports should show a substantial increase next year.

As regards gold, there are many uncertain factors. On the positive side, there is the improvement in industrial demand and the possibility of purchases by central banks, especially after the amendment of the Articles of Agreement of the International Monetary Fund permitting such purchases comes into force - probably about the middle of 1977. On the negative side, there is the likelihood of continued gold sales by Russia and by the I.M.F., though the former may be reduced by good harvests and the effect of the latter may be modified by improved selling techniques. For the long term, I remain optimistic on gold, because I am convinced that it is a metal known and trusted by millions of people throughout the world. In the short term, however, it would be unwise to rely upon any marked increase in the gold price within the next few months, but on the other hand I think a significant fall now seems unlikely.

On the import side, I think that with the present low rate of growth in our economy, and with our present restrictive fiscal and credit policy, imports are likely to remain low and possibly even to decline still further, although imports of defence equipment and a possible further increase in the price of oil are factors working in the opposite direction.

On balance, I think we can predict with confidence a very significant improvement in our balance of payments on current account in 1977.

So far I have said little about the capital account of the balance of payments. I did mention that during 1974 and 1975 the foreign capital inflow was more than sufficient to cover the deficit on the current account, and this situation continued during the early part of 1976. More recently, however, there has been a substantial reduction in the inflow of foreign capital.

Here again I should mention that many other countries are experiencing difficulty in raising foreign capital, largely because of the very large amounts they have borrowed over the past two years to cover their balance of payments deficits. Thus the net external borrowing of the non-oil-producing developing countries increased from \$10,2 billion in 1973 to \$21,8 billion in 1974 and to no less than \$26,2 billion in 1975, and a large portion of this increase took the form of borrowing from foreign banks. Understandably, for some at least of these countries this source of borrowing is tending to dry up.

Although some South African borrowers have raised large amounts externally in the past few years, and though some foreign banks may feel that they are approaching their limits so far as South Africa or particular South African borrowers are concerned, I believe that it is entirely incorrect to say that South Africa as a country is over-borrowed. By far the greater part of our investment is financed

from internal sources: even the exceptionally high net capital inflow in 1975 amounted to only 23 per cent of gross domestic investment, and in 1974 - a more normal year - the percentage was only 11. As regards the public sector, in particular, foreign capital plays an important but by no means dominant role in expanding our export potential and in the further development of our energy resources. As a percentage of the total receipts on the current account of the balance of payments (excluding transfers), that is, of our total visible and invisible exports, total payments abroad in respect of interest, dividends and branch profits actually declined from 10,5 per cent in 1965 and 13,1 per cent in 1970 to an estimated 10,2 per cent in 1975. Particularly when regard is had to the tremendous export potential of our mineral resources, I am satisfied that our foreign borrowing is well within the limits of prudence.

I think the recent reduction in the inflow of foreign capital must be ascribed, firstly, to the slowing down of our economy and the consequent decline of private investment, secondly, to the fact that some lenders (as I have mentioned) are approaching their lending limits, and thirdly, to hesitations arising from the political situation in Southern Africa. I should like to say something now about this situation.

Firstly, a few observations on Angola, which only a few months ago was the focus of attention in the sub-continent. I am glad to say that South Africa's position with respect to Angola has improved substantially, the tensions have eased considerably and the danger of an escalating political and military situation in this area has greatly diminished. Perhaps I ought to add that, contrary to a misconception among some people, Angola does not border on South Africa; indeed, Johannesburg is almost 1 600 kilometres from the nearest point in Angola.

On our Eastern border, we maintain normal economic relations with Mozambique; the port of Maputo (formerly Lourenco Marques) still handles a substantial volume of South African imports and exports, and in other ways normal economic activities continue.

To the North, it remains our hope that a lasting settlement will be reached in Rhodesia which will lead to peaceful and orderly development in that country. For this reason we welcomed the participation of the American Secretary of State, Dr. Kissinger, in the effort to prepare the way for such a settlement. The path of change will not be smooth, and no doubt some hard bargaining lies ahead, but I believe that there is a real chance of success.

As regards South-West Africa, constitutional talks between the various national groups have been proceeding for some time and agreement on the road to independence is now a virtual certainty. The South African Government has made it clear that it wants no part of South-West Africa for itself and that it will accept and implement a constitutional agreement reached by the various peoples of South-West Africa, even if it would itself have preferred somewhat different arrangements. A complication here is the attitude of the United Nations, but here again I believe that there is a good chance of a satisfactory settlement being reached.

Some observers see the violent changes in other parts of Africa, as well as the prospective changes in Rhodesia and South-West Africa, as the prelude to revolutionary change in South Africa itself. Those better acquainted with the South African scene, however, know that conditions in the Republic are not in any way comparable with those in other African countries.

Earlier speakers have spoken about South Africa's relative economic strength - far greater than that of any other African country: our gross national product is, in fact, approximately equal to that of all other countries in Southern, Central and East Africa combined. This economic strength has also enabled us to build up a formidable military strength during the past few years,

so that any attack from outside would have to reckon with incomparably stiffer opposition than any other country in the sub-continent could offer.

It is scarcely necessary for me to say that the Republic has no aggressive intentions towards any country in Africa (or anywhere else for that matter). On the contrary, we are part of Africa. Our forefathers have lived in Africa for centuries. We believe we understand many of the problems of Africa. We have had Black African states as our neighbours for many years now, and we cooperate with them closely on bread-and-butter matters every day. Our earnest desire is to extend these friendly relations to other countries of Africa, and also to continue to assist them with their development projects within the limits of our resources. Particularly during the past few years and thanks largely to the personal efforts of our Prime Minister, we have in fact built up friendly and economically important relations with many countries of Africa - many more than the world knows about.

Apart from our external relations, however, many people overseas are concerned at the relations between the various national groups within South Africa. Here I should explain that it is wrong to regard our Black people as a homogeneous group: in fact they consist of several distinct national groups with different languages, customs and traditions and different historic territories. This is the basis of our homelands policy, which is to grant each national group full rights within its traditional homeland, leading eventually to complete independence.

The first of the homelands to attain this goal, Transkei, celebrated its independence last week. Transkei, the homeland of the Xhosa-speaking people, is a country bigger than Belgium, with a population within its borders of some two million, and it is to-day as independent as any country in the world. Unlike most other African countries which have gained their independence in recent

years, however, Transkei has attained this status not through armed struggle, nor through the precipitate abandonment of its responsibilities by the ruling power, but rather on the initiative and with the active co-operation of the South African Government, which has helped Transkei over a period of years to prepare for this day. The South African Government's sustained efforts, at considerable cost in money and manpower, to promote an understanding of parliamentary democracy, to set up a trained indigenous public administration, and to ensure the economic viability of the homelands are perhaps unique in world history.

We expect other Black homelands to become independent within the next few years - indeed the Tswana homeland, Bophuthatswana, is already on its way to this objective which it plans to reach in 1978. This will represent the culmination of a policy designed to promote the harmonious co-existence of several nations, with differing cultural and linguistic backgrounds, in our sub-continent. We are firmly convinced, from experience, that this is the best policy to meet our unique situation, and we are determined to make it succeed.

The success of this policy will, we believe, help materially to reduce the tensions within the Republic. The disturbances which began in Soweto last June have been greatly exaggerated in the overseas press and television, and for the great majority of South Africans life goes on as usual. The effect on production and on the economy generally has been relatively small. In nearly all cases, the property destroyed or damaged belonged to institutions serving the Black people themselves, including schools, libraries, welfare centres and clinics. Nevertheless, the disturbances and the destruction of life and property which accompanied them, are naturally a source of deep concern to the Government, as they must be also to foreign investors and to friends of South Africa generally.

The causes of the disturbances are still obscure, and as they are being investigated by a judicial commission of enquiry, it would not be right for me to speculate too much on this point. It is clear, however, that there has been incitement and intimidation, and that the majority of Blacks in Soweto and other townships would prefer to carry on with their normal lives. It is also significant that the disturbances were timed to coincide with the meetings between Mr Vorster and Dr Kissinger.

The Government will restore and maintain law and order -- that is the first duty of any government. But we are determined to probe the causes in depth, and if it is found that there are things which should be put right, the Government will put them right.

Already the Government has announced that it plans to give the Blacks in the urban areas a greater say in the management of their own affairs. It is also the Government's declared policy to remove points of irritation and friction between Black and White wherever possible, and considerable progress has been made with this policy.

I believe that the implementation of these measures, and the progress toward independence of Transkei and other homelands, will eventually convince the world, as well as the various national groups within our borders, of the sincerity of our policy.

This, and the rising economic standard of the Black peoples, should help to promote the harmonious development of all the various peoples within our borders. The very significant rise in the wages of Black workers over the past few years has received little publicity abroad. Between 1970 and 1975 the average real wage received by Black workers in non-agricultural employment increased by no less than 8 per cent per annum, as compared with 1,3 per cent for White workers. It is the Government's policy to encourage and expedite this trend towards a narrowing of the gap between the incomes of Black and White.

In short, I wish to repeat my assurance that the Government will maintain law and order, but that it is determined not only to remove the causes of the urban unrest but also positively to promote the well-being of all the peoples within our borders.

I make no apology for this somewhat lengthy digression on the political situation in Southern Africa, because I know that it is very much in the minds of our friends overseas. This digression began, as you may recall, with a reference to the future prospects of the capital account of our balance of payments, and I mentioned that the political situation was one of the factors contributing to the recent decline in the inflow of capital. Especially in view of the greatly exaggerated reports which have appeared overseas, this is understandable. I believe, however, that the developments, measures and policies which I have described to you will before long create a very different picture of conditions in our country, and as this comes to be better realised abroad I am sure that the confidence of foreign investors will be restored and that a strong revival of foreign capital inflow will begin. With our immense mineral and other resources, with our tradition of fair treatment for the foreign investor, and our determination to solve the political problems within and outside our borders, I am convinced that this confidence will be fully justified.

ISSUED BY DIE DEPARTMENT OF INFORMATION AT THE REQUEST OF THE
MINISTRY OF FINANCE.

PRETORIA.

4 NOVEMBER 1976.

UITGEREIK DEUR DIE DEPARTEMENT VAN INLIGTING OP VERSOEK VAN
DIE MINISTERIE VAN FINANSIES.

PRETORIA.

4 NOVEMBER 1976.

Economy - General

(49)

TO BE RELEASED ON TUESDAY, 26 OCTOBER 1976 AT 12h00

STRUCTURAL CHANGES IN THE SOUTH AFRICAN ECONOMY AND THEIR POSSIBLE IMPLICATIONS FOR ECONOMIC GROWTH AND EMPLOYMENT

(Opening address delivered by Dr. P.J. Riekert, Economic Adviser to the Prime Minister and Chairman of the Economic Advisory Council, at the Congress of the Employers Association of the South African Motor Industry and the Motor Industries' Federation in Johannesburg on 26 October 1976)

Mr. Chairman, Ladies and Gentlemen,

It is not an easy task to deliver the opening address at congresses of this nature when economic conditions are as depressed as at present and when most of the people attending the congresses are connected with one of the sectors of the economy most affected by the recessionary conditions. Business conditions can, however, not be expected always to be buoyant, as the process of economic development in a capitalistic system like the one we are operating in is inherently characterised by booms and recessions, which can only to a limited extent be smoothed out by economic policy measures especially in an economy so strongly involved in international trade as ours. Moreover, in addition to these cyclical movements, the economic structure is sometimes also subject to changes of a more permanent nature which must be taken note of and adjusted to whether we like it or not. Problems will therefore be encountered from time to time and if we want to look and plan ahead, we must be prepared to face these problems, to study the available facts and to decide whether such problems are of a short-term nature and will therefore have only a passing effect on our activities, or whether they are the result of structural changes which call for a basic change in our development strategy. This is an exercise that should be performed in each and every sector of the economy, but since the performance of any particular sector or industry is to a large extent determined by the environment in which it operates an evaluation of the general economic situation is the appropriate

point of departure for studies of this nature. In view of this, I will mainly confine my remarks to the economy as a whole and especially to the question to what extent the problems experienced at present can be attributed to structural changes in the economy. This unfortunately makes it necessary to begin by burdening you with some historical facts and figures.

Going back as far as World War II, an analysis of the growth performance of the South African economy shows four clearly distinguishable growth phases. During the first eleven-year period, which started in 1946 and ended in 1957, the real gross domestic product grew at an average rate of 5,1 per cent per annum while the annual rate of inflation, which averaged 4,2 per cent over the period as a whole, reached a peak of nearly 9 per cent in the early fifties under the influence of the sharp increases in the prices of imported goods as a result of the Korean War and the 30 per cent devaluation of the South African pound in 1949. Of more importance, however, is the fact that the current account of the balance of payments, which showed a deficit equal to 18,3 per cent of the gross domestic product in 1947, gradually improved over this period until it was more or less in equilibrium in 1957. Notwithstanding this improvement, the net inflow of foreign capital was not sufficient to offset the deficits on the current account and declined to such an extent that in 1957 a net outflow of capital was recorded for the first time since the war. As a result, the gold and other foreign reserves decreased from a level equivalent to nearly eight months' imports in 1947 to a level not even sufficient to finance two months' imports in 1957.

The four year period 1957 to 1961 which is the second period to which I want to draw attention, was with the exception of 1958, characterised by a net outflow of foreign capital which reached a post war record level equal to 3,4 per cent of the gross domestic product in 1960 as a result of the detrimental effect of the Sharpeville events on the confidence of local and foreign investors in the political stability of South Africa. At the same time, the average rate of growth in the real gross domestic product declined to 3,2 per cent per annum and surpluses were recorded on

the current account of the balance of payments which, over the period as a whole, were only slightly in excess of the net capital outflow with the result that the gold and other foreign reserves remained on a relatively low level throughout this period. The slackness in the domestic demand for goods and services also resulted in a decrease in the average rate of inflation to 2,1 per cent per annum.

Although local and foreign investors gradually regained their confidence in the South African economy after 1960, it was not until 1965 that a net inflow of foreign capital was again recorded. Notwithstanding the outflow of capital, the growth rate started to accelerate in 1962 and the economy entered the third growth phase since World War II which could with justification be referred to as the golden sixties. Over the eight year period which ended in 1969, the current account of the balance of payments was more or less in equilibrium in spite of the fact that the average rate of growth in the real gross domestic product increased to 6,4 per cent per annum. The net inflow of foreign capital recorded since 1965 and which amounted to approximately R240 million per annum over the period 1965 to 1969, could therefore be utilized to build up the gold and other foreign reserves to a level almost sufficient to finance five months' imports in 1968. On top of this, the average rate of inflation remained on a relatively low level and amounted to 2,7 per cent per annum over the period as a whole.

The process of economic development did, however, take a different turn after 1969, when the fourth growth phase commenced. In the first place, the average rate of growth in the real gross domestic product declined to 4,3 per cent per annum over the period 1969 to 1975 and this average rate of growth is sure to be even lower when the 1976 results are added as it is possible that, for the first time since World War II, a zero or even negative growth rate will be recorded in 1976. Secondly, the gold and other foreign reserves decreased during this period to a level which was not sufficient to finance more than one and a half months' imports by the end of 1975. This was the result of large deficits recorded on the current account of the balance of payments.

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and notwithstanding the fact that the average net inflow of foreign capital amounted to R732 million per annum over the period as a whole, representing the highest net inflow of foreign capital recorded during any particular period since 1946. Thirdly, the average rate of inflation increased to 8,4 per cent per annum and reached a figure of 13,5 per cent in 1975, under the influence of rapid increases in the prices of imported goods, inter alia as a result of three devaluations of the rand since 1970 and a more than threefold increase in the dollar price of oil since 1973.

The picture is, however, not as sombre as would appear from the bare facts I have sketched above. If it is taken into account that the period 1969 to 1975 included the most severe recession that the Western World has had to deal with since the second World War and that South Africa, on account of its open economy, could not hope to escape the ill effects of the recessionary conditions abroad. It also has to be taken into account that if the gold reserves were to be valued at a price of say R100 per fine ounce which is equivalent to a dollar price of about 116 dollars per fine ounce, instead of the statutory price of R29,55 per fine ounce, South Africa's gold and other foreign reserves at the end of 1975 were still adequate to finance more than three months' imports, a figure which compares well with the position in the nineteen-sixties. On the other hand, the free market price of gold is not stable and could be expected to be adversely affected should South Africa be forced to sell large quantities of gold on the free market. It would therefore also be irresponsible to rely over much on the market price of gold.

Be that as it may, what is more important is the fact that the review of economic developments since 1946 presented above, seems to indicate that the South African economy has become more dependent on foreign capital in the nineteen-seventies after a stage was reached in the early sixties where a relatively high rate of growth could be financed from our own resources. This is also evident from the fact that whereas 25 per cent of the average annual gross domestic investment which was required to attain a growth rate of 5,1 per cent per annum over the period 1946 to 1957

had to be financed by means of foreign capital and our own foreign reserves, gross domestic savings were more than adequate to finance average growth rates of 3,2 per cent per annum over the period 1957 to 1961 and 6,4 per cent per annum over the period 1961 to 1969. After 1969 and up to the end of 1975, 13,4 per cent of the average annual gross domestic investments was, however, financed by means of foreign capital and our own foreign reserves in spite of the fact that the average real rate of growth decreased to 4,3 per cent per annum. Although it may be argued that the above comparison is in some respects not a fair one in view of the substantial amount of surplus productive capacity which developed in various sectors of the economy during 1975, it is most unlikely that the average growth rate over the period 1969 to 1975 would have exceeded 6,4 per cent per annum even if all the available productive capacity had been utilised, and it therefore seems reasonable to conclude that we have become more dependent on foreign capital notwithstanding the fact that the average price of gold was much higher in the nineteen-seventies than in the sixties. As a matter of fact, it is estimated that our gold earnings were about R5 400 million more over the period 1970 to 1975 than it would have been had the price of gold remained at 35 dollars per fine ounce as was the case up to 1968. The question arises therefore as to what has given rise to this apparent change in the structure of the South African economy and what can be done to make the economy less dependent on foreign capital again, so as to enable us to finance a higher rate of growth out of our own resources.

Since our increased dependence on foreign capital must be the result of a change either in our propensity to save or in our investment requirements, or of a combination of these two factors, it is necessary to take a close look at the past and recent trends in domestic savings and investment in order to answer the first part of the above question. An analysis of the available statistics seems to indicate, then, that the past trends exhibited by both these magnitudes were subject to structural changes which have had a detrimental effect on the self-sufficiency of the South African economy in the nineteen-seventies as far as its investment

requirements are concerned. This is evident, first, from the fact that real gross domestic savings per unit of the real gross domestic product increased rapidly over the period 1946 to 1955 whereas real gross domestic investment per unit of the real gross domestic product showed a declining tendency over the same period. In 1956 these two ratios were more or less equal and thereafter savings per unit of final output increased more gradually until round about 1968. Although investment per unit of final output continued to decrease for a few years after 1956, it started to increase rapidly after 1962 until in 1968 it was again more or less equal to gross domestic savings per unit of the gross domestic product. From 1968 onwards, the investment requirements per unit of final output continued to increase, however, whereas the propensity to save started to show a declining tendency. It would therefore seem that our increased dependence on foreign capital in the present decade is not only the result of a continued tendency showed by the South African economy since the mid-sixties to become more capital-intensive, but also of a decline in our propensity to save since the late sixties. What is even more disturbing is the fact that the rate at which the economy is becoming more capital-intensive seems to have accelerated as from 1970. This is suggested by the fact that the capital stock per unit of labour employed increased at a more or less constant rate of 3,43 per cent per annum over the period 1963 to 1970 whereas this rate increased to 4,26 per cent per annum over the period 1970 to 1975.

These divergent tendencies in our propensity to save and our investment requirements can of course be attributed to various factors. Breaking down domestic savings into its three main components, namely personal savings, corporate savings and the current government surplus, shows in the first place that the decline in the propensity to save since 1968 was mainly confined to personal savings. It is true, of course, that personal savings as a percentage of the gross domestic product would normally show a declining tendency if the rates of personal taxation are strongly progressive, since one would expect the share of personal disposable income as a percentage of the gross domestic product to show a declining tendency under such a tax structure. However, because

of a lowering in the progression of tax rates following on the recommendations of the Franzsen Commission which were implemented in 1969, this did not happen and disposable income as a percentage of the gross domestic product remained more or less constant over the period 1969 to 1975.

Thus the very important conclusion can be drawn that personal savings did not only decline as a percentage of the gross domestic product since 1969, but also as a percentage of disposable income and this has had serious implications for our savings-investment balance and, of course, also for our balance of payments on current account. Moreover, it seems that the ability and willingness of individuals to save have not only been adversely affected by normal cyclical factors, but also by other longer-term factors such as the introduction of television to name but one. The rapid increase in the rate of inflation since 1970 has undoubtedly also had an adverse effect, not only on personal savings, but also on the savings of business enterprises and on the ability of the public sector to finance its expenditure in a non-inflationary way. Another factor that should not be lost sight of is that the unstable price of gold together with relatively high levels of public expenditure considerably complicated monetary control in the nineteen-seventies with the result that, on the whole, liquidity conditions were considerably easier during the seventies than during the sixties. This is evident from the fact that the quantity of money and near-money increased at an average rate of about 19 per cent per annum over the period 1971 to 1975 as compared with an average rate of increase of 9,5 per cent per annum over the period 1965 to 1971. These relatively easy liquidity conditions which prompted lower rates of interest, not only had an adverse effect on domestic savings and thus on the current account of the balance of payments, but also facilitated the acceleration of payments for imports and the delay of receipts for exports which, as a result of speculation on movements in the exchange rate of the rand, placed considerable pressure on the capital account of the balance of payments from time to time. Apart from the factors already mentioned, the recent tendency exhibited by the wages and salaries of the lower income groups to increase

at a faster rate than that of the higher income groups must, as a result of the redistribution of real income in favour of those with a higher propensity to consume, also have had a discouraging effect on personal savings. Personal savings can therefore not be expected to show the same favourable trend as in the nineteen-sixties as long as this tendency in wages persists and as long as the rate of inflation remains at a relatively high level.

As far as public savings are concerned, it is true that the current surplus of the general government as a percentage of the gross domestic product did not, as in the case of personal savings, show a declining tendency in the nineteen-seventies. This ratio did, however, remain more or less constant since 1970 whereas it showed an increasing trend in the nineteen-sixties. The public sector has, therefore, also contributed towards the changed pattern in our propensity to save during the seventies as compared with the sixties, and this was mainly the result of a slower growth in the government's revenue on the one hand, and sharp increases in government spending, especially for defence purposes, on the other hand.

Afgesien van die faktore wat ek reeds genoem het, wil ek ook die aandag vestig op die nadelige effek wat prysveranderinge van in- en uitvoergoedere sedert die sestigerjare op die reële waarde van ons nasionale inkome en dus op die reële waarde van binnelandse besparings gehad het. In hierdie verband wil ek eerstens daarop wys dat indien die tekort op die lopende rekening van die betalingsbalans wat in 1975 gerealiseer is in terme van 1967-pryse uitgedruk word, hierdie tekort met ongeveer R680 miljoen verminder. Dit kom op dieselfde neer as om te sê dat indien in- en uitvoerpryse nie sedert 1967 verander het nie, die hoeveelheid buitelandse kapitaal wat in 1975 nodig sou gewees het vir die finansiering van ons bruto binnelandse investering, ongeveer R680 miljoen minder sou beloop het.

Hierdie resultaat is natuurlik, afgesien van die skerp stygings in die pryse van ingevoerde goedere in die algemeen as gevolg van die hoë inflasiekoerse wat tot onlangs nog deur die meeste van ons

buitelandse handelavennote ondervind is, ook in groot mate die gevolg van die skerp stygings in die prys van ru-olie sedert 1973. Wat egter interessant is, is dat 'n soortgelyke berekening ten opsigte van 1974 die teenoorgestelde resultaat toon, dit wil sê 'n groter tekort op die lopende rekening van die betalingsbalans indien die tekort in terme van 1967-pryse uitgedruk word. Die rede hiervoor is dat nadelige effek van die stygings in oliepryse op die lopende rekening van die betalingsbalans gedurende 1974 in groot mate geneutraliseer is deur die skerp stygings in die prys van goud gedurende hierdie tydperk. Soos algemeen bekend, het die dollarprys van goud egter skerp begin daal sedert die begin van 1975 met die gevolg dat die stygings in oliepryse eers van 1975 af hulle volle effek op die lopende rekening van die betalingsbalans begin toon het. Een afleiding wat hieruit gemaak sou kan word, is dat die styging in die goudprys, alhoewel dit groot voordele vir Suid-Afrika ingehou het, miskien ook die nadeel gehad het dat dit diestrukturele probleme wat deur die skerp styging in oliepryse teweeggebring is, in groot mate verbleem het en sodoende verhoed het dat ons, in teenstelling met baie ander lande, die nodige aanpassings gemaak het om hierdie probleme die hoof te bied.

Afgesien daarvan dat ons nog nie ons brandstofverbruik in die mate verlaag het wat eintlik as gevolg van die verhoogde olieprys noodsaaklik was nie, het ons ook nog nie ons bestedingsgewoontes in die algemeen in die mate aangepas wat deur die veranderde omstandighede vereis word nie. Vir sover dit owerheidsbesteding betref, is dit wel so dat die hoë peil van owerheidsbesteding wat tot onlangs gehandhaaf is, nie alleen in baie opsigte noodsaaklik was nie, maar ook in groot mate bygedra het tot die opbouing van voorrade en 'n uitbouing van die infrastruktuur wat op sigself die druk op die betalingsbalans op die langer termyn kan verlig. Ons moet egter ook aanvaar dat ons nie al die bestedingsprojekte wat oor die langer termyn wenslik mag wees, gelyktydig kan bekostig nie en dat die opeenhoping van groot kapitaalprojekte wat gedurende die afgelope paar jaar aangepak is, 'n groot las op die beskikbare finansiële bronne plaas. Hierdie groot kapitaalprojekte was natuurlik ook deels verantwoordelik vir die versnelde tempo waarteen die Suid-

Afrikaanse ekonomie sedert 1970 neig om vinniger kapitaalintensief te raak en waarna ek reeds vroeër verwys het. Aangesien die infrastruktuur nie geleidelik nie, maar eerder trapsgewys uitgebrei word, kan daar dus nie aanvaar word dat laasgenoemde neiging, vir sover dit die gevolg is van die groot kapitaalprojekte wat gedurende die afgelope paar jaar deur die openbare sektor onderneem is, onbeperk sal voortduur nie.

Die neiging van die Suid-Afrikaanse ekonomie om vinniger kapitaalintensief te word, met die gevolglike verhoging in die druk op die betalingsbalans, kan egter nie net aan die kapitaalprogramme van die openbare sektor toegeskryf word nie aangesien die beskikbare inligting daarop dui dat hierdie neiging in bykans al die sektore van die ekonomie teenwoordig is en veral sterk tot uiting kom in die verloop van die verhouding van kapitaal tot arbeid in die mynbousektor. Alhoewel beperkings op die gebruik van arbeid as gevolg van administratiewe en bestuursprobleme miskien in 'n mate bygedra het tot hierdie neiging en alhoewel hierdie neiging klaarblyklik in die afgelope paar maande versterk is deur die onsekerhede en arbeidsprobleme wat uit die politieke onrus voortgespruit het, is die neiging tot groter kapitaalintensiteit waarskynlik ook in groot mate die gevolg van skerp stygings in die lone van veral ongeskoolde werkers wat nie verband gehou het met toenames in produktiwiteit nie. In hierdie verband wil ek net daarop wys dat die inligting wat vervat is in 'n publikasie wat deur die Departement Ekonomie van die Universiteit van Pretoria saamgestel is en in Julie vanjaar deur Mercabank uitgegee is, daarop dui dat die gemiddelde opbrengs per werker in die nie-landbousektore, veral sedert 1969 teen 'n heelwat stadiger koers toegeneem het as die reële verdienste per werker, met die gevolg dat die arbeidskoste per eenheid van die reële bruto binnelandse produk skerp gestyg het. Hierdie neiging moet noodwendig daartoe lei dat nyweraars progressief van meer kapitaalintensiewe produksiemetodes gebruik sal maak.

Afgesien van die toenemende druk wat op die betalingsbalans geplaas word, hou die neiging tot groter kapitaalintensiteit natuurlik ook die gevaar in dat, in teenstelling met die toestand in die ses-

tigerjare, kapitaal gouer as arbeid 'n knelpunt sal vorm in die opswaaifase van die ekonomie met die gevolg dat werkloosheid 'n strukturele probleem kan word. Alhoewel hierdie probleem mettertyd deur die markmeganisme reggestel behoort te word indien die neiging tot groter kapitaalintensiteit suiwer en alleen aan ekonomiese faktore toegeskryf kan word, sal dit nie die geval wees indien die rentekoerse nie toegelaat word om hul normale markfunksie te vervul nie of indien arbeidsvergoeding buite die markmeganisme beding word.

Ek is egter nie so seker daarvan dat die redes wat ek tot dusver aangevoer het, die enigste redes is wat aanleiding gegee het tot die neiging wat die Suid-Afrikaanse ekonomie toon om meer kapitaalintensief te raak nie. Die vraag ontstaan ook of ons nyweraars nie ook onder die invloed van nyweraars in die groot nywerheidslande, en ongeag die koste daaraan verbonde, te geneig is om van kapitaalintensiewe produksiemetodes en gesofistikeerde toerusting gebruik te maak wat miskien nie by ons omstandighede pas nie. In hierdie verband wil ek ook daarop wys dat indien ons sou kon oorskakel na 'n minder kapitaalintensiewe ontwikkelingspatroon met masjinerie en toerusting wat beter by ons plaaslike omstandighede van relatiewe kapitaalskaarste en die betreklik vrylike beskikbaarheid van ongeskoolde en halfgeskoolde arbeid aangepas is, sal ons nie slegs minder kapitaal vir ons investering benodig nie, maar sal 'n groter deel van die kapitaaltoerusting wat ons benodig waarskynlik plaaslik vervaardig kan word, en sodoende kan die druk op die betalingsbalans verder verlig word.

Om saam te vat kan ek net herhaal wat ek reeds direk of indirek gesê het en dit is naamlik dat daar wel sekere veranderings in die Suid-Afrikaanse ekonomie plaasgevind het, of besig is om plaas te vind, wat neig om die druk op die betalingsbalans te verhoog. Hierdie veranderings en die probleme wat daaruit voortspruit is egter nie uniek in die opsig dat dit slegs tot Suid-Afrika beperk is nie. Trouens, die posisie waarin ons onself bevind verskil in baie min opsigte van die posisie waarin die meeste nie-olieproducerende primêre produk uitvoerlande hulleself bevind. Die probleme waarmee ons te kampe het kan egter opgelos word indien

ons bereid is om die nodige aanpassings te maak en alhoewel ek reeds aangedui het wat se aanpassings gemaak sal moet word, kan ek net my siening in hierdie verband kortliks as volg saamvat.

Overheidsbesteding sal in die eerste plek, relatief tot die beskikbare inkome, op 'n laer peil gehandhaaf moet word met toepaslike aanpassings oor die korter termyn vir die stand van die konjunktuur en afhangende daarvan of ons op 'n bepaalde stadium 'n ekspansionistiese of 'n beperkende beleid wil volg. Op hierdie wyse kan daar ook gekompenseer word vir die dalende neiging in die private besparingsgeneigdheid. Die Regering het natuurlik reeds met sy jongste begroting gewys dat hy bereid is om hierdie aanpassing te maak.

In die tweede plek sal die groot kapitaalprogramme in die openbare sektor beter gekoördineer moet word ten einde te voorkom dat die opeenhoping van sodanige projekte op enige bepaalde stadium 'n buitensporige las op die beskikbare finansieringsbronne plaas. In hierdie verband kan ek ook daarop wys dat die interdepartementele komitee wat deur die Kabinet onder voorsitterskap van die Sekretaris van Finansies aangestel is om aandag te gee aan die neerlegging van prioriteite ten opsigte van voorgenome kapitaalprojekte van openbare korporasies, overheidsondernemings en staatsdepartemente, ook reeds met sy werk begin het.

In die derde plek sal daar gewaak moet word teen 'n oormatige verruiming van die likwiditeitsposisie op enige bepaalde tydstip en rentekoerse sal toegelaat moet word om hul normale markfunksie te vervul. 'n Gedissiplineerde bestedingsbeleid sal natuurlik in groot mate daartoe bydra om monetêre beheer te vergemaklik.

In die vierde plek sal daar dringend voortgegaan moet word met die pogings om inflasie te beakmp aangesien baie van die probleme waarmee ons tans te kampe het ook aan die hoë inflasiekoers van die sewentigerjare toegeskryf kan word. Soos algemeen bekend het die inflasiekoers onder die invloed van die maatreëls wat in terme van die Anti-inflasiemanifes geneem is en as gevolg van die slapte in die ekonomie, reeds sedert die derde kwartaal van 1974 'n af-

waartse neiging getoon met die uitsondering van die tweede kwartaal vanjaar.

The solution to our problems lies, of course, not only in the hands of Government but to a large extent also in the hands of the private sector. Manufacturers in particular can make an important contribution towards lessening the pressure on our available capital resources by taking care not to introduce unnecessarily capital intensive methods of production.

As far as labour is concerned, its contribution lies primarily in wage claims which are not excessive in terms of labour productivity, since such claims inevitably encourage mechanisation and generally more capital intensive production methods.

The general public can also in various ways help to overcome the structural economic difficulties which I have spelt out earlier. A strict compliance with the recently intensified fuel savings measures is but one example of the contribution which the general public can make. It is also imperative that we should all bring our spending habits into a more realistic relationship with what the economy can bear so that the decline in the personal savings ratio which has been evident since 1969 can be arrested and if possible even reversed.

To come closer to the particular fields of interest of those who are engaged in this congress, I would like to suggest that those in the motor ancillary industries should even in the present difficult times not concern themselves only with the immediate cyclical problems with which they are faced, but should also, as I have tried to do in this address for the economy as a whole take note of more basic and longer term changes which are affecting their industries and will be doing so in years to come. In this connection it is encouraging to note that greater emphasis is already being placed in the advertisements of at least some motor companies on the economics of fuel consumption rather than on the power and speed performance of their models. It is to be hoped that this trend will be taken further to affect also the basic design of

motor vehicles and engines. It would also be wise for the motor industry to take stock of the effect on their market growth which is likely to flow from changes in transport patterns as a result of the changed fuel situation. I have no doubt that in your industries these matters have already received some attention and they will also be dealt with at this congress, which I now take great pleasure in declaring open.

Socialist policies costing South Africans millions

18/10/76

EAST LONDON — On this page last Monday I referred to the impossibility of the Government's proposed State pension plan in its intended form and, in setting out the reasons, pointed out that insurance companies and societies themselves could give much better benefits if they were not hamstrung by socialistic Government finance regulations.

It is laid down in no uncertain terms that 50 per cent of an insurance company's (society's) pension and retirement annuity income MUST be invested in Government designated stock which, obviously, carries a much lower rate of interest than what is obtainable from other sources.

Savings bonds, war bonds (or defence bonds as they are known), Escom, Iscor, Sasol loans — and loans required by all the many Government and quasi-Government organisations, have to be supported by the insurance industry.

Taking them overall, ten per cent per annum would be far from a conservative estimate of interest return.

Yet it is possible for investors on the scale of the insurance industry to obtain in excess of 20 per cent per annum on investments in other financial areas.

When anyone takes out a life or retirement annuity policy or joins a pension fund, the operating company or society adds bonuses each year to build up the value of the policy beyond its face value.

Thus, a man of 30 who takes out a with-profits

policy of R30 000 for a premium of some R50,00c. a month, is covered immediately for R30 000. But with the addition of the bonuses each year, that R30 000 increases to such an extent that, by the time he is 65 the policy is worth more than R105 000 — some 3,5 times as much as its face value.

Yet he will have paid to the company or society only R21 000 in premiums in gradual stages over a period of 35 years!

So where does all that extra money come from? Insurance companies and societies are not philanthropic institutions with orchards of money trees.

It comes, of course, from their investments. They "borrow" from the public by way of premiums, and lend that money elsewhere in order to obtain investment incomes.

A large number of insurers have no shareholders to pay dividends to other than the policy-holders themselves. They are, in fact, non-profit making

organisations. DP

from their investments, the greater the benefits they can pass on to their policy-holders. And that is where they are stifled by the Government's socialistic legislation.

Last year the South African insurance — assurance industry held more than R4 000 million in investments. Premium income amounted to some R800 million in addition — in other words, there was a further R800 million which had to be invested.

Of that R800 million last year, about R400 million was from ordinary life premiums, of which 30 per cent HAD to be invested in Government-designated stock.

The balance of R400 million was made up of pension and retirement annuity income, of which 50 per cent HAD to be invested in Government-designated stocks.

But for the purposes of this exercise, let us deal only with the R4 000 million, of which some 50 per cent is in those low paying stocks and the balance invested "at best possible rates".

Taking ten per cent at the average for the mentioned half, this would bring in an investment income of R200 million.

Being extremely conservative, let us take 16 per cent as an average for the balance — and certainly it would be considerably more — which would bring in an investment income of R320 million. And adding the two together, the insurance industry would have had a total investment income of R520 million.

Instead, let us imagine that the Government recovered from its socialistic mental aberration and decided to live up to its oft-quoted statements that South Africa is a land of free enterprise.

In that event, the insurance industry could place its investments wherever it wished and obtain maximum returns.

If they then paid to John Smith (the example quoted earlier) only an additional 2,5 per cent on his premium payments alone, compounded for the 35 years of his insurance term, his policy would, at the age of 65, be worth an extra R33 000!

And that is what the Government's financial policy, which is socialistic

So, obviously, the greater profits they make

to the extreme, is costing not only John Smith, but you ... and you ... and you ... in fact, every South African who pays into a pension fund or has a personal self-financing policy.

And as another word of warning, the Government's financial policies — quite apart from their other ridiculous policies — are the major cause of the country's extreme difficulty in obtaining foreign loans so necessary to South Africa's development.

— BUSINESS EDITOR

Govt spending exceeds Budget

Warning on

1/10/76 STAR

new taxes

John Patten, Political Correspondent

The Prime Minister's Economic Advisory Council has conceded that the Government might have difficulty sticking to the expenditure targets of its 1976/77 Budget.

This could lead to higher taxes and loan levies not only this year but also in the next tax year as well.

This emerged today in a statement by the Prime Minister, Mr Vorster following the meeting of the advisory council last month.

While conceding the Government's difficulty in coping with increasing pressure from various quarters for additional funds, Mr Vorster said the predominant feeling in the council was that a prerequisite for the solution of economic problems was "to stick to the expenditure and financing targets of the current Budget and to maintain a commensurate expenditure discipline in the 1977-78 Budget."

Desirable

Because of the extent of the country's economic problems, the council felt South Africa could not afford all the expenditure on projects that might be

Table 10: Farm employees and domestic servants on farms (excluding casual employees)

Year	Number of employees
1947	1947
1950	1950
1953	1953
1957	1957
1959	1959
1962	1962
1965	1965
1969	1969

Source: Second Report of the R.P. 84/1970 page 14

In such a case, the only appropriate ways of obtaining the necessary funds would be higher taxation and/or loan levies, foreign loans, or cutbacks on other expenditure items. Such cutbacks could not take place without repercussions elsewhere in the economy.

The Prime Minister indicated that, except for the expected revival in exports, there was no other factor that would have a stimulating effect on the economy now or in the foreseeable future. It would be unrealistic to expect a significant revival in private investment in the near future.

Table 11: Number of farms during

Year	Number of farms
1958	1958
1959	1959
1960	1960
1961	1961
1962	1962

Source: Second Report of the R.P. 84/1970 page 14

In spite of this, everything possible should be done to avoid a greater extent of deficit financing than the Budget envisaged.

"If it should become evident that the Government would have to undertake additional expenditure not provided for in the Budget, it would be of the utmost importance to finance this expenditure in such a way as to safeguard the balance of payments and avoid renewed inflationary pressure," Mr. Vorster said.

Source: Second Report of the R.P. 84/1970 page 14

The council claimed that even if the expenditure targets of the Budget were adhered to, it would be difficult to finance the deficit on the Budget from loans to the extent envisaged in the Budget.

It noted with appreciation the appointment by the Cabinet of an inter-departmental committee to determine priorities on intended capital projects of public corporations, public enterprises and Government departments.

The agreement between the State and the under-employment of 141,000 regular ma in the Transvaal, 49,000 in the other hand, how does one record a farm labour shortage? A regional nature and the be of a regional nature and the shortage of 141,000 regular ma in the Transvaal, 49,000 in the State.

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20. Financial Matl 18 December 1970

desirable over the longer term at the same time. Serious thought should be given to priorities in Government spending.

number of Mines whereby the Chamber may a labour surplus amounts to a de facto that there is underemployed labour on white farms - if financial Matl, April 4, 1975 page 20.

1969. However, the shortage seems to be still obscured. Of the total 65,000 were required in Natal and 13,000 in the Free must have been enormous. On the complaint by farmers of a labour

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Free enterprise — Emlin warning

BUSINESS MEN in Cape Town were yesterday warned that the free enterprise system could be seen as one of the causes of conflict in South Africa.

Addressing the UCT Graduate School of Business Association, the leader of the Progressive Reform Party, Mr Colin Emlin, said that in the minds of many people in Africa free enterprise was linked with colonialism, racism and exploitation.

It could easily become identified with the inequities and injustices of a political system based on race discrimination, and business men should stand up and be counted in the wider political sphere.

Mr Emlin said there was little value in making representations to the Government on specialist economic issues while remaining silent or acquiescing with a political system that was discriminatory or exploitative.

Fundamental issues such as the sharing of power were much more relevant to the good health of the economy than many items which appeared on the agendas of the annual congresses of organized business.

The Government, by placing statutory restrictions in the way of the development of entrepreneurial class of Black South Africa, was not only adding to conflict, but also digging the grave of the free enterprise system in this country.

Mr Emlin said there had been a sharpening of class conflict which had been accelerated by outside events. These were the rise of the world's economically weak and undeveloped countries, and the emergence of ideologically motivated and class-orientated political movements in Southern Africa.

Within South Africa class conflict had been heightened by the real and persistently wide gap which existed between the "haves and have-nots".

(49)

Upswing forecast from next June

Cape Times 9/9/76

SOUTH AFRICA'S worst economic slump since World War II should end around June next year with the economy showing a real growth of about 2,5 percent after a forecast 2 percent minus growth rate this year.

This forecast by the Stellenbosch Bureau for Economic Research is based on several assumptions:

- An average bullion price of 125 dollars an ounce in 1977.

- Agricultural conditions will be average.

- The rand will not be devalued.

- The political situation in South and Southern Africa will not deteriorate further.

The economists predict that the highest growth rate next year will be shown by the primary sector due to the likelihood of improved climatic conditions and the

demand for the country's basic metal and minerals.

While this upsurge in business will permeate other sectors late next year the broadly based recovery is likely to take place only at the end of 1977.

Manufacturing

Manufacturing is likely to have a negative growth rate this year. Conditions will remain fairly depressed in 1977 due to a low rate of increase in private consumption expenditure. Construction sector activities will show a further sharp drop this year but a brighter 1977 is predicted with Government shifting priorities towards higher spending on construction and housing.

Commerce, the financial and transport sectors, will see depressed growth in the next 6-9 months. The outlook will brighten in 1977 but conditions for the year as a whole will probably remain depressed.

Government sector spending (consumption expenditure) will rise by nearly 25 percent this year but in 1977 this will be cut to just above 15 percent.

Public Corporation gross domestic fixed investment will be sharply curtailed in 1977. A rise of 27 percent is forecast for 1976 but only 7 percent (current terms) for 1977.

CORPORATE PROFITS:

The non-mining sector may feel a severe profit squeeze in 1977 due to continued cost rises which cannot be passed on with domestic demand weak. The position will ease in the second-half of 1977 but will be reflected in profit statements only the following year.

The decline in growth of fixed investment by manufacturing is expected to continue for another three quarters. New projects will not be tackled until 1978.

PROPERTY: Investment in homes will decline due to the tight bond situation and increases in building costs imply a rather sharp reduction in the number of houses built.

The trend is expected to be reversed in 1977 but there will be no dramatic rise due to tight liquidity.

STOCKS are expected to show a big decline this year and the destocking trend will continue in 1977 but on a reduced scale.

LABOUR: White, Coloured and Asian unemployment still only constitutes 0,6 percent of the labour force. Scarcity of skilled labour is still regarded as a bottleneck. The steeper economic decline during the last half of 1976 and the first quarter of 1977 will cause a further easing of this segment of the market.

WAGES: The total salary and wage bill will rise by 13,5 percent in 1976 and 14,5-15 percent in 1977 as against

18,9 percent in 1975. The redistribution of income (non-White wages rose 24,2 percent as against 13,6 percent for Whites in 1975) will not continue on the same scale.

Personal disposable income, which rose by 20,4 percent in 1975, will probably increase by only 9,8 percent this year and 13,5 percent in 1977. Private spending is expected to rise at 12,5 percent this year at current prices and between 10,5 and 11 percent in 1977.

TV sales

Spending on durables should fall by more than 2 percent partly due to a fall off in Television set sales. While small rises in the volume of furniture and car sales are predicted a dramatic recovery due to the fall off in TV sales is ruled out — the man in the street will be trying to save.

Semi-durables spending growth rate will continue to slow down but a big jump in outlays on car tyres and spares is forecast — cars will be kept for longer periods.

Spending on food, beverages and tobacco will level off this year and in 1977 partly due to fewer price rises but also due to a slow down in non-White wage hikes. Spending on hotel and restaurant services will probably decline quite dramatically due to Television and the need to save on luxuries.

Personal savings will fall by some nine percent in 1976 but a sharp rise of some 40 percent is forecast for 1977 mainly due to farming incomes rising.

STATEMENT RELEASED BY THE HONOURABLE THE PRIME MINISTER, ADV.
B.J. VORSTER, IN CONNECTION WITH THE FORTY-SECOND MEETING OF THE
ECONOMIC ADVISORY COUNCIL ON 7 AND 8 SEPTEMBER 1976 IN PRETORIA

The Honourable the Minister of Economic Affairs, Mr J.C. Heunis, fully informed the Council at its latest meeting on the Government's view of the economic situation and of special political factors that could influence the South African economy in the future. Against this background, and with the aid of information on current and expected economic conditions submitted to the Council in the form of oral and written reports by the South African Reserve Bank, the departmental and sectoral representatives on the Council and by individuals serving on the Council in their personal capacity, the Council, besides identifying and discussing specific problems that could be solved at a departmental level, as usual gave a great deal of attention to the evaluation of general economic conditions with a view to formulating policy recommendations to the Government.

Since the factual position with regard to the recent state of the economy was discussed in detail in the Governor's Address and the Annual Economic Report of the South African Reserve Bank, and since the latest information at the Council's disposal confirmed that the economic tendencies emphasised in the above-mentioned documents were continuing, it is not considered necessary to give a full re-view again of the latest position in the national accounts and the various short-term economic indicators. In certain instances, however, attention must unavoidably be drawn again to some of these already known facts in order to elucidate, and put in the correct perspective, the Council's view of the current and expected economic conditions.

CURRENT AND EXPECTED ECONOMIC CONDITIONS AND POLICY IMPLICATIONS

The balance of payments

The Council reaffirmed its previous view that the most important economic problems that we have to contend with at present are manifested in the balance of payments and that the balance of payments is at present still the biggest obstacle in the way of more rapid economic growth.

Notwithstanding the various official measures taken to strengthen the balance of payments and notwithstanding the further deceleration in the rate of economic development, the current account of the balance of payments has still not shown the desired improvement, except perhaps in the most recent past. As a matter of fact, the deficit on the current account increased even further from R1 592 million in 1974/75 to R1 953 million in 1975/76. Although the deficit on the current account during the three quarters up to 31 March 1976 was more than neutralised by a considerable net inflow of foreign capital, this inflow declined sharply during the second quarter of 1976 with the result that the gold and other foreign reserves for the year 1975/76 as a whole decreased by R334 million as a result of balance of payments transactions.

The above-mentioned deterioration in the current account of the balance of payments could of course be ascribed partly to normal cyclical and other short-term factors such as the adverse effect on exports and on South Africa's terms of trade of the prolonged and deeply recessionary conditions, together with relatively high rates of inflation, which the majority of our most important trading partners were still experiencing until recently, and to the big build-up of imported inventories as a result of expectations, created inter alia by the sharp decline in the price of gold, that the rand would be devalued further and/or that import control would be tightened. Even the decline in the price of gold as such, which to a large extent contributed to the deterioration in the terms of trade, could to some extent be ascribed to foreign cyclical factors, while the excessive pressure exerted on the current account of the balance of payments by the big demand for television sets, the build-up of strategic inventories, the sharp increase in Government consumption expenditure and the relatively high level

of fixed investment by the public authorities and public corporations, need not necessarily be of a long-term nature either.

In addition, the considerable increase in Government spending during 1975/76 was also partly due to an exceptional concentration of commitments which could not be postponed on the one hand, and the accompanying exchequer issues on the other hand, during the second quarter of 1976. As a result of the relatively tight conditions on the domestic and foreign capital markets, and a low level of income which is a normal seasonal phenomenon, the Treasury was compelled to finance a large part of these issues by increasing its net commitments towards the monetary banking sector, with the result that the amount of money and near-money also increased considerably and thus, through its effect on the total demand for goods and services and consequently on imports, further increased the pressure on the current account of the balance of payments. The amount of money and near-money increased by R469 million during the second quarter of this year, in other words during the first quarter of the current fiscal year, notwithstanding a R464 million decline in the net gold and other foreign reserves and a R38 million decrease in bank credit to the private sector. Bank credit to the private sector did, however, still increase at a seasonally adjusted annual rate of about 20 per cent during the first half of the year 1975/76. This credit was utilised partly for the building up of imported stocks, whilst it also facilitated the acceleration of payments for imports and the delay of receipts for exports which at times placed considerable pressure on the capital account of the balance of payments. The restrictive monetary policy of the Government, and particularly the quantitative restrictions on bank credit to the private sector, has, however, resulted in a reduction in the annual rate of increase in credit to the private sector to less than 3 per cent during the first half of 1976 and has thus prevented the balance of payments from deteriorating even further.

Taking into account the measures already applied to strengthen the current account and in the light of the fact that, as already mentioned above, normal cyclical and other short-term factors were

partly responsible for the relatively big deficit on the current account, the Council agreed that the current account of the balance of payments should show a marked improvement in the near future. As a matter of fact, the devaluation of the rand, together with the economic revival already experienced since the middle of 1975 by several of the important industrial countries and the resultant increase in international commodity prices, has already led to a considerable increase in the value of exports (excluding gold) in 1975/76. Exports should therefore gradually increase even faster as the economic revival abroad gains further momentum and the high level of imported international stocks is worked off further, while the big additional export facilities created by the harbours at Richards Bay and Saldanha Bay should strengthen this tendency further. In addition, the volume of imports, which has already been showing a downward trend since the third quarter of 1974, should decrease further as the present recessionary conditions in the domestic market continue and the Budget takes fuller effect, while we have also not yet felt the full benefit of the recent decline in the rates of inflation of South Africa's most important trading partners. As a matter of fact, the current account of the balance of payments already showed a slight improvement in the second quarter of 1976 and, in the light of the factors mentioned above and the probability that the high level of imported inventories will be run down to an increasing extent in future, the Council expects this improvement to continue and even to grow stronger in the coming quarters.

However, in the light of the fact that defence expenditure and the oil account, which have both contributed considerably towards the pressure on the current account of the balance of payments, are not of a short-term nature nor very sensitive to cyclical fluctuations, the Council, also agreed that, unless the price of gold were to rise drastically, the current account of the balance of payments would not improve to the same extent as in the corresponding stages of previous downward phases of the business cycle. Furthermore, it is undoubtedly true that it is more difficult at present to obtain foreign capital and that its availability is more likely to decrease than increase, one of the reasons for this being that the current economic revival abroad is bound to increase the pressure on the international capital markets.

The Council, also agreed, however, that these problems, although serious, would not be insoluble if we were prepared to make the necessary sacrifices and adjustments called for by changed conditions. As far as Government policy is concerned, the feeling that predominated in the Council was that a prerequisite for the solution of these problems would be to stick to the expenditure and financing targets of the current budget and maintain a commensurate expenditure discipline in the 1977/78 budget. As already mentioned, Government spending was at an exceptionally high level during the first quarter of the 1976/77 fiscal year, and a large part of the current deficit on the exchequer account was financed by means of an increase in the net liabilities towards the monetary banking sector. Sticking to the current budgetary targets would therefore mean that the rate of increase in Government spending during the rest of the financial year would have to be lower and that much more funds would have to be drawn from the private non-banking sector. If the Government could stick to its budgetary decisions, therefore, the downward trend in the physical volume of imports would be further strengthened, not only directly, but also through the dampening effect which the position of the Government accounts would have during the rest of the year on the liquidity position and on the total demand for goods and services, and in this way fiscal policy ought to be able to contribute substantially towards an improvement in the current account of the balance of payments.

It is already evident that Government expenditure during the quarter July—September 1976, that is, the second quarter of the 1976/77 fiscal year, is running at an appreciably lower level than in the preceding quarter. This relatively favourable level of Government expenditure has already had an effect on the current account of the balance of payments, and it would appear that the rate at which the gold and other foreign reserves declined during the past months has been reduced. This turn in the effect of fiscal policy also serves to strengthen monetary policy, in the sense that interest rates tend to move upwards and thus dampen the demand of funds for imports, at the same time creating a better climate for attracting foreign capital.

The Council feels that, if this turn in Government spending in the second quarter of the current financial year could be maintained during the rest of the financial year, the current account of the balance of payments should improve progressively and the inflationary tendencies in the economy ought to be strongly curtailed as well.

In view of the increasing pressure on the Government from various quarters for additional funds, the Council conceded that it might be difficult for the Government to stick to the expenditure targets of the current budget. Of course the Council realises that not only has the high level of Government spending up to now been unavoidable in many respects, but that it has also contributed largely to the build-up of inventories and the expansion of the infrastructure, which in itself could ease the pressure on the balance of payments over the longer term. However, in view of the extent of the problems which the country has to contend with, the Council also felt that we could not afford all the expenditure projects that might be desirable over the longer term at the same time and that serious thought should therefore be given to priorities as far as Government spending was concerned. The Council therefore also noted with appreciation the statement by the Minister of Economic Affairs in his opening address that the Cabinet had appointed an interdepartmental committee under the chairmanship of the Secretary for Finance to give attention to determining priorities with regard to intended capital projects of public corporations, public enterprises and Government departments. Taking into account the tight conditions on the domestic and foreign capital markets, the Council also accepted that even if the expenditure targets of the budget were to be adhered to, it would nevertheless be difficult to finance the deficit on the budget (before loans) by means of foreign loans and loans from the domestic non-banking sector to the extent envisaged in the budget. Notwithstanding this, it was the general view of the Council that everything possible should be done to avoid as far as possible a greater extent of deficit financing than that envisaged in the budget.

If it should become evident that the Government would have to undertake additional expenditure not provided for in the budget, it would be of the utmost importance to finance this expenditure in such a way as to safeguard the balance of payments and avoid renewed inflationary pressure. In such a case the only appropriate ways of obtaining the necessary funds would be higher taxation and/or loan levies, foreign loans, or the cutbacks on other expenditure items of the Government. Considering that there has already been a drastic curtailment in the rate of increase of spending in the present budget as compared with previous ones, most of such further cutbacks could not take place without repercussions elsewhere in the economy, and this would have to be weighed against the necessity of the new requests for funds and expenditure.

Economic growth and employment

As far as economic growth is concerned it was the general feeling that, apart from the current and expected revival in exports already referred to, there were no other factors that would have a strong stimulating effect on the economy now or in the foreseeable future. Taking into consideration the effect that the increased taxation and loan levy deductions as from July would have on the disposable income of consumers, private consumption expenditure would be unlikely to show an early revival. With industrial and commercial inventories at relatively high levels in relation to expected sales, and with considerable unutilised physical productive capacity in the manufacturing industry as is the case at present, it would likewise be unrealistic to expect a significant revival in private investment in the near future. As regards exports, the latest available information also indicates that the revival in exports would probably be more gradual than was initially expected - on the one hand because, as some observers believe, the revival in the industrialised countries would not be as strong as envisaged earlier, and on the other, because the Governments of the most important industrial countries agreed to pursue a slower but more prolonged rate of economic recovery rather than a rapid improvement which would undoubtedly again give rise

to increased inflationary pressure. It follows, then, that we could not expect a rate of increase in our exports that, in itself, would be strong enough to build up our foreign reserves to a more satisfactory level and at the same time to allow for an acceleration in the growth rate. A comparison between the course of the South African business cycle over the past two years and that of our trading partners over the past three years showed that, owing to the high rate of domestic expenditure referred to above, South Africa has not yet to a sufficient extent made the adjustment called for by the depth of the recession experienced by our trading partners. Various members expressed the opinion that the longer we wait to make the adjustment, the more difficult it would be and the longer it would take to recover from it. Adherence to the Government's present budget would result in this essential adjustment indeed being made and would thus bring forward the beginning of the new recovery phase. For the time being the implications of the lower growth rate for personal income and employment would have to be accepted as unavoidable. If public works were to be undertaken specifically with a view to improving the unemployment situation, they should be of a labour-intensive nature and preferably also of a type with a low import content. It must, however, be accepted that such works, if any, could only be undertaken at the cost of other expenditure which could be more productive.

The Council was unanimous that the Government sector as a whole, as well as the private sector and the general public, had an important role to play in improving the balance of payments and alleviating unemployment by-

- (1) giving preference to South African products when they plan their purchases. This also applies to manufacturers and other entrepreneurs and not only to buyers of imported consumer goods. Information before the Council indicated that last year nearly 85 per cent of South Africa's total import account of R6 738 million was spent on capital and intermediate goods. At that stage there was considerable

surplus capacity for the production of some of these goods in our own manufacturing sector. It is particularly this category that offers the biggest scope for saving foreign exchange. If our manufacturers expect fellow South Africans to give preference to locally produced goods, they should apply the same standards.

- (ii) improving and scrupulously complying with the existing fuel conservation measures. Various speakers pointed out that they did not believe that mere appeals to the public to save more fuel would have the desired effect and that it had therefore become necessary to make the saving of fuel legally enforceable. The Secretary for Commerce informed the Council about the supplementary measures being considered to achieve this aim. With few reservations, these supplementary measures were supported by the Council.

- (iii) supporting South African shipping and insurance services. Apart from merchandise imports, South Africa at present spends approximately R2 500 million per annum on foreign services, the freight and insurance amounting to approximately R750 million. South African shipping is well developed and renders services of a high standard. In addition, the industry has invested R500 million in order to equip itself for the containerisation services to be introduced next year. It would be in the interests of the Republic if importers as well as exporters were to make use of our own shipping and insurance services as far as possible and not be enticed by services that come and go, offering lower freight rates temporarily but only having a disruptive effect in the longer run.

In conclusion, it was the considered opinion of the Council that South Africa, like its major trading partners a year or more ago, should face its economic problems squarely and should work towards their solution with determination and cool deliberation. Sacrifices will of course have to be made in the process and temporarily lower standards of living will be unavoidable, but as has been proved in

South Africa time and again, those who face times of set-backs with courage and pluck are always abundantly rewarded. The economies of some of the important industrial countries have already shown us that they are now beginning to reap the fruits of their sustained perseverance with a policy of economic discipline. South Africa has no alternative but to follow the same course and there was no doubt in the Council that the same results would be achieved in due course.

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Plan to avert SA economic collapse

Chief Reporter

30/8/76 CT

A SUGGESTED action programme to avert economic collapse and fight what has been referred to as a "creeping Pearl Harbourism" in South Africa is being drawn up for submission to Government and other authorities, after top-level talks that ended in Cape Town on Saturday.

Representatives of all sectors of the economy, and including the Defence Force and Blacks from the homelands and the urban areas took part in the talks, arranged by the Graduate School of Business, University of Stellenbosch.

The talks took the form of three seminars, one each in Johannesburg, Durban and Cape Town, and at the end of the series, at Newlands on Saturday, Black and White delegates said they had been heartened by the atmosphere of goodwill, optimism and accord at all three seminars.

Silver lining

The seminar leader, Professor R R Tusenius, was given a standing ovation and one of the Black delegates, Mr Sam Motsuenyane, president of the National African Federated Chamber of Commerce, said: "This may be the silver lining on the dark clouds that surround us."

"We must continue in good faith till one day this country becomes the lighthouse of all Africa."

The seminars were a frank appraisal, by people of many persuasions, of South

Africa's present economic, politico-economic and political situation — and a look at the direction in which the country should be heading.

At Newlands on Saturday Professor Tusenius said he intended as soon as possible to report back to members of the Cabinet, on the outcome of the talks.

Prosperity for all

At the outset of the Newlands seminar Professor Tusenius had said: "South Africa is in serious trouble. Continued economic decline will mean political and military impotence, followed by national collapse."

"But all this can be avoided. We can still become one of the world's strong economies, with prosperity for all members of all races who are prepared to work for it, and with harmony and peace."

He likened South Africa to an airliner which, for a long period, had been flying in tail-wind conditions but which now was being buffeted by head-winds with a resultant loss of speed.

Attendance at the

seminars, Professor Tusenius said, had in effect been "South Africa in microcosm", and the idea behind them was to help the Government achieve its declared aims, in moving away from discrimination within the policy of separate development.

Gold price

"In the past, civilizations have collapsed because people sat back and hoped things would eventually come right — and it is no use South Africans sitting around waiting for a rise in the gold price to solve our problems."

Professor Tusenius was applauded when he said: "Instead of just hoping for the best, let us show that we mean business, and that we are prepared to take the initiative, and come up with a positive plan for the future."

The talks, under the general heading "change-orientation and planning", covered a wide spectrum, and one of the main points of agreement at the end of the three seminars was that the free enterprise system must be retained, and stimulated in South Africa.

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② 184
③ 328

6 000 jobs in peril: STAR new plea

Labour Reporter
The Government will re-consider the plight of 6 000 Black workers in the Transvaal clothing industry whose jobs are threatened by the implementation of the Environment Planning Act.

This was disclosed in Johannesburg today after a renewed appeal from the industry at a meeting with the Minister of Planning, Dr. Schalk van der Merwe, and nine other Government representatives in Pretoria yesterday.

Our representations will be put before the Cabinet Committee consisting of several Ministers," said one of the industry's delegates, Senator Anna Scheepers, president of the Garment Workers' Union of South Africa.

"We reiterated our view that it would be socially and economically unacceptable for the clothing industry and for South Africa at large to put 6 000 Black women out of work on the Rand," she said.

Why S. Africans are poorer

How serious is our economic crisis? The Editor of Business Times says we must now pay for spending binges of the past — and that we could emerge a stronger and better people.

'WE ARE POORER than we used to be and we have to acknowledge that we are.' — Professor J. L. Sadie, director of the Bureau for Economic Research at the University of Stellenbosch, June, 1976.

It would be a mistake for South Africans to view the current unhappy condition of the economy as a permanent state.

The facts are that we are in the grip of a downswing in what economists call the business cycle and that the severity of the downward phase of the cycle has been compounded by events such as the Soweto riots and the weakness in the gold price.

Overlooked

In the heady days of the late 1960s and early 70s South Africans believed it would never end, that we were on the verge of a golden era of prosperity for the nation.

Overlooked at that time was the simple matter of the business cycle. Modern economies move up and down in a cyclical fashion. Sometimes the wings — such as the current downswing in South Africa, the longest since 1932 — are extremely painful. But the important thing to remember is that the swings — up or down — do not last for ever.

So South Africans, as we suffer through the crunch, have something to look forward to.

However, having said that, what must not be overlooked is that there are basic structural changes taking place in the life-style of White South Africans who have, for decades, enjoyed a material standard of living that must rank among the highest in the recorded history of man.

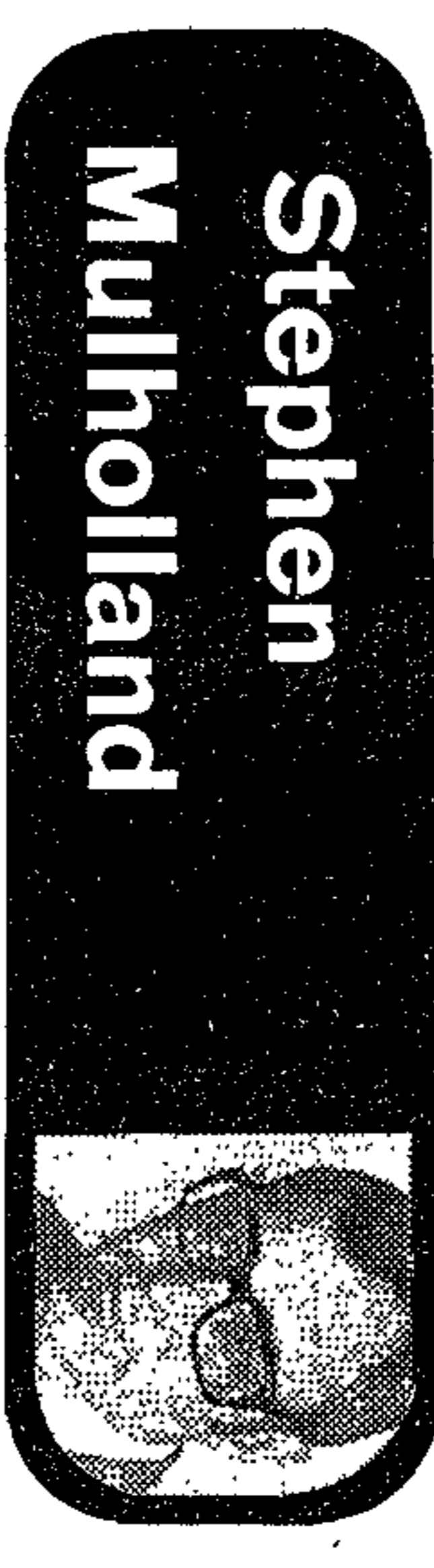
This, and not the up and down swings in the economy, is what is going to change. There are unmistakable shifts taking place in the economy as the Government grapples with the twin needs of economic growth and national solvency. It is generally agreed that South Africa must grow if it is to buy the time in which to arrive at some sort of peaceful compromise between Black and White.

A genuine economic breakdown would spell bloody disaster for this nation.

There are nowhere near that situation, despite the hammer blows of Soweto and the gold price fall.

There is little difference between SA's plight and the family which spends more than it earns. It goes into debt

POORER



Stephen Mulholland

South Africa remains an important and reliable supplier of a wide range of goods — primarily mineral, metal and agricultural — which the Western world will need to an increasing degree as the business cycle in countries such as the United States, Germany, Japan and others continues its way on the upward swing.

But this should not allow any complacency among South Africans.

By the end of this year we will, on average, be eight per cent poorer than we were in 1974. This is due to the fact that, on the one hand, we are buying more from the outside world than we sell to them while, on the other, our population at home grows inexorably.

This is what Professor Sadie of Stellenbosch means when he says we are poorer — as a nation we are producing less to spread among more.

Real per capita income dropped by 4 per cent last year after rising by 7 per cent in 1973 and 6 per cent in 1974.

For the man in the street worse is yet to come as interest rates rise and the Reserve Bank and the Treasury put increasing pressure on the money and banking sector to slow down economic activity.

If this sounds contradictory when we all know that we need economic growth, it should be remembered that one of the few effective means of balancing the national account with foreign nations is to slow down our internal consumption.

Foreign loans

Until we do this — or gold doubles in price — there is no manner in which we can reduce the massive deficit on our balance of payments. There is little difference between South Africa's plight and that of a family which spends more than it earns: it goes into debt and unless it straightens itself out no one will extend credit to it.

Similarly, South Africa needs long-term foreign loans and capital for its development but can only attract this if it can prove to the Swiss and other lenders and investors that it can curb its internal spending by economic self-discipline.

Just as it was the Whites who enjoyed the fruits of the boom days, so it is they who will feel most keenly the coming crunch. Certainly Blacks will not escape

It, as evidenced by research done at the University of Cape Town which suggests that African unemployment will reach almost 2-million by the end of 1976 — 30 per cent of the economically active African population.

But the human condition is relative: people become accustomed to certain standards and, regardless of how luxurious such standards might be, they squeal, blue murder when, for whatever reason, the standards are reduced.

Benefits

Ordinary White South Africa has no choice in the matter. The spending binge of the past decade will now have to be paid for. And, on top of it, we are faced with the new, and probably permanent, need for heavy military budgets while the Government itself does not seem capable of trimming its own extravagances.

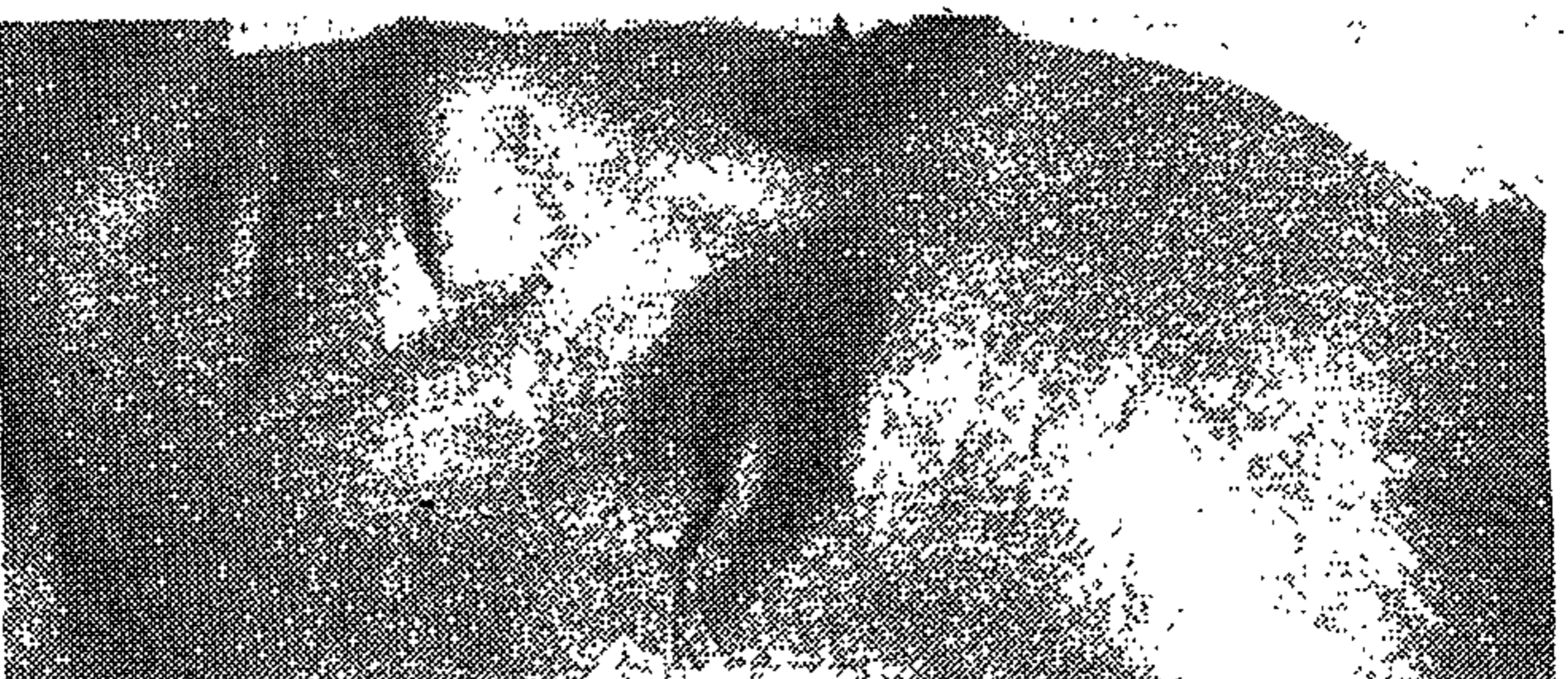
In the April-June period, for example, Government spending was up by 44 per cent (an increase of R700-million) on the same period last year.

In addition, the unrest in the African townships calls for the investment of a growing proportion of the national wealth in meeting Black expectations and aspirations, particularly in the areas of education and training.

As the White man pays 99 per cent of the income tax he can expect to bear the bulk of this burden.

All this is reflected in Reserve Bank statistics which show that in the period 1968-75 Government spending grew at a rate 57 per cent faster than that of private spending.

Unless South Africans adapt to the new economic circumstances in which they live they are going to become increasingly bitter and frustrated and the



Prof. J. L. Sadie "Poorer than we were"

national psyche will suffer.

On the other hand, as embattled and egalitarian Israel has shown, a nation's spirit need not rely on material luxuries to survive and hold the respect of the world.

Our economic squeeze could, properly approached, bring immense social benefits to the nation in the form of increased productivity and personal savings — two cornerstones of national wealth — and an upgrading of our national values. We could emerge from this ordeal a far better people.

Sharp rise in jobless seen

Mercury Correspondent

JOHANNESBURG—A sharp increase in unemployment and the number of bankruptcies was predicted yesterday by Opposition financial spokesmen in the wake of the Government's tough money measures, announced this week.

The rise in unemployment was expected particularly to hit Black workers and the bankruptcies the smaller firms, many of which would in any case be forced to reduce the level of their activities.

But the fact that the Government had not opted for a further devaluation of the rand was welcomed by the Progressive Reform Party's Mr. Harry Schwarz and the United Party's Mr. David Baxter, the two opposition financial spokesmen.

They were reacting to the official announcement that the Government was to introduce a 20 percent import deposit scheme from August 2 and that the Bank Rate had been increased from 8,5 percent to nine percent with immediate effect.

Mr. Schwarz said that besides having a tight money effect, the measures would give an added impetus to inflation and in the short term help the balance of payments.

The gold price drop was not the only problem. There was also the reduction in the inflow of foreign capital. To restore overseas confidence in South Africa the Government, in addition to maintaining law and order, would have to bring about meaningful and not cosmetic change.

"South Africa's economic problems are also its political problems and the quicker the Government realises this the better for South Africa," Mr. Schwarz said.

Speaking from Cape

Town, Mr. Baxter said the measures would give a sharp twist to the monetary squeeze and would lead to a further slowing down of the economy, the severest recession in many years, and an increase in unemployment.

"It is not a happy prospect, but it is one which is preferable to a further devaluation," he said.

The prices of motor vehicles could well be forced up by the intensified effort to protect and improve South Africa's balance of payments, the vice-president of the National Automobile Dealers' Association, Mr. Theo Swart, said in Pretoria yesterday.

This would be mainly because of increased costs of imported materials.

According to Sapa Mr. Swart said finance costs would rise because of the new measures announced by the Reserve Bank and the Minister of Finance and Economic Affairs. Hire purchase charges could also be expected to rise.

Although the new measures were probably necessary they could worsen the already distressing drop in sales of commercial and passenger vehicles registered during May and June.

Mr. Swart said he feared the industry had not yet reached the bottom of the downturn, nor were there any encouraging signs of a revival in the immediate future.

The sale of new vehicles represented about 44 percent of total revenue in the retail motor trade, used cars 14 percent, petrol and oil sales 11 percent and spares and accessories 23 percent.

Mr. Swart emphasised the importance of the vehicle industry to the economy. There were many other subsidiary industries employing large numbers of workers dependent on vehicle sales being maintained at a reasonable level.

(See also Page 31)

Govt on im puts brake ports

47

22/7/76 nm

Mercury Correspondent

PRETORIA — A temporary import deposit scheme and an increase in Bank Rate to 9 percent were announced last night.

The moves are aimed at improving the balance of payments and avoiding a devaluation of the rand.

The half percent rise in Bank Rate will inevitably increase all interest rates, including overdrafts and mortgages.

It will also lead to further tightening of credit. The import deposits are expected to affect at least 60 percent of the current imports and could lead to a scarcity of foreign luxury goods.

And the total effect of the import scheme, the higher Bank Rate and the Budget measures now beginning to bite will hit the smaller traders and impede economic growth.

The further strain on business caused by these measures will, in the short term, inhibit their activities, increase the level of unemployment and bring about a lowering in the standard of living.

But the impetus given to local industry, through the need for a greater degree of import substitution, and a reduction in the pressure on the country's balance of payments could, in the long term, offset more immediate adverse effects of the measures.

The import deposits decision was announced in a joint statement yesterday by the Ministers of Finance, Senator Owen Horwood, and of Economic Affairs, Mr. Chris Heunis.

At the same time the Governor of the Reserve Bank, Dr. Theunis de Jongh, announced the increase in Bank Rate from today.

The import scheme

GOLD GAINS 6 DOLLARS IN STRONG REVIVAL

LONDON — Gold yesterday gained more than six dollars on the London bullion market in a sudden and complete reversal of Tuesday's sharp loss.

Gold was set at 113 dollars an ounce at the afternoon fixing after being quoted at 110 dollars in the morning.

Dealers said the recovery was a reaction to the steep falls in the gold price since the International Monetary Fund held its second gold auction a week ago, when 780 000 ounces were sold at 122.05 dollars an ounce.

Buying interest revived as conviction spread that the collapse of the gold market had gone too far.
— (Sapa-Reuters.)

RECESSION FEARS 'DRAIN CONFIDENCE'

NM Mercury Correspondent 12/7/76

PRETORIA—Fears of a recession which may extend deep into 1977 have begun to eat away at business confidence, according to leading economists and businessmen.

Two of the big five commercial banks — Barclays and Standard — have warned of a continuing slowdown in economic activity and have stressed that the recession has not yet reached its lowest point.

This view was supported by the recent quarterly bulletin of the S.A. Reserve Bank which stated there was no evidence that the chronic downward swing in the business cycle had reached the bottom.

And at the weekend the chairman of Volkskas, Dr. A. J. Hurter, warned: "This is going to be the longest and deepest downswing in the business cycle in post-war years."

The most optimistic hope is, according to economists, that the recession will bottom out at the end of the year.

Meanwhile, the fear among trade unions is of growing unemployment.

The vice-president of the Trade Union Council of South Africa, Mr. Steve Scheepers, said the slack in the building and car industries reflected the situation in other industries.

47

Mines chief hits at recent budget

20/6/76 WM
Mercury Correspondent

JOHANNESBURG — In an unusually hard-hitting annual statement, the retiring president of the Chamber of Mines, Mr. R. S. Lawrence, criticised the recent Budget.

He criticised that part of it which, through increased mining taxes, effectively restricted foreign investment and warned the State against "unfair" competition in the private sector.

Speaking at the annual meeting yesterday, Mr. Lawrence said that while the Budget had correctly recognised the major priorities for economic policy, it was recognised by the Treasury and the Reserve Bank, although not always by other sectors, that the country's balance of payments depended on a high rate of earnings from gold and other minerals.

GOLD SWOP

Official concern for this was evidenced by the March gold swop, he said.

Another manifestation of official concern was the efforts to hold local interest rates at high levels to maintain the economy but that the government's ability to manage confidence in the Government that the country has lost proved anything, it is not recent debate need him badly. If the Conservatives hour of need serve his party in its swallow his pride and he is not prepared to questions who ask why shrugs off persistent so Edward Heath thought to be a criminal to be in it should be

49 Howard 19
11/6/76

Audio/visuals

Venue

Is it essential to show any audio/visuals, such as a film or a videotape?

(a)

Foreign loans

1191

979 Mr. H. H. SCHWARZ asked the Minister of Finance:

- (1) What total amounts in respect of foreign loans have been repaid by the Government and the Reserve Bank, respectively, since 31 March 1975;
- (2) (a) what was the amount of each individual loan repaid and (b) when was each amount borrowed;
- (3) what is the total amount of the foreign indebtedness of the Government and the Reserve Bank, respectively, which is repayable during the current financial year.

The MINISTER OF FINANCE:

The Reserve Bank is an autonomous central bank and I do not consider myself justified in disclosing this kind of confidential information on its behalf.

The information in respect of the Government is as follows:

(1) R192 793 682-88.

(2)	(a)	(b)
	R	
	348 426-00	3. 6.1959
	1 983 946-84	1. 4.1969
	1 932 203-39	1. 4.1969
	17 776 646-80	26. 6.1970
	917 935-11	30.12.1970
	13 059 376-63	10. 2.1971
	876 345-63	1. 4.1971
	2 966 237-52	16. 7.1971
	3 433 623-58	16. 7.1971
	3 043 007-85	16. 9.1971
	566 506-76	10. 2.1972
	16 846 165-04	8. 6.1972
	16 951 629-40	13. 6.1972
	7 151 541-16	31. 7.1972
	8 706 251-09	31. 7.1972
	530 243-89	22.12.1972
	2 131 891-55	10. 1.1974
	1 764 000-00	14. 6.1974
	17 412 502-18	7.11.1974
	627 687-02	9.12.1974
	1 320 561-57	17.12.1974
	562 928-47	1. 4.1975
	63 105-79	1. 4.1975
	35 668 426-30	22. 8.1975
	111 566-02	13.11.1975
	35 668 426-00	24.11.1975
	372 501-29	19. 2.1976

(3) The rand value of the total amount of the foreign indebtedness of the Government, which is repayable during the current financial year, naturally depends on the exchange rates applicable at the relevant dates of repayment and cannot, therefore, be calculated at this stage. The individual amounts are as follows:

U.S. \$	201 000 000
DM	108 192 500
Dutch guilders	11 250 000
Swiss francs	6 000 000
£	2 532 848-91
European Units of Account	1 000 000
European Currency Units	1 000 000

any distracting noises and can these be silenced during your presentation?
Can the room be darkened easily?
Are there sufficient power supplies for any projected visuals or recorded sound?

Visuals

- (a) What equipment will you have at your disposal? Will there be an experienced projectionist available?
- (b) Are there any suitable visuals or other aids (e.g. films, videotapes, sound tapes, slides, etc.) already available?
- (c) What facilities are there for obtaining or making others you may need?

Budget

Has a budget already been prepared? If so, how much money has been allowed for:

49

Hansard No 14 5/6/76

In terms of section 47 of the Bantu Taxation Act, 1969 (Act No. 92 of 1969), income accruing to Bantu persons on or after 1 March 1970 is exempt from normal tax imposed by the Income Tax Act, 1962 (Act No. 58 of 1962).

In terms of section 47 of the Bantu Taxation Act, 1969 (Act No. 92 of 1969), income accruing to Bantu persons on or after 1 March 1970 is exempt from normal tax imposed by the Income Tax Act, 1962 (Act No. 58 of 1962).

(2) (a)	R20 000 — R29 999:	13 740
(b)	30 000 — 39 999:	2 980
(c)	40 000 — 49 999:	1 026
(d)	50 000 — 79 999:	746
(e)	80 000 — 99 999:	154
(f)	100 000 — 149 999:	86

- (3) 47.
- (4) I am not prepared to give a finer breakdown of statistics than that furnished above.

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Individual taxpayers

734. Mr. H. H. SCHWARZ asked the Minister of Finance: 556

- (1) What percentage of individual taxpayers in each income category as at 29 February 1976 was (a) White, (b) Bantu, (c) Coloured and (d) Asian;
- (2) how many of the 18 779 individual taxpayers whose income was R20 000 and over had incomes between (a) R20 000 and R29 999, (b) R30 000 and R39 999, (c) R40 000 and R49 999, (d) R50 000 and R79 999, (e) R80 000 and R99 999 and (f) R100 000 and R149 999;
- (3) how many individual taxpayers had incomes over a R150 000;
- (4) what was the highest income of an individual taxpayer.

The MINISTER OF FINANCE:

(1) Income category	(a) White		(b) Bantu	(c) Coloured		(d) Asian	Total
	R	%		R	%		
Loss		98,5	—	0,6	0,9	100,0	
1 000 — 1 999		68,9	—	22,1	9,0	100,0	
2 000 — 2 999		61,3	—	26,9	11,8	100,0	
3 000 — 3 999		74,3	—	17,3	8,4	100,0	
4 000 — 4 999		85,4	—	9,4	5,2	100,0	
5 000 — 5 999		93,2	—	4,3	2,5	100,0	
6 000 — 6 999		96,5	—	2,1	1,4	100,0	
7 000 — 7 999		97,9	—	1,1	1,0	100,0	
8 000 — 8 999		98,4	—	0,7	0,9	100,0	
9 000 — 9 999		98,6	—	0,5	0,9	100,0	
10 000 — 11 999		98,6	—	0,4	1,0	100,0	
12 000 — 13 999		98,6	—	0,2	1,2	100,0	
14 000 — 15 999		98,2	—	0,2	1,6	100,0	
16 000 — 17 999		98,1	—	0,3	1,6	100,0	
18 000 — 19 999		97,9	—	0,2	1,9	100,0	
20 000 and over		98,2	—	0,1	1,7	100,0	
		98,5	—	0,2	1,3	100,0	

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adequate school will be made as and when the Department has funds

subsidised as from next year, and a grant for the erection of an

to be paid for by the pupils. Teachers' salaries will be

the Government. Schoolbooks will only be available next year, and

(On my own farm, it has taken 6 months to obtain recognition from

the State.

provide facilities for Bantu education, with little support from

de jure terms. It is therefore left to the individual farmer/s to

because in terms of official policy they are not really there in

done to provide for Bantu farm children in the Western Cape,

donated three farmers' centres to the KwaZulu government to help the education process on its way.

Natal's labour resources, particularly the skills of the better educated Indian community, have often been cited by economists as one of the province's major assets. Expansion has drawn on these resources with the result that Black living standards are improving and in the Indian community population growth is slowing down. In the decade from 1960 to 1970 it grew at an annual rate of 2,75%. Economist Dr Lawrence McCrystal estimates that by 1986 it will have slipped to 2,6%.

Indians are moving into White-owned offices as clerks and sometimes onto the lower rungs of management. They are driving buses used predominantly by White passengers.

In Durban harbour the cranes are being manned by Africans. Black shunters or "train compilers" are old hat. When Professor Ntsanwisi of Gazankulu complained at a seminar last week that Black graduates were being pinched from Homeland schools by industry, he was strongly supported by Chief Buthelezi. An advertisement placed in the national Press by Huletts Corporation this week may be a pointer. It invited applications

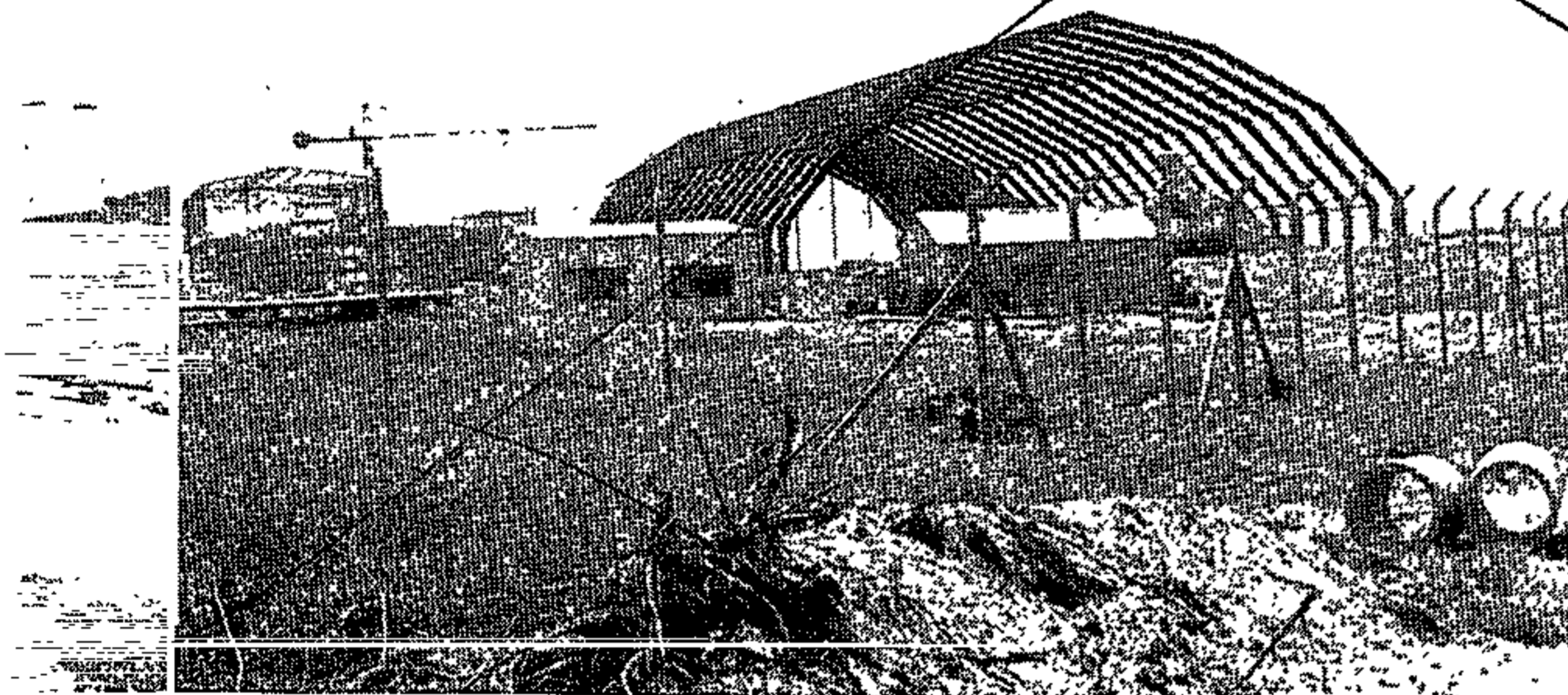
for the job of Black accounts assistants. "Applicants should have recently obtained a CIS qualification or BCom or other university degree which includes accounting/administration as major subjects."

Natal's tourist industry is benefiting from events in Rhodesia in two ways. Rhodesians are unable to holiday in Mozambique and many South Africans feel that Natal sharks — both land and marine — are a lesser danger than terrorist gunfire or a Frelimo government. Hotels had a bumper Easter and are optimistic about prospects for the July season.

The building industry is, as elsewhere, depressed. The latest Stellenbosch Bureau opinion survey points to Durban and Pinetown as particular areas of low activity and pessimistic outlook.

In Durban there is still a heavy oversupply of office space and in the opinion of some property men it may be a decade before this disappears. The office tenant has never had it so good. All manner of concessions are being made to draw him into new buildings and landlords of old buildings are prepared to talk turkey about the rent and other facilities if he threatens to move. Under these circumstances it is hardly surprising the shelves are groaning under the weight of postponed office developments and naturally this has its effect on the building industry.

But if activity is subdued because of financial constraints there is general agreement that Natal has a lot going for it in the short-term and even more in the long-term.



Richards Bay and Triomf's half-completed phosphoric acid plant . . . happy signs for the banana province

Turning the screw

Clamps, controls, curbs and censures; regulations and restraints — what's happening to free enterprise?

"When in a capitalist country be a capitalist; when in a communist state be a commissar"; so says Confucius, or one of his friends. SA businessmen at the present time could well be excused from wondering to which extreme they should turn.

Government encroachment on private enterprise has been the subject of considerable clamour, particularly over the past few years. Internally it has been described as "creeping socialism", and "a spreading cancer"; externally, even our friends have expressed doubt as to our capitalistic credentials.

Fundamentally, criticism has been levelled at the growth of State-controlled industries. Much of this emanates from the disrupting effect that the borrowings of these State-backed activities have on the borrowing efforts of the genuinely private sector in local and overseas money markets, and the degree to which they clash with private industry in a manufacturing sense.

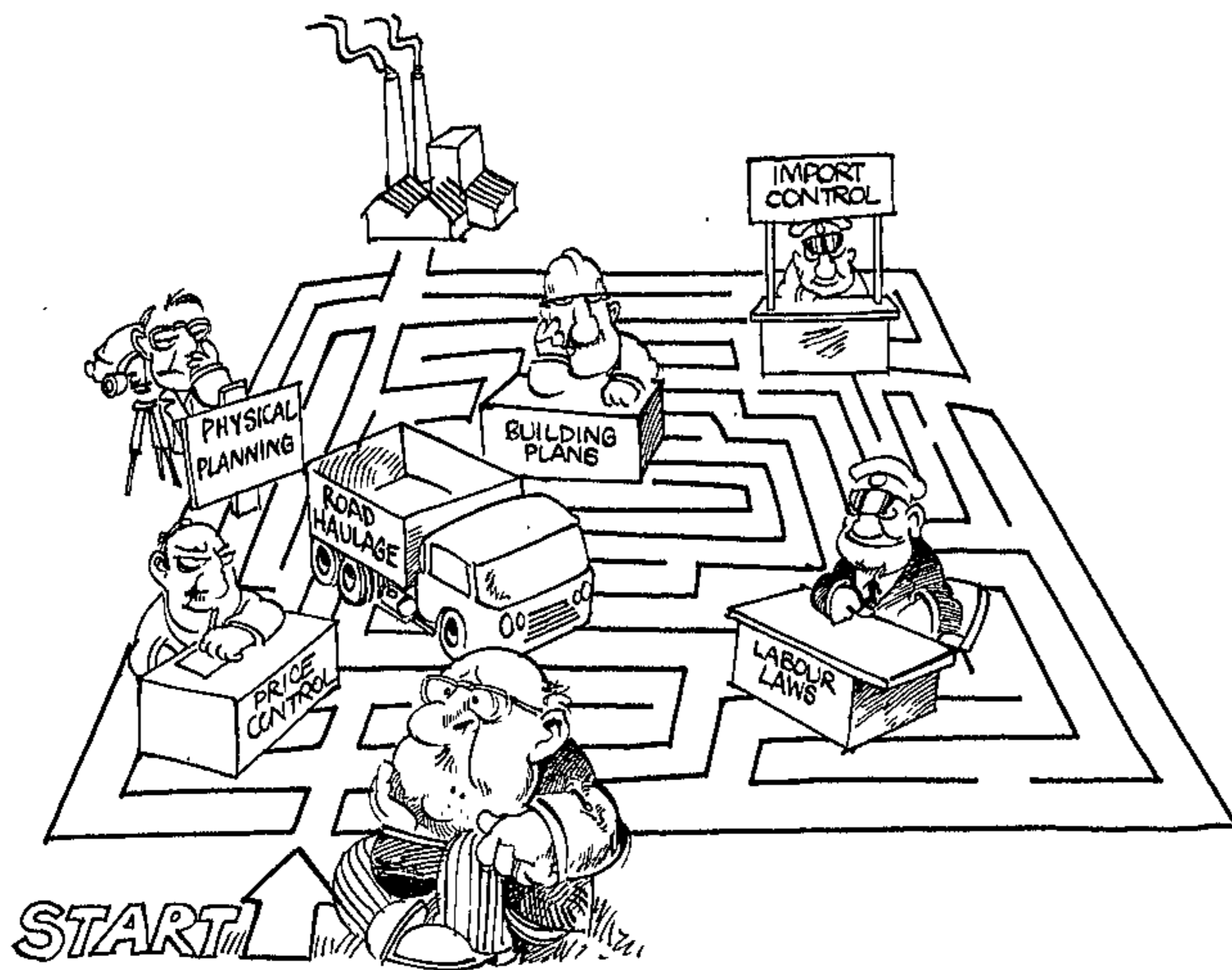
Bodies such as the Federated Chamber of Industries, the Afrikaanse Handelsinstituut and the Associated Chambers of Commerce, have criticised and investigated. Industrialists and busi-

nessmen have condemned and protested. The government's Economic Advisory Council has set up a Standing Advisory Committee on State Competition which FCI executive director Dr Hennie Reynders suggests should tackle the task of delineating the respective spheres of interest of State industry and the private sector.

But there's more to State encroachment than the muscle-flexing of Sasol, Escom, Iscor and Railways. An even more disturbing phenomenon is the growing inclination of government to interfere directly with the private sector,

F.M. 28/5/76

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either by threat or by action which, in some cases, has doubtful legal standing.

In recent months, two major industries have been warned by government that unless they fall into line with the authorities' current policies action could be taken against them.

The clothing industry has been told that the Price Controller is to investigate costs, prices and sales practices of clothing manufacturers and clothing retailers as a result of complaints of high profit margins (*FM* April 15). Manufacturers may be forced to tag products with ex-factory prices.

The motor industry has been asked by Minister for Economic Affairs Chris Heunis to cut down the number of car models. Heunis (*FM* last week) says he's "thinking along the lines" of plants having more than one manufactured model forfeiting one and those with more than three models forfeiting at least two. The implication is that if the industry doesn't comply, the authorities will act.

That clothing and motors are perhaps the most competitive of all of our industries seems to have escaped government's notice. Or has it? One reason why Pretoria is increasingly interfering with the price mechanism seems to be the birth, and rapidly growing maturity, of consumerism.

Government's own failure to contain inflation, mainly through its inability to restrict the money supply and by its own profligate spending, has resulted in public outcry. South Africans are not having it so good.

And so up have gone the political smokescreens, such as the anti-inflation manifesto, the price freeze on cars, the stern warnings on a pair of flannels, the belt-tightening polemics.

But lip-service to consumerism is one thing; the adverse effect on business con-

fidence, and practice, which these policies must have, is another, particularly at a time when the country is still trying to attract foreign investment.

The plain fact is that there are already far too many controls on business. The Environment Planning Act (formerly Physical Planning Act) and the utilisation of Black labour is the most obvious one and has a disruptive effect on just about every industry in the country. But government's puppet-strings go far beyond the legislature. For example:

COPING WITH THE SYSTEM

It's a long weary road for the man who wants to open a factory in SA. He has to footslog through a maze of regulations, has to meet the requirements of goodness knows how many government departments and local authorities, before his production line starts rolling. One industrialist who has recently completed the exercise told the *FM*: "If you want to know what it's all about you had better spend a week with me while I explain."

For a start there's the Department of Planning. Are you locality bound in terms of labour? Allocation of labour? Utilisation of land? Environmental considerations?

On to the Department of Labour whose government factory inspectors check rules on qualified personnel, codes of practice, safety regulations, building plans, *et al.*

Then there's the matter of negotiating with unions, registering with workmen's compensation, unemployment insurance, the industrial council.

Next struggle along to the Department of Health to satisfy its require-

ments.

- The TV manufacturing industry was restricted to six manufacturers — though government had no legal powers to do so (yet who dared contest the decision?);

- The motor men await "decisions" by government as to whether the local content for passenger cars will be extended beyond Phase III, whether government will introduce similar rules for commercial vehicles, and whether car model numbers will be cut down;

- The basic chemicals industry has to get government approval for a new raw materials plant. Take ammonia: AE&CI built the latest at Modderfontein, Fedmis has been "promised" the next — and any newcomer must wait in the queue, no matter how good, or bad, the commercial merits of his proposal;

- The textile industry gets higher (protective) import duties, the clothing industry gets snarled at; the steel price goes up 15% but steel users are asked to keep prices steady; and so on . . .

There is no such thing anywhere in the Western world, as *the* capitalist system. Capitalism varies, from country to country, on the degree of government control and the freedom of public choice.

When Economic Affairs Minister Chris Heunis threatens to take steps to curtail the number of car models available to the market, he meddles in both parameters. In a country where socialism is anathema and communism a dirty word, this sort of authoritarian interference with common or garden capitalism is inexplicable.

ments.

Local authorities must be approached for building and planning permission, lights, toilets, electrical systems (involving the local fire department).

And there's the local Transport Board for permits to distribute goods by road . . .

And the Department of Imports for permits to bring in machinery or raw materials . . .

And, if your products are price controlled, there's a trip to the Price Controller to work out a formula . . .

If our footsore traveller's company has 50% or more overseas shareholding he'll initially require an agreement with the Department of Industries (which involves the Reserve Bank and the Department of Bantu Administration).

Government will also want to know why any factory cannot be located in the Homelands. If it is, there's a whole new ball game with the Decentralisation Board, the Bantu Investment Corporation and the IDC.

49

HANSARD NO. 15

10/5/76

Estimates of revenue 984

857. Mr. H. H. SCHWARZ asked the Minister of Finance:

Audio/visuals

Is it essential to show any audio such as a film or videotape?

- (1) In what respects do present available information and/or estimates differ from the estimates of revenue set out in the budget for the 1976-77 financial year;
- (2) what is the amount of the difference under each head of revenue.

for your
men decided?

The MINISTER OF FINANCE:

(1) and (2) The required information is at present being processed in a second print of the Estimate of Revenue (R.P. 4—1976) which will, as is customary, be tabled during the present session of Parliament.

...ing at home or
...e meeting room
...?

... as a meeting
... audience and as
... a background for your subject?

- (c) Is it the right size for the audience expected?
- (d) Will everyone be able to see?
Is there a dais or platform?
Is there enough room for the proper positioning of one or more projection screens?
- (e) Will everyone be able to hear?
Will you need to use a microphone?
Is there a public address system already installed? Will there be any distracting noises and can these be silenced during your presentation?
- (f) Can the room be darkened easily?
Are there sufficient power supplies for any projected visuals or recorded sound?

Visuals

- (a) What equipment will you have at your disposal? Will there be an experienced projectionist available?
- (b) Are there any suitable visuals or other aids (e.g. films, videotapes, sound tapes, slides, etc.) already available?
- (c) What facilities are there for obtaining or making others you may need?

Budget

Has a budget already been prepared? If so, how much money has been allowed for:

THE IMPORTANCE OF A SOUND SOUTH AFRICAN ECONOMY

Summarized Extracts from an Address delivered by
Dr. Gerhard de Kock, Deputy Governor of the
South African Reserve Bank, at the Graduation
Ceremony of Potchefstroom University on 1 May 1976

SCHOOL OF ECONOMICS

It is common knowledge that South Africa finds itself in a unique and difficult political situation in the world. In this situation there are certain factors operating against us and other factors operating for us. One of the main factors in our favour is our strong and sound economy. This is appreciated by our enemies as well as our friends. And we should use this valuable asset to our best advantage. If we can succeed in the years ahead in keeping our economy sound and in expanding and strengthening it further, this should make an important contribution to the solution of our political, social and other problems. Political stability is conducive to economic stability, but the opposite is also true.

It should be emphasized immediately that a strong and sound economy implies much more than the possession of raw materials, agricultural potential, adequate skilled and unskilled labour, efficient railways, harbours, power stations, etc. South Africa has most of these valuable assets, and this is important. But more than this is necessary.

I would like to suggest four ways in which we in South Africa can help to keep our economy sound and to strengthen it further:

- (1) Greater emphasis should be placed on the Christian motive to serve and less on working merely for money or status.

There need be no clash between the motive to serve and the profit motive, which is essential to our economic system.

(2) More balanced and realistic analysis of economic developments

I would like to make a plea for more balance, realism and perspective in the analysis of economic developments in South Africa, and specifically for greater recognition of the existence of international and domestic business cycles.

Not only the news media but also many of our best economists at times reveal a lack of balance and perspective in their economic analyses and reviews. We tend to go overboard, to dramatise normal developments, to represent normal cyclical fluctuations as favourable or unfavourable structural changes, and to treat normal economic problems as "crises". The result is excessive optimism about the economy in certain stages and excessive pessimism in other stages. The pendulum swings too easily from the one extreme to the other.

Let us take an example. When the South African economy found itself in an upward phase of the business cycle from about November 1972 until July 1974, with initially a strong balance of payments position, and when, moreover, the gold price rose to record heights at the end of 1974, virtually all our economic analyses and forecasts were characterized by excessive optimism. And when the severe economic recession which had in the meantime developed in the main industrial countries exerted an adverse effect on the South African balance of payments and domestic economy in the course of 1975, while the gold price declined in the second half of 1975

to considerably lower levels than in the beginning of that year, this excessive optimism made way for excessive pessimism, which currently still prevails in certain circles.

Now it is true, of course, that certain unfavourable political developments occurred in Southern Africa towards the end of 1975 and during the first four months of 1976 which could not have been foreseen and which contributed to the unfavourable change in the economic situation. But in retrospect it is evident that the cyclical upswing of 1972-1974 in South Africa had to come to an end in any event and had to be followed by a normal downward phase of the business cycle. And since the recession in the main industrial countries of 1973-1975 turned out to be the deepest and longest since the great depression of the early 'thirties, it naturally also exacerbated and prolonged the South African recession. Also as far as the gold price is concerned, it was unrealistic to expect the price to continue rising indefinitely at the rate of 1973-1974. But in most South African economic analyses and forecasts of that period too little weight was given to these cyclical and other considerations - hence the euphoria which existed at that time.

At present we have the exact opposite. The current recession in the domestic economy is not permanent. There is every reason to assume that the balance of payments will improve in due course and that, with a certain time lag, the economy will then move into a new upswing, particularly since there are now increasing indications that the main industrial countries have already entered their new upward cyclical phases. And just because the gold price has declined

considerably, it does not follow that it will continue to fall or that it cannot rise again. Moreover, strong corrective fiscal and monetary measures are presently being applied by the authorities and these still have to show their full effect. Yet many economic analyses which have recently appeared in South Africa, as well as some reports in the press, have been characterized by a degree of pessimism which in all probability will later prove to have been just as excessive as the optimism of 1973-1974.

(3) The application of efficient, flexible and co-ordinated monetary and fiscal policies

The third way in which we can help to keep the South African economy strong and sound, is by continuing with our efforts to apply efficient, flexible and co-ordinated monetary and fiscal policies. This is necessary to achieve the best combination of rapid real economic growth, relative price stability and balance of payments equilibrium. And the attainment of these objectives remains an essential prerequisite for the maintenance of a strong and sound economy. Even if a country possesses considerable natural and human resources and a developed infra-structure, it can still find itself with an unsound and unstable economy and a weak currency if incorrect monetary and fiscal policies are applied.

In the short term there is often a conflict between the objective of rapid economic growth and that of either relative price stability or balance of payments equilibrium or both. It may therefore at times be necessary to subordinate rapid economic growth to relative price stability and/or balance of payments equilibrium.

Appropriate monetary and fiscal policies are not always popular. Individuals and companies understandably do not relish the payment of higher taxes. Nor do they like restrictions on bank credit or high interest rates if they need to borrow funds. Attempts to reduce government expenditure tend to be resisted by those who might be adversely affected thereby. For these reasons a strong government is necessary if the required fiscal and monetary discipline is to be enforced. Fortunately we have such a government in South Africa and should therefore be in a position to apply sound fiscal and monetary policies.

(4) The maintenance of a relatively free capitalistic economic system

South Africa has for years had what is known as a "mixed" economic system. The government plays an important role in the economy in different ways, for example, by means of public corporations such as Iscor and Escom, marketing boards, price control over certain strategic commodities, etc. But basically South Africa remains a capitalistic economy which depends to a great extent on private initiative and the free market mechanism, and in which the profit motive plays an important role. Indeed, in some conservative circles overseas South Africa is envied as one of the last bastions of capitalism.

In view of South Africa's present circumstances, many well-meaning persons have in recent months raised the question whether the time has not arrived for more direct government control in the South African economy. Thus the point of view has been put forward in certain non-official circles that we need measures such as extended price, profit, dividend and wage

control, intensified rent control and direct allocation by the government of labour, capital and other scarce resources.

To adopt such a socialistic course - for that is what it would amount to - is not official policy and would not be to South Africa's advantage. It remains in our economic, political and social interest to use the minimum of direct control measures. In particular, we should guard against any tendency to try to find an ad hoc solution in the form of more direct control for every economic problem that crops up. Not only do these measures often work badly in practice, but the sum total of all such individual direct controls would before long result in the undermining of our system of private initiative, which would clash with the government's broad economic philosophy.

Two main reasons can be presented why an increased degree of direct control would not be in South Africa's interest. The first is that in our circumstances it would lead to the dampening of initiative and to incorrect allocation of scarce resources, and would therefore reduce our real economic growth rate and weaken our economy.

The second reason is that it would damage our image abroad as a relatively free capitalistic economy in which foreign investment is welcome and richly rewarded, and in which there is little danger of nationalisation or expropriation. In view of what has already happened in this regard in other parts of Africa and in other developing countries with socialistic tendencies, it is important for us to maintain our conservative economic image. This should help us considerably in attracting adequate amounts of foreign capital

and technical know-how and in further expanding our international trade to our economic and political advantage.

It goes without saying that our present circumstances, and specifically our increased defence expenditures, leave us no option but to make certain adjustments to our economic policy. That the government is fully aware of this is evident from the recent Budget and the present restrictive monetary policy. But this does not mean that we have to become a socialist state. On the contrary, the present situation makes it more necessary than ever for us to encourage and mobilise our free capitalistic economy to produce the best economic and political results of which it is capable, results which no socialist system can equal under our circumstances.

Horwood speaks in W. Germany

S.A.'s economy

29/4/76 NM

'recovering'

CAPE TOWN — The South African economy was set on a firm recovery course with the short-term prospects for growth being equivalent to the slow rate experienced last year, but with stronger growth in the long term.

The Minister of Finance, Senator Owen Horwood, said this in Hanover, West Germany, yesterday.

In a copy of his address to the South African-German Chamber of Trade and Industry, released here, Senator Horwood said the economic recovery of South Africa's trading partners in Europe and the United States, coupled with the healthy long-term expectation in the gold price, were factors which would vitally affect the Republic's economy recovery.

The Minister told the German businessmen that South Africa continued to welcome foreign capital investment, particularly if it was long-term investment accompanied by technical expertise and know-how.

STABILITY

The Minister said a further attraction for the foreign investor was South Africa's political and economic stability.

South Africa was an African country but it was subject to economic influence by the West

because of its trade links.

For instance, the current economic recovery in the U.S.A. and in several countries in Europe would have a beneficial effect on the Republic's balance of payments position, as well as on its economy, although there would probably be a lag of a few months, the Minister said.

EXPORTS

He expected the market for South Africa's exports to improve as a first step to an economic upswing and more rapid growth in the South African economy.

The other influencing factor was the gold price and the Minister said he believed firmly in the long-term future of this metal.

The current depressed price was largely due to the uncertainty of gold sales by the International Monetary Fund but he believed the market would absorb the sales without difficulty and that their effect had already been discounted to some extent.

(Sapa.)

Economic recovery will have to

Don Robertson

Financial Editor

THINGS are going to get worse before they get better. This is the view of Senbank as expressed in its Economic Opinion bulletin, and the worst is that this gloomy forecast refers specifically to the rate of inflation.

Reviewing the possible effects of last month's Budget measures on the economic prospects for 1976 and 1977, the bank says that the policy switch — combating balance of payment problems and inflation at the expense of growth — will affect business activity over the next three or four quarters.

On the positive side, the bank feels that the measures introduced will result in lower volumes of imports by the private sector. Import prices, however, are likely to continue to rise.

The prospects for the inflation rate are less encouraging, although the bank does not base this opinion on the Budget measures. It is based rather than overall economic policy which is aimed at reducing total domestic demand. However, the bank points out that cost push factors rather than demand pull factors are the cause of our inflation dilemma.

Nevertheless, the main budget and the Railways Budget will actually aggravate the problem of rising costs in the short term. Increased customs and excise duties and rail tariffs could add an additional two percentage points to the consumer price index. In addition, other factors

wait, bank forecast

are also likely to exert pressure on prices. These include recent price increases on such items as sugar and electricity which still have to be felt and the almost inevitable rise that can be expected on other food-stuffs following the recent heavy rains.

Wage and salary claims are also expected to intensify during the next few months, although it is felt that the

more plentiful labour market might hold these claims at lower levels than otherwise might have been the case.

Lastly, if public servant wages and salaries are raised later this year, it could precipitate another round of rail and postal tariff hikes.

On top of these factors, unit cost of production in industry is bound to rise if the expected drop in the physical

volume of production months. "Not only will costs materialise." This will not augur well for the inflation rate, which, from this month onwards, is likely to reverse its recent downward trend, says the bank. This situation is expected to improve only later this year and next year when the economy starts picking up.

But all this implies a gloomy outlook for the next 12

months. "Not only will costs rise, but demand by both the public and private sector will be curtailed."

The bank also foresees internal liquidity problems developing for many firms especially if stocks are high, as 49.45 per cent of company profits will now go to the fiscus compared with 43.05 per cent previously. And on the point of liquidity,

the bank feels that short-term rates could ease throughout the year but that they will be held at a level marginally higher than those ruling overseas.

Prospects for 1977 are, however, more optimistic. In the view of the bank, the balance of payments position should be better, which could allow the authorities to possibly present a mildly stimulatory Budget next year. Overall, though, prospects for the next 12 months are not exciting and it seems that our long-awaited recovery has been postponed yet again.

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HANSARD NO. 12. APRIL 1976 (S.)

Republic's national debt 879

687. Mr. H. H. SCHWARZ asked the Minister of Finance:

- (1) What was the total amount of the Republic's national debt as at the latest date for which figures are available;
- (2) in respect of what date is the information given.

The MINISTER OF FINANCE:

- (1) R10 200 958 645,99.
- (2) 7 April 1976.

49

HANSARD NO 12. APRIL 1976



Short term foreign liabilities of 879
Government/Reserve Bank

715. Mr. H. H. SCHWARZ asked the
Minister of Finance:

What were the total short-term foreign
liabilities of less than one year of the
Government and the South African
Reserve Bank, respectively, on (a) 31
December 1974, (b) 31 December 1975,
(c) 31 January 1976, (d) 29 February
1976 and (e) 31 March 1976.

APRIL 1976

880

The MINISTER OF FINANCE:

	Government	South African Reserve Bank
(a)	R14 363 689	R25 000 000
(b)	R164 623 085	R599 000 000
(c)	R164 773 539	R632 000 000
(d)	R164 981 315	R675 000 000
(e)	R165 158 927	Not available

749

HANSARD NO. 12 APRIL 1976

Sales duty

880

726. Mr. L. G. MURRAY asked the Minister of Finance:

What was the total amount of sales duty collected during the year 1974-'75 in respect of the sale of (a) motor vehicles, spares, accessories, tyres and tubes and (b) petrol, oil and lubricants.

The MINISTER OF FINANCE:

- (a) R77 835 052, Motor tyres and tubes are not subject to sales duty.
- (b) R385 952. Petrol, oil and lubricants are not subject to sales duty. The particulars furnished are in respect of lubricating preparations put up for sale in containers not exceeding 1 litre or 1 kg, as additives to motor vehicle fuel or lubricants or as upper cylinder lubricants or similar supplementary uses in motor vehicles.

49

HANSARD NO. 12

817. Forward exchange contracts

*6. Mr. D. D. BAXTER asked the Minister of Finance:

20/4/76

APRIL 1976

818

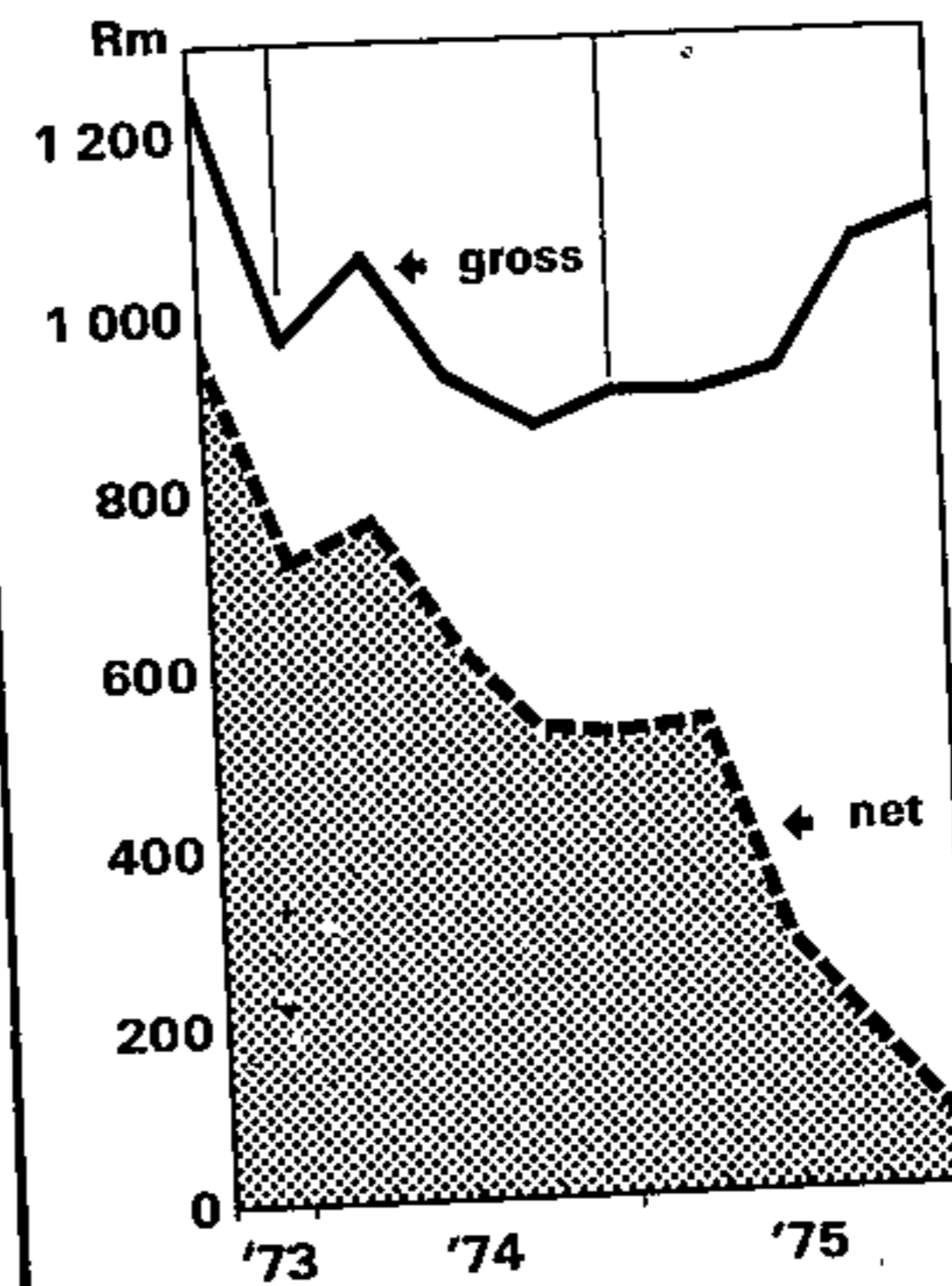
- (1) What has the loss of the South African Reserve Bank been on forward exchange contracts during the period September 1975 to date as a result of the devaluation of the rand;
- (2) whether the Government intends to reimburse the bank for this loss; if so, to what extent.

(2) In terms of section 8 *quater* of the Currency and Exchanges Act, No. 9 of 1933, any profit or loss on forward exchange contracts entered into by the South African Reserve Bank is for the account of the Government and may be carried forward until such times as either the Treasury or the Bank deems it desirable for the outstanding balance to be settled. In accordance with the Act, the Government will in due course reimburse the Reserve Bank for the loss incurred.

The MINISTER OF FINANCE:

(1) On 9 April 1976 the debit balance on the Forward Exchange Contracts Contingency Reserve Account in the books of the South African Reserve Bank stood at R333 812 836-83 compared with R59 750 104-48 on 19 September 1975 (the last working day before the devaluation of the rand on 22 September 1975). This loss is not solely the result of the devaluation of the rand against the U.S. dollar, but must also be attributed in part to the floating of international currencies against the U.S. dollar, and therefore against the rand, on overseas markets.

GOLD & FOREIGN EXCHANGE RESERVES



more than export prices.

Other items of note in the *QB*:

- During 1975 the *net* reserves (total gold and foreign exchange less short-term liabilities of the banking sector) slipped by R462m, from R523m to only R61m.
- Foreign loans to the Reserve Bank, including loans to the government for which the Bank assumed liability, soared from R25m to R599m, rising to R675m at the end of February 1976.
- Total public debt increased from R7 985m to R10 094m, a rise of R2 109m, or 26%. The government's foreign debt jumped from R509m to R886m, an increase of 74%.
- The Exchequer deficit before borrowing was R1 803m (R574m), of which R642m (R207m) was financed by the banking system.
- Gross domestic expenditure rose by R3 705m, of which additional government and public corporation spending was R1 825m, or 49%. Government and public corporation spending now accounts for 30% of GNP, compared with 25% in 1970 and only 19% in 1960.
- Taking the first three quarters of 1975 as a guide, average White pay rose by 14%, Black pay by 25%. In real terms, ie after adjusting downwards by the rise in the cost-of-living, White pay slipped by 0,3% while Black pay increased by 10%.
- The book value of total inventories increased by R1 457m last year. However, at constant 1970 prices, inventories rose by only R107m, compared with R513m in 1974. Real inventory investment turned negative in the fourth quarter and the latest information suggests "the current levels of stocks are still judged to be too high in relation to expected sales in the near future."

Hardly a promising outlook.

THE ECONOMY GNP and all that

F.M.
9/4/76
47

Gross National Product (GNP) last year fell by 1,5% in real terms, according to the Reserve Bank's latest *Quarterly Bulletin*. GNP, says the Bank, measures the "real purchasing power of permanent residents of SA," or "the economic welfare of the residents of SA." Real GNP *per capita* dropped by 4%.

Real gross *domestic* product, on the other hand, grew by 2,2%, while *per capita* GDP remained roughly constant. GDP is the value of goods and services produced within the borders of SA for final use. GNP is a slightly different concept. It measures the value of goods and services produced by *South African* labour and capital, whether here or abroad.

GNP is generally smaller than GDP (by R1,1 bn in 1975, for instance) because large amounts of *foreign* capital and labour are employed in the Republic's mining and other industries.

GDP and GNP can be measured either at current or constant prices. To arrive at changes in real GNP, any changes in the terms of trade have to be taken into account. The reason real GNP decreased last year while real GDP increased was because import prices rose

RACE REFORM APPEAL

THE Government should publish a programme of the racial reforms 'to which it is committed,' the director of The Institute of Entrepreneurship and Management at the University of Stellenbosch, Professor R. R. Tusenius, said in Cape Town today.

Professor Tusenius said at the national congress of the South African Property Owners' Association. South Africa made its commitment on the removal of discrimination on grounds of skin colour at the United Nations 18 months ago, he said.

There was still no 'blue-print' on implementing this promise. This meant there were no clear political objectives.

Professor Tusenius said the reasons were a reluctance on the part of politicians to be committed to a specific course of action, and the fear that it would lead to the loss of White identity in the country.

The fear was unfounded, he said. 'Once such a programme has been announced and a start has been made with its implementation, the desire of the average non-White for the vote will decrease — not increase.' This was because the main desire of the overwhelming majority of thinking non-Whites was not for political power, but solely for a release from the daily humili-

ations that they have to undergo, he said.

In an address on the murder and suicide of democracy's free enterprise system, Professor Tusenius said the economic state of the country was dependent on the political climate. And military and political strength could exist only on the basis of economic strength, he said.

(1) 47
② Tusenius Relations

(1)47
7, 252

Govt spending: PM's statement

CAPL Times 5/4/76

PRETORIA. — The Prime Minister, Mr Vorster, said in a statement released yesterday that his Economic Advisory Council had recommended that Government expenditure during the coming year should as far as possible be financed out of current income and actual savings — that is to say, mainly out of taxes, loans and from the local non-bank sector and foreign loans.

At the outset of the statement, the Prime Minister said that the discussions at the latest meeting of the council, which took place in Cape Town on February 26 and 27, were aimed specifically at formulating recommendations to the Government with a view to the Budget, which had since been presented to the Assembly by the Minister of Finance.

CUSTOMARY

"As is customary, this statement on the meeting of the council was held back until the minister had delivered his Budget speech," Mr Vorster said.

"The current economic position having been fully dealt with in the Budget speech, as well as in the March issue of the 'Quarterly Bulletin of the SA Reserve Bank', the Prime Minister said.

He added that he had informed the council on the latest developments in South Africa's international political situation to enable it to take these developments into account in formulating its recommendations for the coming year.

FACTORS

After taking all factors into consideration, the council recommended that Government expenditure during the coming year, after curtailment to the minimum level compatible with the fulfilment of the Government's undertakings under the collective campaign against inflation, should as far as possible be financed out of current income and actual savings, that is mainly out of taxes, loans from the non-bank sector

been foreseen at the time of the meeting, the council nevertheless considers that the Budget should meet these requirements, even if this were to mean substantial increases in taxes.

"This opinion reflects the council's conviction that everybody in South Africa should be prepared to contribute his share to strengthen the economy and that, under present conditions, it is the duty of every member of society to avoid wastage and not to want to get more out of the economy than he is prepared to put back into it.

"Apart from the methods of financing the Budget expenditure as a whole, the council, with a view to, among other things, restraining healthy growth in the economy as little as possible, therefore also discussed various possibilities with regard to the spreading of the burden of such tax increases as may appear necessary and submitted its findings to the Government for its consideration."

FINDINGS

The Prime Minister said that in the main, the Government agreed with the findings of the council as well as with its recommendations, which, in general, were compatible with the course already taken by the Government and its undertakings under the collective campaign against inflation.

"The extent to which the recommendations of the council could already have been carried into effect will be evident from the budget, which has in the meantime been presented to the House of Assembly by the Honourable the Minister of Finance."

Dealing with the prospects for 1976 and referring specifically to the balance of payments position, the Prime Minister said the council was of the opinion that various factors should lead to a considerable improvement in the current account of the balance of payments during the year.

African products in the local market as a result of the devaluation, both the general public and business men are now in an excellent position to make a contribution towards improving the balance of payments by giving preference to South African products where possible."

In the absence of an actively stimulative monetary and fiscal policy which is considered undesirable under present circumstances, the council therefore still expected the beginning of the next upward phase in the South African economy to be marked by a revival in exports in the second half of 1976 and in 1977.

VOLUME

"In view of the fact that throughout 1975, but particularly in the fourth quarter of that year, the volume of imports already showed a declining tendency which is likely to continue in 1976 as a result of the expected low economic growth rate, and that the decline in the rate of inflation in the countries that are South Africa's most important trading partners should have a favourable effect on the rate of increase in import prices, the import account should take a turn for the better in 1976.

"Together with the improvement in the export earnings that may be experienced in the course of the year, whether such an improvement is due to the effect of the devaluation of the rand or to the economic revival abroad, this should lead to a considerable improvement in the current account of the balance of payments during 1976."

IMPROVEMENT

Referring to the council's recommendations the Prime Minister said that especially in view of the expected low economic growth rate, the improvement in the current account of payments, the council could not find justification for additional stimulation of the economy by means of an

BUDGET SPEECH - 1976

The conventional aim of budgetary policy, in the broad economic sense, is the promotion of economic growth with stability. In the present internal economic situation in South Africa, where the growth rate has declined and the economy is running at less than full capacity in a downward phase of the business cycle, an expansionist budget might seem to be appropriate. But there comes a time in the history of every nation when sterner pressures from without, both political and economic, demand a different approach.

The external economic influences, which I shall presently describe more fully, include the prolonged depression in our principal overseas markets, the decline in the gold price and the continuing contrived uncertainty in the gold market, all of which have not only placed a strain on our balance of payments but have retarded our economic growth as well as the growth of State revenue. Political developments in Southern Africa, on the other hand, clearly demand that we increase our defence effort and strengthen our economic and military preparedness. These, together with the need for fighting inflation, are the dominant influences which must shape this budget.

To present a budget in these rather demanding circumstances is no easy task. I have no intention, however, of painting too sombre a picture. As I shall presently show, South Africa has weathered the economic storms of the recent past remarkably well. Given reasonable political stability in Southern Africa, for which, despite present uncertainties, I have good reason to be hopeful, the medium- and long-term prospects for our economy are bright indeed. But if we are to build up our economic strength and create the conditions for a resumption of rapid economic growth, we must grasp the nettle of our present problems without fear or hesitation.

General Economic Conditions

In my Budget Speech last year I said that "unless external factors exercise a much stronger unfavourable influence than can be foreseen at present, our economic growth rate should ... still be relatively high". In fact, as I have already indicated, external factors were much less favourable than could reasonably have been foreseen at the time.

The first of these factors was the much longer duration and greater depth of the depression overseas. Contrary to practically all expert economic opinion in the early part of 1975, the world depression which began late in 1973 (the worst since the Great Depression of the nineteen-thirties) continued practically unabated in most Western countries and in the majority of these countries there were few significant signs of recovery during the second half of 1975. In consequence, the expected improvement in South Africa's exports and in our terms of trade has naturally been delayed.

The second unfavourable factor was the fall in the gold price on the private market, which declined from nearly \$200 per fine ounce at the end of 1974 to under \$130 in September 1975 and again, after a moderate recovery, to a low point of \$124 in January 1976. The

The slower rate of growth during 1975 was reflected in most sectors of the South African economy.

While the agricultural season was far from unfavourable, it fell short of the record season of 1974, so that the contribution of the agricultural sector to the real gross domestic product declined by 6 per cent. The net income of farmers remained approximately the same as in 1974, mainly as a result of higher producers' prices.

The volume of mining production (other than gold), of manufacturing production and of retail sales all increased at slower rates in 1975 than in the previous year, though sales in the important automobile industry increased by 6,4 per cent, as against a small decline in 1974. Gold production and activity in the building and construction industries showed actual declines last year.

As was to be expected during a downward phase of the business cycle, the number of registered unemployed persons (White, Coloured and Asian), seasonally adjusted, increased from a low point of 7 150 in August 1974 to 11 462 in December 1975, but the latter figure still represents only about one-half of one per cent of the relative labour force.

Inflation remains a serious problem. The consumer price index increased by 11,7 per cent from December 1974 to December 1975, and by 10,9 per cent from February 1975 to February 1976, as compared with 14 per cent from December 1973 to December 1974. Between the third and fourth quarters of 1975 the seasonally adjusted annual rate of increase was 10,4 per cent. This is a significant improvement but the rate of inflation is still unacceptably high.

Salaries and wages, however, more than kept pace, on average, with price increases. During the first three quarters of 1975 average salaries and wages per employee in the non-agricultural sectors of the economy were 18,3 per cent higher than in the corresponding period of 1974; for non-White employees the increase was no less than 25,3 per cent.

Balance of Payments

The slower rate of growth in the South African economy during 1975 caused the volume of imports to decline, but the value in rand terms increased by nearly 17 per cent. In the face of the world depression we did well to maintain the volume of merchandise exports at approximately its 1974 level. By value, however, exports rose by about 12 per cent, mainly as a result of a sharp increase in the fourth quarter of 1975 following the devaluation of the rand in September.

While the average dollar price of gold during 1975 was very close to the 1974 level, the devaluation caused the average price in terms of rand to increase sufficiently to offset most of the fall in the volume of gold production. The value of the net gold output last year was consequently only slightly below the 1974 level.

Economic Prospects

Economic forecasters have fared badly during the past two years. Throughout the world their forecasts have proved to be too optimistic and have had to be revised downward. Nevertheless, it is necessary for this budget, or indeed any budget, to take a view on the prospects for the economy.

Since the South African economy has been so profoundly affected by external forces during the past year, it is clear that developments outside our borders will play a great part in shaping the course of our economy in the year ahead. It is now widely expected that 1976 will be a year of economic recovery in the main industrial countries and that the volume of world trade will again increase. The most recent forecasts of the O.E.C.D., for example, indicate that the member countries of this organisation together will show a growth rate of about 4 per cent in 1976, compared with a negative growth rate of 2 per cent in 1975. While the latest estimates may err on the optimistic side, there seems little doubt that in the United States the upswing is now under way, and in several other Western countries the signs are promising.

The South African economy should benefit appreciably from such an economic recovery, though possibly with a time lag of a few months. The market for our export commodities should improve and - aided by the devaluation of last September - the value of our exports could show a substantial increase, which in its turn should stimulate internal consumption and investment and lead to a new upswing and more rapid growth in the South African economy.

This favourable effect will, however, probably not be experienced until towards the end of 1976 or during 1977. For the current year the growth rate is likely to be much the same as in 1975. In real terms, private consumption expenditure should increase only moderately, while private fixed investment may show little if any rise and inventory investment may even decline.

These conditions are naturally favourable for South Africa's balance of payments, and there is every reason to expect that the deficit on the current account will be substantially lower in 1976 than in 1975, particularly during the later months of the year. A deficit of this order should be covered by a normal inflow of capital.

On economic grounds I do not anticipate any serious difficulty in obtaining foreign capital. Though one sometimes hears that South Africa has over-borrowed abroad, I do not agree that this is the case, especially when regard is had to the tremendous export potential of our mineral resources. Far the greater part of our investment is financed from internal sources: even the exceptionally high net capital inflow in 1975 amounted to only 23 per cent of gross domestic investment, and in 1974 - a more normal year - the percentage was only 11. As regards the public sector in particular, foreign capital plays an important but by no means dominant role in expanding our export potential and in the further development of our energy resources. As a percentage of the total receipts on the current account of our balance of payments (excluding transfers), that is our visible and invisible exports, total payments abroad in respect of

Conclusions for Financial Policy

While the Government continues to attach the highest importance to the long-term growth of the economy, there are several factors which, to my mind, point to the need for a conservative budget at this juncture. The appropriate measure of financial discipline now will pay handsome dividends ahead for all of us.

There are, firstly the uncertainties regarding the duration of the unfavourable external factors which have been influencing the economy and in particular the balance of payments. As I have mentioned, there is a good possibility that the economic recovery overseas will shortly begin to stimulate our export trade, that the gold price will stabilize and eventually resume its upward trend, and that greater political stability will prevail in Southern Africa with a consequent favourable effect on the inflow of foreign capital. It may be some time, however, before these conditions are fully realized, and in the meanwhile it would be prudent to frame our policy in such a way that our balance of payments is not exposed to undue strain. For this reason it is important that strict control should be maintained over aggregate demand.

The campaign against inflation furnishes another reason for restraint in fiscal policy. In view of the present slow rate of growth in our economy, I believe that cost-push rather than demand-pull factors are mainly responsible for our current inflation, the incidence of which, as I have pointed out, has diminished and should in due course diminish further. Nevertheless, it is clearly important that adequate control should be maintained over the money supply lest, when our growth rate starts to rise, excessive monetary demand should again tend to increase inflationary pressures.

Monetary and credit policy is already directed towards this objective. The successive increases in the minimum liquid asset ratios of the banks and the credit ceiling imposed, temporarily, last month are all designed to exercise a necessary measure of monetary restraint. It is now essential that fiscal policy should reinforce these monetary measures.

Naturally, it is necessary to preserve balance and perspective in the application of fiscal policy. It is not necessary or desirable, nor is it the aim of this budget, to apply so restrictive a financial policy as to stultify economic growth. Due regard must be paid to social priorities. What is required is a budget which is conservative in the sense of exercising strict control over State expenditure and financing it, so far as possible, from non-inflationary sources. This, it may be mentioned, is in accordance with the Government's undertakings under the Collective Campaign against Inflation.

In order to see how this broad policy objective may be translated into practical budgetary proposals, it is necessary to review the Government accounts for the present and the ensuing financial years.

The Financial Year 1975/76

For the financial year ending to-day, the Government's accounts are estimated to show the following results.

in their new form the Estimates will prove to be far more informative to Honourable Members and will facilitate effective financial control. A detailed explanation of the changes is contained in the Memorandum which accompanies the Estimates.

The new Exchequer and Audit Act of 1975 replaces the old Revenue and Loan Accounts by a single State Revenue Account. This step not only lends itself to a more meaningful presentation of the Government's accounts, particularly from the standpoint of economic analysis, but is also essential for the application of the modern techniques of integrated budgeting. One of the Government's undertakings in the Collective Campaign against Inflation is to continue to promote the use of integrated budgeting systems by all Government Departments. While it is wise not to be over-hasty in this respect, five Government Departments - Agricultural Technical Services, Defence, Finance, Forestry and Health - will change to an integrated budgeting system in the coming financial year, and it is expected that all other Departments will change within the next three years.

I have stated on several occasions that it is my aim to ensure that State expenditure in the year 1976/77 will not, in real terms (i.e. after allowing for cost increases), exceed the level of expenditure in 1975/76. The Estimates of Expenditure on the State Revenue Account which I shall lay upon the Table, provide for a total expenditure in 1976/77 of R7 792 million.

In order to make this figure comparable with the previous year, an amount of R258 million must be deducted in respect of the interest paid by the Railways Administration on its debt which, in terms of the new Act, must now be appropriated from the State Revenue Account but which also appears as a contra item in the revenue estimates. The resulting aggregate expenditure of R7 534 million is R718 million or 10,5 per cent above the revised figure for 1975/76, and this percentage is near enough to our present inflation rate to enable me to claim that I have attained my objective.

This was not accomplished without considerable effort and without the whole-hearted co-operation of my colleagues, to whom I wish to express my deep appreciation. The task was not made easier by the necessity, in present circumstances, to make adequate provision for Defence.

I am sure that all sides of the House will support a substantial increase in the provision for Defence, so as to ensure that those defending our borders will have the best possible equipment with which to deter any possible enemy. The amount requested on the Defence Vote has therefore been increased to R1 350 million, which is almost 40 per cent more than during the current year and nearly twice as much as in 1974/75. Lest there be any misunderstanding, let me state clearly and categorically that South Africa has no aggressive intentions towards any country, but that we shall defend our borders with all the force at our command is beyond doubt or challenge.

In order to accommodate this increase in Defence expenditure and at the same time ensure that total State expenditure is not increased in real terms, the strictest economies have had to be applied to other Government Departments. Excluding Defence and after adjustment

Apart from the provision shown in the printed Estimates I wish to propose certain increases in social and civil pensions.

Social Pensions

Sensation-hunters sometimes describe the aged and the handicapped as the world's forgotten people. That, of course is not true of our country. This Government has in fact a sustained record of aid to our aged and handicapped and, despite the need for economies in nearly every field, it gives me much pleasure to announce today a further measure of financial relief to pensioners for the next financial year.

Dealing with social pensions for Whites first, I propose that these pensions, including parents' allowances and the allowances payable to settlers, be increased by R8 per month.

I also propose that the allowances payable to children's homes and to foster parents be increased by R5 per child per month, that maintenance and family grants and the allowances payable in respect of the children of settlers be increased by R2 per child per month and that place of safety allowances be increased by 25c per child per day.

It is further proposed that the subsidies payable to homes for the aged be increased as follows:

- (a) Group I residents : by 50 cents per resident per month
- (b) Group II residents : by R3,50 per resident per month
- (c) Group III residents : by R5,50 per resident per month
- (d) Group IV residents : by R8 per resident per month

I also think that an increase is warranted in the case of subsidies payable to institutions caring for the handicapped and I propose that these subsidies be increased by R3 per person per month in cases where no suitable trained staff is available and by R5 per person per month in those cases where suitably trained staff are available.

The question of war pensions is at present receiving the attention of the Government and it is expected that a Bill in this connection will be introduced later during the Session. It is proposed that the existing pensions and allowances and bonuses payable to war pensioners be consolidated and that the consolidated amounts be thereafter increased by 10 per cent.

It is further proposed that the pensions and allowances payable in the case of the other population groups be increased as follows:

	<u>Coloured, Indian and Chinese</u>	<u>Bantu</u>
Social pensions and parents allowances		
Children's homes : per child	R4,50 p.m.	R3,50 p.m.
Foster children : per child	R3,00 p.m.	R1,50 p.m.
Maintenance grants : per child	R3,00 p.m.	R1,50 p.m.
	R1,20 p.m.	R0,55 p.m.

Revenue 1976/77

State revenue is influenced by a wide range of factors and its estimation is never an easy task. In the present phase of relatively slow economic growth in the Republic, a measure of caution seems necessary.

For customs, excise and sales duties I have allowed for a moderate increase to R1 162 million. Inland Revenue, which now includes loan recoveries, loan levies and other revenues formerly credited to Loan Account, will of course be affected by the lower gold price, which may substantially reduce the revenue from gold mining taxation and leases. The slowing down of the economy may also retard the growth of company profits and hence of the revenue from company income tax, but the continuance of some measure of inflation is likely to bring about a fair increase in the revenue from the income tax on individuals. Including the R258 million in respect of interest received from the Railways, to which I have already referred, I estimate the total receipts from Inland Revenue at R4 890 million. Total revenue on the existing basis of taxation will then amount to R6 052 million, leaving a deficit before borrowing of R1 780 million.

In addition to this amount, provision must be made for the redemption of internal and external loans amounting to R376 million and R200 million respectively. The total amount for which financing is required, is therefore R2 356 million.

Financing Available

In December last year I addressed an appeal to all insurance companies and pension funds to invest, in the national interest, an additional 2 per cent of their liabilities or assets, as the case may be, in Government stock during 1976. The response of the institutions was gratifying and most subscribed to the stock issued earlier this year. While some will doubtless still subscribe to issues later in 1976, it would be unrealistic to expect that we shall be able to raise as much loan capital internally as in the financial year now ending. Apart from an amount of R333 million representing the reinvestment of maturing stock, I estimate that we shall raise new loan funds to an amount of R250 million in the domestic economy.

As regards external loans, it should be possible to renew maturing credits to an amount of R90 million, while a further R55 million is available in terms of existing arrangements. I think it should be possible to arrange further external loans and credits to an amount of R175 million.

On these assumptions the available financing should be as follows:

	<u>R million</u>
Opening balance in Exchequer	52
Internal loans:	
Public Debt Commissioners	300
Re-investment of maturing stock	333
Net new stock issues	250
Other non-marketable debt	30

Taxation

It is clear that a conservative budgetary policy requires a considerable portion of the shortfall of R951 million on State Revenue Account to be met from additional taxation. It is never a pleasant task to propose tax increases, and especially increases of this magnitude. I am, however, sure that the country will be prepared to shoulder this burden so that we may strengthen our economy and above all increase our military preparedness.

Under these circumstances there can be no question of any broad tax concessions. There is, however, one concession that I wish to propose.

Aged taxpayers

Last year the special income tax abatement for persons above the age of 60 was raised from R400 to R600. In view of our current inflation rate and its effect on aged persons, whose incomes are often fixed in money terms, I wish to propose that this abatement now be raised to R700. In future persons above 60 years of age will only be liable for income tax when their income exceeds R1 900 for married persons and R1 400 for single persons, and this benefit will only cease to apply when income exceeds R14 500 for married persons and R12 000 for single persons. The loss of revenue is estimated at R1,7 million.

Tax Increases

I now come to the tax increases and I think that it is reasonable to spread the additional burden as widely as possible in order that everyone will contribute, though the well-to-do will naturally carry the heaviest burden. Quite obviously our traditional sources of revenue must receive attention.

Customs and Excise Duties

Beer

The consumption of beer has increased considerably over the past years and though the increase for 1975 may not have been as large as that of previous years, I am of the opinion that this product can still bear an increased tax. I propose that the duty on all beer (both imported and local) be increased by 2,4 cents per litre or about 0,9 cents per container of 375 millilitres (or per pint according to imperial measures). The retail price of beer should not rise by more than one cent per container of 375 millilitres, and I shall expect manufacturers, in fixing the increased price of beer in containers of different sizes, to give due consideration to the interests of the consumer. The estimated additional income during 1976/77 is about R11,7 million.

Wine

Although there is no noticeable increase in the consumption of wine, I feel that the consumer of fortified wine and sparkling wine can also make a contribution. I propose, therefore, that the customs and

The escalating costs of road construction coupled with the effects of the various measures taken to conserve petrol have created serious problems for the National Road Fund, which relies for its revenue on a portion of the duty on motor fuel. I propose that 0,15 cent of the increased duty be paid over to the National Road Fund.

The additional revenue from these increased duties is estimated at R146 million for the financial year 1976/77 of which about R8,5 million will go to the National Road Fund.

Sales Duty

Since the last increase in sales duty during 1971, the sales duty on certain goods has been reduced from time to time. I think, however, that in the present circumstances it will now only be proper to expect a higher income from this source. I therefore propose that the rates of duty in all cases be increased by approximately one third, for example 5% is increased to 6,5%, 7,5% to 10%, 10% to 13%, 12,5% to 16,5%, 15% to 20%, and 20% to 26,5%.

The estimated additional revenue from these increases in the rates of sales duty amounts to about R66 million for the financial year 1976/77.

All the increases in customs, excise and sales duties which I have announced take effect immediately and apply to all the goods concerned that have not yet been cleared for home consumption, i.e. not yet removed from the premises of importers and manufacturers licensed with the Department of Customs and Excise.

I would, however, like to draw special attention to the fact that the increased duty on local and imported spirits (including spirits in spirituous beverages but excluding wine) will also be payable on such stocks which have not at this time been delivered from the stocks of distributors (including distributing depots of manufacturers), wholesale dealers and retail dealers.

In the case of cigarettes and cigarette tobacco, the increased duty on local and imported cigarettes and cigarette tobacco will also be payable on such stocks which have not at this time been delivered from the stocks held by distributors (including distributing depots of manufacturers), wholesale dealers and other dealers who purchase supplies direct from manufacturers or their depots.

As the increased duties on beer and spirits are payable on all such goods in stock at all outlets, stock will immediately have to be taken at all such points.

Dealers in cigarettes and cigarette tobacco know where they purchase their stocks. Where stocks are purchased by dealers directly from manufacturers (including distributing depots of manufacturers), such dealers will immediately have to take stock of all cigarettes and cigarette tobacco they have in store at this time. In case of any doubt regarding which dealers will have to pay the increased duty on their stocks, this information should be obtained from the nearest office of the Department concerned.

Direct Taxation

Before I consider the necessary tax increases, however, there are a few aspects of direct taxation which require attention.

Married Women

Last year I announced that the Department of Inland Revenue, in collaboration with the Standing Commission of Inquiry into Taxation Policy, would investigate the basis of taxation of married women. This investigation has now been completed and this afternoon I shall table both the Commission's report and the Department's memorandum.

This aspect of tax policy has unfortunately become a somewhat emotional issue and I appreciate the sober and objective way in which both bodies have approached the problem. I can inform the House that both came to the conclusion that the present basis of taxation should be retained. The Government is still considering the reports and I shall announce its decision on a later occasion.

Inflation Accounting

Last year I also made mention of the problem of the effect of inflation on business profits and especially the ability of businesses to set aside sufficient funds to replace capital assets. Due to the fact that there is no unanimity as yet in accounting circles on the so called inflation accounting, I have also referred this problem to the Standing Commission. The Commission could not yet complete its investigation into this controversial subject. I can, however, inform the House that according to information already gathered, the existing South African system does not compare at all unfavourably with those of most other countries. I wish to remind Honourable Members that, due to the effect of our wear and tear, investment and initial allowances, a manufacturer can deduct from his taxable income up to 74 per cent of the cost of machinery in the first year of usage, and that the total deduction over the lifetime of the machinery amounts to 130 per cent of the cost (or up to 165 per cent in the economic development areas). This concession already compensates to a great extent for the effect of inflation. I am nevertheless prepared to give careful consideration to the Commission's recommendations when they are received.

Tax on Non-resident Shareholders

I wish to propose a change in the Non-resident Shareholders' Tax. The present Act contains a stipulation introduced many years ago under quite different circumstances, namely that no tax would be payable if the shareholder who receives the dividend is a non-South African company doing business in the Republic. The result is that such dividends are now free of tax even if the South African business activities of the shareholder-company are negligible.

I therefore propose that as from today all dividends payable to such companies be subjected to Non-resident Shareholders' Tax. This will also eliminate an anomaly, which I shall explain in more detail when the Income Tax Bill is introduced at a later stage during this Session.

The estimated revenue for the financial year 1976/77 is R3 million.

The proposed increase in the rate of income tax on individuals also requires that the rate of tax on undistributed profits be raised in order to maintain the effectiveness of the latter, especially in relation to private financial companies which present an easy vehicle for tax avoidance. It is accordingly proposed that the rate be increased from 25 per cent to 33 $\frac{1}{3}$ per cent.

This amendment is not expected to yield any additional revenue during the 1976/77 financial year.

Raising or Lowering of Loan Levy in Anticipation of Parliamentary Approval

As long ago as 1970 the Commission of Enquiry into Fiscal and Monetary Policy in South Africa (the Franzsen Commission) recommended that the Minister of Finance be empowered to amend the rates of certain taxes under certain conditions between budgets. The Commission's recommendation was mainly based on the desirability of using tax rates as a short-term stabilizing measure during the Parliamentary recess.

While I fully realise - as did the Commission - the limitations on the practical application of such a provision, I am nevertheless of the opinion that the provision is in principle desirable, especially in view of the length of the Parliamentary recess in South Africa. A mission of the International Monetary Fund, who recently visited the Republic for the customary annual consultation, has indeed also suggested that the Minister of Finance be invested with such authority.

The desirability of such a provision is enhanced by, on the one hand, the political uncertainty in other parts of Southern Africa, and on the other hand, the possibility of an earlier and stronger favourable change in our export markets or in the gold price than presently expected, which may necessitate urgent adjustments of rates, either upward or downward.

I feel, however, that the authority of the Minister should be limited to an increase or decrease of the loan levy only (rather than of taxes), that the maximum increase or decrease should be 10 per cent of the basic tax, and that any such adjustment should be subject to Parliamentary approval during the following session. I propose accordingly.

Summary

The additional amount required for the State Revenue Account was R951 million, plus a further R2 million for the concession to aged taxpayers - altogether therefore R953 million. The additional revenue from the increases in customs duty, excise duty and sales duty is estimated at R275 million, from direct taxes at R148 million, and from loan levies at R290 million - altogether R713 million. The shortfall of R240 million will be met from the Stabilization Account, which will still leave an amount of R582 million in this Account.

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

Mr. Speaker, the objectives of this budget are threefold. Firstly, we must make adequate provision for the defence of our country. Secondly, we must maintain our economic strength and, in particular, safeguard our balance of payments and curb inflation. Thirdly, we must see to it that our economic growth is maintained and that the interests of the less privileged members of the community are cared for. It is not easy to reconcile these three objectives, but I believe that this budget maintains the necessary balance as far as possible.

Defence is perhaps the principal duty of the State, and in the present uncertain situation in Southern Africa the House will certainly welcome the increased provision for defence, even though it entails a heavier burden on the taxpayer. Two hundred years ago the great Scottish economist and formidable champion of capitalism, Adam Smith, himself acknowledged that "defence is of much more importance than opulence". I confidently expect that South Africans will not only be prepared to accept gladly the greater burden of military preparedness, but will make a tangible contribution to that preparedness by investing generously in the defence bonds which I shall issue shortly.

It is equally important that our economy should be strong, and for this reason this must be a conservative budget.

In this connection I should like to refer to the annual consultation with the International Monetary Fund which took place last November. The Fund mission which visited the Republic for this purpose, drew up a particularly favourable report on our economy. During the consultations negotiations were conducted in connection with the drawing from the Fund of the equivalent of 80 million Special Drawing Rights (R81 million) which was approved in January 1976. It is customary in connection with such drawings that the Fund requests the member country concerned to furnish certain undertakings in respect of its economic policy - undertakings which are actually in the country's own interest in order to strengthen its economy. I did not hesitate, therefore, to give the Fund the assurance, firstly, that State expenditures in 1976/77 would increase at a slower rate than in 1975/76, and secondly, that the budget deficit would not increase in real terms.

I believe I have complied with these undertakings. As I have already pointed out, the budgeted State expenditure in 1976/77 will not only rise more slowly than in 1975/76, but there will in fact be no increase in real terms. As regards the budget deficit, what is intended here is the deficit before borrowing. The deficit for 1976/77 is estimated at R1 463 million, compared with R1 435 million for 1975/76 - a nominal increase of 2 per cent but definitely a reduction in real terms. Actually it may be regarded as more meaningful for this purpose to deduct loan levies from the deficit, in which case the figures for the present and the ensuing financial year are R1 349 million and R1 069 million respectively - hence a very considerable decline.

I wish, however, to warn against the tendency to try to summarize the effect of the budget on the national economy in a few figures. The economy is too complex for that. But the total impact of this budget, including the strict control over expenditures, the reduction in the real deficit (before borrowing), and the moderate use made of the State's reserve funds, definitely give it a strongly conservative colour which, despite the higher expenditure on defence, can substantially strengthen our balance of payments and at the same time make a big contribution to the struggle against inflation.

State intrusion under attack

RDM 26 29/3/76

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Industrial Editor

THE STATE, and the public sector in particular, is playing far too great a role in South Africa's economic life where a much freer free enterprise system should be aimed at.

This was one of the conclusions arrived at by businessmen and Government officials at a seminar organised by Stellenbosch University's Graduate School of Business at Kempton Park yesterday.

While recognising that the public sector is necessary in a limited way to provide some control and fill a regulatory function, the consensus is that it has to a certain degree gone beyond the limits.

Delegates discussed the role and relative size of the public sector and the "climate" needed by the private sector if it is to perform its job-creating functions effectively in South Africa — including the homelands.

It was accepted that there are many functions being carried out by State departments which logically can and should be carried out by the private sector.

LATIN

Considerable criticism was levelled at various "nameless" control boards. Delegates said they were superseding their original functions to the extent that they were often unsympathetic to the group they represented.

Delegates were strongly in favour of a body, such as the National Marketing Council, being used to scrutinise and investigate the activities of the control boards.

Businessmen were convinced that the wants and desires of the private sector were not getting through to Government, or that officialdom often tended to take too bureaucratic a stance and ignore their pleas.

It was said Cabinet Ministers must realise they were merely the elected

representatives of the people and should therefore take cognisance of their requirements.

"Minister derives from the Latin for servant and not master," said one delegate.

Mr Joep Steyn, Secretary for Commerce, proposed earlier in a panel presentation dealing with economic priorities, that a national economic congress be organised to which representatives of all sectors of the community be invited.

There an attempt could be made to formulate economic priorities and the necessary guidelines could be established by which Government and the private sector could make the decisions necessary for the further development of the economy.

INTIMATE

Mr Steyn also proposed the formation of an action committee of the relevant Cabinet Ministers and their heads of departments, as well as the leaders of the relevant private sector organisations, whose brief would be to produce a comprehensive action programme.

This programme would then be handed to the Government to be put into practice.

The proposals received a lukewarm response from delegates. The view seemed to be that while consultation on this basis was always welcome and constructive, it was likely that a national congress, on such a scale could be unwieldy and turn into a head-nodding exercise with few constructive ideas formulated. A more intimate congress was likely to achieve far more, it was said.

Recession hits Transvaal hardest

24/3/76 STAR

Ivan Philipp
South Africa's recession is by no means country-wide, but has been concentrated heavily in the Transvaal and particularly the Northern Transvaal.

This emerges from a sectoral review compiled by the Federated Chamber of Industries, based on the Stellenbosch Bureau of Economic Research Survey No 88.

This survey covered actual business conditions in the last quarter of 1975 and expectations for the first quarter of this year.

The prime point to emerge was that manufacturers were mostly pessimistic — despite the fact

that the value of sales for the last quarter of 1975 had increased compared with the previous quarter and compared with the year before.

There was also, country-wide, a considerable increase in the value of orders.

But the FCI concluded that the pessimism of businessmen resulted from a rather high level of stocks of finished goods. Stocks of raw materials were not high.

Business conditions in the Republic as a whole, during the last quarter, deteriorated because of what the FCI describes as "considerable declines in the Transvaal."

Natal, the Free State

and the Western Province improved "noticeably."

Businessmen's expectations for the first quarter of this year showed a different pattern. The value of orders went up in the Western Province, Eastern Province and Southern Transvaal.

But there were "severe declines in orders received in Northern Transvaal and, to a lesser extent, in Natal, Border and Free State areas."

For the total manufacturing sector throughout the country, there was an increase in orders. Food, leather and transport equipment suffered declines while metals, metal products and machinery orders were up.

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State control DD 23/3/76. under attack

CAPE TOWN — Strong State control of the economy was the greatest obstacle in the way of an acceptable multi-racial society in South Africa, students heard here yesterday.

Controversial American economist and monetary theorist Prof Milton Friedman told a packed audience at the University of Cape Town that the Republic was not alone in the trend towards greater State control of the economy.

The free world had been moving in the wrong direction on this for several decades with resultant restrictions in personal and economic freedoms. These posed a serious threat to democracy.

Prof. Friedman said South Africans should realise that truly representative government based on the philosophy of "one man one vote" was a myth. It did not result in government of the majority, and was a system of highly weighted votes. It gave power to various small pressure groups.

"The great mistake is to look to the political market for decision-making rather than the economic mechanism which is a system of proportional representation in itself with a random relationship between what you spend and what you get," he said.

"The motivating factor behind the economic market is not only self-interest anymore than the supposed motivation of the political market is solely public interest."

Prof. Friedman told the students that the Welfare State, although well intentioned, led only to totalitarianism and misery.

"You take freedom for granted," he said, "but the natural state of man is not freedom but tyranny."

Freedom had to be protected and this could not be accomplished by "do gooders."

Freedom in the economic marketplace with minimal interference from government was the best safeguard for freedom elsewhere.

The Welfare State had got off to a good start early in this century because it was easy to tax a lot of people a little and help a few. It got into trouble when ability of people to pay more taxes declined while calls for costly help continued to increase.

Eventually the Welfare State collapsed, bringing down the free society with it, and a dictatorship emerged.

This is what had happened in Chile. It was now about to occur in Britain.

"I hope I'm wrong," Prof. Friedman said, "but the only outcome I can see from the present state of affairs in Britain is a dictatorship."

"It will be an inherently British dictatorship — by that I mean polite — but it will be at the head of a collectivist, totalitarian society." — DDC.

STATEMENT RELEASED BY THE HONOURABLE THE PRIME MINISTER, ADVOCATE
B.J. VORSTER, IN CONNECTION WITH THE FORTY-FIRST MEETING OF THE
ECONOMIC ADVISORY COUNCIL IN CAPE TOWN ON 26TH AND 27TH FEBRUARY 1976

The discussion at the latest meeting of the Economic Advisory Council was aimed specifically at formulating recommendations to the Government with a view to the Budget which has since been presented to the House of Assembly by the Honourable the Minister of Finance. As is customary, this statement on the meeting of the Council was held back until the Minister had delivered his Budget Speech. The current economic position having been fully dealt with in the Budget Speech, as well as in the March issue of the Quarterly Bulletin of the South African Reserve Bank, only its main features are referred to in this statement, which then proceeds to an account of the Council's recommendations.

I informed the Council on the latest developments in South Africa's international political situation in order to enable it to take these developments into account as far as possible in formulating its recommendations. Apart from this the Council, as is customary also had the benefit of a review by the South African Reserve Bank of the latest general trends in the economy, as well as of reports on the position in particular sectors of the economy submitted by the various organisations represented on the Council.

CURRENT ECONOMIC POSITION

The information on the economic position which the Council had before it to a large extent confirmed the findings of the Council at its previous meeting in November.

According to the latest estimates, the real gross domestic product increased by about 2,2 per cent in 1975. Although this still compares favourably with the negative growth rates experienced by almost all of South Africa's important trading partners in 1975, it

is still far lower than the growth potential of the South African economy over the medium term. As a result of the tendency of import prices to increase more rapidly than export prices in the course of 1975, South Africa's real gross national product decreased slightly for the first time in many years. The relatively low growth rate of the gross domestic product is also reflected in the individual performances of almost every sector of the national economy, with the exception of the provision of general Government services, the value of which, in constant prices, still grew at a rate of 8 per cent in 1975.

Owing to the slow-down in the rate of economic activity and the decline in the gold price, the Exchequer receipts from direct taxes and gold-mining leases were less than foreseen in the Budget. This was, however, largely offset by revenue from indirect taxes, which was higher than budgeted for. Although the difference between issues and receipts (excluding loans) for the 1975/76 fiscal year was still slightly higher than the (adjusted) deficit budgeted for, the Government was able, through a very successful loan programme, to finance a large part of this difference out of actual current savings. On the whole, Government expenditure and the financing of this expenditure therefore had a moderately stimulating effect on the economy. This was entirely in keeping with the Council's recommendation at its meeting in February last year and helped prevent the real growth rate of the economy from declining even further than it actually did.

By a concurrence of circumstances, such as the influence of a severe and prolonged recession abroad or South Africa's export earnings, the sharp decline in the price of gold, the effect of the continuing high rates of inflation abroad on our import prices, the further increase in the price of oil and the relatively high level of defence expenditure, the adverse balance on the current account of the balance of payments continued to increase for much longer than might have been expected in the light of experience in previous downward phases and, on a seasonally adjusted basis, it actually only started to show a decrease in the third and fourth quarters of 1975.

This unusually prolonged unfavourable trend in the current account of the balance of payments coincided with considerable fluctuations during the year in the flow of private short-term capital between South Africa and foreign countries. These fluctuations were caused by varying expectations about movements in the rand's international exchange rates which, together with the relatively easy liquidity conditions locally, encouraged the use of domestic instead of foreign financing, and thus promoted the acceleration of payments for imports and the delay of receipts for exports. In order to cope with these conditions, the authorities applied a more restrictive monetary policy in the course of 1975 than would normally have been desired in the downward phase of the business cycle. Especially after the devaluation of the rand in September by 17,9 per cent, this policy succeeded in bringing back to a normal level the leads and lags in the settlement of current transactions with foreign countries. By the end of 1975 again, however, there were unfounded rumours of a possible further devaluation of the rand, which led to renewed abnormally high purchases of foreign exchange, forcing the monetary authorities to impose, as a temporary measure, quantitative restrictions on the granting of bank credit to the private sector.

Unlike the adverse balance on the current account of the balance of payments, the declining tendency in the rate of inflation, which had already started in the fourth quarter of 1974 as a result of the deceleration in the rate of economic activity, was sustained throughout 1975. Calculated on the basis of a seasonally adjusted annual rate, the increase in the consumer price index reached a peak of 18,2 per cent in the third quarter of 1974, which coincided with the upper turning point of the trade cycle. After that, as is already known, it showed a steady decline to a level of 10,4 per cent in the last quarter of 1975. It is particularly encouraging that this downward tendency in the rate of inflation has continued up to now, in spite of the increase in the rand prices of imported goods, which was an inevitable consequence of the devaluation of the rand in September. Since it is mainly the prices of capital and intermediate goods that are affected by the devaluation, as has also been stressed in several of the secto

ral reviews which the Council had before it, these cost increases must, however, be expected to work through to the consumer price index to a greater or lesser extent in due course. The recent extension to the end of September of the base period on which the voluntary price and wage restraints under the Collective Campaign against Inflation are based should, however, also have a retarding effect on these cost increases.

The downward phase in which the South African economy still is itself at present is already reflected in the position in the labour market. The number of registered unemployed Whites, Coloureds and Asians remains low, both in absolute terms and as a percentage of the number of economically active persons in these population groups, but has nevertheless, after elimination of seasonal trends increased from 8 823 in December 1974 to 11 462 in December 1975.

In the case of Blacks, the total employment (excluding agricultural workers and domestic servants) increased by only 1,3 per cent from September 1974 to September 1975, which was considerably lower than the calculated growth rate of the economically active Black population. It must, however, also be borne in mind that the number of foreign Blacks who are economically active in South Africa declined from approximately 482 000 towards the middle of 1974 to about 414 000 a year later, mainly as a result of the success achieved by the Chamber of Mines in the local recruitment of Black workers - so much so that 96 per cent of the underground labour requirements of the gold mines are being met at present.

As was mentioned in the statement in connection with the previous meeting of the Economic Advisory Council, this large-scale switching from foreign to local Black workers has had the effect that, in this population group also, unemployment has not reached the proportions which would otherwise have accompanied a low growth rate as low as that of the past five quarters.

PROSPECTS FOR 1976

Against the background of the trends in the economy during the past year as explained above, the Council devoted its attention to the

economic prospects for the next twelve to fifteen months. The Council came to the conclusion that an early revival in the economy could not be expected at present, unless it were to be actively stimulated by means of an expansionary monetary and fiscal policy. Taking into account the cutback in Government expenditure which, in line with the Government's undertakings under the Collective Campaign against Inflation, has already been announced and envisaged by the Honourable the Minister of Finance, the level of this component of expenditure is not expected to lead to an acceleration in the growth rate during the next year. Likewise, it would be unrealistic to expect any significant revival in private investment while there is still unused physical productive capacity in the manufacturing industry and while the level of industrial and commercial inventories is still relatively high, as was apparent from the information before the Council. Nor was there any indication in any of the sectoral reviews that an early revival in private consumption expenditure was in the offing.

The only factors which could possibly have a stimulating effect on the economy at present or in the course of the year would be, first, the strengthened international competitive position brought about for certain sectors by the devaluation of the rand, and, second, the effect which a revival in the economies of South Africa's trading partners could have on the country's export earnings.

With regard to the effect of the devaluation, mention was made in several of the sectors' reports of benefits which had already accrued to the sectors involved. The rand prices of several agricultural and mining products whose sales are largely dependent on exports increased in accordance with the devaluation with immediate favourable effects on the profitability of the industries concerned. In other sectors, especially manufacturing industry, South African producers enjoy the benefit of an additional price advantage in the domestic market as a result of the devaluation, while they have also been placed in a position to offer their products in the export market at more advantageous prices than before the devaluation. The metal and engineering industry's report, which the Council had before it, states, for example, that the exper.

performance of this sector was maintained particularly well, in spite of the world recession and the two successive increases in the domestic steel price, and the devaluation is expected to have a further favourable effect on the exports of the products of this sector. It was, of course, pointed out, as already mentioned, that the devaluation also has a cost-increasing effect in sectors which are dependent largely upon foreign sources for their capital equipment and current inputs. It can nevertheless be expected that, at least in those sectors where there is still unused productive capacity, use will be made of the opportunity created by the devaluation to supply the domestic market to a greater extent than before or to enter export markets. In view of the unused productive capacity that does exist in the South African manufacturing industry and the price advantages obtained by South African products in the local market as a result of the devaluation, both the general public and businessmen are now in an excellent position to make a contribution towards improving the balance of payments by giving preference to South African products where possible.

From the latest estimates of the economic prospects in the important industrial countries it appears that, since mid 1975 already, the economic revival in almost all these countries has been well under way and that firm growth rates can be expected in their economies during 1976 - even in the United Kingdom where the turning point came somewhat later than in most other countries. It must of course be remembered that the revival in the economies of the industrial countries will only show its effect on South Africa's exports after a certain time lag, but, having due regard to this, the Council was of the opinion that the South African economy should be experiencing that effect by the end of 1976 already.

In the absence of an actively stimulative monetary and fiscal policy which, for reasons to be mentioned later, is considered undesirable under the present circumstances, the Council therefore still expects the beginning of the next upward phase in the South African economy to be marked by a revival in exports in the second half of 1976 and in 1977.

In view of the fact that throughout 1975 but particularly in the fourth quarter of that year, the volume of imports already showed a declining tendency which is likely to continue in 1976 as a result of the expected low economic growth rate, and that the decline in the rate of inflation in the countries that are South Africa's most important trading partners should have a favourable effect on the rate of increase in import prices, the import account should take a turn for the better in 1976. Together with any improvement in the export earnings that may be experienced in the course of the year, whether such an improvement is due to the effect of the revaluation or to the economic revival abroad, this should lead to a considerable improvement in the current account of the balance of payments during 1976.

THE COUNCIL'S RECOMMENDATIONS

In considering its recommendations to the Government, the Council took due account of the possibility of a greater increase in unemployment than has been experienced up to now. For this reason in particular, the Council took the view, as it did at its previous meeting, that any sound growth which may arise in 1976 from an improvement in the balance of payments, or which may be compatible with such an improvement, should be welcomed since, generally speaking, the economy still has at its disposal both the physical productive capacity and the necessary flexibility in the labour market to accommodate such a revival in production. In the opinion of the Council, any steps that could possibly counteract such a healthy revival must therefore be avoided as far as possible.

Especially in view of the necessity of continued improvement in the balance of payments, the Council could, however, not find justification for deliberate, active stimulation of the economy by means of an expansionary fiscal and monetary policy. Such a policy would inevitably counteract the declining tendency in the import account, both directly through the high import content of certain categories of Government spending and indirectly through the stimulating effect which this would have on expenditure in the rest of the economy. Such a policy would also result in an easing of

the liquidity position in the economy which, apart from its potentially inflationary effect, would make the means available through which any unfounded rumours about possible changes in the exchange rate of the rand could again lead to disruptive fluctuations in the movement of short-term capital between South Africa and other countries.

Although the Council emphasised the desirability of abolishing the recently announced quantitative restriction on bank credit to the private sector as soon as possible or of replacing it by more direct forms of control, it did not, under the circumstances, dispute the necessity of a strict monetary policy in order to restrict the rate of expansion of bank credit. The Council also agreed that it would not be possible to revoke the quantitative restriction on credit until such time as a further improvement had unmistakably manifested itself in the current account of the balance of payments, the fluctuations in the movement of short-term funds between South Africa and other countries could be effectively controlled with the aid of other measures, and a Budget had been put into operation which could supplement the use of indirect restrictive monetary measures.

In view of this, the Council recommended that Government expenditure during the coming year, after curtailment to the minimum level compatible with the fulfilment of the Government's undertakings under the Collective Campaign against Inflation, should as far as possible be financed out of current income and actual savings, that is to say, mainly out of taxes, loans from the local non-bank sector and foreign loans. Even if South Africa's position on the international front were to develop in such a way as to necessitate a greater increase in defence expenditure than could have been foreseen at the time of the meeting, the Council nevertheless considers that the Budget should meet these requirements, even if this were to mean substantial increases in taxes. This opinion reflects the Council's conviction that everybody in South Africa should be prepared to contribute his share to strengthen the economy and that, under present conditions, it is the duty of every member of society to avoid wastage and not to want to get

more out of the economy than he is prepared to put back into it. Apart from the methods of financing the budget expenditure as a whole, the Council, with a view to among other things restraining healthy growth in the economy as little as possible, therefore also discussed various possibilities with regard to the spreading of the burden of such tax increases as may appear necessary and submitted its findings to the Government for consideration.

THE GOVERNMENT'S VIEW

The Government has noted with appreciation the Council's assessment of the current economic position and its expectations about trends in the economy in the year that lies ahead. In the main, it agrees with the findings of the Council as well as with its recommendations, which, in general, are compatible with the course already taken by the Government in its undertakings under the Collective Campaign against Inflation. The extent to which the recommendations of the Council could already have been carried into effect will be evident from the Budget which has in the mean time been presented to the House of Assembly by the Honourable the Minister of Finance. In conclusion, the Government wants to express its appreciation of the responsible view taken by the Council with regard to the demands which may be made of the South African economy and of the way in which the Council has unequivocally associated itself with the fiscal measures which may prove to be necessary if South Africa were to be faced with a situation which obliged her to increase her defence expenditure.

PRETORIA
5.4.1976

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Diederichs appeals to all sectors

NM 24/2/76.

Objective must be economic growth

JOHANNESBURG — The most important objective after inflation had been curbed was renewed acceleration of economic growth, the State President, Dr. Diederichs, said in Johannesburg yesterday.

Officially opening the new headquarters of Assocom and the Johannesburg Chamber of Commerce, Dr. Diederichs said the pursuit of accelerated economic growth would involve the clear identification of the individual responsibilities of the Government on the one hand and private enterprise on the other.

South Africa's economic path had not been smooth in the past 15 years, Dr. Diederichs said, the country having had to contend with economic and financial difficulties as well as fluctuations in economic growth.

"But this again is understandable since, in the type of economic system to which we are committed and with our wide connections with international economic conditions, we cannot expect the winds of fortune always to blow in our favour."

SLACK PERIOD

Dr. Diederichs said a slack period was being experienced by the economy at present and this was accompanied by a high rate of inflation.

"I believe, however, that these unfavourable circumstances will be overcome if every sector of the community fulfils its responsibilities and if the public and private sectors co-operate closely with one another in an effort to promote both stability and continued growth in the economy."

GOVERNMENT'S TASK

"It is the task of the Government, having regard to external as well as domestic conditions and circumstances, which may have a bearing on the economic and social environment prevailing in our country, to create and maintain a favourable atmosphere in which private enterprise will at all times be able to properly fulfil its recognised functions as the prime generator of economic growth." Dr. Diederichs

and trust of consumers. These steps should be taken in order to remove the present atmosphere of growing suspicion with which consumers were viewing the operations of traders. — (Sapa.)

47

TYPE OF FARM EMPLOYEE - DOMESTIC

RACE - AFRICAN

YEAR - 1972/73

AVERAGE MONTHLY TOTAL WAGE FOR ALL ECONOMIC REGIONS = R 13.74

DEVIATIONS FROM AVERAGE MONTHLY TOTAL WAGE BY ECONOMIC REGION

EC REGION DEVIATION	1	2	3	4	5	6	7	8	9	10	11	12
EC REGION DEVIATION	29.42	2.09	13.70	15.30	16.07	5.94	-1.20	5.66	-1.75	-0.90	-1.76	-1.41
EC REGION DEVIATION	13	14	15	16	17	18	19	20	21	22	23	24
EC REGION DEVIATION	-3.90	-2.45	-2.53	-1.74	-3.24	-3.38	-3.34	-2.58	-5.71	-4.00	-3.70	2.68
EC REGION DEVIATION	25	26	27	28	29	30	31	32	33	34	35	36
EC REGION DEVIATION	1.29	-0.52	-1.49	2.04	5.55	4.88	10.04	-4.94	-0.98	0.84	-1.86	9.43
EC REGION DEVIATION	37	38	39	40	41	42	43	44	45	46	47	48
EC REGION DEVIATION	6.76	8.18	3.9	4.05	-1.08	-4.48	3.26	-2.00	0.73	-1.85	-4.92	-2.35
EC REGION DEVIATION	49	50	51	52	53	54	55	56	57	58	59	60
EC REGION DEVIATION	-4.29	-7.61	-4.37	-4.42	-5.94	-5.27	-5.67	-5.99	-5.70	-4.22	-4.97	-2.88

49

Hansard
20/2/76

Gross national product
33. Mr. L. F. WOOD asked the Minister of Statistics:

- (1) What was the gross national product for the latest year for which figures are available;
- (2) what was the (a) estimated and (b) actual (i) percentage and (ii) amount allocated to (aa) research, (bb) health in the Republic and the homelands, respectively, (cc) social welfare services, excluding rehabilitation services and (dd) rehabilitation services;
- (3) what was the (a) estimated and (b) actual (i) percentage and (ii) amount allocated to (aa) education and (bb) housing, in respect of each group.

The MINISTER OF STATISTICS:

The following figures are in respect of the financial year ended 31 March 1975 and relate to expenditure by government bodies.

	(i)	(ii)
(1) R21 717 million.		
(2) (a)	Not available	
(b) (aa)	0,3	67
(bb) Republic	2,4	527
Homelands	0,3	67
(cc)	1,6	337
(dd)	Not available	
(3) (a)	Not available	
(b) (aa) Whites	2,9	628
Coloureds	0,5	108
Asians	0,2	45
Bantu	0,6	140
(bb) Whites, Coloureds, and Asians	0,7	157
Bantu	0,3	60

In the case of 3 (b) (bb) separate figures for Whites, Coloureds and Asians are not yet available.

Car plant will cut production

Waterbury Mercury 19/2/76.

Industrial Reporter

SOUTH AFRICA'S biggest car factory, the Motor Assemblies plant in Durban, which employs about 3 000 workers, will close for one day on Monday as a result of the slump in car sales.

It is likely that the plant will close for one day every two weeks until the demand for new cars increases.

This decision comes close on the recent retrenchment of more than 170 workers at the plant shortly after it reopened in January following the holiday shut-down.

In spite of the recession and diversion of cash to TV purchases, car dealers had a surprisingly good year for most of 1975. But the crunch came in November and December, when sales were down by more than 10 percent on the same months for 1974.

The Motor Assemblies plant, which is part of the Wesco Group, had laid off about 100 workers in October, but this proved to be not enough.

(1) 315
(2) 47
(3) 197

Recession, yet more work for government

DD.

19/2/76

② 315
② (47)

EAST LONDON — One would think that in the present recessionary trend, unemployment figures would show a sharp rise. But this is not so, especially in central government, provincial administrations and South African Railways.

According to the February issue of the Standard Bank Review, an analysis of published labour statistics reveals that employment in different sectors of the economy has shown varying sensitivity to recent changes in the business conditions.

For instance, the services and general government sectors' response to expansion or contraction phases has been shown to be small. On the other hand, employment in the manufacturing and construction sector has reacted more markedly. Significantly, though, even here the current contraction has been reflected by a levelling off in employment growth rates, rather than by actual declines.

In the area of services, for instance, employment figures for the transport section (represented by the South African Railways) showed a strong upward trend from the beginning of the economic slowdown in mid-1974 until October 1975. Total employment during this period expanded by 19 670, of which 13 489 were black.

Significantly, the transport sector's labour force has grown at an even faster rate during the contraction than it had during the period of general economic expansion (end of 1972 to mid-1974).

This is indicative of the lack of response to economic contraction endemic in the public sector. By contrast, the effect on other, private sector dominated, service industries has been a decline in the growth rate of employment.

Figures for wholesale, retail and motor trade, communications (Post Office), banking institutions, building societies and insurance companies, reflect that the respective labour forces have been increasing, but at a much slower pace than during the preceding period of expansion.

— 1974 upswing. Nevertheless, total employment rose by 33 300 from July 1974 to the October 1975 level of 1 354 800.

The most substantial contribution to this growth was the absorption of some 31 000 blacks. The most significant growth was in the food, basic metal, metal producers and machinery industries.

The building and construction industry, although adversely affected by the recession, experienced a minor upswing in early 1975, reflected by an overall rise in building plans passed. However, the general slowing of the economy has still affected employment, particularly since the construction industry did not follow suit. The sector's labour force continued its rising trend, but the rise has been only a gradual one.

A manpower survey issued by the Department of Labour, indicates that any shortage of white and coloured personnel in manufacturing, construction, retail trade, building societies and universities, has been alleviated during the present contraction period.

Demand for artisans and apprentices has slackened (fewer vacancies are open) and that the skilled labour force has been augmented by immigrants. Shortages in this category, which often continue to exist even during periods of economic contraction, have been largely overcome through job fragmentation, the existence of black artisan aids, and the advancement of blacks into higher job categories.

In spite of a general contraction of demand in the

economy, and the severity of the current recession, total unemployment of whites, coloureds and Asians is still less severe than it was during the previous contraction. Registered unemployment then rose from 7 786 in July 1974 to 12 007 in November 1975, compared with a rise from 5 060 to 12 225 in 1970-1972 — so the major adjustment in the job market may still be to come.

— BUSINESS EDITOR

16/2/76

DUAL THREAT TO THE ECONOMY

Mercury Correspondent

PRETORIA — South Africa will this year have to face up to the twin threats of economic stagnation and mounting unemployment, according to Mr Chris Heunis, Minister of Economic Affairs.

Mr. Heunis has warned that 1976 could be the second successive year of negative growth. And in spite of this, demands for higher earnings by public sector workers will have to be satisfied, at least in part.

This will significantly aggravate the fight against inflation. Any increase granted will largely not be accompanied by higher production.

The increases will neutralise at least part of the anti-inflationary effects of the R800 million cuts in State spending promised by the Minister of Finance, Senator Horwood.

Another grim prospect is the expected all-round increase in basic food prices. The South African Agricultural Union's Commodity Committee starts a series of meetings next month to study the extent of production cost rises during the past 12 months.

The S.A.A.U. has indicated there will be ample justification for higher prices, and the committee is expected to ask for hikes in maize, wheat, meat and dairy products.

Unless the Government agrees to raise food subsidies, the Black population will be hardest hit. And if the higher basic food price rises go with greater unemployment — a distinct possibility — a seriously disturbed socio-political situation could result.

The unemployment situation would be exacerbated by more than 100 000 new African male workers who come onto the labour market every year.

(1) 315
(2) 47
(3) KGA

Job queues and dangers in the offing

Mercury Correspondent
RETORIA — South Africa faces massive unemployment, with its attendant social and political dangers, says the United Party's information chief, Dr. Gideon Jacobs.

In Cape Town this week, the Minister of Economic Affairs, Mr. Chris Heunis, said the country now faced its second year of negative growth.

Dr. Jacobs said the Government had cut expenditure by R800 million and as the State was an important economic

generator, this would be a further drag.

Economic indicators exposed an alarming state of affairs, particularly against the greatly increasing defence expenditure.

If the population

growth of 2.5 percent was considered, the living standards of all South Africans were dropping fast.

This negated the claim by the Minister of Finance that devaluation would not lead to lower living standards.

Devaluation, too, had not yet had its full impact on the economy and prices.

The Government cut of R800 million, about 16 percent of the national budget, would further retard the growth rate and aggravate balance of payments problems.

It was estimated that each year 100,000 new African male workers came on to the labour market. Without growth they would swell the unemployment.

This in turn could create grave social and political problems.

Dr. Jacobs said that if South Africa's total population of 25 million was united, the country's position would be virtually impregnable.

"Clearly, if there is unemployment and hunger the non-White people will become more vulnerable to outside influences."

Dr. Jacobs said inflation was a relative term. In Japan, the inflation rate was 10 percent, but the growth rate 20.

(1) 47
2) 3/5

NM

14/2/76

R800-m Govt budget cuts

Political Staff

THE ASSEMBLY — The Minister of Finance, Senator Horwood, said in the Assembly yesterday he did not have the slightest doubt about South Africa's ability to face the financial future with confidence, despite problems.

Introducing the second reading of the Part Appropriation Bill, he said South Africa's balance of payments position had improved, the inflation rate had dropped and the Government was able to balance its budget.

South Africa's standing in international finance remained high, he said.

Other points made by Senator Horwood included:

- Drastic cuts in Government expenditure. For 1976-77 these cuts would total more than R800-million on amounts requested by various State departments.

- South Africa's foreign borrowing was well within the limits of prudence. Such borrowing



SENATOR HORWOOD

was not excessive in relation to the country's balance-of-payments and its economic strength.

- Gold was still far from being "phased out" as a monetary asset. In the long run there was every reason to be optimistic about gold.

Senator Horwood requested R2 343-million as expected Government expenditure from April to

July this year, when the main budget appropriations for the 1976-77 financial year will come into effect.

The official Opposition's chief spokesman of finance, Mr D D Baxter (UP, Constantia) said the UP welcomed the Minister's confidence in the future. But, the Minister's expression of confidence seemed inconsistent when so recently the rand had to be devalued.

Inflation and devaluation were the "burning questions" today, he said. The official Opposition believed the Government had made serious mistakes in dealing with the situation.

Senator Horwood said devaluation was no panic measure but a considered and realistic response to factors which were not foreseen, namely the prolongation and deepening of the world depression and the sharp decline in the gold price.

These factors were not foreseen anywhere by any substantial body of economic opinion in the earlier part of 1975, he said.

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MINI-BUDGET AS A SMILE

STAR

10/2/76

Horwood is optimistic on gold

From ORMANDE POLLOK,
Political Correspondent

CAPE TOWN—South Africa can look forward to a substantial economic recovery this year, says the Minister of Finance, Senator Owen Horwood.

Delivering a strongly confident mini-budget, he asked Parliament yesterday to approve a part appropriation of R2 343 million, and spent some time replying to critics of the Government in the No-Confidence Debate.

Senator Horwood, rapidly assuming the role of "Mr. Gold" vacated by the State President, Dr. Diederichs, devoted a large part of his speech bolstering flagging confidence in gold.

"Clearly, gold is still very far from being phased out as a monetary asset," he said.

He expressed strong confidence that the balance of payments would also improve and he rejected Opposition statements during the No-Confidence Debate that the balance of payments deficit on current account would be R2 000 million. It would be less than R1 800 million.

"The trend is encouraging and I think we can look forward to a substantial improvement during 1976," he said.

"Much would depend on the speed of economic recovery in export markets and on the gold price.

Inflation, said Senator Horwood, had been curtailed to some extent but because the full effects of devaluation and petrol-price increases had not yet worked through the economy there could be a slight increase in the next few months. The downward trend could, however, continue if everyone co-operated.

The Minister said that while he had projected a deficit of R1 125 million on revenue account, excluding loans, when he delivered his Budget last March, he expected it to be slightly more.

But there would be no difficulty in covering it, he said.

Cut-backs in Government expenditure would be considerable, he said.

Concluding, he said that in contrast to many other countries, South Africa still had a positive growth rate, unemployment was minimal, the balance of payments had improved, inflation was on the decline, the country was in position to balance its budget and the rand was strong.

Problems existed, but on the financial scene South Africa could face

SENATOR Horwood said that in the long run, and given the political and economic uncertainties which seemed almost certain to prevail, he saw every reason to be optimistic on gold.

"It is easy to lose one's perspective about gold. We tend to be despondent about the present gold price, and to forget that, thanks partly to the September devaluation, in terms of rand it is even now higher than the average price on the London gold market in 1974, and more than 50 percent higher than the price in 1973," he said.

"We tend to focus our attention on the persistent propaganda about the 'demonetisation' of gold, and to forget that the recent International Monetary Fund agreement at Jamaica — as did last August's agreement at Washington — in reality reaffirms and entrenches the monetary role of gold."

ELEMENTS

The understanding on gold reached by the IMF in Washington in August, 1975, and confirmed in Jamaica last month, contained four basic elements:

The old and unrealistic official gold price was abolished.

Monetary authorities were permitted to buy gold on the market and to deal in gold among themselves at market

gold now in the hands of the fund, and of monetary authorities of the group of ten, would not be increased, and that there be no action to peg the price of gold.

This subsidiary agreement was subject to review after two years.

"Clearly, gold is still very far from being 'phased out' as a monetary asset," the Minister said.

FACTOR

The portion of the agreement which had caused most uncertainty in the gold market, and had been the major factor in the fall in the gold price since last August, was the provision for the sale of one-sixth of the fund's gold (25 million ounces).

"Though the amount to be sold is substantial, amounting to about one year's South African production over the four-year period, I do not think it is unmanageable, especially with the possibility of central bank purchases as a steadying factor," the Minister said.

Moreover, the fund, and particularly the developing countries, clearly had no interest in

Essay Topic 4: Suggested Reading

related prices. The use of gold in transactions between member countries and the fund was substantially eliminated.

One-sixth of the fund's gold was to be sold for the benefit of developing countries, and a further one-sixth was to be restituted to member countries.

There was also a subsidiary agreement (outside the fund) among the group of ten most important industrial countries that the total stock of

depressing the gold price, since this would reduce the amount of assistance that these countries would receive.

Nevertheless, the uncertainty still prevailing regarding the method and conditions of sale by the fund and the possible effects on the market had undoubtedly tended to depress the price.

There had been other depressing factors, notably substantial Russian gold sales and the possibility of further sales by Russia and Portugal, the strength of the U.S. dollar and relative exchange stability and comparatively high interest rates.

SIGNS

"But eventually, and particularly when the uncertainty regarding IMF sales has been removed, I believe that more favourable factors will begin to assert themselves in the gold market.

"We have already seen a fall in interest rates and some signs of increasing exchange instability, and the possibility of renewed inflationary pressures resulting from easier monetary policies overseas is very real.

"Industrial demand for gold may also provide a useful support for the market.

"In the longer run, and given the political and economic uncertainties which seem almost certain to prevail, I see every reason to be optimistic on gold," the Minister said.

South Africa could look forward to substantial improvement in its balance of payments during 1976, he said.

The Minister said the current deficit in the balance of payments, reasonably corrected, would be a significant one during the fourth quarter of 1975. (Sapa.)

the future with confidence.

Later the United Party said it was "particularly disappointed" that the mini-budget gave little evidence of realistic steps being taken to increase productivity.

The party's parliamentary finance group said it recognised the need for an increased defence expenditure, indicated by the size of the mini budget.

But it was highly critical of the absence of evidence that the Government was taking the correct steps to meet the economic challenges brought "by the threats to our borders and by the difficult economic and financial situation which prevails."

"It is particularly disappointing that there is so little evidence of realistic steps being taken to increase productivity and to encourage the private sector," said the statement.

The U.P. regarded the position as "demanding energetic, imaginative and courageous steps, of which there was no indication in the Minister's speech."

The Government's success in beating inflation was open to "serious question." This was principally because the effects of devaluation had not yet been fully felt and because it seemed that Senator Horwood did not appreciate that defence expenditure was inflationary.

"It would appear from the large increase in the amount appropriated, compared with last year's, that the public will have to face up to higher taxes in the Budget," said the statement.

If increased taxes were necessary, it went on they should be levied in such a way as not to harm productivity or aggravate inflation.

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'Govt to blame for stunted economy'

Political Correspondent

THE ASSEMBLY. — The South African economy had a well-developed White heart set amongst a stunted Black body, Mr Gordon Waddell, PRP MP for Johannesburg North, said yesterday.

At the same time he warned the Government that South Africa was an economic dwarf compared to what it could and should be, and the sole blame for this was Government policies.

He was speaking during a private members' motion, moved by the National Party's Mr J. A. van Tonder, that the Government be asked to institute an inquiry into its long-term economic objectives and priorities.

The fact that a Nationalist was moving the motion probably indicated it would be accepted by the Government—as such it was an explicit admission of the Government's failure and defeat, Mr Waddell said.

South Africa was in grave danger of drifting into socialism because of the Government's involvement in the economy, said Mr Bill Sutton (UP, Mooi River).

"The National Party is becoming a big state, big tax, big corporation socialist party," he said.

The Minister of Economic Affairs, Mr J. C. Heunis, said it remained basic Government policy that the economy was best served by the profit motive, as embodied in the private sector.

The time allowed for the debate expired and the motion lapsed.