

Economy - GENERAL 1986

APRIL - JUNE

Many variables affect SA upswing

By Duncan Collings

A selective recovery of the South African economy is expected in 1986, but its extent and potential to expand employment depend on private sector confidence and international perceptions, say the directors of Investors Mutual Funds, the management company of Sage Fund.

They say that the dominating feature of the 1986 global environment will almost certainly be the impact of lower oil prices. The oil price decline should entrench the prospect of continued deflationary global growth for at least the next two years.

"Short of major disruptions in the US banking sector, currency markets are likely to be more stable this year than in 1985, particularly since the dollar is now generally perceived to be in a lower trading range following its further sharp decline in the early part of 1986."

"Together with interest rates in a declining trend worldwide, continued strength is likely in international equity markets."

Locally, they say that the outlook for the South

African economy is also much improved.

They say that while it is difficult to be optimistic about prospects for the gold price in a deflationary environment "deflation itself can be a disorderly process which can have a positive impact on hedge assets".

The investment and economic environment suggests continued buoyancy on the JSE in 1986, they say.

"However, it is necessary to recognise that an active and firm share market does not in itself ensure or reflect increased economic investment or business confidence.

CONFIDENCE

"In a closed economy, beset by high inflation, a strong equity market can represent no more than divergent portfolio views and the ongoing transfer of the same underlying assets from one group of contractual savers to another."

"Confidence is clearly the only key to initiating real fixed investment with its multiplier effects, and this in turn is a function of socio-political expectation."

Post Business

Trend in gold price

ECONOMIC and political factors make the short-term price of gold uncertain — but its medium- and long-term future continues to be attractive, according to the head of the country's biggest gold investment company.

Mr Julian Ogilvie Thompson, chairman of Anglo American's Gold Investment Company, notes in his annual review that the average price in rands so far this year is about 10% above that of last year.

But he adds that translating this into a dollar price "is particularly difficult to predict at the moment, bedevilled as it is by political considerations even more than by

normal economic factors".

He says South Africa's inflation rate has reached record levels, "but there is hope that this rate will be reduced, thus having a dampening effect upon cost increases during the course of the year".

"It is likely, however, to continue to exceed those of our main trading partners, with the consequent long-run implications for the rand-dollar exchange rate."

Taking these factors into account, he believes in an attractive medium- and long-term rand gold price.

"In the short-term outlook on the supply side, mine production worldwide is likely to increase and sales from the communist bloc, particularly in view of lower revenue from oil exports, are likely to continue to grow."

Turning to demand, Mr Ogilvie Thompson pinpointed a number of opportunities, including:

● Jewellery consumption, which should be encouraged by the relatively low gold price in terms of foreign currencies.

● A resurgence in the coin and medalion markets which, he says, are by "no means moribund".

No short-term improvement in industrial use of gold was likely.

Appeal to explain pension benefits

pension benefits

Business Editor

PENSION fund managers have been urged to communicate more effectively with members to reduce industrial relations problems and cut staff turnover.

Mr Tommie Malan, Sanlam's assistant general manager for pensions, says many employees give little thought as to how much companies are spending on pension benefits, yet the amount can be

between 20% and 50% of an operation's payroll.

"No matter how good the benefits, they have little motivational value if they are not understood and appreciated by the employees," said Mr Malan in the insurance company's latest pensions review.

"Staff turnover remains high and labour unrest continuously makes its appearance. Compulsory deductions from salaries or

wages are often criticised as they are not really understood.

"Many employees resign their jobs for a few extra rands without realising what benefits they are actually losing."

Mr Malan pinpoints the benefits of effective communication as being:

- Employees becoming aware of their competitive compensation package, so leading to greater retention of staff and attracting high-quality new staff.
- Increasing productivity by emphasising employees' financial security.
- Stabilising industrial relations.
- Enabling employees to plan ahead for a secure future.

He cites comprehensive audio-visual presentations prepared by Sanlam as being an example of what can be done to improve communication.

Sanlam's review also warns that the fringe benefit tax may create problems for funding of pension plans.

Mr Chris Rosenberg, pensions valuator with the



MR TOMMIE MALAN

company, points out that if the value of fringe benefits — either in actual cash or equivalent deemed value — is incorporated in pensionable salaries, the fund could be left with a deficit.

He urges that pension fund trustees carefully evaluate the effect of making the value of fringe benefits pensionable, and that they liaise closely with both the employer and the fund's valuator.

600 DAY
486 - STAFF AHEAD 49

Boosting growth rate a priority, says AHI

BOOSTING the current low economic growth rate in SA was an immediate priority, says an Afrikaanse Handelsinstituut (AHI) statement released at the weekend.

At the same time, attention should be given to a more comprehensive strategy — in the longer term — to ensure continued expansion of work opportunities and upgraded living standards in the future.

The statement, issued by AHI president Donald Masson after an executive meeting in Cape Town said: "The AHI is of the opinion that an increase in the current unsatisfactory low growth rate is a matter of immediate priority.

"At the same time, however, attention should also be given to a more comprehensive strategy to ensure continued expansion of work opportunities and enhance-

ment of living standards in future.

"Concerning the immediate problem, reduced government-spending, as indicated in the recent Budget, has created a greater opportunity for the private sector to play a part in an economic upswing."

Energetic efforts should be made to improve the business climate to persuade private consumers and businessmen to take an active part.

SA's commitment to repay its foreign debt would inevitably limit its immediate and longer-term ability to stimulate economic growth, the AHI said.

"For this reason, the AHI supports the authorities in their efforts to normalise SA's payments flow as soon and as far as possible." — Sapa.

Govt tax-cuts and other concessions are on the cards

STAR (49) ~~2/15/86~~
3/15/86

By Michael Chester

An economic package that may include a two-percent cut in general sales tax can be expected from the Government inside the next few weeks, according to a leading Johannesburg stockbroker firm.

A review prepared by Davis Borkum Hare predicts Government action is imminent in a bid to break "a crisis in consumer confidence".

Both the March Budget and the big slide in interest rates had failed to boost consumer spending — crucial to the start of an economic recovery out of prolonged recession.

UNCERTAINTIES OVER JOBS

Consumers, faced with declining incomes in real terms and uncertainties over jobs, were still not prepared to increase their spending or debt commitments and the stalemate was blocking the normal circuit into economic revival.

"Under the circumstances," say the stockbrokers, "the Government is likely to fill the gap through higher State spending and a tax-cut, spending package can be expected to be announced shortly.

This may take the form of a 2 percent GST cut, or might be a package consisting of a loan levy repayment, pay-as-you-earn rate reductions and import surcharge cuts."

Even then, even with a rise in State spending, any recovery looks likely to be sluggish during the current quarter. It would still be difficult to achieve the official projection of a three-percent economic growth rate for the year as a whole.

"Promise of recovery in the economy, which looked to be on the cards late in 1985, seems to have dissipated.

"The current account of the balance of payments has deteriorated drastically, unemployment is rising fast, credit demand is stagnating, and retail sales — notably car sales — have turned down".

Exports were also performing "very badly" at the moment, with merchandise exports in the first three months of the year no more than 13 percent better than a year ago.

Public service pay takes big Budget bite

GERALD REILLY

ALMOST a third of total government revenue in the 1986/87 financial year — R33,5bn — will be paid to almost 800 000 public servants, according to a PFP analysis.

The issue of the huge public service and cost of maintaining it will be raised by Opposition speakers during the Budget debate, which starts when Parliament resumes next Monday.

Calculations based on Central Statistical Services' figures show nearly 400 000 State department workers, 260 000 in the provincial administrations, 30 000 in the statutory bodies and 118 000 in the national states were paid about R9,3bn in the 1985/86 financial year.

In his Budget speech, Finance Minister Barend du Plessis announced the 10% increases for public servants would cost the taxpayer an additional R1bn.

Progressive Federal Party spokesman on the public service, Reuben Sive, said security and economy was being increasingly threatened by the crippling burden of paying the public service.

Sive estimated that almost a third of State department workers — aside from the many thousands in local and provincial governments — were administering and policing apartheid.

Yet Du Plessis had claimed in his Budget speech that the numbers engaged in "regulatory and administrative" functions were not unduly high.

Sive said in spite of the State President's undertaking three years ago to work towards a leaner and more efficient public service, bureaucracy had spread and become more costly.

2/4/86 BUS DAY
Industry now the best job-creator (49)

Power unit needed for manufacturing

A POWERFUL engine, to pull the economy out of the doldrums, is advocated by the Bureau of Economic Research.

Stellenbosch University's business monitoring organisation adds that for several years economic performance has been far from satisfactory.

It says, in its latest *Manufacturing Survey* that of three economic sectors, mining, agriculture and manufacturing, the last should have the greatest employment potential.

"The manufacturing sector has, in fact, overtaken agriculture and mining as the main contributor to gross domestic product growth."

Its performance as a creator of employment has, however, been far from satisfactory.

This stems mainly from more capital-intensive production techniques in this industry.

"Total employment in the manufacturing sector has decreased continuously from 1,483-million in the fourth quarter of 1981 to 1,343-million in the fourth quarter of 1985," the survey says.

Weekly overtime for each worker decreased from 6,2 in the third quarter of 1981 to 3,6 in the third quarter of 1985.

The bureau says a continuation of these trends, according to respondents to its survey among manufacturers, is likely, albeit at a slower rate.

It adds that the major cause of the low level of activity in manufacturing is the slack domestic demand for manufactured products.

Prospects for an improvement in demand "have changed towards the optimistic side, probably as a result of lower short-term interest rates and an easing in hire purchase agreements."

Manufacturers will, however, have to explore opportunities offered by foreign markets if they want to improve activity levels.

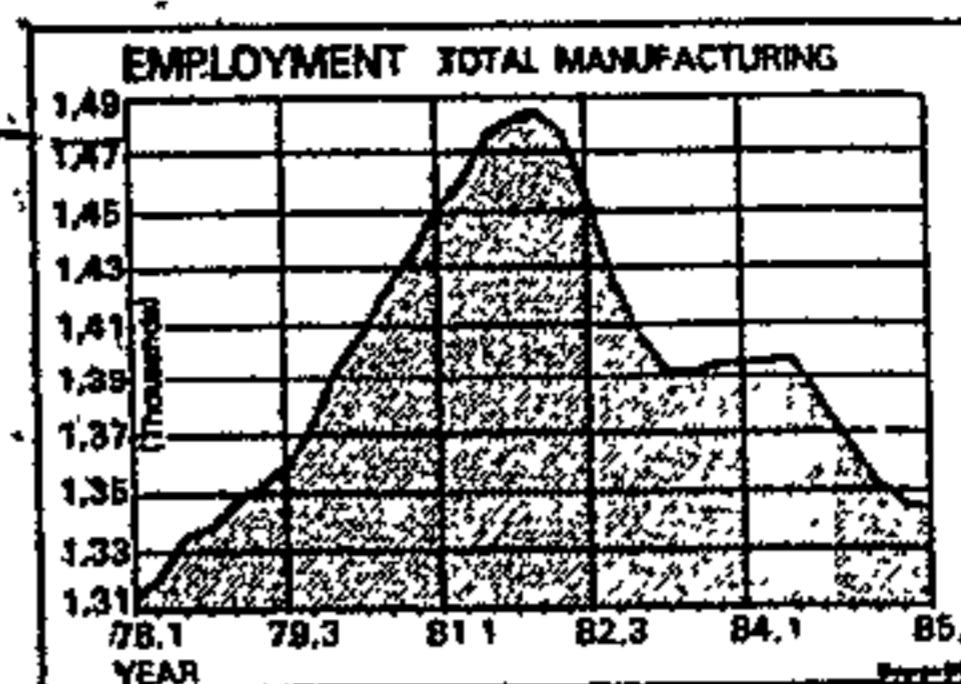
"Given the low level of production capacity utilisation, the expected livelier conditions will not lead to increased employment creation, nor new investments in buildings and machinery, for quite a while."

It adds: "A very beneficial development, however, is that the high degree of pessimism among businessmen in the manufacturing sector has started to diminish."

"The business mood has changed to a more optimistic level." — Sapa.

3/4/86 BUS DAY
 Production volumes down

SA economy bleak — BER



continuously from 1,48-million in the fourth quarter of 1981.

Apart from a small improvement at the end of 1983, production volume has also been dropping steadily since 1981's fourth quarter, says the survey.

Overall, economic activity is still at a very low level, which is reflected by the large number of liquidated companies relative to newly-registered ones, says the survey. The number of com-

panies registered, minus those liquidated, for the fourth quarter of 1985 was 519, compared with 1 383 in 1984 and 2 916 in 1983.

The survey says manufacturers believe the volume of production sales and orders received in the second quarter of 1986 will be only marginally above levels in the same quarter in 1985. The improvement will not be large enough to have any beneficial effect on either em-

ployment or working hours.

The major concern is the rate of inflation. Production prices increased rapidly from 106 (index 1980 = 100) in the fourth quarter of 1980 to 190,4 in the fourth quarter of 1985.

From 1983 to 1985, labour cost per unit of production increased 13,4% a year, which together with the decreased volume of production reflects a shortage of skilled labour, says the survey.

Union is ready to contest sacking of 400 policemen

THE SA Black Municipal and Allied Workers' Union (Sabmawu) is to go to the Rand Supreme Court to contest the sacking of about 400 Soweto Council policemen.

Sabmawu general secretary Philip Dlamini said the union would file papers today and would go to court on Tuesday.

He said the employees had been fired last Thursday when they refused to sign forms undertaking not to strike, to accept the salaries they were receiving and to give the council the right to retrench or dismiss workers at any time.

He said the union would try to secure a court order com-

CLAIRE PICKARD-CAMBRIDGE

pell the Soweto Council to reinstate all the fired employees, to pay them their salaries for March and to restrain the council from making employees sign an undertaking to abide by "unfavourable conditions".

Soweto town clerk Nico Malan said he did not want to comment on the matter.

Workers were demanding that they be paid what they were promised they would earn when they were recruited, Dlamini said.

He alleged that in some instances workers were receiving up to 50% less than they

should have been.

● Striking workers at the Rand Mines-administered Rietspruit colliery near Bethal, in the North Eastern Transvaal, returned to work yesterday and management is dealing with the grievance which triggered the strike.

Workers went on a wildcat strike on Tuesday after dissatisfaction with a colleague who had allegedly been assaulting and threatening workers.

The strike lasted for one day and affected more than 600 of the 900-strong workforce. The grievance is being dealt with in terms of the mines normal grievance procedures.

Shock for trade

When Finance Minister Barend du Plessis said that the only product to be exempted from the 10% import surcharge was books, he meant it. Trade analysis of his Budget announcement has found that newspapers, journals and periodicals — among others — are still subject to the 10% surcharge. Only "books . . . and other products of the printing trade" are exempted.

The lifting of the surcharge on books was hardly unexpected, after a campaign by the book trade, in the press and petitions (*FM* January 17). Now the trade is astounded by the actual details.

Says Piet Groenewald, Universitas Books MD: "This is serious, as university and technical libraries spend up to 80% of their budget on technical journals and newspapers." It is all the more remarkable in the light of the play Du Plessis made on education being allocated the largest amount in the Budget — R6,1 billion. ■

Fears of dollar shortage begin to fade

Pressure on rand easing — De Kock



DE KOCK

A SUM of \$420m has been set aside to repay the first tranche of SA's foreign debt on April 15, says Reserve Bank Governor Gerhard de Kock.

It is unlikely, however, that the amount will be repaid in one fell swoop and bankers believe the actual drain on reserves could be considerably less. This means the feared sharp drop in the rand in mid-April may be avoided and indications for the currency are bullish.

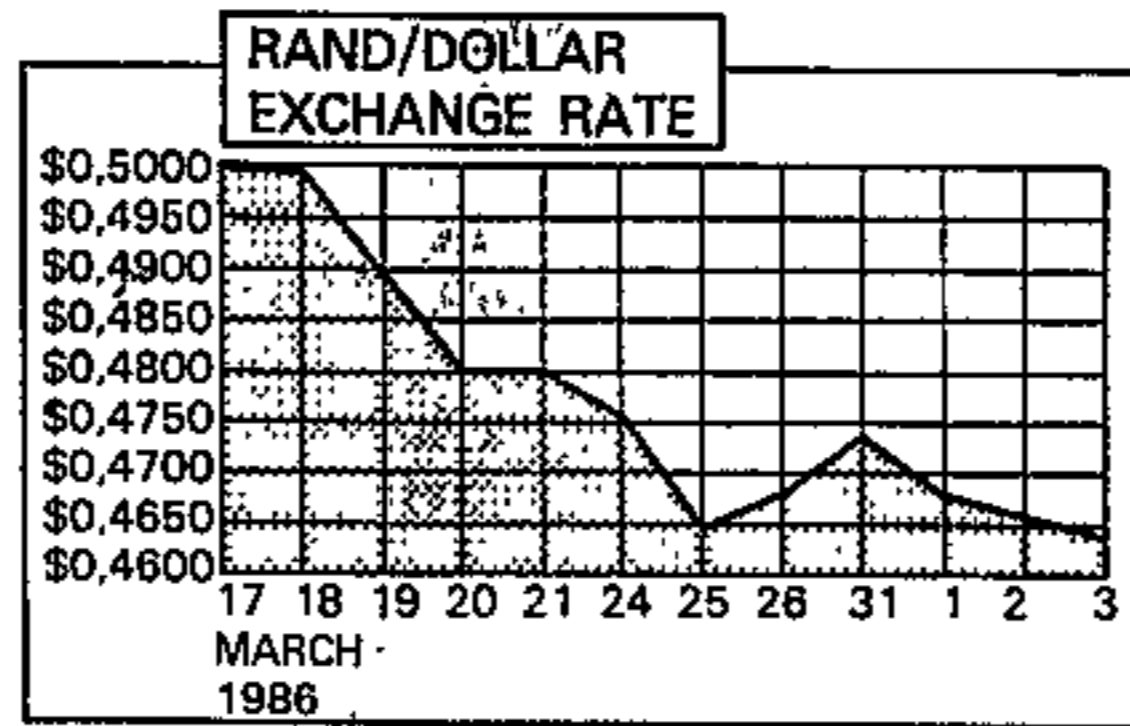
"Once April 15 has come and gone people will realise that as long as SA maintains a current account surplus, the rand has upside potential," says De Kock.

Last year's threats of foreign creditor banks holding up transit funds in the clearing system, attaching SA's foreign assets or resorting to court action has been effectively defused.

"At one stage last year these threats were very real," says an official source.

It is believed importers are no longer being forced to pay up front because trade credit abroad has again become available. The additional "lead" pressure on the rand exchange rate created by these upfront payments depressed the value of the rand.

Banks have already made provision for the April 15 deadline and it is this which has contributed to the weakening of the rand in recent weeks from levels of about \$0,50 (see graph). This appears to be confirmed by reports that banks late



GERALD PROSALENDIS

yesterday afternoon were selling dollars to the Reserve Bank rather than buying them.

"However," says De Kock, "if the Reserve Bank needs to supply dollars to the market we have arranged gold swaps. The funds from these will be available by mid-April."

Where loans have been rolled over by foreign creditors beyond April 15 normal repayment procedures will be followed and the 5% due will be repaid when the loans mature.

It is believed the pledge of a lump repayment was used as a carrot by the monetary authorities to entice foreign banks into an agreement with SA. Any new credit negotiated by SA borrowers will fall outside the standstill net.

In effect, SA's creditors are now morally locked into the debt repayment agreement for a year.

After the February announcement of an agreement, the market quite correctly acted favourably and the rand recovered. Unfortunately, rumours of the \$420m repayment filtered through from London before officials were in a position to clarify that this was not an additional sum, but part of the original \$500m which had been negotiated.

The official statement clarifying any misunderstanding came too late. The rand had already come under pressure.

The original arrangement with foreign banks in February involved a repayment of \$500m before March 1987. Of this sum, \$420m would have been paid over a period of three months.

However, in subsequent technical discussions it was agreed that repayment of the total would be extended to June 1987. In exchange, SA agreed to a lump repayment of the \$420m in mid-April.

Also, agreeing to a lump sum served to get the 270 smaller foreign creditor banks on board.

Of the loans falling due between April 15 and June 30 next year 5% is also repayable. The figure involved is less than \$100m.

This means that the total amount inside the standstill net that will be permitted to leave SA between now and the end of June next year will be slightly more than \$500m.

Amounts outside the net, including the \$700m owed to the IMF, will be repaid in the normal fashion.

BW DAY
4/14/86

49

Production index hints at SA upturn

BS
49
GERALD REILLY

THE levelling-out process in the economy is reflected in the latest production-and-sales index released in Pretoria yesterday by Central Statistical Services.

The production index fell by 2,3% in the last quarter of last year compared with 1984, and by 5,5% for the whole of 1985.

Volkskas economist Adam Jacobs said the figures indicated that the economy had at last reached a turning point.

He expected the negative production index to switch to a moderate increase in the first quarter of this year.

CSS figures show that in the last quarter of

last year the production index fell by 2,3% — from 121,0 in the last quarter in 1984 to 118,2 in the October-December period last year.

The basis of the index is 100 in 1975. However the value of sales, without taking inflation into account in the three months increased by 20% to R20,8bn.

According to CSS the volume of manufacturing production for the whole of 1985 decreased by 5,5% compared with 1984.

Largest decreases were recorded by the motor vehicle, parts and accessories industry — 31,8%.

Transport equipment fell by 18,4%; machinery and equipment by 19,3%; electrical machinery by 10,3%; glass and glass products by 13,9%; clothing by 13,5%; leather and leather products by 11,1%.

Industries which recorded increases were paper and paper products by 6,4%; basic iron and steel industries by 3,6%; food by 3,1%.

Other economists agreed with Jacobs that the economy had begun to emerge from the recession and that the mild stimulatory measures initiated by government should start to show results during the first quarter of the year.

Politics, sagging gold, rand deal blows to confidence

Business hopes reel

SUN DATES
49
6/4/80

Liberty adds layers onion

to grow like giant onions — steadily and stealthily, adding layer after layer each season. Profitability in one year does not depend only on current performance, but on business written in the previous 20 to 30 years. In Liberty's case, the layers seem to have been getting thicker faster than most of its competitors.

Symbiotic

A significant portion of the 58% jump in its assets to R6,7-billion can be attributed to the effects of a depreciated rand on its burgeoning offshore interests. Its UK property company, Capital & Counties, was consolidated for the first time in the accounts.

Liberty has long managed to maintain what appears to be a symbiotic relationship between shareholders and policyholders. While recording healthy dividend growth for shareholders, it has established a sound bonus history for policyholders.

On taxed portfolios, such as endowments, the declared bonus rate on the managed portion outstripped the inflation rate each year up to 1984, during which it dipped marginally, and in 1985 when inflation averaged a record 18,5% relative to a bonus rate of 18,17%.

Inflation

By David Southey

BUSINESS confidence has taken hammer blows in the past fortnight from political developments, a sharp drop in the gold price and the rand.

The continuing death toll in the townships, Bishop Desmond Tutu's call for sanctions and more bad publicity abroad set back business confidence as it was reviving.

Falling oil prices depressed the gold price to \$335 from \$353. The rand has barely managed to keep above R0,46 in spite of Reserve Bank support.

The plunge in the oil price to below \$10 a barrel — a cause for much rejoicing in most industrialised countries — carries with it the threat of continued easing in the gold price.

Exporters

The lower gold price and softer rand play into the hands of exporters, boosting their rand earnings. But they must fan inflation, now burning up the rand at the rate of 18% a year.

A sicker rand would also offset the lower dollar price of imported crude oil.

Even agriculture, which only a few weeks ago economists were pointing to as a significant gainer this year, could turn out a lot less fruitful than was hoped.

Although some parts of the country have received better than average rains and crops are promising, many areas are still drought stricken. Meteorologists say SA cannot yet be considered to have emerged from its worst drought in more than 100 years.

Mirroring most of the bad news in the economy in the past few months is the Stellenbosch Bureau of Economic Research's (BERs) Manufacturing Survey.

The BER says: "Boom conditions are definitely not in the pipeline for some time to come."

Noting that SA has lost the growth forces which made the 1950s and 1960s golden, the BER believes the only possible source of growth is "an autonomous supply of vigorous enterprise, entrepreneurship, or a managerial renaissance".

As BER director J P Spangenberg concedes, that renaissance will not take place without huge spending on education and training. That capital requirement will not be met without the foreign investment and loan tap being turned on again.

Jobless

Highlighting serious unemployment in the manufacturing sector, the BER says it has been increasing continuously since 1981 — from 1,48-million to 1,34-million in the fourth quarter of 1985.

"Given the low level of production capacity utilisation, the expected livelier conditions will not lead to increased employment creation or new investments in buildings and machinery for quite a while."

Mr Spangenberg agrees with other economists, such as Rob Lee of Old Mutual, that this year's Budget is restrictive under the circumstances.

Another confirmation of the drop in confidence levels comes from Assocom's business confidence indicator, which recorded a four-point drop in March — the first in four months.



Scope break

By Kerry Clarke

SCOPE Industrial Holdings, which some analysts believed would become the most attractive share in the Johannesburg Stock Exchange's engineering sector, is set to be liquidated on April 15.

A spokesman for Trust Bank, the major creditor, says Scope will be liquidated.

w
sta
Be
ab
(at
sm

Tr
sa
no
to

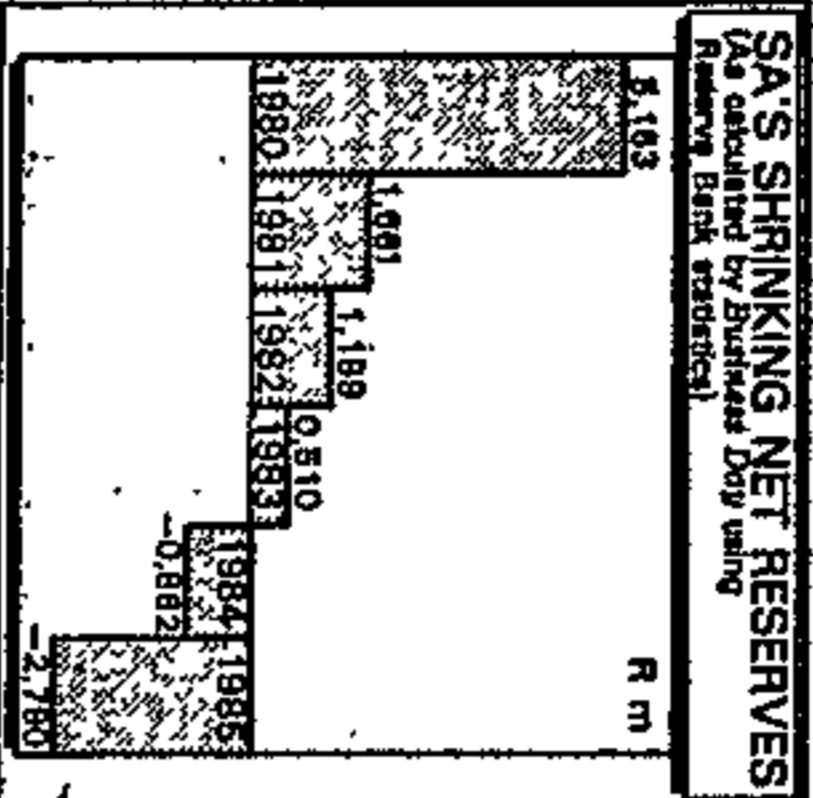
BUSINESS DAY

C (45c + 5c tax) For other prices, see Back Page

SALDRU
SCHOOL OF ECONOMICS
U.C.T.

Looking for
Property or Premises
Take expert advice
JOHANN STRUG, 111656
CAPT TOWN 25-123
RUBEN 25-125
LANDMARK
PROPERTY BROKERS AND VALUERS

7/4/86 "THE VITAL VIEWPOINT"
BUSINESS DAY (49)



SA verges on bankruptcy as reserves slump

SHARP deterioration in the external financial position has pushed net foreign reserves almost R3bn into the red. Gold and foreign exchange reserves, including those held by the banking sector, have shrunk from R5,18bn in 1980 to a negative R2,76bn at the end of 1985. This turnaround of almost R8bn has been mostly the result of increased capital drain, the debt crisis, the rand's slump, and substantial gold swaps. SAs verging on bankruptcy — If it is not already there.

LESLAY LAMBERT

The state of the net reserves has been calculated (using Reserve Bank figures) by deducting from the gross gold and other foreign reserves held by the SA Reserve Bank, short-term liabilities of the rest of the monetary banking sector. The outcome shows that for the past two years the banks' short-term liabilities have exceeded the gross reserves by R862m in 1984 and by almost R3bn last year.

Reserve Bank figures show net foreign reserves shrank by R3,3bn during 1985. A decline of R1,1bn during the first quarter of 1985 was followed by an increase of R1,4bn during the second quarter. The subsequent renewed capital outflow led to a decline of R3,6bn during the second half of the year. JCI economist Ronald Beethlem says the very low level of net reserves calculated in this way is a hard measure of the country's lack of liquidity. "However, the deterioration revealed

by these figures is to some extent technical in that it is connected with a shifting into the short-term foreign liabilities of the monetary banking sector — liabilities that were previously recorded in the corporate sector. This has happened because of the debt standstill," he says. Although reserves started to grow again at the beginning of this year, with an increase of R522m during January

Reserves slump R3bn into red

and February as unfavourable leads and lags petered out, the situation appeared to be changed again last month. As the exchange rate declined, leads and lags reappeared.

The net reserves began to shrink steadily after 1980. From a current account surplus of R2,86bn during that year, the balance of payments slipped into deficits of R3,9bn and R3,2bn during 1981 and 1982. A small surplus was recorded the following year, only to be plunged substantially into the red again in 1984, while last year, a surplus of R7,1bn was recorded.

While the rand value of gold has boosted the economy, as the currency lost value against the dollar, the Reserve Bank's stock of bullion has shrunk because it has been used as security for swaps or pledges.

The 12-million ounces of gold held in reserve in 1981 dwindled to a meagre 4,8-million by the end of last year.

Despite the standstill, substantial payments have had to be made from reserves on portions of foreign debt which were not restricted by the foreign debt freeze.

The deterioration of the rand has exacerbated the precarious state of reserves. If SA still had foreign credit facilities at its disposal, and if normal economic trends had not been traumatised by recent unique occurrences, the deficit in net reserves would not be viewed with such alarm, but because many international credit lines have been cut, the continuously large deficit could become critical as debts are repaid and not rolled over.

As long as the shortfall in net reserves persists, the authorities will find it difficult to achieve recovery in the rand. It is imperative that policy should be directed towards the shortfall's correction.

From Page 1

6 To Page 2

Govt functions to be probed

Committee to look into privatisation

PRIVATISATION of all government functions and activities will be investigated by the recently appointed Privatisation Committee, says Jimmy Vermaak, chief director of privatisation and deregulation.

"This will happen over a period of time," Vermaak says. "If privatisation is found to be feasible, the committee will decide which of the various methods of privatisation would be appropriate in a particular case."

At this early stage, the committee has not yet formally considered a conceptual standpoint on privatisation.

"But I am of the opinion that privatisation is not an end in itself," says Vermaak. "It is, rather, part of a broader strategy for economic development in which free market forces should be allowed to function at an optimal level."

"In terms of such a strategy, privatisation should be resorted to whenever it will be to the benefit of the country as a whole."

According to Vermaak the main fac-

ALAN PEAT

tors to be considered include:

- Level of competition in that particular field;
- Long-term benefit for the taxpayer;
- Need for continuous performance of the function at reasonable cost to the consumer or taxpayer;
- Position of staff members concerned.

Vermaak adds that privatisation of toll roads should not be considered as a test case on how government will handle privatisation generally.

"There is no 'test case' on privatisation. Quite different sets of circumstances are involved in each possible case."

On toll roads, Vermaak says: "It does not necessarily follow that a decision taken in a particular case will have to be followed meticulously in all other cases in future."

"But I would expect that it would serve as a general guide for future, similar actions."

BUS DAY
10/4/85 (49)
BP opposed to sanctions

MORE investment, not less, was needed for reform to succeed, the chairman of BP Southern Africa, Ian Sims, said last night.

He told the SFW Nederburg wine auction dinner in Cape Town economic factors were hampering progress.

"To succeed, the reform process needs more investment, not less: more freedom of trade and association, not sanctions, not disinvestment, and definitely not isolation.

"Reform needs a healthy economy if violence and ultimately revolution or tough oppression are to be avoided."

Sims said turmoil in SA was the product of hope, not despair.

"The ferment of debate is the result of changes taking place and the expectation of more to come — and come it will."

South Africa could, with the world's help, provide a model of First and Third World partnership by the year 2000, with a political system balancing the needs of its developing citizens and those of its First World job-creators, he said. — Sapau 10/4/85

By Stan Kennedy

Over the next three years, the interplay between intention and reality of monetary targeting by the South African authorities will, to an important degree, influence the path of interest rates and economic growth, says Barclays Bank in its latest *Business Brief*.

Potentially, this policy refinement should be for the good in managing the economy, although misjudgment of the forces at work could lead to unfortunate outcomes.

It therefore implies high risk for the financial markets.

"Responsible management of the money supply, that is ensuring a low rate of inflation, should be an obvious objective of macro-economic policy," the bank says.

"South Africa has not for many years enjoyed the benefit of such a policy when judged by the travails of money supply measures, such as M1, M2 and M3.

"In future, the intention is to be responsible in this important area

Monetary targeting will become major factor

of the economy."

It says the money supply should grow fast enough to accommodate the established level of price increases and hoped-for real growth in output. In time, the target range can be tightened to start squeezing inflation out of the system.

It says there should be no illusion about the ability of the monetary authorities to reduce inflation in this way.

If the cost of money is pushed high enough, real sector participants will eventually change their competitive behaviour and the inflationary momentum will slow down.

The South African environment is bedevilled by structural realities that could place a responsible monetary policy on a collision

course with the political leadership.

Can South Africa, it asks, afford a responsible monetary policy and its real sector effects that could follow? And if not, will the authorities deviate from their intentions or could we later on in the new business cycle be confronted with a clash of opinions which would determine whether or not we will have to accept Volcker's medicine and its consequences for a second time?

"Uncertainty regarding all these options creates a bewildering range of potential scenarios for interest rates, the rand and inflation. The eventual outcome could therefore prove costly to some of us, not all of us."

'Budget sums may be difficult to achieve'

Financial Staff
"At first glance, the Budget sums looked attractive, but closer analysis suggests that they may be difficult to achieve with the enormous internal as well as external political and financial pressures impacting the economy," says *Standard Bank's monthly Review*.

The Budget probably achieved at least one short-term objective: to underpin frail consumer and business confidence. But government borrowing requirement was thought to have been "underestimated".

Foreign debt was a new and additional constraint in the budgeting process. "Thus, pressure

from foreign lenders became a dominant countervailing force to domestic considerations.

"The short-term interests of international banks indicated a need for fiscal responsibility and at best a neutral budget, while the domestic situation may have suggested a meaningful stimulation of the economy."

The international banking community's insistence that South Africa preserve its ability to continue repaying foreign debt, even in the face of weak commodity markets, "appears to have been a major factor in shaping this year's Budget".

Waste disposal row

The Progressive Federal Party MP for Albany, Errol Moorcroft, alleged during the Budget debate in parliament this week that a South African waste disposal company won a contract in the US to dispose of "certain hazardous industrial waste" at a site near the black township of Motherwell in Port Elizabeth.

He said it was "particularly disturbing" that there were indications that the waste may have included radioactive material.

Moorcroft did not name the company. It is understood, however, that an import agent rather than the company itself acted as main party in the application.

He demanded to know what role government played in the operation and suggested it would have been impossible for a contract to have been awarded without government approval for the disposal of the waste in SA.

Application refused

The department of Trade and Industry last week acknowledged that an application had been made for a permit to import "unspecified" industrial waste, but had been refused after an objection by the Department of Environmental Affairs.

But Moorcroft said: "What company would go to the expense of tendering without first checking out whether or not the government of its country would allow it to go ahead if it won the contract?"

He demanded to know what substance could prompt a US company to pay "considerable sums of money" to ship waste to SA for disposal.

"Why . . . are the Americans unwilling or unable to find someone in their own vast continent who is prepared to handle this waste cheaper than a South African firm . . . also, what is the nature of this waste which is in small enough quantities to make shipping it a viable proposition but so deadly that the Americans don't want it themselves?" he said.

Government is expected to respond to Moorcroft later in the debate. ■

1114100

THERE is a case for optimism about the short-term prospects for the rand, but it is conditional on the application of the right mix of monetary and fiscal policy, and on government keeping its cool regarding the handling of the unrest situation.

For a recovery of the rand to be sustained, however, both luck and perseverance by the authorities will be required as SA passes through what will, almost certainly, come to be seen as the most challenging phase of its post-war economic history.

In economics, a tendency exists to focus on historical data, for these are all one has for analysis and the identification of trends.

But historical data can be very misleading.

Their very character frequently precludes the identification of turning points in fluctuations or cycles until it is too late to exploit the knowledge for gain in financial markets.

In large measure, the decline in the net reserves last year — to which attention was rightly drawn in the columns of *Business Day* last Monday — is water under the bridge, and it has to be accepted as such.

What matters is what is happening now, what can reasonably be expected to happen to the reserves in the months to come and how that might affect the rand's exchange market performance.

The case for optimism about the rand depends on four developments about which we do have some definite knowledge.

These are:

□ The large surplus that continues to exist on the current account of the SA balance of payments;

□ The substantial decline in the oil price relative to the gold price, and what that means to SA in terms of prospective foreign exchange savings;

□ The improvement in the growth, especially because of the oil price decline, that is now in prospect in Western industrialised countries in 1986; and

□ The severity of the present recession in SA that is likely to keep the demand for non-strategic imports low in real terms.

In combination, these suggest that, short of a gold price collapse, another very large surplus will be earned on the current account this year.

That will help considerably in assisting a reserve position recovery.

In dollar terms the surplus could even exceed that of 1985, but that will depend on what happens to the dollar itself against other reserve currencies and also

Prospect of a stronger rand if government can keep its cool

BUS DAY

49

RONNIE BETHLEHEM

on what happens to economic policy.

If policy in its fiscal aspects is designed to ensure that the spending targets of the Minister, as identified in the Budget, are not seriously breached (the targets themselves were certainly understated to harmonise with an underestimate of likely Exchequer receipts so as not to exaggerate the final deficit before borrowing), and if policy in its monetary aspects provides for an easing of short-term interest rates in line with the collapse that is occurring in the demand for credit, no serious threat to the surplus should be posed.

A 3% growth in real GDP is quite consistent with a surplus on current account of between R4 500m and R5 500m, even if both the dollar price of gold and the rand in dollar terms remain at around present levels.

Too much should not be made of a 3% increase in real GDP in calendar 1986 in SA.

Such a rate of growth would be achieved on an increase of less than 2% in real gross domestic expenditure if the BoP current account performs as assumed here.

It is a minimum rate of growth needed to counter the effects of population change. To bring about some significant per capita improvement, more would be required, but could not be allowed given the absolute necessity of the BoP current account target.

This is not open to bargaining because it has already been pledged to Dr Leutwiler.

It is clear from what has been said that a substantial surplus on the current account is possible this year, even if the dollar/gold price shows no significant improvement.

However, an improvement in the dollar/gold price as we get closer to 1987 should not be ruled out, for three reasons:

1. — The collapse that has occurred in the oil price, even if it is extended in the immediate future, is unlikely to be long-enduring because of the problems it creates for oil producers and their creditors;

2. — The decline that has already taken place in the dollar on world foreign exchange markets must in time affect inflation in the US adversely (indeed, import prices there are already rising, though this is being camouflaged at present by the fall in oil prices); and

3. — The economic upswing in the US (the longest-enduring of the post-Second World War period), if it is extended by an easing of domestic interest rates and improved growth in Western Europe and Japan, will lead in time to an intensification of pressure on capacity limits.

In any other circumstances, and against the background of such a dramatic collapse in the oil price as has occurred, the adverse pressure of the gold price would have been considerable.

It would very likely have fallen below \$300 an ounce and perhaps even lower.

That it has held up above \$330 an ounce is a measure of the seri-

ousness with which the views the effect of the oil collapse on Mexico, on other oil producers and on their banks.

Nor should the effect of the price collapse on US domestic producers and their creditors be disregarded.

As far as SA official policy concerned, the argument put forward here is a simple one, though unemployment is at a dangerously high level, which precludes any stimulus being given to the economy which threaten the BoP current account surplus and worsen inflation.

Any attempt to push the economy via fiscal policy would be such a risk and would, I believe, also have more of an impact on money GDP than on real GDP.

In other words, its real benefit would be limited and short-lived. This certainly is a view encouraged by the growth experience of the first half of the Eighties.

This leaves only monetary policy to effect an internal reaction to the downswing, contrary to the published official view, cannot yet be said to have bottomed.

Indeed, a decline of short-term interest rates in SA in present circumstances would not be an easing of monetary policy if it were to reflect only the weakening demand for credit locally.

Given this and the underlying BoP position, an easing of short-term interest rates is logical, and just what is needed to encourage the economy to recover.

1114100

et of a r rand if ment can s cool

BUS DAY



E BETHLEHEM

clear from what has been had a substantial surplus on current account is possible for, even if the dollar/gold price shows no significant improvement.

However, an improvement in the dollar/gold price as we get to 1987 should not be ruled out for three reasons:

The collapse that has occurred in the oil price, even if it is not in the immediate future, is unlikely to be long-ended because of the problems it poses for oil producers and creditors;

the decline that has already taken place in the dollar on world exchange markets must affect inflation in the US (indeed, import prices are already rising, though being camouflaged at present by the fall in oil prices); and the economic upswing in the longest-enduring of the second World War period, if extended by an easing of domestic interest rates and induced growth in Western Europe and Japan, will lead in an intensification of present capacity limits.

In any other circumstances, the background of a dramatic collapse in the rand as has occurred, the downward pressure of the gold price would have been considerable.

The rand would very likely have fallen to \$300 an ounce and perhaps lower.

That it has held up above \$330 is a measure of the seri-

ousness with which the market views the effect of the oil price collapse on Mexico, on other LDC oil producers and on their creditor banks.

Nor should the effect of the oil price collapse on US domestic oil producers and their banking creditors be disregarded.

As far as SA official policy is concerned, the argument put forward here is a simple one. Although unemployment is at a dangerously high level, necessity precludes any stimulus being given to the economy which would threaten the BoP current account surplus and worsen inflation.

Any attempt to push the economy via fiscal policy would run such a risk and would, I believe, also have more of an impact on money GDP than on real GDP.

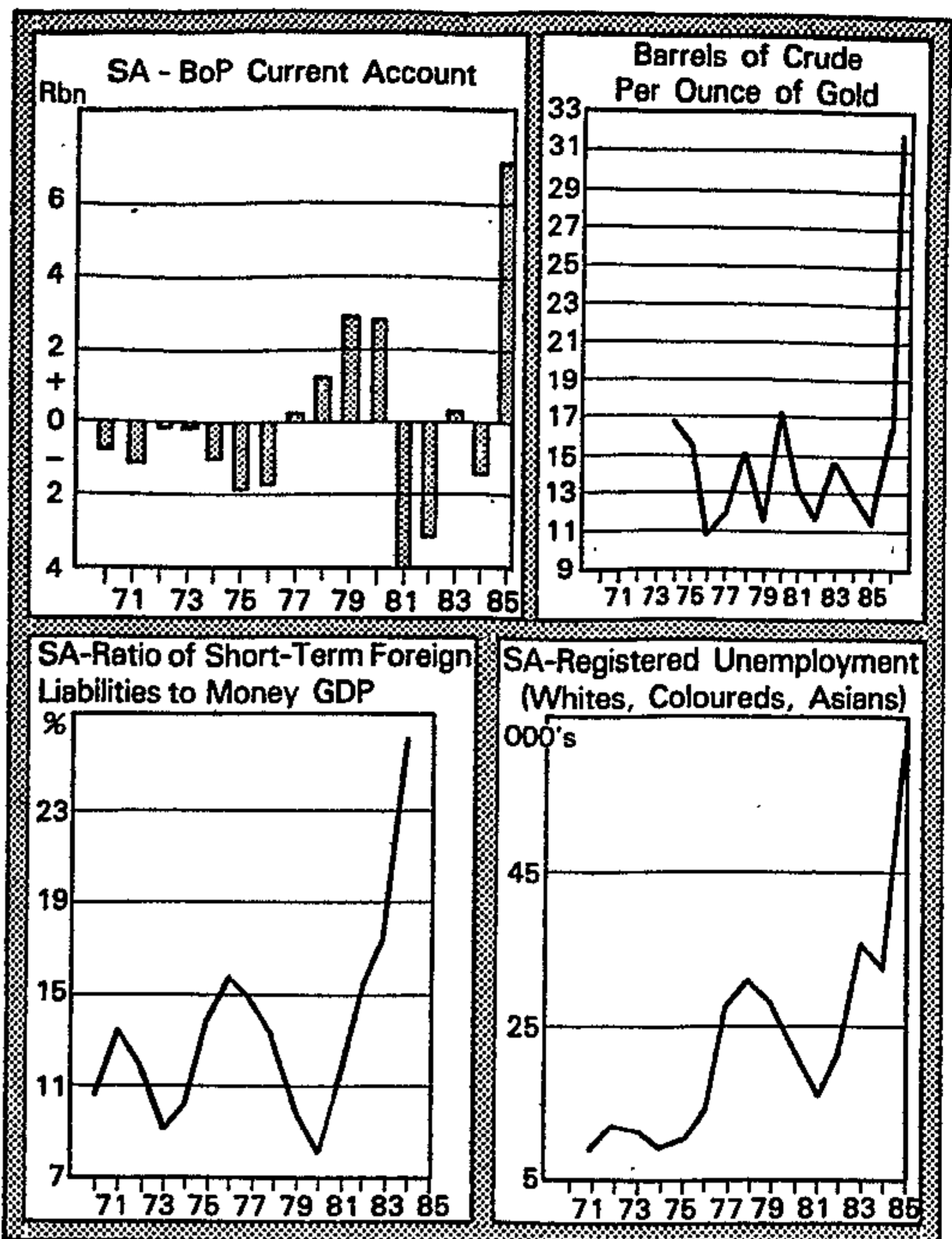
In other words, its real benefits would be limited and short-lived.

This certainly is a view encouraged by the growth experience of the first half of the Eighties.

This leaves only monetary policy to effect an internal correction to the downswing which, contrary to the published official view, cannot yet be said to have bottomed.

Indeed, a decline of short-term interest rates in SA in present circumstances would not signal an easing of monetary policy if it were to reflect only the weakening demand for credit domestically.

Given this and the improving underlying BoP position, an easing of short-term interest rates is logical, and just what is needed to encourage the economy forward



in a non-inflationary, self-sustaining way.

Falling short-term interest rates, too, would encourage lower long-term rates if, as time passed, the recession and lower world inflation were seen to reduce domestic inflationary pressures and inflationary expectations.

So a change in policy emphasis is now called for, and this should be made in full knowledge of what it implies for greater monetary growth in 1986.

I think the target set for M3 by Dr De Kock allows for such a change in policy emphasis and, therefore, is realistic in present circumstances.

Only those taking monetarist pronouncements too literally will be surprised by a simultaneous easing of inflation and an increasing of money growth in present circumstances.

To all this the rand's role is crucial. It was the collapsing rand which triggered a surge in inflationary expectations last year and the result was a vicious cycle from which it was difficult to engineer any release.

However, a significant recovery in the rand's exchange rate has now been achieved. For the time being, inflationary expectations (of the extreme kind evi-

denced between November and January) have been appeased.

There is a chance even — with the greatly-improved prospects for world economic growth — of reversing the vicious cycle.

But too much of this is conjecture presently to allow for a taking of chances in policy formulation.

The only way ahead for that must be caution and determination to bring about a reconstitution of the net reserves as an essential precondition of any renewed recovery in domestic demand, given the high correlation that exists here between import growth and the growth of gross domestic expenditure.

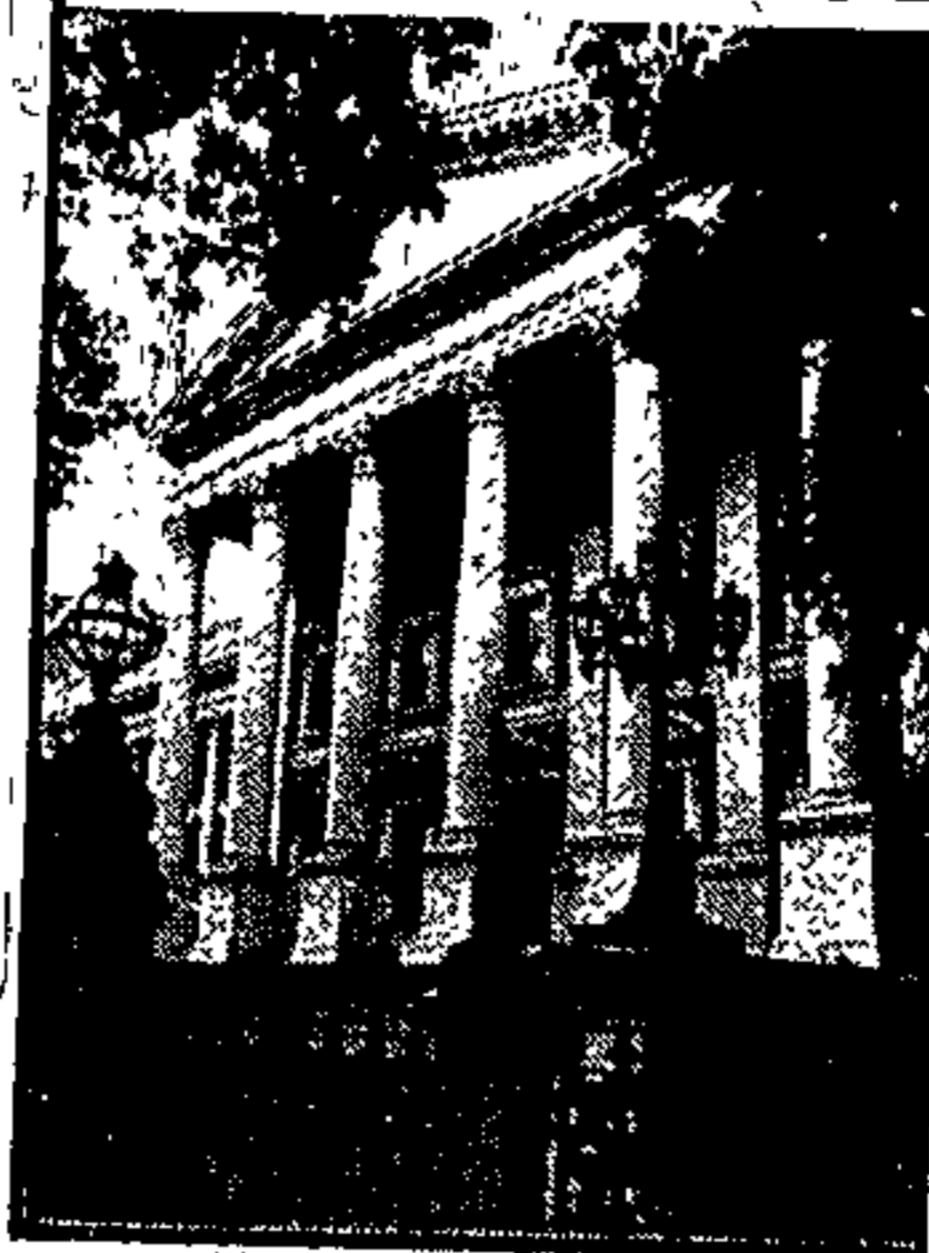
That it should be seen also as essential to getting the country out of an economic predicament in which it has been vulnerable to adverse political pressure goes without saying.

But in a final reckoning it is on a proper addressing of political problems that the future of the rand will really be determined.

Without that, the linked problem of capital flight will continue with all it implies for real investment and official efforts to achieve the needed reserve reconstruction.

Dr Bethlehem is group economics consultant, JCI.

PARLIAMENT '86



Budget fails on inflation, says Raw

Political Staff

PARLIAMENT — The Budget had failed to attack the crucial issue of inflation, Mr Vause Raw (NRP, Durban Point) told the Assembly.

Speaking in the second-reading debate on the Budget, he said nothing in the debate had changed his party's view that the Budget had failed to go far enough in attacking inflation.

The two major threats to stability in South Africa were hunger and inflation.

Mr Raw said that even those who had originally praised the Budget were now beginning to express doubts about it.

The question being asked was whether the Budget would be able to produce an economy strong enough to attack the root causes of uncertainty in the country.

He criticised both the Conservative Party for its links with the Afrikaner Weerstandsbeweging, and the Progressive Federal Party for its "equally dangerous" links with the United Democratic Front and the African National Congress.

He urged the Government to give concrete back-up support to responsible black leadership.

Analysts question realism of Budget

49
11/18
DISPATCH

JOHANNESBURG — Enormous internal as well as external political and financial pressures are affecting the economy, Standard Bank says in its April review.

In another look at the Budget, Standard says that "at first glance, the budget sums looked attractive, but closer analysis suggests that they may be difficult to achieve. Enormous internal as well as external political and financial pressures are impacting the economy."

"The budget produced figures that at first glance looked good by the highest standards of budgeting, but their apparent easy balance also raised questions concerning the realism of some estimates."

Since the budget looked good, it probably achieved at least one of its short term objectives, namely to underpin the frail consumer and business confidence. "However, a closer analysis of the Budget's mechanics and its real content raised a number of questions, and that produced a somewhat less positive reaction from many analysts than the one it had originally received from consumers and business."

"The government's borrowing requirement, in particular, was considered to have been underestimated. In addition, the relevance (or lack thereof) of the government's fiscal policy to the solution of the economy's longer term problems was an aspect focussed upon by analysts, not only the potential positive short-term effects of the budget's

cash flow pattern on business activity."

Standard said politically motivated expenditure commitments already made during the past year, accentuated by mounting political pressures, meant that areas such as black education and the building of a broadened social infrastructure (housing, hospitals, schools, buildings etc) required very large amounts of additional public spending.

Standard said a new and additional constraint entered the budgeting process, in the form of the foreign debt issue. "Thus, pressure from foreign lenders became a dominant countervailing force to domestic considerations."

"The short-term interests of international banks indicated a need for fiscal responsibility and at best a neutral budget, while the domestic situation may have suggested a meaningful stimulation of the economy. In other words, foreign influence in the shape of the international banking community's insistence that South Africa preserve its ability to continue repaying foreign debt even in the face of weak commodity markets appears to have been a major factor in shaping this year's budget."

Standard said this factor might also have been partly responsible for the emphasis on elegant accounting, and on producing good-looking analytical ratios, such as a low deficit before borrowing in relation to GDP. "Regrettably, the attempts made to achieve these may also have produced assump-

tions concerning both revenues and expenditure items that could turn out to have been optimistic. Developments during the year may make for a different outcome, and result in some unfulfilled expectations," Standard says.

● Trust Bank, in its weekly Rand Report, says the underlying economic trends have not yet shown any real improvement.

South Africa's gold reserves fell R4,74 million to R3,03 billion in March after falling R510,35 million to R3,04 billion in February.

The volume of gold reserves declined to 4,59 million ounces compared to 4,95 million ounces previously.

Total gold and foreign assets fell to R3,80 billion (R4,34 billion in February), while total foreign liabilities declined to R11,17 billion in March from R13,58 billion in February.

"The volume of production in the manufacturing sector fell 1,8 per cent in the fourth quarter compared to the same period the previous year," says the report.

"Production capacity utilisation fell to 84,3 per cent from 85,6 per cent in 1984.

"Employment was down to 1,343 million from 1,380 million."

The report says that at the beginning of 1986 retail sales improved slightly. Overall economic activity is still at a very low level, and sentiments remain negative. Only a slow economic recovery can therefore be expected. Although South Africa's

reserves are at a very low level a mild further stimulation through the lowering of short-term interest rates is possible, given the current weak performance of the economy.

● The Liberty Life Economy Review says that, although real private consumption expenditure declined by 3 per cent in 1985, a modest upturn was recorded in the third and fourth quarters.

"However, to a large degree, the recovery in consumer demand in the fourth quarter reflected a sharp rise in spending on motor vehicles in anticipation of further substantial price increases."

"Real gross domestic fixed investment declined by 2 per cent in 1985. Increases in fixed investment by public corporations and public authorities of 5,5 per cent and 1,5 per cent respectively were outweighed by a decline of 6,5 per cent in real fixed investment by the private sector."

A breakdown of the private sector's real fixed investment shows that only mining recorded an increase in 1985, says the review.

Figures reveal a disturbing situation with overall real fixed investment in a steady downward trend since 1981. — Sapa

Comment: distribute dispatch

Volkskas backs Barend du Plessis' handling of budget

By Stan Kennedy

Volkskas says it stands firm behind the Minister of Finance because the budget represents the kind of policy which the country will have to follow to get the economy's foundations firmly established.

Factors that can contribute most to economic growth at the micro-economic level are the lower personal income tax scales, concessions for married couples and the larger deduction of interest receipts for tax.

These can help to improve the attitude towards productivity and bring about the confidence crucial for economic recovery.

"Even though the concessions are not very large, it does not alter the fact that the minister spelt out the direction in which he is heading. This, in itself, should bring about a more positive attitude," the bank says in its April *Economic Spotlight*.

"In macro-economic terms, the budget is very neutral and only marginally growth stimulating; in fact, the budgeted expenditure points to a decline in real terms.

"The tax relief measures in respect of personal income will result in the deficit before borrowing increasing from 2,6 per-

cent in 1985/86 to 2,7 percent in 1986/87.

"The budget is only moderately expansionary, but the crucial question concerning government finance is what the final outcome will be. Will it be possible only to exceed the budget by a slight margin in the coming year or will there be a repetition of the pattern in past years?"

Volkskas thinks it unlikely that the rise in government expenditure can be kept at only 13,9 percent and that a higher figure can be expected.

HIGHER INFLATION

Its reasons are as follows:

- The inflation rate is higher than last year.
- The amount for capital works was increased by 33 percent.
- General salary increases to state employees and reinstatement of full bonuses.
- Some of the large expenditure items show above-average increases.
- No provision is made for unknown factors.
- The state's borrowing requirements will probably be greater than budgeted for, resulting in a higher than budgeted-for interest burden.
- Parliament will probably ap-

prove additional expenditure during the present session.

"All in all, there will be no serious implications for the economy if the budget is exceeded by two to three percent. But if over-spending is once again as much as five or six percent, the fiscal measures, given the delicate position of the balance of payments and inflation, will be considered over-expansionary."

The decline in oil prices has potential advantages and disadvantages for South Africa. The low energy prices will mean better performances by the country's trading partners as well as savings in foreign currency.

The other side of the coin is that lower energy prices will result in lower inflation internationally and could mean that the demand for gold for purposes of stockpiling and speculation could drop.

Volkskas sees imports and exports increasing this year, resulting in a rise in the real gross domestic product of 3,5 percent, albeit from a low level. A major part of the growth will come from supplementing inventories. It forecasts a gradual decline in the inflation rate to 16 percent.

Country stocked with commodities

BUS DAY 11/4/86 (49)

Economy now over the worst — De Kock

THE economy has weathered the worst and adjusted to a lower gold price — crucial to its export performance — and accelerated debt repayment, Reserve Bank Governor Gerhard de Kock said yesterday.

"On the whole the economy has adjusted well. We have been able to overcome external economic shocks and the country is fully stocked with commodities," he said.

"It was a near miracle that we were able to produce a current account surplus of R7bn last year. This enabled us to negotiate with our foreign creditors from a position of strength.

"Also, SA has been reducing its foreign debt for some time," he said.

"In addition, the country continued to pay dividends and interest on foreign loans.

"Last year SA withstood a capital out-

GERALD PROSALENDIS

flow of R10bn.

In the fourth quarter alone, there was an outflow of R5bn due to a combination of leads and lags, over and under invoicing and outflows of debt outside the standstill net.

"Anyone who thought the standstill would seal off capital account was wrong," he said.

"I think we can claim that flexible exchange and interest rates saved the day. Few countries would have been able to achieve this," De Kock said.

Recently, there had been a significant change in the attitude of foreign banks towards SA.

Not only were they prepared to negotiate with the monetary authorities, but they had also agreed to roll a large portion of the initial repayment due next week, even if for only a short period.

"There are even indications of additional funds being offered and public corporations have a good chance of getting foreign credit," he said.

US banks, in particular, were finding it less difficult to talk to SA, De Kock said.

As a result the rand was likely to weather next week's initial repayment of 5% on foreign loans.

It had become increasingly clear, however, that successful outcome to debt repayment negotiations had become a key to the future economic health of the country and growth.

"It would be a mistake to think that the debt standstill is merely result of over-borrowing and could have been prevented by direct controls," De Kock said.

"We must not be naive. Long-term prospects are not good unless we can

● To Page 2

SA 'over the worst'

11/4/86 BUS DAY (49)

normalise relations with overseas financial markets.

"As long as this country has to maintain a large current account surplus we will have politically imposed constraints on growth.

"And, we will merely continue transferring real resources to the rest of the world. This means we will have to transform ourselves into a mature capital exporting country, which we are not.

"Capital development will have to be financed from our own savings and there are not enough savers and taxpayers to achieve this.

"However, with no net outflow we could look forward to an average real growth rate of 3,5% in the medium term, and with some normalisation it could even be higher," De Kock said.

● From Page 1

Standard queries Budget sums

49

GERALD PROSALENDIS

remains tentative and frail, and the level of confidence has remained fairly low (see graph).

Overall, this year's Budget should be at best mildly stimulatory.

It did, however, temporarily boost confidence.

But, decisive initiatives in the field of economic rather than purely fiscal policy would have been helpful.

"Instead, the emphasis was almost exclusively placed on fine-tuning the lacklustre economy and on meeting international criteria concerning responsible budgeting," it says.

ment, in particular, was considered to have been underestimated," says the Review.

Also, few questions were asked about the feasibility of how the significant cuts in real expenditure in many areas of government could be achieved without a significant rationalisation of public services and staff.

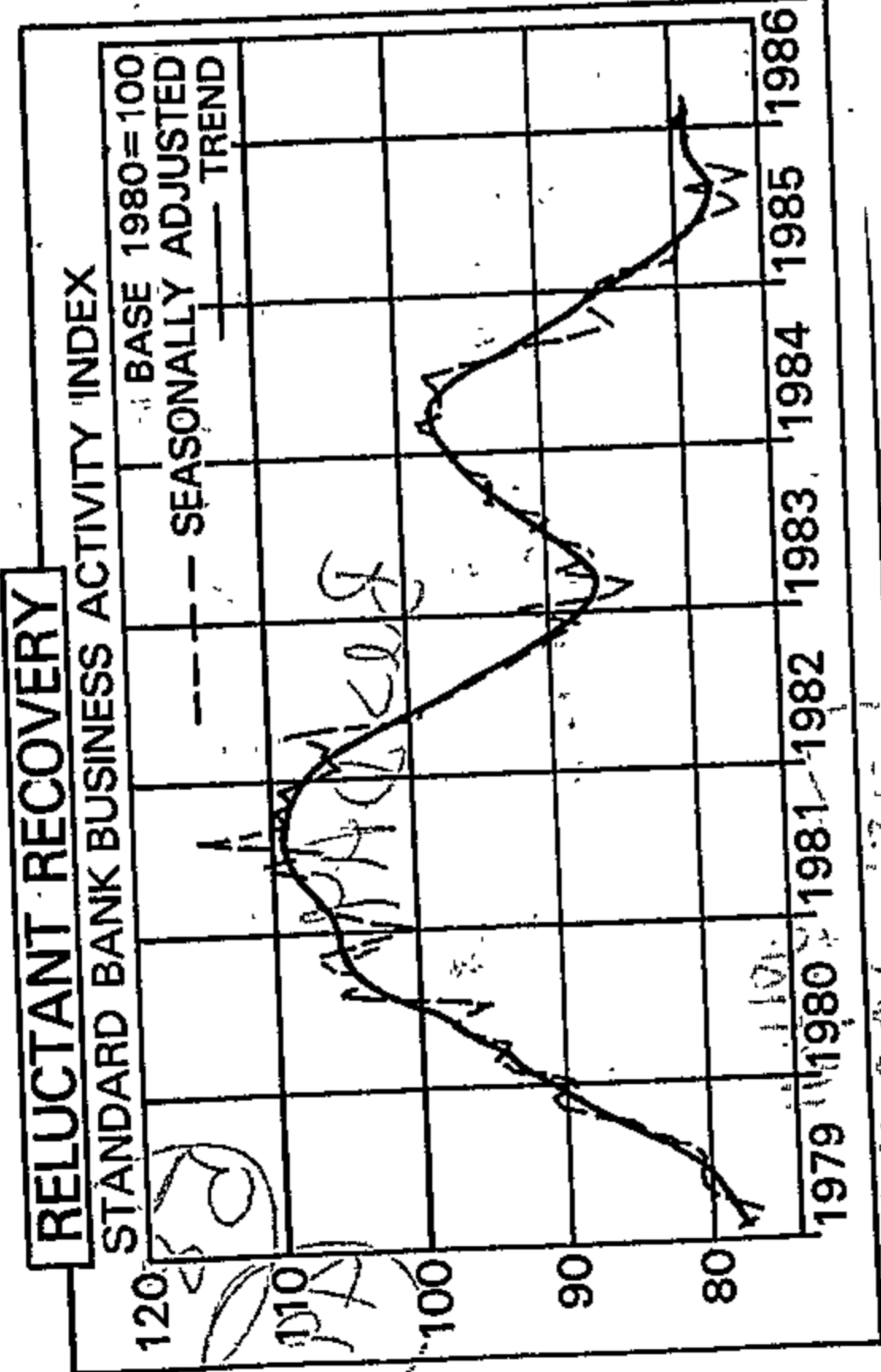
Because of enormous political and financial pressure the recovery of economic activity since late last year

AT FIRST glance the Budget sums looked attractive but closer analysis suggests they might be difficult to achieve, says April's *Standard Bank Review*.

The apparent ease with which the figures were balanced raised questions about the realism of some estimates, it adds.

Technically, the total estimate for expenditure seems to be unrealistically low, while some of the revenue estimates, from personal tax and gold mines, appear optimistic.

"Governments borrowing require-



Propping up the good-time feeling

THE spotlight has fallen on business confidence in recent weeks.

Disinvestment, sanctions pressure and continuing unrest have knocked confidence, which is essential for a real recovery.

The Assoccom Business Confidence Index for March fell 2.5 points from February's 85.5 figure. This is the first time in four months the index has declined.

The latest "Manufacturing Survey" put out by Stellenbosch University's Bureau for Economic Research added its own note of caution when it reported declines in volume of production, employment and capacity utilisation for the fourth quarter of last year in the manufacturing sector. It warned that a boom was not in the offing for some time to come.

Casting light on the gloom this week was a comeback in the rand/dollar rate, the fact that gold is holding up in spite of the oil price fall, and that a drop in the petrol price seems almost certain.

Also, the recent announcement of the Reserve Bank's technically complex move to allow the banks to

lend more is part of its attempt to rekindle economic activity.

The Reserve Bank's move seems to be aimed at keeping rates low, as well as at creating scope for increases in bank lending. It does not necessarily point to a drop in the key interest rate, the prime lending rate, which is the overdraft rate the bank's charge their best customers.

However, the Reserve Bank may now feel that the Budget did not provide for enough stimulation for the economy and bring prime rate down through a cut in Bank Rate.

Essential to confidence is the reaction of the consumer to the tax concessions, which because of "fiscal drag" — which is what happens when inflation pushes your salary into a higher tax bracket, though you are not really earning that much more — are not as large as they look.

Psychologically the tax cuts may

make consumers feel easier about spending money, but as you may well know know from personal experience, consumer finances are not in great shape.

Nedbank says in its February Economic Roundup:

"Notwithstanding low real-interest rates, improved agricultural conditions, and the relatively high savings ratio, consumers are continuing to feel the pinch. Wage and salary rises are lagging well behind the inflation rate. The recovery in spending over the holiday period primarily reflected once-off developments, namely pre-emptive buying of durable goods to beat anticipated price rises, as well as the repayment of the loan levy.

"In an environment of high unemployment and political uncertainty there is likely to be considerable consumer resistance to allowing personal savings to fall further."

This also means that inflation will not be given an extra spurt by too much money chasing too few goods.

While we can expect a modest rise in

gross domestic product this year, as Nedbank notes, "Much of the rise in output will be the result of the demand for higher inventories" which have plunged since late 1984.

It must be borne in mind that any recovery is likely to be very modest and off a low base.

And while a lower oil price does have good spinoffs for South Africa, and gold may not be about to fall through the floor, there is also no sign of it soaring just yet.

Political factors might once more put pressure on the rand, the continuance of whose recent rise has been met with some scepticism.

Inflation is still evident in the economy. For instance, local wholesale wine and spirit prices have risen — wines by between eight percent and 8.5 percent, locally made spirits by four percent to six percent — and despite the rand's improvement, whisky remains expensive.

Not that non-drinkers can crow. The wholesale price of soft drinks has also risen, — by 14 percent — and this will be passed on to the consumer.

INTEREST RATES

Will a cut help?



FIN MAIL
11/4/86

Expectations of a further round of rediscount rate cuts are growing. Although some dealers believe it could be as soon as Friday, the Reserve Bank is not under heavy pressure and is probably waiting for further reassurance (such as money supply and debt payment developments). The gaps between market rates and the rates the Bank is paying, dealers point out, have been wider in the past.

What must be causing hesitation is that lower rates will not significantly improve confidence and attract investment. While cuts will certainly relieve pressure on highly geared companies, the cost of money is not of prime consideration for investors in the current economic and political climate.

Be this as it may, the monetary authorities certainly could cut rates now the seasonally tight March month is over and money supply growth relatively low. The market shortage — the amount the banking system owes the Reserve Bank — has dropped sharply since the end of March (from R2,35 billion to R1,4 billion).

In addition, all repurchase agreements with banks — worth R920m at the end of March — have matured. The Corporation for Public Deposit still has R800m deposits with the discount houses. Added up, the effective shortage is around R2,2 billion, some R1,9 billion less than the March month-end.

Custom Union payments (estimated to be around R600m); late-clearance cheques from government departments coming through as part of the overflow from the previous financial year (probably around

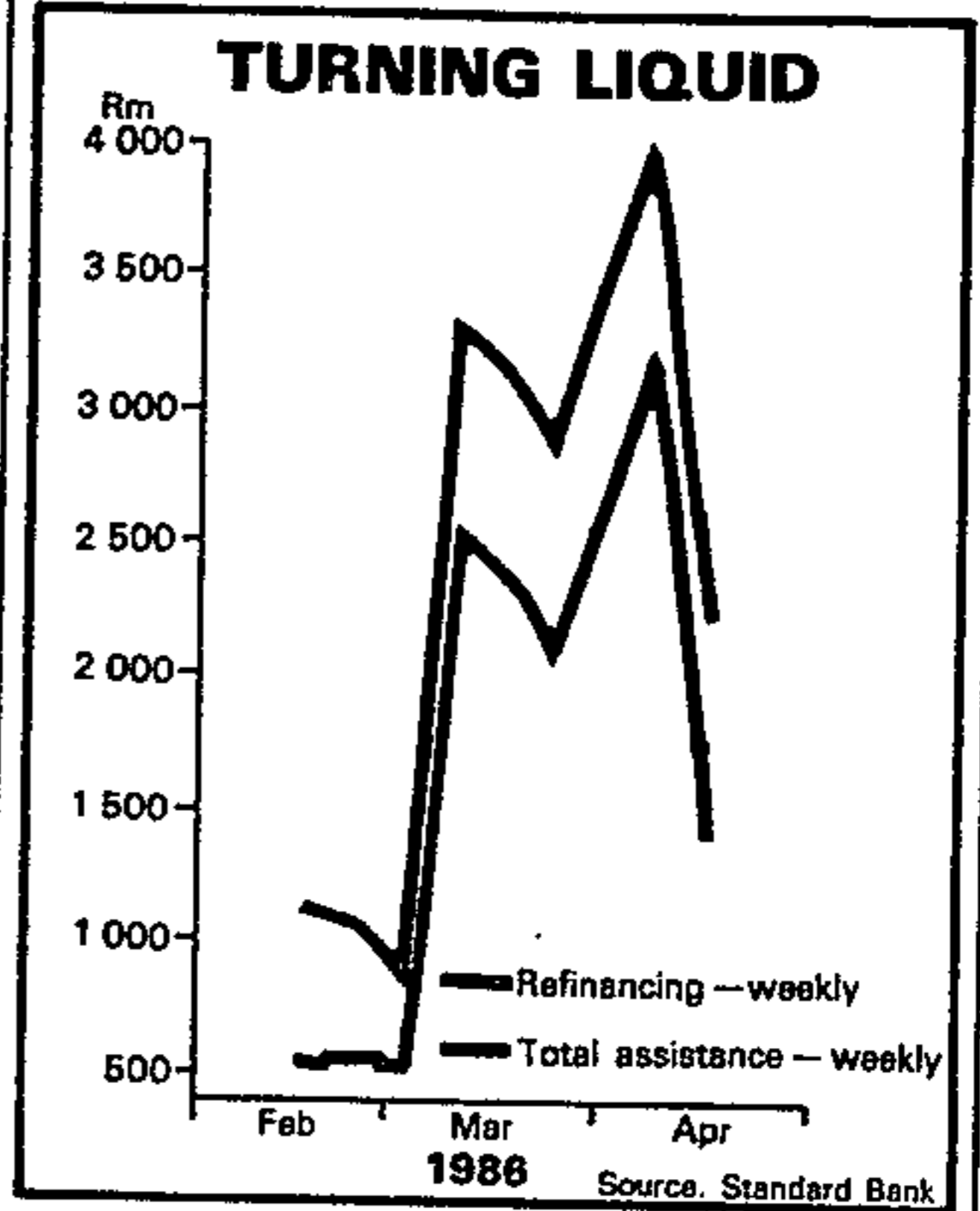
R500m); declining notes in circulation (around R350m less); the freeing of R181m from lower bank cash-reserve requirements; and forex inflows as the gold-swap catered for dollar demand all contributed to improving liquidity.

The shortage should decline much further as April, the beginning of the government's financial year, is seasonally a month of high government spending. Coupon payments on government stock, totalling some R470m, will also flow into the market next week, while most public servants are paid mid-month.

With liquidity narrowing, rates eased. All rates are below the Reserve Bank's rediscount rates. Call rates are just over 12%, some 50-100 points lower than at the end of March. The three-month bankers' acceptance rate has fallen 60 points since the end of March to fix on Tuesday at 11,9% — 60 points below its rediscount rate.

The average rate for the Treasury bill (TB) tender was bid down 15 points and, at 11,82%, is 18 points below the rate at which the Bank rediscounts TBs (Bank rate). The tender attracted R323m for the R100m offered. Monday's Land Bank tender saw the average rate drop sharply to 11,83% from the previous 12,19%. The Bank rediscounts Land Bank bills at 12,25%. The tender attracted R397m for an allotted R150m.

Similarly, negotiable certificates of deposit (NCDs) have dropped sharply since the end of March. One-, two- and three-month NCDs were trading at 12,85%, 12,8% and 12,7% respectively on Monday compared with 13,75%, 13,5%, and 13,3%.



Dealers report that supply of paper is "very limited" as institutions hold on in anticipation of the Bank cutting rediscount rates.

The lowering of banks' cash-reserve requirements against short-term liabilities, from 8% to 5%, is another indication of the Bank's intention to ease monetary policy further to stimulate the economy. This is a small concession and does not increase the amount of funds available for lending. Most banks will use the freed R181m to purchase interest-earning liquid assets to meet the new liquid asset requirements, not lend out.

A banker notes that the lower requirements ease pressure on margins that have been tight over the past few weeks. Another says they are "merely a recognition of the status quo, as there is no way we could have rebuilt our cash reserves."

A discount house manager says the only impact is on the market shortage: even this is small, as R181m is very little. "Money supply is not affected at all and, with an open discount window, banks can create as much cash as they like, so it does not affect lending."

FIN MAIL SCHWARZ SLAMS BUDGET

During the Budget debate in parliament this week, PFP finance spokesman Harry Schwarz said Du Plessis' expenditure figures "lack credibility." The 2% across the board spending cut announced by Du Plessis was "arbitrary and unscientific" and paid no regard to the actual needs of individual State departments.

"Zero based budgeting is clearly not operating yet in the public service. The figures are just not believed and the standing committee (on finance) report supports the lack of credibility," he said. The committee's report, also tabled this week, warns that unless unemployment is dealt with effectively, the ability to end the unrest will be "severely handicapped," and says that arbitrary cuts in

departmental budgets could seriously affect operations, especially of the police and Foreign Affairs.

The Budget also failed to fight inflation because government has not accepted that inflation can be combatted without negative effects on growth, says Schwarz. "The locomotive of growth needs to get steam up and to get the economy going. It needs to be done with the minimum inflationary effect and the least harm on the balance of payments.

"Growth can be either from the private or the public sector. Undoubtedly private sector growth in the right activities would be the most desirable, but somehow the locomotive must get up steam and the government must start it."

PERKS TAX FIN MAIL

Car changes
The Department of Inland Revenue (IR) has recommended changes to the car perks tax tables to Finance Minister Barend du Plessis. To the FM's knowledge, the recommendation applies to car allowances only — and not the company car table.

Fuel-inflation-buster and growth-booster

13/4/86 S. TIMES

49

By David Southey
FRIDAY'S cut of about 10% in fuel prices will curb inflation and boost economic growth.

But, warn economists, do not expect miracles overnight from the second substantial fuel-price cut in two months. The impact will take some time to work its way through the economy.

The fuel-price cut and an expected drop in the prime overdraft rate in the next week are designed to give the sagging economy a much-needed fillip.

Alien

With petrol and diesel accounting for only a 3,8% weighting in the total consumer-price index (CPI), economists calculate that the direct impact of the 10% cut will be about a 0,4% reduction in the inflation rate.

The indirect effect should be more substantial although difficult to quantify and will take longer to work its way through the economy.

Also, the direct effect of an increase in petrol prices is usually easily quantifiable and immediate. A drop in price — something as alien to the SA way of life as rain and international sports tours — is more likely to be reflected in a postponement by manufacturers and retailers of increases.

Most economic sectors price their goods on the basis of cost-plus, so that when a certain threshold in cost increases has been reached, say, 10%, they raise their prices.

Razor thin

The petrol-price cut will thus enable many businesses to shore up their razor-thin margins, which have suffered under the twin assault of shrunken real demand and cost-push inflation.

Among essential goods and services, however, particularly food which often has to be transported long distances by road or rail, price reductions could filter through fairly soon.

With a more bullish outlook on the inflation front, economists are looking to

further falls in both short- and long-term interest rates.

Yields on traded bonds in the money market appear to have discounted an expected cut in the prime overdraft rate. By Friday the benchmark three-month bankers' acceptance rate had eased to 11,5% — its lowest level since 1981 and sitting four percentage points below prime at 15,5%.

With aggregate demand in the economy still as flat as a pancake and bank lending showing signs of fatigue, it is possible that prime could fall by more than the customary one percentage point — perhaps by 1,5 points to 14%.

Moreover, economists point to the fact that money-supply growth is well within the Reserve Bank's target band and could happily accommodate a plus one-point cut in prime. Some analysts think it unlikely that Reserve Bank Governor Gerhard de Kock will contemplate a cut until after Tuesday, at which stage any uncertainty in the markets surrounding the scheduled \$420-million foreign-debt repayment should have disappeared.

Prospects for declines in long-term interest rates also look healthier in line with the expectation of slower inflation. Late this week the benchmark Government bond (RSA 13%, 2005) rate had eased to 17,3%.

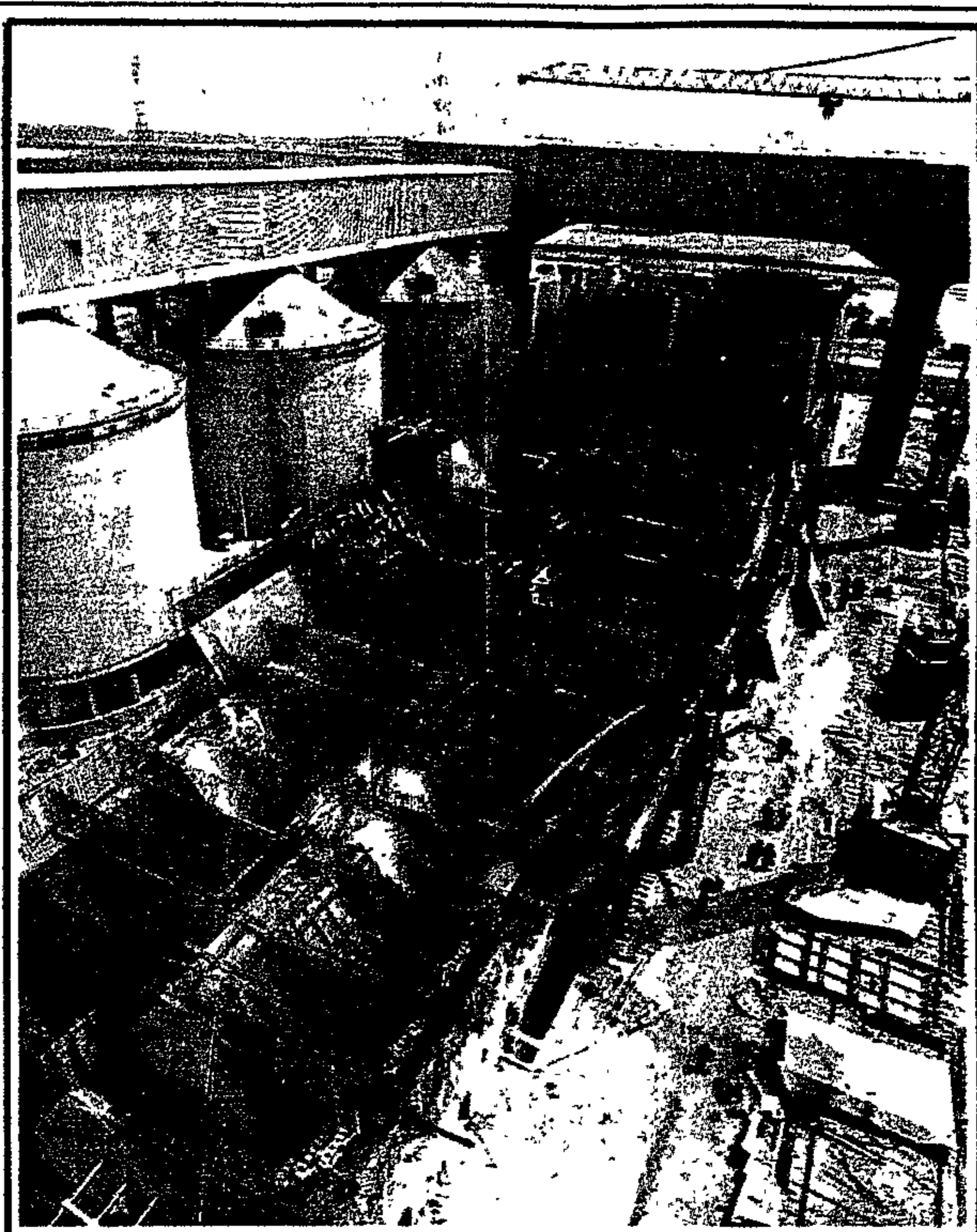
Pessimistic

Some market analysts and economists are pessimistic, however, that this trend will prevail much beyond the third quarter of the year.

The reason is that apart from the political uncertainties which persist, they are wary that by about September Government spending will begin to look bad relative to budgeted figures which will once again fuel inflationary expectations.

Also, if economic growth — more important, gross domestic expenditure — picks up moderately, the rand could come under pressure as a result of rising import volumes.

For the time being, though, businessmen should be looking to slightly better trading conditions.



Sats gets 32 storage bins at Richards Bay

Goldstein Civil Natal is maintaining a fast pace on the R22-million contract for South African Transport Services at Richards Bay.

The project includes the construction of 32 storage bins, four conveyor galleries, two transfer houses and storm-water drainage.

The storage bins (above) are 30m high and 234m in circumference. The bins require 9 500 tons of reinforcing steel and 40 000m³ of reinforced concrete.

To save time, all formwork is gangformed and sections are designed and manufactured at on-site workshops. As construction starts 6m below sea-level, the structure had to be dewatered and sheet piled.

Liquor prices

From Page 1

out paying general sales tax. Anyone in possession of a GST-exempt number can buy liquor free of tax. But liquor can only be bought free of GST if it is for resale by authorised outlets. It is alleged that shebeeners, businessmen and even members of the public have been using GST-exempt numbers.

Fedhasa will not comment on the document until a reply has been received from the Commissioner for Inland Revenue.

This year's suspect Budget

There is only one thing that can be said with any certainty about this year's Budget: any similarity between what eventually happens and what is forecast will be purely fortuitous.

The Budget can be analysed from various points of view:

The first is to ask, what is in it for the public? Some middle and upper-income taxpayers, mostly white, would feel that this was a satisfactory budget because tax rates have been reduced.

However, that does not tell the whole story as far as the taxation of individuals is concerned.

In the previous tax year it is estimated that the Government collected R8,52 billion from individual taxpayers. This year, even after the abolition of the surcharge and the five percent rebate, the Government is budgeted to collect R10,253 billion.

Unless there is a dramatic increase in the number of individual taxpayers, which is unlikely, fiscal drag will ensure that each person will be paying more tax this year.

Forecast

The second viewpoint is to look at the Government forecast of financial and economic conditions for the following year. This Budget, however, has lost credibility as a serious indication of the Government's economic intentions.

Each year figures are given for expenditure which all of us know will never be met. In 1984/5, budgeted expenditure was meant to increase by 11,4 percent. It turned out to be 22,5 percent. For 1985/6 we were told that expenditure was going to increase by 11,4 percent. It actually increased by 21,6 percent.

There is only one thing that we can say with certainty about this Budget: any similarity between what eventually happens and what is forecast to happen is purely fortuitous.

Indeed, this year's Budget is more suspect than most: foreign exchange losses of R2½ billion have not been included, the voluntary overall cut of two percent will be impossible for labour-intensive departments to achieve unless they lay off staff.

If businessmen cannot rely on the Budget for a guideline, what can they rely on? They hate uncertainty.

When there is uncertainty, investment is curtailed and fewer

... and the economic decline in SA over the past decade

^{324A}
^{14/1/86}
^{S.P.A.}
This is an edited version of the speech made by Mr Brian Goodall (right), the Progressive Federal Party MP for Edenvale, during the Budget debate.



jobs are created. In a period of increasing instability and uncertainty, the Budget now adds to that instability rather than reducing it.

The third viewpoint from which one can analyse the Budget is the likely impact that it will have on the South African economy.

The recent economic background is dismal and has been so for the past few years.

If one looks at the statistical economic review which accompanies the Budget, one notes comparative figures for 1975 to 1985. They show how little economic progress we have made. Indeed, in many areas we have regressed despite the benefits of a gold boom.

Between 1975 and 1985 our gross domestic product grew by 1,8 percent annually in real terms. This is way below our rate of population increase.

Standard

Consequently, whereas in 1975 our GDP per person was R2 064, by 1985 it had actually declined to R1 946.

In 1975, as a nation, South Africa bought more furniture and household appliances than we did in 1985, despite the fact that our population was larger by about a quarter.

And that surely, must say something about what was happening to the standard of living of most South Africans.

These statistics show a stagnant economy failing to cope with the needs of a rapidly increasing population.

What was the Government's reaction? It taxed more.

In 1975 direct taxes were equal to 8,6 percent of personal disposable

income. By 1985 the percentage had risen to 13,3. But even an ever increasing tax burden was not enough to meet this Government's need to spend. It resorted to debt.

In 1975/6 the interest on the public debt accounted for 4,9 percent of government expenditure. Ten years later it accounted for 14,2 percent.

We now spend the same on servicing debt as we spend on welfare services, pensions and public health combined.

But, as we are seeing, you cannot fuel our economy through debt.

Unemployment

Nor is the situation likely to change in the long term. Before you can create economic wealth, you need to invest.

In 1985 real gross domestic fixed investment in South Africa was less than in 1975.

In 1985 investment in agriculture was 57 percent less than in 1975, manufacturing 14 percent less, and in community, social and personal services 33 percent less.

Without investment fewer jobs are created and unemployment increases. This is exactly what is happening in South Africa. Between December 1984 and December 1985, the number of whites, Indians and coloured people registered as unemployed rose by 90,9 percent. Among Indian women, the number of registered unemployed rose by 235,6 percent.

The number of registered unemployed blacks — which we know is only a small portion of the total — increased by 63,6 percent.

It is sobering to note that the number of people employed in the

manufacturing sector at the beginning of 1986 was at the same level as it was in 1975.

If one looks at the construction industry, the situation is even worse. Today the construction industry employs 95 000 people fewer than it did in 1975.

The Government now rushes around trying to create jobs. Does it not realise the havoc that its economic policies have caused?

They have led to the de-industrialisation of South Africa. Today the manufacturing sector contributes slightly less to the GDP than it did in 1975.

Instead of trying to adjust the structure of South Africa to the changing world environment in which we find ourselves, the Government relied essentially on interest rate policy to make the necessary adjustments.

Collapsed

What happened is that the rates of interest became penal rates for many and death rates for some. Businesses collapsed, jobs were lost, investment plans were postponed or scrapped. The burden, moreover, was borne by the private sector, not the public sector.

In 1975, the public sector accounted for 22,9 percent of South Africa's GDP. In 1985 it accounted for 29,2 percent.

The fastest growth was in the area of State capitalism. Public corporations' contribution to the GDP has more than doubled, from 5,9 percent in 1975 to 12,2 percent in 1985.

While the level of employment in

the manufacturing sector did not grow in 10 years, the level of employment by the central government over the same period had increased by 40 percent.

Much has been said about salaries in the public sector. Some were certainly doing OK.

A breakdown of individual tax by employment groups shows that the percentage collected from those employed by the government services sector has increased from 16,8 percent in 1982 to 19,2 in 1984.

In contrast, the contribution of the commerce sector has declined over the same period from 16,8 percent to 13,3.

Despite all the talk about privatisation over the past year and a half, we still await with interest to see something actually privatised.

The public sector was, and still is, crowding out the private sector.

A recent study on Third World economics contrasts developments in South Korea and Ghana. In 1962 both had the same GDP per capita. Both had the same percentage of the labour force in agriculture. Both were heavily reliant on the export of primary products. Twenty years later the per capita GDP of South Korea was five times that of Ghana.

Investment

It is not insignificant that in Ghana credit to the public sector was equal to 49 percent of the GDP. In South Korea it was two percent.

In 1985, the public sector in South Africa accounted for 55 percent of gross domestic fixed investment.

Today, because of this Government we are nothing more than an exporter of primary products. We are more reliant on gold to pay for our imports than we were 20 years ago. We live in hope that some disaster will befall the world.

If that disaster does not come, we are in trouble.

The industrialised world seems to have learnt how to combine moderate economic growth with low inflation. People are either working faster and more efficiently, or they are learning to do more with the same. We are doing exactly the opposite, the same with more.

More houses of parliament, more governments in South Africa, more MPs, more Cabinet Ministers, more government departments, more government employees.

That is why the role of the public sector in our economy is growing bigger and bigger.

It is the very policy of duplication and separation which is one of the prime factors in destroying our ability to grow the economy.

The irony is that apartheid was meant to bring political peace to South Africa. Today, the streets of many South African towns burn because of it.

It was apartheid which was meant to protect the white man's wealth. And yet, each year whites get poorer and poorer in real terms.

Inflation

In 1985 remuneration for employees rose by 9,8 percent. A few percent of that went in tax, 16,2 percent went in inflation. In real terms the average man was poorer.

The irony is that the very system that was meant to protect the wealth of whites is making them poorer, because it is one of the most inefficient ways of managing a modern economy. It stifles economic growth, as we have learnt in South Africa.

This Budget does not even attempt to address the long-term economic problem facing South Africa. What we have here is some tinkering on the old economic machine. A machine that is rapidly wearing out.

Perhaps we should know by now that we should not have expected anything better.

But it is sad that — with South Africa's mineral and natural resources — we are producing less today per person than we were 10 years ago.

I ask the Government, is this the best you can do? If it is, then it is best for South Africa that you be gone.

WOMEN'S BUDGET (385A) 29

Women in business better off

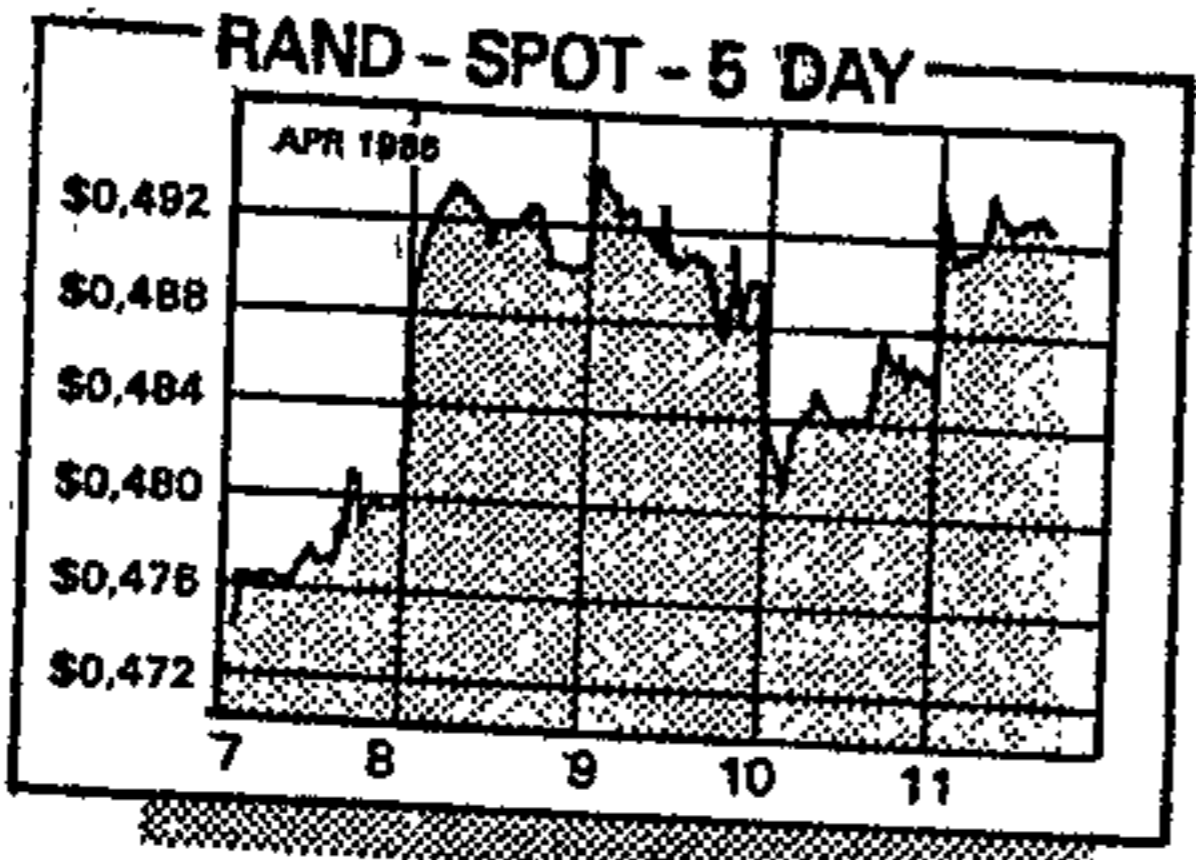
SINCE the last Budget a family would be better off in many cases if the husband stayed at home and the wife went out to work, says tax consultant Costa Divaris.

The fact that 20% of a wife's gross earnings are now tax free means that it pays for her to earn a larger salary than her husband or to own and run the family business.

Divaris said at a tax seminar in Cape Town that if a wife went into business she should do so as an individual and not form a close corporation.

If she formed a close corporation she would lose her tax advantage and her profits would be taxed at the rate of 50%.

Divaris' Michael Stein said that if a wife ran an unsuccessful business, closed it down and then took a job for the remainder of the year the assessed loss she had incurred through the business became her husband's assessed loss because he was the taxpayer, and 20% of the wife's gross income from her job would still be tax-free. — Sapa.



Payment goes off smoothly

ALAN SENDZUL

THE initial down-payment on SA's maturing foreign debt, frozen by the standstill, slipped by without a hitch. Optimistic projections from banking circles gave the impression that as little as 25% of the original \$420m had had to be repaid. More cautious views put the figure at around 60%, but still greatly below expectations. Although much of Friday's news has been discounted, it spilled over into a buoyant rand which accelerated to a trading week high of \$0,4965, ending off a torrid, trying week for dealers and bankers alike. The rand finally settled at \$0,4930 on Friday after rebounding off the week's low of \$0,4730 on Thursday when markets were extremely nervous ahead of the foreign debt repayment. The exact amount of dollars paid out to creditor banks abroad will probably remain vague as the situation is particularly brittle for foreign banks wishing to avoid the political spotlight.

But judging by the rand's stronger showing on Friday when spot rand deals were done for settlement on April 15, the outflow connected with the first loan tranche was well below expectations. Several foreign bankers appeared more receptive about rolling over their frozen loans which, if left here, will earn an attractive return of between 0,5% and 0,75% over the London interbank offered rate. By comparison, if these dollars were repatriated they could at best yield around 0,375% over Libor in the case of top rated companies abroad. Some of the foreign lenders like the American banks were thought to have asked for the full 5% of maturing loans to be repaid. Though these institutions might view

● To Page 2 →

First tranche trimmed

From Page 1

their money as being safe and secure in SA they are under a tremendous squeeze from US pressure groups, shareholders and even colleagues to have no trade connections with SA. Observers were at pains to point out that it would be short-sighted for the Reserve Bank to allow new trade finance loans or rollovers to be extended for period of less than one year. This would create similar conditions to those which precipitated the standstill

and could leave the foreign exchange market open to exposure from unplanned political events. Many of the local companies who are due to repay will now also be able to breathe easier as they probably will not have to use overdraft facilities. Deposit taking institutions like the banks would also be better placed from the rollovers. Foreign bankers appear more relieved that the loans which had been reflected as "contingencies" on their balance sheets will now be shown on the books as assets. This adds to more stability.

Rand seen at \$0.50 and stable in near future

15/4/86 BUD DAY (49)

IN the near future the rand looks as if it will remain reasonably stable at a point close to \$0.50.

This means that importers could relax their attitude to forward cover. But not entirely.

While Standard Bank in *International Comment* says that "importers with short-term dollar payables could stay out of the market for the time being," Barclays' Loretta Gell recommends 30% forward cover on dollar payables in the next month.

Trust Bank economist Ulrich Joubert makes a compromise suggestion, with which I agree, and that is that importers can relax on *some* of their cover.

My reasons for supporting the Ulrich view is that traders buy and sell goods and, that unless they have the technical resources, they should not gamble.

And taking a firm line on the future of the rand is a gamble because there are many imponderables facing the currency, including the gold price and the international value of the dollar.

The current account of the balance of payment and the internal political position — and foreigners' perceptions of it — must all be taken into account.

Superficially, the immediate outlook for the rand is more favourable than it has been for many months past. The current account payments look healthy and the foreign debt negotiations appear



HAROLD FRIDJHON looks at the foreign exchange market

to have achieved an equilibrium between what SA can afford to pay without structural damage, and what creditors are prepared to accept as a minimum in the next 12 months.

But reassurance is still needed on what payments will sidestep the standstill net, what other capital might be drained out as foreign parents of local subsidiaries repatriate loan accounts, and what is the *real* state of the reserves.

In other words, can the country sustain a cashflow problem in spite of the current account showing a bookkeeping surplus?

Joubert says that sentiment is changing from "stormy" to "fair weather" on the sentiment barometer — and sentiment is an important abstract input in every market. And a very fickle one.

If there is a major flare-up in a key township a favourable sentiment could be destroyed with the petrol-bombed houses or the first hail of birdshot.

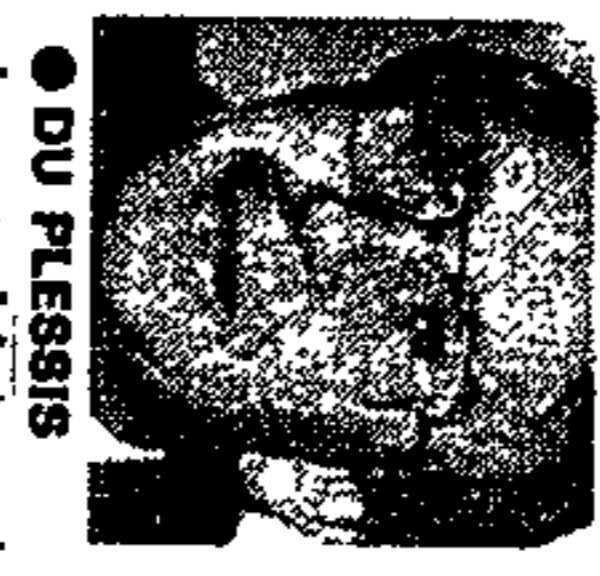
At present the mood in the market is reasonably bullish.

AIRLINE MOVEMENTS

PARLIAMENT

2% cut in Budget estimates feasible

A CUT in the 1986/87 Budget expenditure estimates was feasible, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.



Du Plessis said the 2% across-the-board cut was feasible in view of recent improvements in "variables" such as the rand's exchange rates, the drop in oil prices and interest rates, and agreement on foreign debt repayment.

Replying to the Second Reading debate on the Appropriation Bill he said these and other variables had had to be "fixed" to calculate expenditure estimates and that if it was possible, the whole budget cycle would have been reconsidered in view of their improvement to see where further savings could be made.

This could however not be done and it had therefore been decided to implement the 2% cut in all government departments and this was feasible. Du Plessis dismissed criticism earlier in the debate by PFP finance spokesman

Harry Schwarz (Yeoville) that government had lost its credibility over its expenditure figures, and that it could not curtail its spending.

The Additional Budget showed there were no real grounds to accuse government of not having adhered to its goals. They had needed only 0.4% over last year's Budget.

Responding to interjections from Schwarz on the feasibility of the 2% cut as applied to the police, the minister said it was true that the force was "80% personnel intensive" where cuts were not possible, but that savings were definitely possible in the other 20%.

The same applied to the various education departments where one-twelfth of the annual remuneration bill could be saved by delaying appointments for a month.

The Department of Foreign Affairs, under Pk Botha, was one that was "absolutely exposed" to variations in the rand's exchange rate.

Its budgetary allocation had been calculated at an exchange rate of under \$0.40, but this figure was now close to \$0.50, so there was obviously ample room for savings. — Sapa.

GST: call for change of format

FINANCE Minister Barend du Plessis yesterday said in the Assembly he believed the Margo Commission should recommend a completely changed structure for general sales tax.

However, he said in his reply to the Second Reading debate on the Budget, now was not the right time to tamper with the percentage or structure of GST.

Du Plessis had referred in the past to what he believed were some of the shortcomings in the structure of the tax and for these reasons believed the Margo Commission investigating the country's tax structure should recommend a change.

He said he did not agree with Opposition MPs that a reduction in the percentage of GST would benefit the poor.

They spent most of their income on food, which was tax-free, and government had in fact already assisted them by not re-introducing sales tax on food.

Responding to arguments that the Budget was of no benefit to the man in the street, Du Plessis said government had raised the threshold of income tax last year at the same time as it had "inadequately treated" those at the top end of the tax scale. — Sapa.

Afrikaners 'cannot pay'

DIRECT tax paid by most Afrikaners was not sufficient to cover the cost of their children's education, Finance Minister Barend du Plessis said in the Assembly yesterday.

Replying to Second Reading debate on the Appropriation Bill, he said he rejected Conservative Party complaints that whites paid for the education of blacks. Redistribution of income to pay for the schooling of developing communities was an "absolute prerequisite".

Du Plessis said a white family with two children had to earn a total of R27 500 a year before they paid enough tax to pay for the education of those children. Rough figures showed that 68% of those white, two-child families in SA did not earn enough to pay for their children's schooling.

Altogether, 89% of whites with one child at school and one at university, and 94% of those with two children at school, and one at university, did not earn enough to pay for their education.

Quoting a study by University of Stellenbosch statistician Professor J.L. Saldie, Du Plessis said "even today" it was fair to say that English-speaking whites paid 60% of all income tax.

According to Saldie, only 22% of companies in this country were under Afrikaans control and English-speakers paid 75% of total company tax, Du Plessis said. — Sapa.

AP

BUSINESS DAY
15 APR 1986

BUSINESS DAY
15 APR 1986

PARLIAMENT

49

2% cut in Budget estimates feasible

A CUT in the 1986/87 Budget expenditure estimates was feasible, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.



● DU PLESSIS

Du Plessis said the 2% across-the-board cut was feasible in view of recent improvements in "variables" such as the rand's exchange rate, the drop in oil prices and interest rates, and agreement on foreign debt repayment.

Replying to the Second Reading debate on the Appropriation Bill he said these and other variables had had to be "fixed" to calculate expenditure estimates and that if it was possible, the whole budget cycle would have been reconsidered in view of their improvement to see where further savings could be made.

This could however not be done and it had therefore been decided to implement the 2% cut in all government departments and this was feasible. Du Plessis dismissed criticism earlier in the debate by PFP finance spokesman

Harry Schwarz (Yeoville) that government had lost its credibility over its expenditure figures, and that it could not curtail its spending.

The Additional Budget showed there were no real grounds to accuse government of not having adhered to its goals. They had needed only 0.4% over last year's Budget.

Responding to interjections from Schwarz on the feasibility of the 2% cut as applied to the police, the minister said it was true that the force was "90% personnel intensive" where cuts were not possible, but that savings were definitely possible in the other 20%.

The same applied to the various education departments where one-twelfth of the annual remuneration bill could be saved by delaying appointments for a month.

The Department of Foreign Affairs, under Pik Botha, was one that was "absolutely exposed" to variations in the rand's exchange rate.

Its budgetary allocation had been calculated at an exchange rate of under \$0.40, but this figure was now close to \$0.50, so there was obviously ample room for savings. — Sapa.

15/4/86
BUD DAY

49

GST: call for change of format

FINANCE Minister Barend du Plessis yesterday said in the Assembly he believed the Margo Commission should recommend a completely changed structure for general sales tax.

However, he said in his reply to the Second Reading debate on the Budget, now was not the right time to tamper with the percentage or structure of GST.

Du Plessis had referred in the past to what he believed were some of the shortcomings in the structure of the tax and for these reasons believed the Margo Commission investigating the country's tax structure should recommend a change.

He said he did not agree with Opposition MPs that a reduction in the percentage of GST would benefit the poor.

They spent most of their income on food, which was tax-free, and government had in fact already assisted them by not re-introducing sales tax on food.

Responding to arguments that the Budget was of no benefit to the man in the street, Du Plessis said government had raised the threshold of income tax last year at the same time as it had "inadequately treated" those at the top end of the tax scale. — Sapa.

15/4/86
BUD DAY

49

Afrikaners cannot pay

DIRECT tax paid by most Afrikaners was not sufficient to cover the cost of their children's education, Finance Minister Barend du Plessis said in the Assembly yesterday.

Replying to Second Reading debate on the Appropriation Bill, he said he rejected Conservative Party complaints that whites paid for the education of blacks. Redistribution of income to pay for the schooling of developing communities was an "absolute prerequisite".

Du Plessis said a white family with two children had to earn a total of R27 500 a year before they paid enough tax to pay for the education of those children. Rough figures showed that 68% of those white, two-child families in SA did not earn enough to pay for their children's schooling.

Altogether, 89% of whites with one child at school and one at university, and 94% of those with two children at school and one at university, did not earn enough to pay for their education.

Quoting a study by University of Stellenbosch statistician Professor J.L. Sadié, Du Plessis said "even today" it was fair to say that English-speaking whites paid 60% of all income tax.

According to Sadié, only 22% of companies in this country were under Afrikaans control and English-speakers paid 75% of total company tax, Du Plessis said. — Sapa.

SA submits to foreign courts over debt

WEDNESDAY 15/11/81 49
JOHN TILSTON

SOUTH AFRICA has agreed to subject itself to the jurisdiction of British and US courts of law as part of the recently-concluded foreign debt agreement.

Details of the undertaking are contained in the "interim arrangements letter" sent to foreign bank creditors last month, by Finance Minister Barend du Plessis, and published yesterday in a booklet by Deloitte Haskins & Sells.

Du Plessis' letter says SA "irrevocably agrees ... that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes," which arise out of the agreement.

The letter also concedes the same rights to courts in New York.

The clauses are an indication of how low SA's credibility and credit-worthiness has sunk since the foreign debt moratorium was imposed in September.

SA has also waived any immunity from suit or attachment it might have claimed for itself or its assets, although the document specifically exempts diplomatic property from the waiver.

While the immediate material impact of such clauses is negligible, they may

have greater significance in future. There is the prospect of future attachment of SA goods abroad — for instance SAA aircraft — if an impasse in further negotiations, scheduled for next year, is reached.

Deloitte's Simon Jeffreys notes that, in terms of the arrangement, creditors which do not accept SA's offer are not assured of the various benefits set out in the agreement — essentially the 5% debt repayment and the higher interest rate.

The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.

SA submits to foreign courts over debt

BUS DAY 15/10/86

SOUTH AFRICA has agreed to subject itself to the jurisdiction of British and US courts of law as part of the recently-concluded foreign debt agreement.

Details of the undertaking are contained in the "interim arrangements letter" sent to foreign bank creditors last month, by Finance Minister Barend du Plessis, and published yesterday in a booklet by Deloitte Haskins & Sells.

Du Plessis' letter says SA "irrevocably agrees ... that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes," which arise out of the agreement.

JOHN TILSTON

The letter also concedes the same rights to courts in New York.

The clauses are an indication of how low SA's credibility and credit-worthiness has sunk since the foreign debt moratorium was imposed in September.

SA has also waived any immunity from suit or attachment it might have claimed for itself or its assets, although the document specifically exempts diplomatic property from the waiver.

While the immediate material impact of such clauses is negligible, they may

have greater significance in future.

There is the prospect of future attachment of SA goods abroad — for instance SAA aircraft — if an impasse in further negotiations, scheduled for next year, is reached.

Deloitte's Simon Jeffreys notes that, in terms of the arrangement, creditors which do not accept SA's offer are not assured of the various benefits set out in the agreement — essentially the 5% debt repayment and the higher interest rate.

The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.

17/10/88 - BUDAPEST (49) (410)

SOUTH AFRICA will face considerable economic and political obstacles in the closing 15 years of this century, particularly in job creation for the 18-million-strong workforce in the year 2000, Anglo American chairman Gavin Relly said yesterday.

He told a conference on "The economic future of the East Rand region" in Springs that six million new jobs would have to be found by the year 2000 and "we already have a large back-

Relly warns of economic obstacles

STEPHEN CRANSTON

log in terms of houses, schools, hospitals and roads.

"Our emphasis must now be directed to building houses and providing infrastructure in many of our poorer areas."

Relly also stressed that economic growth went hand-in-hand with political reform: "We must ask ourselves whether the

entire reform process which is under way is sufficiently bold, flexible and imaginative to see us through to an improved economy."

Relly praised measures recently introduced which empower the State President to suspend laws which impede the workings of the informal sector.

"An environment must be created allowing freedom of

economic activity for all."

He said the East Rand represented an important area in SA and included several townships in which emotions had run high in recent times.

By developing a strategy for the economic future of this region, it would be imperative to address many of the issues currently being debated in the townships.

49 22

Give workers a stake

STAR 17/4/86

Schwarz

Political Staff
PARLIAMENT — Mr Harry Schwarz, official opposition spokesman on finance, has appealed to the Government to give workers a share in their companies.

“Give the workers a stake in business and they will not be so quick to strike or throw petrol bombs when it is their factory that will be hurt.”

GOLD MINES

“If you want capital formation and stability, you must give workers a stake in the capitalist system,” he said during the second reading debate on the budget.

“This will save the free enterprise system. We don't understand the conflict between capitalism and socialism in this country.”

“Unless all South Africans

taste the fruits of capitalism, they will not support it.”

Mr Schwarz said in Britain workers were given about R8 000 worth of shares in their company — and this was under a Conservative, not a Labour, government.

He said he included gold mines in this proposal.

Mr Schwarz also appealed to the Government to launch a Buy South Africa campaign. This would help to save jobs and so maintain stability.

[The following table contains very faint and illegible text, likely bleed-through from the reverse side of the page. It appears to be a financial or statistical table with multiple columns and rows of data.]

Schwarz asks for conference to draft a financial plan for SA

The PFP spokesman on Finance, Mr Harry Schwarz called on State President Mr P W Botha, yesterday to call an economic conference across race or status lines to draft a financial plan for the future of the country.

Speaking during the debate on Mr Botha's Budget vote, Mr Schwarz said the conference could be similar to the Carlton and Good Hope meetings.

Mr Botha should invite businessmen, consumers, workers and academics, irrespective of colour or whether they were employer or employee.

They could then plan how to create enough jobs for South Africa beyond the 1980s to the year 2000.

If there were not enough jobs, the security forces would not be able to "hold the position".

Mr Schwarz said Mr Botha should ignore radicals to the left and right if they did not want to take part in the conference. All people of goodwill should meet to consider the country's economic problems.

The Leader of the Opposition,

Mr Colin Eglin, called on Mr Botha to "throw open" Cape Town's District Six to all races.

The removal of people from the area and its proclamation as a white area had been a mistake — "a misjudgment of the past."

Gestures of reconciliation in South Africa were badly needed now, said Mrs Helen Suzman (PFP Houghton), who asked that the State President return Cape Town's District Six to the coloured people and reverse his decision to incorporate the Moutse district in the Transvaal with the kwaNdebele homeland.

Mr Botha had "vast powers" in terms of the new constitution and all he had to do was "lift his little pinky and reverse" the decisions on District Six and Moutse.

"We badly need gestures of reconciliation in South Africa at this time."

Mrs Suzman said Mr Botha's speech in the House today had been a bitter disappointment for her.

She had hoped for an indication that he understood the situation in South Africa and that he appreciated the country's "very

economic viability is at stake ... the high unemployment, inflation and the fact this country with all its resources is facing bankruptcy."

She had hoped for positive news in Mr Botha's speech of "fundamental constitutional changes during the present, extended session of Parliament," but instead, there had been a ponderous dissertation on the South African Communist Party and the African National Congress.

Mr Botha did not have a mandate for the reforms he was proposing, Mr Tom Langley (CP Soutpansberg) said.

He said the Federal Congress of the NP in August could not give the State President the mandate he needed.

Fundamental changes of policy could only be made after a general election.

Mr Botha would say that he had gained a mandate in the constitutional referendum in 1983, but he did not know how the voters felt about his new reform plans, especially those "to make a black man State President."

Mr Langley said people would no longer admit they had voted "Yes" in the referendum. He had met a woman who wanted to cut off her hand for having done so.

Interjecting, Mr Albert Nothnagel (NP Innesdal) challenged the CP leader, Dr Andries Treurnicht, to resign his seat and to stand in a by-election against Mr Nothnagel in Innesdal. — Sapa.

Govt rethir
STAR 18/4/86
Political Staff

PARLIAMENT — White own affairs Minister of Education and Culture, Mr Piet Clase, has confirmed the Government is having a new look at race quotas for private schools.

Mr Clase said yesterday: "The regulations pertaining to the criteria are at present under consideration and no decision has yet been taken by the Minister's Council."

He gave no indication as to when a decision would be made.

The quota controversy has been brought to a head by

24/3/84 (49)
18/4/84
**Tax burden
undermining
SA's growth**

STEPHEN CRANSTON

THE tax burden is undermining the economy's growth potential, according to Assocom CE Raymond Parsons.

The appointment of the Margo Commission was, it could be assumed, an acknowledgement that the SA tax system needed a complete overhaul, he told the Potgietersrus Chamber of Commerce on Wednesday.

State spending had to take up a smaller proportion of the gross domestic product, he said.

Total public sector spending had increased over the past few years from less than 35%, to 37% last year and government intended to bring this percentage below the 1981 level by the end of the decade.

Privatisation and deregulation would make lower taxes possible, and the income from privatisation could be used to reduce the national debt.

Tax levels in SA were unattractive to overseas capital and skills and were encouraging disinvestment and the "brain drain" (emigration of skilled workers), he said.

Tax reform had to lower the burden to make evasion undesirable.

Parsons said simplicity was the most important criterion for a successful tax system.

Substantial permanent tax cuts were needed to make the system effective, he added.

Spotlight on multinationals

By Gary van Staden, Political Reporter

All aspects of international corporate involvement in South Africa will come under the spotlight today at a conference in Johannesburg.

The conference will be addressed by the South African Ambassador to Britain, Dr Denis Worrall, the United States Ambassador here, Mr Herman Nickel, Dr Nthato Motlana of the Soweto Civil Association and Mr Allan Nelson, a leading disinvestment lobbyist in the US.

The conference will be chaired by Mr Christopher Tugendhat, chairman of the Royal Insti-

tute of International Affairs.

The conference will also involve two panel discussions on socio-political and economic issues.

The conference's major themes include:

- South African Government reform initiatives — do they meet corporate requirements?
- Political and public concern overseas.
- Constraints placed on international corporations.
- The importance of and effectiveness of corporate policies and their employment practices.
- Corporate responsibility versus bottom line economics.

The breakers are here

FIN MAIL
49
18/4/86



Until now the Competition Board (CB) has had limited success in its piecemeal efforts to stamp out restrictive trade practices. But from May 2, promises chairman Stef Naudé, things are going to be different.

A notice to be published by Trade and Industries Minister Dawie de Villiers (in terms of the Maintenance and Promotion of Competition Act) will make it an offence for anyone in business — including professionals — to enter into defined collusive practices. And those who choose to ignore it will risk fines of up to R100 000 and/or jail terms of up to five years.

- The notice will apply to five general areas:
- Resale price maintenance;
 - Horizontal price collusion (setting minimum prices);
 - Horizontal collusion of conditions of supply (setting uniform conditions of supply);
 - Horizontal collusion on market sharing (dividing up markets); and
 - Collusive tendering.

Inevitably, however, the nature of many professions and businesses make an immediate break with the past impossible. Consequently, applications for exemption have been pouring in by the hundred — some of them successful, most of them not.

But even so it has become clear that many affected parties, particularly among the professions, have been caught on the hop. Stockbrokers, for example, believed for some reason that their collusion on fees was exempt. As it turns out, it is not and JSE executive president Tony Norton and his committee are now hurriedly preparing evi-

Collusion in business and the professions is to be outlawed — although a lucky few will gain exemptions. The effect of the ministerial notice will come into effect on May 2, and great shifts could take place within our economy.

dence to support an application for exemption. In the interim, however, brokers have been granted a temporary stay.

However, just about everybody who's anybody in the professions or quasi-professions — attorneys, architects, estate agents, civil engineers, accountants, and others — are in the firing line. Some, however, have already made temporary peace.

For example, Association of Law Societies chairman Roger Cleaver says standard fees for conveyancing have been exempted for the moment.

But the *FM* understands it is certainly not as cut and dried as Cleaver imagines. Word is that the CB has accepted only the *right* of the legal profession to retain exclusivity in handling conveyancing — and has not yet given its blessing to the retention of the set tariff structure that now applies.

Similarly, architects and many other professionals whose fees are built into statutes governing their professions will have time to ponder while the relevant laws are reconsidered.

Interestingly, Institute of Chartered Accountants executive director Ken Mockler says he has (hopefully) cleared the air with the CB on accounting and auditing fees. He says the board has accepted the accountants' submission that they do not fix minimum fees for audits or other accounting services. The board, however, is said to be uncertain about secretarial fees charged by CAs.

Naudé points out that it is not possible to amend an existing Act by a ministerial notice. The changes, he says, will have to come by amending the original Acts — a process which is now either under way or being investigated.

In the meantime, however, the CB is negotiating with the relevant professional bodies to "persuade" them to change voluntarily before legal action has to be taken.

In other cases, persuasion is unnecessary. For example, commission-fixing among estate agents will be illegal from the outset. Although *recommended* tariffs will be permitted, they will not be enforceable. Conclusion for property sellers: negotiate the commission



JSE president Norton ... hurried preparations

ALL UNDER FIRE

Sectors and charges under investigation

Commodities	Practices and alleged practices
Alcoholic beverages	Horizontal price collusion; Horizontal/Vertical price recommendation; Horizontal price collusion
Books (school)	Collusive tenders
Building activities	Horizontal collusion in respect of conditions of tender
Cigarettes	Horizontal price collusion; Market sharing; Collusive tenders
Coal	Market sharing; Collusive tenders
Flour	Market sharing
Food, frozen	Horizontal price collusion
Insurance services (short term) .	Horizontal price collusion; Market sharing
Legal services	Horizontal price collusion
Medicine, prescription	Horizontal price collusion; Horizontal price recommendation
Milk (fresh)	Horizontal price collusion; Market sharing
Newspapers	Horizontal price collusion
Paint	Horizontal price collusion; Collusive tendering
Records	Horizontal price collusion
Televisions	Horizontal price collusion
Timber	Horizontal price collusion
Travel agency services	Horizontal price collusion

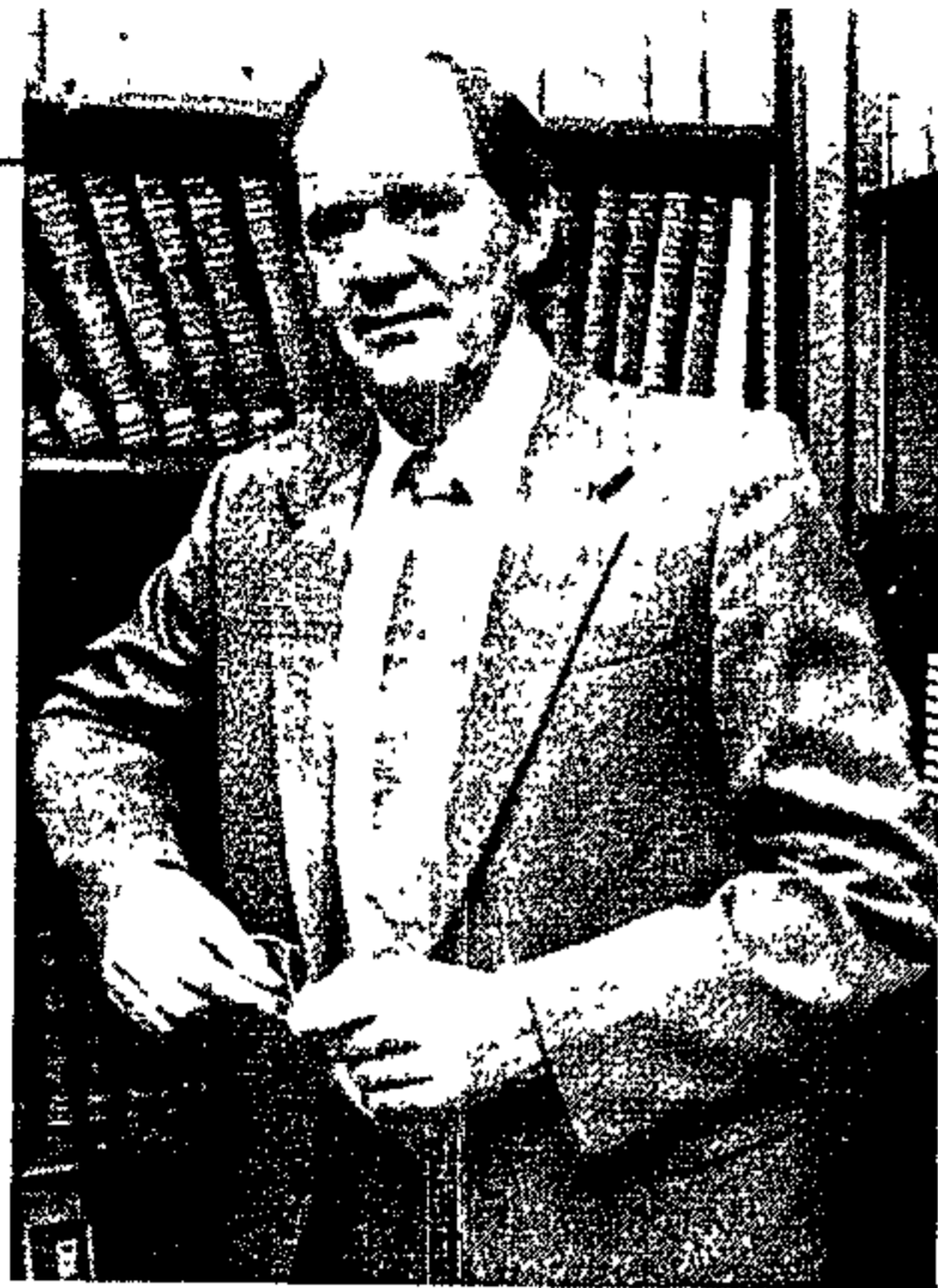
Source: Government Gazette

rate. But not only fee-fixing has caught the CB's attention. It is also looking at the means being used by the newer "professions" to restrict entry.

Explains Naudé: "It has become fashionable for many people, such as insurance brokers, valuers, natural scientists and estate agents to call themselves professionals. Many of them have so-called codes of 'ethical conduct' which act as a barrier to entry. Effectively, that's another way of reducing competition."

Examples of other restrictive practices under debate include any form of reservation of work for a specific profession — for instance, valuations by accredited valuers, superior court representation (advocates only), and architecture (only architects can design buildings of more than 500 m²).

Naudé says that while some degree of protection is obviously necessary — "one wouldn't allow just anybody to operate as a



Law Societies' Cleaver ... not safe yet

surgeon, for example" — it is clearly being taken too far in some respects.

The implications of the clampdown on industry, however, are more wide-ranging. Where extensions have been given, Naudé tells the *FM*, they will last only to year-end in most cases. But in some instances exemptions could be permanent if existing practices can be shown to be in the public interest.

Industries *alleged* to collude on prices and market sharing — such as coal, timber, cement and milling, among others — could also find themselves falling foul of the new regulations.

Some, like cement, have been given time to make other arrangements. But at this stage it is not possible to provide a clear picture of what is happening industry by industry or profession by profession. Naudé points out that applicants for exemptions will be told of the outcome only after May 2. A list of the successful few will be published; those who are unsuccessful will remain anonymous.

Among industries in the firing line, however, are: liquor, baking, building, cement,

chemicals, elevators, engineering services, flour and even travel (see box).

The latest notice, Naudé points out, will supplement powers handed to the board earlier this year to investigate *existing* monopolistic situations. Previously it was able to investigate only increases in economic concentration through mergers and takeovers.

As he points out, in the past the CB has put the emphasis on ad hoc investigations into restrictive practices in certain industries — such as explosives and liquor. Decisions then applied only to the affected parties — not the industry as a whole.

Wisely, however, the board is bending over backwards to avoid being destructive. It is only too well aware that practices which have been in effect for years cannot be changed overnight. Policy, therefore, will be to give both industry and professions time to come to terms with the new order.

Clearly, therefore, there is still a lot to be done. On the question of cartels, for example, Naudé says he has been staggered by the number operating in the South African economy. What surprises him — but not other industry watchers — has been the number of businessmen who advocate free markets publicly but who have been among the first in the queue for exemptions.

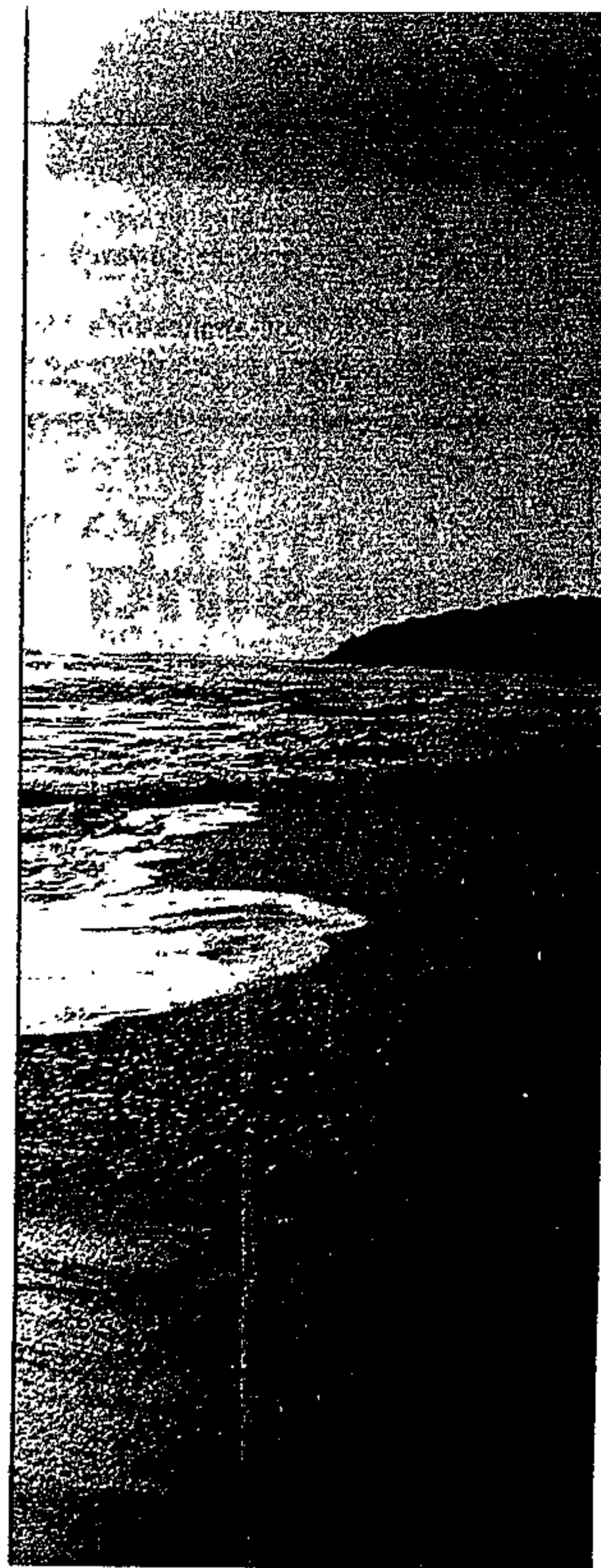
Although the plan is to avoid havoc, however, Naudé is adamant that the number of exemptions will be few — and usually temporary. But inevitably there will be special cases. Petrol is one of the most celebrated and it appears that there will be no 'free-for-all here.

Norton feels the JSE is another. He reckons there is a good case for structured brokerage in SA since deregulation in his view would inevitably lead to brokers acting in a dual capacity — as both broker and principal. This is already happening in the UK, he says, ahead of the planned scrapping of set brokerage fees due to come into effect in October.

In the South African situation, he adds, that would lead to an undesirable move by institutions to take over brokerage houses.

And then operations like Spar, the *FM* understands, will be given the CB's blessing to go ahead with its central buying arrangement and fixed price regime through member outlets. Only in this way, it is argued, can the small men compete with the big chains in the public interest.

The pharmaceutical industry also has a peculiar problem. It sells cheaply on tender to the State for the benefit of the poor and recoups on sales to the private sector. But pharmaceuticals, too, are under surveil-



"Gentlemen, could we please concentrate on the sales forecast..."

Strike the perfect balance between work and play — plan your next conference at the Wild Coast Sun.

From unspoilt beaches to fully-equipped conference rooms, from attentive service to mouth-watering cuisine, the Wild Coast Sun offers you a unique blend of hard-nosed professionalism — and total relaxation.

So when you're through with the agenda, take time off to celebrate another kind of life

Life on the wild side.

**WILD COAST SUN
CONFERENCES.
PHONE (011) 783-0771.**



Sun International

FIN MAIL

(49)

18/1/86

COAL DISTRIBUTION

A step ahead

Government's decision, last week, to end control of the wholesale and retail price of coal represents the first major step in the long-awaited deregulation of the coal industry. Further disengagement by the Department of Mineral and Energy Affairs (DMEA) is in the pipeline.

Coal wholesalers and retailers have been fighting each other and government ever since the DMEA accepted the Competition Board's recommendations for deregulation, two years ago.

The regulations seen as the cornerstones of control are those governing price and distribution. The distribution restrictions are embodied in the much-criticised rationalisation scheme, which gives dealers specific areas in which to trade provided they subscribe to certain conditions of market entry.

Government's decision came after months of negotiations with the Coal Advisory Board (CAB), which is made up of private and government sector representatives. Ironically, the CAB was established as part of an attempt by government to consolidate its power through the introduction of the Coal Resources Act last year.

Now, it seems, the DMEA is being guided by the CAB towards gradual deregulation. Director General Louw Alberts tells the *FM*: "The rationalisation scheme could be on its way out. Firstly, we have found it is very difficult to regulate the industry thoroughly. Secondly, coal is an indigenous resource; it is not like oil and regulations are not as necessary. And thirdly, we are confident market forces can handle the responsibility."

This attitude is a far cry from the DMEA's past belief that tight regulation was necessary for "socio-economic" reasons and because coal is a strategic mineral in need of a watchdog (*FM* January 25, 1985).

Coal industry renegade Aluchem, which has resorted to the courts many times in its opposition to regulation, sees more light ahead. "This is a happy day for us," says director Paul McNaughton. He believes government's new move has brought down "the foundation stone of control," the rationalisation scheme. He says entrance to the industry will become easier, making for "a much more competitive market."

However, MacPhail's — the largest coal distributor in SA, ancient foe of Aluchem and outspoken supporter of government control — does not share the DMEA's benign acceptance of change, or Aluchem's optimism. "A lack of price control will not make much difference to our operations," says joint MD Andre Fowler. "The industry is already so competitive that we have structured our prices according to costs and not to the DMEA prices."

There is also no doubt that while pithead prices remain controlled the industry will not enjoy the full benefits of deregulation. The CAB had recommended an end to all price

Govt planning a Good Hope-type business indaba

GOVERNMENT was considering holding a conference of businessmen and other interested parties later this year to discuss future economic strategy, State President P W Botha said in the House of Assembly yesterday.

In his reply to the debate on his Budget he said the Carlton and Good Hope conferences showed that he believed in consulting the private sector and other groups in the community on economic policy.



● BOTHA

"With a view to this, consideration has already been given to the possibility of organising a conference later this year of businessmen and other interested parties.

South Africans 'need to know'

SOUTH AFRICANS should be able to read more speeches like those made by Winnie Mandela, Brian Page (NRP Umlanga) said yesterday.

Speaking on the information vote in the House of Assembly, he said the public had to read "both the good and the bad".

Page said visitors brought to SA by the Information Bureau should be exposed to a complete spectrum of opinion. "Sometimes I feel they are not able to see as many people as they ought."

President Botha should communicate with all South Africans, Page said.

He suggested Botha try the "fireside chat" approach initiated by Franklin Roosevelt. — Sapa.

"At such an event, fruitful debate could be held on the proper economic strategy in the short, middle and long term," Botha said.

He was replying to a speech by Harry Schwarz (PFP Yeoville) who called for the holding of a Good Hope-type conference and asked what progress had been made by the State President's National Priorities Committee on the economy.

Botha said the committee had investigated the limitation of the State's responsibilities through privatisation and deregulation.

It had also set preliminary long-term expenditure guidelines for state departments and would finalise these plans in preparation for planning of the 1987/88 Budget.

It was planned that the committee would, by April each year, consider long-term expenditure guidelines for approval by the Cabinet.

The scarcity of development capital made it necessary for the committee to also consider capital programmes for semi-government organisations to ensure they were fully used.

Botha said the committee's work was reflected in the government programmes announced from time to time, such as the 10-year plan for education set out last week.

MPs were free to make suggestions on expenditure priorities in Parliament or at meetings of the parliamentary committees on which they served.

On the economy, Botha said government's objective in the Budget had been to use room for growth provided by the balance of payments to bring about relief for the unemployed.

Special work creation programmes initiated in 1983 and continued last year had again been extended this year.

The vote was approved after a division in which the CP and the HNP voted against the NRP, the PFP and the NP. — Sapa.

(19) BUS DAY 22/4/86

Sanlam has doubts about upswing

DOUBTS on whether the economic upswing can be kept up without additional stimulation are expressed in the latest Sanlam *Economic Survey*.

There had been few signs of a general improvement in economic activity, Sanlam chief economist Johan Louw said in the survey. Recovery in most sectors was shaky.

He said factors retarding the upswing were: the tax burden, the high inflation rate, the slow rise in remuneration, the large debts caused by an average of 300 company liquidations and 350 insolvencies a month last year, the 5% drop in retail sales last year, the decline in sales of passenger vehicles and the sharp increase in unemployment.

Only if the domestic economy revived on a

BEULAH BROWN

broad front would higher production be achieved this year, he said. Production bottomed out in the last quarter of 1985.

Conditions in the building and construction industries were unfavourable, but would be boosted by government's plans for increased capital expenditure — R1,2bn for 1986/87 — in these sectors.

Mining production last year earned R22,5bn in foreign exchange for SA — an increase of 40% on the previous year.

Good growth prospects for the world economy and the low external value of the rand could ensure favourable exports for the mining industry.

But, said Louw, sanctions threats had to receive serious consideration.

He added that if the rand retained its present level of about \$0,50, the inflation rate would lower to an average of 17% this year.

A surplus of about R5bn on the current account of the balance of payments was expected for 1986, of which the biggest part would have to be used to redeem SA's large foreign debt.

The *Economic Survey* also questioned the credibility of government's budgeted expenditure.

Although welcoming the mildly stimulatory nature of the 1986/87 Budget, it did not expect the Budget to succeed in bolstering consumer confidence and placing the economy firmly in an expansionary phase.

Restrictions on shopping hours lifted

By Kym Hamilton,
Pretoria Bureau

Shopping hours have been dramatically extended from today with the proclamation in the Provincial Gazette of the Shop Hours Ordinance.

The new legislation removes shopping hour restrictions, which have been in force in the Transvaal since 1910, and traders will now be able to

stay open between 5 am and 11,30 pm on weekdays and Saturdays, except for religious and public holidays.

The "status quo" on Sunday shopping will remain in force.

However, local authorities will be empowered to restrict trading by shops within their jurisdiction.

The new legislation cancelled several anomalies in the old ordinance.

Apart from food, drink and tobac-

co, which have always been available after hours, cigarette lighters and dog foods have been added to the list of goods which may be sold between 5 am and 11,30 pm.

Emergency chemists who are licensed to sell a variety of vital items, including baby foods, bandages, disinfectants and contraceptives, may do so 24 hours a day every day, including public holidays.

6% wholesale decline expected

WHOLESALE trade sales in March are expected to show a 10,5% increase in rand terms on those of March 1985.

At constant 1980 figures, however, the figure, which includes diamond sales, is expected to show a 6% decline.

Latest figures from Central Statistical Services (CSS) predict wholesale sales of R5,33bn in March this year, compared with R4,83bn in March 1985. At constant 1980 prices, these figures translate to R2,68bn (1986) and R2,85bn (1985).

Total sales in the first three months of this year are expected to hit R14,64bn, a 9,9% rise on the corresponding 1985 period. But once again, a comparison of constant 1980 prices tells a different

story, with 1986 first-quarter sales an estimated 10,9% down - from R8,06bn to R7,18bn.

Excluding diamonds, retail sales in March this year are expected to reach R5,16bn, compared with R4,73bn in March 1985.

CSS seasonally adjusted indices for the total volume of manufacturing production show a continuing dip in February, with total volume 3,9% lower than in January.

This reflects a shortfall in the placement of forward orders and production cuts implemented by the manufacturing sector.

The main decreases (January figures in brackets) were recorded in food 136,0 (142,7), beverages

156,4 (173,4), paper and paper products 154,5 (165,9), industrial chemicals 129,7 (139,1), other non-metallic mineral products 98,4 (107,9) and basic iron and steel industries 152,3 (179,5).

The motor vehicle figures continued to slide 72,5 (77,1), as did those for transport equipment, excluding motor vehicles, parts and accessories 59,1 (62,0).

Commodities to show an increase in production were wearing apparel 103,9 (93,7), wood and wood products 129,5 (118,8), furniture 115,9 (95,5), plastic products 134,1 (121,8) and electrical machinery 100,4 (89,7).

The largest increases were recorded in rubber products 89,3 (70,4) and basic non-ferrous metal industries 184,5 (166,7).

(50) (49)
BU DAY 23/4/86

Little upside potential for the rand

BUS DAY
24/4/85

THE view is held in some quarters that the rand does not subject itself to technical analysis.

The basis of this opinion is that there are not enough chartists and therefore the so-called "self-fulfilling prophecies" will not materialise. I have stated before that technical analysis is not dependent upon itself for its success.

Rather, the positive results derive from the fact that each point on a chart indicates an equilibrium level — a supply/demand interaction. The imperfection of the market is also taken into account in this interaction.

Distortion

Only when the efficiency of the market moves significantly towards or away from perfection can you have a distortion of the charts. And then the distortion is relatively short-lived, as the price tends to absorb all available information almost immediately.

So now let's look at the rand chart from a technical viewpoint. On the one-year graph we have a downward-sloping channel which is the long-term trend. At present it shows a range of R1=\$0,30 to \$0,4850. We burst out of this channel in February, came back into the channel during March and in recent days we have exceeded the top side of the channel once more. This tells us one of two things. Either the move out of the channel is an overshoot response to the December 9, 1985, exchange control

amendment which required exporters to cover within seven days of shipment or we have the potential to reset the long-term direction of the rand into an upward direction.

At the present time, we have too little information to prognosticate on a fundamental turn-around of the rand's trend. In fact, if anything, the available information does not support much further upward potential for the rand on either a fundamental or a technical basis.

From a fundamental point of view, we have some support from the trade account, but any appreciation of the rand would negate this support by narrowing the trade surplus through higher imports and lower exports. In addition, the problem of international competitiveness is severe, given our higher rate of inflation *vis-a-vis* the rest of the world.

A deterioration of the trade account could have been offset by capital flows, but these (even if they were positive) have been nullified by the introduction of the financial rand. By using financial arbitrage transaction, investment and disinvestment has no impact on reserves.

This is fine when we have a net disinvestment situation, but it helps nothing when foreign investment funds are introduced into the country. And then we have the problem of the standstill and foreign lender attitudes to SA.

Over and above all of this we have a central bank which takes in 67,8% of export proceeds, leaving only 32,2% to meet almost 100% of import demand. I will grant that they do make some of the export proceeds available to the market to keep excess import demand, but

this would only serve to keep the rate steady — and then only if the banks avail of the dollars offered by the Reserve Bank.

This detour into the fundamental background of the rand is necessary if we are to understand the charts. So, now turning to the four-month graph, we see a band which runs between R1=\$0,45 and 0,5060. This trading range has prevailed since February and is probably indicative of the bounds within which the Reserve Bank would like to keep the rand. At the moment, we are just off the top of the range, which also places us over the upper limit of the long-term downward trend channel.

The momentum of the rand's movements has also slowed down significantly. It had fairly strong momentum up to the beginning of March and it was a signal for importers to cover at that point. You would have achieved a spot rate in

excess of R1=\$0,50 and the rand would have remained at that level for the next two weeks before it fell to \$0,46. A pretty good advance warning, wouldn't you say?

Right now, the momentum is still negative even though it is not as bad as it has been. For the time being then, there is still no signal for importers to be uncovered and this signal would only occur if the rand were to maintain a steady upward track from the 50c level.

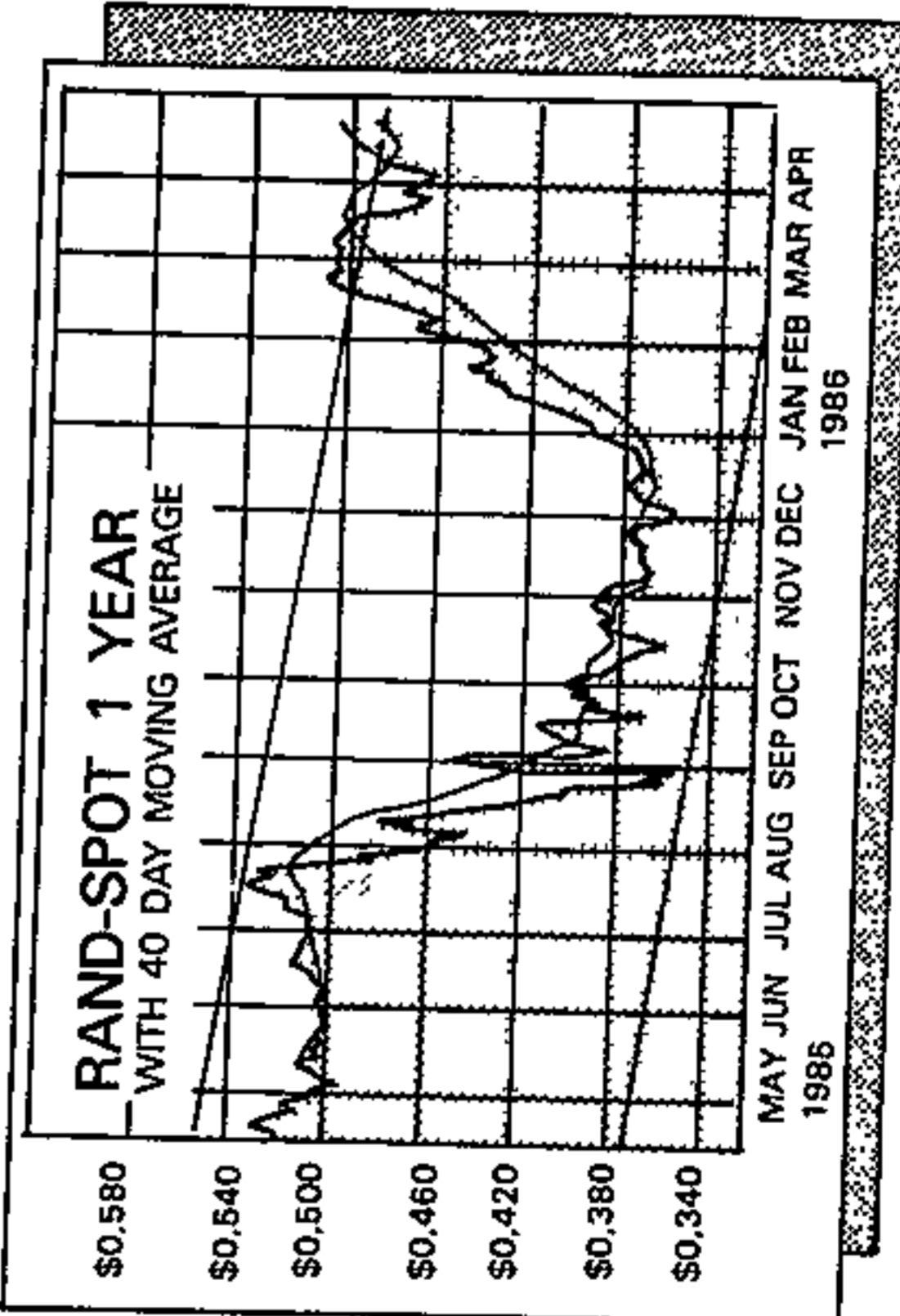
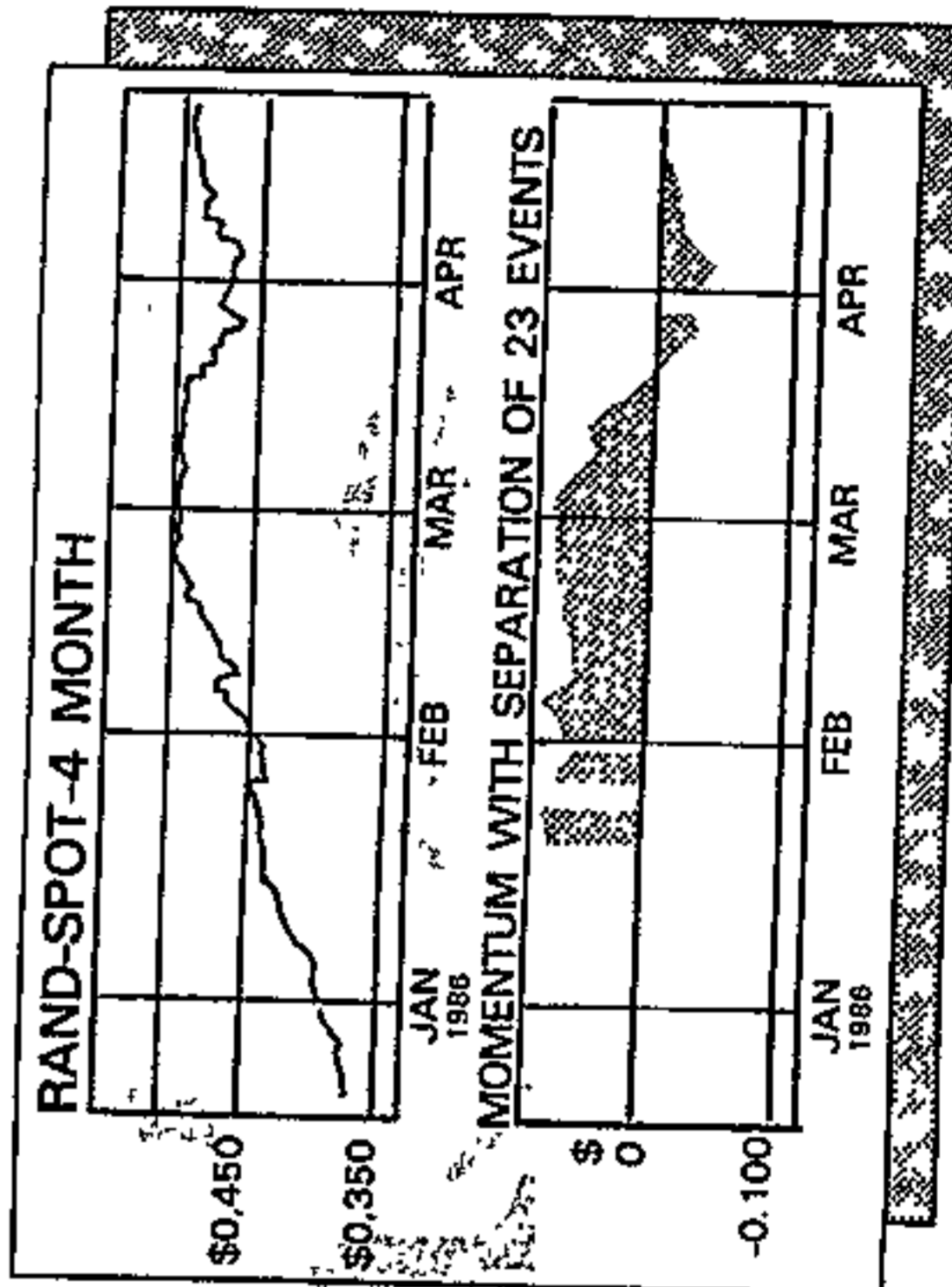
Given that we have developed a double top at just around 50c, it is unlikely that we will have a turnaround of the longer-term trend in the near future. Rather, it seems that the rand will exhaust its momentum over the next few weeks and the rate will retrace back into the long-term channel.

Problem

At that point you would need to carefully watch for a break of the \$0,56 level, which would indicate that the inverted shoulder-head-shoulder formation is aborted. If this level holds intact, the chart would indicate a further recovery to R1=\$0,62 within the next 12 months.

The problem, however, lies in the short term when the rand is likely to soon rebound off the cyclical low, we could see the rand at marginally lower levels in the near future.

David de Kock is MD of Forisk Currency Management.



49

ECONOMIC POLICY

Barend and Fred at odds

Favoured sons of the same tribe, big stakeholders in the business pie, and top of their mutually interdependent fields, Finance Minister Barend du Plessis, and Sanlam chairman and former economics professor Fred du Plessis are not logical adversaries. Yet they are at loggerheads.

Minister Du Plessis admonished businessman Du Plessis in Parliament last Friday, not so much for his economic theory (although he patently doesn't agree with much of it), but for how he has been using the Sanlam platform to criticise government policy.

The prof had provoked his ire the day before at a policyholders' meeting in Cape Town. There he elaborated on his vigorous, long-standing complaint, and theme of his recent chairman's address, that market-orientated economic policy can't cope with the disruptions facing SA.

He had taken the opportunity to talk to government, he complained, but no-one listened. While it was important that Sanlam should keep trying, he had doubts about what it could achieve, and of the capacity of government to absorb what was being said.

The minister, avoiding the prof's economic theory, advised that his place when it came to giving advice to government should be the State President's Economic Advisory Council (EAC), of which Fred is a founding member.

In fact, it is said that Fred was instrumental in revamping the EAC last year, increasing business representation and chucking out the economists. Moreover, as the chairman of the EAC is now on the State President's Priorities Committee, it could be argued that the influence of the EAC is growing.

Strategically, the minister probably chose the right target. Sanlam does not provide as large a constituency as the 1,5m voters who supported the Nationalists in the last election, but the insurance conglomerate's 1m policyholders are obviously a potentially powerful lobby. Certainly the minister stated that government had no quarrel with Sanlam, built as it was with the sweat of the Afrikaans community over many decades.

In the aftermath of the exchange as the *FM* went to press, both were anxious to depersonalise the issue.

"There is no row between me and Fred du Plessis," Barend du Plessis told the *FM*. "I have always taken due cognisance of what he has said to me during private consultations, and his contributions to the EAC. I merely responded on behalf of government that we were disappointed at the way Sanlam's platform was being used to further advice which had not been put sufficiently persuasively to



the EAC to be adopted as government policy."

A corollary to insistence on the EAC as the forum for discussion, however, could be the implication that Fred du Plessis harbours doubts on its value. Sanlam's publicity people can doubtless muster more extensive press coverage for their chairman's views, and air them before larger audiences under the group's aegis, than can the EAC. Considerable frustration is evident in what Fred du Plessis is saying. Given the significance of the debate, which comes down to how the economy should be run, it's hard to expect the antagonists to forgo any platform.

Inevitably, perhaps, economic fundamentals are blurred as each side defines its arguments with an element of deferral to the other.

The confrontation was never a clear-cut case of a Department of Finance desperately seeking the way of the free market while Sanlam's chairman preached draconian controls.

To be sure, Fred proposed pegging the rand last year at a time when the Reserve Bank's managed float was to become a paradigm of sound economics that undoubtedly saved untold grief. (It doesn't bear imagining who would have had to advise the State President next day of the need for an immediate, formal 20% devaluation of the rand as sequel to his Rubicon speech.) And Fred wanted more stringent import barriers when the self-correcting cheaper rand was doing the job efficiently, and GATT was already threatening dark retribution for the relatively tough controls that already existed.

On the other hand, Barend has hardly forgone the implementation of direct controls: in the past few months, for example, exporters have been required to take out forward cover within seven days, and mines must now take rands for gold instead of dollars. The minister is known to rely heavily in the decision-making process on his committee for Policy and Strategy, including Treasury's Chris Stals and Gerhard Croeser, and the Reserve Bank hierarchy, who don't pull punches.

To some extent the Sanlam approach smacked of trying to apply micro-theory to the macro-economy. Were 100% control possible, maybe SA could have ticked over as a closely managed island isolated from the outside world. But it is impossible to take the option seriously.

Fred du Plessis refined his proposals in his address to the Sanlam AGM last month, calling for a national strategic plan to extricate SA from what he sees as ad hoc uncoordinated policies without clear objectives.

He warned then that "the popular trend" of simplistically placing people into camps for or against the free market was "extremely dangerous." Yet he said in the same speech: "The free market could be used to even greater effect, provided the system works or is managed in such a way that it is made to work. But when the price is out of all proportion to results, or market forces are dominated and destabilised by expectations about economic or non-economic factors, it is time to replace the market mechanism with something else until the environment is stable again."

Words like that should keep the issue burning ahead of the forthcoming EAC meeting, where Fred could come in for some drubbing.

Interesting now is how another influential adviser, Reserve Bank governor Gerhard de Kock, comes out of this contretemps. Could Gerhard's star be rising once more? We hope so.

FIN MAIL 2514/86

LIQUIDATIONS

Dragging feet

Local tanners and other footwear component suppliers agreed last year to wait for settlement after a local subsidiary of a major international shoe manufacturer went to the

Financial Mail April 25 1986

wall. They are still waiting.

The South African subsidiary of the giant C & J Clark footwear company, based in the UK, was placed in voluntary liquidation in January 1985, owing more than R1m to about 20 creditors.

Clarks guaranteed to honour its debts and even arranged a payment schedule, put forward by the SA-based liquidator in late 1985. This schedule has now been dubbed "the never-never plan" by suppliers. It was agreed that 25% of the total owing would be paid in January 1986, with another 50% in June or July this year and the remaining 25% in December 1986.

But the January payment has not yet materialised.

Suppliers' shock

Suppliers, already struggling because of the depressed footwear trade, "are shocked that a company of the standing of Clarks has chosen to procrastinate in fulfilling its obligation," says an SA Tanners' Association spokesman.

Payment depended upon the sale of Clarks' SA property from which, the liquidator says, funds have been realised. A circular issued by the liquidator says discussions on payments are continuing, but that the matter has been delayed because of expense queries by the Master of the Supreme Court. Adequate funds are available, the circular emphasises, but it seems the original payment plan is doomed.

The circular suggests a new offer of compromise to be agreed by a majority of creditors. But the suppliers are sceptical. Says one: "We have received many gestures of this kind before."

The liquidators' reaction? None at this stage, except an unofficial comment that creditors are being unreasonable. ■

w/e ARGUS 26/4/86 (49)

Confidence ebbs

By DEREK TOMMEY
Financial Editor

SOUTH African businessmen are becoming increasingly dissatisfied at the poor state of the economy and the absence of any of the signs of economic growth they were led by the Government to expect.

This dissatisfaction surfaced this week when the country's two biggest clothing manufacturers, Mr Aaron Searll and Mr Christo Wiese, called on the Government to take further steps to stimulate the economy.

Mr Wiese, chairman of the Pep group, said he was greatly concerned at the lack of confidence among South African businessmen and this required urgent attention.

He believed the State President's announcement on influx control had been a bold stroke which should help confidence, but said it was possible that more "dramatic" measures would be required.

He appealed to the Government to use the petrol price windfall to cut general sales tax. He also called for aid for labour intensive industries which had a substantial export

potential and more attention to be paid to increasing the value of raw material exports by pre-processing them in South Africa.

Mr Searll, chairman of Sear-del, called for cuts in personal tax, company tax, general sales tax and customs duties — to be balanced by a cut in Government spending.

Mr Searll said the cost of Government was more than South Africa could afford. It had led to high taxes and to costs which were too great for the present market.

Manufacturers could not carry such huge costs, and this had led to increased prices and to the consumer having less to spend.

High Government expenditure had caused inflation, high interest rates and economic stagnation.

The result was that factories that should be working at full capacity and employing more people were not.

Action was needed because South Africa could not afford the high unemployment and the resultant unrest.

● Reports from the retail trade show hardly any improvement in business activity.

The past six months have seen a massive turnabout in the retail industry, reports Sven Lünsche, Weekend Argus Correspondent, from Johannesburg.

The established companies have largely seen their profits cut back substantially, though a few mainly black-orientated stores have posted successful interim results.

Analysts however feel that large scale black consumer spending will still take a while to come through.

Frankel Kruger's retail analyst Mr Jeremy O'Regan believes that the steady decline of real income among whites, estimated to be at an annual 4 percent, and a fiercely competitive market are the main reasons for the setback in retail sales.

The downward trend, many analysts claim, started just a few months before Christmas and the poor sales were characteristic of the consumer's price consciousness.

THE public sector's claim on the country's limited skilled labour force should be restricted, according to the 1985 report of the Central Economic Advisory Service.

This could be done only through privatisation, deregulation and functional rationalisation of public sector responsibilities, it adds.

The report stresses that public sector pay is the largest component of government expenditure and excessive increases in it should, therefore, be guarded against.

49 BUS DAY 29/4/86

Appeal over skilled labour

GERALD REILLY

The report says the committee of the previous economic advisory council made good progress with the formulation of a national economic strategy on consultation.

The call for a national strategy, the report says, stems from the clear need on the part of businessmen in particular, but also from other decision-makers, for greater clarity on the development of the economy and on the nature of government involvement in the economy.

The formulation and maintenance of a strategy was a continuous task. On privatisation, the report says, it was apparent from investigations this would have to involve more than merely selling off State assets.

No short-term upturn in sight, says BER

SOUTH AFRICANS will remain under economic siege this year, says the latest issue of *Economic Prospects* of the Bureau for Economic Research (BER).

Its author, Ockie Stuart of the University of Stellenbosch, expects consumers to come under pressure from declines in real wages and higher tax rates in July when higher levels of perks tax take effect. Private consumer spending will drop by 1%

JOHN TILSTON

from last year's depressed level. Real spending on durable items is projected to show its sixth consecutive annual fall and be at the level of such spending in the late seventies. It should fall 9.4% this year. Last year it fell 19.5%.

Spending on semi-durables should again be affected by boycotts, Savings will fall, reflecting the dif-

ficently many consumers are having in making ends meet.

The personal savings ratio (personal savings as a percentage of disposable income) should fall to 3.7% in the last quarter from the first quarter's 6.9%.

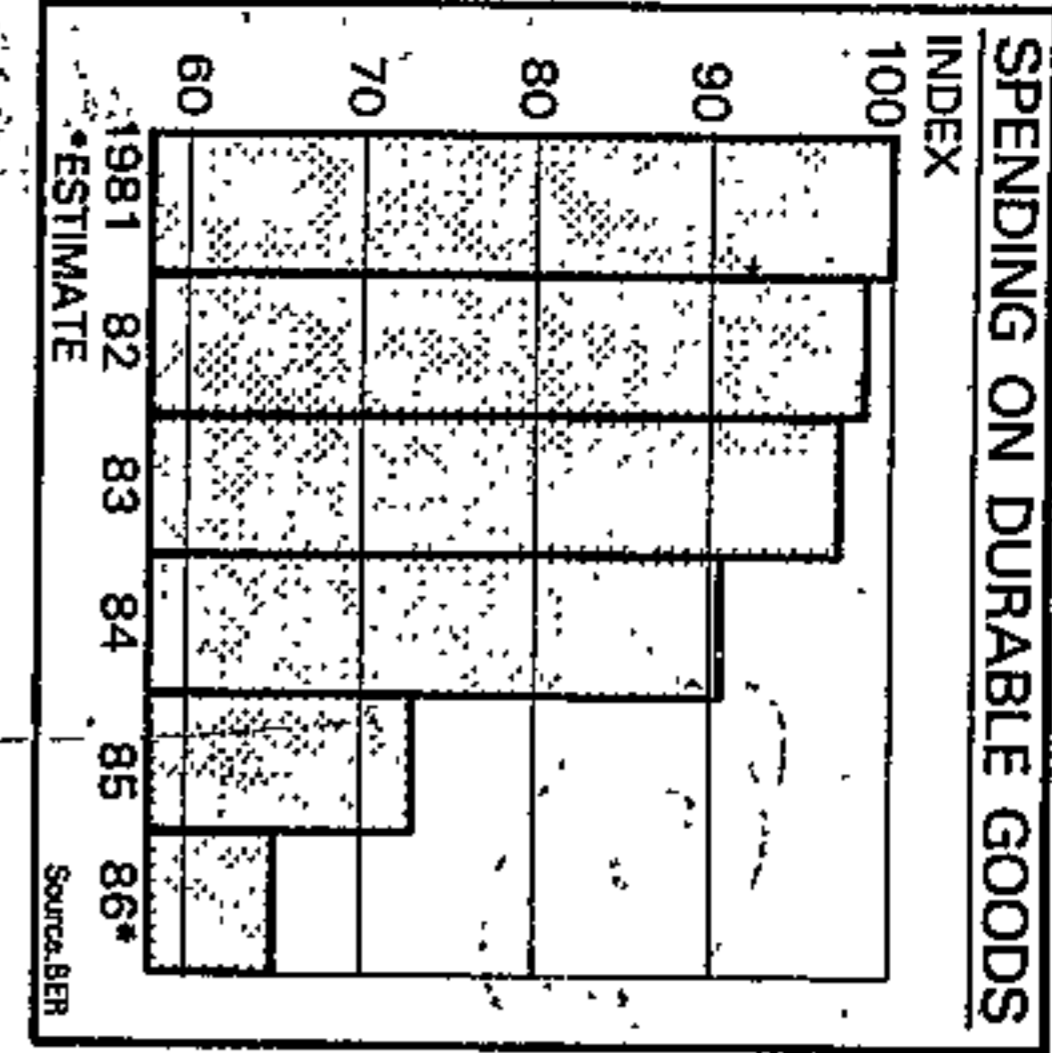
Fixed investment should continue in the doldrums.

It has fallen continuously since 1982 at an annual average rate of 4%.

This year it is likely to decline by 7.0%.

Not even the public sector will boost investment. On average, capital formation is expected to decline by 4%. Major cutbacks by public corporations will result in a fall of 14% in fixed investment.

Much of the private sector, heavily dependent on state spending, will, therefore, feel the pinch.



SOUTH AFRICAN business will learn a new word this week — competition. Cartels and price-fixing agreements, nurtured for generations as an accepted part of the business scene, will be effectively outlawed from Friday.

A Ministerial notice amending the Maintenance and Promotion of Competition Act will prohibit five major restrictive trading practices: resale price maintenance, horizontal price collusion, collusion on conditions of supply, collusion on market sharing, and collusive tendering.

While a handful of industries will be granted exemption where it is considered to be in the public interest, most of the country's trade and industry sector will have to learn a whole new set of rules.

According to Stet Naude, chairman of the Competition Board, which drew up the new legislation for Trade and Industries Minister Dawie de Villiers, SA business is awash with cartels and collusion.

"The economy is riddled with these practices — far more than we expected when we started our investigation," he says.

It is shocking to see to what extent these practices exist in the economy. There is almost no industry where there is no price collusion. Since learning of what the new legislation means some businessmen have come to me and said: "We don't know how to compete. We've never had to before."

When details of the legislation were first made public last year, the Competition Board listed scores of industries and practices it said were guilty of restrictive trading practices.

Since then, more than 70 industries have applied for exemption from the new law, which carries penalties of a R100 000 fine or five years' jail, or both. Applications for exemption are still arriving at the Competition Board.

Government sources say De Villiers has accepted the board's initial recommendation that only about half-a-dozen applications be accepted. He will name those exemptions early next month. Other industries will be given temporary exemption of up to two years while the Competition Board completes its investigations.



□ NAUDE ... "shocking"

Says Naude: "Some applications are by large, established cartels needing deep investigation. There are immense vested interests. There is no point in rushing and making errors of judgment. We must get all the facts for a responsible decision."

Other applications have come in so late the board has had no time to consider them. "We don't even look at the merits of the case, we just tide them over with a temporary exemption."

The five areas covered by the new legislation cut at the very heart of restrictive trading. Explained briefly:

- Resale price maintenance is the forcing of retailers to sell a minimum price for manufacturers' goods;
- Horizontal price collusion — agreement among suppliers of a commodity to charge a particular price or minimum price;
- Horizontal collusion on conditions of supply — an agreement to set particular terms for supply of a commodity;
- Horizontal collusion on market-sharing — an agreement to split up the market, including territorially

or by share.

- Collusive tendering — an agreement by suppliers either not to tender for a particular contract or to submit a tender reached by arrangement between them.

Naude says business has had plenty of time to set its house in order since October 4 last year, when details of the legislation were gazetted.

"People have had a lot of notice and there has been a lot of consultation with the private sector. We wanted to avoid any element of surprise. We could not afford to disrupt trade and industry."

He is confident the legislation will clean up the business sector. "There is no doubt it will have a significant effect on the promotion of effective competition, which has been stifled to an alarming effect by these practices."

"We don't want to make criminals of responsible businessmen but those who flout the law will have their fingers burnt."

"Up to now, we had no effective remedy. Now there are the powers to do it. No responsible businessman will run that kind of risk."

Government has long been a whipping boy for private enter-

Now SA business must learn what competition is really about

DAVID FURLONGER/Industrial Editor

Handwritten notes: 49, 20/11/88, Buss, GMA

prise, which has accused it of tampering with market forces and preventing the operation of a free market. Competition Board investigations have revealed an enormous element of hypocrisy in such accusations.

"Some pillars of private enterprise have blamed government actively in relation to market forces. They have never mentioned the fact that many of themselves were excluding competition on a massive scale. There is a very considerable element of hypocrisy."

"Government was at fault, but so was the private sector. Now we are trying to loosen the economy at both ends."

Government price fixing, in the form of marketing boards and the fuel price system, remains unaffected by the new legislation, but state-controlled corporations operating in direct competition with the private sector are bound.

Thus corporations such as Iscor and SA Transport Services (Sats) are as liable to prosecution as their competitors.

Naude concedes that some industries are unhappy with the new

legislation but says the country can no longer afford a business sector that stifles competition, particularly from blacks.

"We used to be able to live with our inefficiencies. We can no longer afford to do so. We can't increase efficiency without effective competition."

Vested interests may complain but at this point in our history, we have to do it. It is both politically and economically vital. There may be casualties but we have to bring the Third World into the system.

The new system was devised after close examination of anti-cartel legislation in other parts of the world. It specifically sought to avoid the problems of the US anti-trust system which, according to a recent report, "has all too often been used to frustrate rather than to promote competition."

Naude says of the SA legislation: "It's not perfect — no policy is. But it's the best there is. How do you decide the success of a policy? It's when there is substantial compliance."

Go for growth

CAPE TOWN — The disappointing performance of the domestic economy in the first quarter of this year was worrying, and attention had to be focused on getting it moving more rapidly, the Governor of the Reserve Bank, Dr Gerhard de Kock, said in Cape Town yesterday.

He told the executive committee of the Federated Chamber of Industries that the foundation for faster development had been laid under difficult conditions.

"Now we must go for growth. The scope for more rapid growth now existed — even given the constraint imposed by the need to repay debt.

"The labour is there. The capital is there. The surplus production capacity is there."

Within the official money supply target range the Reserve Bank had considerable scope to provide the banks with the cash reserves necessary to expand bank credit at reasonable rates of interest.

"The sluggishness may be temporary. Past upswings have also been slow in gaining momentum. But the problem at this

De Kock

(49) STYL 20/1/85
stage appears to be basically one of lack of confidence."

Dr de Kock said the new economic upswing appeared to have faltered in the first quarter of this year. It seemed that real gross domestic product, which increased moderately in the second half of 1985, declined slightly in the first quarter.

The surplus on current account also dropped in the first quarter to about R2 billion, from R7,1 billion. Imports showed an exceptionally large increase owing to oil stockpiling. Export earnings were affected by the decline in the real price of gold and strikes at gold mines.

He said 1986 promised to be a better year for the economy than 1985. Real gross domestic product should grow by between three and four percent compared with a decline of one percent last year.

The rate of inflation should decline to between 15 and 16 percent and the current account of the balance of payments was expected to be in surplus by between R4 billion and R6 billion. — Sapa.

'Pessimism precedes an upturn'

BUD DAY

SA recovery is still on track, says economist

30/9/86

49

THE less-than-buoyant mood in the economy to which Reserve Bank governor Gerhard de Kock referred yesterday is a traditional development at the early stages of SA economic upturns, says Old Mutual economist Rob Lee.



● DE KOCK

The dip in confidence is a result of businessmen and consumers re-assessing the state of the economy at a time when economic rhetoric is not yet matched by their own situation. They pause to wonder whether the upturn has actually arrived.

Lee cautions that the authorities have in the past tended to overreact to such interruptions by providing unnecessary stimulation for the economy. This inevitably leads to over-heating at a later stage.

Lee is optimistic that the rather anaemic economic recovery is still on track. In the latest *Old Mutual Economic Monitor* he forecasts gross domestic growth of 3% plus this year.

He points out, however, that demand in the economy still lags way behind

JOHN TILSTON

production levels (the surplus is being exported) and will do for some time yet.

Some analysts are being misled by the failure of car sales to improve. Increased car sales have traditionally been a strong indicator of an economic upturn.

Lee says, though, that car manufacturers have been hit by the double blow of the rand's decline and the imposition of perks tax. This has led to a structural change in the car market and sales are no longer a reliable economic indicator — at least this time around.

He says there are two major constraints on the sustainability of the upturn. The first is that, some time during 1987, SA's current account surpluses might not be large enough to maintain anything like the currently required scale of foreign debt repayment.

The second is inflation, currently at about 19%. An economic upturn starting from such a high base is inherently vulnerable, Lee says.

He expects one more cut in the bank rate before it starts to move up gradually later this year. Long-term interest rates, although at historically high levels, will go higher, he believes.

We'll meet you, business tells boycotters

THE Pretoria Chamber of Commerce is seeking an urgent meeting with consumer activists as a boycott of white businesses enters its second month, with no end in sight.

Chamber chairman Dan Rolt said this week he was not concerned with the damage the boycott was doing to white business but to the unemployment it was causing in the black community.

A representative of the Pretoria Consumer Boycott Committee dismissed the argument. "Our people suffer more severely under apartheid than under the boycott," he said, but added the committee was "seeking a

mandate from the community" to meet the Chamber.

He has charged "pro-apartheid forces" with "persistent efforts to break the boycott, confusing people through faked pamphlets."

"Our leaders have been detained by police and others have had their houses attacked with petrol bombs and hand grenades." Boycott meetings had been "disrupted by police" who also, he charged, had "tried to block supplies into the township".

Asked to comment yesterday, Col J Heyns of the SA Police Directorate of Public Relations said: "We do not try to prevent normal trade."

"If anyone should have any evidence (to the contrary), they must make affidavits available to us and we will investigate them."

A confidential letter signed by the secretary of the Chamber, CAP Viljoen, has asked Pretoria businessmen to pass any information on the boycott to the chamber, which is constantly in contact with the police and Security Forces.

Chamber officials have declined comment on the letter, which was sent more than a month ago but was made public only yesterday.

Too many people, said Rolt, with differing opinions about the boycott's

effectiveness were talking to the press and this was causing "conflict".

The Pretoria boycott, the second in months, was extended to Bophuthatswana this time but has lost momentum there since a youth was allegedly shot dead by police while enforcing it.

According to the boycott committee representative, efforts were being made to restore the boycott in the homeland, but "homeland people are being harassed by police and businessmen are being intimidated by (President Lucas) Mangope, who threatened to shut down the black businessmen's shops."

49
 (88) FIN MAIL
 2/5/86
 ECONOMIC POLICY

De Kock joins the fight

Reserve Bank Governor Gerhard de Kock has lost no time in entering the debate on economic policy direction, following the centre-stage philosophical clash between Finance Minister Barend du Plessis and Sanlam chairman Fred du Plessis (*Economy* April 25).

That De Kock had to grasp the nettle goes some way towards indicating that the controllers-by-decree are not dismissed in Church Square, or at the Department of Finance for that matter, as of no consequence.

In an exposition on constraints and objectives of monetary and fiscal policy, amounting to an eloquent defence and possibly a pointed extrapolation of the Minister's side



Governor De Kock ... operating through markets

of the argument, he found it necessary to note in Cape Town this week that market orientation is still policy.

Apparently in reaction to the exchange between the two Du Plessis, De Kock advised in a preamble to an address before the Federated Chamber of Industries that the debate should be about how the monetary authorities should trim their sails to the wind, not about whether they caused the wind.

"If ever there was a time when it was vitally necessary to distinguish between the 'situation' and the 'adjustment policy,' it is now," he maintained. De Kock remarked that misunderstanding evidently still exists in some quarters that market orientation in monetary policy is somehow equivalent to an absence of monetary policy. This view, he believes, is wrong.

SA's monetary authorities do not believe in an "unadulterated laissez-faire approach," whereby everything is left to be determined by the markets. Instead, they work actively towards certain policy ends, preferring "monetary policies that operate

through the markets rather than by decree."

For example, should the Bank wish to slow the growth of bank credit, the money supply and total spending, it would not impose direct quantitative ceilings on each bank's credit extension. Instead, the Bank would sell government stock and other money market paper in the open market, and slow down its own credit creation by raising the rediscount (Bank) rate.

On the other hand, were the aim to stimulate spending, production and income — as now — the Bank keeps the banks and money market supplied with the necessary cash reserves by buying or rediscounting money market paper and reducing Bank rate.

A market-orientated monetary policy also permits the use of minimum balance sheet ratios, or other financial requirements, to ensure the safety of banks and other financial intermediaries.

In other words, the case for market orientation is pragmatic rather than ideological. It has essentially been derived from a recognition of the mess created during the tenure of De Kock's predecessor as governor, Bob de Jongh. Non-market orientated or so-called direct policies plagued SA in the late Sixties and for much of the Seventies.

Criticism of government for things outside its control, such as the gold price, is a soul destroying exercise. Critics wrongly list exogenous political and economic shocks that occurred after market orientation was applied to argue that such policy caused the sad state of affairs.

As De Kock said, one might as easily argue that the decline in the dollar price of gold, success of Thatcher and Reagan in reducing inflation, drought, and politically inspired clamour by overseas banks to get out, were all the result of SA's market-orientated policy. ■

2/5/86
 INFLATION (88) (88)
 FIN MAIL
Pate worse than...?

The faltering economic upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation. Already danger signs are there.

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970. Significantly, it was the time of the State of Emergency, the Rubicon speech and the temporary closing of financial markets. Political instability had moved into higher gear — and so had inflation.

Now hovering around 20%, if nothing else

it has made businessmen familiar with the term "hyperinflation." As if the political situation were not enough, hyperinflation could unhinge the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.

BER STAYS GLOOMY

The latest *Economic Prospects* of the Stellenbosch Bureau for Economic Research (BER) reiterates earlier messages of short-term doom and gloom.

Of prime concern is that SA will not attract net new foreign equity investment in 1986. On top of official sanctions and divestment, author Ockie Stuart warns of intensified informal sanctions by trade unions. Reform in itself will create uncertainty, thus perpetuating the lack of confidence.

BER forecasts a current account surplus of 3,9% of GDP but a larger deficit on the services account. Capital will continue to flow out but at a slower pace towards the final quarter. To accommodate 3% GDP growth and stifle emerging demand inflation, BER sees the relatively high money supply targets as prudent. For calendar 1986 an inflation rate of 17,5% is probable, but BER optimistically sees better use of productive capacity holding down unit price rises. A rand appreciation is thought likely.

Consumer spending will drop 1% on a depressed 1985. Spending on durables should fall 9,4% — it fell 19,5% in 1985. The savings ratio will also drop from 6,9% in the first quarter to 3,7% in the fourth, partly reflecting the forecast rise of 19,6% in indirect tax and 19,8% in direct tax.

Following an average decline of 4% since 1982 in gross domestic fixed investment, a further decline of 7% is projected. Capital formation is likely to fall 4%. Parastatals will trim real fixed investment by 14,9% and the private sector by 5,2%, on average.

GDP could rise 3,2% in 1986 after falling 1% in 1985, and GDE may rise 2,4%. This process will be helped by a real increase of 3% in export earnings, inventory replenishment, and a fall of 1,4% in import payments. But this supply-side generated growth has limited ability to create jobs, and unemployment is expected to increase.

Says At Engelbrecht, chief economist at Volkskas: "Uncertainty is very much in the limelight. The political situation and continuing unrest are clearly sticking points for the economy."

Engelbrecht believes that because of this only government is in a position to get the economy off the ground. "Our problem is a lack of final demand. With hindsight, I would have liked a larger deficit in the March Budget, with higher government spending to help generate demand."

He says if economic activity goes down then the deficit would go up anyway, so why not have more deficit first and try to boost the economy meanwhile? This must go hand in hand with stability. "But how do you handle unrest and so forth in such a way as to defuse uncertainty in the short term?"

It's an open question. What is clear, as he points out, is that SA must avoid the "vicious circle" of depreciating currency and increasing inflation.

Rob Lee, chief economist of Old Mutual, has warned in the latest *Economic Monitor* that SA could be on the brink of hyperinflation.

Generally he takes a more optimistic view, in contrast to the Bureau for Economic Research (see Box). But some of his comparisons with countries that have trod the path toward hyperinflation hold a familiar ring. Hyperinflation has tended to happen in countries with:

- Small and open economies where "significant deterioration in the BoP outlook reduces scope for non-inflationary growth;"
- Increased foreign debt commitments. The average inflation rate of some Latin Ameri-

can countries, for instance, leapt to 245% a year after the 1982 debt crisis, when they were required to repay some of their previous massive capital inflows;

□ An export profile dominated by commodities, where "wide fluctuations in export prices can be very disruptive;"

□ A "depreciating currency is the likely outcome," raising the possibility of a vicious circle of depreciation and inflation egged on by indexation; and

□ Severe pressure on government finances, particularly when associated with persistent underestimates of future demands on spending. Fearing unpopular tax hikes, such governments are tempted to monetise the resulting budget deficit.

Lee also points out that SA did not share the disinflation trend of the industrialised world in recent years. "Our inflation rate is four times higher than the average for the seven major Western economies.

"The eventual inflation outcome will obviously be determined by the policies followed by the authorities," says Lee.

Probably the key warning signal to hyperinflation would be the start of indexation. Lee says the danger comes as inflation tends to discourage monetary savings. A typical scenario would be: indexation of certain savings instruments to maintain sufficient cash flows to finance government; then broader-based "official indexation;" followed by skyrocketing interest payments; rapid increases in government spending; finally, the budget deficit is monetised.

So far, indexation in SA has reached no further than the informal level, mainly in wage bargaining. But SA does have some of

the ingredients: it is an open economy, has a weak currency, relies heavily on commodity exports — especially gold — and has large foreign debt commitments. Government consistently underestimates its spending demands. Also, if the economy does pick up, our BoP surplus could disappear.

But what really concerns Engelbrecht is "that every time we move into an upswing, we also move into an upswing in CPI." ■

BER STAYS GLOOMY

The latest *Economic Prospects* of the Stellenbosch Bureau for Economic Research (BER) reiterates earlier messages of short-term doom and gloom.

Of prime concern is that SA will not attract net new foreign equity investment in 1986. On top of official sanctions and divestment, author Ockie Stuart warns of intensified informal sanctions by trade unions. Reform in itself will create uncertainty, thus perpetuating the lack of confidence.

BER forecasts a current account surplus of 3,9% of GDP but a larger deficit on the services account. Capital will continue to flow out but at a slower pace towards the final quarter. To accommodate 3% GDP growth and stifle emerging demand inflation, BER sees the relatively high money supply targets as prudent. For calendar 1986 an inflation rate of 17,5% is probable, but BER optimistically sees better use of productive capacity holding down unit price rises. A rand appreciation is thought likely.

Consumer spending will drop 1% on a depressed 1985. Spending on durables should fall 9,4% — it fell 19,5% in 1985. The savings ratio will also drop from 6,9% in the first quarter to 3,7% in the fourth, partly reflecting the forecast rise of 19,6% in indirect tax and 19,8% in direct tax.

Following an average decline of 4% since 1982 in gross domestic fixed investment, a further decline of 7% is projected. Capital formation is likely to fall 4%. Parastatals will trim real fixed investment by 14,9% and the private sector by 5,2%, on average.

GDP could rise 3,2% in 1986 after falling 1% in 1985, and GDE may rise 2,4%. This process will be helped by a real increase of 3% in export earnings, inventory replenishment, and a fall of 1,4% in import payments. But this supply-side generated growth has limited ability to create jobs, and unemployment is expected to increase.

BULLISH, ...

2/5/86

INFLATION

~~INITIAL~~ Fate worse than...?

The faltering economic upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation. Already danger signs are there.

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970. Significantly, it was the time of the State of Emergency, the Rubicon speech and the temporary closing of financial markets. Political instability had moved into higher gear — and so had inflation.

Now hovering around 20%, if nothing else

it has made businessmen familiar with the term "hyperinflation." As if the political situation were not enough, hyperinflation could unhinge the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.

of cattle and other livestock

as on the household's access to

(9) characteristics and personal

ent generation of adults which

ty.

ECONOMIC STRATEGY MEETINGS

F/N MAC 2/5/86

49

Intensified debate on economic policy (*Economy* April 25) can be expected at imminent meetings of the two key forums in the decision-making process.

The State President's Committee on National Priorities, set up in mid-1984 to establish guidelines for total public sector expenditure, meets on May 1, while the next session of the State President's Economic Advisory Council (EAC), which advises on general economic policy issues, is scheduled for May 15. Both are administered by the Office of the State President. They are regarded as committees of the Cabinet and their meetings are usually closed.

President P W Botha is chairman of the committee, whose permanent members include the ministers of Finance, Constitutional Development and Planning, Own Affairs Budgets, and chairmen of the individual Ministers' Councils. Ministers who are permanent members are supposed to have inter-departmental responsibility to avoid any temptation towards grinding their own axes. The presi-

dent may also co-opt members.

Last week in parliament, Botha disclosed that the committee had already decided on provisional guidelines on a functional basis concerning long-term budget expenditure.

He did not reveal what these guidelines are. He did, however, tell the Progressive Federal Party's Harry Schwartz that the possibility of doing so would be discussed on May 1.

The EAC was established by Hendrik Verwoerd soon after Sharpeville. It is chaired by Federale Volksbeleggings' Cornelis Human — also a co-opted member of the Priorities Committee. Private business people comprise the bulk of the EAC's membership, which was reconstituted last year to fit in with the tricameral dispensation. Minister for Administration and Economic Services in the State President's Office Eli Louw has responsibility for the EAC.

Reserve Bank Governor Gerhard de Kock, whose star is rising once more, sits on both bodies.

2/5/86
Timber!

(49)

Pretoria's recent decision to dispose of its timber interests signals this year's first major step to economic freedom. What were words for so long have become deeds. The timber decision, ironically, is the result of an investigation instituted by former PM and State President John Vorster.

The next moves? According to insiders these will be made in August by proclamation in terms of State President P W Botha's recently announced executive deregulation powers.

Observers, hinging their comments on what is "politically achievable," expect early proclamations to be on minimum standards: conditions of employment and building regulations. Another likely early area is licensing — where encouraging steps have already been taken in the liquor trade.

The first moves on Zebras (Zero Based Regulation Areas) could also be made. And transport — on a policy level — is set for deregulation over the next year. Another "obvious" area for privatisation is municipal transport.

Two international privatisation experts have arrived to present conferences hosted by the Soweto Chamber of Commerce and

the Free Market Foundation. American Robert Poole of the Local Government Centre, and Pierre Madsen, President of the Adam Smith Institute, will speak in Johannesburg on privatisation at local and central government levels.

Madsen is Margaret Thatcher's privatisation guru (and, incidentally, international secretary of high-IQ organisation Mensa), and will speak on the country now experiencing the most successful handover to the private sector.

Poole is scheduled to hold talks with Administration and Economic Advisory Services Minister Eli Louw, who has repeatedly stressed the importance of moves to economic freedom. Probably the most compelling reason to get on with deregulation and privatisation is the phenomenal achievements of Ciskei.

Following the report of the Swart Commission, Ciskei abandoned hundreds of laws inherited from SA. ■

Consumer spending may get new boost

STAR
6/5/86
49

By Trevor Walker

The Government is poised to stimulate the economy further as a result of the poor response from the private sector to measures in the March Budget presented by the Minister of Finance, Mr Barend du Plessis.

Treasury sources said an early repayment of the next outstanding loan levy would pump about R250 million into the economy and consideration was being given to assisting in the building of new houses.

Clearly the Treasury is concerned at the low level of morale in the private business sector and, in conjunction with the Reserve Bank, is rapidly moving to push consumer spending.

Reserve Bank Governor Dr Gerhard de Kock said last week that the predicted economic upswing appeared to be coming through more slowly than expected and hinted that further stimulatory measures were needed.

Now it would seem that the Treasury is ready to act in response to Mr du Plessis's statement in Parliament that the Government would not hesitate to stimulate the economy further if current economic forecasts were slow to materialise.

The deputy director of finance, Mr Gerhard Croeser, told a conference in Cape Town on Friday that there was "real concern at the reticence of private consumption and private fixed in-

vestment to resume an upward path".

He said all the "real" factors were present to support a new upswing "but it would seem that a portion of one vital ingredient is not fully present, namely confidence, on both corporate and personal levels".

"To bolster this confidence and to ensure that the sacrifices of the past two years or so will not have been in vain, the Government may have to resort to further pump-priming should the private sector fail to grasp the economic opportunities that the Budget deliberately opened up."

REDUCED SHARE

Mr Croeser said the Government was fully aware of business sector concern that it must reduce its share of the country's overall economic cake, but "if the private sector, having been brought to the water, refuses to drink, then the Government will perforce have to reconsider the matter in the light of the needs now prevailing".

He said that pump-priming could obviously take one of the several multiple options open to the authorities within the present financial constraints, but housing had a good claim to priority.

— It was labour intensive, offered scope for small business and its import component was minimal.

This, he said, was the indicated path for any additional social expenditure.

Home thoughts on SA from abroad

THE Republic's fortunes have changed dramatically since the heady days of the Nkomati Accord signed just two years ago. Then there were widespread expectations at home and in Western capitals that internal reform was well under way, that the security agreements with Mozambique and Swaziland were a major setback for the ANC and a prelude to a constructive regional role for Pretoria.

Government — it was claimed — had bought time to put its domestic house in order, free of ANC attempts to mobilise black hostility via the techniques of "armed propaganda". Externally, the neutralisation of Mozambique as an ANC sanctuary and the prospect of similar agreements with other regional states appeared to vindicate the doctrine of "constructive engagement": the Reagan administration had, after all, encouraged the peace process with Mozambique and promoted the Lusaka agreement on the future of Namibia.

Snubbed

Regional peace, and Western support and approval for SA's initiatives, would give P.W. Botha prestige abroad and flexibility at home — both essential for the success of reform. Yet by September 1984 — a bare six months after Nkomati — this happy vision of the future had begun to disintegrate: the tricameral constitution, by its deliberate snubbing of black political aspirations, paradoxically raised expectations of change which, coupled with the impact of economic recession, provoked a fierce resistance which continues unabated.

But what has really made an impact on the domestic political scene has been the "private sanctions" undertaken by foreign businessmen and bankers during the last six months. These decisions are in part based on hard-headed commercial calculation, the product of growing doubt about SA's credibility as a debtor nation and a secure base for future investment.

They are also influenced by the "hassle" factor: the unwillingness of companies — especially in the US — to commit time and energy to fending off pressures from a host of anti-SA lobbies whose saliency is a strikingly new feature of American politics.

Born out of resentment at Reaganite indifference to the claims of the poor and the deprived at home

J E SPENCE

Excerpted from an article in the current issue of *Reality*

and abroad, these groups have devised new strategies to embarrass companies with interests in SA and have succeeded in persuading many city and state governments to divest their shares.

Their leaders are acute critics of "constructive engagement" and recent events in SA have confirmed their analysis of the doctrine's failure. They have not only won the intellectual argument, they have also — to a degree — won the political one as well, insofar as Reagan has been compelled, against his own political instincts, to accept a Congressional package on sanctions.

The significant influence on Thatcher's government has been external: last year's Commonwealth Conference in Bermuda was dominated by the SA issue; "eminent persons" were appointed to visit SA and timetables were set for indications of positive reform.

Not an epoch-making response, I agree, but evidence at least that the great majority of Commonwealth leaders will not allow Thatcher (or her successor) to get off so lightly next time — especially if, as most competent observers expect, the current crisis in SA persists.

Restraints

Thus, on the external front, SA can hope for little relief. Ad hoc measures (for example, the proposed modification of influx control and its corollary of forced removals, freehold property rights, common citizenship, etc.) which two years ago might have been welcomed unreservedly by Western leaders lose their impact and credibility in the absence of a major declaration of intent promising radical, structural change and the political incorporation of the black majority.

Nor will keeping SA off the world's television screens through restraints on media reporting help government very much; the fact that these had to be imposed was taken as a tacit admission that the state of emergency had failed in its primary objective to restore order swiftly in the townships.

The image of a state in turmoil persists — a constant reminder to Western governments that sooner or later the SA issue will have to be

49
faced squarely and decisions taken to limit the damage to electoral and economic interests alike.

In this context the West as a whole — like President Botha at home — appears to lack a sense of direction and purpose. The traditional policy of "wait and see," "give reform a chance" is in ruins. There has also been a significant change in the attitudes of businessmen and bankers at home and abroad.

Meaningless

When conditions were stable (for example, in the 1965-74 period) there was a happy coincidence of interest between Western politicians and businessmen in the West on the utility of economic growth as the ultimate solvent of apartheid. Businessmen no longer share that blithe sense of confidence in SA's prospects and this weakens the case of politicians like Dr David Owen, the leader of the Social Democratic Party, who do not want the SA economy brought to its knees, and who would welcome an increase in resources to the private sector in the hope that this would contribute to the building of a social infrastructure (black housing, employment, social services, etc) without which any reform of influx control, for example, is meaningless.

The irony is that bankers and investors now press for major political reform as the price of a restoration of confidence: fair enough, but at the same time an indictment of the thesis, so assiduously defended in the past, that economic development alone would produce meaningful political change.

Clearly, growth, like patriotism, is not enough and men, political animals, are at last recognised as having the primary responsibility for political change, rather than the impersonal forces of the market place.

A considered, carefully planned, response by the West to the SA crisis is inhibited not simply because of the irrelevance of the conventional wisdom, but also because the one remaining option — full-scale sanctions — seems to many Western conservatives uncertain and unpredictable in its consequences. Some observers have interpreted the measures that have so far been imposed as a firm political signal to Pretoria that worse might follow if the pace of reform does not accelerate.

This I believe to be an optimistic reading of Western motives; the

Scandinavian countries apart, the US, Britain and its EEC partners had to be pushed and shoved into taking these steps. In Britain, they constituted a rearguard action against domestic and Commonwealth pressures and there will be considerable resistance to the adoption of comprehensive, mandatory sanctions involving a trade and investment embargo.

Nonetheless, even the most hostile opponent of sanctions has had to admit that some external pressures — falling short of a total embargo — have produced positive results. Prominent SA businessmen would not have made the journey to Lusaka to talk to Oliver Tambo without the dramatic fall in the value of the rand induced by the "private sanctions" of their counterparts abroad.

There is evidence, too, that the business community has also been influential in persuading government to ease restrictions in areas like influx control and black trade union activity. Whether their advice will, however, be heeded on major structural reform is debatable, but the fact that their voices have been raised in recent months on this issue suggests that external pressure has been influential.

Similarly, the supporters of sanctions can claim some success in compelling the SA government to modify apartheid in certain spheres: the sports boycott has led to a varying degree of integration, notably in soccer and athletics, but nothing like enough to win readmission to international competition.

Destruction

The promise to soften the harsh impact of influx control, and the forced removals of "black" illegals to the homelands, is the consequence of years of adverse publicity in the world's media to the attempted destruction of communities such as Crossroads in the Western Cape.

President Botha has admitted this publicly and equally — as Merle Lipton has convincingly demonstrated in her new book "Capitalism and Apartheid" — external pressure via the international trade union movement has contributed to the growth of black unions in SA.

But we should not assume that the reaction of the target state will always be positive: the arms embargo led to the growth of a massive indigenous arms industry, while impatience with the outside world's tendency to "move the goal

posts" as a response to SA's efforts in the sporting field has led to the "buying" of rebel tours.

Western polices on the regional front have not been productive: Chester Crocker's failure to secure a Namibian settlement confirms the general Western perception that no progress can be expected while domestic unrest continues and government comes under increasing attack from Right-wing Afrikanerdom.

There may be good strategic reasons for withdrawing to the Limpopo; there may, indeed, be a case for allowing Namibia to come under Swapo rule on the assumption that Pretoria could still exercise a dominant influence on the new state's affairs — but these incentives to decolonise are heavily outweighed by the domestic constraint to appear tough on regional issues.

Credibility

Thus Western criticism of attacks on ANC sanctuaries in the neighbouring states makes little impact given government's commitment to destroy the movement's capability and undercut its standing as a liberation movement in the eyes of the black majority.

But viewed from abroad there can be no doubting the ANC's credibility as a major actor in the SA drama. Government's attempt to portray it as a mindless terrorist organisation bent on taking innocent lives has made little impact on influential "publics" in the West, who have been impressed by Tambo's exposition of his case.

In this context, SA is losing the propaganda battle with its hated rival, and Tambo's so-called "change" in strategy is regarded by sympathisers abroad — despite SA claims to the contrary — as one of degree rather than kind: hitting "hard" economic targets remains the priority, but more will be hit in the process, more civilians caught in the crossfire.

The picture is a bleak one: neither side in the struggle can impose its will on the other. But unlike previous confrontations (in 1960 and 1976, for example) external pressure will not wither away, and "creeping sanctions," however reluctantly and haphazardly imposed, may well be the consequence of continued SA obduracy.

□ J.E. Spence is Professor of English at the University of Leicester, England. He was born and brought up in SA.

Blue DAY 7/5/86.
49

NEWS FOCUS

Survey predicts slow SA decay with sanctions

THELMA TUCH

THE effective application of economic sanctions against SA would create a destructive vicious cycle — a slow-down of economic growth leading to increased unemployment and inevitably, worsening social problems in the country.

So says the French-Speaking Catholic Community (FSCC) which has compiled a five-page document intended to show the ravages and destruction caused by sanctions.

The document was presented at last week's Southern African Catholic Bishops' Conference (SACBC). The conference was concluded with the release of a controversial statement supporting continued economic pressure, but only to be applied so as not to destroy the country's economic infrastructure or increase unemployment.

However, the FSCC maintains that the financial and social costs of sanctions are heavy and their effectiveness doubtful.

The document focuses on the economic implications of sanctions in three areas — restrictions on foreign investment in SA (disinvestment, banning of new investment), boycotts of SA exports (coal, Krugerrands, fruit and vegetables) and overseas refusal to supply SA with certain products (petrol, arms, computers).

It states that, according to a recent Anglo-American study, the growth rate necessary to stabilise the present unemployment in SA is 3,5%, a rate

which could only be reached with the contribution of foreign capital.

A decrease in foreign investment in SA would slow down the growth rate, lessen competition in the economy and result in increased unemployment, which would affect blacks first.

"A 20% reduction in foreign investment would result in 40 000 more unemployed — of which 60% would be blacks — a drop of half a point in the growth rate and a drop in disposable revenue of R250m."

With regard to boycotts of SA exports, the document says that a 20% boycott of SA sales to foreign countries would lead to a growth in unemployment from 400 000 to 500 000 people, and a drop in disposable revenue of R2,6bn.

Last year SA exports represented 34,7% of the gross domestic product and supported 2,5-million people.

Finally, the curtailment of imports from SA's five main suppliers (Germany, US, Japan, Britain and France) would be difficult to implement as this would jeopardise hundreds of thousands of jobs.

Last year more than R12,9bn worth of goods were sold to SA, representing between 300 000 and 350 000 jobs in the five countries.

Although a boycott of sales to SA would hasten development of substitute industries, this could be slow and costly and the local market largely

does not justify a national industry, the document says.

Further, the development of substitute industries, in most cases, would depend on overseas technology and capital as well as qualified immigrant manpower.

"Economic sanctions are hazardous and largely irreversible. It would be illusory to believe that they need only be applied for a certain length of time, to be followed later by a return to normal."

The FSCC to a statement in the Explanatory Paper of the SACBC which concedes that the church could not foresee how economic pressure would function and, whether it would be effective, as "unpardonable frivolity."

The FSCC suggests that the church should follow a middle course between the status quo and revolution, by supporting the final elimination of all remaining statutory constraints on the black population, and the development of an equal education system.

Then the initiation of a real negotiation process with the legitimisation of black political activity should be set in motion, and development programmes launched.

If their suggestions were implemented then the Church, it says, should invite fellow Catholics in the West to fund more specific projects in the fields of education, training, health services and employment opportunities.

BUS DAY

49

7/5/86

Prospects for growth 'improve'

Economics Staff

AFTER the economic setbacks of the first quarter of the year, economic growth of 3% may now be out of reach this year.

Standard Bank economists, in their latest *Standard Bank Review*, report that virtually every aspect of domestic activity — consumer demand, industrial production, building activity and agricultural production — have failed to live up to promises of revival held out in the last few months of 1985.

Even export-based activities, such as mining and steel production, suffered setbacks.

However, they say the outlook for next year has improved significantly. Lower oil prices will reduce the import bill, and the changed mood in the industrialised countries "implies that the recent pressure on SA's exports is likely to be no more than temporary".

They argue that the generally improved economic outlook for Organisation of Economic Co-operation and Development countries "opens a window of opportunity" for domestic economic policy.

"The economy needs a push to get going and, for as long as no new problems emerge on the international front, domestic conditions will remain conducive to receiving moderate stimulation..."

Croeser hints at aid through housing

Economy boost is top priority

CHRIS CAIRNCROSS

GOVERNMENT is urgently considering several options to boost the economy in an effort to drive it out of its slump.

Options being reviewed include:

□ Early repayment of the 1980 loan levy, due in February next year, which would inject R300m into the economy;

□ Reduction of general sales tax, which would put about R800m back into the economy for each percentage-point cut;

□ Acceleration and expansion of the expenditure programme on low-cost housing throughout the country.

Finance Department officials are adamant, however, that they will not be pushed into making any hasty decisions. Nor are they totally convinced yet that further stimulus is necessary.

A spokesman for Finance Minister Barend du Plessis said the gloomy first-quarter statistics did not reflect "the (Budget's) stimulatory measures" and a number of subsequent positive economic factors, such as the 10% pay increase for civil servants.

Nevertheless, officials confess to being concerned at the continued absence of any steam in the economy,

and acknowledge they may have to take steps to correct the situation.

Deputy Director-General of Finance Gerhard Croeser told *Business Day* that government has yet to decide which option to choose.

He said there were doubts about the extent to which any decrease in GST would be passed on.

There is also reluctance in State financial circles to tamper with tax issues under investigation by the Margo Commission.

He estimates that repayment of the 1980 loan levy would entail a lag factor of about six weeks before it had an impact on economic activity.

Measures apparently being given greater attention are those likely to serve the twin objectives of job-creation and housing, while not fuelling the inflation rate.

Croeser indicated that housing has a good claim to priority: "It is labour-intensive, offers scope for small business and the informal sector, and its import propensity is minimal."

● See Comment Page 6

A MAJORITY of economists believe the economy now needs some fiscal stimulation to regain its infant momentum of late last year.

Until now the failure of the upturn to take hold has been attributed to a general lack of confidence.

But, as Louis Geldenhuys, economic consultant to stockbrokers George Huysamer and Co, says, there is also an inability on the part of the private sector to do anything. Resources are stretched to the limit, and lower interest rates alone will not make much difference.

Deputy Director-General of Finance Gerhard Croeser said this week that the private sector had been led to the water but was not drinking. The reason is that government has yet to fill the trough. Despite assurances to the contrary from the Minister of Finance, Standard Bank economists reckon the Budget was not helpful, nor did the political reform programme have any immediate uplifting effect.

Something needs to be done, Geldenhuys argues, before SA slides into a vicious circle of economic and political disasters.

Standard's economics unit argues that SA's position in the international credit markets continues to be too delicate, the direction of the gold price too uncertain, and the more positive tone underlying the world commodity markets and growth outlook too young, for domestic policy-makers to move towards wholesale stimulation of the economy.

However, there are good reasons for pushing the economy a little: to

Most economists ⁴⁹ say economy needs ^{BUS DAY} fiscal stimulation ^{9/5/86}

give attention to collapsing demand and the unrest arising from growing unemployment and unfulfilled aspirations of the workforce.

Department of Finance officials are preparing an economic stimulation package to present to the Cabinet if the slump continues.

They are considering increased State spending on specific projects, early repayment of the R300m 1980 loan levy and a reduction in the rate of general sales tax.

Geldenhuys argues that, at the moment, short-term considerations must outweigh longer-term ones and says an increase in State spending on a specific capital project would be most effective. However, it must be structured in such a way that it can be stopped when necessary. He estimates that R1bn should be spent over the next 18 months for the desired impact... anything less will not be enough.

This will not be inflationary because there are sufficient unused funds in the economy and more-than-sufficient industrial capacity. He says housing, which would also be socially desirable, would be an appropriate area to increase spending. Government is assessing this prospect.

He advocates the building of "core" houses which encourage further demand as house-owners would be encouraged to continue spending to finish off their houses.

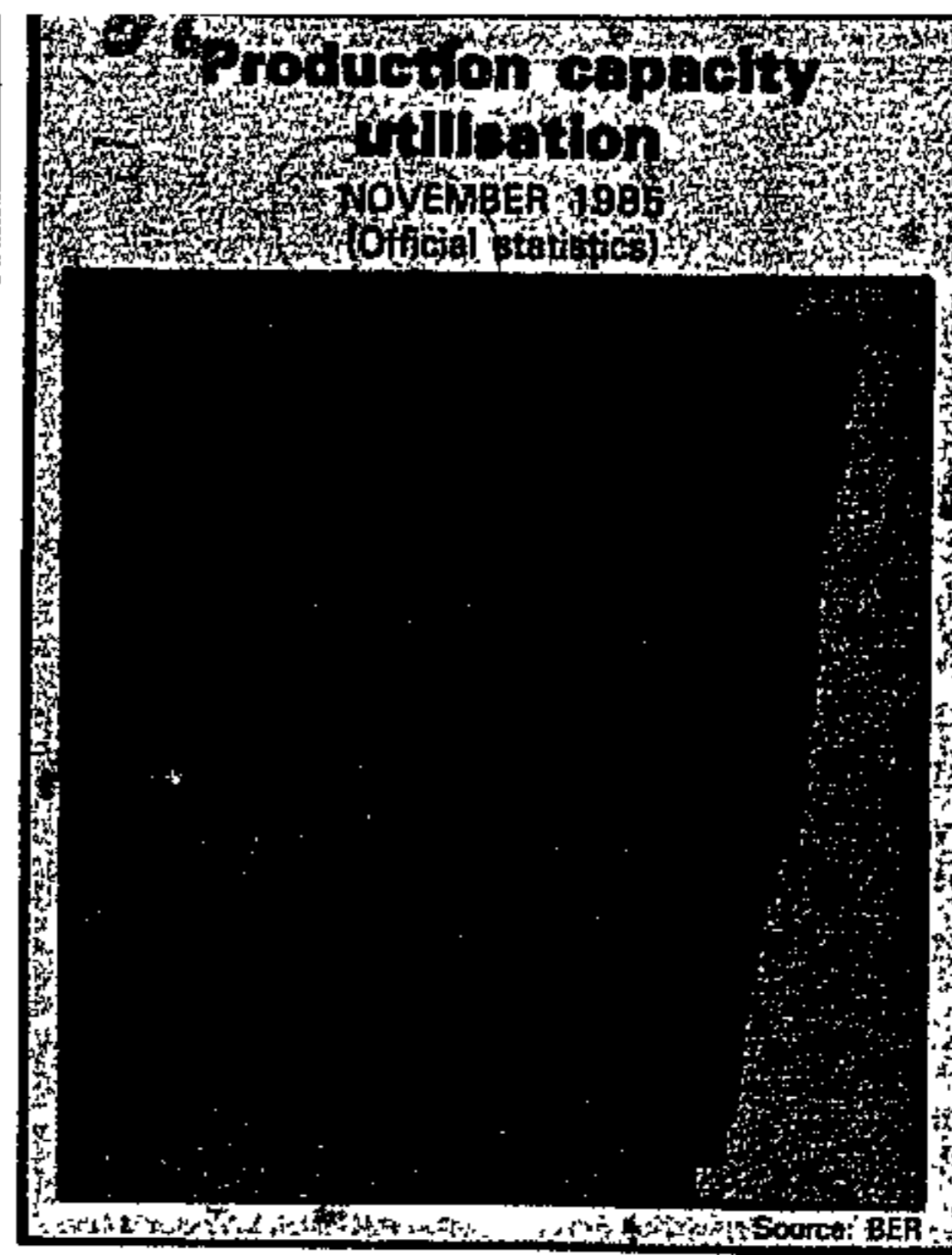
The early repayment of the loan levy, which was due this financial year, is apparently almost a certainty now, but it will inject only R300m into the economy — not enough by most estimates to make much difference on its own.

Officials are loathe to tinker with the tax structure before the Margo Commission reports.

Another problem is that they estimate that it takes six weeks for the effects of a GST cut to feed through to the economy. But surely the administrative procedures associated with the other two options will delay the effects for at least six weeks?

Both private- and public-sector economists agree with the Standard Bank's economics unit assessment that: "What happened in the first quarter is downright disturbing. Not only did emerging recovery trends fail to materialise but major relapses occurred in virtually every sector of the economy."

Expect some government fiscal action soon.



9/5/86

CAPACITY UTILISATION (49) ~~48~~

Lost forever FIN MAIL

"There is no greater loss for an economy than working below capacity," says Volkskas economist Adam Jacobs. "It is growth that is gone forever."

Manufacturing capacity utilisation levels for the first quarter of 1986 are unlikely to be up on the 84,3% reported recently for November 1985.

"It may even have gone down a little," says Jan de Jager, director of information services of the Federated Chamber of Industries (FCI).

According to the latest survey by the University of Stellenbosch's Bureau for Economic Research, only 15% of 1 225 manufacturers polled worked at full capacity in February.

Nor does the November drop in total utilisation from 85,8% in November 1984 and 90,1% in November 1981 accurately reflect the extent of the economic slowdown. Says Jacobs: "The reason we have not yet reached the 1977 low of less than 83% is that we have lost capacity. Insolvencies and liquidations are at historically high levels and this pushes up capacity utilisation levels for those that survive."

Should an upturn materialise, production could be substantially increased without the need to increase capacity. Any signs of this

will be felt first in the paper, printing and plastics subsectors, according to De Jager, reflecting an increased demand for packaging.

These sectors are useful indicators of the direction of the economy because raw materials come from sectors not easily measurable. As yet, they are showing no signs of improvement.

Economic pointers

"Subsectors in which utilisation in the last quarter of 1985 was at least 10% lower than its highest-ever level," says De Jager, "are beverages, tobacco, rubber, pottery, glass and glass products, other non-metallic mineral products, electrical machinery, motor vehicles and parts, transport equipment and professional and scientific equipment."

The most severely hit are motor vehicles and parts, together running at 73,8% against a high of 92,6%. Motor manufacturers alone are operating at an average level of only 53%, far short of the optimum level of above 80%.

Manufacturing is not the only victim of under-utilisation. Escom may operate as much as 10% above its usual reserve margin of 30%. In the late Seventies, the reserve margin was frequently eroded as demand reached unprecedented peaks. Continuing excess capacity is expected for the immediate future.

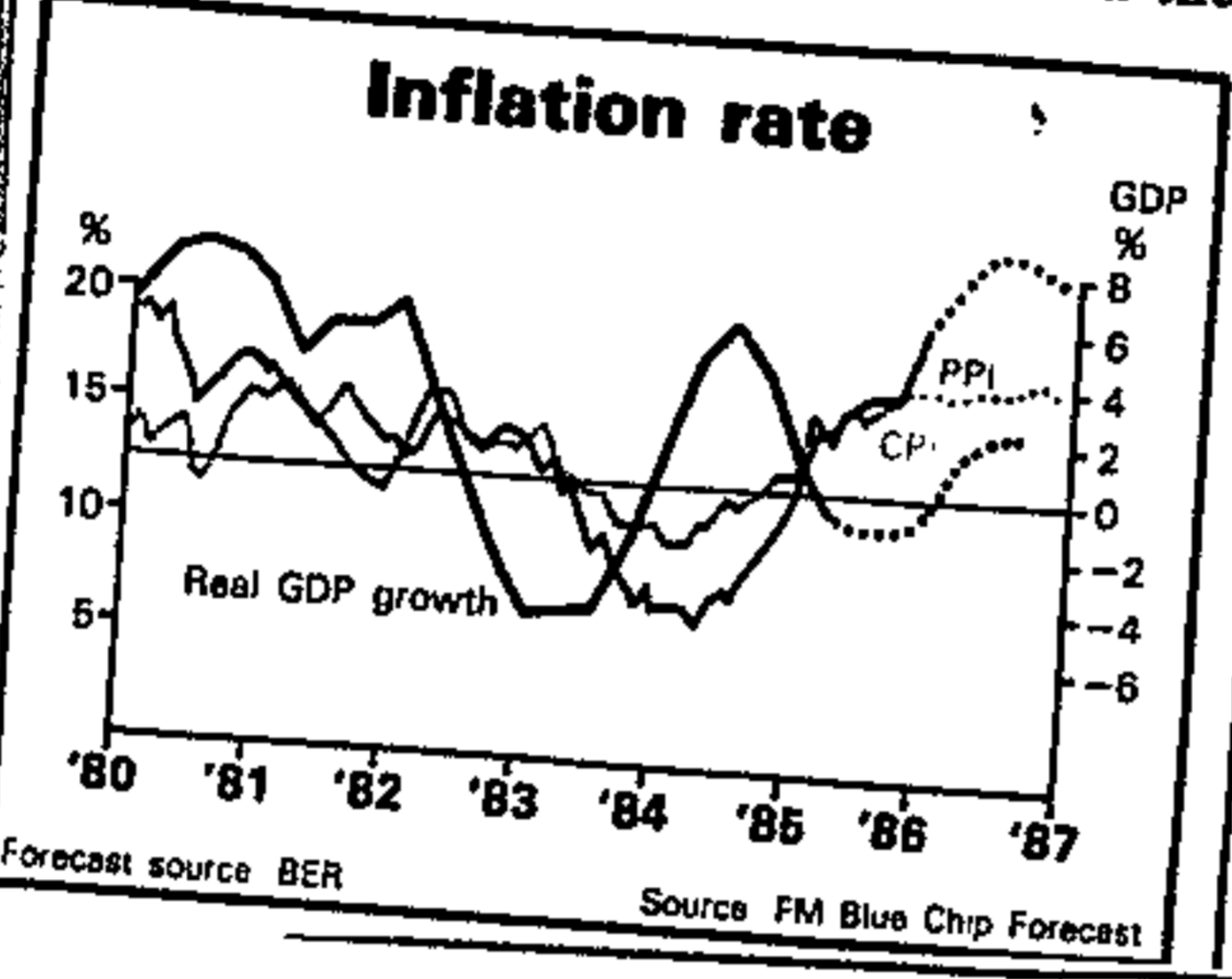
Nor does Sats, which has been operating considerably below capacity for the past two years, expect any immediate improvement. ■

9/5/86
 INFLATION AND THE RAND
 FTN MAIL
 Mirror, mirror... 49

The relationship between the rand and inflation has played a significant role in the economy and will continue to predominate for the coming year.

From the end of 1983 to the end of 1985 the exchange rate more than halved, mirrored by a doubling in the annual inflation rate. The massive depreciation is clearly seen in the import component of the production price index (PPI), which accelerated from 3,5% in May 1984 to 32,7% in January 1986. Factors such as the surcharge on imports, administered price rises and food price increases have contributed to the most severe recession for 50 years.

Economists preface all forecasts with the



proviso that stability of the rand is essential. With the currency around US50c, inflationary pressures can be contained and could help restore confidence.

Conversely, high inflation makes exports uncompetitive. This will weaken the currency, leading to further cost-push pressure.

Volkas economist Adam Jacobs says that because of SA's "unique circumstances", emphasis must be placed on productivity to make South African goods competitive and justify a stronger currency. "Equally important is price stability, since experience has shown that few developments repress growth as much and have as adverse an effect on the BoP as an inflation rate consistently higher than that of one's major trading partners."

Of relevance to this is the structure of SA's "big business" and uneconomic production runs in much of the manufacturing sector. This, together with government stress on import substitution, has built an inflationary bias into the economy.

The consensus forecast on the exchange rate is in the US45c-US50c range, with upside potential against sterling, the D-mark, and the yen. However, with pessimism on the sustainability of higher growth, the rand could weaken during 1987.

Ian MacFarlane of Nedbank says: "I am pessimistic on the prospects for the rand, mainly because of the differential in SA's inflation rate with that of its trading partners. Exporters are having to discount to remain competitive, so a lower exchange rate is likely in 1987." MacFarlane believes we can look to an inflation rate in the 16%-17% range this year.

A number of favourable factors will alleviate inflation, including high idle industrial capacity and low demand pressure, the fuel price effect, cost-push factors working their way out, and diminishing concern over foreign debt, which will give some support to the rand. Observers also expect that long-term the dollar will continue to decline.

"A critical factor is the gold price, to give some leeway on BoP," says Adam Jacobs. "Any drop below \$330/oz for long could be problematic for the rand and inflation, and pressurise the BoP."

The Reserve Bank has ruled out a pegged rand. The new deal of prudent monetary and fiscal policy should be reflected in the rate of inflation and the rand during 1986.

Of course, one must avoid the misconception that a rand appreciation is necessarily good and depreciation bad. As Reserve Bank Governor Gerhard de Kock says: "The basic consideration is that the exchange rate must at all times be realistic, and accepted as such by the markets."

Brian Kantor, of UCT, is optimistic on the outlook for the rand and inflation, as last year's supply-side shocks are unlikely to recur. He sees an exchange rate of US50c for the year and an inflation rate of 15% at year-end, which he believes will fall to 10% or less in the first quarter of 1987.

Rudolf Gouws, economist at Rand Mer-

chant Bank, forecasts a slight rise in the rand, but with limited upward potential; and inflation at 15%-16% at year-end, falling to 14% or below by first-quarter 1987. Like other economists, he stresses the importance of exogenous factors in determining whether tentative forecasts are realised.

But long term, most agree the rand is a declining currency. Economists generally

feel that the authorities have no more than tinkered with the economy's underlying problems. Prices of primary commodities are going to deteriorate — a gloomy prognosis for the terms of trade. As things stand, a "realistic" exchange rate — a maximum of 50c — is in SA's best interests, since this should boost exports and discourage demand for high-cost imports.

9/5/86

Time for a bold approach

FIN. MAIL (49) 9/5/86



Has the nascent recovery stalled? Are the authorities really in control, or — as too often in the past — simply reacting too little and too late to the forces that buffet us?

A few months ago, hopes were high. The economy had bottomed out; the terms of the debt settlement were reasonable enough; and the rand was steady.

There were, of course, still a few worrying signs: consumer spending was not picking up, especially for durables like motor vehicles; business was still running down its inventories; unemployment was alarmingly high; and fixed investment alarmingly low.

But these minor problems could easily be

The convergence of political and economic impasse has put SA in a uniquely difficult position. The FM believes this necessitates a new approach to economic policy. This week we accordingly devote our entire Economy section to an analysis of the individual pieces of the economic jigsaw, while this article draws the broad perspective and pleads for a radical shift in policies.

shrugged off, as we basked in the security blanket of official forecasts of a 3%-3,5% growth rate this year.

Recent weeks have shown how fragile this confidence was. Indications of a *negative* growth rate of 1% in the first quarter mean

that for the remaining three quarters, the growth rate will have to *average* more than 4%. From such a low base, a herculean task — and (admittedly, largely anecdotal) evidence does not suggest that the second quarter has shown much improvement.

Where did we go wrong?

The official view, of course, is that we haven't. Finance Minister Barend du Plessis argues on these pages that post-unrest rallies always suffer an initial stutter, and it's certainly true that the unrest is by no means over. Indeed, business may have to adjust itself to endemic unrest as part of its daily routine. But this explanation smacks of *ex post facto* rationalisation.

The fact is that business confidence (see the Assocom index, page 36) has been nipped in the bud. Corporate reports confirm this — few expect significant profit upturns

BAREND DU PLESSIS

The search for balance

(49) FIN. MAIL 9/5/86

The Minister of Finance discusses the economic outlook with the FM.

FM: Why is economic recovery so slow, leading to suggestions that it may be aborted?

Du Plessis: I don't think it's fair to say that recovery may have been aborted. Previous post-unrest periods proved that the economy does not recover rapidly from unrest. Most available figures are not post-Budget figures, anyway. We have no doubt that the target is still achievable.

If we're to achieve 3%-3,5% for the year, by year-end we'll have to be growing closer to 5%.

We're on record that the beginning of the upswing will be relatively slow and that it will have to speed up later in the cycle.

Can that sort of growth be sustained in 1987?

That's a difficult question — there are so many variables. Our stand, having been cautious, must be subject to review. But if we take fright now and act, perhaps prematurely, to ensure more rapid growth by the end of the year — perhaps by higher government spending — and meanwhile the private sector also gets under way, we could overheat again.

Surely the basic problem is lack of demand. Is our primary need not to get resources better used?

Absolutely. The scene is set for very favourable developments, because of spare capacity and relatively low interest rates — but if the economy takes off too rapidly, by government stimulus, we can't withdraw all that rapidly. For instance, if we embark on

capital projects, we can't withdraw or hold back if private consumer demand picks up fast. It also creates the problems of stop-go management.

Government spending is not the only way. The Budget didn't cut the import surcharge, nor allow for fiscal drag at a time when inflation was the highest for 60 years.

We only had a little bit of room in the Budget. We wanted to divide it between various needs and stimulators. If we'd granted more tax relief, we couldn't have spent so much on training and employment creation — even if it's only temporary — or on the underdeveloped areas, where we want labour-intensive development. We had to keep the surcharge for revenue purposes; but it also discourages unnecessary imports at a time when we must protect the current

account.

Given SA's high marginal propensity to import, if the growth rate does reach 5% by year-end, what happens to BoP then?

That's our soft underbelly, but we still have quite a lot of leeway before growth necessarily spills over into imports.

Can we sustain this sort of growth rate and meet our debt repayment obligations?

Traditionally, we run into a deficit on current account towards the end of a growth cycle, which is compensated for by capital inflows. This time we have a totally different environment. It all depends on what the internal political and economic situation is by then. It's terribly important that our trading partners maintain a prolonged high growth rate — we can capitalise on that. But a high volume of imports will deplete our



Assistant editor Michael Coulson quizzes the Minister of Finance

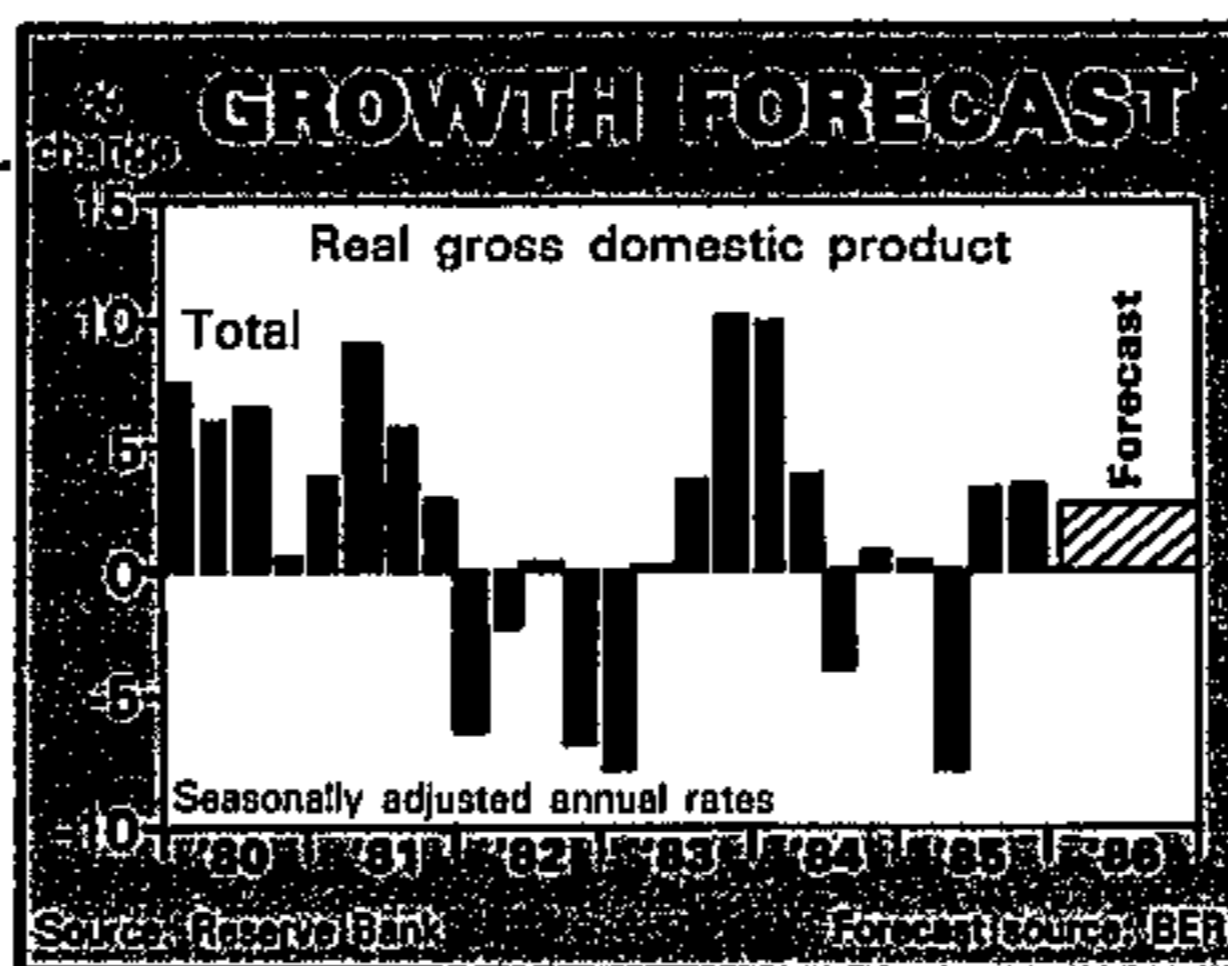
in the year ahead.

There are simply no signs that we are overcoming any of our basic weaknesses. Few jobs are being created, the awaited replenishment of inventories has yet to materialise, inflation remains too high. Perhaps most alarming of all, fixed investment is so dangerously low that the actual value of industry's capital stock is declining. With our rapidly increasing population to be fed and employed, that must not continue.

The spending restraint of parastatals like Escom and Sats is commendable from a bookkeeping point of view. But unless the private sector comes in to fill the gap, it will be counter-productive to the national interest, as it takes away a substantial source of demand. Trouble is, the private sector — rightly — will not invest unless it sees an opportunity for profit.

This vicious circle is unfortunately only too typical of our dilemma. So many policy objectives are mutually incompatible.

We must bring the inflation rate down; but we also need to stimulate demand. We need to stabilise the exchange rate; but that



erodes the real value of exports. We need to rein back public-sector spending; but more resources must be put into the infrastructure (especially education and training). We need lower interest rates to stimulate consumption and investment saving; but negative real returns deter lenders.

We need to end political unrest, a major adverse influence on sentiment, but that in turn will not happen until we create jobs. Political unrest and economic uncertainty feed on each other in a destructive symbiosis.

Then there are the structural problems. What growth and investment we have had, has been unbalanced. The Eighties have, if

anything, widened the gap between the advanced and Third World sectors of our dual economy. Not only has State spending in itself got out of hand, ineffectual attempts to hold it back have (inevitably, and in line with worldwide experience) concentrated on (productive) capital spending, while the (unproductive, if not counter-productive) bureaucracy continues its Parkinsonian way.

We may have abolished influx control and pass law offences, but we have not got rid of the vast army of bureaucrats that administered them. Experience suggests we won't.

Du Plessis is surely right to call this the most difficult economic time we have ever known. But what are we doing about it?

Du Plessis stresses the need for a cautious approach. But how much caution can we afford? To take just one example: why on earth should a four-member cement cartel be given two years to unscramble itself? Surely this is the job of a stroke of the pen?

Of course we do not want haphazard deregulation. Equally, we can do without legislation preventing people from becoming travel agents, estate agents, or "computer scien-

whole support capability for a growth cycle unless we can count on foreign capital — and that is uncertain.

Do you think we could still attract any foreign capital?

Yes.

How close is the link between foreign debt and political reform?

Our freedom of movement is certainly restricted. But I've had some encouraging conversations with bankers. There is sound understanding that reform would be much easier if we had prosperity. Bankers realise this, but especially in the US they're subject to political lobbies. I don't believe that — especially in the short run — we can expect any development of business between SA and US banks.

Isn't one of the problems that some of our objectives are mutually incompatible?

There are choices to be made, and they are not absolute. To a degree, in our present situation you have to choose between growth and inflation.

There are also structural issues. The shortage of skilled manpower is one. Labour mobility has certainly been increased, and we'll have to see whether that brings the benefits many people expect. Also, so much investment is concentrated in high-return low-risk first-world CBD areas. We do not channel enough capital into lower-return higher-risk third-world sectors.

How can this be done?

We can't expect investment to materialise before there is reason to believe spare capacity will soon be taken up. But, as I recently

said to a gathering of insurers, unless we can find accommodation with the five or six major sources of longer-term investment capital to invest where most jobs will be created, then in 20 years' time when their policies have to be paid out, there may not be a stable SA in which to pay them out!

You don't get sound growth if you coerce capital where it would not go voluntarily.

True; but we must all accept a bit lower return in the early years if we're concerned about the long-term future. Otherwise government will be accused of taking too large a slice of the economy into its own hands. But while it's incumbent on government to undertake low-return infrastructural development, government can't do it all.

Shouldn't we move faster to implement the policy of deregulation and privatisation?

We must exercise patience on the implementation of such important concepts as privatisation and deregulation. Haphazard privatisation will create chaos, not the benefits it's aiming for. A lot of preparatory work was needed. You will see some real results in the near future.

By and large, though, would you like to see the discipline of the market rather than the discipline of direct controls?

Of course, yes. Not least because the moment a voter is not satisfied with a decision from a bureaucrat, he runs to his MP. In that way a supposedly economic decision by a bureaucrat becomes a political issue.

How much longer will government wait to see the impact of measures already taken before deciding whether to take further measures?

We watch the situation continually. But I would say June will be an opportune time — three months after the Budget.

What about the political factor?

Being involved in the process of solving the political problem, I realise we must take a longer-term view.

There's one thing I'd like to emphasise: we believe that we've done everything in our power to support the already favourable parameters to growth. We would like to encourage all the other actors to adopt the same kind of positive attitude.

But surely the private sector won't invest unless it sees potential profits?

First we must encourage consumers to boost spending.

The Budget could have done that by cutting taxes.

We couldn't, because it wasn't possible to cut spending more than we did. We had to keep the deficit before borrowing to a reasonable level to avoid unnecessary pressure on interest rates.

Wasn't this the time to take the risk of deficit financing, major tax cuts to try and get spending moving in a non-inflationary way?

When we constructed the Budget, our best advice focused on a cautious attitude. One of our constraints was the need not to finance current expenditure from borrowing. We're much wiser now than we were six weeks ago, or two months ago, or six months ago! We have allowed ourselves enough room for re-evaluation of the Budget. We never thought we could fire one shot and address the whole issue.

By Dr Roger Gidlow

The major economic powers at the Tokyo summit meeting have drafted a communique which, among other things, represents a muted shift towards increased economic co-operation.

The communique urges the Group of Seven (G-7) industrial countries to agree upon appropriate action when their economies diverge significantly from their intended course, as revealed by movements in certain economic variables.

In particular, it is reported that the industrial countries have approved a US inspired plan for greater surveillance of the major exchange rates.

In effect this could lead to a managed, floating system for the major currencies, involving more concentrated intervention in the foreign exchange markets by the leading central banks, although this will not necessarily entail co-ordinated intervention by these banks.

The summit agreement reportedly involves the G-7 setting forecasts for major economic indicators, including exchange rates, and they are expected to use their best efforts to try and agree on remedies when there are significant deviations from intended trends or forecasts.

The IMF is expected to fulfil an important role in this surveillance.

The success of this new accord will depend crucially upon the extent to which the relevant nations are determined to ensure it is a success.

It could take some time though before it is launched.

Too much should not be ex-

G-7 nations to co-ordinate their economies

No need for SA to drop floating rand

49
9/5/86
STAR

pected since countries will not allow their sovereignty to be impaired and central banks will wish to retain their independence, but informal and flexible forecasts which are regularly compiled on a confidential basis could aid constructive dialogue.

This could lead to greater harmonization of economic policies in the interests of fostering more sustained economic growth. Such dialogue, for instance, may help to resolve major economic disagreements such as the current one between Washington and Tokyo on the dollar-yen relationship.

Key currencies

The summit pact could be followed in time by more major concerted currency intervention like the one engineered last September by the G-5 nations to lower the value of the dollar.

This could especially be the case in respect of the relationships of the three key currencies, namely the dollar, the mark and the yen.

Nevertheless, this proposed system of surveillance of exchange rates is not to be regarded as tantamount to a set of tar-

get zones which some commentators have recommended.

Such zones specify the range that exchange rates can move between, and under these arrangements it would be for countries to try and keep their currencies within the zones which are published.

Such a system would be much more ambitious and controversial in nature.

What are the implications for South Africa?

This latest agreement suggests that the major currencies may be entering an era in which fluctuations become less pronounced than they have been in recent years under the floating exchange rate system.

Nevertheless, with the major currencies still floating, there are no reasons for arguing that South Africa's policy of managed rand floating will change.

The fundamental international financial environment faced by South Africa remains the same, although any reduction in the volatility of the major exchange rates should exert a similar influence on the external value of the rand, other things remaining equal.

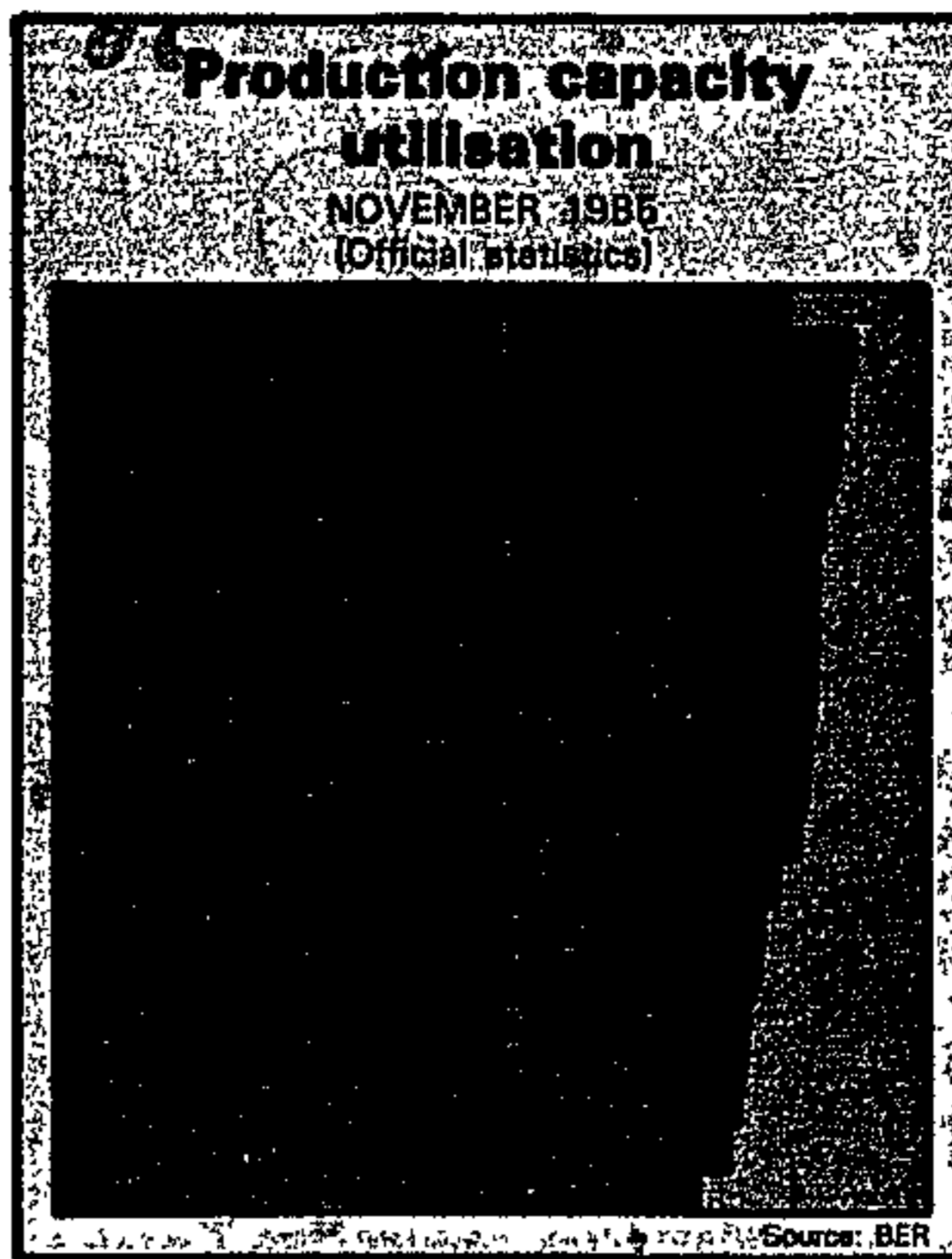
Insofar as this is the case the operation of leads and lags in the local market may be subdued to a limited extent.

Leading and lagging thrives in conditions where predictable movements are anticipated in the value of the rand against other currencies.

The floating rand system does provide an important element of uncertainty about future movements in the rand. Yet if, say, the dollar suddenly rises sharply in value against other major currencies, this is likely to encourage a build-up in adverse leads and lags, and exert downward pressure on the rand.

It would similarly be erroneous to conclude that a more heavily managed system of floating for the major currencies presages even more active intervention in the local foreign exchange market by the Reserve Bank.

The latter already intervenes on a regular basis to even-out undue fluctuations in rates, whereas in recent years the monetary authorities in the US for instance, have rarely intervened in the foreign exchange market.



will be felt first in the paper, printing and plastics subsectors, according to De Jager, reflecting an increased demand for packaging.

These sectors are useful indicators of the direction of the economy because raw materials come from sectors not easily measurable. As yet, they are showing no signs of improvement.

Economic pointers

"Subsectors in which utilisation in the last quarter of 1985 was at least 10% lower than its highest-ever level," says De Jager, "are beverages, tobacco, rubber, pottery, glass and glass products, other non-metallic mineral products, electrical machinery, motor vehicles and parts, transport equipment and professional and scientific equipment."

The most severely hit are motor vehicles and parts, together running at 73,8% against a high of 92,6%. Motor manufacturers alone are operating at an average level of only 53%, far short of the optimum level of above 80%.

Manufacturing is not the only victim of under-utilisation. Escom may operate as much as 10% above its usual reserve margin of 30%. In the late Seventies, the reserve margin was frequently eroded as demand reached unprecedented peaks. Continuing excess capacity is expected for the immediate future.

Nor does Sats, which has been operating considerably below capacity for the past two years, expect any immediate improvement.

9/5/86
CAPACITY UTILISATION (49)

Lost forever FIN MAIL

"There is no greater loss for an economy than working below capacity," says Volkskas economist Adam Jacobs. "It is growth that is gone forever."

Manufacturing capacity utilisation levels for the first quarter of 1986 are unlikely to be up on the 84,3% reported recently for November 1985.

"It may even have gone down a little," says Jan de Jager, director of information services of the Federated Chamber of Industries (FCI).

According to the latest survey by the University of Stellenbosch's Bureau for Economic Research, only 15% of 1 225 manufacturers polled worked at full capacity in February.

Nor does the November drop in total utilisation from 85,8% in November 1984 and 90,1% in November 1981 accurately reflect the extent of the economic slowdown. Says Jacobs: "The reason we have not yet reached the 1977 low of less than 83% is that we have lost capacity. Insolvencies and liquidations are at historically high levels and this pushes up capacity utilisation levels for those that survive."

Should an upturn materialise, production could be substantially increased without the need to increase capacity. Any signs of this

There will also
of Paul Albert
Donnelly, Ivan
Ledahowski, Jim
Mendel, Cedric
There will also
poverty in the
Corporation.
Group Areas R
unemployment in
willed so
The Tot System
McAllister
Mgwali: Wait
I am Clifford
Future Roots (Development in the Amatole
Accompanied by paper: Poverty in
Graham Hayman and Patrick McAllister
Responses to poverty in the Transkei:
Health Care in Kwazulu: Keith Shaw.
Ithenseng: Lindy Wilson.

Oil concerns cushioned against lower prices

OIL companies in SA remain largely unaffected by the world oil glut — unlike companies abroad — and critics here allege this is because they are protected by a guaranteed 15% return on their assets employed.

The critics also point out that other concerns important to the economy do not enjoy similar protection and challenge the need for so many multinational oil companies to remain in SA.

The apparently healthy state of oil companies at home contrasts with many abroad.

In the US, oil states such as Texas, Oklahoma and Louisiana have been severely affected. Bankruptcies and layoffs plague the oil business and nearly every industry connected with it.

Though the US Labour Department announced recently that unemployment had dipped to 7,2% in March — down from February's 7,3% — the jobless rate has stayed unexpectedly high at least partly because of the oil slump. Unemployment in Louisiana has reached 13,2%. In fact, oil giants such as Chevron and Exxon recently announced plans to lay off between 15% to 25% of their staff.

Oil industry sources say SA companies are better off because they are not involved in oil exploration, and therefore do not have the same degree of capital invested.

A BP South Africa spokesman said the company concentrated on oil refining and marketing "where a more stable result is still being achieved. We are under some pressure from high inflation and increased operating costs but as long as we can retain profitability we have no intention of retrenching staff".

John Drake, oil division MD at Shell SA, said his

WHILE the oil crisis has plunged oil companies worldwide into despair, those operating in SA are protected from plummeting prices, writes PETER WALLINGTON.

company has suffered "substantial stock losses in SA" because of the fall in crude oil prices.

However, Shell is in business for the long-term and aims to keep its customers supplied. "To do so we have to carry certain minimum levels of inventory and it is inevitable that in times of falling prices we make stock losses, and conversely stock profits when prices rise," he says.

"Numbers of staff are tightly controlled and we have no oil exploration or oilfields in SA that could face closure, so I do not think there is much scope for redundancy programmes in the oil business."

But the critics say the 15% return on assets has helped sweeten the pill even further, and allows oil companies to expand their asset base by building expensive garages.

Furthermore, one critic says at least one refinery should have been closed — SA's refineries are under-utilised — but says no company will do so because it forms part of its asset base.

The Department of Mineral and Energy Affairs' Director of Energy, Lourens van den Berg, denies the 15% return is guaranteed, but says it is an "average yardstick" that government is prepared to allow them at present.

He said it had been agreed no adjustments would be considered until their average return on assets employed fell below 10%, or increased above 20%.

"Taking into account the method of calculation of the industry's return on

assets employed, the profits allowed the industry are very conservative."

AA director-general Peter Elliot argues that the wholesale profit margins need to be urgently revised because it has led to "inefficiency and a multiplicity of garages at a tremendous cost".

He adds that the inclusion of filling stations in the asset base leads to filling station rentals and, therefore, profit margins, becoming a key factor in the retail price of petrol.

He says, too, that the balance sheets of the multinational oil companies are not publicly disclosed. Only Sasol and Trek disclose their balance sheets, and Elliot says Trek shows huge profits in relation to its capitalisation and in relation to its level of activity.

MR X, who has seven children, tried to throw himself under a train after he was fired from a R90-a-month job as a gardener in Sandton. He was stopped by concerned passers-by who brought him to the Black Sash advice bureau. There he sat for two hours in a catatonic state.

"He broke down and cried," recalls Black Sash adviser Buelah Rolnick, as she was talking of the hundreds of workseekers who appeal daily to the advice bureau for help.

She is among other advice bureau staff who come face to face with the trauma of unemployment increasingly faced by thousands of workers — looking for work, dismissed or retrenched.

Apart from the economic suffering faced by these people, the psychological effects of losing one's image and respect as a father and breadwinner are devastating, she says.

The level of unemployment has reached critical proportions with more and more people seeking assistance from advice bureaus, the Industrial Aid Society and trade unions.

Many resort to crime, others depend on relatives and friends, and eking out an existence in the informal sector has become increasingly popular.

Quadrar introduc HP Vectra

VECTRA is a new high performance PC from Hewlett-Packard designed to maximise industry-standard hardware and compatibility. In fact, even the IBM PC, PC/XT and PC compatible! Choose your software from the hundreds available off-the-shelf, like FRAMEWORK II, dBASE II, WORDSTAR and MULTIMATE. Then run the program faster! Yes 7,7 times! That's not all.

The keyboard is nothing short of exceptional. So exceptional that it led a reviewer at the authoritative publication, *PC World* to remark, "I have always rated Hewlett-Packard among the best in the business, but it has surpassed its unique HP-HIL allows various input devices to be connected simultaneously from the keyboard, saving valuable expansion slots. Graphics support is a standard VECTRA feature."

SASOL — SLOWING THE WAY TO PRIVATISATION

12/5/86
SPR
49

The key factor in the privatisation of Sasol was the State's guarantee to potential investors that the company would be run on the principles of market-related pricing and equal treatment in relation to other petroleum and chemical industries.

This is the view of the senior general manager of Sasol Limited, Mr Andre du Toit.

He said that there were yardsticks by which the success of the privatisation could be measured. First, its initial share issue was substantially oversubscribed. Second, the profit growth targets set in the 1979 privatisation prospectus had been consistently exceeded.

Third, the takeover of the State's share in Sasol Two was also accomplished sooner than the earliest date envisaged in the 1979 prospectus and six years before the 1989 deadline.

For the Government, the privatisation of both Sasol One and Two also paid a substantial premium over the book value of the State's interest — its initial investment of R2,2 billion was sold for R2,8 billion in cash and 169 million shares in Sasol Limited with a current market value of more than R1 billion.

Mr du Toit said the State's assurances to private investors and the structure and track-record of Sasol had led to the successful privatisation.

The decision to privatise in 1979 was bolstered by the fact that Sasol was highly saleable — because of its proven profit record and strong balance sheet.

From its inception in 1950 Sasol

Privatisation of State enterprises, long supported by the business community, is now Government policy. The successful privatisation of Sasol was outlined recently by Mr Andre du Toit, senior general manager of Sasol Limited, when he addressed a conference in Johannesburg on "Privatisation — Unburdening the State".
JANINE SIMON reports.

had been incorporated as a company with a profit motive and its management was, therefore, schooled in competition and profitability. The management team was thus in favour of privatising.

Because of the fuel pricing structure in South Africa, Sasol One had to directly compete with international prices. This, Mr du Toit said, convinced the State that privatisation would not lead to the exploitation of the consumer.

The public investor in Sasol One had a limited risk with regard to Sasol Two and Three as these two companies were isolated from Sasol Limited until they became wholly-owned subsidiaries.

Incentives

Safeguards for the public investor were also built into the agreements regarding the future acquisition of Sasol Two and Three.

Equal treatment in many areas of interface with government were obvious — equal taxes, incentives, air and water pollution standards.

Mr du Toit said that a vital element was, however, also equal protection.

For successful privatisation, individual members of the same industry must compete on an equal

basis to prevent problems with allocation of resources.

This was also important for the private-sector investor in newly privatised companies — who had to be assured that returns on investments would improve with time.

A second, equally important, aspect was that of maintaining an international or market-related pricing structure.

Any cost-plus or price-controlled industry would be difficult to privatise, Mr du Toit said.

The formula imposed on price-controlled industries in South Africa allowed them a 15 percent pre-tax, pre-interest return on depreciated assets.

There was no way a capital-intensive industry, operating under inflationary conditions, could, after tax and interest, generate sufficient cash for the replacement of plant and equipment if it was price-controlled. Then there was still the question of paying a reasonable return to its shareholders.

Mr du Toit said that substantially increasing the allowed return on investment would not solve the fundamental problem of cost-plus industries — the limited incentive to improve efficiency and

profitability. Even given a market-related pricing structure, he warned that it was extremely important that the rules of the game should not be changed while the game was in play.

For example, recent suggestions to turn Secunda into an "inland harbour" would eliminate the natural transport advantage of the indigenous industry. The ex-factory prices of indigenous fuels from Secunda would then have to be the same as the ex-refinery prices of coastal refineries — instead of indigenous fuels competing freely with crude oil-derived products on a delivered basis.

Investment

This would lead to a non-optimal location of industries and increase the overall cost structure of the country as a whole. More seriously, it would jeopardise future privatisation efforts because it would move the goal posts by introducing a non-market-related pricing concept.

"The private-sector investor in State enterprises will, in general, not be enticed to invest by the prospect of a guaranteed return on investment associated with price-controlled or cost-plus industries. Such pricing structures are an impediment to privatisation.

"The private-sector investor — as demonstrated by the Sasol experience, wants to take risks and, consequently, also wants to be fully rewarded when markets turn in his favour. He will also turn away when we interfere with such market-related pricing structures," Mr du

13/5/86 BUS DAY
No-one talks now of \$0,50...

Economists take bleak view of rand

CONFIDENCE in the rand appears to be ebbing despite the bearish trend of the dollar.

The foreign exchange market is signalling that importers would be wise to take forward cover both on dollar/rand transactions and on their commitments in the other major foreign currencies.

These signals are confirmed by economists at Standard Bank and Barclays. In *International Comment* Standard says:

"Importers with commitments in foreign currencies such as yen, Deutschmark and sterling would be advised to maintain a high level of cover against the dollar, particularly should the dollar rebound temporarily. Exporters could consider staying out of the market."

Barclays' senior financial economist, Laretta Gell, confirms this view, adding that on rand/dollar transactions importers should maintain a high level of cover on dollar payments due this week. Standard advises exporters to stay out of the forward market.

Sentiment in the local market is inclined to be bearish with dealers forecasting that the rand could drop as low as \$0,45, although it might fluctuate between this point and a possible \$0,48 in the weeks ahead. No one in the market is talking about a \$0,50 rand.

Dollars are scarce, with the Reserve Bank unwilling — or unable — to supply dollars to meet a heavy demand from bankers and their customers. Support from Pretoria is sporadic and market

HAROLD FRIDJHON

analysts point to the precarious state of the Reserve Bank's gold and foreign exchange reserves and the gloomy forecasts of the current account of the balance of payments.

The Reserve Bank's buying of dollars on the spot market and selling them forward also indicates it is short of foreign funds and having difficulty matching its forward book.

It is claimed large quantities of dollars are leaving the country as banks make payments on foreign debts which have been excluded from the repayment schedules. Another possible reason for dollar scarcity is heavy replenishment of the strategic oil reserve.

Traditionally, the end of June brings a heavy drain on reserves as half-year accounts are balanced, dividends exported and interest payments fall due.

On this basis the possibility of the rand picking up between now and the half-year end appears remote. The probability is that downward pressure will be exerted on the currency.

A week or two back a view was bandied around the market that the rand could show an improvement towards the end of this year.

Perhaps that was wishful thinking. Economic recovery would increase the demand for imports, putting further pressure on the current account of the balance of payments, on gold and foreign exchange reserves and on the rand.

Budget incentives fail to stimulate economic revival

STAFF 49
14/5/86

Government considering new measures to boost confidence

By Sven Lünsche

Lower interest rates have failed to stimulate the South African economy and despite various short-term solutions most economists and businessmen believe that only an improvement of political perceptions can lead to a long-term recovery.

This follows the government's reassessment of its economic policy as it is evident that the incentives provided by the Budget have not succeeded in reintroducing the necessary confidence in the economy.

A spokesman for the Treasury said the monthly policy meeting on Monday had failed to decide both this month and last month on what further stimulatory measures should be introduced.

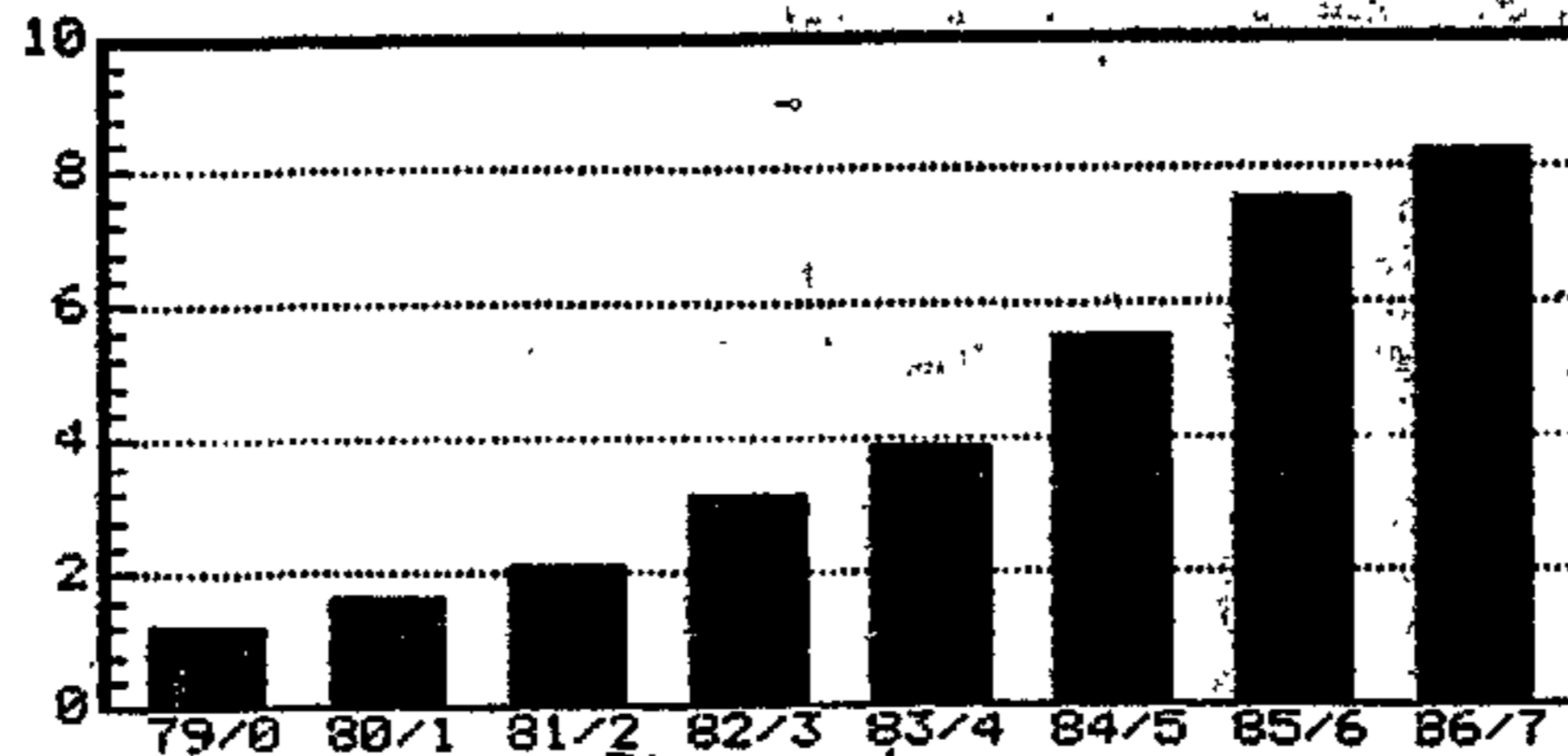
He said it was likely the measures would be on the expenditure side and not revenue; it was unlikely that GST, for example, would be reduced.

However, he said the meeting this week of the State President's Advisory Council would be important as it would bring in further suggestions.

He noted that it normally took about six weeks between the adoption of most measures and their actual implementation in the market place.

He said one could not rule out the possibility that a "mini budget" might be introduced in August when Parliament reconvenes.

Mr Meyer Kahn, MD of South African Breweries says: "The lowering of interest rates has improved corporate profitabili-



Government revenue from GST in billions of rands.

ty, but the most explicit way of increasing consumer spending immediately would be by reducing taxation."

Lower interest rates were seen by most analysts as too little too late.

"There is a total lack of confidence in the economy and this move won't be effective in putting more money to the man-on-the-street," Mrs Jocelyn Bell, economist for brokers Ferguson Brothers, said.

Rand Merchant Bank chief economist Mr Rudi Gouws added: "Lower interest rates are purely a reflection of the economy and in themselves cannot get the economy going again."

Some economists argued that the government had various options open on the fiscal side: a cut in GST by at least two percent is one of the more feasible ones.

Mr Les Boyd, chairman of Amcor, said that it would be in the interest of the consumer: "That the government not only

reduce GST, but also limit the excise duty and modify fringe benefit taxation."

It seems unlikely, however, that the government will adopt this policy.

Says Mr Mike Daly, economist at Southern Life: "Any stimulation of the economy will come on the expenditure side and it is unlikely that government will cut GST."

Mr John Wilson, chairman of the Federated Chambers of Industries, said that the government had other options left in order to alleviate the most serious problem, namely high unemployment.

"The Budget was over-cautious and did not bring the necessary relief to what should be the main target area — the man on the street," he said.

"We have to spend our way out of the problem," he added, and suggested that more money should be circulated in the market and the export industry promoted.

Most analysts agreed that some of these moves might inject some short-term improvement into the economy, yet overall improvements will inevitably be linked to the political situation in the country.

Says Mr Bruno Corte, MD of Southern Suns: "Even a reduction in GST could only lead to a short-term boom in consumer spending, but it will not be a saving grace."

"Only if this country rids itself of the worries of the political problems will we have a chance to put our economy on a more prosperous path."

RMB's Mr Gouws says tight control of government spending and an early repayment of the foreign debt could produce some short-term improvements, yet it would be a mistake to vastly increase expenditure at this stage.

"There definitely has to be development of the infrastructure of the black community, starting with the massive extensions of black housing programmes," said Mrs Jocelyn Bell.

Mr Meyer Kahn is confident that despite the current problems the estimated three percent growth in GDP, as well as the 1.5 percent in gross domestic expenditure could just be achieved.

This bodes well for domestic expenditure in the near future, but most analysts doubt that this could restore the essential confidence in the South African economy needed to put it back on a sound footing.

~~Budget~~ for OFS R458-m

LO - BUILDING INDUSTRY, O.F.S

AREA: Within a radius of 56 km
excluding that portion of Kroon

Own Correspondent

49
15/5/86
m Railway Station,
thin this area.

BLOEMFONTEIN — The Free State's budget for 1986/1987 is R458 million — about R200 million less than last year.

A drop in income of about R150 million was expected, it was said at the last main sitting of the provincial council yesterday. This was due mainly to a reduction in the Government subsidy of about R147 million.

The income is expected to be R429 million.

The province's taxes and tariffs would not be changed, said the Administrator, Mr Louis Botha.

About R234 million is budgeted for hospital services and public health and R129 million for roads.

Pump-priming would release R1,5bn into economy

(49) BUSDAY

Assocom hatches plan to stimulate growth

15/5/86

BUSINESSMEN have presented Finance Minister Barend du Plessis with a bold plan to stimulate economic growth.

The six-point package, prepared by Assocom — the Association of Chambers of Commerce — is designed to release at least R1,5bn into the economy.

After a two-day executive council meeting in Johannesburg, Assocom chief executive Raymond Parsons said it had become vital to reshape "both the substance and perception" of economic policy... "A calculated risk will have to be taken."

Assocom's recommendations are:

- Early repayment of the 1980 loan levy;
- A 2% reduction in GST, followed eventually by removal of the 10% import surcharge;
- Further reduction in petrol prices, followed by an immediate reduction in transport tariffs by Sats;
- Announcement of speedier implementation of certain socio-economic projects for blacks;
- Delay in implementation until 1987 of pending regional taxes on payrolls and turnover — or until the Margo Commission on tax hands in its report;
- Review and updating of the Economic Development Programme.

Parsons refused to be drawn on the likelihood of Barend du Plessis accepting any or all of Assocom's recommendations, or whether other

DAVID FURLONGER

business groups supported the package.

But he said: "I think that something will be done. There is groundswell opinion that the economy is not on course. We don't operate in a vacuum from others in deciding what we would like done."

Other major decisions to emerge from the executive meeting included reaffirmation of Assocom's support for a federal political system, a call for removal of remaining restrictions under the Group Areas and Land acts, and calls for a delay in implementa-

tion of regional services councils.

"Assocom recommends that the implementation of RSCs should be delayed until the overall situation has been clarified, and until the chances of successful black participation in regional government are stronger than they appear to be at present."

The council meeting also unanimously called for the legalisation of casinos in SA. It said: "The time has been reached when casinos could be legalised within SA without harming any further the moral issues which have prevented their establishment thus far."

(49) N/M ~~15/5/86~~ 15/5/86

Cement industry had 14pc fall in domestic demand

JOHANNESBURG—The cement industry experienced a 14 percent drop in domestic demand last year, according to the annual review of the South African Cement Producers' Association.

The association says this followed a sharp decline in the activities of the local building and construction industries, commencing in the last quarter of 1984 and continuing at a substantial rate throughout 1985.

The review said imported cement caused the industry to suffer losses.

Japan

During the year to August 1985, some 200 000 tons of cement were imported from Japan to Natal. This was resisted by local producers as there was an over-supply of local cement and a price war resulted which culminated in the withdrawal of the importers. Although this threat was eliminated, the industry suffered a considerable loss, the association said.

Reductions in prices were necessary to counter imports from Zimbabwe into the Northern Transvaal, where high transport costs resulted in very high delivered prices, the review says.

The importation of cement is of great concern to the cement industry. Its producer members have in the recent past embarked on substantial capital expenditure programmes to increase capacity to serve the needs of the country and to minimise the likelihood of a shortage arising.

A substantial over-supply of cement worldwide existed and the low prices at which cement imported

from Japan was sold — well below those prevailing in Japan — clearly showed dumping, the review said. — (Sapa)

DD 14/5/86

Watsons to close clothing stores

Dispatch Reporter

EAST LONDON — The Watson family has announced its intention to close all its stores in the Border and Eastern Cape because it "has reservations about the area".

Mr Gavin Watson yesterday confirmed the imminent closure of their two clothing stores in Port Elizabeth and one each in East London and Uitenhage.

The East London branch of the men's outfitters, Dan Watsons, is in Oxford Street.

Mr Watson said they intended to stay in Port Elizabeth while "considering various options", and while they could play a "meaningful role socially to fight racial polarisation".

He said that although the consumer boycott had had an effect, the real cause of their closure was the massive unemployment caused by the failure of big business and the government to show any "social responsibility" for the area.

Mr Watson said he saw no relief in the near future either.

The DEPUTY MINISTER OF INFORMATION:

(1) The Bureau for Information was responsible for the compilation and distribution of the mentioned publication.

- (a) "Partners in Terror."
(b) 12 pages plus cover.
(c) Bureau for Information.
(d) Cape and Transvaal Printers, Cape Town, on behalf of the Government Printer, Pretoria.
(e) (i) 70 000 English copies were printed.
(ii) None.

(f) Copies of the publication were sent to: Members of Parliament. The Bureau for Information's regional offices. Department of Foreign Affairs. Opinionformers in South Africa.

(g) The publication was compiled and distributed as part of the bureau's task to make important policy statements of the Government public.

(h) The total printing cost of the publication was R16 800. Cost of distribution is difficult to determine as railway cost incurred to transport copies to regional offices is not available as yet and since regional offices are still distributing copies.

(2) No tenders were invited for the printing of this publication. Printing was commissioned by the Government Printer in terms of the Government Exemption SDK77.
Mr L P STOFBERG asked the Minister of Finance:†

(1) Whether his Department (a) institutes investigations, (b) makes calculations and (c) monitors results on a regular basis with a view to determining the gross domestic product of (i) each independent Black state and (ii)(aa) Botswana, (bb) Lesotho and (cc) Swaziland; if not, why not; if so, were the results of these investigations over the past five years?

Table with 4 columns: Year, (a), (b), (c), (d). Rows for 1982 and 1983.

The MINISTER OF FINANCE:
(1) No. All these States are independent and collect their own statistics. The responsibility for collecting and processing national accounts statistics does not rest with this department.
(2) Falls away.

Own Affairs:
Unmarried mothers: allowances
Mr L P STOFBERG asked the Minister of Health Services and Welfare:†

(a) What amounts were paid out in maintenance allowances for unmarried mothers, (b) how many mothers qualified for these allowances, (c) what total number of children were benefited by these allowances, and (d) what average amount was paid out per unmarried mother, in respect of the White population group in each of the latest specified five years for which figures are available?

The MINISTER OF HEALTH SERVICES AND WELFARE:

Table with 4 columns: Year, (a), (b), (c), (d). Rows for 1982 and 1983.

Table with 4 columns: Year, (a), (b), (c), (d). Rows for 1984 and 1985.

FRIDAY, 16 MAY 1986
Indicates translated version.

892. Mr P G SOAL asked the Minister of Mineral and Energy Affairs:

(1) Whether he or any member of his Department has received any representations regarding daylight-saving time in the Republic; if so, (a) from whom, (b) when and (c) what was the (i) nature of the representations and (ii) response thereto;
(2) whether the Government has considered the usefulness of daylight-saving time in the Republic; if so, (a) when and (b) what decision was reached in this regard?

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) Yes.
(a) Trade Union Council of South Africa and a Mr M Stranex.
(b) In March 1985 and March 1986, respectively.
(c) (i) That the Government consider the introduction of daylight-saving.

(ii) That the introduction of daylight-saving from the view point of energy conservation could not be recommended.

(2) Yes.
(a) 1981.
(b) As in (1)(c)(ii) above.

(1) According to what price formulae are (a) gold, (b) silver, (c) tin, (d) zinc, (e) copper and (f) diamonds made available to local processors;
(2) whether the principle that local users and processors acquire their raw materials at prices not exceeding net export parity prices, converted to the source of origin in Southern Africa, on a current basis, is applied throughout; if not, why not?

The MINISTER OF TRADE AND INDUSTRY:

(1) and (2) The prices of the commodities are not fixed by the Department of Trade and Industry. In general, the position is, however, that in the case of gold, silver, tin, zinc and copper the prices which are paid by domestic users and processors are based on prices achieved on well-developed international markets. The average price achieved on the international market is converted to rand value and the purchaser pays accordingly. However, in the case of South African copper foreign clients pay a premium above international prices because of the high degree of fineness of the local product. This premium is not paid by domestic purchasers. The prices of diamonds are fixed by the Diamond Trading Company and diamonds are offered to the registered purchasers at the fixed price. Domestic purchasers receive a discount of 7,5 per cent on diamond purchases while foreign purchasers have to pay the fixed price in full. Owing to the decline in the value of the Rand in comparison with international currencies, the domestic

E Cape revival vital to future of brick firm

By KIN BENTLEY

THE chances of production being resumed at Corobrik's Port Elizabeth plant are "tied to the revival of the Eastern Cape area".

This was said today by Mr E C Rutherford, the managing director of Corobrik's holding company, Toncoro.

He was commenting on Corobrik's decision to "mothball" its PE plant from today because of the decline in demand for bricks in the area.

The move saw about 105 hourly and monthly-paid employees lose their jobs. Speaking from Durban, Mr Rutherford said the South African economy on its own was fairly strong.

But positive economic

factors like the recent drop in interest rates were offset by the "lack of confidence in the political future". He would not express an opinion on whether lack of confidence was worse in PE than elsewhere in the country.

He said that the company's other Eastern Cape plant — in Grahamstown — manufactured a wider range of bricks than the one in PE and would now operate at full capacity.

Although a year's supply of face-bricks was stockpiled at the PE plant, he said all supplies needed by PE would be available from the Grahamstown plant.

Mr Rutherford said the firm would continue its sales and administration activities in PE.

AREA B: Bellville, Goodwood, Port Elizabeth, Simon's Town, The
Cape, Uitenhage, and Wynberg, and the area occupied by Dunlop South Africa Ltd,
Durban, (excluding the area occupied by Dunlop South Africa Ltd),
Inanda and Pinetown, and the municipal areas of Howick and
Newcastle, Alberton, Benoni, Boksburg, Brakpan, Delmas,
Germiston, Johannesburg, Kempton Park, Klerksdorp, Krugersdorp,
Nigel, Oberholzer, Pretoria, Randburg, Randfontein, Roodepoort,
Springs, Vanderbijlpark, Vereeniging, Westonaria and Wonderboom.

AREA A: East London.

Superseding w.d. no's: 239 & 372

Private industry task force to be named within days

Watchdog group will check Govt spending

49
STAR 16/5/85

PORT ELIZABETH — Private industry "watchdogs" to monitor Government spending will be appointed within the next few days.

This was announced by the Minister of Finance, Mr Barend du Plessis, in Port Elizabeth yesterday.

He told the congress of the Institute of Cost and Management Accountants at the University of Port Elizabeth that the Government had for some time been monitoring productivity in the public service and could claim to have made "not insignificant" progress on this front.

He drew attention to the steps he had outlined in his Budget speech to enable the current expenditure of Government departments to be critically evaluated by a special task force

consisting of leaders of the private sector.

"The names of the group will be announced within days and I place a lot of faith in their ability to identify where savings can be made," the Minister said.

Dealing with the general economic situation, Mr du Plessis said data received by the Government in recent weeks indicated that South Africa's economic upswing had so far been far weaker than had been hoped for at the time of the Budget in March.

But since the Budget there had been some welcome developments such as the continued fall in the oil price without an accompanying fall in the gold price, the firmer trend of the rand and better prospects for agriculture.

"But domestically the imminent recovery has as yet not been particularly visible.

"I am certainly anxious that we should not do so crass a thing as to talk ourselves out of an incipient recovery.

"But it would be equally ill-advised for any of us to assume that the March measures were so perfectly tailored to our situation as to require no subsequent adjustments."

However, in assessing South Africa's present economic situation, account had to be taken of the fact that the stimulatory measures introduced in the Budget had not yet had their effect on the economy.

These included the increase in public service salaries, the reduction in personal income taxes and the additional expen-

diture on unemployment, training and the upgrading of living conditions.

"The business world should still benefit from these measures and their stimulatory effects will still filter through the system and provide an additional modest stimulation."

The Government was watching the situation closely and was prepared to consider further stimulatory measures should this be judged necessary, Mr du Plessis said.

Turning to the theme of the congress — productivity — said managements had a key role to play in promoting this.

In any sound economic system a close relationship exist between increases in personnel remuneration and the rate of growth in productivity.

Govt asked to save architects

Mercury Correspondent

JOHANNESBURG—The dire state of the architectural profession has been brought to the Government's attention in a desperate attempt by the industry to prevent widespread closure of practices.

Forty percent of architectural firms have little or no work, and half are likely to close unless there is immediate improvement, says the Institute of South African Architects.

Representatives of the institute saw the Minister of Communications and Public Works, Dr L A P A Munnik, this week.

Government officials will probably meet an architects' working committee to continue discussions.

The architects' delegation, headed by president-in-chief Pieter Joubert, listed as subjects for

examination:

The fact that the cyclical nature of development is detrimental to the profession and the building industry;

The loss of skilled staff, particularly among the younger architects, who are being lost not only to the industry but to the country; and

The need to involve architects in the process of urbanisation.

Mr Joubert said he was encouraged by Dr Munnik's sympathetic response and willingness to consider proposals which had been made.

The decision to approach the department was made after the architects' institute had made a survey of commissions being carried out and had found that 40 percent of firms had little work, if any.

W/M 16/5/86

Court orders ⁽⁴⁴⁾ against intimidation

Court Reporter

A DURBAN Supreme Court Judge yesterday granted a temporary order restraining a group of retrenched and dismissed farm workers in the Mposa District near Lower Umfolozi from assaulting or intimidating and interfering with other workers still employed.

The order was granted by Mr Justice Law after he had heard an urgent application from the Zululand Creosoting Company (Pty) Ltd, Mimosa Park Estate (Pty) Ltd and Benada Park Estate (Pty) Ltd.

In an affidavit, Mr Jeffrey Lloyd Woollatt said he was the general manager of the applicants, who did farming businesses in the area.

In consequence of the poor economic climate, it had been necessary for the applicants to retrench certain employees.

Proper notice had been given to the employees concerned.

On April 18, all the retrenched employees had been handed their notice pay, wages and leave pay, but they refused to accept them.

A large proportion of the remaining black staff employed by the applicants had begun a strike in sympathy with the retrenched workers, demanding their reinstatement.

The affidavit said the strike action by the remaining employees in sympathy with the retrenched workers was a clear breach of the employees' contracts.

Intimidating

After they had been warned, their contracts had been terminated.

The dismissed employees, like the retrenched employees, had refused to accept their wages and refused to vacate their quarters.

The affidavit said that the dismissed and retrenched workers were intimidating employees who continued to work.

They had threatened white and Indian employees with bodily harm and had blocked some of the farm roads with logs.

Mr Justice Law ordered that the dissident workers show cause on June 9 why the temporary order granted against them should not be made final.

prices of the commodities in question have risen accordingly.

decentralisation concessions or incentives are applicable?

16/5/86 Q 1751
 HANSARD
 Total amount invested in development regions
 946. Mr A SAVAGE asked the Minister of Trade and Industry:

As at the latest specified date for which figures are available, what was the total amount invested by (a) private investors and (b) statutory bodies in each of the eight specified development regions where

The MINISTER OF TRADE AND INDUSTRY:

(a) Up to 30 September 1985 a total amount of R1 171 million had been invested by industrialists whose applications for regional industrial development incentives were approved by the Board for the Decentralisation of Industry in terms of the present incentive scheme during the period 1 April 1982 to 31 March 1985. A breakdown according to the respective development regions is as follows:

Region	R million
A. Western Cape Province	234,2
B. Northern Cape/Western Transvaal	34,0
C. Orange Free State/QwaQwa	78,6
D. Eastern Cape/Border	207,8
E. Natal/KwaZulu	472,5
F. Eastern Transvaal/KaNgwane	45,8
G. Northern Transvaal/Lebowa/Gazankulu	79,6
H. Pretoria-Witwatersrand-Vaal Triangle/KwaNdebele	18,5
	R1 171,0

It should be noted that the data is based on information furnished by industrialists in their first claims for the payment of incentives and relate to those claims which had been received up to 30 September 1985. Industrialists can start claiming incentives only after they had been in operation for at least 3 months and many industrialists submit their first claims only at a much later stage when they have finalised their investment, although having commenced with production in the meantime. Accordingly, and since it can reasonably be accepted that many industrialists have made further investments since 30 September 1985, the data should be treated with the necessary reserve, as explained.

(b) The information which is available is contained in the Decentralisation Board's annual report for 1984/85 (pages 15 and 16) which was tabled on 10 April 1986.

Q 1751

Independent Black states: gross domestic product
 HANSARD (Product Gross Domestic Product)
 1030. Mr L F STOFFBERG asked the Minister of Trade and Industry:†

- (1) Whether his Department (a) institutes investigations, (b) makes calculations and (c) monitors results on a regular basis with a view to determining the gross domestic product of (i) each independent Black state and (ii)(aa) Botswana, (bb) Lesotho and (cc) Swaziland; if not, why not; if so, (a) at what intervals and (b) what were the results of these investigations over the past five years?

The MINISTER OF TRADE AND INDUSTRY:

- (1) No, because information relating to the gross domestic product does not play a role in the trade and economic agreements which the Republic of South Africa has with the countries in question and which are administered by the Department of Trade and Industry.

(2) (a) and (b) Fall away.

QUESTIONS UNDER NAME OF MEMBER

Andrew, Mr K M—

General Affairs:
 Administration and Economic Advisory Services, 1443, 1589
 Communications, 1637
 Constitutional Development and Planning, 203, 204, 205, 296, 367, 374, 479, 482, 483, 534, 536, 537, 546, 549, 735, 814, 818, 952, 953, 1458, 1547, 1620, 1623, 1698

Defence, 1539, 1540, 1541, 1543, 1544, 1545, 1546, 1638, 1642, 1645, 1647

Education and Development Aid, 213, 295, 585, 586, 655, 656, 657, 659, 894, 896, 898, 957, 1004, 1015, 1016, 1094, 1276, 1285, 1286, 1455, 1625, 1634, 1636

Finance, 1250

Home Affairs, 435, 1248

Justice, 403

Law and Order, 97, 697, 699, 1319, 1706

Manpower, 495, 500, 1697

National Education, 143

State President, 1066

Transport Affairs, 294, 700, 1462

Own Affairs:

Education and Culture, 117, 310, 311, 436, 437, 1501, 1632, 1715, 1735

Local Government, Housing and Works, 1633

Bamford, Mr B R—

General Affairs:

National Education, 928

Barnard, Dr M S—

General Affairs:

Administration and Economic Advisory Services, 62

Agricultural Economics, 513, 1659

Constitutional Development and Planning, 647

Education and Development Aid, 958

Justice, 236

National Health and Population Development, 63, 144, 210, 420, 421, 425, 426, 427, 518, 642, 643, 646, 1093, 1303

Law and Order, 997

Own Affairs:

Education and Culture, 344

Health Services and Welfare, 1288

Barnard, Mr S P—

General Affairs:

Finance, 175

Own Affairs:

Local Government, Housing and Works, 1418

Boraine, Dr A L—

General Affairs:

Justice, 415

Law and Order, 787

Manpower, 28, 92, 135

Burrows, Mr R M—

General Affairs:

Administration and Economic Advisory Services, 198, 1131

Constitutional Development and Planning, 103, 180, 456, 603, 1465

Defence, 217

Education and Development Aid, 695, 1082, 1083, 1085

Finance, 436, 866, 1442

Justice, 345, 419

Law and Order, 288, 289, 1011

National Education, 199, 301, 608, 670, 702, 716, 932, 1705

National Health and Population Development, 429, 457, 1117, 1709

Transport affairs, 1466

Own Affairs:

Budget, 492

Education and Culture, 116, 118, 119, 312, 313, 314, 493, 613, 619, 620, 718, 719, 725, 944, 945, 947, 1047, 1062, 1064, 1098,

BUS DAY
Govt blamed for market losses

16/5/70 MICK COLLINS

FAILURE by government to develop an industrial strategy has resulted in losing out on world markets, says Roy Marcus, dean of the Engineering Faculty at Wits University.

"The current rand/dollar exchange rate should have heralded a period of great financial boom but unfortunately the country is unable to capitalise on what is a major opportunity for the export of finished products."

Marcus blames government saying industrialists should have been encouraged to modernise manufacturing facilities and enter the high-tech era.

"SA has a policy which, by virtue of its unique political situation, encourages the use of manual labour rather than that of automation."

"Although automation would initially cause a downturn in the job market, companies would eventually prosper resulting in more and more people being employed."

He says many jobs need to be created and the only way to do so is to establish a viable manufacturing industry.

"This will transform our economy from one based solely on the export of raw materials to one based on the export of finished products."

JSE asks Triomf to produce figures

STEPHEN ROGERS
and HAMISH McINDOE

TRIOMF FERTILIZER, the beleaguered fertiliser giant, has been requested by the JSE to prove its solvency after running up a loss of R50,5m at the interim stage.

JSE president Tony Norton confirmed that it had been in contact with the fertiliser group.

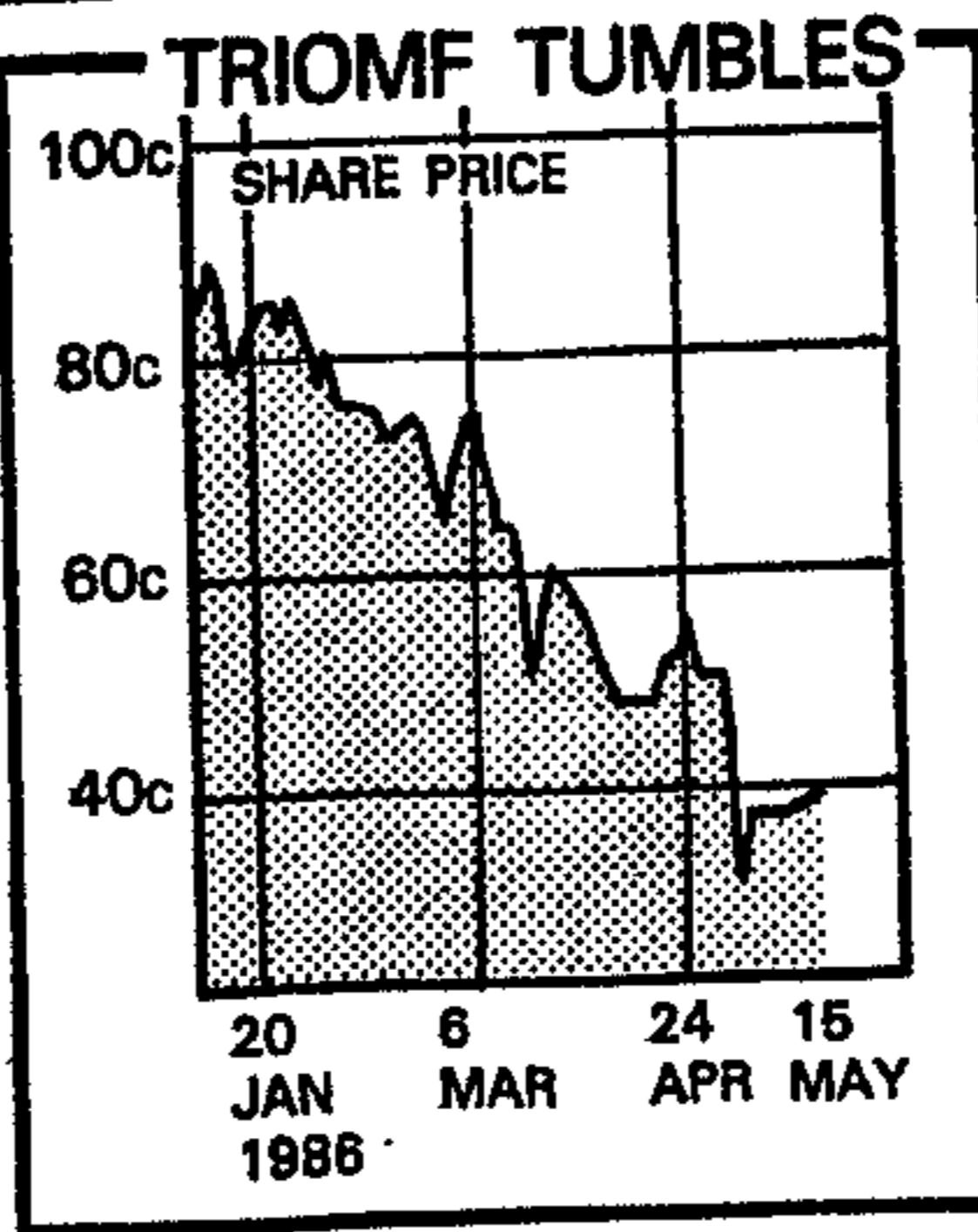
"After its heavy interim losses, set against shareholders' funds of only R49,5m (at 1985 year-end), we felt it necessary to write to the group requesting additional information to prove its solvency," he said.

"It is normal procedure to make such enquiries and we would deal with any other company in a similar manner," he added.

Triomf MD Phillip Clarke said that the group had not decided when to respond to the letter and what information they would provide to prove the group's solvency.

However, he had no doubts about the group's ability to meet its debts.

"Our losses for the year, excluding foreign exchange losses (of R21m), are expected to amount to between R40m and R50m, which is more than covered by permanent capital of about R135m. There is no question of our solvency."



The amount of R135m includes the R85m preference shares issued to Nedbank. However, only R20m has as yet been issued but Clarke confirmed that the remaining R65m would be issued shortly, although no date was forthcoming.

"Clearly there are differences over the classification of our preference shares, but we regard them as permanent capital," he added.

The 20-million preference shares were issued at a variable interest rate (16% at June, 1985) and half is redeemable in March 1988 and the remainder in March 1989.

The group's high gearing (over 400% at 1985 year-end) and R300m debt exposure to Nedbank, are not its only problems.

After a period of relative stability the fertiliser industry appears to be engaged in another price war.

An industry source said discounts of up to 25% on published prices had been applied since the end of March.

"It has always been a volatile industry, but the latest price war has thrown

● To Page 2

Triomf asked for figures

the fertiliser market into a state of nervousness," Clarke said.

Triomf's problems have raised speculation that the pace of discounting will rise as industry heavyweights AECI and Sasol try to squeeze Triomf out of its 25% market share.

"It would not be detrimental to the interests of Sasol or AECI if we disappeared from the market," said Clarke.

Foskor is also believed to be interested in the group's Richards Bay operations which, although operating at full capacity, are still running at a loss.

With market speculation that Nedbank will make a statement on the restructuring of the Triomf group — to dispel investors' doubts which may affect the bank's imminent rights offer — the Richards Bay operations could be a candidate for disposal.

● From Page 1

Warning on building skills shortage

DD
16/5/86
49

Business Editor
EAST LONDON — Recessionary conditions in the building industry would result in a shortage of skilled workers once there was an upturn in the economy, the chairman of the Border branch of the East Cape Master Builders' Association, Mr Ron Christie, said at the annual meeting.

Commercial and home building plans had dropped to an all-time low in the Border area, with not much hope of the expected upturn before the last quarter of this year, or the first quarter of 1987.

"To add to our misery, the continuing unrest in the country could delay any upturn in the economy even further.

"We have seen a remarkable influx of building contractors and sub-contractors into this area and I need not say what this has done to tender prices. We have also seen a good few contractors going under and taking with them a lot of unsuspecting sub-contractors and merchants," Mr Christie said.

"Those who remain are virtually living from

hand to mouth and tendering below cost to try and keep up a cash flow. This I believe cannot last indefinitely, and soon we will witness more of our members and non-members going into liquidation and out of the building industry, perhaps for ever."

Mr Christie said that when the upturn in the economy did materialise, there would not be enough skilled people left in the industry.

Once the upturn started the trade unions would seek more money, better working conditions and more bargaining power. "I believe that a 36 to 40-hour working week is also in the offing, but no doubt at a much higher hourly rate of pay to compensate for the shorter week."

MBA members would have to ensure that they had strong representation on the industrial council in order to negotiate the best possible deal with the white and emergent black unions, he said.

At the meeting, Mr Ian Friend was elected as the chairman for the forthcoming year and Mr Chris Andrew was elected vice-chairman.

Southern Africa needs South Africa

W/L 11/11
49

Home at last



Picture: DOUG PITHEY, Weekend Argus

Cape Town's Hole in the Wall gang — plus a few other abandoned children — moved into "Kayamandi", the first black children's home in the Peninsula. With Captain Farrington Notshati are Derrick Ngcani, Sylvester Nomlala, Whitey Zeya, William Nyirenda, Elias Nyirenda, Alfred Maseti, Lennox Nzanga, Robert Yekelo, Michael Shasha, Jimmy Ngumbela, Patrick Ngangiso, Abby Jack, Howard Mge-mana, Cyril Mbalu, Columbus Nogwebu, Derrick Mbalu, Christopher Zeya, Jackson Dywili, Ayanda Mazula, Mxolisi Mhiabeli and Sydney Kaptein.

By MARK STANSFIELD
Weekend Argus Reporter

THE BOYS were wearing their new, brightly coloured hand-knitted jerseys because they were expecting us... but at least two of the shiny, well-scrubbed faces were not smiling as a result of chronic malnutrition.

Sydney's little stomach was badly distended and his eyes reflected the pain. But he managed a pleasant greeting as he stood hunched over alongside his "brothers" outside their newly-renovated Langa "home".

Soon he will be in hospital.

Sydney Kaptein, 12, was part of a group of abandoned, glue-sniffing children who became known as the "hole in the wall gang" six months ago when it was reported in Weekend Argus that a gang of young boys were haunting the Fountains Centre in Rondebosch by day, begging for food, and sleeping in a hole alongside the Rondebosch canal at night.

Transformed

This week, the group — as well as a few other abandoned children found wandering Peninsula streets by welfare and church organisations — finally moved into the old Langa hostel which has been transformed from a roofless, windowless shell into a pleasant, five-roomed home thanks to the help and generosity of a caring community.

There are 21 boys settled into Kayamandi, the name chosen by Captain Farrington Notshati of the Langa-based branch of the Salvation Army. It means "Sweet Home", according to the Captain who will be in charge of the boys during their stay.

Two house mothers, Mrs Constance Mapempeni and Mrs Beauty Ndzunga

of Langa, have also volunteered to look after the children and at least one of them will be a constant presence at Kayamandi.

The transformation of the boys and the old hostel is astounding.

Crumbling shell

Six months ago the boys were ragged, red-eyed glue sniffers. Today most of them are bright-eyed, neatly dressed youngsters — and those who need medical attention are to be admitted to hospital soon.

A few months ago the Langa hostel was a crumbling shell. Today it is a newly-painted home, thanks to Bester-ecta Ltd, Everite, Olympic Painters, CIW, Ready Mix and Glasshopper.

The children will be attending school soon, said Captain Notshati — but their troubles are far from over.

"We still desperately need food supplies, clothing and some industrial cooking units amongst other things."

Bare essentials

"At present the Salvation Army is managing to feed the boys with the bare essentials but help will have to come soon," he said.

Weekend Argus readers responded overwhelmingly to the boys' plight and have already donated beds, cupboards, clothing and cooking utensils.

Extra items are needed as more abandoned children flock to the centre.

"Last week there were only 13 boys. Today there are 21... who knows how many more will be found out there?" said Captain Notshati.

It is estimated that there are 3 000 abandoned children in Nyanga, Guguletu and Langa.

From JOHN D'OLIVEIRA

Weekend Argus Africa News Service

JOHANNESBURG. — Whatever neighbouring African politicians might say in public about sanctions and revolution, the fact is that most hope that South Africa's transition to democratic rule will do little to disrupt either the Republic's economy or the infrastructure which is vital to the region.

For years the countries of southern Africa have been trying to reduce their dependence on South Africa, but, despite millions of rand in international aid, this dependence has, if anything, increased.

Their leaders' fears are heavily underlined by statistics provided by Dr Erich Leistner, director of the Africa Institute of South Africa, in an article in the latest issue of the Institute's monthly bulletin.

Economically there is no doubt that South Africa is one of the most important sub-Saharan states

It has 40 percent of Africa's vehicles, 33 percent of its trucks, 44 percent of its tractors. It produces 87 percent of its steel.

Dominance of transport

More significantly, South Africa produces 77 percent of southern Africa's maize, 87 percent of the wheat, 97 percent of its coal, 98 percent of its iron ore, and 67 percent of its sugar cane.

The Republic's dominance of southern Africa — which has a total population of almost 80-million — is uncontested.

Eighty percent of the region's gross national product and 77 percent of the electricity is generated by South Africa.

South Africa's dominance of transport in the region is undisputed.

Sixty-eight percent of Zimbabwe's imports and 65 percent of its exports are moved by South Africa.

Some 70 percent of Zambia's imports and 40 percent of its exports move through South Africa, as do 60 percent of Malawi's imports and 50 percent of its exports. For Lesotho, Swaziland and Botswana the figures are closer to 100 percent.

South Africa provides about 50 percent of Botswana's electricity, all of Lesotho's, almost all of Maputo's requirement and 79 percent of Swaziland's power. It even provides some electricity to Zimbabwe.

Not to mention the hundreds of thousands of jobs the South African economy provides for hungry people from countries as far north as Zaire.

Officially there were 351 260 foreign workers in South Africa in 1984. They sent home an estimated R677,8-million in deferred pay and remittances.

Attraction

It is probable that the number of illegal foreign workers in South Africa would push that number to above the million mark and the amount of money sent out of the country to R1 000-million or more.

The attraction is the South African economy which generated a per capita GNP of \$2 450 in 1983 — way ahead of the African average.

Next in line came Botswana with \$920, followed by Swaziland's \$890 and Zimbabwe's \$740 with Malawi coming a poor last with only \$210 a person.

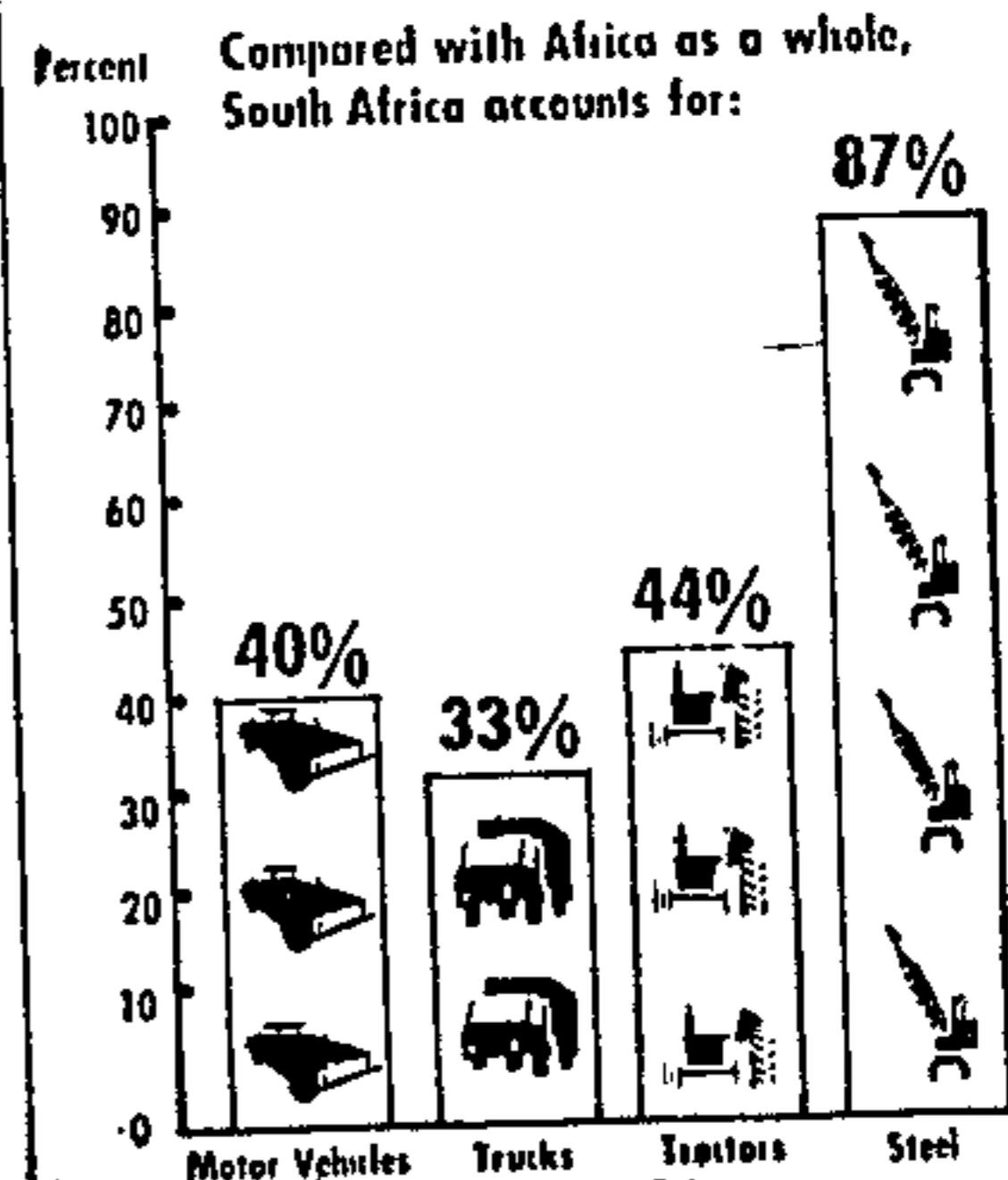
Unfortunately, the South African economy grew at a real rate of only 0,5 percent between 1973 and 1982, being outpaced by Botswana (five percent) and Lesotho (four percent). Zimbabwe grew at 0,4 percent, despite the ravages of the Bush War, while negative growth rates were shown in Angola, Mozambique and Zambia.

All the countries have increased food production in the past decade, but South Africa appears to have outpaced the others dramatically.

This does not mean the dependence is one-way.

South Africa needs the income from exporting to its neighbours and to other African countries and from providing these countries with services.

Continued or increased disruption would only be to the detriment of all in the region.



3-speed close ratio gearbox, power steering, central locking, electrically operated front wiper motor, rev counter, digital 4-cylinder 70kW engine, 5-speed close ratio gearbox, trip recorder, quartz clock, adjustable head rests at front, cloth upholstery, 12 month guarantee irrespective of kilometers covered. Unique 3-year guarantee against rust and corrosion.

Three EL companies relocating to the Reef

W/E Post 17/5/86
44

By DENISE BOUTALL

THREE East London manufacturers are busy relocating some or all of their activities to the Reef and over 400 jobs are being lost in the process.

They are the battery manufacturer, Chloride SA, and a company which specialised in trucks, TFM East London — both of which closed their operations two weeks ago — and Johnson and Johnson which is moving its head office and marketing division to Johannesburg at the beginning of 1987.

However, in an interview, the director of the Border Metropolitan Development Corporation, Mr Ted Walsh, said while everybody would be unhappy at the thought of the companies leaving, seven companies were currently busy establishing themselves in the city.

He pointed out that East London was the most popular decentralisation area with 180 applications for aid having been lodged in the last two years.

The Small Business Development Corporation had let all 17 factories in its new complex where between 400 and 500 people were employed. Only one of the seven factories built by the Industrial Development Corporation was vacant.

He said that no city could hold on indefinitely to all its businesses and industries.

The works manager of Chloride SA in East London, Mr Alex Fowlis, said the plant, where 330 people had been employed, had closed on April 30 after some 30 years of operation in the city.

The decision to consolidate activities at its modern Benoni plant, which was near the company's main markets, had been prompted by the fact that new vehicle sales had dropped and there appeared to be little prospect of any meaningful increase in sales.

In addition, high inflation and interest rates and the rand exchange rate had caused unprecedented cost increases for the company.

Mr Fowlis said about 40 people would be moving to Benoni and the rest had been retrenched. A number of them, particularly the skilled artisans, had found new jobs and the company was helping other workers find alternative employment.

The general manager of TFM East London (Pty) Ltd, Mr J D Melton, said the company, with headquarters in Johannesburg, was consolidating its activities.

The decision to close down the East London operation was due to the economic climate. "There

is not enough work to keep us in the area."

Eighty staff members were affected by the closure.

Many had found jobs and a number would be moving to the Johannesburg office.

"We won't let anybody suffer," said Mr Melton.

TFM opened its Border activities in Berlin in 1977 and moved to East London in 1979. The company specialised in building and repairing truck bodies.

The managing director of Johnson & Johnson, Mr C A Spalding, said the company's head office and its staff of about 30 involved in management and marketing would be relocated in Johannesburg in January 1987.

The manufacturing facility which employed about 500 people would remain in East London where it had been since 1942.

"Our plant is here and suits our needs; we have a very satisfactory labour situation, and have a commitment to these people and the benefits of the decentralisation package. "Being a port, there are also advantages for us because we import a substantial proportion of our materials."

He said Johnson & Johnson was committed to staying in South Africa.

Many architectural firms expected to close down

By DENISE BOUTALL

TWENTY PER CENT of South Africa's 1 200 architectural firms are expected to close down as a result of the current economic slump.

This is the prediction of the Institute of South African Architects after a survey showed that 40% of the firms have little or no work and that half of these would be closing down.

However, the president of the Eastern Cape branch, Prof Danie Theron, says the situation in Port Elizabeth is not as serious.

"It would appear that most architects in the area are reasonably busy, although they are doing mostly small, less profitable work."

The institute's concern about the profession prompted an interview with the Minister of Communication and Public Works, Dr L A P A Munik.

The recession has already hit Port Elizabeth's building industry, which is now employing fewer



Prof DANIE THERON

than 7 000 people, compared to 15 000 in 1973.

Prof Theron, who heads the School of Architecture at the University of Port Elizabeth, where 80 first-year students are currently enrolled, is particularly optimistic about the long-term future of architecture.

"There are 70 million people in Southern Africa and they are becoming increasingly urbanised. That means that they will need houses, schools, hospitals and social amenities."

Prof Theron said the ratio of architects to the population of South Africa was one of the lowest in the world. He estimated that between 120 and 150 architects qualified annually from South Africa's six schools of architecture, but not all of them had to be absorbed by architectural firms.

"Architectural training equips one for a whole range of professions, including town planning, the building industry, the building supply business and stage design."

A Port Elizabeth architect with offices in Grahamstown and Umtata said it was quite likely that some local firms would close down and others seek amalgamation before the end of this year.

He also questioned the future of architects in an essentially Third World environment.

"The majority of Third World urban development will be handled by large corporations, which might employ one, or maybe two architects, because mass

housing schemes and even schools and hospitals will be built to a few standard plans.

"The country simply cannot afford the architects."

Another brake on architects' work would come when existing facilities were opened to all races, which would bring about better utilisation of expensive facilities already created.

Another Port Elizabeth architect said although there was no work in the commercial and white residential sectors, there was work in the public sector and quasi-governmental sectors. Architects were also being commissioned to design houses for middle-income blacks.

The possibilities of work in the low-income sector were limited.

Unlike other major cities, Port Elizabeth had never been oversupplied with architects and he did not see any of them closing down.

"But there is a dearth of work in the short term."

3% GDP rise realistic, says Trust Bank

Confidence expressed for growth projections

ECONOMIC activity is showing few signs of staging a rebound although it appears to be above the bottom level seen last year.

In its May *Economic Report*, Trust Bank sees a 3% growth in gross domestic product as still realistic because the export sector could benefit from improved growth in SA's trading partners.

Stockbrokers Menell, Jack Hyman & Rosenberg also feel that growth projections will be reached this year.

They say: "We still forecast 3.5% this year, based on inventory rebuilding, exports and satisfactory performance by the agricultural sector."

Trust Bank notes that flagging confidence has dimmed the spark needed for an upturn.

ALAN SENDZUL

"How can businessmen plan, or consumers make rational spending decisions, with uncertainty over the economy's capability?"

Sanlam's investment corporation, Sancorp, notes in a paper entitled "Waiting for the Recovery" that an economic upswing is particularly important because high unemployment is fuelling unrest and ravaging personal income.

It explains that low confidence is being overlooked by government in its plans to prime the economy through increased government spending.

"State spending is already high and rising and, in the current political uncertainty, the crucial multiplier effect associ-

ated with fiscal policy may be severely diluted," it says.

Since investment demand from the multiplier would then be unlikely to ripple through the economy, State spending could really help only consumer spending. Virtually no new jobs would be created and the balance of payments could come under pressure.

Trust Bank suggests that an alternative, supply-side solution of cutting personal taxes to free disposable income would be better than replacing private investment decisions with those of a bureaucracy.

"The shortfall in revenue could then be funded by income from selling national assets (privatisation) and probably from the capital market."



● DU PLESSIS

Politics delay 'rescue package'

BUDAY (49)

GOVERNMENT'S economic stimulation package — which is being keenly awaited by business and beleaguered economy — is bogged down in a political quagmire.

A tussle is developing between politicians and the monetary authorities over the timing of the announcement.

The package — which is believed to contain cuts in indirect taxes and accelerated government spending on black housing development — was due to be announced late last week or early this week.

However, it is now being delayed to await an opportune political moment in Parliament for Finance Minister Barend du Plessis to make an announcement. At the same time, Du Plessis is expected to announce that projections in the national Budget — particularly as regards government spending — are no longer accurate.

Sources also say that although the

GERALD PROSALENDIS

package has been finalised, some "fine-tuning" is at present underway.

"There will have some announcement probably within the next two weeks," says one official.

"The democratic process does not make for rapid changes in fiscal policy," he adds.

But many in the private sector have slammed government's apparent lack of urgency.

"The government's hesitation in launching a programme to stimulate the economy is incomprehensible," says Opposition finance spokesman Harry Schwarz.

It is now obvious the economy is in serious trouble. Economists are increasingly saying that what was initially believed to be the trough of the business cycle in the last quarter of 1985, has turned out to be merely a pause in the downturn.

Cement slump

NATAL is now feeling the full effects of the recession with a vengeance, says Mike Doyle, general manager of Natal Portland Cement.

Reporting a marked 30,2 percent decrease in April sales compared with April 1985, he said that last year in Durban, there had been a rush to beat the first of the discount removals.

He disclosed that 81 000 tons were sold in Natal last month, compared with 116 000 in April last year.

Sales in the province for the four months ended on April 30 were 347 000 tons, 17 percent down on the comparative period.

In the Durban area (within 40kms of the city centre), cement sales were 41 000 tons, 14,6 percent down on the 47 000 tons for April 1985.

Sales for the four-month period were 9,5 percent down at 146 000 tons on the comparative period.

Mr Doyle said the percentage of bagged sales (53,6 percent) compared with 49,8 percent (year to date) confirms that demand continues to emanate mainly from the small contracts.

N/M 2/1/86

(49)

(82)

Many ratepayers just can't pay

AVE POST
49 280

Post Reporter

OUTSTANDING rates and services accounts with the Port Elizabeth municipality are increasing at such a rate that the City Treasury might have to take on additional staff to deal with the workload.

The was disclosed yesterday by a treasury official who said it was clear from the number of summonses issued for outstanding rates that both individuals and businesses were battling to make ends meet.

In the four months from December to March a total of 2 491 summonses were issued for outstanding rates.

What was significant was that the summonses were not only being issued to people who paid their rates annually in a lump sum but also to people who paid their rates on a monthly basis.

It was clear that people were stretching out their payments as much as possible.

Whereas in the past people who fell into arrears usually paid up as soon as they received a final notice — which was issued when monthly rates instalments were three months in arrears — they now stretched it out until they were summonsed.

He said that people should avoid allowing matters to get to court because once judgment was obtained against them it affected their credit rating and might prevent them from gaining credit from a bank at a later stage.

Another symptom of the dire financial straits in which people were finding themselves was the increase in the number of liquidation cases in which the municipality was one of the creditors.

This had stood at 110 cases in December and had risen to 280 this month.

The municipality was also experiencing a lot of problems with people who failed to pay their water and electricity accounts.

"However, with them we have a lever because we can cut off the supply and mostly people do find the money to settle the bill."

The problem with a disconnection was that, apart from the reconnection fee, people who might have paid their original deposits some years ago would find themselves having to pay substantial new deposits because these had to be twice the average monthly consumption.

Excessive taxes are forcing entrepreneurs 'out of work'

England, long regarded as one of the "high tax" countries takes 29 percent from companies and 30 percent tax from individuals. This includes massive social welfare expenses such as unemployment insurance (the dole).

In contrast South Africa, once regarded as one of the low tax countries of the world, collects up to 50 percent from companies and 47.5 percent from individuals. Small wonder that tax experts abound in this country — specialists whose sole purpose is to find ways and means of reducing the taxpayer's liability.

Why the need for this burden on our people? Obviously our political system has been a major factor. However, it is quite likely that the whole approach to taxation is wrong — we are not talking about the method of taxation which is currently the subject of the Margo Commission

One may feel doubtful whether or not you obtain value for money in respect of the immense sums which are required to run the country. However, we can scarcely feel more oppressed by taxation than some of our forefathers. The most profitable of all taxes, from the State's point of view, is income tax which is regulated each year by the Finance Act, founded upon the budget.

Two aspects warrant atten-



Anthony Tobin is an independent tax consultant. In this article he looks at South Africa's tax system and suggests some solutions to lighten the tax burden.

tion. Firstly it appears as if our Finance Minister decides on how much he wishes to spend, then taxes accordingly. This is the precise opposite of the way a well run enterprise looks at the problem.

The financial manager would first look at his projected revenue and then adjust his expenses accordingly. By taking the former approach the country is being overtaxed to the point of diminishing returns.

It is only this realisation which has forced the Minister, in his last budget, to reduce personal tax from 53 percent to 47.5 percent and company tax from 53 percent to 50 percent in the hope that many entrepreneurs

who have stopped "working for the receiver" will go back into business.

The second aspect is the so called "equality taxation". In communist Russia everybody is equal. However, as we all know some are more equal than others with luxury cars, homes, holiday villas and so on. South Africa seems to have embarked on the same direction with the introduction of the "perks tax".

This means that many individuals are penalised for low interest loans and usage of company vehicles. The interest penalty means that less money is being spent on housing. With the present building slump it would seem to us that the opposite approach should be taken and all housing loans should be subsidised in the hope of reviving the building industry.

The company vehicle problem has contributed to a slump in the motor industry that has resulted in major crisis for manufacturers, dealers and component producer. The purchase of new cars is being put off more and more, even with large companies, vehicles are transferred to alternate "owners" so that the effective value and hence effective tax is reduced.

Surely the sensible remedy is the immediate and complete abolition of the "perks tax"? This may mean that some individuals will get some "extra"

tax free benefits. However, it would also mean a tremendous boost for the motor and building industries with a resulting increase in employment and profits, a broadening of the tax base, and a reduction in the State expenditure due to the current high cost of unemployment.

So what if there are more of the "more equals". What is important is job creation, not job destruction.

Because of our high tax rate many entrepreneurs have given up working. These are the very people that we can least afford to lose. They are the ones who create employment, expand the economy and as a result, the tax base. How can we coax them back?

The answer seems quite simple — reduce our maximum rates to say 25 percent. Due to the various allowances and deductions this is already higher than the present average tax paid by companies. At this level special deductions — investment allowances — would not be needed and the profit incentive would return.

The overall amount of tax collected will probably fall for the first year or two but thereafter should increase dramatically. The greatest need would then be for the minister not to increase expenses in order to spend the available taxable income.

Recovery before reform possible

Kantor calls for lower tax rates

(LA) 8/20
Cape Times 22/5/86

By AUDREY D'ANGELO
ECONOMIC recovery does not depend on a solution to this country's political problems being found first, University of Cape Town economics professor Brian Kantor said yesterday.

He told the annual congress of the Federated Hotel, Liquor & Catering Association of SA (Fedhasa) at the Cape Sun that the economy needed more stimulation to get it going.

This could be applied by reducing taxation to put more money in peo-

ple's pockets and by allowing free competition.

Increased prosperity would result in more money being available to spend on black housing and education and other necessary projects and would make it easier to solve political problems.

Kantor said: "Our economic lifeblood is draining away because we are not offering holders of capital and owners of skills rates they consider competitive with those in other parts of the world."

The poor in particular would suffer "unless we can make our economy genuinely competitive again, as it has been until recently".

He said an economic miracle of this kind was not impossible, even in SA's present circumstances.

"We should not give up hope that this can be done, even without a political solution first. We can turn this whole thing round and if we do we can solve our political problems."

Economic development should receive absolute priority.

"Never has economic growth, increased spending and increased output been so important."

It was therefore necessary to increase competition and give up protection for certain industries, allowing market forces to work freely.

Competition in a free market prevented exploitation as well as increasing efficiency, and real redistribution of wealth could not be achieved through taxation since firms built it into their costs to be met by consumers in the end.

Confidence

Kantor said SA consumers were suffering from both lack of confidence, which made them unwilling to spend, and from cash flow problems.

The past two Budgets had been totally unsuitable for a country in recession and had actually increased revenue from taxation.

"The government does not need the revenue, it is getting too much."

Kantor said the SA tax system should be reformed so that it taxed consumption instead of income.

Provision should be made for encouraging saving, when people could afford to do so, by allowing all savings as a deduction from individual or corporate income tax.

Kantor said the Receiver of Revenue would not be the loser because a growing economy would mean a growing tax base and extra savings would mean extra growth.

"The income tax system should be simplified in the direction of a few broad brackets, and these tax brackets should automatically be indexed to inflation."

Business meeting 'vital' Schwarz

By David Braun,
Political Correspondent

CAPE TOWN — The new Government/business conference planned for later this year could be vital for the restoration of confidence in South Africa, the Progressive Federal Party said today.

It ought to be a multiracial gathering of businessmen, trade unionists, consumers, academics and politicians to talk frankly and hammer out a financial blueprint for the future, said Mr Harry Schwarz, PFP spokesman on Finance.

President Botha said during the Budget vote of the State President in the House of Assembly yesterday that such a conference could possibly be held later this year to discuss economic strategy over the short, medium and long term.

Mr Schwarz repeated his oft-made call for such a conference during the debate last week, calling for a meeting across racial and status lines to draft a financial plan for the future.

MULTIRACIAL

Mr Schwarz said today that he was more than pleased that the President had reacted so positively.

"I think there has not been a time when there has been a greater need for talking and dialogue at every level.

"The conference must not be for whites only. It must be multiracial and it must talk frankly about the economic problems facing the country.

"We must know what the Government plans," said Mr Schwarz.

He predicted such a conference could do much to restore confidence in South Africa.

It was also a good opportunity for labour and capital to get together, and for the public and private sectors to exchange views.

Undoubtedly, the people present would also talk about politics, said Mr Schwarz.

"I would have preferred to have the conference earlier this year because South Africa needs a revival of confidence, and this might just help to do it," he said.

Private enterprise must lead the way, says AHI's Kuun

22/5/86 (49) STAR

By Sven Lünsche

While it is absolutely essential that the private and the public sector liaise more closely about the economic future of the country, it is private enterprise which has to lead the way by taking concrete actions.

The new president of the Afrikaanse Handelsinstituut, Mr Christie Kuun, who was elected at the annual congress this morning, also said that he expected the economy to pick up by the end of the year, "but the question is whether we will create enough steam to keep the economy going after that".

Mr Kuun, Saambou's senior general manager, told *The Star* yesterday that business confidence was at a low and that the private sector was holding back as a result of bad past experiences, despite the government's effort to get the economy back on a sound footing.

CONFIDENCE

"The private sector has to rid itself of this passivity and take the lead, for example, by coming forward with offers and setting up a timetable for the privatisation and deregulation of various government departments," he said.

Mr Kuun added, however, that the government could put some confidence back into the economy, and he listed a number of



Mr Christie Kuun
... enough steam?

points which were discussed by the AHI during their annual congress, which ends in Johannesburg today:

- Government can play a big role in providing incentives to create productivity.
- The public sector should create more training facilities.
- The balance of payments, which is very favourable already, should be improved by promoting the export industry in order to provide for the future debt repayments.
- There has to be an urgent investigation into the problem of inflation.
- The government has to treat future capital investments very carefully, as capital is still a very scarce commodity on the market.

On the question of taxation Mr Kuun said that apart from the re-

payment of the 1980 loan levy "the AHI does not recommend further cuts in GST or income taxation, as massive expenditures are required to promote housing and education mainly for the black community.

"Lower interest rates are promising but the business sector is not making full use of them as it is unsure about future developments and because we are still paying a high price for the past high interest rates," he added.

ESSENTIAL

The AHI is wrapping up its procedures today with the overall message emerging that the economy has a bright future if the black community can be involved more actively in the free market system.

The outgoing president, Mr Donald Masson, said that it was absolutely essential for all businessmen to counteract black antagonism towards the free enterprise system by developing job creation schemes.

Mr Kuun added that the South African economy could rely on a rapidly emerging black market, "if we provide them with the right opportunities".

According to Mr Kuun, the private sector will have to take the lead, by taking responsibility for the housing needs of their own workers.

will have to... A cost of only... created... whether the... some soon... sapa.

Fix the economy first — professor

49 BUDGET 22/5/86

ECONOMIC recovery does not depend on first finding a solution to SA's political problems, says Cape Town University economics professor Brian Kantor.

He told the annual congress of the Federated Hotel, Liquor and Catering Association of SA (Fedhasa) at the Cape Sun yesterday that the economy needed stimulation to get it going.



● KANTOR

This could be achieved by reducing taxation and by allowing free competition.

Increased prosperity would result in more money being available to spend on black housing and education and other necessary projects and would make it easier to solve political problems.

Kantor said: "Our economic lifeblood is draining away because we are not offering holders of capital and owners of skills rates they consider competitive with those in other parts of the world."

The poor would suffer "unless we can make our economy genuinely competitive again".

He said an economic miracle of this kind was not impossible. "We should not give up hope that this can be done, even without a political solution first. We can turn this whole thing round and if we do we can solve our political problems."

Economic development should

Own Correspondent

receive absolute priority. "Never has economic growth, increased spending and increased output been so important."

It was necessary to increase competition and give up protection for certain industries, allowing market forces to work freely.

Competition in a free market prevented exploitation as well as increasing efficiency, and real redistribution of wealth could not be achieved through taxation because firms built it into their costs to be met by consumers in the end.

Kantor said SA consumers were suffering from a lack of confidence, which made them unwilling to spend, and from cash flow problems.

The past two Budgets had been totally unsuitable for a country in recession and had actually increased revenue from taxation.

"The government does not need the revenue, it is getting too much."

Kantor said the SA tax system should be reformed so that it taxed consumption instead of income.

Provision should be made for encouraging saving by allowing all savings as a deduction from individual or corporate income tax.

Kantor said the Receiver of Revenue would not be the loser because a growing economy would mean a growing tax base and extra savings would mean extra growth.

Emigrants from SA uproot at greater pace

GERALD REILLY

SOUTH AFRICANS are uprooting themselves at an accelerating pace to settle in other countries, according to figures released yesterday by Central Statistical Services.

The migration loss in January and February this year was 1 044 people, compared with a gain of 2 554 in the two months last year.

In the January-February period, immigrants totalled 1 333 against a record of 2 377 emigrants for the two months last year.

A breakdown in the emigrant figures highlights the continuing serious loss of professional and skilled workers.

In this period, 78 (39 last year) engineers left the country, 20 (9) medical doctors and dentists, 30 (6) accountants, and 54 (22) educationists.

Economists said it was virtually certain that the trend would continue.

They stressed that uncertainty about future political developments, the economy, and the threat of a tightening web of sanctions, would continue to influence those with saleable skills to consider emigrating.

Tourism was also hit in the January-February period. Foreign visitors totalled 187 242 compared with 226 738 last year.

Four Uitenhage companies closing down this month

By CATHY SCHNELL

ANDREW HANNAH HOLDINGS — comprising four companies in Uitenhage — is to close at the end of the month.

The companies are Andrew Hannah & Son (Pty) Ltd, Andrew Browne & Co (Pty) Ltd, Redline Joinery Works (Pty) Ltd and Subcontracting Services & Supplies (Pty) Ltd.

Six salaried workers have lost their jobs.

The managing director of Andrew Hannah Holdings (Pty) Ltd, Mr Trevor Kay, said today the directors of the companies had decided at the beginning of last year to reduce the activities of their companies.

They believed the economy was not

likely to recover in the foreseeable future and, rather than face the inability to obtain work at realistic prices, they would reduce the companies' activities.

In May last year a decision was taken to begin winding down the companies.

Mr Kay said at that stage it was evident there would be no immediate improvement in the situation.

During June, 1985, business associates of the companies were advised of the intention to wind down the companies.

The winding down process had continued until now. On May 30 the day-to-day operations of the companies would cease.

Mr Kay said the directors were satisfied the decision was correct

COAL DISTRIBUTION

Lifting the curtain

FIN MAIL
23/5/86 · 49

The last pillar in the regulation of the local coal market has crumbled with government's decision to abandon controls on the distribution of coal at merchant level.

Last year merchants were estimated to have handled about 20 Mt of SA's 170 Mt coal production. With an average pithead price of R26/t this amounts to a sizeable market, inhabited by more than 600 merchants.



TCOA's Weiss ... adapt to new conditions

The new action comes hard on the heels of last month's decision to end control of the wholesale and retail prices of coal (*Business* April 18).

Although the market had begun to rule itself long before government's disengagement, the scrapping of formal control of distribution represents a hard-earned victory for many of the industry's smaller merchants.

They have fought government regulations which laid down extensive infrastructural standards, and particularly the unpopular rationalisation scheme which prescribed areas in which merchants could operate ever since the Department of Mineral and Energy Affairs (DMEA) disavowed deregulation more than two years ago.

To a large extent the authorities have been turning a blind eye to distribution methods for the last 18 months after two failures to uphold the regulations in the courts and the establishment of an anti-regulation Coal Advisory Board (CAB).

Transvaal Coal Owners Association's Les Weiss does not anticipate dramatic changes. "Those merchants who favoured the controls should not be depressed, they will simply have to adapt their style of business. And those who are inefficient may have to go to the wall," he says.

MacPhail's, SA's largest coal distributor, which has been an outspoken supporter of government control, points out that competition is already fierce and the company has adapted to the free market situation. "We won't be making any change for change's sake," says a spokesman.

Aluchem and Reef Coal's Basil Botha did not adhere to the regulations, leading to the court battles. "The DMEA tried to stop opposition in the market, leaving the existing merchants to set their own prices," he says.

He quotes the case of a protected merchant who charged R38,66/t in 1982. The arrival of a competitor brought prices down to around R25/t. "Nearly five years later, coal prices are still below the higher level," he says. His only regret is that government took so long to scrap the regulations. In his view, "taxpayers' money has been wasted."

A DMEA spokesman tells the *FM* he hopes there will be better co-operation between merchants and producers.

"We are removing government interference and placing the industry in private sector hands, in line with the CAB recommendations," he says.

But why did deregulation take so long? The DMEA spokesman admits the unpopular regulation R2241 has been dead for some time, "but the CAB made its recommendations to government a fortnight ago and now we have acted," he says.

Essentially, the new moves mean the mines can sell directly to bulk users while smaller clients should benefit from merchants' economies of scale.

Weiss says it will be essential for producers and merchants to liaise more closely. "The infrastructures laid down by the DMEA ensured constant support for consumers. Now there will still have to be some stockpiling and the industry will have to retain some of the other supporting services."

M-NET

Coming into focus

Although it's hard to predict the impact of SA's first pay-TV station until the cost of the service is known, market research carried out over the last two years promises well for M-Net.

In the final run-up to the October 1 start "all the issues are falling nicely into place," says chairman Ton Vosloo.

Perhaps the most auspicious breakthrough for the new service is government's agreement that M-Net will be allowed to transmit

a "clear" signal which can be received by most PWV viewers for two hours a day, from 5 pm to 7 pm.

This will enable potential subscribers to sample the service before they are asked to put hands into pockets. In the PWV area all viewers with Bop TV aerials will be able to receive the clear M-Net service, but most others will have to buy a relatively cheap UHF antenna.

Says GM Koos Bekker: "We feel it's very important to give viewers a taste of our programmes before they have to subscribe." Although the M-Net service will rely mainly on films, the "clear window" slot will be filled largely with magazine programmes, comedies and other light entertainment.

The "clear" signal concession will fall away once M-Net has found its feet and built a large enough subscriber base, and viewers will then need a decoder to unscramble the signal.

A limited number of the decoders will be available at the start of the service, but these will be allocated mainly to hotels and apartment blocks to give access to the maximum number of viewers.

"Mass production of the decoders will begin next March, and we'll then begin our sales drive to individual subscribers," says Bekker.

M-Net and the SABC have a similar restriction on advertising — 8% of viewing time — and rates are now being worked out. Subscription rates will be announced shortly before the start-up.

The two-year planning period has enabled M-Net executives to look at similar subscriber TV services in other parts of the world, and this has added to their confidence that they have taken the right route.

"Our system is very similar to France's Canal +, which also operates in a market dominated by three State services," says Bekker. Canal +, launched in November 1984, hit the break-even point after just 15 months and in May this year the millionth subscriber signed up.

While SA's population is unlikely to sustain this sort of growth, Bekker is confident that the planned high-level entertainment will attract sufficient subscribers.

And he says there are currently no fears about M-Net's access to foreign films and programmes.

SA's embattled newspaper publishers are watching the omens closely. The major groups, Nasionale, Perskor, SA Associated Newspapers and Argus, have roughly equal shareholdings, while the *Natal Witness* and *Daily Dispatch* hold some 5% between them.

VIM 23/1/81
N/A 23/5/81

Free enterprise must deliver the goods, says Eglin

(49)

THABANCHU — An economic system only survived if it was relevant to the needs of the people, the Leader of the Opposition, Mr Colin Eglin, said yesterday.

Speaking at the annual conference of the OFS African Chamber of Commerce and Industry, he said that post-apartheid South Africa would require 'vast amounts of money' if it was to provide the infrastructure and the services the people would demand.

The Government could not provide this money on its own.

The role of the private sector, the entrepreneur and the black businessman in this new society would be to generate the wealth of the nation.

Without that wealth there will be no socio-economic reconstruction and no adequate services — but there will be mounting demands and revolutionary

pressures coming from an increasingly frustrated and angry people.

'If the free enterprise system fails to deliver the goods the people will turn against the system and try to replace it with something else, in all likelihood a marxist system or some local variant of this.'

For generations now the free enterprise system had been denied the opportunity of showing it could deliver the goods.

'In the years ahead, when the free enterprise system at last has the opportunity of being truly free and of showing what it can do I trust that you businessmen will prove that you can create wealth, not just for yourselves but for the people.'

'If you do so you will not only help to roll back poverty but you will help to strengthen the wider concept of human freedom,' said Mr Eglin. — (Sapa)

FIN MATC
23/5/86
49

What options?

Remember the old witticism: if all the world's economists were laid end-to-end they would never reach agreement? It has taken an unfortunate twist in bureaucracy-ridden SA, where the corollary appears to be that if everyone was laid end-to-end they would all prove to be economists.

Or so it must seem to SA's financial planners, who face the unenviable task of trying to convince the business community, domestic and foreign, that things are better than they look. Going too heavy on the cosmetics, however, not only masks reality; it also tends

to raise false hopes to levels from where they must inevitably fall with a hollow thud.

Where to go for solutions in an economy flawed by basic lack of confidence? The answer, if there is one, probably begins with the main input channels established by government. These, aside from the Department of Finance itself, are still the Central Economic Advisory Service (CEAS) derived from the old Economic Planning Unit, the National Priorities Committee (NPC), and the Economic Advisory Council (EAC). The first essentially maps out different scenarios, ranging from best case to worse, in an attempt to set known parameters. NPC works on the premise of weighing up plan A against plan B, then against plan C, and so on to establish long-term guidelines.

Although it reports directly to the State President, it would be handy to have some insight on its views. The PFP's Harry Schwarz appealed several weeks ago for just that: P W Botha said he would consider the request.

There has also been no news on the May 15 meeting of the EAC, although its recommendations are being drafted for the State President and the Cabinet EAC. The *FM* understands the Department of Finance has not yet seen anything. With an announcement on the next little stimulatory bundle due any day now, feedback should first be obtained from the EAC.

The broad business composition of the EAC implies that its perspective may not be that of trained economists. It tends to produce a "wish list" of possibilities, not without regard to members' vested interests, and certainly not erring on the side of caution. Procedure is less formal than in the NPC, which is as it should be.

"Ideas get kicked around in a practical way," says one member. "It's a practical day-to-day look at the economy and where it should be going, without too much emphasis on long-term strategy." Eventually, the EAC adopts a favoured line, which is doubtless at this moment feeding speculation on what measures government should adopt to put more muscle behind the flagging upturn.

Hence speculation on a cut in the 10% import surcharge, income tax concessions, a boost for the motor industry, still cheaper petrol, an early loan levy repayment, increased spending on black housing and training, lower GST — all this and more.

The *FM* understands that the Department of Finance does not believe much can be done about the tax structure before the next Budget. GST can be cut and that is causing excitement, although it is anything but a

foregone conclusion.

A 1% reduction in GST would cost the fiscus about R1 billion, largely exhausting what is seen as an acceptable increase in the deficit before borrowing of about R1,2 billion and severely limiting other options.

Such is the nature of expectations that many are bound to remain unrequited; the sooner this is appreciated, the less disappointment there will be. Any announcement will have to be soon, since fiscal measures require parliamentary approval before the close at the end of June (the August session will be confined to constitutional legislation).

INS AND OUTS OF THE CAPITAL ACCOUNT

(R million)

	76	77	78	79	80	81	82	83	84	85	Net move since 1976
Long-term capital movements	989	296	5	-1 024	-478	542	2 423	-238	2 563	-97	4 981
Short-term capital movements*	-488	-848	-802	-1 448	-1 804	304	662	-93	-2 582	-10 321	-17 420
Total	501	-552	-802	-1 448	-1 804	846	3 085	-331	-19	-10 418	-12 439

* Not related to reserves

Weaker rand could push up petrol price

Pretoria Bureau

There is speculation that the price of petrol could rise as a result of the fall in the rand which followed this week's SADF raids.

The rand slumped to about 42 US cents on Monday as a direct result of the raids but intervention by the Reserve Bank helped the ailing currency recover slightly to just over 44c.

A strong rand/dollar exchange rate is vital if South Africa is to buy oil at reasonable prices.

The authorities have been taking advantage of recent low oil prices to stockpile and a spokesman for the Department of Mineral and Energy Affairs said it was hoped that this would act, for a while, as a buffer against a higher petrol price.

AREA A : Oudtshoorn

AREA B : East London

AREA C : Bellville, The Cape, Goodwood, Kuilsriver, Port Elizabeth, Simonstown, Wynberg, Durban, Alberton, Benoni, Boksburg, Brakpan, Germiston, Johannesburg, Kempton Park, Krugersdorp, Nigel, Oberholzer, Pretoria, Randburg, Randfontein, Roodepoort, Springs, Vanderbijlpark, Vereeniging, Westonaria, and Wonderboom.

A SORRY victim of the raid: The rand

THE timing of this week's raids by the South African government into three neighbouring territories could hardly have come at a worse time for the government's bid to stave off more stringent economic sanctions.

In Washington, the architects of the latest disinvestment legislation — the Anti-Apartheid Bill of 1986 — were ready to unveil a new series of tough measures to the US Congress. Their task has been made a lot easier.

In Cape Town, the mission of Eminent Persons' Group, whose primary mandate was to look at Nations-hosted international anti-

The architects of US disinvestment could not have been handed a more timely weapon. Just as they were about to unveil new disinvestment legislation, South African troops raided neighbouring capitals. PHILIP VAN NIEKERK reports

alternatives to sanctions rather than negotiations between South Africa and the African National Congress, has been scuttled.

And in Paris, further momentum has been given to a huge United Nations-hosted international anti-

apartheid and pro-sanctions conference due to start on June 16.

The Anti-Apartheid Bill — containing some of the toughest measures yet devised by a major trading partner of South Africa's — was presented at a press conference in Washington two days after the raid.

Among its provisions are a ban on new US investment in South Africa, a ban on landing rights in the US for South African Airways, a ban on the import of coal, uranium and steel from South Africa and new tax penalties for companies with operations in South Africa.

The bill still has to wend its way through congressional corridors — being debated in the House of Representatives, the Senate and the subcommittees of the two chambers — before it is passed.

Even then President Ronald Reagan can veto it — and administration spokesmen have made it clear the US government does not want to impose tougher sanctions on South Africa — but if Congress has two-thirds support for the bill it can override the veto.

Dawn Calobia, aide to New York Democratic congressman Stephen Solarz, one of the bill's key sponsors, told Weekly Mail the raids would harden support for the bill.

"There are a lot of people who believed the South African government was making progress, particularly with its scrapping of the pass laws. The fact that the raids occurred while the Commonwealth Eminent Persons were there is particularly hard to swallow."

Calobia said it was hard to gauge what support the bill would have. "Most people have now learnt a lot about South Africa. Obviously, the news ban took the issue off the front pages and the government's action to end the pass laws has had some

A hasty banking rescue job

WEEKLY MAIL REPORTER

SOUTH Africa's cross-border military intervention on Monday forced its central bank into similar action on the foreign exchange a day later.

The Reserve Bank stepped in to rescue the rand when nervous importers covered themselves by demanding dollars, pushing the unit to a low of US\$2.50 on Tuesday, a loss of over two cents from Monday.

The operation cost the Reserve Bank well over US\$100-million, foreign exchange dealers estimate. The raid on the rand and its rescue attempt was an exercise the central bank could ill afford.

The Reserve Bank is pushed for dollars to service the early repayment of its foreign loans, forced on South Africa by Pretoria's earlier political blunder in August when foreign banks favoured a response.

"But those who follow the issue closely see that the unrest has continued. People in that camp will be strengthened by the raids."

"The aim of this bill is to encourage the South African government to abolish apartheid and to begin negotiating with the black political leadership in South Africa and to release political prisoners like Nelson Mandela."

Meanwhile, despite ex-Australian Prime Minister Malcolm Fraser's insistence that the EPG mission is not yet dead, the clamour for mandatory sanctions by the Commonwealth is likely to increase after the attacks on three of its members.

In terms of the mandate given the group at last year's Commonwealth

withdrew credit lines.

Foreign Exchange dealers don't believe the Reserve Bank is able to sustain its support of the currency for too long, something that may have to be done if the rand is to be kept above the psychological barrier of 40c.

Fears of international sanctions and other foreign trade repercussions are bound to maintain pressure on the rand, dealers believe. The rand has seen its value halved in the past 27 months' violence which has left well over 1 500 dead.

In February 1984, the rand was 85 American cents and bankers don't see the rand reaching those levels again until the country is politically stable.

A weak currency means the price of imports is kicked up, and inflation, already some three times that of our major trading partners, will be hoisted high with it.

conference in the Bahamas in October, the group has to report back next month to the Commonwealth on the prospects of peace for South Africa as an alternative to sanctions.

The EPG was set up as a compromise after Britain opposed mandatory sanctions against South Africa at the Commonwealth conference. Britain — one of the countries most vulnerable to damage if sanctions are imposed against South Africa — has been placed in an extremely awkward position by the raids.

The EPG's report is likely to coincide with the week-long Paris conference on sanctions, which is liable to see tough and co-ordinated economic action being proposed against South Africa.

BUSINESS IN PROFILE



The first in a regular series in which South Africa's business leaders spell out their views on South Africa's future, shop-floor militancy and the role of business in change. This week's profile: TONY BLOOM

Name? Anthony Herbert Bloom.

Date and place of birth? 15 February 1939, Johannesburg.

Education? King Edward VII School, Wits University, Harvard Law School, Stanford Business School.

Positions held? Chairman of Premier Milling and CNA, director of Barclays Bank, SA Breweries, Liberty Life. Member of the Urban Foundation, Wits University Council, SA Institute of Race Relations, Progressive Federal Party, African Children's Feeding Scheme, Cerebral Palsy Ass.

Value of assets under your control? R2-billion ("Not under my control; they control me.")

Number of employees under your control? 300 000

390 BRUSH +BROOM

SECTOR: MISCELLANEOUS PRODUCTS & SERVICES

AREA: SOUTH

1. Work Break
Minimum lu
Maximum lu
Total tea
Number of
2. Maximum le
3. Spreadover
Spreadover
Hours of
Retrenchm
Short tim
4. Overtime
Usual wee
2nd weekd
Saturday
Sunday wo
Public Ho
Maximum h
5. Allowance
Shift all
Inconveni
Clothing
Subsister
Night shi
6. Paid Leav
Leave day
Leave day
Annual si
Annual si
7. Paid Publ
New Years
Founders
Family Da
Republic
Day of th
Day of Go
8. Piecework
Piecework
Skilled/u
Protectiv
9. Notice
Notice pe
Notice pe
10. Trade Union Status
Closed shop
Union member employment first
Stop Order facilities for subs

What is your attitude to trade unions in your company? We have always, even before the Wiehahn Commission, recognised freedom of association. Roughly 80-85 percent of our workers are unionised; we are dealing with over 20 different unions at this moment in time. Generally, we have a good relationship with these unions. We have had our disagreements, but they have never been acrimonious or bitter. Some of our workforce is more highly politicised than others, but our relationship with unions has largely been related to employment issues.

What is your attitude to positive discrimination? I have changed my position on this. I think it (affirmative action) is essential because attitudes here are so hard-set. We have a policy of mild or logical affirmative action. We don't want to put incompetent or inexperienced people in jobs, because this frustrates them and harms the company, but if there is an approximate fit, then we are going to apply gentle affirmative action. Part of our executive bonus scheme this year involves assessing executives on their performance in the training and placing of black personnel.

We have a black person on our holding company board and a number in senior management positions. But this is not nearly enough. I don't think we have made much progress in this regard in the last three years and this is why we are now focusing on this area. We are worried about the credibility gap that people will see between our policy and our practices.

What role do you see for your company in the process of change in South Africa? I would like to get back to the business of just running the business, but in a situation like we have here one is sucked into politics willy-nilly. We have always had a high political profile, even before it was fashionable to do so.

We try to run our company in a totally non-discriminatory way. We have hired ex-political detainees in the company as a matter of policy. We were highly criticised for this in the initial stages, but now it is an accepted thing. Over the years we also ignored discriminatory legislation.

We are involved in a broad range of social responsibility programmes. We believe there can be no profit for a company in a society that is full of unemployment and poverty. We have a very active programme in this regard and support literally hundreds of causes. We try to get our people involved in things; it is one thing to write a cheque, another to get our people actually involved in these activities.

Anyone in our company is free to hold any political belief. We have had board members from the Committee of 10 and the Broederbond working together — and it works.

When I take a personal stand, it tends to get associated with the company, but one has to be careful about that. I don't agree with Gavin Rely that we should give up the initiative we started when we visited the ANC in Lusaka last year. I think it was an important initiative and some valuable relationships were formed and, although we differed fundamentally with the ANC in some respects, it was most constructive.

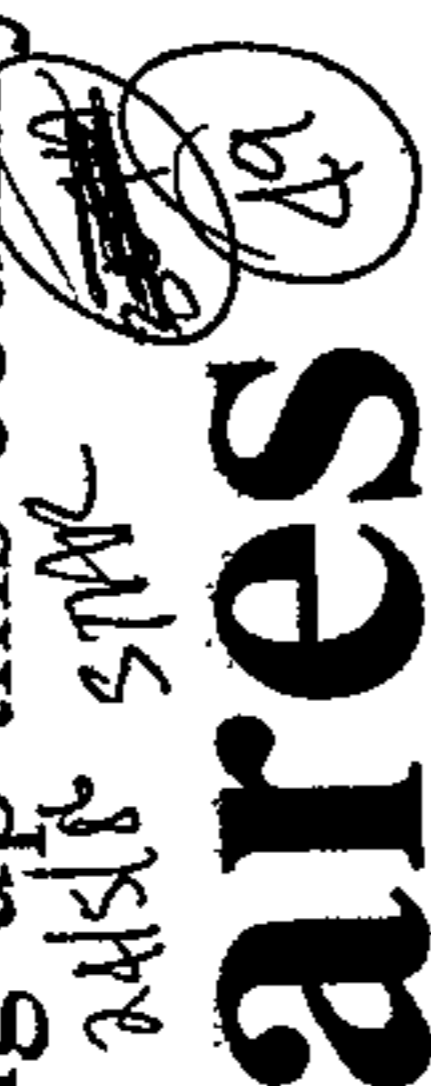
What are your immediate concerns with government economic policy and what changes would you like to see in the short term? My two major worries are unemployment and inflation. We are caught in a classic dilemma of having to trade off one for the other. This is not an easy dilemma to solve.

It worries me that there is no new investment because of the uncertain political environment. I think the government is going to have to do a couple of things to restore confidence. They will have to lower the tax rate, act to stimulate exports, and move in the political field, because confidence is a major factor of business decisions.

URS
ce : Art
llowance : -
US : -
US : -
: -
S per 36 months
S per 36 months
: No
: Yes
: Yes
: No
: Yes
: No

r (s)
(s)

Each population group has contributed to building up this country

24/5/68 SPAC


A time for fair shares

By Frank Jeans

Despite the socio-political and economic problems in which South Africa is engulfed, there are those business leaders who say that, in hindsight, white supremacy has been good for the country.

It can be said that the white man's creation of wealth, albeit to his own ends, has benefited the black man to a great extent as well. On the other hand, there are also those who say, in the final analysis, that it is the latter more than ever before who has a right to a more equitable share of the generated wealth.

One of the country's leading industrialists, Mr Neil Cullinan, executive chairman of Cullinan Holdings, puts it this way: "The wise businessman looks ahead 10 years to the things that are inevitable so why then bring these same things about in an environment of acrimony and bitterness."

"Each population sector has contributed to the country we have built, now we must share more equitably in it."

"Whatever Government is in power to run this sophisticated economy to the best advantage of all its peoples, it is essential to harness the best brains in the private sector to draw up a long-term economic policy, to tackle low growth, high inflation, growing unemployment and attract foreign investment."

Mr Cullinan believes South Africa has the ability to remain a first world country in terms of industrial know-how, efficient management and the skills to absorb advancing technology.

"These are the key ingredients of the free enterprise system which is the best generator

of wealth, particularly when all participate in it and provided we are not isolated and we stop the brain drain. But all this requires political stability."

Socialism, he points out, mainly distributes wealth, while communism is a system under which people are coerced to achieve things.

While South Africa has all the attributes of the free enterprise society, he has little doubt that "apartheid is costly, immoral and indefensible in any just society."

One of the most negative and threatening products of it is the isolation of the black youth, who wrongfully see apartheid and free enterprise as being synonymous.

"It is essential that the problems facing this country are sorted out now in the present generation," he says.

"It is vital, too, that the black trade unions should be seen as being an important ingredient in the wider distribution of wealth. But the supply of capital is certainly not limitless and economic miracles are a result of nothing short of hard work so there is a greater onus on them to act responsibly."

On the economic front, the Cullinan chairman is convinced that the foreign debt rollover and rising inflation are the main crises which impinge on all sectors — particularly when it is remembered that South Africa's population growth is one of the highest in the world and "we have a massive and growing unemployment problem."

Cullinan Holdings is faring comparatively well in present economic conditions — a fact substantiated by strong markets and a strong financial structure.



Neil Cullinan . . . the wise businessman . . . looks ahead 10 years.



Star performer in the Cullinan spread of activities are the electrical divisions which contributed 51 percent of last year's earnings and represent the biggest single investment of the group.

Continuing prosperity for these divisions is likely for they are deeply involved in the constantly growing power distribution network and even Escom's forced cutbacks in expenditure will make little difference.

Escom's annual outlay is still a hefty R3 billion, so that there is substantial market potential.

The group also has a big share of the power station cabling installation business which can mean contracts to the value of R50 million to R80 million on

each power station. Cullinan's 50/50 partnership with Iscor is substantial and produces a wide range of refractory products for many basic industries.

There are the minus factors, of course, in line with general economic conditions. The group's building brick business is feeling the crunch and Neil Cullinan is quite candid about "construction's worst recession since the Second World War."

He has little doubt that the persistent bad debt experience among customers is indicative of the times and without strong financial muscle, many of the smaller companies could be in difficulties.

The falling demand for eco-

nomic housing has affected Cullinan's new brick-making plant which represents an investment of R7 million and is at present lying idle.

Nevertheless, the new brick plant is there awaiting an upturn and with its choice of plant and equipment, the group will be kept competitive and a low-cost producer when times get better.

Certainly, Cullinan is a sleeping giant in the industrial property business ever since Neil Cullinan's grandfather, Sir Thomas of diamond fame, set up the group on the 2 000 ha farm at Ollifantfontein back in 1902 — the same year he opened the Premier Mine.

There are about 200 ha of po-

tential industrial and commercial prime land under wraps, again awaiting market recovery. When that happens, Cullinan will be bringing on that land for development and leasing deals as market forces dictate.

One way or the other then, Cullinan is strong in the market place and mindful of the changes socially and economically which its chairman believes must come about, hopefully without excesses on either side, it must inevitably get stronger.

The philosophy is sound: "Companies such as ours should not be seen just as money-making machines but rather as enterprises with a soul and with concern about people and their communities."

Swimming pools make budgets take a deep dive

By BARBARA ORPEN

UNLUCKY people whose swimming pools spring leaks can expect their finances to take a dive, for 17 pool companies have gone out of business in Port Elizabeth in the past three years — and the guarantees they gave have gone with them.

Costly repairs are now in most cases having to be financed by owners.

One owner was told this week that repair costs would equal the original price of R4 000 paid for the pool six years ago.



Mr KEITH MILLER, a local pool company engineer, examines the weak cement mix used to build a pool in Summerstrand.

“Good faith in a pool company is no guarantee of good workmanship. Before you know it, the company has gone out of business and you have been ripped off,” she said.

Hers is not an isolated case. According to the chairman of the PE branch of the National Swimming Pool Institute of SA (NSPI), Mr Don Harrison, the NSPI guarantees the completion of any pool built by an affiliated company which subsequently becomes insolvent. It had completed three pools and repaired at least six in the past six months.

One pool owner told Weekend Post of the “sickening experience” of discovering that after six years, cracks had developed along the sides of the pool and that the problems were all due to “shoddy and amateur workmanship”.

“When we discovered our pool was leaking we called a number of ‘experts’ in,” she said.

“They came up with all sorts of theories, ranging from the drought, to shifting limestone, to tree trunks, and only finally, when we called in a pool company which seemed to be reputable, did they put it down to poor workmanship.”

She told of how the firm’s structural engineer had simply hammered a chisel into the structure and of how the weak cement had crumbled immediately.

According to the manager of the firm, Mr Johan Dreyer, not only had the cement mix been too weak, but the steel reinforcement — meant to be embedded in the concrete — was lying beneath it, which meant the entire pool had to be rebuilt.

Said the pool owner: “I had hoped to be able to claim from insurance, but one thing you are not insured against is poor workmanship.”

Asked for a few hints on how prospective pool owners could protect themselves against the dangers of poor workmanship, Mr Dreyer said: “The whole problem is that it is actually very easy to install a pool and therefore amateurs go into the business.

“Prospective pool owners should ensure the company will guarantee to install and complete the pool within a few days — it can be done in five days.”

Mr Dreyer added that it was important to make sure the company employed professional engineers and builders as well.

“Each area has to be treated differently. And you need experts to assess the condition of the soil. A qualified engineer should inspect every hole that has been dug.

“For example, in Summerstrand, where the soil is very sandy, the hole first has to be ‘blinded’ to prevent the soil and cement from mixing.

“And in Uitenhage, where the soil is clay, you need a thicker steel reinforcement,” he said.

MP calls for new economic policy

Wlt Dec 24/5/86 49

By Mr BRIAN GOODALL, MP for Edenvale

PFP spokesman on Mineral and Energy Affairs and deputy spokesman for Finance

SOLVING our present political problems will alleviate, but not end, our current economic problems. There is, alas, no quick fix to these problems. Before we can again enjoy sustained economic growth we must tackle the fundamental structural problems in our economy. The symptoms of these structural problems have been with us for some years now.

Our recent economic performance has been dismal. We made little economic progress. Indeed, in many areas we regressed, in spite of the benefits of a gold boom in the intervening period.

In a country like South Africa it is normally the manufacturing sector which is the engine that drives the economy.

In the past ten years the manufacturing sector has grown at a real rate of about 1,7 per cent a year. Some engine! No wonder our gross domestic product has only grown at 1,8 per cent per annum after taking into account inflation. This is a growth rate which is way below our rate of population increase. Today we produce less per person than we did ten years ago.

This is not a good performance. Moreover, the situation is unlikely to improve. Before you can have long-term economic growth you need to invest in plant, equipment and people. Investment by the manufacturing sector has declined each year since 1980. In 1985 investment by the manufacturing sector was just slightly more than half of what it was in 1980. Today, the manufacturing sector invests less than it did ten years ago.

It was not the only sector performing poorly. Over the past ten years investment in real rand in agriculture was 57 percent less; investment in community, social and personal services was 33 percent less.

Without investment, few jobs are created and unemployment increases. This is exactly what is happening. In 1985 the number of whites, Asians and coloured registered as unemployed rose by 90,9 percent. Among Asian women the number of registered unemployed



Mr Brian Goodall

ket, especially for manufactured goods.

One reason why the domestic market remains small is because of excessive taxation, especially on individuals. Between 1980/1 and 1985/6, the tax paid by individuals quadrupled. Moreover, this year it is budgeted to increase by 20 percent. Over the same period, the amount collected in general sales tax increased five-fold.

These were levels of increases way in excess of the growth of individual incomes.

With rising taxes and increasing inflation the individual consumer found his ability to spend curtailed. It is a complete fallacy to portray consumers, as some Government members do, as irresponsible spendthrifts. The statistics show a completely different position.

In real terms, consumers spent less on furniture, household appliances and transport equipment last year than they

other, but which is seldom implemented. Alternatively it tells us it is beyond their power to do anything to rectify the situation because of external events. They seem so powerless to solve economic problems, on sometimes wonders why they don't abdicate officially instead of unofficially. Seldom will they try to bring about the necessary structural changes. They only change when the level of economic misery becomes almost unbearable. Consider the question of influx control.

By refusing to accept, until now, a policy which encouraged urbanisation the Government prevented the economy from deriving the benefits inherent in a rapidly urbanising population. Indeed, they tried to do exactly the opposite and still continue to do so today.

Take, for example, decentralisation for political purposes. Spatial economists will tell you South Africa can only support between two and six

plementations of the Margo Commission Report are of fundamental importance. We should also encourage urbanisation. A rapidly growing urban population normally results in increased demand for goods and services. This is just what we need. The Government has at long last said it accepts urbanisation. I hope the birth of its urbanisation policy will be faster than the death of its apartheid policy.

At the same time, we need to develop exports. This can only be done if we maintain the competitive position we have gained through the depreciation of the Rand. With an inflation rate of three to four times that of major competitors, we will not remain competitive. It is therefore essential that the problem of inflation is tackled. Other countries have been able to do it. There is no reason why, given the necessary determination and the correct mixture of policies, we should not be able to do so as well.

The solution to solving the inflation problem lies in increasing deregulation of the economy, firm action against monopolies, a broadening of the labour market and an administered prices policy which actually sets a good example rather a bad one. If administered prices keep on rising rapidly, why should the private sector take the Government seriously when it calls for price restraint.

We must also move resources from the public sector to the private sector at a much faster rate. It is interesting to contrast developments in South Korea and Ghana. In 1962 both had the same GDP per capita. Both had the same percentage of the labour force in agriculture. Both were heavily reliant on the export of primary products. Twenty years later the per capita GDP of South Korea was five times that of Ghana. It is not insignificant that in Ghana credit to the public sector was equal to 49 percent of Ghana's GDP. In South Korea it was 2 percent. In 1985 in South Africa the public sector accounted for 46 percent of total fixed investment.

Finally, while we are doing these things, we need to move equally rapidly at finding a solution to political problems. We must here consider one fundamental point. In the western world they are learning to do

"In many areas we regressed..."

rose by 235,6 percent. The number of registered unemployed blacks, which we know is only a small portion of the total, increased by 63,6 percent.

Is it surprising that we have social unrest in South Africa?

It is sobering to note that the number of people employed in the manufacturing sector at the beginning of 1986 was at the same level as it was in 1975.

If one looks at the construction industry, the situation is even worse. Today it employs 95 000 less people than it did in 1975.

Why was our economic performance so poor? What happened was that the economy in general, and the manufacturing sector in particular, was becoming less and less competitive. There are many reasons for this. One reason is that our

did ten years ago. This, in spite of a 25 percent growth in population over that period.

While ordinary South Africans had to curb their expenditure, the Government did not. Budgets lost all credibility as actual expenditure easily exceeded budgeted expenditure. The impact of inflation on individual and rising GST tax rates provided a seemingly never ending flow of funds. But even an ever-increasing tax burden was not enough to meet the Government's ability to spend.

They resorted to debt. In 1975/6 the interest on the public debt accounted for 4,9 percent of Government expenditure. Ten years later, it accounted for 14,2 percent. We now spend the same on servicing debt as we spend on welfare services, pension and public health combined.

industrial growth points at any one particular point in time. Six is the very maximum. However, according to the latest report of the Board of the Decentralisation of Industry, between 1 April 1984 and 31 March 1985, five or more applications were approved to fifty four different places. Moreover, there are numerous other points which benefit from decentralisation policies.

These are attempts to make what was a dynamic economy fit into a stultifying political system. Indeed, given the dismal performance of the manufacturing sector in the past few years, it is surprising that the Government can afford to worry about decentralising industry instead of spending its time and money on stimulating it.

Sustained long-term economic growth can only be achieved

more with the same or the same with less. We are doing exactly the opposite; the same with more. More Houses of Parliament, more Governments in South Africa, more MPs, more Cabinet Ministers, more Government departments, more Government employees. That is why the role of the public sector in our economy is growing bigger and bigger.

It is the very policy of duplication and separation which is one of the prime factors in destroying our ability to grow the economy. The irony is that separation of the races was meant to bring political peace. Today the streets of many South African towns burn because of it.

It was the policy of separation which was meant to protect the white man's wealth. And yet each year whites get

"Few jobs are created"

inflation rate was so much higher than that of our trading partners and competitors. This depressed exports, especially manufacturing exports and boosted imports. The situation was allowed to continue from 1976 to 1983 and was only corrected by the savage depreciation of the rand.

Because of the poor performance of manufacturing exports, we have seldom been able to achieve the necessary production volumes to enjoy the benefits of mass production, especially lower unit costs.

Not only were we failing to develop large-scale export markets, we were also failing to develop our domestic mar-

Bureaucracy and mining became South Africa's only growth industries. In 1975, the public sector accounted for 22,9 percent of South Africa's gross domestic product. In 1985 it accounted for 29,2 percent. The fastest growth was in the area of State capitalism. Public corporations share of the GDP has more than doubled in the past ten years. While the level of employment in the manufacturing sector did not grow in over ten years, the level of employment by the central Government over the same period has increased by 40 percent.

The Government reacts to economic problems in one of two ways. Either it issues a White Paper which slides from one motherhood concept to an-

if we increase our ability to produce goods and services. This means investment must be encouraged. In the past we relied on tax concessions to encourage investment. They did not work.

The only way to generate investment is by offering businessmen a market that does not fluctuate wildly and which grows. This means the Government must reduce its capacity for spending the public's money. It is all very well to talk about the need to redistribute wealth. Before wealth can be redistributed, someone has to create it, otherwise all suffer.

We can no longer allow tax to reduce the spending power of the public. The findings of the recommendations and im-

poorer and poorer in real terms. In 1985 remuneration for employees rose by 9,8 percent. A few percent of that went in tax, 16,2 went in inflation. In real terms the average man was poorer.

The irony is that the very system that was meant to protect the wealth and security of whites, is making them poorer because it is one of the most inefficient ways of managing a modern economy. It stifles economic growth, as we have learnt.

While a political solution to our problems will not, on its own, solve our economic problems, without a political solution we will not even be given the opportunity to try and solve our economic problems.

Yemin, E. (ed)

Workforce reductions in undertakings. Policies and measures for the protection of redundant workers in seven industrialised market economy countries. Geneva, International Labour Office, 1982.

Durban Economic Research Committee

The African factory worker. Cape Town, Oxford University Press, 1950. (Report No.2 of Dept. of Economics, University of Natal).



Sister FIDELIS feeds hungry children at the soup kitchen she established in Schauderville three weeks ago.

Sight of hungry children leads to the start of a soup kitchen in PE

EVE POST
2/6/86

49

By CATHY SCHNELL

IT was hearing hungry little children knocking on the convent door late at night and seeing them begging for crusts of bread, that prompted Sister Fidelis of St James Church in Schauderville to begin operating a soup kitchen three weeks ago.

And now every day after school the children crowd around in the backyard of St James Church where Sister Fidelis, from the Assumption Order — and a couple of church people run "God's Little Kitchen".

Funds are non-existent, and Sister Fidelis has to make the soup from vegetables and meat donated to her by kindly shopkeepers. She also receives a small quantity of bread from a shopkeeper.

Because the soup can only stretch so far, Sister Fidelis sometimes has to turn aside some of the crowds of children that beseech her for soup

every day after school.

She only gives to those whose parents are unemployed — regardless of whether the children are at either St James's or St Theresa's schools or are just from the area.

"The children are very honest. If they tell me they are going to be having supper that night I tell them they must let someone else have their soup.

"So many people in the area used to work at Ford and have been without work for months.

"These children are desperately hungry. I just wish there was more we could do for them."

Sister Fidelis is hoping that someone will donate an old deep freeze to the project so she can at least store some of the vegetables that become available.

"If I have a freezer then I can at least stock up for leaner times," she said.

Wide choice of ways to aid ailing PE region

Post Reporter

WHATEVER else might be wrong with Port Elizabeth there is no shortage of people and committees intent on "saving" it.

Apart from organised commerce and industry, civic authorities and Government-appointed committees, at least two organisations have been launched in as many months in efforts to come to grips with the region's problems.

While some could argue that more meetings mean more agendas, more resolutions, more minutes, more cups of tea, more Press releases but not necessarily more action, it is clear that over the last few years, and particularly over the last 18 months, there has been a growing and widespread concern to mobilise people in the name of a very important cause.

If you feel the need to join such an organisation or committee or want to start your own without duplicating names and functions, or are just having a battle finding your way through newspaper articles peppered with abbreviations, here is a quick guide to them:

● ECSTD — The East Cape Strategic Development Team was announced a mere nine days ago as the Government's response to continuing pressure from the Eastern Cape for a better deal for the region. The committee's responsibilities, however, include the whole of Region D but excluding the Ciskei and Transkei.

It has had a cool reception, with people arguing that its work would be largely a duplication of that already being done by the RDAC (Regional Development Advisory Committee). To be chaired by Dr C F Scheepers, chief executive director in the Department of Constitutional Development and Planning, its function is to co-ordinate and promote development projects to help fight unemployment.

● Support the Eastern Cape — this committee is in its very early stages. Its main aim is to mobilise consumer support to buy products made in this region on the assumption that increased consumption will necessitate increased production. It is essentially an organisa-

tion aimed at drawing its membership from manufacturers. The campaign was initiated by Mr Clyde Scheepers, sales and marketing manager of a chicken production company. He can be contacted at 22-23003.

● The Committee of 20 — another businessman's response but geared to addressing the wider political issues facing the city. According to the chairman, Mr Gavin Watson, it is a non-racial organisation working to establish a non-racial society. They want a non-racial municipality and to find non-racial economic, social and political structures.

● Regional Development Advisory Committee — the RDAC was appointed in July, 1982 in line with decentralisation strategy and is one of eight similar ones functioning in the country. The committee's area includes the entire Region D — the Eastern and North Eastern Cape, Ciskei, Border and southern Transkei. Its function is to advise the Government on regional development and acts on all proposals in this regard.

● Gabdec — Greater Algoa Bay Development Committee. The constituent members are the chambers of commerce and industry, the Afrikaanse Sakekamer, the Master Builders Association and Port Elizabeth and Uitenhage municipalities. The committee has been in existence under various names for many years but has been particularly active in recent years. It commissioned the Louis Heyl report on the region's industrial and business potential which was used as the basis for promotion the region's cause. Its function is to protect existing industry and market its to potential investors.

9 wedding guests die

NEW DELHI — A truck carrying a wedding party hit a tree and fell into a ditch in eastern India yesterday, killing nine people and injuring 21, the United News of India reported.

In another accident, three boys were electrocuted in southern India on Saturday while bathing in an irrigation well.

Rally stresses ideological reconciliation for lively economy



JOHN BATTERSBY

LONDON — There would have to be an important reconciliation between socialist and free enterprise positions to sustain a lively economy, says Anglo American head John Battersby.

Reached at a meeting between business and the ANC last year, Battersby said in good stead in the future. "If we are to sustain a lively economy and create enough wealth to fulfil any aspirations which the ANC may have for the future of our people, there will obviously have to be important reconciliations between socialist or Marxist positions and free enterprise positions.

"None of us in business believe, or if we do we shouldn't, that economic affairs can simply go on in the future as a linear extension of the past and that changes or changes in the needs of the future, and

discussion and debate ought to be encouraged." The Anglo chairman stresses the important role of the Kwazulu leader Chief Mangosuthu Buthelezi to which he had referred two weeks earlier in an interview with Anthony Sampson.

"My perspective on Chief Buthelezi is that no one, the ANC included, has done more to halt the ideological thrust of apartheid than Buthelezi. "Because he has rejected violence as an instrument to bring about national change he naturally stands in a better light for many than those who do not.

"It is easy today to forget that he was the only black leader with an authentic power base to have faced the heat, a long time ago, of a government still determined to enforce apartheid. "I think history, if reasonably and objectively written, will endorse the fact that he was the anvil on which apartheid ultimately failed.

However, who will write the history? Battersby asks.

In an interview two weeks earlier, Battersby had said he did not see a further role for Anglo American in bringing government and the ANC together.

Radical changes will have to be made, Battersby says in the latest issue of the Sampson Letter, a newsletter published by author Anthony Sampson.

He believes the sense of under-riding

NRG US 27/5 '86 (49)

Rees: Too much concern over foreign creditors

THE Government should not let its desire to appease the country's foreign creditors stop it from reflation the economy, says Dr David Rees, economics adviser to Mathison and Hollidge, in the firm's latest newsletter.

When military affairs were perceived to be important South Africa was prepared to risk international censure and even tighter economic sanctions, says Dr Rees.

Yet South Africa seemed particularly anxious not to antagonise the country's creditors. "So concerned are we about them, that we are prepared to allow them, in effect, to dictate our economic policy."

South Africa was reluctant to apply a policy of stimulatory economic measures to expand the economy for fear of the effects on the balance of payments surplus.

"Indeed, we are prepared to discuss a policy of export promotion simply in order to meet our capital repayment obligations."

Dr Rees says it would be nice not to antagonise anyone but this was not one of the options available to South Africa.

And he asks whether South Africa could afford the luxury of substantial and continuing balance of payments surpluses when so much else was going wrong with the economy.

If South Africa afforded a lower priority to foreign debt repayment, it would have a freer hand in formulating a package to revive the economy.

South Africa would be unpopular in certain quarters abroad, but this would not be a novel experience, he continues.



Dr David Rees . . . "South Africa lacks sense of self-preservation."

"At present, given the balance of payments constraint there is little the authorities seem to believe they can do, except continue with their policy of negative real interest rates." But even these were apparently not having the desired effect, he says.

To get the economy going Dr Rees calls for further tax reductions — "Cutting taxes is an obvious policy".

He says there are two answers to the argument that this would increase imports and squeeze the balance of payments.

The first was that South Africa paid too much attention to the balance of payments. The second was that the effect on the balance of payments would be much the same whether it was spent by the taxpayer or by the Government.



ked neatly under her
r KAY HOLT tootles
for surfing practice.
s leaving for Califor-
nber of the Spring-
ture by Mike Holmes

Racial notice opposed Dias Council votes for 15% rates increase

Post Reporter

A PETITION circulated by the Thornhill Farmers' Association, opposing an apartheid sign and the erection of a gate at the Gamtoos River Mouth camping grounds, has been handed to the Dias Divisional Council.

Confirming this yesterday, the council's secretary, Mr Niegel Anderson, said the petition called for free access to the beach for all, and the removal of a "whites only" sign.

The sign was erected "at the request of certain people in the vicinity".

It is believed there are almost 600 names on the petition.

For generations, people of all races have enjoyed facilities at the Gamtoos River Mouth camping area.

The petition calls for decisions on the area to be discussed with the association, or with the councillor for the area, Mr Jack Engelbrecht, of Hankey.

By KIN BENTLEY

THE Dias Divisional Council approved a 15% rates increase, from July 1, at a meeting held in Port Elizabeth today.

The increase was approved by 13 votes to one. The only Port Elizabeth representative, Mr J P Alberts, opposed the motion. He got no seconder for his proposal of a 10% increase.

Mr Alberts said due to the city's economic conditions — "10 to 15 businesses are closing every month" — its residents could not afford this additional burden.

The chairman of the council's Finance and General Purposes Committee, Mr D Saks, said the average rates increase over the past few years was still well below the inflation rate.

He said the total estimated operating expenditure for the 1986/7 financial year was R22,9 million, of which 59% was derived from subsidies, 28% from rates and 13% from tariffs. The total capital expenditure was put at R5,7 million.

Mr Saks reported that the Cape Provincial Administration had increased the council's nature conservation subsidy. For example, the subsidy for the Van Stadens Flora Reserve this year would be 49%.

He said it had also been decided not to increase tariffs at any of the council's resorts this year.

Mr Saks said that due to a lack of funds, "considerable problems" with the roadworks programme would be faced by the council this year. An action committee, which held its first meeting on May 13, had been formed as a result.

WE AND

EVE POST 27/5/86

X

EVE POST 27/5/86

49

No excuse X

for lack

of growth

EVE
POST
27/5/86

44

- Theron

Post Reporter

DEPRESSED economic conditions and the current state of turmoil were no excuse for the lack of growth in Port Elizabeth's architectural field, according to Professor J D Theron, head of the Department of Architecture at UPE.

Prof Theron, who is to deliver his inaugural lecture at the university tonight, was speaking at a Press conference today about his views on PE's architectural potential, which, he said, had been "neglected for too long".

He said the city centre — as the "capital asset of any society" — was the place to start with "dynamic reactivation".

"If we can bring Main Street back to life as a lively and beautiful place and bring activity to the square, it will spill over into other areas — shops and businesses will improve — and it will be of benefit to the whole community," he said.

COMPANIES

Bibby, exports make magic at Barlow Rand

From TREVOR WALKER

JOHANNESBURG. — Barlow Rand can thank Bibby reporting back in weak rands, exported oriented companies and the mining division for magic first-half results, but for the momentum to continue in the second half a good deal will depend on what packages Mr Barend du Plessis comes up with.

Du Plessis said in Parliament yesterday that the Treasury had accepted that further stimulatory measures were required, but the exact nature of such a package would be difficult to formulate.

In the six months to March, Barlows boosted attributable earnings no less than 37 percent to R165,9 million and increased the dividend for the first time in five years with a 3c increase in the interim to 24c.

Turnover rose 19 percent to R7,2 billion but, significantly, stock, debtors and cash were held at R4,695 billion compared with

R4,601 billion in the corresponding year-ago period.

The interest bill fell to R154,1 million from R173,3 million, but the effective tax rate rose to 42,6 percent from 39,3 percent, pushing tax payments to R216,9 million from R153,0 million.

Chief executive Warren Clewlow, commenting on the figures, said they conform the viewpoint that if business people undertake a vigorous, sustained export drive the economy as a whole will benefit.

He said: "Although the outlook for the remainder of the year will to a large extent depend on the level of consumer demand and the continued level of profitability of exports, earnings for the full year should show satisfactory improvement."

Other contributing factors in the strong first half were the consolidation of wholesaling group WG Brown and a marked improvement in contributions from

the wholly-owned earthmoving equipment and motor appliance companies.

Clewlow, perhaps one of the most donnish chief executives in the country, is now pushing a group policy of flexibility.

He says group companies must be flexible enough to meet business conditions that these days can alter quite drastically and often virtually overnight.

It is the companies within the group that appear to be the least flexible that worry him the most.

The latest Barlow's figures reflect the timeous and fundamental policy decisions taken in recent years which saw the group expand its international operations and realign its local operations.

But the economy is changing once again in a fundamental fashion and it is the challenge of these new and as yet unclear fundamentals that the group's executive will have to meet in the years ahead.

Affairs 27/5/86 (58) (101) (102)

Syfrets chief sees chance for peaceful solution in SA

CMT Tind 20/5/86

30/5/86
49

By AUDREY D'ANGELO

THE chairman of Syfrets, Len Abrahamse, believes that there is still a chance to achieve a peaceful solution to this country's difficulties.

He told the Cape Chamber of Industries at its mid-year general meeting yesterday that he believed there were about two years left in which to "develop a properly structured federal constitution which recognizes that our com-

plex situation is not merely a black versus white situation, which re-establishes the concept of the rule of law with an independent judiciary and which includes an entrenched Bill of Rights protecting both group and individual rights."

But he emphasized that business must give a lead and that negotiations must start with representatives chosen by the black people themselves.

Negotiations

"The very seriousness of the situation has produced a growing consensus among a substantial cross-section of the business community, including a number of blacks, that business has to be more vigorous in its constructive efforts to influence government with regard to the direction, emphasis and pace of reform."

Discussing the state of the economy, Abrahamse said there were a number of factors supporting the assessment that it would be difficult to achieve real growth.

One was that, "in opting, understandably, for a policy of growth we may be stimulating the economy too soon from an already high inflationary base — so aggravating the situation."

Another was that while the rand had firmed before the recent cross-border raids this was chiefly against a weakening dollar.

The Leutwiler agreement had bought time but did not provide a solution to the amortiza-

tion of SA's blocked debt under the moratorium.

"This overhang is a longer-term depressant on a weak currency with declining reserves."

Little, if any, capital was likely to come into the country in the foreseeable future.

The domestic level of savings was uneven and "not sufficient to underpin the level of net incremental capital investments that we need."

The balance of payments on domestic account was vulnerable and delicately poised.

"We need a high level of export earnings but this is not easily achieved. At the same time, any domestic stimulus increases the level of imports."

The rising proportion of Gross National Product represented by government expenditure meant that the national debt was growing merely to meet running expenses.

The significant increase in unemployment levels was another disturbing feature.

"It is likely that the demographic pressures will escalate with growing unemployment and its socio-political implications.

Abrahamse said the longer-term economic prospects were "thus more than ever a function of political statesmanship since the issue is essentially one of confidence."

"This in turn means that trade union activity will probably but understandably be more disruptive."

Business confidence at an all-time low?

CMC 1991/8 28/5/86 49

By AUDREY D'ANGELO
BUSINESS confidence is "at an all-time low" and the country's finances are in crisis, the outgoing President of the Cape Town Chamber of Commerce, Andrew Pelle, said at the general meeting yesterday.

He said changes in the political and economic environment were vital. The Group Areas Act and the tricameral parliamentary system, and plans for three-tier local government, should be scrapped.

Government spending should be reduced, with privatization of many State-run services, and there should be a return to supply-side economics and a reduction in taxes.

Discussing the need for political change, Pelle said: "The Group Areas Act was passed by the present government just over two decades ago and no government can be serious about ending apartheid, while that hated law remains on our statute books."

"Although many will fear that third world standards could overwhelm first world residential areas and social services, remedies could be sought in private rather than public law."

Discussing the state of the economy, Pelle said: "The expansion of the private sector is an essential part of the revitalization of our economy."

"In addition to privatization there needs to be a return to supply-side economics and a reduction in tax rates."

There was also a need for deregulation to encourage entrepreneurs to create more jobs. And controls on the distribution of agricultural produce and on transport, which served narrow sectoral interests, should be lifted.

Pelle said reform cost massive amounts of money and the management of the SA economy must be successful enough to restore business confidence and attract overseas investment.

"To generate a sustainable growth there must be a major reduction in the proportion of the Gross National Product (GNP) which is absorbed by government spending."

He continued: "We are at a stage now where the country's finances are in crisis."

"Each month's trade figures look worse than those of a year ago. Unemployment and business liquidations are soaring. National poverty is looming."

Yet the government was wasting money on the perpetuation of apartheid — an example of this was, separate teacher training colleges for different races — and on over-generous public service pensions.

To help increase foreign exchange earnings and provide more jobs, Pelle called for the setting up of a major trading house, similar to that set up by Japan, to handle exports by SA firms.

"There is a need to fill the capacity of the vast number of factories which have export potential that is not being realized at all at the moment."

"Local suppliers are too often deterred by lack of the specialized knowledge and skills needed to export."

Tourism still had "enormous latent potential".

He hoped that plans to convert the old harbour and environs into a major tourist centre, which former Mayor of Cape Town, Sol Kreiner worked hard to develop, would not be allowed to lose impetus.

Pelle also called for the development of Robben Island as a tourist resort.

2023

WEDNESDAY, 28 MAY 1986

(i)	(ii)	(c)
Nirhisano	150	Monthly
Newsletter of the Johannesburg West Commando	500	Quarterly
Octavo	Dormant	Dormant
Parade	7 000	Dormant
Paratus	36 000	Quarterly
Pergamus	10 000	Monthly
Prævenimus	2 000	Monthly
Primus	1 000	Quarterly
Regulus	400	Monthly
Reveille	Dormant	Every two years
Sopfi	100	Dormant
Strelitzia	2 000	Two-monthly
Supero	1 000	Two-monthly
Swartberger	2 000	Two-monthly
The Anthill	500	Quarterly
The Infantryman	800	Quarterly
Three Feathers	Occasionally	Quarterly
Uniform	44 000	Occasionally
Vigilantia	300	Fortnightly
Wingfo	250	Quarterly
Yearbook of 1 Construction Regiment	1 000	Annually
Yearbook of 1 Parachute Battalion	1 000	Annually
Yearbook of 2 Special Service Battalion	1 000	Annually
Yearbook of 4 SA Infantry Battalion	1 000	Annually
Yearbook of 4 Field Regiment	2 000	Annually
Yearbook of 73 Motorised Brigade	1 000	Annually
Yearbook of the Infantry School	1 000	Annually
Yearbook of the Army Gymnasium	1 000	Annually
Yearbook of the Personnel Service School	1 000	Annually

(e) 31 March 1986.
 Q 22.2023.
 Suicide
 1000. Mr R M ANDREW asked the Minister of Defence:

(1) Whether, with reference to his reply to Question No 885 on 2 May 1986, any members of the South African Defence Force who committed suicide in 1985 had made any previous attempts to commit suicide; if so, what means did each such member employ in (a) each previous attempt to commit suicide and (b) committing suicide in that year;

(2) whether any members of the Defence Force who (a) attempted to commit and (b) succeeded in committing suicide in 1985 had previously been convicted by military courts under the Military Discipline Code of any other section of the First Schedule to the Defence Act, No 44 of 1957; if so, of what offences was each such member convicted;

(3) whether any of these members had been receiving psychiatric help; if so, how many?

The MINISTER OF DEFENCE:

- (1) No, (a) and (b) fall away.
- (2) Yes.
- (a) (i) 32 including four persons

2024

2025

THURSDAY, 29 MAY 1986

2026

who were also tried in terms of a further charge, as indicated in (ab), (ac), (ad) and (ae) below.

(ii) (aa) Section 19—4
 (ab) Section 19 (2)—1
 (ac) Section 30 (a)—1
 (ad) Section 18 (a)—1
 (ae) Section 39 (d)—1

- (b) (i) 2
- (ii) None.

(3) Yes, 31 of the above mentioned persons received psychiatric or psychological treatment. The other seven persons were psychologically evaluated but no treatment was considered necessary.

Note: The above mentioned statistics refer to members who were sentenced by Court Martial. Statistics with regard to Summary Trials are not readily available.

Military service

1074. Mr R M BURROWS asked the Minister of Defence:

Whether male children of non-South African parents are required to render military service; if so, (a) in terms of what statutory provision and (b) subject to what conditions?

The MINISTER OF DEFENCE:

- Yes, if they are White South African Citizens.
- (a) Section 3 of the Defence Act, 1957. (Act no 44 of 1957).
- (b) None.

pose of his reply; if so, (i) what are the names of these companies, (ii) what total quantities were supplied to each of them during the latest specified period of 12 months for which information is available and (iii) what are the terms on which gold and coins are supplied to these companies?

The MINISTER OF FINANCE:

- (a) No; the companies referred to are not licenced to purchase unwrought gold.
- (b) No; individuals associated with the companies concerned are, however, like any member of the public and subject to the same conditions, free to purchase proof coins from the South African Mint.

Annual reports

1089. Mr P G SOAL asked the Minister of Defence:

(a) How many annual reports were produced by the South African Defence Force during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF DEFENCE:

The SA Defence Force does not publish an annual report.

THURSDAY, 29 MAY 1986

+Indicates translated version.
 For written reply:

General Affairs:

Liquor outlets

926. Mr P G SOAL asked the Minister of Constitutional Development and Planning:

29/5/86 South African Mint
 Finance: Mr P G SOAL asked the Minister of Finance: HANSBARD
 Whether the South African Mint supplies (a) gold and (b) coins to two companies, the names of which have been furnished to the Minister's Department for the pur-

49

HoA

BUS DAY 29/5/86

Growth momentum expected

ECONOMIC growth is expected to gather momentum in the second half of the year, says the United Building Society in its latest *Economic Monitor*.

The *Monitor* says growth is expected to be 0.5% for the first half of this year, but could accelerate to 4% for the second half, averaging out at more than 2% for the year.

In the second half, salary adjustments of public sector employees will come into effect. Also, the mining sector and manufacturing sectors will contribute to growth this year.

GERALD PROSALENDIS

Fixed investment will fall further in the first half of the year because of socio-economic uncertainty.

"The downswing in the investment cycle will probably only bottom-out towards the end of the year.

"Considering the constraints on the balance of payments, the high inflation rate and the huge structural problems of public finance, it seems quite certain that the growth

momentum cannot last for too long."

Growth is expected to taper off by the third quarter of next year.

The immediate prospects for inflation remain worrying.

Monetary policy is currently aimed at boosting growth rather than combating inflation.

Inflation is expected to taper off from an average rate of 18.5% in the first quarter of this year to 15% in the third quarter.

However, it is expected to rise again to roughly 18% in 1987.

Consumer crisis bars economic recovery

29/5/86 BUD DAY (49)

A CRISIS in consumer confidence seems to be blocking consumption expenditure, the normal conduit to economic recovery, according to Davis Borkim Hare's current *Market Review*

Government was likely to fill the gap with higher state spending, and a tax cutting package could be expected in the next few weeks. This could be a 2% GST cut, or a package consisting of a loan levy repayment, PAYE rate reduction and import surcharge cuts.

"We expect the economy to start a sluggish recovery during the current quarter, abetted by a state spending increase. However, it will be difficult to achieve the official projected growth rate of 3% for 1986," it said.

Promise of a recovery in the economy, which seemed on the cards

GERALD REILLY

late in 1985, seemed to have dissipated.

The current account of the balance of payments had deteriorated drastically, unemployment was rising fast, credit demand was stagnating and retail sales — particularly car sales — had turned down.

Exports were performing badly, as in the first three months of the year, merchandise exports were up only 13% on the same period in 1985, without a better export-performance pressure on SA.

Consumer spending had failed to respond to lower interest rates. This signified that, faced with declining real incomes and job uncertainty, consumers were not prepared to up their spending or debt commitments.

BWDA 29/5/86

Bleak consumer trend

HAROLD FRIDJHON

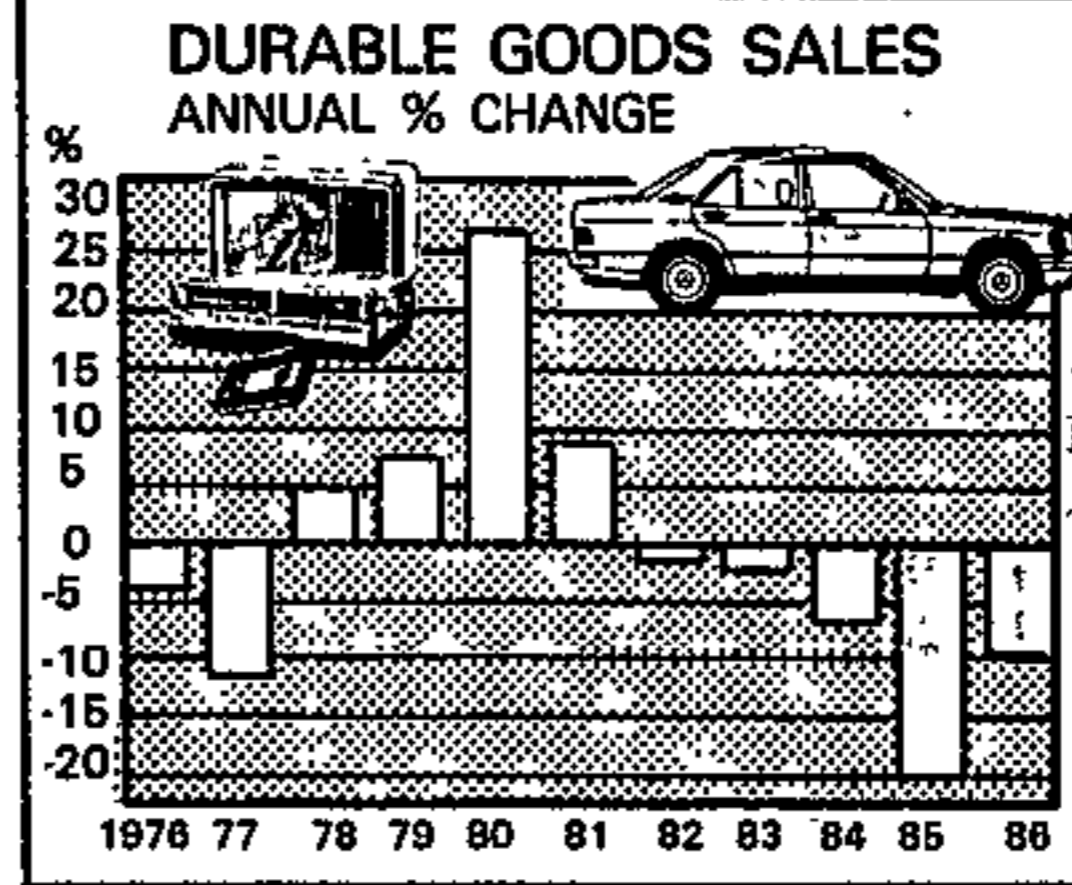
THE outlook for growth in consumption expenditure this year is bleak, although it should be better than it was last year, says the Stellenbosch University's Bureau for Economic Research (BER) in its latest *Trade and Commerce* review.

Growth in real consumption expenditure is expected to decline in all categories except non-durables.

This assumption appears to be based on polls of consumer confidence and their attitude to buying. The BER consumer confidence index nudged positively for the first time in seven quarters when it reached 102 in the second quarter of this year.

The index on buying mood shows that although still relatively negative at 78 for the second quarter of 1986, it showed a mild advance on the 73 for the comparable quarter of last year.

Even though most of the respondents to the survey believe that the economy and their own financial positions will improve in the next 12



months, "the consumer seems reluctant to put his money where his mouth is", reports the BER.

The survey reveals that wholesalers experienced an increase in the sale of consumer goods in the first quarter of this year and that they expect this mood to follow through. They have increased orders to their suppliers, although 21% of businesses polled report they were overstocked.

Wholesalers expect prices to rise. The retail trade, too, experienced an increase in sales.

Even artisans leaving the country, says Bifsa

17 000 forced to quit building trade

N/M 29/5/86

44

Property Editor

THE country's building workforce has been slashed by about 40 percent during the current slump and in the greater Durban area alone more than 17 000 men at all levels of the industry have either been retrenched or have quit.

This was disclosed yesterday in interviews with the executive director of the Building Industries Federation (S A) Lou Davis and the retiring president of the Natal Master Builders' Association, Mr Finley Hamilton.

Mr Hamilton said the industry in Durban and the rural areas of Natal was at 'rock bottom' and back to the employment levels of 1977-78.

In September 1984, employment of unskilled and semi-skilled workmen had peaked at 27 000. In the past 20 months, the figure had dropped to 12 000, where it stood now.

Skilled and middle-management employees had dropped in numbers from 4 200 to 2 200 in the same period.

Mr Hamilton said many management-level men had been offered attractive positions in Australia and other countries.

'Some will come back, but others will be lost. They are highly trained men and it is

not cheap to train them,' he said.

The only bright spot was an apparent levelling-off of the drop in the past few months.

While most retrenchments had taken place among lesser-skilled workers, in Johannesburg alone about 1 000 artisans had been fired, said Mr Davis.

He said it would be hard to woo them back when an upturn occurred — in fact more than half the artisans were reported to have already left the country.

Sad thing

Now Mr Davis fears even a moderate improvement in the situation would see a scarcity of resources.

'I am afraid the building public is going to be hit by rising costs,' he said.

In spite of the recession the industry was still training many men instead of firing them. But he feels there may have to be cut-backs at Bifsa's string of training colleges nationwide.

'We have been desperately trying to keep training levels up and have been successful so far,' Mr Davis said. 'If we have to cut back it would be a sad thing for the country. But we cannot go on for ever.'

Mr Davis, who described the present situation as the worst he had known, said the authorities had been given two reasons why they should invest in building again.

'Obviously, roofs over people's heads are going to stabilise the situation. And if there is stabilisation, money will come in for productive purposes in other industries.

'Second, stabilisation would create work. Building is the one industry where you create work rapidly. We do not depend on imports to do it'

Mr Davis said there would be a spin-off for materials manufacturers such as the brick industry — Corobrik has closed 11 factories since the recession began.

Economist calls for a business Hippocratic Oath

By TOM HOOD

WHAT South Africa needs is the businessman's equivalent of the Hippocratic Oath, says a Stellenbosch economist, Dr Philip Spies.

"The responsibilities of the business community to society are not less significant than those of a medical doctor," he told the Cape Chamber of Industries.

"To operate under a strict code may at first raise the costs of business practice but one should consider the long-term dividends from improved socio-economic and political conditions.

"Moreover, in business competition once the 'rules of the game' are established, competition can still be fun and also very effective."

Dr Spies, director of the Institute for Futures Research, said the active support by a company of social programmes such as education and training could be seen as a sound long-term investment strategy.

Collective and concerted action for the business community may change the business environment

in a positive direction.

"If the business community as a whole support collective programmes aimed at alleviating poverty and unemployment, then it can ultimately increase the quality of society, the quality of its manpower resources and the quality of its market."

Dr Spies warned that the modern industrialised sector of South Africa was expected to be able to provide employment for only 56 percent of the total South African labour force of about 18 million by the year 2000.

The rest, about 8 million of the working population, would have to find some or other occupation in the informal sector, which was expected to be mostly concentrated on the periphery of the country's major metropolises.

These figures assumed that current patterns of industrial development would continue and the potential growth scenario of 3,4 percent GDP growth a year over the 1980-2000 would be realised.

Looking at long-term economic trends, Dr Spies said South Africa was now forced to change the pat-

tern of industrial development that existed over the past few decades due to growing capital intensity, increased demand for highly skilled manpower resources and the associated bottlenecks on economic growth.

In spite of the recent emphasis on privatisation and the free market economy, he foresaw an increased demand for state-sponsored social services and relatively high levels of taxation over the coming decades.

The upward pressure on the rate of inflation and the downward pressure on the rand were largely influenced by socio-political factors and the growing stress in the structure of the economy.

Fiscal and monetary policy measures could therefore only be marginally successful instruments for managing inflation and the exchange rate.

Because of the socio-political implications, South Africa could not afford to be content with a "most likely" long-term economic growth scenario of about 3,4 percent a year towards the year 2000.

BUSINESS at large, from the multi-national to the corner store, must be seen to be working actively to promote change, says newly elected Cape Town Chamber of Commerce president Peter Hugo.
He told chamber members at their AGM on Tuesday night that he would lead them in "seeking ways in which we can improve the quality of life of all our people".
Hugo said the problems facing SA

499
~~2011A~~
Business urged to actively promote change

were so complex that many people felt confused, uncertain, frustrated and bewildered.
But they could not afford the luxury of thinking that it was up to government, who had created this mess, to get the country out of it.

Government was no longer the prime mover.
It was dismantling the structure of apartheid piecemeal, but it had become reactive rather than the source of change, he said.
The process of change was no

longer taking place mainly in Parliament but in the streets and in places like Lusaka.
In an interview Hugo, who is the lubricants business manager of Shell, said he foresaw "a turbulent year" ahead.

But he was optimistic about the eventual outcome.
He expected the trade unions to become increasingly militant in the present economic situation.
The chamber would urge employers to do all they could to improve the quality of life of employees, although he realised that this would be harder for smaller businesses, which were suffering from the squeeze, than for multinationals. — Sapa.

fewer domestic workers being employed today

Business Editor

MADAMS are having to dispense with the luxury of domestic workers, a leading economic study has disclosed.

In a wide-ranging report, the Bureau for Economic Research (BER) at the University of Stellenbosch said spending on household services — including domestic workers — had declined by 2,2%.

This indicated "that servants become an unnecessary luxury during times of recession," the report said.

Referring to trade and commerce, the report identified a reduction in tourism as a major reason for a 6,1% drop in consumer spending on various types of services.

"As long as civil unrest continues, tourists will be deterred, even though prospects for a cheap holiday at the present rate of exchange remain attractive," said the report.

It forecast that the tourist reduction would continue this year.

The BER said consumer boycotts had had an effect on spending on food, beverages and tobacco, which dropped by 5,1% last year.

This was despite an increase in the population.

But the organisation said it was difficult to know if the figure was accurate.

"It is probable that goods sold on the black market in consumer boycott-affected areas are not reflected," the report said.

● See Page 11

Own Correspondent

CAPE TOWN — South Africa may have to spend its way "out of the valley of despair" and start its own New Deal, suggests Mr Len Abrahamse, chairman of Syfrets.

"It will probably mean a higher level of inflation and a depreciated rand in the shorter term, but in the longer term it could bring us the benefits of our own industrial revolution," he said.

With the right fiscal moves, the country should immediately embark on a combined fiscal and monetary policy aimed at stimulating the economy, he told the Cape Chamber of Industries in a speech discussing the country's political and economic future.

"It is easier to pursue reform in a healthy economic climate. However, to introduce a package

SA may have to 'spend its way out of despair'

STAR.
30/5/86.
49

before we have restored a degree of political confidence would be more than likely to be ineffective.

"The two together — renewed political confidence and stimulatory economic policies — would provide the chance to capitalise on our vast underemployed human resources, provide the stimulus of a burgeoning domestic consumer demand, provide the leverage of size and encourage the emergence of a stabilising middle-class of 'haves'," he said.

Earlier, Mr Abrahamse, recalled that both the Government and the Reserve Bank had expressed concern at the lack of take-off in the economy.

Several factors supported the assessment that the country would find it difficult to achieve any sustained growth on the only base that mattered — a growth in real terms in gross domestic product per capita.

"The problem is that in opting, understandably, for a policy of growth we may be restimulating the

economy too soon from an already high inflationary base, so aggravating the situation."

One of the most worrying aspects on the horizon was the probability that there would be little if any capital inflow into the country in the foreseeable future.

The position for 1985 was a net outflow of capital, and the country would be hard put to achieve a desired rate of GNP growth within the constraints of a negative capital inflow over a number of years.

ASSOCOM BUSINESS CONFIDENCE INDEX

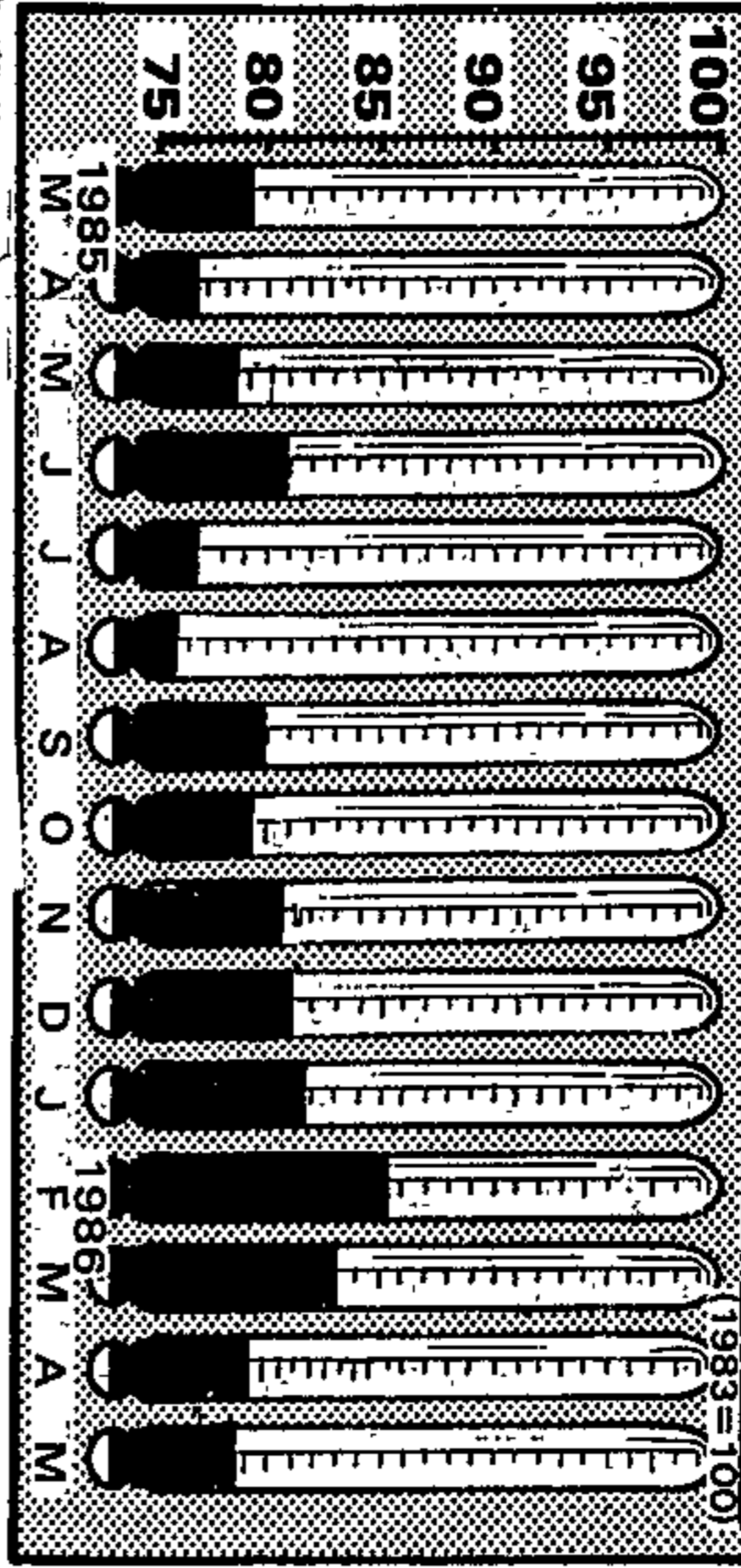


Illustration by Kevin Davie, 1111 N. Main Street.

Business confidence drops further

LESLEY LAMBERT

BUSINESS confidence plunged further in May and was now lower than it was on average for 1985, according to Assocom's latest Business Confidence Index (BCI).

May's BCI showed that confidence, as measured by various economic indicators, declined for the third consecutive month from a high of 85.5% in February to 78.6%.

The index is likely to go down even more next month as the effects of the dramatic events surrounding AA Mutual and Nedbank filter through the market.

Assocom warns that if the trend continues, it is unlikely that economic growth this year will exceed 2%.

The decline is attributed mainly to the prolonged fall in the rand's external value and the sharp upward trend in unemployment. Another negative factor was the outflow of skills from SA.

Positive influences which prevented the index from declining even more in May included the reduction by 1% to 14.5% in the prime lending rate of the commercial banks and the upward trend in share prices on the Johannesburg Stock Exchange on a monthly average.

Assocom believes there is a strong case for another mid-year fiscal "package" to boost confidence and get the economy moving more rapidly.

Construction workforce down 40 pc

Dispatch Correspondent DURBAN — The country's building workforce has been slashed by about 40 per cent during the current slump, and in the greater Durban area alone, more than 17 000 men at all levels of the industry have either been retrenched or have quit.

This was disclosed in interviews with the executive director of the Building Industries Federation, Mr Lou Davis, and the retiring president of the Natal Master Builders' Association, Mr Finley Hamilton.

Mr Hamilton said the industry in Durban and the rural areas of Natal was at "rock bottom" and back to the employment levels of 1977-78.

In September 1984, employment of unskilled and semi-skilled workmen had peaked at 27 000. In the past 20 months, the figure had dropped to 12 000, where it stood now.

Skilled and middle-management employees had dropped in numbers from 4 200 to 2 200 in the same period.

Mr Hamilton said many management-level men had been offered attractive positions in Australia and other countries.

"Some will come back, but others will be lost. They are highly trained men and it is not cheap to train them," he said.

The only bright spot was an apparent leveling-off of the drop in the past few months.

While most retrenchments have taken place among lesser-skilled workers, in Johannesburg alone about 1 000 artisans have been fired, said Mr Davis.

He said it would be hard to woo them back when an upturn occurs — in fact more than half the artisans were reported to have already left the country.

Mr Davis fears even a moderate improvement in the situation would see a scarcity of resources.

"I am afraid the building public is going to be hit by rising costs," he said.

In spite of the recession, the industry was still training many men instead of firing them. But he felt there may have to be cut-backs at Bifsa's string of training colleges nationwide.

"We have been desperately trying to keep up training levels up and have been successful so far," Mr Davis said. "If we have to cut back it would be a sad thing for the country. But we cannot go on for ever."

Mr Davis, who described the present situation as the worst he had known, said the authorities had been given two reasons why they should invest in building again.

"Obviously, roofs over people's heads are going to stabilise the situation. And if there is stabilisation, money will come in for productive purposes in other industries.

"Second, stabilisation would create work. Building is the one industry where you create work rapidly. We do not depend on imports to do it, so it is a cheap stimulant."

Mr Davis said there would be a spin-off for materials manufacturers such as the brick industry — Corobrik has closed 11 factories since the recession began.

"Building is the one industry where, in these dark times, we could rapidly reflate the economy," he said. "The one resource that is lacking is money. The institutions have plenty but there's no confidence and people are not prepared to put money into fixed capital investments."

Mr Davis said the building industry had been lucky up to a short time ago. "We had an enormous amount of work that carried us through. But now it is biting — we are unable to replace our order books."

NEW LISTINGS

30/5/86 FIN MAIL 49

More coming

For the third time since World War 2, the JSE is in the throes of a listings boom. The first occasion was in 1947 when scores of companies scoured the JSE for growth capital in anticipation of a post-war economic recovery. The second time was in 1969, when firms were lured onto the market by an unrealistic share boom. Seventeen years later, companies are again queuing for listings — although present circumstances may be completely different to both the previous times.

The conditions conducive to listings are all there. The market is strong at a time when the economy is weak. And with interest rates still relatively high, the cost of servicing new equity is a fraction of other forms of loan capital.

But what of the quality of the firms being listed? While there has been a fair amount of excitement in each case, some of the recent listing announcements have involved companies whose balance sheets were anything but lean before the listing. Many will recall that the spate of listings in 1969 was followed by a string of corporate failures a year later, when the economy turned. Many investors burned their fingers on high flying shares that had shown early promise only to crash out later.

That ugly scenario is unlikely to be repeated, contends JSE chairman Tony Norton. One has to remember, he says, that companies in the late Sixties had approached the JSE with a profit record established during a sustained business boom. "Anyone could make money in those days," he argues. And many of the companies that gained their listings had inherent weaknesses that only showed up when the economy sank into recession.

What marks the current spate of listings, which is far from over, says Norton, "is that these companies have established an acceptable profit history under extremely poor business conditions." That fact itself, he says, represents a form of screening.

One could argue that the JSE's minimum profit requirement is far from stringent. After all, an after-tax profit of R500 000 is within reach of many companies. But clearly a growth trend in a recessionary period counts for more than merely achieving a profit figure at the end of the last trading period. And this is a factor the JSE considers.

Merchant banks, which handle technical aspects of most new listings, also provide a form of screening. A number of merchant bankers I canvassed this week claimed to apply stringent screening of all potential clients. "Our general policy is that our logo

does not go onto something that we haven't investigated carefully," says UAL executive director Tim Sewell.

Most merchant banks said that an evaluation of management was an overriding factor. But different criteria are applied to main board and DCM listings. "The track record is not always the main consideration for a



JSE's Norton . . . screening new listings carefully

DCM listing," says Sewell, who notes that emphasis is often placed on the firm's growth potential.

Norton also argues that the JSE looks far less brittle now than it did when the crash came in 1969. In the Sixties, he says, the market had been fuelled by easy credit, as speculators bought shares with no intention of paying for them. Current JSE regulation precludes such market manipulation, and the current demand for shares, says Norton, is generally emanating from serious investors, particularly institutions. Even so, this point was made in early 1969 too.

The recent strength in share prices, he says, is based on the solid reasoning that investment in equities is one way of staying ahead of inflation. That viewpoint may be right, but the hefty p/e ratios being seen on many shares suggest there is an element of euphoria in the market. Any new listings that crash would do little to maintain confidence.

Neville Glaser

analysts believe it will drop to about 800c after payment of the dividend.

Officer says competition in the ferrochrome sector has been severe with new producers, particularly Outokumpu of Finland, cutting prices last year as their "entry-fee" to establish their higher production levels in the market. He does not expect this competitive situation to change as ferrochrome is a growing market, linked to expanding demand for stainless steel and therefore new competitors can be expected to enter. It differs from the largely static manganese alloy market which is geared to the low growth carbon steel market.

The R6,3m extraordinary item in the accounts is for mothballing costs at Middelplaats manganese mine and Batlhako chrome mine.

In the late Seventies, Anglo American invested some R47m on setting up Middelplaats in competition to Samancor. Anglo eventually sold the mine to Samancor at a book loss for shares, apparently as part of its plan to increase its equity stake in Samancor and eventually win control. That was prevented when Gencor won control through a controversial deal with Iscor. Samancor produces manganese ore at lower cost from its own Mamatwan open-pit mine in the same area, so Middelplaats has been "rationalised" out of operation some five years after it was commissioned.

Brendan Ryan

BARLOW RAND

Off the floor

Barlow Rand's results for the end-March interim have signalled an end to five lean years. EPS surged by 37% and the dividend was lifted by 14%, the first increase in the pay-out for five years. This more than fulfilled expectations of investors who, in the last quarter of 1985 started accumulating the share, partly because of its potential as a rand hedge stock.

Anybody who still sees Barlow as something of a hodge-podge microcosm of the SA economy should discard that once fashionable idea. With some 60% of earnings geared to foreign currencies, and both export earnings and overseas-sourced income likely to remain bolstered by a long-term weak rand, its earnings can no longer be seen as overly dependent on the state of the local economy.

The rand played a hefty — but not the sole — part in lifting turnover by 19%. With margins narrowing slightly, pre-interest profit rose by 17%. An 11% drop in interest paid, derived from lower rates, enabled a 31% increase in pre-tax profit, but the 42,6% (39,3%) tax rate reduced the taxed increase in the taxed figure to 24%. With the bottom line no longer diluted by the Bibby acquisition, EPS rose at the faster rate.

However, while accepting the impact of the rand, home markets remain important to Barlow. At end-September, the non-exporting subsidiaries held total assets of some



Barlow's Clewlow ... economic prospects better than perceived

R6,3 billion and contributed R156,2m to group attributable after-tax profits. Ultimately, the performance of these diverse companies must be linked to consumer expenditure and overall economic activity. This means pressure is on management to outperform a still sluggish economy.

An encouraging aspect of the figures was the strength of most of the activities that are not rand-sensitive. As shown by listed subsidiaries' results, most maintained or improved earnings, and there are only two conspicuous problem areas. One is cement and lime producer PPC, which is a capital-intensive, volume-sensitive business and could have to cope with a more competitive industry in future. The other is electronics and engineering group Reunert, whose problems run a lot deeper than market conditions.

One thing underlined by Reunert's R7,9m interim loss is that it has been suffering from considerable internal problems which will not be fixed overnight. Barlow deputy chairman Warren Clewlow concedes this, but denies it was the reason for the appointment of Richard Savage as Reunert CE from last

Eyre and Louis Raubenheimer (whether or not associated with the reorganisation), and this month the management buy-out of Automated Office Systems. While Clewlow does not anticipate other major assets sales by Reunert, it would not be surprising to see some disposals. Given its size, the company could take several years to recover fully.

On the brighter side, Barlow's unlisted subsidiaries performed well. Middelburg, after its strong pickup last year, achieved very substantial growth on the 1985 interim, and Clewlow feels it will maintain this performance. Earthmoving equipment, motor and appliances companies managed a strong pickup from last interim's low base. This was achieved with help from firmer consumer spending early this year. Building materials, steel and paint improved too, also from a low base.

C G Smith, last of the local subsidiaries to report, produced a 7% earnings decline — a disappointing result after the favourable figures from its listed subsidiaries. Management's explanation — that improved contributions from C G Smith's subsidiaries were offset by a decline from offshore investments — suggests that not everybody has gained from Barlow's concentration of its international interests in Bibby. One reason for the drop in C G Smith's offshore income must have been the sale of its interest in US-based Princeton Packaging to Bibby; so while Barlow shareholders have gained, C G Smith's have not.

Barlow's gearing is still cause for concern as debt:equity remains relatively high at 0,70 (0,71). However, capital spending is declining, cash flow is improving and the interim dividend cover was lifted from 3,2 times to a conservative 3,9; so earnings could benefit from a reduction in borrowings in the second half. UK subsidiary J Bibby's dividend will be used for repayment of sterling debt which Barlow raised to acquire Bibby in 1984. Bibby itself is undergeared.

Clewlow stresses that earnings cannot be expected to continue to advance at the interim pace. He notes that "the outlook for the remainder of the year will depend largely on the level of consumer demand and the continued level of profitability of exports." Both of these factors are, however, uncertain. Clewlow feels economic prospects are much better than generally perceived, but they are overshadowed by lack of confidence; and the rand could remain near the US45c to US50c range, particularly if there is early recovery from the weakness triggered by last week's raids.

However, the domestically-orientated interests have yet to show the growth that should eventually flow from a soundly based recovery in industry and agriculture, as well as a hoped-for renewal in fixed investment. The directors showed confidence by raising the interim dividend by as much as 3c, and the share price quickly rose 60c to a high of 1 820c on Tuesday. Barlow should outperform the industrial sector for some time.

Andrew McNulty

BARLOW REBOUNDS

Six months to	Mar 31 '85	Sept 30 '85	Mar 31 '86
Turnover (Rbn)	6.0	6.2	7.2
Profit before interest (Rm)	502,7	545,4	590,5
Pre-tax profit (Rm) ...	389,5	451,7	509,2
Taxed profit (Rm)	236,5	309,6	292,3
Attributable profit (Rm)	121,0	173,9	165,9
Earnings (c)	67,7	97,2	92,5
Dividend (c)	21,0	49,0	24,0

October. It seems likely, though, that Barlow management was aware of certain problems when Savage's appointment was announced at mid-year, but probably did not realise then how far the deterioration would run.

Clewlow expects Reunert will make a profit in the second half; but prospects for a profit for the full year must, indeed, be slim. Savage has been involved in a considerable reorganisation. Management changes included the November departure of Reunert Information Systems senior executives Doug

FIN MAIL 30/5/86
 49

A resounding 'no'



Exactly what is a "siege economy"? And what would its advantages — if any — and disadvantages be?

There have been some straws in the wind, warnings that it is precisely towards a siege economy that SA is drifting. For example, the Business Charter of Social, Economic and Political Rights — issued by the Federated Chamber of Industries in January — referred to the matter. It noted, with apparent concern, that "in many circles this option is not only attractive but appears to be gaining ground." The chamber rejected the option as "unacceptable," describing it as "the negative reaction of retreating into growing economic and political isolation and a drift into a repressive siege society, necessitating greater government intervention and direct control over foreign exchange."

Stanley Uys asked three prominent South Africans for their views.

Len Abrahamse, chairman of Syfrets:

The siege economy is the economic equivalent of the laager mentality. The idea that SA can opt for a siege economy is absurd. A siege economy can become reality only if we conduct our affairs in such a way that we are



Abrahamse ... 'We would become introverted and ingrown'

Three leading South Africans explain why a retreat into the economic laager would be bad and dangerous, whatever the interventionists think.

indeed isolated from the rest of the world. SA essentially has an open economy and our welfare and future depend on being able to trade with, and have net investment from, the rest of the world.

Our population is growing by just over 2,5% a year. If we take inflation into account, we have to grow at about 3,5% a year merely to stand still in terms of gross national income per capita. To uplift we have to grow at a much greater rate, and we cannot achieve that by pursuing the policies of a siege economy. The siege economy idea comes from people who have done their homework and perceive some immediate short-term gains, but the operative phrase is short-term. In practice, there would have to be increasing control over the rate of exchange, interest rates, the level of savings, and so on.

The consequential increased government intervention would make us less and less a free enterprise economy. We would become introverted and ingrown, and incapable of generating enough net savings, either from the corporate sector and/or the individual sector, to provide the capital we need to sustain growth.

A minority political view exists — to hell with the rest of the world — what does it matter if we don't win the approbation of Bonn, Whitehall, Washington, Paris or wherever? Let us retreat politically into the laager. A siege economy is the same philosophy; it's a philosophy of despair

Sampe Terblanche, Professor of Economics at Stellenbosch University:

The siege economists want the government to take a stand against being influenced by foreign pressure on the economic level. They say "if there is disinvestment and boycotts, the government should reply: all right, if necessary, we will go it alone."

I'm worried by this. Some economists and top businessmen are advising government that, if necessary, the economy can go it alone. I don't regard this as good advice.

We are vulnerable on our foreign account. If we take imports and exports as a percentage of GNP and count them together it is 60%. That is high. In the US it is less than 10% — only among some smaller members of the European Economic Community is it 60%.

Since 1976, we have been experiencing

disinvestment. From 1965-1975, 10% of our total investment was foreign investment and our growth rate was high. But in the 10 years since 1975, we have actually had an outflow of equity capital. A lot of short-term funds flowed in to cancel out that outflow, but there was disinvestment in real terms and the growth rate was rather low.

In a sense, since 1975, we have become more independent of foreign investment, but



Terblanche ... the price is lower growth

we have bought this relative independence at the price of a lower growth rate. If there is large-scale disinvestment and boycotts, undoubtedly it will damage both the economy and job opportunities

In 1980 we had a labour force of 10m, but only 7,5m could find jobs in the modern sector — 2,5m could find jobs only in the peripheral sector, mainly in subsistence agriculture. By the year 2000, the labour force will be 18m, and with a growth rate of 3% — and I'm not certain we will attain that — there will be only about 11m jobs in the modern sector. So 7m will have to find jobs in the peripheral sector — at least 3,5m of them in the so-called informal or shanty-town sector in and around urban areas.

The poverty problem is so great that, even if we have a reasonable redistribution of income and opportunities, we will not be able to do much about it. All we can do is create opportunities for blacks to improve the quality of their poverty. Given this sombre pic-

ture, if we become a siege economy conditions will deteriorate tremendously. Blacks will bear the brunt of the deterioration. This will cause more unrest and then we will have to take note of the possibility of a revolution. As John Vorster said, this will be too ghastly to contemplate.

49 FIN MAIL 30/5/86

Turning down again

Having shown such promise in the latter stages of 1985, the new year began with the comforting feeling that the worst was behind us. Soaring trade and current account surpluses, a noticeable turnaround in total production levels and trading volumes, and some small relief from the high personal and corporate financial stress characterised an economy about to move into the first stages of an upswing — however moderate it was expected to be.

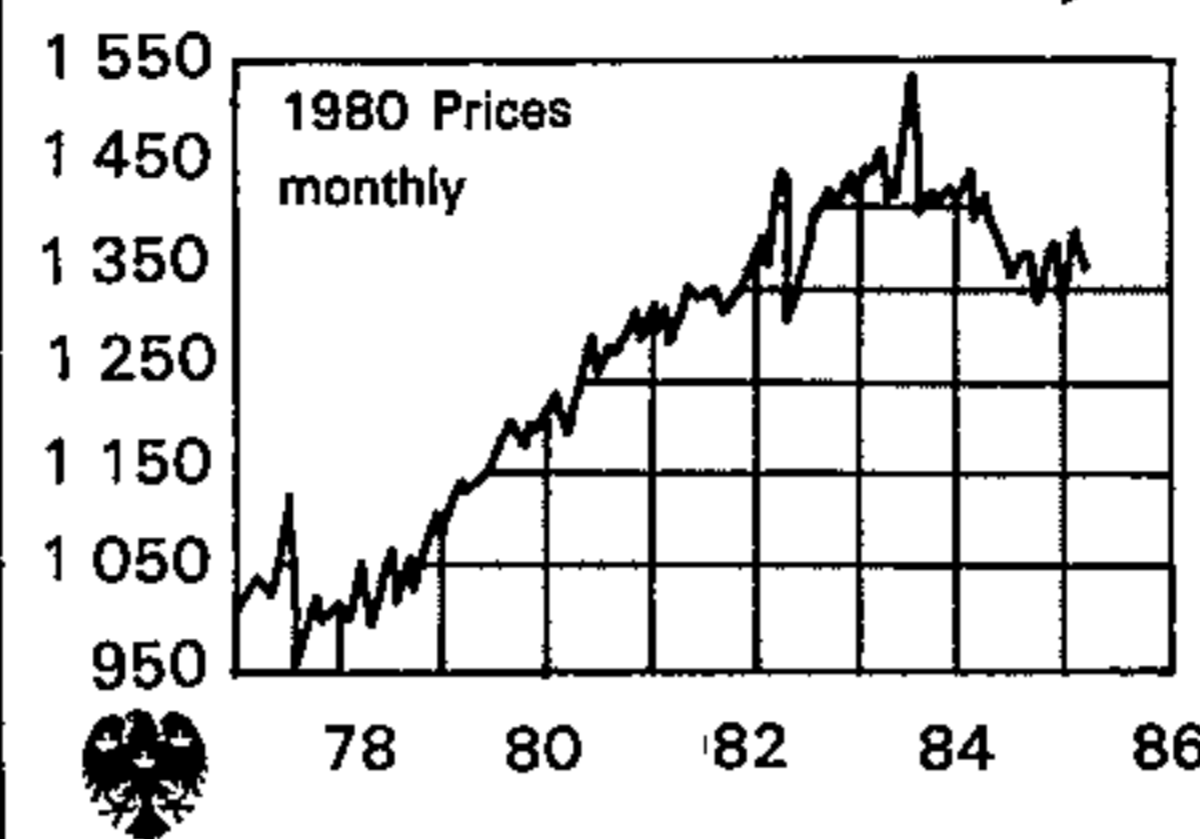
But, by almost any measure, the first quarter's results have been dismal. As it turned out, the recovery was too narrowly based to maintain momentum. Manufacturing production has resumed a downtrend, after a patchy performance in the last quarter of 1985. Even mining production, the stalwart of the economy over the past 18 months, fell prey to the lagged effects of international demand.

The reasons for the relapse lie partly in the depressed state of consumer and company finances. Rising prices and reduced real salary and wage adjustments have left consumers with restricted spending options, accounting for the erratic buying patterns of the past six months.

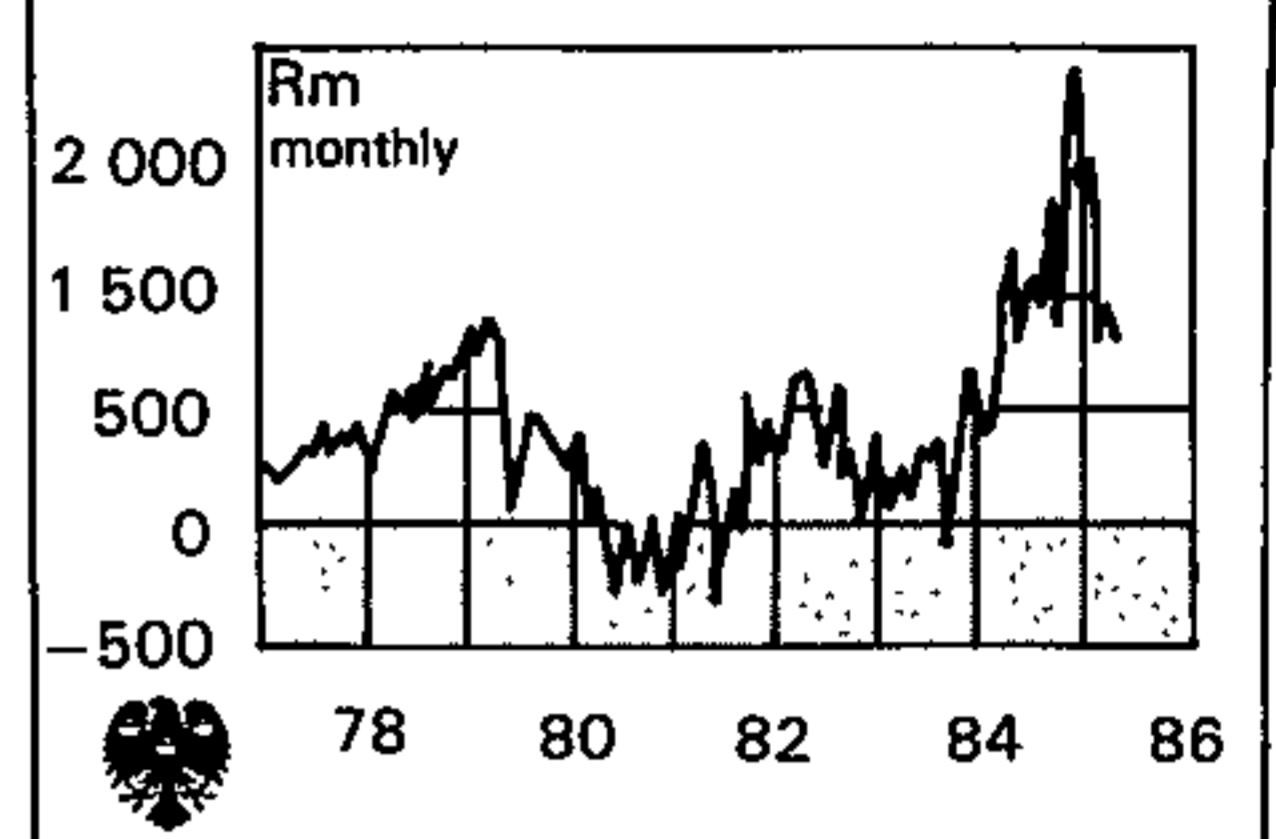
Had there been a degree of consumer confidence, the events of late 1985 could have been the beginning of a fairly aggressive phase of standard-of-living defence, rather than last ditch pre-emptive buying ahead of price increases. But without confidence, consumers were and are unwilling to dip into savings, and are similarly loath to extend their use of credit, despite declining interest rates. There remains, in addition, a large core without the means to consume at all. Employment is down to 1979 levels in some sectors, while the registered unemployment statistics speak for themselves.

To top it all, inflows on the BoP — so vital for an economy stagnating domestically — dropped sharply in the first quarter. Much of

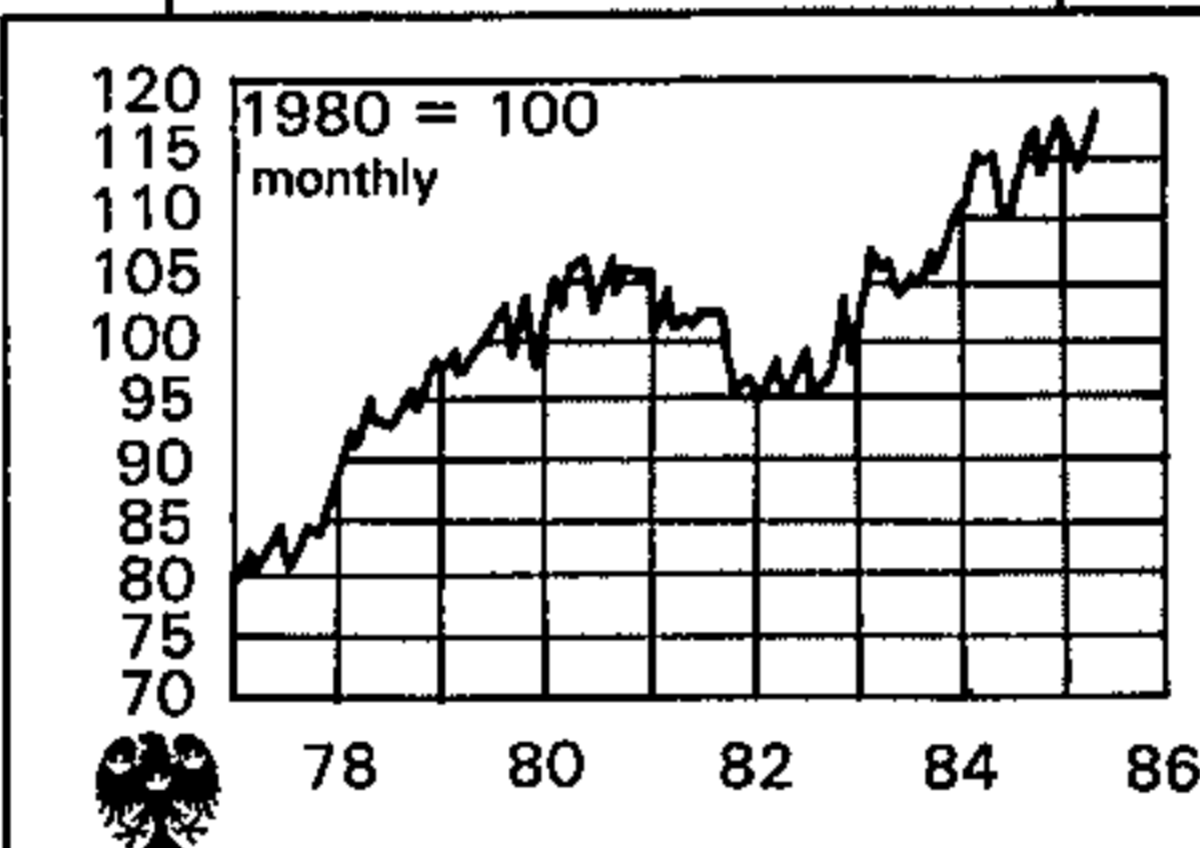
RETAIL TRADE VOLUMES



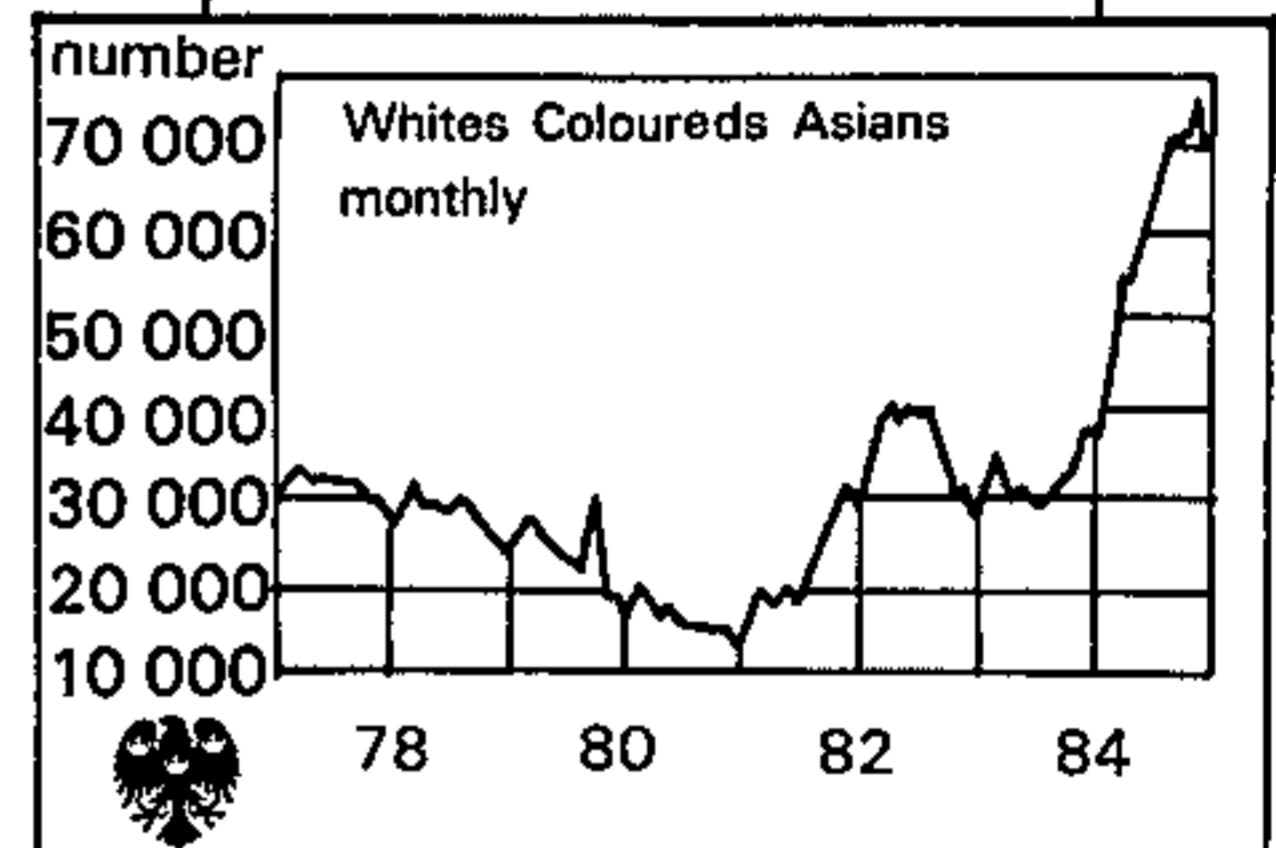
TRADE BALANCE



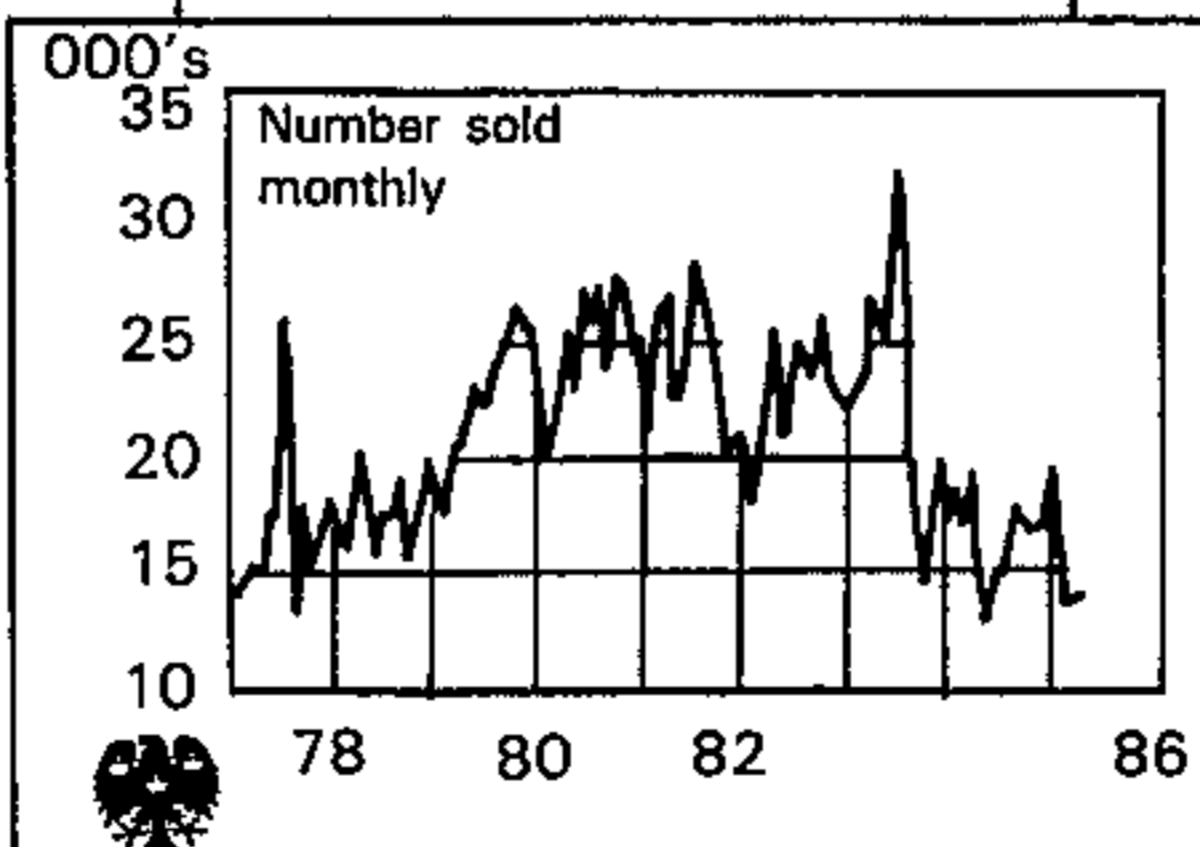
NON-GOLD MINING PRODUCTION



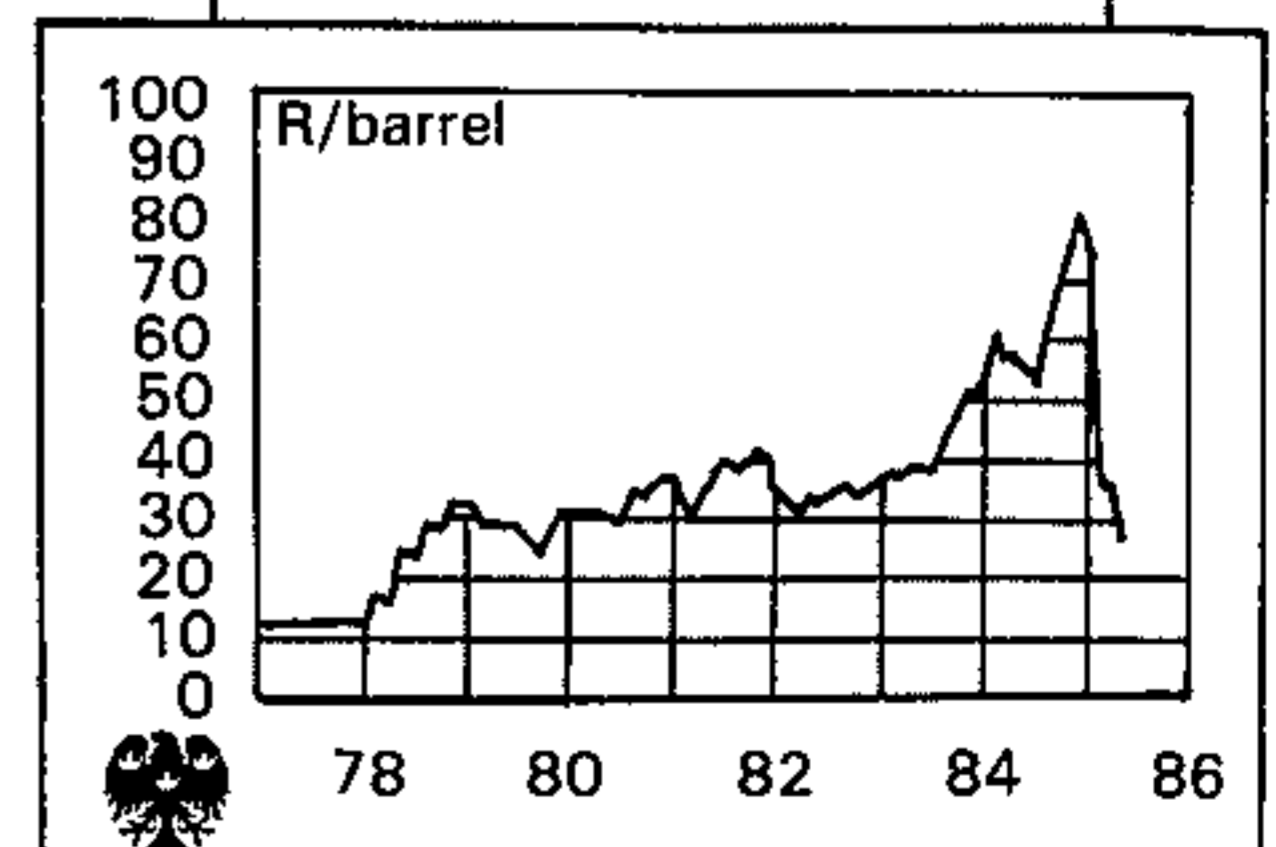
UNEMPLOYMENT



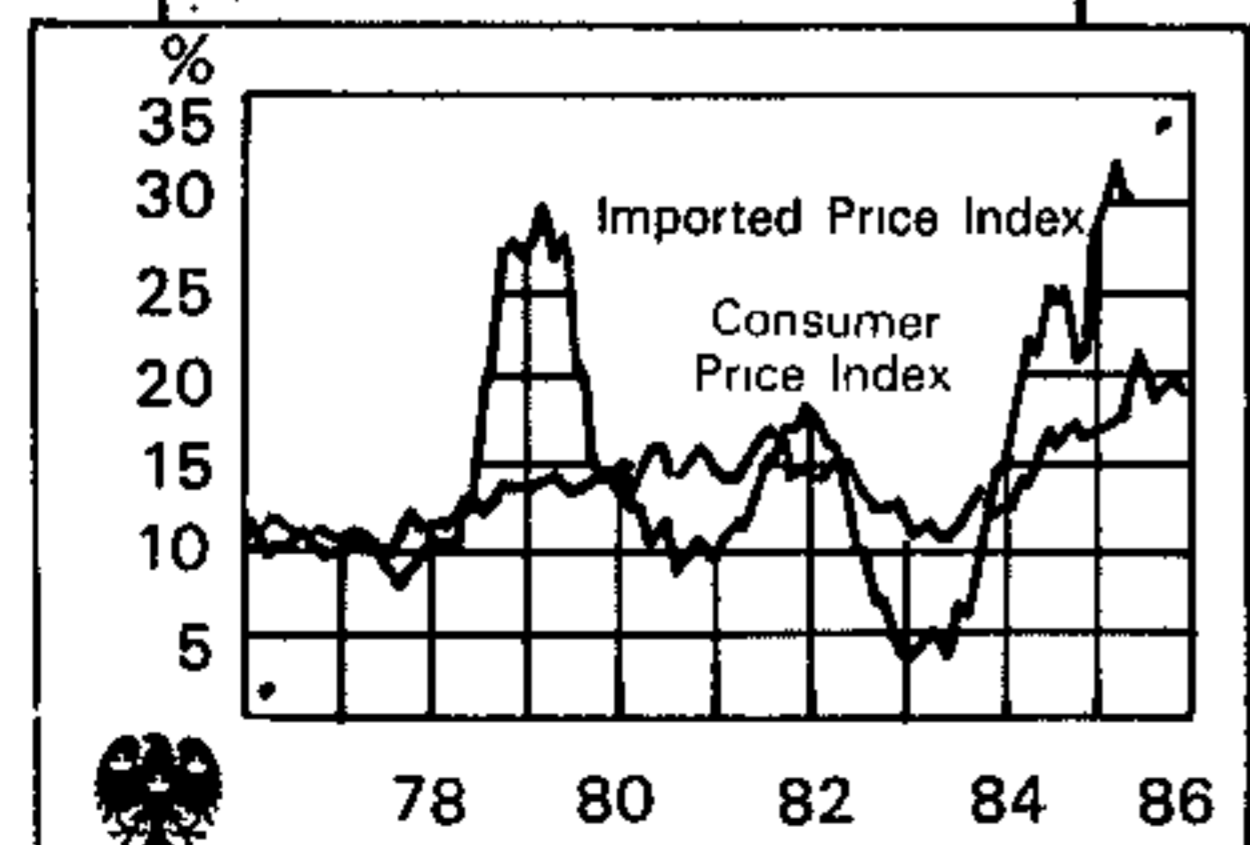
NEW PASSENGER CARS

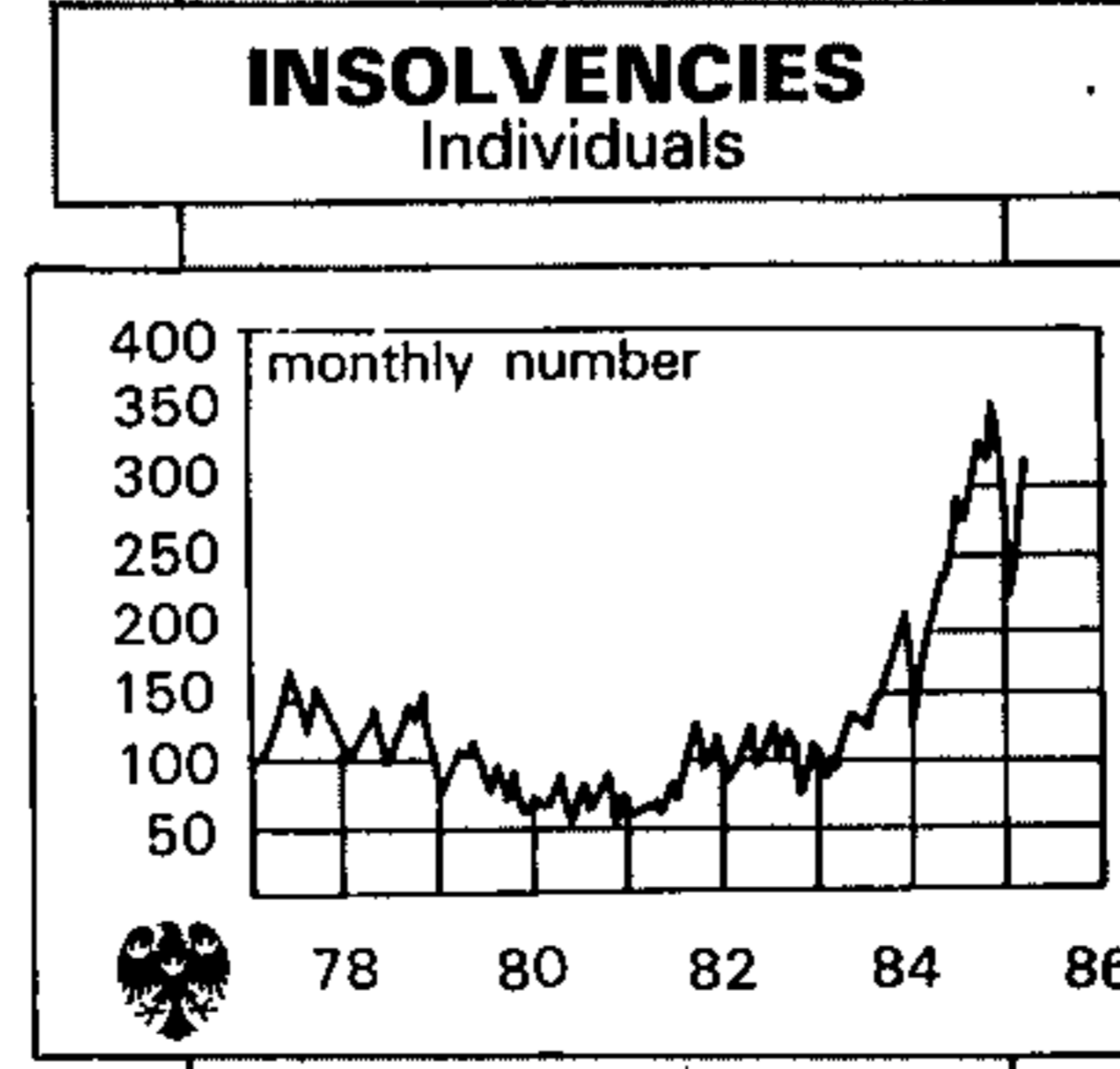
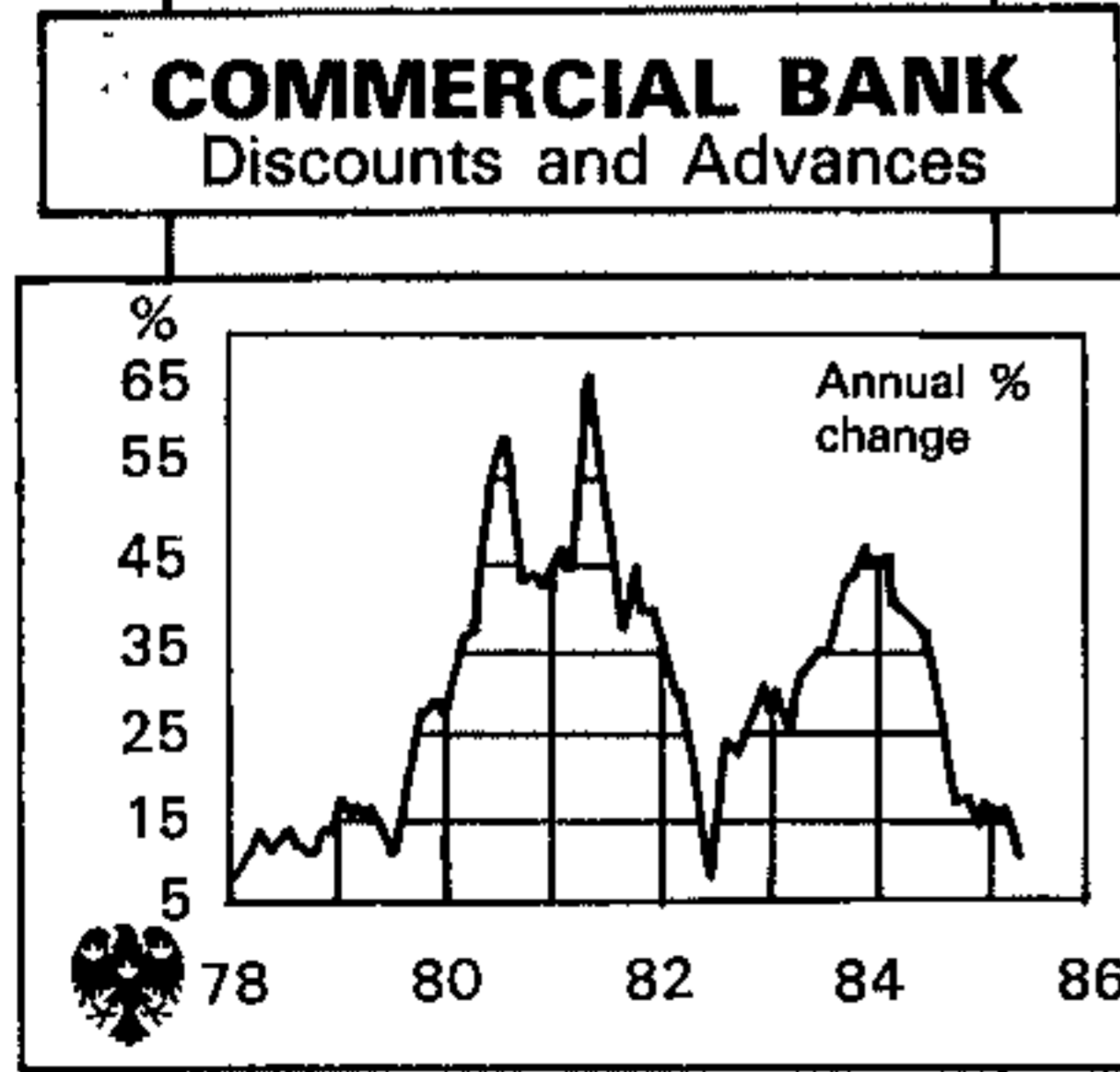
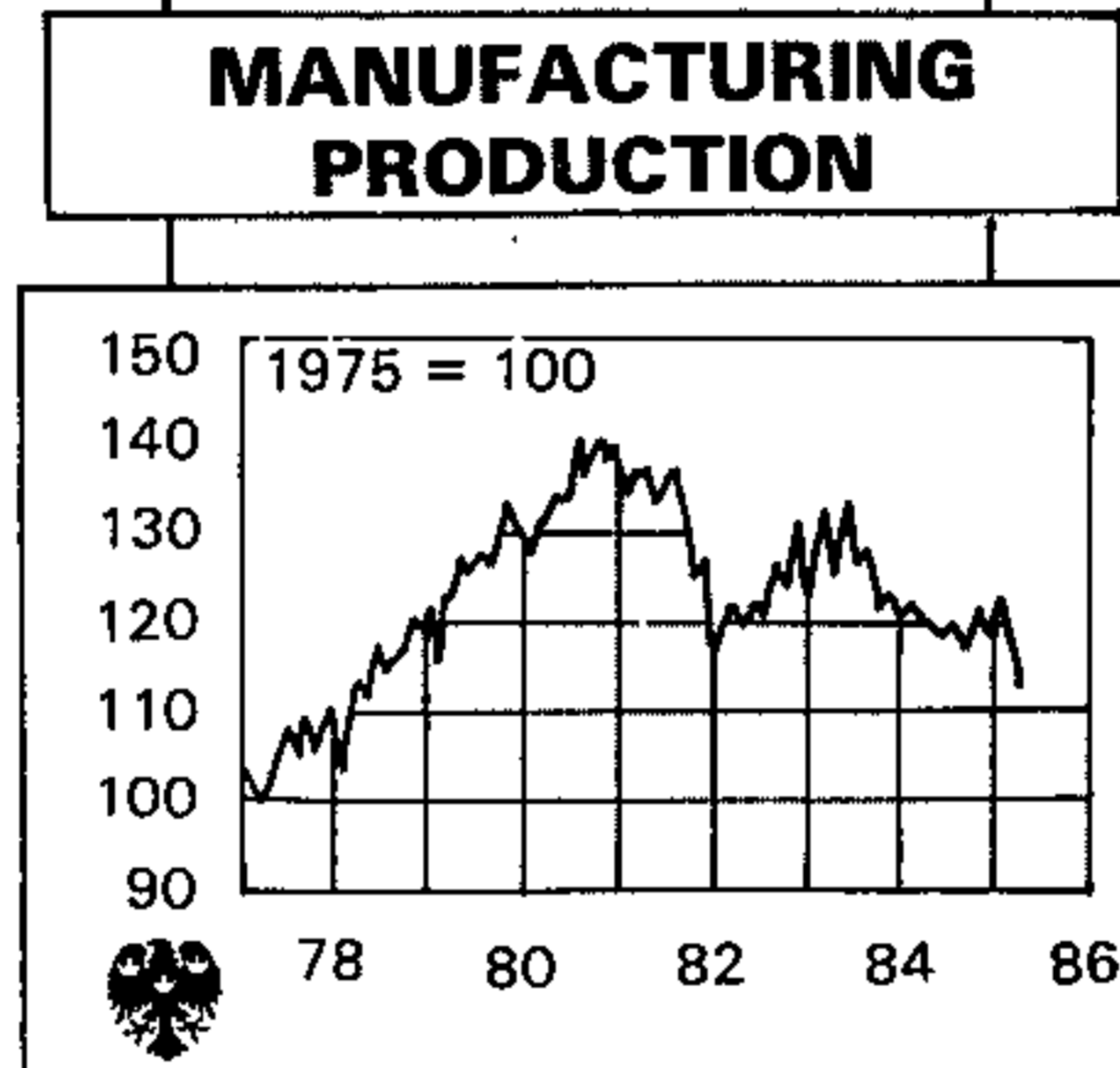
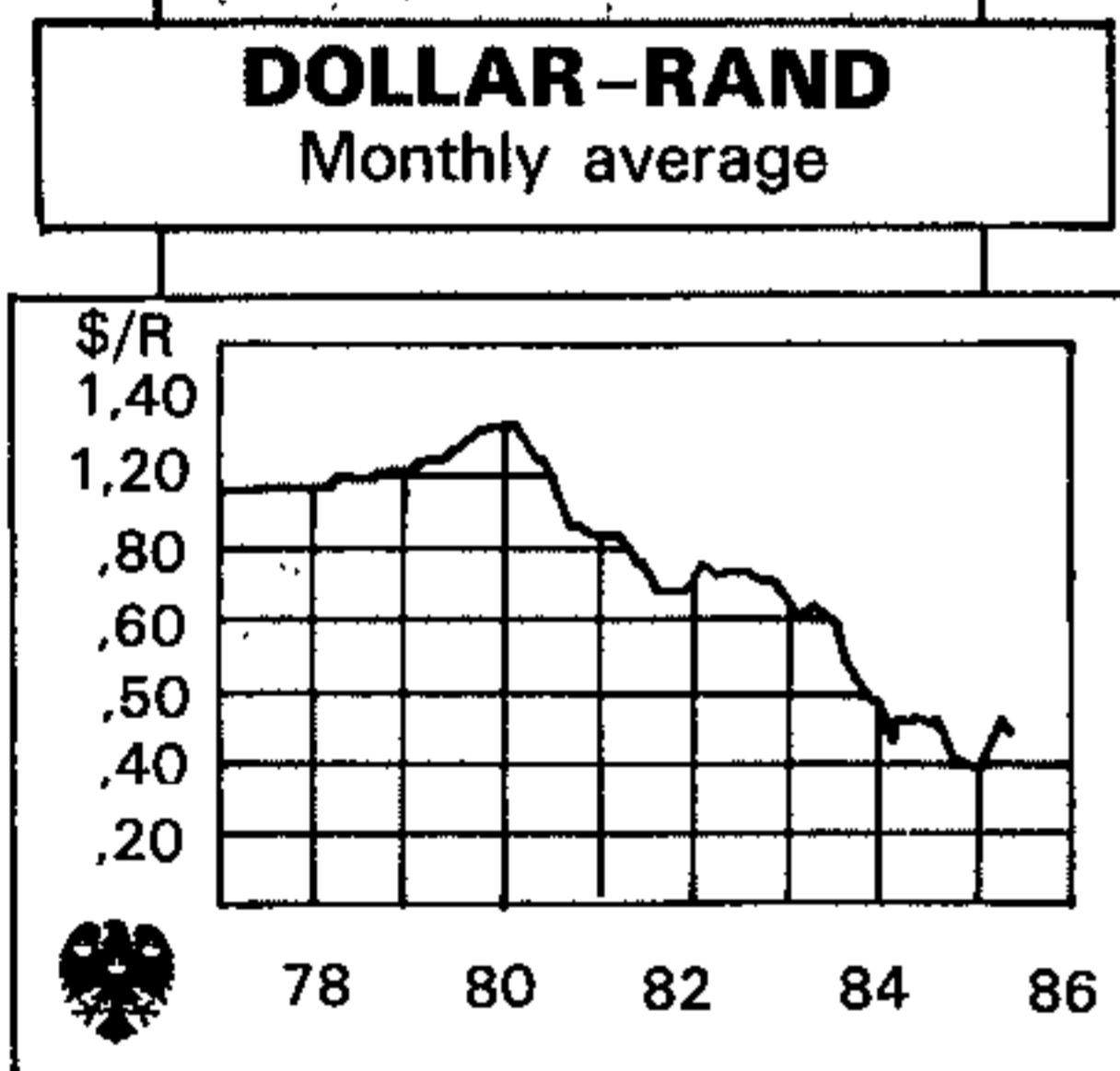
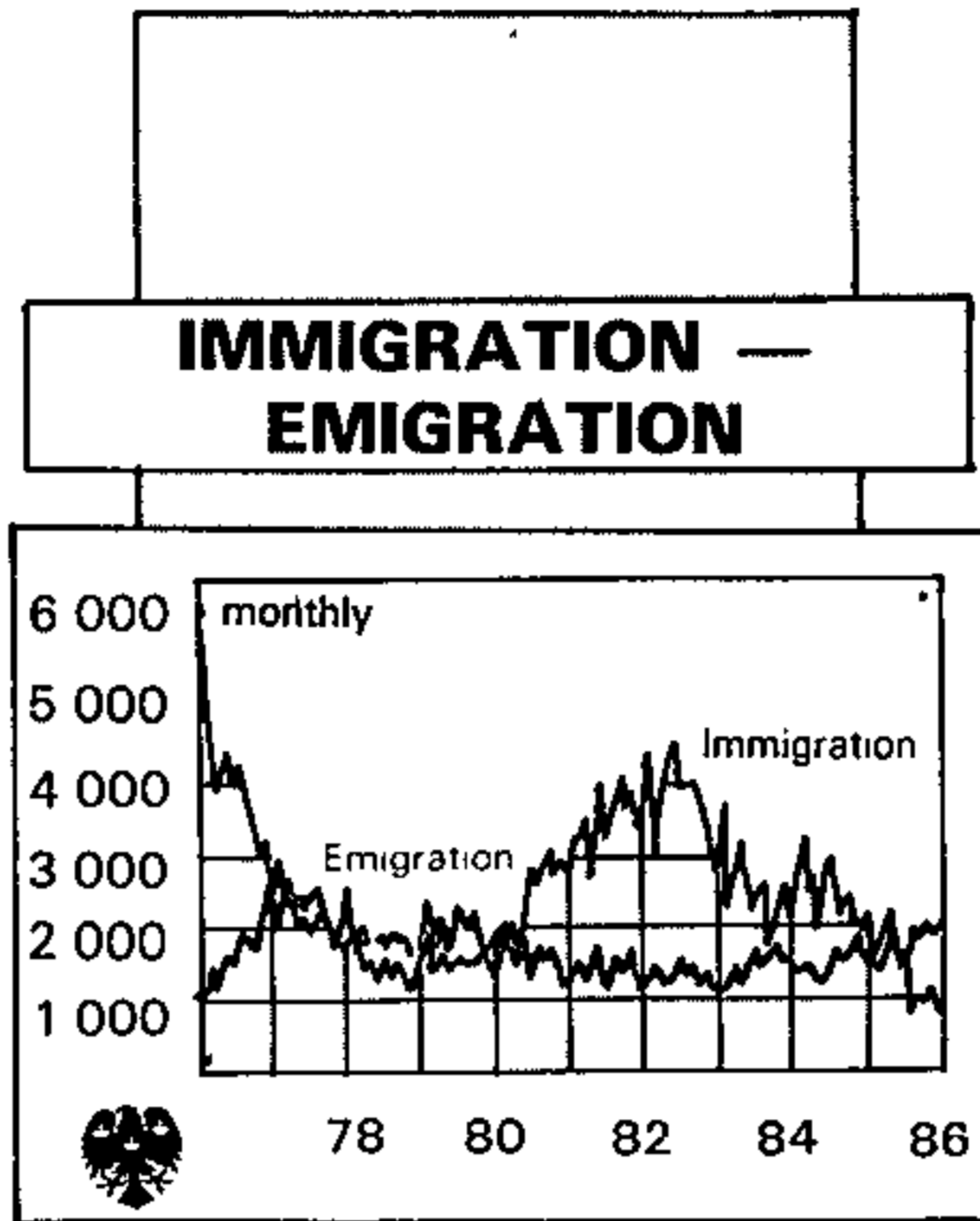
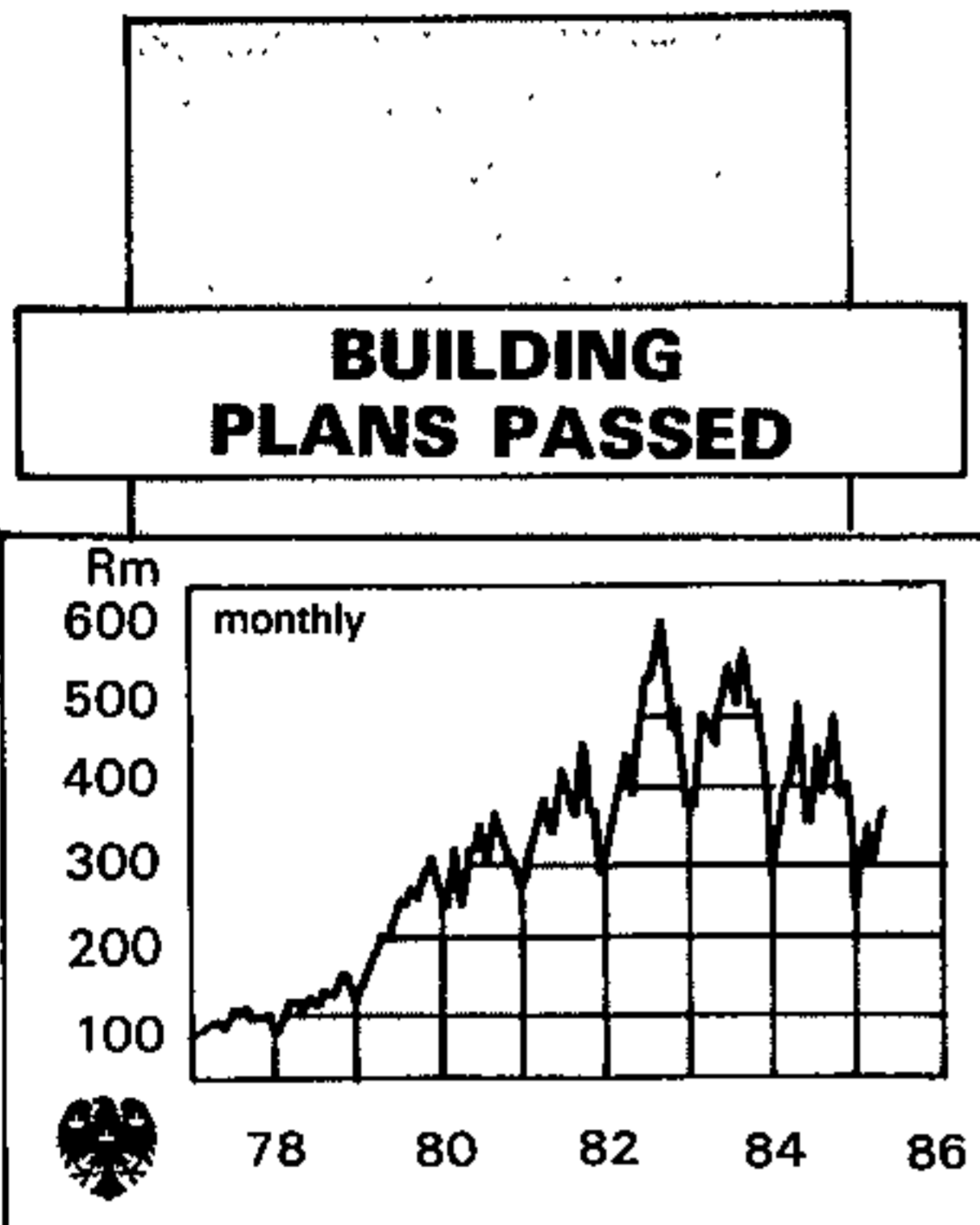


SPOT OIL PRICE



INFLATION





this can be traced to inventory-based oil import demand, which could later be translated into relief for the BoP through a reduction in oil imports, as in late 1985.

But the constraints of the capital account, adversely affected by negative perceptions abroad, loom dark in the background.

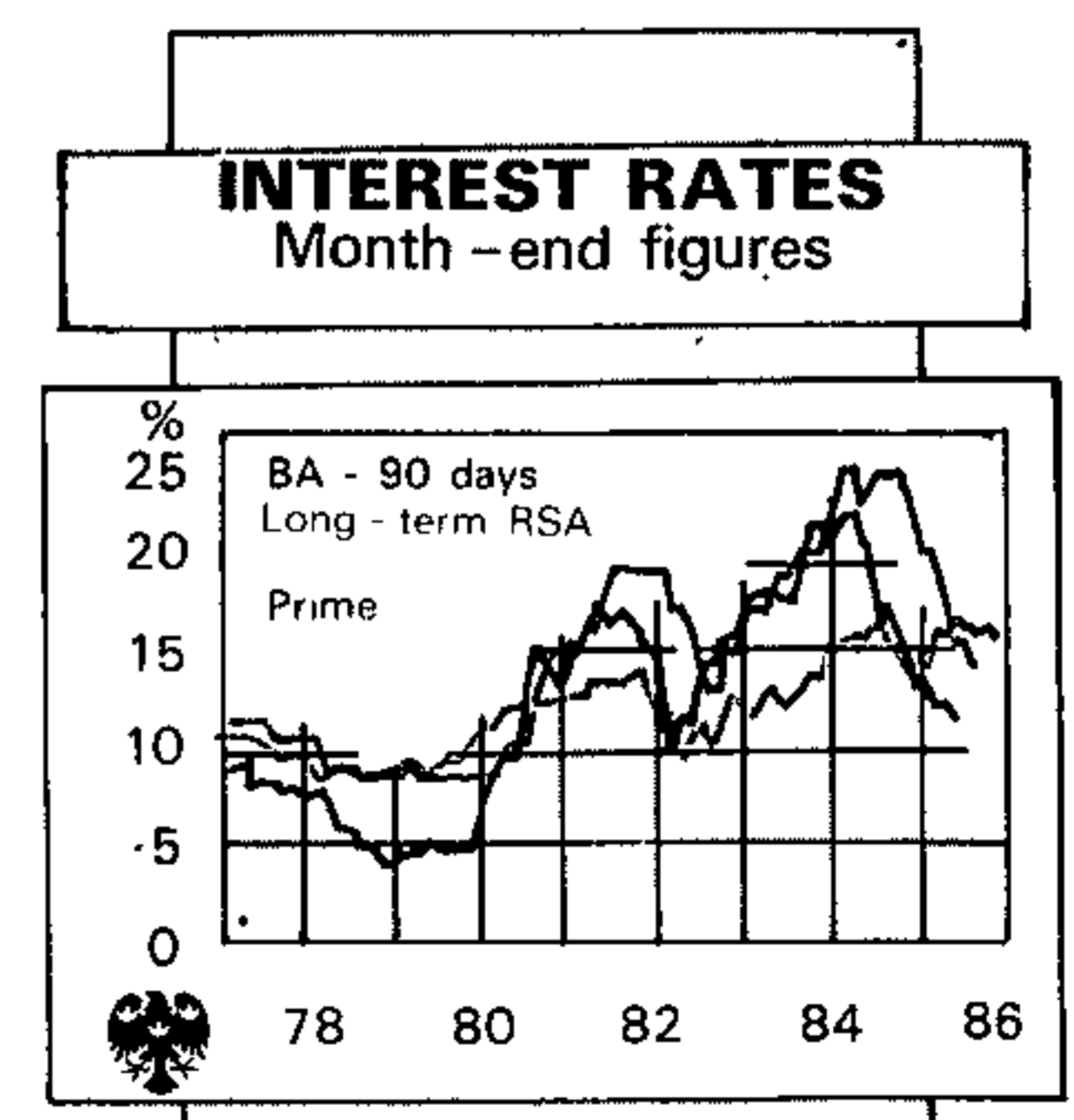
Backed up by all this evidence, calls for stimulatory policy measures have been growing ever more strident. Understandably, the authorities are reluctant to precipitate a replay of 1983-1984, when a spending spree, encouraged by lower interest rates, forced the introduction of stringent monetary control measures. But, in a number of important respects, the situation is different now.

1983 began with the gold boom immediately behind it. The economy had become accustomed to a high and rising standard of living over the previous three years, and demanded more of the same in the future. It did not require much official encouragement to set the economy going again — assured as we were that the gold price would soon come to the rescue.

This time around, the most immediate memories are of the stringencies of the past two years. There is no longer the same faith in the gold price and, in addition, there are the added uncertainties of a changing political environment. With such nervousness and lack of confidence, there seems little danger of initiating an unmanageable consumer spending spree by lowering interest rates further, or through a package of stimulatory fiscal measures.

In this respect, we rather seem to be in a situation more akin to 1976-1978 than 1983. In the mid Seventies both domestic and international confidence in SA reached a particularly low ebb; it took a relatively long time to turn sentiment, and the economy around.

And that also with the help of a booming world commodities market — something which does not seem on the cards in the foreseeable future. ■



Public property hasn't made PW a socialist

WEEK OF M.

30/5/86
49

PRIVATISATION — by which is meant the sale of some state-owned assets to the public — forms a key part of the government's economic strategy. Those who advocate privatisation argue that it will help rid the government of some of its fiscal liabilities as well as improve efficiency in the privatised concerns (since they will become directly exposed to the discipline of the market).

Unfortunately, the issue is not as straightforward as that. For a start, although there is a significant body of opinion — particularly among the private sector of the business community — calling for privatisation, there are other important groups who oppose it.

The Freedom Charter, which is supported by the African National Congress as well as the United Democratic Front and its affiliates, calls for nationalisation of key sectors of the economy and therefore, on this issue at least, is in conflict with the Business Charter, which supports privatisation.

Although our government (not surprisingly) has opted for the Business Charter approach rather than that of the ANC, the fact remains that a substantial proportion of this country's population currently supports organisations which oppose privatisation.

It is therefore possible that a rather different policy from that currently being followed might be enacted in the not too distant future. In the light of this, perhaps it won't do any harm to develop a critical perspective on some of the issues involved in privatisation.

Certain supporters of privatisation argue that state ownership of some national assets implies the existence of a socialist state. The existences of Sats, Iscor and Escom among others are then used to prove that South Africa has socialist leanings.

I have always felt uneasy with arguments that end up portraying PW Botha as a leading socialist, since they give socialism a bad name. But apart from that, the argument suffers from a glaring misconception.

Socialism is a political and economic system in which the working class governs society both directly and through its representatives. In so doing, this class makes use of certain institutional mechanisms to bring the country's productive resources under its control and to put them to use. Such mechanisms include public ownership, a national plan and controlled markets. For socialism to be effective, working class participation is necessary at all levels of society.

Those who argue that public ownership necessarily means the existence of socialism are conflating an institutional mechanism (public ownership) with a political and economic system. It's a bit like saying that because men have feet, every time you see a foot you are in fact seeing a man. The conclusion is false because (surprise, surprise) women have feet too.

A favoured argument for handing state-owned organisations over to private ownership is that exposure to the market improves efficiency. But in reality, one set of cartels is replaced by another, argues DUNCAN INNES

A capitalist society is just as capable of making use of the institutional mechanism of public ownership as is a socialist society. The existence of socialism in South Africa does not therefore depend on whether or not we have public ownership. The reason we don't have socialism here is because the working class doesn't govern the country. (In fact, most of them don't even have the vote — but that's another story.)

Given then that the privatisation debate is not about capitalism versus socialism, but rather about different economic strategies within capitalism, what are the supposed advantages of privatisation over public ownership?

There seem to be two main arguments. First, privatisation opens up certain economic areas to direct public involvement through individual shareholdings. This is deemed to be desirable since it is somehow regarded as more democratic than the existing system.

Secondly, privatisation promotes efficiency, since free competition forces the various private concerns which take over the state companies to keep on their toes. This development is also deemed desirable.

What worries me about these arguments, nice though they may be in theory, is that they don't take sufficient account of the current economic reality in South Africa. That reality is that a handful of giant private corporations dominate the private sector of our economy.

When privatisation occurs in the various branches of Sats, Iscor, Escom, etc, it will not be the "public" in the general sense of the word — ie you and me — who will rush in to buy a controlling interest in these companies. Instead, it will be the giant corporations like Anglo American which will end up with control. Who else has the financial and technical resources to take over and run these huge state concerns?

How such a development can possibly be construed as democratic is beyond me, since the first responsibility of these giant corporations is to the particular interests of their shareholders and not to the general interests of society.

If one wants a more democratic system than the one we have at present, then surely one should start by democratising the state which currently controls these companies.

Any doubts one might have had as to whether or not these large private companies will move in on the state concerns should have been firmly expelled by Gavin Relly of Anglo American when he said in his television interview on Sunday last that companies like his had "vast capital flows which have to go somewhere". If the government embarks upon full scale privatisation, you can bet your bottom dollar on where those vast capital flows will be heading.

But if a few large corporations move in to fill the gap left by the state, then we will simply be replacing one form of monopoly with another.

In fact such a move will considerably strengthen the hold which a few companies exercise over the economy at the moment — with all that implies for more price-fixing agreements, more restrictive practices and, generally, a further decline in the level of free competition and democracy in our economy.

Even if efficiency does improve — and there is no guarantee that it will — it will be at the expense of higher prices. And remember, inflation is already nudging the 20 percent mark.

Thus it is by no means clear that privatisation will be the unambiguous blessing its adherents claim it will be. But of course if we don't have privatisation then that will leave Relly and others like him with the tricky problem of what to do with their vast capital flows.

Perhaps, instead of trying to take over safe existing concerns, Relly might consider risking some of this capital in new productive investments, thereby helping to alleviate the unemployment crisis. But, then again, since we live in a free enterprise system we can't tell him what to do with his money, can we?

BUSINESS IN PROFILE

30/5/86

49
WEEKLY MAIL

General Motors in Port Elizabeth recently caused a stir by supporting workers defying beach apartheid. Now, in the second of our series on business leaders, managing director BOB WHITE talks about trade unionism, the role of business in political change and the Sullivan principles.



Name? Robert A White
Date and place of birth? April 6, 1930; Chicago, USA.
Where were you educated? University of Illinois (B Sc Accountancy); Harvard Graduate School of Business (Executive Development Programme)
What position do you hold in your company? And in other companies, societies or organisations? Managing director, General Motors SA (Pty) Ltd (GMSA)
Value of assets under your control? R300-m to R400-m (balance sheet assets in South Africa)
Number of people in your employ? 3 500
What is the attitude to trade unions in your company? What is the state of your relationship with these unions? Consistent with GM operations elsewhere in the world, GMSA respects the principles of "freedom of association" in matters of employee membership in trade unions and acknowledges the right of its employees to engage in union activities, including the formation of a union. GMSA enjoys good relations with the unions represented at the company.
What role do you see for your company in the process of change in South Africa? GM will continue to press strongly for peaceful change in South Africa and will pursue all constructive alternatives which have any reasonable prospect of rectifying this country's racial policies. At the same time, GM will try to run its business in a manner which promotes the welfare of its employees, dealers and suppliers. I believe that through adherence to sound operating principals, GM has the opportunity to continue to be a positive force for change in South Africa.
What are your most immediate concerns about government economic policy? Are there any immediate changes you would like to see in this policy? Political uncertainty, the enactment of sanctions and trade boycotts, and the suspension of credit by foreign banks have caused considerable erosion of confidence in the South African economy. These events serve to demonstrate the extent to which economics and politics in the South African economy have become inextricably linked. Measures introduced by government to stimulate the economy have done little to restore consumer confidence and, as I see it, an economic recovery in real terms will not occur until there is more significant movement on the political front.
What is your attitude to positive discrimination? As a signatory to the Sullivan Principles, GMSA has initiated a number of programmes aimed at increasing the number of black employees in the workforce and at preparing black employees for supervisory and management positions. A limiting factor continues to be inadequacies in the education available to blacks in this country and, to overcome this problem, GMSA has implemented a wide range of training and development programmes to better equip black employees with the necessary skills and capabilities.
Are you happy with the Sullivan Code? What changes would you like to see in it? There is no doubt that the Sullivan Principles have had a catalytic effect in accelerating the pace of change in South Africa. However, I'm not altogether pleased with the manner in which the principles have been implemented in all instances because I believe black South Africans have not been given sufficient opportunity to input in to the Sullivan programmes.
What is your attitude to disinvestment? What are you or your company doing about the issue? GM believes that the people who would be significantly hurt by disinvestment would be the very people Americans seek to help, the black people of South Africa. If American companies were to leave South Africa, the American leadership role would be greatly diminished, and the progress made to date could be reversed.
Clearly, GM intends staying here, so we must have a strategy that ensures that it is going to be possible. GM Corporation's chairman, Roger B Smith, was a founder member of the US Corporate Council on SA, comprised of the chief executive officers of major US corporations with subsidiaries in South Africa. The Corporate Council is actively consulting with both the South African government and influential South African businessmen to develop programmes which combine political and economic initiatives which can hasten progress towards meaningful reform.

CML Times 31/5/86 (49/2)

11 State activities could be privatised

HOUSE OF ASSEMBLY.
— The Minister of Administration and Economic Advisory Services, Mr Eli Louw, yesterday announced that the Cabinet had decided in principle that 11 activities at present being undertaken by the State could be privatised. Speaking in committee on his vote, Mr Louw listed the following:

- The building and maintenance of roads.
- The provision and maintenance of motor transport (excluding the SADF and the SA Police).
- Provision and running of toll-gates.
- Production and sale of tobacco seed.
- Regulation of meat standards.
- Regulation of cotton standards.
- Regulation of butter and cheese standards.
- Grading of meat carcasses.
- Rendering of specific engineering advisory services.
- Evaluation of tractors and agricultural equipment.
- Laboratory experiments affecting agricultural materials and products.

Government, as well as own and general-affairs departments and the provincial administrations would be closely involved with the move.

"The commission has ... encountered constructive and co-operative attitudes"; and "is continually investigating further privatisation", Mr Louw said.

● The government had approved the abolition of salary disparities between population groups at colleges and schools, including nurses and paramedical personnel, Mr Louw announced.

Mr Louw said the new dispensation would be implemented during the present financial year once investigations had been completed.

"I have previously indicated that it was government policy to try and keep the salaries of government officials moderately (matig) competitive with the private sector. To achieve this a system of occupational differentiation is being followed."

31/5/86
49

Govt to stop fuel coupon discounts

By Sue Leeman,
Pretoria Bureau

The Government is to publish a proclamation on Monday banning the coupon discount schemes offered by a growing number of petrol outlets. *The Star* has learnt from industry sources.

It is understood that a prohibition on the practice of giving motorists discount coupons for other commodities — a way of discounting petrol — will be published by Minister of Min

● To Page 2, Col 3 ■

Afrikaans business faces up to reality

AFRIKAANS businessmen are facing reality, says new Afrikaanse Handelsinstituut (AHI) president Christie Kuun.

Gone were the days when the Afrikaans businessman could be labelled as "verkramp" by his English-speaking counterparts, Kuun said in an interview with *Business Day*.

In the past year, AHI members took definite stands on SA's socio-political and economical problems, urging government to open economic doors to all races.

Kuun said: "Afrikaans businessmen have come to terms with reality. They naturally look at their businesses as well, but they never separate them from the country's problems."

This year marks the development of the Third World market in the SA economy.

Kuun said: "I could never understand why businesses concentrated on the sophisticated market if they clearly saw where the future lay.

"SA's white population has stagnated. The future market lies within the black market and not the over-catered white market.

"The Afrikaans businessman, realising this, is not going to run away from reality. He will be out there doing the



● KUUN

BEULAH BROWN

necessary development."

Last year, the AHI had several meetings with State President P W Botha and the Cabinet, in which the body passed on Budget recommendations.

These included:

- Tax relief, seen especially in the light of the implementation of perks tax.
- A recommendation that the system by which sales tax was collected be changed to cut out tax avoidance, administrative problems and contradictions in the system.
- A uniform implementation of perks tax.
- Separate taxation for husband and wife.

Kuun said: "The AHI has made it clear it supports deregulation and privatisation. We are also directly involved in the urbanisation process."

On the question whether the AHI could separate politics from economics in SA, Kuun said: "Constitutionally the AHI will never voice itself, but on the floor, politics cannot be cut loose from the economy."

At the AHI's 42nd congress in Johannesburg earlier this month, it urged government to be more clear on its policy of privatisation.

Kuun said: "There is increased realisation that government involvement in the economy should be lessened. Despite this, government's role in the economy is still increasing."

Business confidence hard to win back if lost, Shultz warns SA

WASHINGTON — In a major policy speech here, United States Secretary of State Mr George Shultz warned South Africans yesterday that if they lost the confidence of foreign investors, they would have tremendous difficulty winning it back.

Mr Shultz called on South Africans of all races to rise to the moral challenge that peaceful change demanded.

The US stood behind South Africans who did not want to choose between apartheid or a white dictatorship that knew no colour, he said.

But he said he did not think there was still time to find the solutions that the sand in the hourglass is running out.

"In South Africa, now is the time to decide, now is the time for negotiation."

He made it clear that the Reagan Administration had no intention of giving in to pressures for tougher economic sanctions and disinvestment.

2/6/86 STM
49
It is reported from Ottawa that Canada will not immediately impose strict economic sanctions against South Africa despite an impassioned plea for tough measures by Anglican Archbishop-elect Desmond Tutu during a four-day Canadian tour that ended today.

External Affairs Minister Mr Joe Clark has told the House of Commons he wants to wait for the report of the Eminent Persons Group, due by the end of the month.

● The Dutch Government has come under fire for forcing a visiting black South African trade unionist to sign an undertaking not to harm Dutch-South African relations.

Trade unionist Mr Dusty Ngawane — a senior member of Cosatu — was made to sign a document to that effect by customs officials at Schiphol Airport when he arrived in Amsterdam at the weekend. — The Star's Foreign News Service and Sapa-Reuter.

● See Page 13.

By Jackie Unwin
There is growing anger at the Government action in outlawing petrol discount schemes.

Pick 'n Pay is testing the law by continuing to issue its 4c redeemable coupons with every litre it sells.

A special Government Gazette has banned coupon-linked petrol discounting schemes.

Mr Richard Frieslich, general manager of Pick 'n Pay auto outlets, said today: "If there is a glimmer of hope we will try to continue our discount scheme."

Mr John Drake, managing director of the Oil Division of Shell, said: "We are waiting for legal opinion on this matter. In the interim, we will continue to supply all Shell dealers."

^{STAK}
Pick 'n Pay
2/6/86
testing law
on discount
petrol ban

Consumer Union chairman, Mrs Betty Hirzel, described the action as high-handed.

Mrs Lyn Morris, president of the Housewives' League, said she could not reconcile the banning of coupon discount schemes with new legislation with regard to the Competition Board.

The Automobile Association

repeated its view that the free enterprise system should be permitted, allowing market forces to set the pump price.

The Department of Mineral and Energy Affairs was investigating the restructuring of the petrol price. Any ban on discounting should have been delayed pending its findings.

Mr Brian Goodall, PFP spokesman on mineral and energy affairs, said:

"It is regrettable that the Government is taking steps to prevent the consumer from enjoying cheaper petrol.

"It is ironic that in a period when inflation has reached an all-time high in SA the Government acts against those who wish to reduce prices."

Special Gazette enforces fixed prices for fuel

Government bans petrol discounts

STAR

2/6/86

49

2/6

By Sue Leeman, Pretoria Bureau

A special Government Gazette today will ban all petrol coupon discount schemes.

They are being run by Pick 'n Pay garages and a growing number of other outlets.

A Department of Mineral and Energy Affairs spokesman, Mr Theuns Burger, said today the proclamation was wide-ranging and would end the practice of giving motorists discount coupons for other commodities — a roundabout way of discounting petrol.

The move constitutes another round in the battle between the Government and the growing band of petrol discounters — the most prominent being Pick 'n Pay.

Discount on goods

Since the Government stopped the chain-store's direct petrol discounting to self-service customers at its Boksburg Hypermarket earlier this year — bringing in the so-called "Pick 'n Pay Act" — the chain has found another method of giving customers discounts. Anyone who buys petrol at Pick 'n Pay garages receives coupons which entitle them to discounts on items bought at Pick 'n Pay supermarkets.

In March the Government tried to strangle this scheme by prohibiting oil companies from supplying the chain — but Pick 'n Pay had the ruling set aside in court.

Since then one petrol outlet in Johannesburg and three in Pretoria have started similar schemes — and Checkers and OK Bazaars indicated they might follow suit.

No free holidays

The authorities are known to be opposed to such practices, and the oil companies are also understood to be against deregulation of the price.

Mr Burger said that in terms of today's notice — made in terms of section 2 (1) (d) of the Petroleum Products Act — no person entitled to sell petrol can:

- Supply or offer petrol other than by way of sale "for a wholly monetary consideration and at the prescribed price".
- Offer as a condition of, or as a result of, any sale of petrol any benefit to the consumer.

The word "benefit" has a very wide definition in terms of the proclamation.

The ban will probably stop all discounting schemes, including those which offer motorists "lucky-draw" prizes or free holidays.



This painting, "The caretaker", was one of the big challenges of artist Trish Perrevo's life. It took three months of solid work to complete it in time for the Artists under the Sun exhibition at Johannesburg's Zoo Lake at the weekend.

● Picture by Karen

Anti-communist tone of ANC booklet is aimed at Western democracies

By Gary van Staden,
Political Reporter

The South African Government's latest salvo in its propaganda war against the African National Congress appears intended for both local and international consumption.

While the 42-page booklet, *Talking with the ANC...*, sets out to discourage the now frequent trips to Lusaka by businessmen, students, churches and individual South Africans, its strong anti-communist tone is also aimed at the Western democracies.

UNDENIABLE

"The struggle of the oppressed people of South Africa is taking place within an international context of transition to the socialist system..." the booklet quotes un-named ANC sources as saying.

Perceiving a strong anti-Moscow sentiment in Washington, London and Paris, the Bureau of Information booklet attempts to draw Western attention to what it calls the close and undeniable links between the ANC and Moscow.

Words and phrases well-known across the South African political spectrum, are spelled out for the benefit of overseas readers. This applies even to words such as "petrol" which the booklet explains to American readers is "gasoline".

The tone, structure and content of the booklet are designed to create the impression South Africa is not under attack by black nationalists who want to share power in the country, but by communists, fully backed by Moscow, who intend to take

complete power by force.

The booklet quotes banned ANC members and contains a photograph of jailed ANC leader Nelson Mandela in contravention of the Prisons Act.

While obviously attempting to increase right wing support from conservative Western nations, the booklet's primary function seems to be the curtailment of the recent flow of South Africans, many influential, to Lusaka.

It warns time and again the ANC is not interested in negotiation and even if it were, its Communist Party "bosses" would not allow it.

"If Botha hopes to buy time by appealing to non-existent, non-communist African National Congress leaders, then Botha has missed the freedom boat," the booklet quotes the ANC's Radio Freedom as saying.

NEGOTIATIONS

That quote, by the booklet's own admission, does not seem to be an accurate reflection of the ANC's command structure.

The quote obviously intends to convey the image of an ANC with a purely communist command structure. But, in its proper context, it simply reiterates the ANC view that negotiations cannot be held with only "selected" members of the organization.

The booklet lists the alleged Communist Party members of the ANC's high command and names 23 out of 30 as communists. The remaining seven, including President Oliver Tambo, are called "nationalists".

PICK 'N PAY 4/1/65

Pick 'n Pay to defy Govt

Own Correspondent

PICK 'N PAY garages throughout SA will continue the petrol coupon discount scheme in defiance of a government notice gazetted on Monday, banning all petrol discounts.

Pick 'n Pay executive director Alan Gardiner said yesterday that the coupon scheme would continue.

He said the company was taking legal advice on the notice and may seek the advice of a senior counsel.

Gardiner said there had been a huge consumer "uproar" condemning the ban.

"The government has upset so many ordinary South Africans with this ridic-

ulous and pathetic action that it really is a great shame," he said.

The notice, issued by Mineral and Energy Affairs Minister Danie Steyn in terms of the Petroleum Products Act of 1977, states that no-one may supply or offer petrol "other than by way of sale for a wholly monetary consideration, and at the price so prescribed" or "give or offer any benefit to any consumer".

Pick 'n Pay started discounting petrol in November, when, under its self service scheme, motorists paid 4c less than the standard price on a litre of petrol.

State-created uncertainties are stifling entrepreneurs

CAPE TOWN — With the general expectation of stimulatory action on the economic front by the authorities, the spotlight has once again fallen on attempts to bolster not only consumption expenditure, but also private investment, the assistant general manager Investments at Santam Insurance, Mr RB Justus, said in Cape Town today.

In his quarterly review of the investment market he said government-created uncertainties and bureaucracy were contributing to holding back the entrepreneurial spirit in South Africa, rather than the political problems of today.

Mr Justus stressed that it is the entrepreneur who has the best chance of creating jobs and of getting the economy going again.

He must be able to set in motion a plan of action in which he can reasonably expect to make a profit in the knowledge that there are risks and costs which are unavoidable, but which will not be greater than necessary.

"The businessman wanting to expand or open a new undertaking is finding it extremely difficult to plan ahead in a situation that is thwart with material non-traditional uncertainties and which are not all political.

"Risks can of course never be ruled out but in many cases it is the unnecessary uncertainties generated by the authorities and bureaucracy which are more telling and it is only the authorities who can do something about them," Mr Justus said.

Mr Justus said that although a re-

duction in taxation will encourage the entrepreneur it was of equal importance that the businessman should have a reasonable idea of what his tax liability in the foreseeable future would be.

Sudden new taxes, such as those levied on the banks and insurance companies and other selected industries has a discouraging effect both directly and indirectly.

The business sector had also been informed that it would have to contribute to the new regional services councils, but the implications at this stage still appear to be uncertain.

Businessmen and prospective businessmen also had to cope with a mass of red tape "and the moment he steps out of line with some minor infringement, he is hit with the entire weight of the bureaucratic systems" which sometimes causes his enterprise to halt temporarily with the resultant loss of jobs.

As far as inflation was concerned Mr Justus said it was not so much a question of is it high or low but could it be kept at a reasonably steady level so that forward planning could be done as far as purchasing power was concerned.

"There is money available right now at reasonable rates for expansion, and the entrepreneur would like to know that interest rates will stay around this level and not suddenly go through hyper-movements as was the case a short while ago when short term rates were around double their present levels.

Fewer businesses liquidated

By Sven Lünsche

4/6/85 (49)

With business liquidations very much in the news recent statistics released by the Central Statistical Service show that at least during the first two months of this year the business world was given a slight reprieve.

Business liquidations and summonses for debt against business firms, were lower by eleven and eight percent respectively in the first two months of 1986 compared with the same period last year.

This, however, was almost the only positive news which came out of an analysis of the figures by Dun and Bradstreet's director, Mr Graham Miller.

Overall business judgments increased by 24 percent to 8 410, while their value soared by 75 percent to over R22 million compared with 1985. Average judgments in business is now R2 669, but the liquidation of the Gulen group and expected judgment against AA Mutual could send this figures soaring over the next months.

S 11315

Says Mr Miller: "While the maintenance of lower rates, as part of the cost of credit, and improved credit evaluation methods and information account for the lower number of liquidations and summonses, it appears that once creditors have embarked on legal action, they are becoming more inclined to follow through until settlement is concluded."

He added that there is a trend to more selective credit granting and top management is looking for profitable sales to those credit customers who pay on time.

Of all business cases, 39 percent ended in judgment compared with only 29 percent in 1985.

The composition of total liquidations has also changed since 1984.

Compulsory liquidations have represented about 66 percent of the total since 1984, with voluntary liquidations making up the balance of 34 percent. This is the reverse of the trend of the years before 1984.

Cape Town
The Government is under pressure to announce large-scale job creation projects and a cut in general sales tax in its new package to revive the economy.

Finance Minister Mr Barend du Plessis is to announce the package in a speech in the Third Reading debate on the Budget — probably in the week starting June 16.

Mr du Plessis said in a brief statement yesterday that the Government was in the process of considering carefully all indicators of the state of the economy, and weighing different options for the possible stimulation of economic activity where it was deemed necessary.

He said he would evaluate the economic situation in the Third Reading debate and announce the Government's reaction.

It is generally expected that to create jobs where they are most needed, Mr du Plessis will announce large housing projects and schemes to upgrade infrastructure in black townships.

To stimulate consumer spending, he is expected to cut GST and may order a repayment of loan levies as well as further income tax cuts.

Imports inflation danger

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said today it was crucial that the Government put money in the hands of people who needed it most, and who were going to spend it on South African products.

"The Government is going to have to deal with unemployment or else we will not have the remotest chance of solving the unrest."

He warned that, on the other hand, the Government had to be careful that stimulating the economy did not lead to a substantial increase in demand for imported goods. With the rand at its present low level, a surge in imports would have a massive inflationary effect.

Mr du Plessis's package should therefore stimulate local production, he added. That could be done by creating jobs in new capital projects. Black housing was an obvious urgent priority.

A cut in GST would also be a fair and equitable way of putting money in the hands of everybody.

Mr Schwarz said Mr du Plessis could raise the money needed for such a package by borrowing internally. The economy was sufficiently liquid and the percentage of the Budget allocated to borrowing was low enough to allow for this.

By David Braun,
Political Correspondent

Call for GST cut to spur economy

4/6/76 S.M.R.

3/2/76
49

LESLEY LAMBERT

BUSINESS initiative and confidence are being stifled more by government-created uncertainties and bureaucracy than by current political problems, says a senior businessmen.

In a quarterly review of the investment market, Santam assistant GM (investments) Roy Justus says businessmen who are able to create jobs and get the economy going again are being hampered at every turn.

With the general expectation of stimulatory action by the financial authorities, the emphasis should be on attempts to bolster consumption expenditure and private investment, he says.

However, the businessman wanting to expand or open a new undertaking is finding it extremely difficult to plan ahead in a situation that is full of obstacles and uncertainties.

A major grievance is the mass of red tape. "The moment the businessman steps out of line with some minor infringement, he is hit with the entire weight of the bureaucratic system, sometimes causing his enterprise to halt temporarily, with the resultant loss of jobs.

Justus calls for the speedy and effective application of deregulation.

He says other grievances include:

Sudden temporary or additional taxes such as those levied on the banks and

Red tape is killing growth

insurance companies and other selected industries, which have a discouraging effect.

The possibility that the business sector will have to contribute to the new regional services councils.

Discouraging interpretations of amendments to the Income Tax Act, some of which are retrospective.

The authorities' inability to control inflation.

The uncertainty of rapid interest rate movements. "There is money available right now at reasonable rates for expansion. The entrepreneur would like to know that interest rates will stay around this level and not suddenly go through hyper-movements as in recent months."

Justus says the private sector and the entrepreneur will have to think more realistically, accept lower profit margins and realise that SA is changing.

Economic BUS DAY package 4/6/86 delayed

GERALD PROSALENDIS
Economics Editor

GOVERNMENT'S long-awaited economic stimulation package, which was to be announced in Parliament today, has suffered a further setback.

It will now be announced in the week of June 16, when the third reading of the Budget Bill comes before Parliament, according to a statement issued by the Ministry of Finance yesterday.

The Bill, due to be read today, was shifted forward because the present security legislation before Parliament had taken priority, said a government spokesman.

"This package should have been finalised weeks ago, immediately after the Governor of the Reserve Bank announced the latest cut in Bank rate. It is essential that monetary and fiscal policy be coordinated in order to have a measurable impact on the markets," said a senior economist.

Meanwhile, government is believed to be using the breathing space to examine further options to broaden the package. It is believed this might be extended to giving the ailing motor industry a shot in the arm, contrary to recent reports.

This is the second time the package — believed to contain cuts in indirect taxes and accelerated government

● To Page 3 →

Economic boost delayed

spending on black housing development — has been delayed.

Recently, there has been widespread speculation that the delays have been due to pressure from the International Monetary Fund (IMF) mission which is at present in SA.

But, said Finance Director-General Chris Stals: "Because we do not have a programme with the IMF or a standby facility to draw down further credit, their ability to influence economic policy is limited. The IMF understands this and so do we. We appreciate our discussions and value their suggestions but they do not have any muscle to tell us what our policies

should be."

Observers have suggested, however, that an announcement coming after June 16, for when there has been a call for civil disobedience by blacks, may be more than mere coincidence.

The statement released by the Ministry of Finance said: "The government is in the process of considering carefully all economic indicators of the state of the economy and weighing different options regarding the possible stimulation of economic activity where deemed necessary."

● See Page 6

4/6/86
BUS DAY
← ● From Page 1
49

LESLEY LAMBERT

THE life assurance industry — that corporate monster which seems to stop on growing, unlike its sickly short-term sister — is feeling the effects of a sustained economic downturn says AA Mutual Life MD Brian Benfield.



● BENFIELD

As the reality of the recession has filtered down through the shrunken accounts of policyholders, growth as measured by new premium income has slowed considerably.

Figures supplied by the Life Offices' Association (LOA) show that during the 12-month period to December last year premium income for the industry increased by an average 15%, compared with an average annual 30% in the previous decade.

A number of companies have recorded no growth in new business, while others have written less new business than last year.

As the two major life assurance companies, Old Mutual and Sanlam, command about 55% of the market it is assumed their figures had the greatest effect on the 15% average premium increase.

The effect of the recession on individual life companies has depended on their target

Life assurance industry is hurting as economic downturn continues

markets, Benfield says. Companies like AA Mutual Life, which has concentrated largely on the broad salary-earning market, has experienced some growth.

However, companies operating in the wage-earning market have seen a dramatic drop in business as unemployment figures have soared.

At the top end of the market, which includes corporate and executive business, many businessmen have been turning to their life insurance portfolios for rationalisation and saving.

Benfield stresses that the life industry is virtually immune from the type of financial collapse which the short-term industry is exposed to during hard times. "To survive we need to make sure that net premium income and asset growth are adequate to cover the liabilities, or claims, as they arise. If there was a run on the industry and a large number of policies were lapsed, a large portion of the liability would automatically disappear.

"The company would probably be in a better position in the short-term if the lapsed

policies were older than two years, while the policyholder would forfeit premiums paid. Benfield adds, however, that a cut in the rate of new business growth would have an erosive effect on future profits.

Recent imaginative attempts to encourage new premium income are a sure sign major companies are feeling the pinch. Another danger signal is the amount of poaching of brokers by companies wanting to improve market share.

Benfield says AA Mutual Life has been affected by this trend as competitors have tried to cash in on the crash of the AA Mutual short-term company.

AAML has had to fight for credibility as many policyholders have mistakenly linked it with the collapsed short-term operation.

To combat this AAML has launched a campaign to reassure its 135 000 policyholders that it is not financially affected by the collapse.

"There is no doubt that we have suffered some damage from the confusion but indications are that it is limited."

Wrong strategy on ANC

By John D'Oliveira,
Editor of The Star's
Africa News Service

There is no doubt, if one reads the Government's booklet "Talking with the ANC", that the African National Congress is riddled with communists; dedicated to revolution rather than evolution; and is adverse to anything that might compromise its aim of seizing power in South Africa.

Already there are those who claim that the Government's picture is based on selective quotes from ANC literature, broadcasts and leaders' statements and that the ANC is controlled by reasonable men forced into violence by the Government's intransigence.

Both sides, I think, are missing the point.

Whatever the ANC may or may not be, is less important than the wider issue of coming to terms with the real leaders of South Africa's black majority.

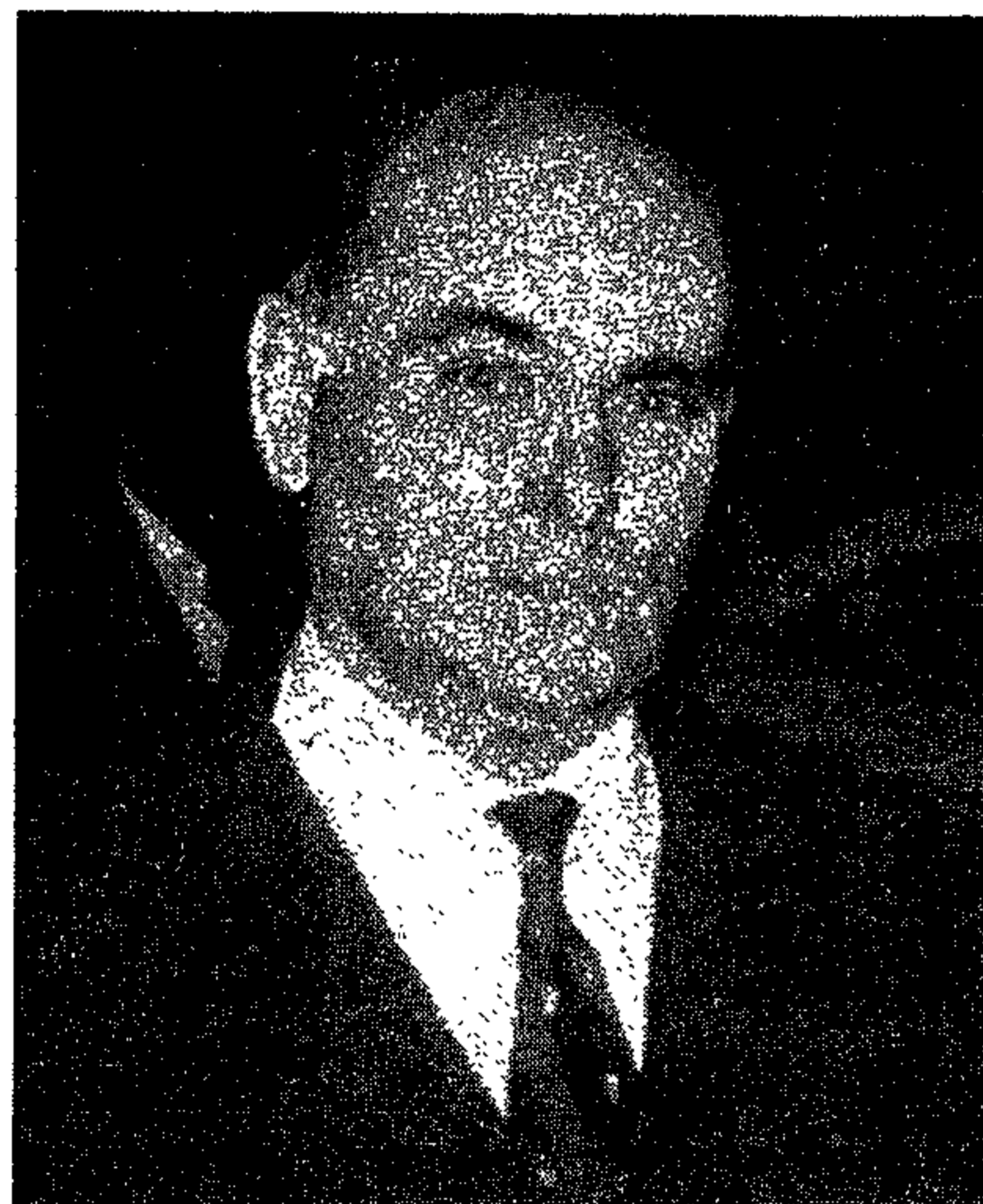
Obsession

If the ANC as it is now constituted really does represent the collective will of South Africa's black people — which I doubt — any government bent on a negotiated solution to South Africa's problems will have to deal with the organisation sooner or later, no matter how "good" or how "bad" Mr Oliver Tambo and his top echelon may be.

If it does not, then the current obsession with the ANC on the part of a large number of individuals and organisations in South Africa will only put off the inevitable moment of truth when the representatives of white South Africa are forced by circumstances to sit down to do a deal with their black counterparts.

It is a historical truth that the longer this process takes, the worse the whites' negotiating position will be.

In the meanwhile, the Government's actions themselves identify the ANC and their communist affiliates as the main opposition to white rule in South Africa. Rather than tainting the ANC with communism, the Government



Mr Laurence Gandar



Mr B J Vorster

embellishes the communists with a commitment to freedom for the "masses" in South Africa.

Way back in October 1962, the then editor of the *Rand Daily Mail*, Mr Laurence Gandar, warned the South African Minister of Justice against equating liberalism with communism, against identifying communism with the various non-white liberation movements.

Mr Gandar told Mr B J Vorster: "By holding up communism as the militant champion of those political aspirations among the non-whites which are considered legitimate and normal elsewhere in the world, Mr Vorster, you are encouraging our non-whites to regard communism as their principal hope for the future...."

"All this adds up to a massive and gratuitous boost for communist prestige and influence in South Africa which, we are sure, is the very opposite of your intentions. Through this misguided propaganda of yours, it is the communists who are depicted as the principal opponent of white baasskap, as the political force which is throwing the white establishment into confusion

and causing it to react with panic measures...."

Admittedly a great deal has changed since 1962 and we are not now talking about "white baasskap" but of the elimination of apartheid and all the evils of race discrimination.

However, if you replace "communists" with "ANC" in the above quote, Mr Gandar could have been writing in June 1986.

Reality

Instead of action which — inevitably — boosts the standing of the ANC, the Government should be demystifying the organisation by unbanning it, by offering to talk to its leaders, by releasing Nelson Mandela, by allowing all and sundry to quote what the ANC says. In short, by exposing the ANC to harsh public scrutiny.

Who knows what changes the ANC might undergo under these circumstances, what a dose of political reality might do to the organisation.

After all, look how the National Party has changed over the past decade.

I do not mean that the ANC should be given carte blanche to foment violence; that attempts to organise violent action should not bring down on the organisers the full weight of the law; that individuals should not be prosecuted.

What I do mean is that the Government cannot select the black leaders with whom it wants to do business — and, contrary to the views of many of my colleagues, I do believe Mr P W Botha wants to negotiate seriously with black people.

The Government must throw the country's aspiring, potential and real black leaders into the market-place (in a manner of speaking) and then it must start talking to those who emerge as leaders with significant followings.

Mr Vorster once discussed with me while he was Prime Minister the problems of selecting people for Cabinet posts.

"Think of a Prime Minister as a gardener," he explained.

"He is confronted by a number of plants and naturally there are some plants which he favours and which

he might water secretly during the night. But, when it comes to picking the fruit, he must pick the best fruit.

"And it will happen that some of the plants he has watered secretly during the night do not bear fruit or their fruit is unsuitable. So he must leave them alone.

"And, just as naturally, some of the plants that he has not watered will bear fruit in large measure — and he must pick that fruit, whatever his feelings might be. It does not offer you much, if any, personal choice.

"The Prime Minister must promote those people who are thrust upwards by the political process...."

In his (I believe genuine) desire to speak to black leaders, I think Mr Botha must remember Mr Vorster's words and he must speak to those people who are "thrust upwards by the political process", whether he likes them or not, whether he likes what they stand for or whether he does not.

Perspective

And he must understand that he cannot control the process by which these leaders are "thrust upwards".

He can influence the situation to a degree, but only subtly.

The publication of "Talking to the ANC" is a classic example of a white government believing that blacks think like it does; that they see politics from the same perspective as whites do; that arguments which convince whites will also convince blacks.

This was not the case in the '20s, the '30s and the '40s when what appeared logical, reasonable and rational to English-speaking South Africans was political anathema (and, in many cases, rightly so) to the vast majority of Afrikaners. In fact, those who "though like the English" were considered traitors.

"Talking with the ANC" may impress white voters by confirming their very real fears of what will happen under an ANC government.

However, I am convinced the booklet will do little to erode whatever support the ANC has among black people.

It may well have the opposite effect.

which they can again strike out for land.

Rand at lowest level this year

Atkins
5/6/86
49

Finance Editor

THE rand dropped below 39 US cents in the foreign exchange markets today to reach 38,75 cents, its lowest level this year. This is a fall of 1,30 cents from its close of 40,05 last night. A month ago the rand was at 48,75 cents.

The financial rand was also sharply lower, dropping to 22,50 US cents from 24 last night.

Foreign exchange dealers reported considerable pressure on the rand stemming mainly from concern about possible unrest following the planned June 16 demonstrations.

The financial rand has also been affected by foreign investors selling their South African shares ahead of June 16.

Stockbrokers abroad have been advising clients to do this in the expectation that they will be able to buy back their shares at a lower price after that date, a foreign exchange dealer said.

Other factors affecting the rand are the large dividend payments going overseas this month, the seasonal increase in foreign travel and the normal quarterly and half-yearly repayment of loans.

Pick 'n Pay to seek court ruling

5/6/86
HARISH MANDRE

PICK 'n Pay plans an urgent application for a Supreme Court hearing in Cape Town to have government's ban earlier this week on all forms of petrol discounting declared invalid.

Pick 'n Pay will be seeking re-confirmation of the legality of its coupon-linked petrol discount scheme, after a Supreme Court ruling in March allowed the supermarket chain to continue offering coupons.

Lawyers for Pick 'n Pay yesterday studied the special Government Ga-

zette for the first time since its issue on Monday.

A legal expert said the courts had over-riding power to determine whether an administrative edict was fairly applied. "They will be asked to judge the validity of the delegated legislation," he said.

Pick 'n Pay is continuing with the issuing of petrol coupons at its 13 outlets.

Corps will help SAs black businessmen

4/6/86
BUS DAY
S
S
49

THE International Executive Service Corps (IESC), a US business consultancy organisation operating in more than 70 developing countries, is to open an office in SA.

This follows a visit to SA last month by a delegation from the Corps led by director Tom Carroll.

The organisation will concentrate on what it calls the "deprived communities" — blacks, coloureds and, to a lesser extent, Asians.

Commercial section head at the US consulate in Johannesburg, Ben Brown, said the organisation had decided to open an office once it had established several factors — that black businesses would welcome the Corps, that there were enough black businesses sophisticated enough to need executive consultancy and that executives would not be in physical danger.

The IESC is a non-profit making, private organisation sponsored by

STEPHEN CRANSTON

many US blue chip companies and is operated by retired executives.

Executives from all types of companies are brought in for two to three month consultancies on a voluntary basis. They are partly funded by the Corps, partly by the company requiring advice and sometimes partly by US Aid funds.

Brown says he expects executives will be brought from the US initially, but hopes that a pool of retired SA executives will develop.

The SA Institute of Directors already has a list of retired executives from which it says the IESC could draw people for consulting jobs.

The first SA director will be Houghton Halleck, who was previously IESC director in Morocco.

The IESC believes that if it had an SA presence, it could have saved Black Chain.

Pick 'n Pay still 4/6/86 STAR sells gas coupons

49
By Jackie Unwin

There is a lull in the petrol discount coupon war while the Department of Mineral and Energy Affairs gives discount garages time to "put their house in order".

A special Government Gazette issued on Monday banned petrol discount schemes.

Pick 'n Pay is talking to lawyers on how to contest the new regulations, which outlaw the company's redeemable coupon scheme.

Mr Alan Gardiner, director of Pick 'n Pay, said: "The coupons (redeemable on commodities other than petrol) are still being issued at our petrol stations. We haven't heard from the department."

A spokesman for the department, Mr Theuns Burger, said: "By continuing to sell petrol coupons, Pick 'n Pay are breaking the law and we will act against them."

Consumer organisations have condemned the ban on discount coupon schemes in the wake of a Supreme Court finding that the practise is legal.

But Mr Burger said: "The Government fears widespread discounting practices will lead to service stations being closed down."

6/6/86

44

In the bag?

Manufacturers of woven polypropylene bags are waiting in the wings for word that the Jute Control Board is to be privatised. Thereafter, they hope to step in and capture the agricultural bag market worth an estimated R25m a year.

The importation of jute bags, used extensively in the maize, wheat, rye and sorghum industries, has been vested in the Jute Controller in Pretoria since World War 2.

Controller Don Vermeulen admits the Board is a "prime candidate for privatisation." In line with government's general policy of handing over specific public functions to the private sector, he confirms that the privatisation of the board is being investigated.

A final decision has not been taken, but he says the intention is to complete the probe into the handover as speedily as possible.

Bag manufacturers in the private sector,

however, believe privatisation is imminent. They have already produced a 70 kg non-slip woven polypropylene bag which the Maize Board is now testing.

At least two manufacturers, Consol and Romatex, are geared for production. Romatex moved out of the jute bag market in 1979 in favour of polypropylene bags and a Consol subsidiary, Paktex, has established a plant specifically for non-slip bags at its factory near Ladysmith.

Maize Board GM Hennie Nel says testing of the non-slip polypropylene bag should be completed by the end of the year. Early field results, he says, look encouraging.

"It could be," he says, "that the old jute bag will be phased out in favour of locally-made polypropylene bags, but the final decision rests with the board, its customers and the central government."

Nel says moving to a locally produced bag makes sense — if only in terms of import replacement and the consequent savings in foreign exchange.

The Maize Board's recent movement towards the bulk handling of maize has reduced its bag requirements, but in years of bumper crops there have been upwards of 30m new jute bags in circulation.

An added inducement towards switching to a local source is that the jute bag supply from Bangladesh is tenuous — to say the least.

FINMAIL
4/6/86
49

THE CONFIDENCE FACTOR

Jaw-jaw doesn't help

The key to prosperity in a capitalist economy is confidence. If businessmen and consumers are confident, they will spend. Jobs and investment will follow. If not, no amount of exhortation, cheap money or public-sector prodding will help.

It is trite when, at this stage of the economic cycle, the Minister of Finance finds it "disappointing" that private-sector investment remains so hesitant — as he told the Boland Chamber of Commerce this week. What does he expect?

Hopes of a watery economic recovery have been dampened by the Assocom Business Confidence Index (BCI) for May, the index for volume of manufacturing production, and by figures on the state of the building industry.

The BCI dropped to 78,6, from 79 in April and 85,5 in February. It is now lower than last year's average.

October 1985 was the last time this low monthly figure was recorded.

Assocom puts this decrease down to the prolonged fall in external value of the rand, a sharp upward trend in unemployment, and net outflow of skills.

This unemployment factor is substantiated by the Industrial Council for the Building Industry, which says 70 000 jobs have gone in its industry in recent years. Furthermore, little in the way of new projects is forecast to give relief. Central Statistical Services reveals that the total value of private-sector building plans for March is down 10% on last March.

Sickly state

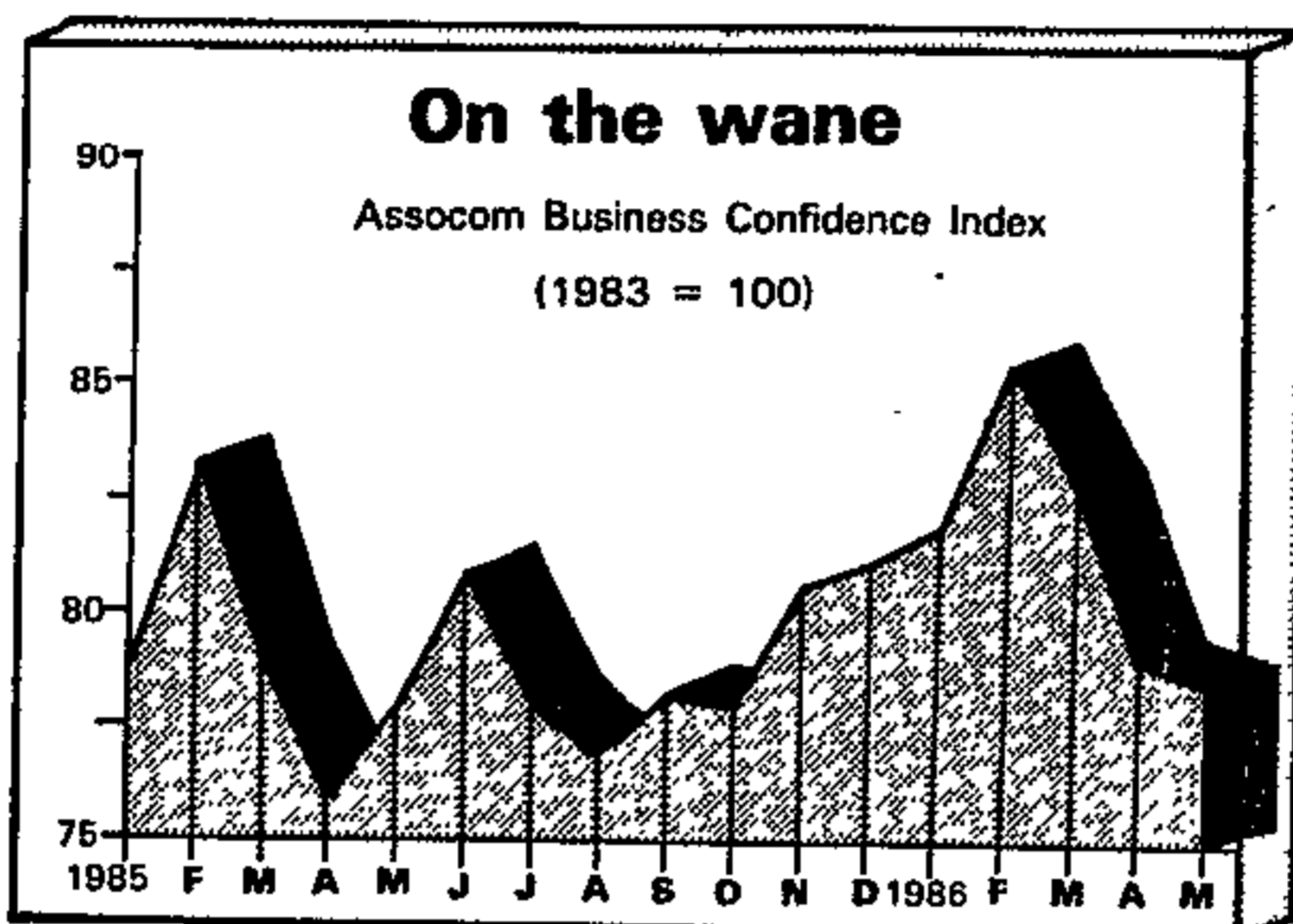
Another harbinger of gloom is the sickly state of manufacturing output, 2,6% less in February than in February 1985. Of 27 categories recorded, 18 showed declines. Plastics proved the only bright star, jumping 15,1%. Transport equipment suffered a hefty 27% fall in volume. Other sectors battered were clothing (19,7%), metal products (13,5%), and electrical machinery (16%). The motor industry recorded a 14,9% fall.

Factors which prevented an even larger fall in BCI were the drop in prime lending rate to 14,5% and the upward trend in share prices.

But this last is regarded more as an investment hedge against the poor performance of the rand.

Assocom emphasises — yet again — the lack of confidence and need for political change allied to a sound and growing eco-

nomny. On present trends, it expects 1986 GDP growth of only 2%. It favours reductions in indirect tax or the import surcharge, speedy implementation of socio-economic projects for blacks, a stalling of the pending regional taxes on payrolls and turnover, early repayment of the 1980 loan levy, and a cut in fuel prices — a package similar to the FM's own prescription.



As economists observe, a rand dangerously close to US40c markedly reduces the authorities' room for manoeuvre. But it also contributes to private-sector pessimism. Bare weeks ago it was possible to take the view that the apparent stabilisation of the rand would reduce the element of imported inflation. That has now been put in question again.

Businessmen are not pessimists by nature. Rather the reverse; otherwise they would not stay in business.

But they will not become optimistic just because Barend tells them to. They see a flagging economy and increasing international hostility — stimulated by the recent raids on neighbouring states. They simply do not accept that government has done all it can to stimulate the economy, because government has done so few of the things the private sector wants, while much that government has done is seen as irrelevant by the private sector.

Further diversion of resources to the public sector is the last thing to improve confidence, necessary though infrastructural spending may be *per se*.

The message from the business community is loud and clear. If government wants to restore confidence, all it has to do is listen — for once.

We are starting to run a new risk: that any package will come as such an anti-climax that it will not have the desired effect. That too will no doubt be blamed on private-sector apathy.

Our economic policy-making is beginning to seem horribly like Nero fiddling while Rome burns.

ECONOMIC PACKAGE

Waiting for what?

As business confidence slides, how to stimulate the economy is the most topical debate in business circles. Advice on what combination to introduce is flowing fast and furious.

So why are the authorities seemingly reluctant to act? Finance Director General Chris Stals says a package is being considered but cautions that "there is not much scope for financing additional expenditure." Any package "will be based on sound principles."

He agrees that there is room to increase the deficit before borrowing from the budgeted 2,7% — "provided it's funded in a sound way."

Stals adds that Budget measures are only taking effect now and consumer demand could increase without further stimulation. "The upswing did lose momentum in the first quarter but it is not impossible that it will pick itself up in April and May." This, however, remains to be seen — many have doubts, and the latest Assocom Business Confidence Index is depressing.

Delay could also be a result of differences within the Treasury, not to mention between the more cautious Reserve Bank and those in Treasury who prefer a go-stop approach (act

SCC REDUCED

The Standstill Co-ordinating Committee (SCC), set up in September to handle foreign debt negotiations, has been reduced from seven members to three: Finance Director General Chris Stals, Reserve Bank Deputy Governor Jan Lombard and lawyer Willem du Plessis. The secretary is still Koot Kruger.

The reduction is because the main work of the SCC is complete. Talks on technical matters are ongoing. A report-back is due in September, with a major review scheduled for April/May. The SCC could recruit further members then if the work load increases.

The Reserve Bank is now administering the interim arrangements with the creditor banks. A full section has been established under Lombard.



Unisa's Rogers ... Interest rates irrelevant

now and face the consequences later). Priority to this latter group is to promote jobs and growth, almost regardless of longer-term consequences.

While the authorities drag their heels, there is a real danger that raising expectations could reduce any package to a damp squib. This will defeat the whole purpose — restoring confidence.

Speaking to some private-sector economists who met the IMF mission now in SA leaves the impression that the mission is in favour of fiscal stimulation.

Those among them who advocate increased government spending deny that it is inflationary and could undermine our current account (through stimulating imports). The sheer weakness of consumer demand, they believe, ensures little (or no) demand-pull pressure.

Unisa economics professor Colin Rogers says: "Interest rates are virtually irrelevant for investment decisions. The desperate uncertainty has to be tackled for investment to occur. With the private sector shell-shocked, only government action can get the economy going. A GST cut might improve confidence and dent inflation but will not have any major impact in the real economy."

In view of the IMF's experience in so many other countries its views on higher official spending even when there is spare capacity in the economy will be interesting. We suspect the mission will be sceptical.

To be sure, these are only impressions. The IMF has certainly not come up with any strong views and in any case advises rather than prescribes.

Previous visits have to some extent influenced economic decisions. The adoption of a more market-orientated policy in the late Seventies and decision to slow down the economy in 1984 both followed IMF suggestions.

Its findings, being a thorough overview (it met many in both the public and private sectors) by "outsiders," are usually both professional and impartial. ■

ECONOMIC POLICY

Proposals imminent

Finance Minister Barend du Plessis will soon unveil proposals to boost the flagging economy. Sources at the Department of Finance confirm a package will be announced during

the delayed third reading of the Budget, now due after the Security and Energy and Mineral Affairs budget debates, which should finish this week.

The composition of the committee to monitor State expenditure, given advance billing in the Budget, is likely to be announced at much the same time.

The authorities cannot be accused of a rush job. Despite weeks of anticipation, sources at Finance were adamant as the *FM* went to press that the measures had yet to be finalised.

The same sources, however, were hot under the collar over reports that the proposals will ignore the plight of the motor industry. The *FM* understands that the tonic on the motor front is not specific to the industry, implying that Finance thinks its general medicine will be pretty strong stuff.

Low rand

But "room for manoeuvre is limited, to put it mildly," remarks one member of the Minister's planning team. Even the low rand is not the boon it is thought to be, as last year's tax revenues from the gold mines showed. "We face thin growth prospects in revenue this year," he believes, "not enough to finance larger expenditures or more tax giveaways."

The expenditure task force is to adopt a zero base approach, requiring departments to justify all activities. The committee is intended to complement the privatisation drive, clearly defining what can be hived off.

No fixed time scale is to be set. Rather, it will be an ongoing exercise starting with a few selected departments (probably those with heavy budgets promising relatively high yields per unit effort.)

Technically, the Minister of Finance could make cuts recommended by the committee on his own in terms of the Exchequer and Auditors Act, but he is expected to seek Cabinet sanction, for political reasons. ■

12

BOTSWANA SPARKLES ^{FIN MAIL} 6/6/86

Botswana has turned out another set of fine figures for 1985 — thanks to astute policy management and strong diamond sales. Much as the France-sized country (population 1m) is beset with drought and structural economic problems common to the continent, it can still boast the finest African economy — on paper.

Diamond exports increased 70% to P1 billion — equal to a 13% dollar increase, to US\$544m. The pula, based since 1976 on a basket of currencies including the rand, fell against major world currencies. But it appreciated against the rand from R1,12 at mid-year to close at R1,23.

With the bulk of imports SA-sourced, domestic inflation reached a two-and-a-half year high of 11,1% in November. A notable feature was a boost in monetary

expansion, almost wholly absorbed by the Central Bank in the form of private deposits.

This, says the Bank, "reflects the excess liquidity situation faced by the commercial banks and their consequent reluctance to accept certain interest-bearing deposits." Government finances remained firmly under rein, rising from a surplus of P5m for April-September 1984 to P80m a year later.

The current account balance improved substantially from P13m in 1984 to P233m; the capital account from P144m to P206m. The overall balance of payments reflected an estimated P464m surplus. International reserves stood at P1,7 billion — covering 17 months' worth of imports.

WORLD INVESTMENT

Shift of power

Japan's net overseas assets soared to US\$129,8 billion last year, an increase of 74% over 1984. According to figures released by the Ministry of Finance, Japan's public and private assets exceed liabilities abroad by more than \$1 000 a person. The Ministry estimates Britain's net external assets last year were \$90 billion and West Germany's \$50 billion. The US had net liabilities of about \$60 billion.

The huge gain was thanks to Japan's large trade surplus last year — nearly \$50 billion.

The statistics show Japan's total overseas assets grew by 28,3% in 1985 to \$437,7 billion, a third of the total accounted for by stock and bond investments, primarily in the US. Japanese investors have long been attracted to US dollar investments because of the higher interest rates on offer there.

In praise of opportunity



Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the *FM* on the role of his organisation in the light

of a recent IMF visit and his views on the path SA should follow.

FM: What was your impression of the IMF mission's awareness of the problems facing SA?

Vosloo: The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad. **How can the small business sector help long-term growth prospects?**

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of

institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2 000 enquiries per month. That figure is now 14 000.

What of the informal sector?

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

What role does government have?

The role of the State has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need some control, but it must be selective, a matter of degree — perfect competition exists only in theory.

Surely political stability is a precursor to economic participation by all groups?

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of

SA, there is a history of white settlement here, a firmly rooted European ideal. It is disfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

What advantages are to be gained by privatisation?

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

The SBDC has gained much publicity and success in its five years. Has it the resources to meet the challenge of the future?

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11,2m in 1981-1982 and R101,8m last year. For the expenditure of R275m, 46 000 jobs have been created and 25 000 retained. (The) SBDC does not always get recognition for its efforts.

In praise of opportunity



Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the *FM* on the role of his organisation in the light

of a recent IMF visit and his views on the path SA should follow.

FM: What was your impression of the IMF mission's awareness of the problems facing SA?

Vosloo: The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad. **How can the small business sector help long-term growth prospects?**

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of

institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2 000 enquiries per month. That figure is now 14 000.

What of the informal sector?

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

What role does government have?

The role of the State has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need some control, but it must be selective, a matter of degree — perfect competition exists only in theory.

Surely political stability is a precursor to economic participation by all groups?

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of

SA, there is a history of white settlement here, a firmly rooted European ideal. It is disfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

What advantages are to be gained by privatisation?

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

The SBDC has gained much publicity and success in its five years. Has it the resources to meet the challenge of the future?

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11,2m in 1981-1982 and R101,8m last year. For the expenditure of R275m, 46 000 jobs have been created and 25 000 retained. (The) SBDC does not always get recognition for its efforts.

Communities the key in war on starvation

By KIN BENTLEY
COMMUNITY involvement is the key to lasting success in the battle against malnutrition.

This is the view of the regional director of Operation Hunger in the Eastern Cape, Mrs Roselle Frasca.

At present a massive campaign here is keeping 30 000 starving people fed.

Unemployment in the area is more than 50% and negligible assistance is coming from the State in the form of social security.

Charities, churches and private organisations like Operation Hunger are trying to keep people fed until the long-awaited economic revival comes.

Mrs Frasca toured PE two weeks ago and intends returning shortly to assist in bolstering this effort.

The organisation has appointed a regional representative in PE, Mrs Molly Nicholson

Last year Operation Hunger budgeted almost R500 000 for the PE-Uitenhage area, but no charity applied for aid so the money was used elsewhere.

In February the PE Black Civic Organisation (Pebco) pledged to provide the infrastructure necessary to set up soup kitchens.

They are being assisted by local Black Sash workers. A pilot scheme to establish a community-based soup kitchen at the severely depressed TB Huis area in Red Location is progressing well.

It is hoped a permanent kitchen will provide 1 000 servings of soup a day, seven days a week. Needed too is a place near Red Location to store soup powder



Mrs R FRASCA

The soup kitchen convenor, Mrs Lesley Greensmith, said TB Huis was a pilot scheme to get the poverty-stricken people to help themselves.

Knitting was another project and it was planned to teach people to grow vegetables in allotment gardens to subsidise their diet.

Mrs Greensmith said there had been a good response to their call for donations, including one from the Australian Embassy and an offer from a Schauderville butcher of 200kg of bones a week.

Funds were needed. Children in particular needed wholewheat bread and peanut butter with their soup. Other requirements were pots and empty gas cylinders for cooking. Mrs Greensmith can be contacted at * 511258.

Helping co-ordinate the soup kitchens is Mrs Buyiswa Fazzle, wife of the Eastern Cape vice-president of the UDF, Mr Henry Fazzle

She said the committee wanted to get TB Huis working properly before it concentrated on other areas TB Huis, she said, was "the worst area" in the townships. Most of the people were unemployed, ill and malnourished.

"The most important people to get soup to are the children. We try to look after them especially," she said.

A jumble sale would be held soon.

"We want to get the TB Huis people involved in the project. They also attend the meetings," she said.

Mrs Frasca said Operation Hunger got involved in PE about three months ago. Up until then church organisations and local charity organisations had struggled to cope with an ever increasing number of destitute.

Although food from the organisation was now reaching about 32 000 people in the area, she didn't believe the distribution system was ideal.

The aim is eventually to have "large-scale, community based, self-help soup kitchens, where once a day hungry people can receive a nourishing meal".

Expanding on the need to involve community organisations, she said as a "grassroots" organisation, Operation Hunger aimed to help people establish soup kitchens "where the disaster is".

Food parcels were more costly than direct feeding from soup kitchens.

Another drawback of food parcels was that as soon as they were handed over, Operation Hunger

lost control of the food and could not be sure it was "doing the job it was intended to do". For instance, she said, children who needed the food most might not be getting sufficient, or the food might even be sold.

Asked if people who could afford to buy food would not exploit the kitchens, she said, "People do not come to a soup kitchen if they are not hungry."

While what was offered was highly nutritional, it was unlikely people who could afford to eat at home would eat it.

By involving the people themselves in the kitchens, she added, the "demeaning" act of receiving a food parcel could be obviated.

Sketching the enormity of the poverty problem,

Mrs Frasca said that even if the unemployment rate in PE was put at a conservative estimate of 50%, it had to be remembered that for every person unemployed, there were an average of nine dependents.

The situation was "frightening".

The recession in PE had worsened the plight of towns such as Graaff-Reinet as people left the city to rejoin their families there.

PE itself she viewed as a "disaster situation". The organisation wasn't active in Uitenhage yet.

She said Operation Hunger was feeding a total of about 130 000 people in the Eastern Province, Border, Ciskei and Transkei.

"But we are definitely

not reaching them all and right now we don't have the funds to do so."

However, she said, the response to calls for funds had been "quite incredible".

"There is a lot of concern and interest from the people of PE for which we are very grateful."

Mrs Frasca said they were currently spending about R1 million a month nationwide in feeding unemployed people and had budgeted for a food bill this year of R11 million.

It was funded purely by donations from individuals and big business. They were now also looking overseas for assistance.

She felt that hunger should be tackled on a national scale by the Government.

Government is told that blacks must be given full economic role

Business launches bold initiative to save SA

By Colleen Ryan

The business sector today launched an urgent initiative to save South Africa from political and economic disaster, and called for drastic action by both the Government and private enterprise.

Project Free Enterprise calls on the Government to scrap the Group Areas Act, create equal property ownership rights, remove influx control, and introduce direct political representation for blacks in central, regional and local government.

Two big drives, which have the backing of more than 100 corporations, are:

- The release of the Project Free Enterprise Report, which spells out how blacks can gain full economic participation in South Africa and so ensure the country's survival.
- The launch of an action programme to ensure that the report's major recommendations are carried out — by creating a new Economic Participation Council.

The report is being sent to top members of the Government, to Parliament and to numerous white and black interest groups — including black trade unions. But the United Democratic Front has already expressed strong reservations about the report, and major black trade unions refused to take part in the project.

The report, which was carried out under the auspices of Unisa's School of Business Leadership, has called on the Government to abandon its unsuccessful ad-hoc reforms and start immediate negotiations with representatives of the industrialists.

In a statement calling for an action plan, the researchers warn that current "political reform ... is viewed by blacks as being largely irrelevant". "To tie any reform to the concept of apartheid, even if it is as a way of ending it, perceptually contaminates the proposed reforms. For this reason a new method needs to be followed ... namely economic prosperity for all in a politically stable and strong South Africa."

The business sector has been urged to formulate a new management system to bring about black participation in business; to be committed to black advancement; and introduce incentive rewards.

Main goal

The action plan proposed by report chairman Professor Martin Nasser and project leader Mr Christo Nel has called for:

- The establishment of an Economic Participation Council made up of senior business representatives, employer bodies — and union representatives, if possible.
- The forming of a small executive committee consisting of full-time specialists who would use the most effective methods to monitor and promote the action plan.
- The council to make use of existing infrastructures of employer bodies, universities, unions and specialist groups to conduct research and communication.

The main goal of the council will be the achievement of full economic participation in a free market economy in a politically stable South Africa.

However, in the long term, serious consideration must be given to whether a mixed or social market economy is not perhaps the most realistic option for South Africa.

The researchers warn of the dangers of overt and covert industrial sabotage in which the disenchanted workforce is effectively preventing the achievement of enhanced productivity and quality.

"On the other hand, the ad hoc — and often vague — reform initiative is creating a climate which is an ideal breeding ground for the vested interests of the right-wing extremists."

9/16/88
SPR
49

UDF calls
study's basis
into question

The United Democratic Front has said it welcomes any creative initiative aimed at ending the violence in South Africa, but has questioned Project Free Enterprise's preoccupation with saving the current economic order.

"It would seem to me that the question of economic and political power is not adequately handled in the report," said UDF spokesman Mr Murphy Morobe.

This was reflected in the study's preoccupation with saving the free enterprise system.

DEMAND

Questions such as the destruction of white minority rule, and the demand for one person, one vote in a united South Africa to end land hunger and economic exploitation, played second fiddle to saving free enterprise.

He said the study was focused on businessmen and was incomplete without broader participation by all relevant parties.

"While the UDF supports the efforts of all South Africans to seek creatively to resolve the conflict in our country, we must nevertheless warn against attempts like the Government's of working out solutions above the heads of the people, and not with the people."

● See Page 9

Time to stimulate the economy — Standard

By Gareth Costa

The time is right for government to take the initiative of direct fiscal and monetary stimulation of the domestic economy as the industrialised world experiences falling inflation and interest rates, and consequently their growth projections have been revised upwards.

This is the view expressed by Standard Bank in its June monthly review.

"Fortunately, recent developments in the world economy have been such that the risks inherent in stimulating the domestic market have significantly diminished," says the bank.

This is due to the drop in oil prices which has brought about the prospect of lower inflation, while the realignment of the US dollar relative to all other major currencies has permitted significant downward adjustment of interest rates in most countries.

Standard says that not only is higher growth now expected in 1986, but the view that world growth can be kept at healthy levels in 1987 and 1988 is gaining ground.

The implication for SA is not only that chances of the domestic economy picking up later this year have been enhanced, but that any improvement could be extended into 1987 and possibly 1988, largely because of the export potential provided by

growing world markets.

Increased export volumes are particularly important for the domestic economy: "Only if volumes rise will the export industries employ more people, expand capacity and generate more business for the domestically orientated sectors such as engineering and construction."

The review states that the only weak export product is coal, but gold's stability is encouraging, platinum has performed extremely well while rising from \$260 to \$420 in the last year, diamonds sales are recovering and the others — such as base metals, ores, maize and sugar are being sold into firm or recovering markets.

Crude oil is the major import, but the price has dropped by roughly half, while manufactured goods' prices may be expected to rise only slowly in line with the low inflation rates in the supplier countries.

"In short, after a long period of deterioration, an improvement in SA's terms of trade appears to have taken place. Even if the government were to do nothing to stimulate the economy, this kind of improvement would, after a time lag, slowly contribute to an economic recovery."

However, due to the country's internal problems government has probably little choice but to initiate a recovery.

'Negotiate with the black leaders'

Govt, business warned on SA's downward slide

Take urgent steps now or else . . .

STARR 9/6/88

The Government must begin immediate negotiations with recognised black leaders to avoid further polarisation and violence in South Africa, says the Project Free Enterprise report.

Lack of clarity about reform was eroding support for moderates and increasing the power of left-wing and right-wing extremists, it added.

The researchers also warned against the continued detention of black leaders.

"The erosion of the moderate/rational leadership is being accelerated by every detention of any black leader.

"This is making the possibility of constructive negotiation increasingly remote. Many potential, or even previously moderate/rational leaders, are being driven into the 'frustrated' and left-wing extremist camps."

The researchers said the current political spectrum consisted of left-wing extremists, frustrated blacks, the moderate, the insecure whites, and right-wing extremists. Surveys had found that most people were willing to move towards a moderate/rational position.

"This is entirely dependent upon the degree of clarity and meaningfulness of future reform. The current situation is unfortunately characterised by an unacceptably high degree of vagueness."

VITAL ACTIONS

The breaking down of extremism and the creation of an effective coalition of moderate elements required four vital actions:

- Immediate negotiation with recognised black leaders.
- A statement of intent which should suggest a guide plan for what South Africa would be like in two to five years. Such a statement should be issued by next January.
- Formulating and implementing a new constitution. Such constitution should be a medium- to long-term process.
- Business sector involvement. The report said the Government had lost credibility to the Left and the Right.

The report said there were several options open to the Government for creating a future South Africa: it could take unilateral decisions; consult with other population groups; engage in direct negotiation.

The only effective way of bringing about change was for the Government to decide whether it wanted to negotiate with elected, non-radical leaders — or at a later date with only pro-violence/radical leaders.

The researchers developed a "barometer", which begins at where South Africa is at the moment, and goals for the future.

Economic prosperity essential

The implications of ignoring the recommendations made by Project Free Enterprise were extremely serious for both the economic and political sphere.

Economically, worker commitment to economic growth and the free market system would continue to be eroded, leading to reduced productivity and lower economic growth.

The report warned that political stability and reform would not be possible without economic prosperity.

The political consequences were that black attitudes, currently open to possible negotiation, would harden, leading to more radical reactions.

POSITIVE

Incremental and ad hoc change would cause, rather than prevent, crisis.

Positive implications of adopting the recommendations would include greater mobility of labour and the development of a viable black middle class.

Only fundamental and urgent implementation of reform would ensure a prosperous free market economy.

The only political cost to the Government would be to introduce meaningful black participation and scrap the Group Areas Act. Political losses could be avoided by implementing a strategy to satisfy specific interest groups.

"This report, more than any other in the history of South Africa, integrates the role of government and business in ensuring that South Africa may ultimately regain its potential stability and harmony."

Only drastic and immediate action by the Government and the business sector can reverse South Africa's steady slide into violence and economic disorder, Project Free Enterprise has warned.

The report "Economic participation in South Africa — strategy for survival" was launched after a survey found highly negative worker attitudes towards business in South Africa.

The initial findings identified worker perceptions such as businesses were exploitative and funded from limitless resources of capital provided largely by banks and Government. Profits were used for management bonuses and for taxes.

There was little understanding of the need for productivity to boost capital in a company. Most employees believed raising prices was the most effective way of creating revenue for wages.

Urgent steps

Project participants found in a subsequent study that urgent steps should be taken by the Government to help improve worker perceptions. The report recommended:

- The Government should create the opportunity for all individuals to have equal access to property ownership within South Africa.
- The removal of influx control.
- The scrapping of the Group Areas Act and the use of market forces of supply and demand as control measures instead of interventionist rules.
- The deregulation of small business to encourage development.
- The introduction of direct political representation and participation for the black community within central, regional and local government.

Project Free Enterprise, launched in 1984, set out to identify the major barriers to black economic prosperity and participation and the negative perceptions of workers. The project also identified the urgent steps that had to be taken to create an environment where the free market system could survive.

The project, involving 103 leading companies and semi-government bodies, was launched after earlier research by the Unisa School of Business Leadership found that the majority of workers viewed business as exploitative, offering them little in return for their labour.

The project, chaired by Professor Martin Nasser and under the leadership of Mr Christo Nel, held a series of think tanks for managers and employees last year to formulate a strategy for the promotion of free enterprise in South Africa. The researchers then developed proposals to be taken by Government and business which would save South Africa from steady decline into economic stagnation and political chaos. COLLEEN RYAN reports on their recommendations and findings.

respondents, fell under the headings:

PROPERTY OWNERSHIP

Measures with 100 percent endorsement were those calling for genuine freehold for all, removal of discretionary site allocation, development of individual initiative, racially declassify financial institutions, delegate developmental responsibility downwards, modernise tribal, private and homeland land tenure.

Recommendations which lacked complete support were the call for ownership for all races in all areas (71 percent endorsement), ownership for each race in own area (59 percent), combination of open and restricted areas (65 percent), removal of rent control (88 percent) and withdrawal of the Development Trust and Land Act (94 percent).

BLACK PARTICIPATION IN GOVERNMENT SYSTEMS

All respondents rejected the formation of a unitary, one-man, one-vote system while only 36 percent supported the

principle of geographic grouping according to race.

Other recommendations with endorsements ranging from 71 to 93 percent were the principles of limited central government, a bill of rights, megadevolution, limited central government powers.

With regard to bring about change, all respondents favoured low profile negotiation but only 17 percent were satisfied with the present process of change.

The role of the private sector in bringing about black participation should be to influence government, all respondents agreed. Only 50 percent favoured prescribing to government while 93 percent believed in educating workers.

EDUCATION

The recommendations adopted by the majority of respondents, in their order of importance, were for the introduction of a single ministry of education, private sector involvement in education, real world curricula, improvement of teacher training and restructuring curricula.

GROUP AREAS ACT

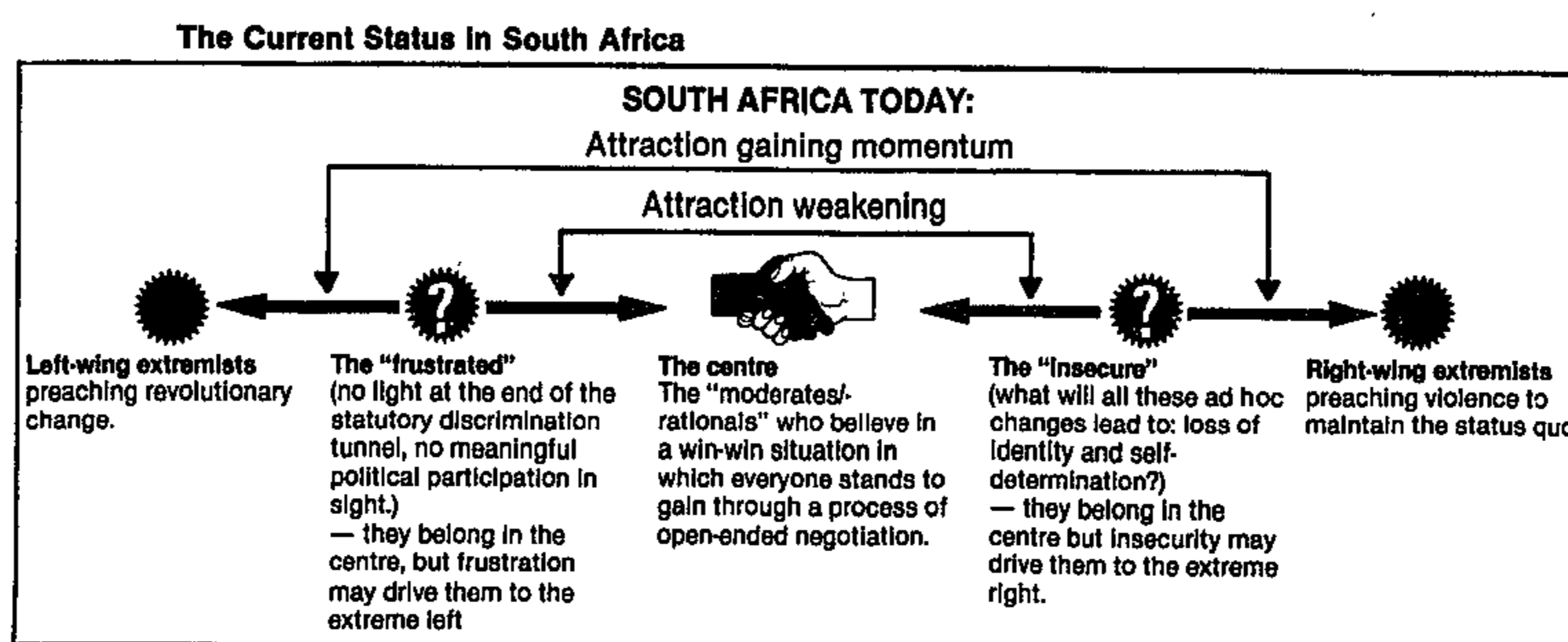
All respondents supported the removal of the Group Areas Act, but only 5 percent favoured forced integration. The majority favoured total and effective opening of CBDs and delegation to local authorities.

All participants favoured scrapping influx control.

SMALL BUSINESS DEVELOPMENT

The majority of recommendations were accepted overwhelmingly and include a call for lower building standards, free choice of business hours, removal of licences for starting small businesses, relaxation of many restrictive measures and re-evaluation of zoning in black areas.

STATUS OF REFORM



Report advocates involving workers

The most effective way of gaining commitment to the free enterprise system is to encourage worker participation, the Free Enterprise Report has recommended.

Researchers investigated top companies which had committed themselves to improving worker-manager relations and found the best successes were in participative management systems.

They concluded employers were generally still guilty of totalitarian and autocratic styles of management that ruled out meaningful participation by workers in basic processes such as performance improvement and decision-making.

The report found a need for top management commitment in ensuring that participation succeeded and said there was a need for fundamental change in managerial attitudes.

PROGRESS

It also found that organisations which had made some progress in developing participative systems had needed to personalise the system. For example, quality groups formed by a company would be given special names.

With all successes, a process of starting small and then growing was followed. Also participation in group systems had to be voluntary.

To succeed, workers had to be given authority to implement solutions and investigate problems.

An important feature of developing participative systems was through education programmes. Much of the success of participative systems depended upon an employee's understanding of why a company needed to make profits.

Business accused of paying lip-service to black progress

The business sector, like the Government, is guilty of paying lip-service to the subject of black advancement and often takes action "too little, too late", says the Project Free Enterprise report.

The business community had a major responsibility to ensure that blacks benefited directly from the system, said the report.

The researchers were critical of the progress made so far to "sell" the free enterprise system, referring to the alarming decline in productivity.

"Management pays lip-service to important issues, such as black advancement and incentives. Top management views are not properly communicated down the line or are disbelieved," it said.

"The exclusion of workers from meaningful participation undermines the very essence of

organisational survival," said the report.

The major problem was the discrepancy in the views of management and workers.

"At this early stage of the research it becomes apparent that management's perception of what they are doing differs substantially from the workers' perception of their actions.

INSENSITIVITY

"The business sector is making itself guilty of exactly the same transgressions for which central government is often blamed — lip-service, far too little action too late and insensitivity to the environment and needs of the recipients of the proposed strategy."

The report said it was "clear that the workforce would not commit itself to enhancing quality and productivity whilst the current negative percep-

tions prevail".

To achieve higher productivity and improved quality the project focused on four main priorities:

- Developing participating systems.
- Encouraging black advancement.
- Establishing worker perceptions.
- Developing incentive reward systems.

The report said that the business "micro" strategy and the Government's "macro" strategy should be developed together.

"It is the Government's responsibility to create the type of socio-economic and socio-political environment in which business can survive and prosper and it is the responsibility of business to utilise this environment to the optimum benefit of all the participants."

'Commitment to advancement needed'

The issue of black advancement in business has received only superficial attention and it was time companies committed themselves to advancement programmes, said the Project Free Enterprise report.

Black members who had taken part in the Project Free Enterprise "think-tanks" expressed frustration with lack of genuine opportunities at high levels, the report said.

In most instances businesses had increased their black labour force in mainly the unskilled and semi-skilled levels out of necessity.

One of the biggest obstacles for the project had been the near impossibility of involving organised labour, said the report.

It was unfortunate that the levels of mistrust were at such a level that organised labour often viewed itself in competition with management

while management viewed unions as obstructive.

The report said business had not always been the first career choice for blacks. Legislation, white resistance, exclusion from management, discriminatory pay structures and underdevelopment of the medical, ministerial and teaching vocations as highly prized careers.

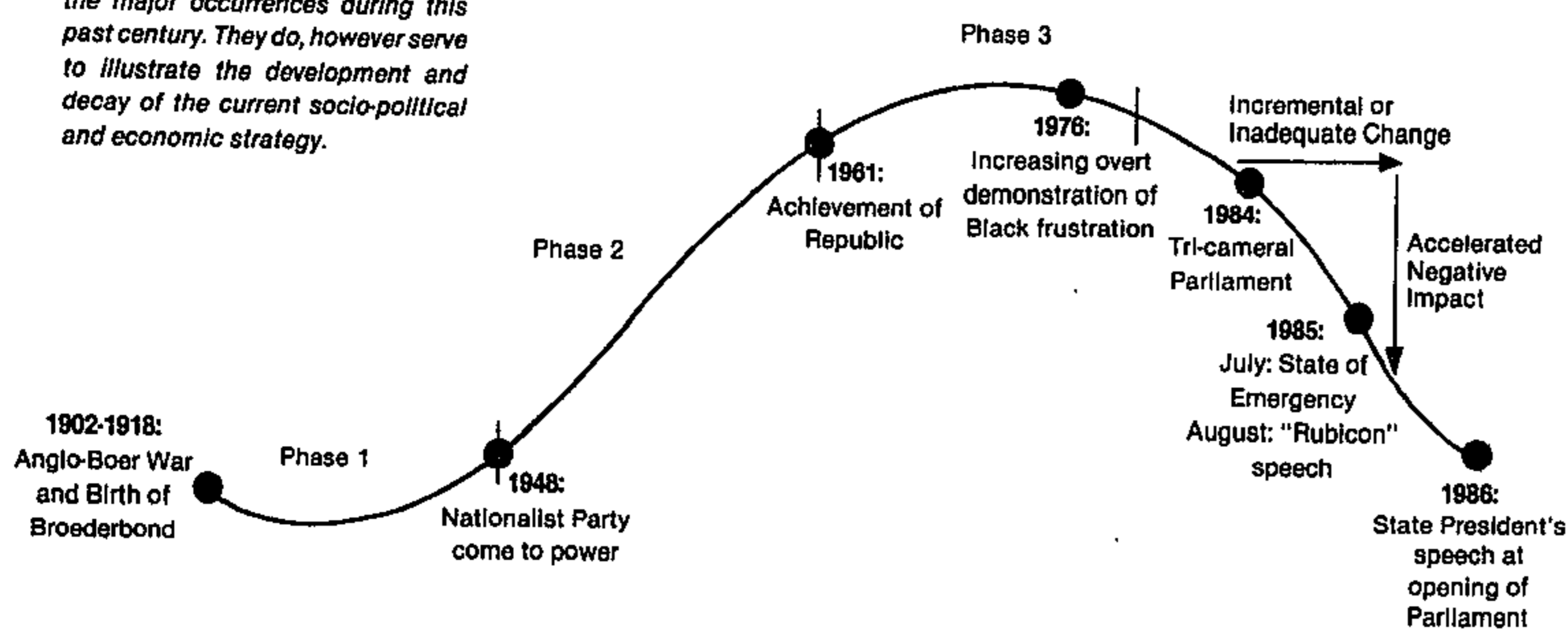
"Blacks entering the business world have been regarded as opting for second best, or worse, as being second-rate themselves."

In the first stage of Project Free Enterprise research had showed alarming levels of black mistrust and frustration.

The report said it was essential that blacks start seeing that management was sincere in its commitment to offer them the same opportunities and challenges as whites.

SE

Note: The stated key occurrences obviously do not encompass all of the major occurrences during this past century. They do, however serve to illustrate the development and decay of the current socio-political and economic strategy.



The Historical Development Status of South Africa

A few of the key occurrences along the development of the strategy which is still largely in place. At the current stage of development which has reached the fourth phase, only a fundamental repositioning and immediate implementation of a totally new and innovative strategy can stop the negative momentum.

Political crisis 'worsened by inadequate SA reform'

South African is in a political crisis and the situation is being worsened by inadequate reform, the Project Free Enterprise report found.

The report said there was no longer time to think or talk about change. "In this instance, time has passed us by, and will no longer wait for South Africa."

The researchers said the country had progressed through three phases and had entered a fourth:

- Phase one (1902-1948) was characterised by disequilibrium and the need for clarity of goals.
- Phase two (1948 - 1961) was a period when there was equilibrium between challenge and response, dynamism and flexibility.
- Phase three - (1961 - 1979) was characterised

by disequilibrium between challenge and response, stagnation due to loss of flexibility, waste, unwillingness to introduce change and loss of creativity.

● Phase four - (the present stage) is characterised by stagnation and hardening of resistance to change, escalation of crisis and crisis management.

The hardening of attitudes of vested interest groups was the single most important stumbling block to change, said the report.

Ad-hoc change was not good enough - "The only option is fundamental change which is seen to be implemented and not merely talked about."

An example of inadequate change which did not alter strategy was the "Rubicon" speech.

The report warns that South Africa's sensitivity and vulnerability to political, economic and social issues, both internal and external, would increase.

The report said the best position for implementing change had been at the start of the third phase.

Survival and growth required the development of an entirely new socio-political and socio-economic dispensation.

The report warned: "Current political structures are incapable of coping with the problems of a growing clash of interests. The socio-political infrastructure is historically too inclined to appease rightist vested interest groups.

"This prevents development or achievement of change which would be acceptable to the moderate majority."

The report said business should accept its position as a politically non-aligned party which could play a central role in negotiating change.

Education ministry call

Project Free Enterprise has called for the establishment of a single ministry of education in South Africa, saying:

"Only a unified administrative system will be acceptable to the black community and will reduce black alienation."

Education was a fundamental function of the State. The cost of disparities in the provision of education was manifold and serious.

At a national level, decisions and expenditure could be most effectively handled by a single ministry with an overview of the needs, priorities, adequacies and inadequacies within the system.

Researchers said there should be leeway for decentralisation on a regional and community basis. Other priorities were:

REAL WORLD CURRICULUM

- Introducing private sector involvement.
 - Designing a "real world" curriculum. Pupils left school before they had obtained suitable vocational qualifications, skills or appropriate value systems. There should be a balance between general formative preparatory education and career education relating better to the country's manpower needs.
 - Improvements to teacher training in both formal and non-formal sectors. Private sector personnel and facilities should be used in teacher training and teachers of any race be used at all schools.
- Other priorities included developing career guidance in schools, improving the accessibility of non-formal education and racial integration in schools.

Racism

Siwani

by the nation-wives'

anted, the six pres-Tappa, confer-rector of the

soci-can of ar Dr

d ma-fares, nt for

frica ontein



DEBORAH MABILETSA: "No nation rises above its women."

Iso difficult any whites

TERS TO EDITOR

riot everytime prices - which is all the time. e our homes. but the whites who have ed from their Mayfair amounts to the same) those who have been nes in Mayfair? usually in their sixties state pension and have o go. When electricity, telephone rates etc are we just have to accept e cannot riot. f us whites are from the uburbs, who are living Most of us are working es two or three jobs sily. (if we are lucky enough job) most of us have ited by our employers,

receiving no increases and being expected to do the work of 10 people (which is an impossible task, physically, even if one were receiving a salary of R10 000 per month). I have ample proof of this if anyone is interested.

We dare not strike or complain because it would be disastrous if we were unemployed. In any case, who would listen to us whites if we complained?

The company I worked for closed down in December and, I have been unable to obtain similar half-day employment (half-day because of joint taxation).

I am so desperate that I would gladly have accepted a job as one of Mr Raymond Ackerman's employees in place of one of those who were rioting. I say "rioting" because I was present and was a victim of much abuse and vindictiveness.

Sick and tired myself
Germiston

Withdraw Bill

The Minister of Law and Order has presented before Parliament his new Public Safety Amendment Bill for study and discussion.

The provisions are unlikely to have any significance on the lives of most whites. We must, however, consider the effect this legislation will have on those people who will indeed feel its influence: primarily our fellow black, coloured and Indian South Africans.

For these people, living under a state of emergency varies from the imposition of curfews to ever-present observation by the SAP and SADF, to the threat of arbitrary imprisonment without charges being laid or recourse to courts of law.

The majority of us, who live comfortably in peaceful white suburbs, do not have to face the threat of teargas and birdshot or the restrictions of being confined to our homes as a result of curfews. But we do have the power to persuade the Minister of Law and Order to withdraw this pernicious Bill out of concern for fellow South Africans and in the cause of genuine reform and reconciliation.

We strongly urge him to do so.

Janet Forsyth

Berea

Library rejected request

As 1986 was designated the "Year of the Disabled", and we wanted to create a public awareness of the plight of the disabled, we asked the Parkview Public Library to do a display of books relating to the various handicaps and disabilities.

However, after apparent consultation with the City Librarian, this request was refused. There are many crippling handicaps, and that the disabled person leads an isolated existence. They derive much pleasure in feeling, sharing and participating in everyday living, albeit at a slower pace. We would like the general public to become involved, even if in a small way, with the disabled and we deplore the action taken.

Joan Wessels
Transvaal Association for the Care of Cerebral Palsy

Johannesburg

The City Librarian for Johannesburg, Miss Lucy Kennedy, said she had refused the request from the Association for the Care of Cerebral Palsy because of a "misunderstanding". The Association should have contacted her directly instead of the Parkview library. "As I got the information second-hand, I was not sure of the exact nature of the request and it was therefore refused. However, I intend contacting the Association to ascertain exactly what they are asking for," she said.

Hang in shame

I refer to the Parliamentary report (*The Star*, May 27) in which I am incorrectly quoted to have stated Mr Pat Poovalingam, MP, to "... hang himself". I stated in Parliament on May 26 that Mr Ismail Omar, the present National Chairman of Solidarity, had refused to go to the border after accepting the Government invitation.

I said: "I believe that he (Mr Pat Poovalingam) drafted a letter of apology on behalf of his party, disassociating his party from the actions of Mr Ismail Omar, but could not get his party to sign the letter..."

"I say such a person (Mr Pat Poovalingam) is a real apologist. He should paint his face black in disgrace and hang himself in shame and refuse to tread the streets of South Africa. I say that is the finest example of an apologist, two-legged apologist that nature ever suffered to crawl upon the surface of South Africa."

From the foregoing it is clear that I did not suggest that Mr Pat Poovalingam should hang himself.

A Rajbansi
Chairman: Ministers' Council
Administration: House of Delegates

Cape Town

COLLEGE OF **MM** **BB** MARKETING

Professional training to advance your career.

THE OFFICIAL INTENSIVE MARKETING MANAGEMENT COURSE

Today's top marketing people are those whose skills are honed to a razor's edge, they are people who have learned to survive and succeed in a fiercely competitive environment where one can no longer hope to move up the ladder without the appropriate qualifications.

Damelin Management School and the College of Marketing (C.o.M.) the two leading institutions involved in marketing management courses, continue to provide the industry with people armed with the skills they need to move into top marketing positions throughout the country.

The official Intensive Marketing Management Course is recognised as the premier post experience marketing course in South Africa by both the major employers of marketing personnel and the Institute of Marketing Management (I.M.M.). All successful students will be awarded the I.M.M. Professional Certificate in Marketing Management and will earn points towards gaining full membership of the I.M.M. with the appropriate designatory letters - a nationally acclaimed advantage that will accelerate you to the very top.

WHO SHOULD ATTEND: Those intending to make a career in marketing, Brand and Product Managers who have not had any formal training, and Sales Managers and sales people who have certain marketing responsibilities.

COURSE OUTLINE

CONSUMER BEHAVIOUR: Specific emphasis is placed on the South African environment and both the Consumer and the Industrial Markets are studied, Market Research, Product Policies and the Product Life Cycle are examined in depth.

ADVERTISING: Control of Advertising Budgets, Media and their Choice, Relations with Agencies.

PERSONAL SELLING: Management of a Sales Force, Incentive Programmes, Point-of-Sale Material, Offers etc.

FORECASTING: The Planning Process and Selling Objectives.

PRICING POLICY: The Effect of Price as a Component of the Marketing Mix.

DISTRIBUTION: Methods of Distribution and their Logistics.

TEACHING STAFF: All College of Marketing lecturers have been selected for their academic qualifications, practical experience and lecturing ability.

FACULTY COUNCIL: The council consists of top academics, businessmen and senior executives of professional institutes who ensure that the highest standards are maintained.

DOCUMENTATION: The most up-to-date text-books and course documentation are provided.

CERTIFICATE: The I.M.M. Professional Certificate in Marketing Management.

DURATION: Five months.

TIMES: Students have the choice of attending either Monday and Thursday evenings from 7.00 - 9.00 p.m. OR Saturday mornings from 8.15 a.m. - 12.30 p.m.

COMMENCEMENT DATES: Thursday 19th June and 24th July, Saturday 21st June 26th July.

For further information on this course and how you can afford it, phone (011) 337-8789 or 29-8911 or call at Damelin Centre, Cnr Hoek & Plein Streets, Johannesburg. After hours 795-2593.

Damelin
MANAGEMENT SCHOOL

Putting knowledge within everybody's reach.

79229

CHRYSLER FINANCIAL SERVICES

Preference shares a rescue route for an ailing company

By Michael Menof

Economic downturn and a weak rand have resulted in many companies being faced with large foreign loans which have had to be brought on-shore at greatly increased interest rates or with trading losses and allied cash-flow problems or with both.

In such circumstances, bank credit at high overdraft interest rates is not the answer to a company's problem. Interest payments merely increase the strain on a balance sheet, reduce profits or turn profits into losses. Some other arrangement is needed.

Preference share financing offers both a form of dual financing, namely the borrowing company's cash reserves are boasted at a much lower rate than normal prime overdraft interest rates while offering the lending bank a return on its investment which in the form of a dividend return is not taxable.

Borrowing companies with significant assessed tax losses can really benefit from the arrangement, since they no longer have an interest expense deductible against profits (profits can now be higher) but rather the dividend payment which is an appropriation of already taxed income.

And the bank's claim against the company is weakened if changed from a concurrent or secured claim to a shareholders claim which in an insolvency is of little value to the bank.

However an investment in preference shares allows the bank to exercise more control over the affairs of the company since they are now virtual partners with existing shareholders.

As long as the dividend rate of return exceeds the cost of funds on the amount invested in the preference shares, the bank is still earning a margin on capital invested and so is better off. Further, as a preference shareholder, it could have more say than ordinary shareholders.

The tax consequences of preference share transactions are crucial to the success of such a

scheme. The Tax Act allows deduction of expenses incurred by a taxpayer provided the expenses are incurred in producing taxable income, but such an expense is clearly not deductible and the "cost" of funds in the case of a bank would increase accordingly.

When a bank invests an amount in preference shares of a client company, such funds originate from the bank's general pool of investor funds on which it pays interest. The bank must then seek to deduct the interest expense from income earned. But if the "income" is not income as defined in the Tax Act, as in preference share dividends, then the bank could lose its deduction of interest paid to investors, making the preference share transaction unattractive to the bank.

This was precisely what happened in the recent Standard Bank tax case. The Receiver disallowed a portion of Standard Bank's interest paid as a deduction related to the production of income received from preference share dividends which is not income as defined.

Standard Bank successfully fought this argument in the Appellate Division. Unfortunately, this has been widely interpreted to mean that financial institutions can invest in preference share schemes receiving a low rate of dividend which is non-taxable in their hands while being allowed to deduct all interest paid to investors irrespective if paid on the funds invested in preference shares.

Clearly the facts of each case must stand alone and must be separately looked at. The guidelines of the Standard case are:

(1) The bank must draw its funds for investment in various profit-generating transactions from a general pool of funds received as a matter of standard practice and commercial necessity.

(2) The bank should invest in preference shares as a matter of necessity rather than actively pursuing the marketing of such transactions. Rescue via preference shares must be motivated

by a sound commercial reason other than pure profit.

(3) The amount of preference share transactions should not be a major part of the bank's activities.

(4) Accepting deposits from customers and the rate of interest paid must bear no connection with the bank's investment in preference shares.

All preference share transactions should conform to the above "rules" to prevent the Receiver disallowing part of the bank's interest expense. Should the interest be disallowed it would render the particular transaction unprofitable for the bank.

The bank should show that companies to whom it had lent funds had financing difficulties and was faced with a choice either to let the company be liquidated (with a large write-off for the bank) or try to rescue the company by means of preference share funding.

There is little doubt that major abuse of the guidelines by the Receiver for preference share financing by banks could see the Tax Act suitably amended which will result in the total nullification of preference shares as a financing scheme.

The borrowing company with significant tax losses, benefits from a low rate of interest via the preference dividend which is paid annually in arrear.

It also gives the cash flow every encouragement to become positive with a chance that profits can be generated. The income statement looks much healthier without the onerous overdraft interest rate expense.

Most important, companies get a chance to recover thus ensuring jobs, employment and the payment of tax once the assessed losses are fully utilised.

In today's gloomy circumstances, the preference shares route is a blessing for all and should be urgently considered by companies requiring help.

Surely the Receiver would also want to help restore the health of a company?

Wide-ranging political and economic reforms sought

BUD DAY
42
9/6/86

Big business provides a 'road map' for SA

MORE than 900 top business leaders have devised a programme of wide-ranging political and economic reforms in a bid to halt unrest and bolster the system of free enterprise in SA.

The programme, contained in a report released yesterday by Project Free Enterprise (PFE), is being billed as the most comprehensive attempt ever by the business sector to put forward solutions to the country's political and economic problems.

One leading businessman described it as "a well-researched and documented road map for business and for government."

The findings and recommendations of the report, representing as they do the consolidated views of a very wide cross-

CHRIS CAIRNCROSS

section of the private sector, are regarded as probably the most significant empirically-based attempts ever by the business community to come to grips with a strategic solution for SA's economy.

The report was compiled by a research team under the chairmanship of Professor Martin Nasser of Unisa's School of Business Leadership.

It is an important end-result of extensive research that was embarked upon in 1983/4 among personnel of 78 of SA's leading organisations to determine the perceptions and commitment of the workforce to business within the free enterprise system.

The survey, representing three million

employees, proved conclusively that the workers viewed business as exploitative, offering them little in return for their labour inputs.

These perceptions motivated the leaders of more than 100 of the country's major private and para-statal organisations in January last year to set about determining what effect-steps could be identified to overcome the negative attitudes of the workforce.

Under Nasser's chairmanship, a series of think-tanks and workshops were held during 1985. The end-product is the PFE report.

Stressing that political and economic policy are totally interdependent and must be mutually incorporated in the

● To Page 2



Unionist calls for socialist system

By Mike Siluma

It was too late for free enterprise to save South Africa and workers now demanded a socialist system, Mr Cyril Ramaphosa, general secretary of the National Union of Mineworkers (NUM) said in Johannesburg last night.

He was sharing a platform at the celebration of the first anniversary of *The Weekly Mail* with mining magnate Mr Harry Oppenheimer.

Speaking on the role of the Press in a changing South Africa, Mr Ramaphosa castigated it for its coverage of the situation in the country.

He attacked journalists for becoming agents of propaganda for apartheid and capitalism under the guise of objectivity.

He said: "The Press has done very little to question the captains of big industry about the low wages they pay.

"Clearly in our society with its poverty and racial oppression there are two positions — one either supported the status quo or opposed it".

Mr Ramaphosa said journalists could not stand above the inherent contradictions in South Africa.

LEGITIMISE

Alleging collaboration between the Government and big business in controlling the South African Press, Mr Ramaphosa said: "The one passes ridiculous laws to restrict the Press and when this fails the other shuts newspapers down and replaces them with free tabloids.

"The system cannot function without the support and help of the Press. They need the Press to legitimise their actions".

He said: "Experience has shown it is too late for free enterprise to save the country. Workers want a socialist system because all they have experienced from free enterprise is poverty and low wages".

Mr Oppenheimer said he did not believe the fight against apartheid was "irrevocably tied" to the fight against the economic system.

The belief that fair and strong expression of views was wrong and conducive to violence was not confined to the right wing.

He and Mr Ramaphosa were one in regarding a free, lively and brave Press as important in the life of a free country.

Rents on PE shops, offices

By BARBARA ORPEN

RENTS on shops and offices have dropped by as much as a third in Port Elizabeth's central business district, and in Main Street, North End, by as much as a half.

In North End particularly, an "alarming" number of premises is standing empty.

Mr Des Hynch, director of Hancock's For Space, said the situation was a result of the general economic climate, exacerbated by the consumer boycott.

He cited an example where office and shop space in one of the modern buildings in Main Street was being let at R5,50 to R6 a square metre, as opposed to R8 or R9 a square metre two years ago.

Some premises in Russell Road were being let at R8 a square metre, as opposed to R12 two years ago.

Business premises in the North End area between Albany Road and Constantia Centre were now being let at R5 or R6 a square metre, instead of the R10 of two years ago.

A shop near Albany Road was being let at R3 a square metre, "which is cheaper than warehouse space in an industrial area would have been two years ago".

Industrial premises which went for R3 a square metre two years ago are being let for R1,70 in the Kempston Road area.

"The situation in North End is that landlords no longer quote a rental — they wait for an offer from the prospective tenant.

"The commercial property market is now the tenant's market, with the landlord reducing rentals merely to ensure tenancy of his property." Mr Hynch said the clo-

sure of shops and businesses in North End was "alarming and frightening".

"We receive two or three phone calls a day from people who are asking either to sub-let their property or who are closing down."

He said he personally dealt with at least 12 shops which had closed down between Albany Road and the Constantia Centre in North End during the last year.

"A few years ago this area was considered a diamond field for traders. People fought to get in and rent a shop. Now they are fighting to get out."

Mr Hynch said no new businesses had opened up between the two consumer boycotts.

"Now, since the imposition of the new boycott, things are very frightening for traders in that area. "One only has to drive

through North End — letting boards festoon the shopfronts like Christmas decorations."

A spokesman for a national letting agency said he was "too embarrassed" to record the number of business premises that were vacant in North End, but confirmed that tenants had asked for rent relief.

Mr Bruce Trehaven, chairman of the Institute of Estate Agents in PE, said although his property business had established no set pattern with regard to the reduction of rentals, many tenants were asking for reductions in North End.

"Although it has been the tenant's game for the last two years, one has to remember that the landlord has commitments to meet with rates and taxes, but if the boycott continues to the end of the year, things will probably look very bad," he said.

plummet



A familiar sight in North End streets. Some premises in the area have had their rents cut by half.

Sales of N/M/2/6/86 new cars plummet

Mercury Reporter

THE need for Government to stimulate the motor industry was underlined by the very low sales of new vehicles in May — the lowest since May 1977 — the director of the National Association of Automobile Manufacturers of South Africa, Nico Vermeulen, said this week.

He said a stimulatory package of measures was needed to ensure the long term viability of an industry which was of vital importance to the socio-economic future of South Africa.

Sales of new cars in May plunged to 13 754 units — 8,6% fewer than in May 1985 and 3,4% fewer than in April.

And for the period January to May 1986, compared with the same period in 1985, sales were down a massive 19,2%.

While sales of light commercial vehicles had improved by 5,7% to 6 387 units — the highest monthly sales for 1986 — medium and heavy trucks and buses continued to reflect a

sharply negative sales trend confirming continued weakness in general economic conditions.

'A comprehensive relief package to revitalise the economy and to stabilise business conditions in the South African motor industry is now necessary to assist in the recovery process, consistent with official longer term social and economic objectives,' said Mr Vermeulen.

Toyota again topped the new car sales figures with a 28,5% share, selling 3 923 units, followed by Volkswagen with a 19,7% share and sales of 2 703 units.

Third was the joint Mazda-Ford Samcor stable with 2 147 units representing a 15,6% share. The top three thus captured nearly 64% of the market, leaving the other four manufacturers to fight it out for the remaining 36%.

Volkswagen's public affairs manager Ronnie Kruger said new car sales for the first five months of the year indicated that total 1986 sales would be the lowest since 1968.

Bus Day 12/11/80
49

Du Plessis will respond next week to report on economy

FINANCE Minister Barend du Plessis will react to the recently released Project Free Enterprise report when he addresses Parliament next week during the third reading of the Budget debate.

Other ministers and departments were this week studying the document which called, among other things, for removal of the Group Areas Act and influx control, and direct political representation and participation by blacks in central, regional and local government.

The report was compiled by a team of researchers headed by Professor Martin Nasser of Unisa's School of Business Leadership.

Nasser said yesterday he had not been disheartened by initial reaction from some trade unions and black organisations.

Among them, the United Democratic Front questioned Project Free Enterprise's preoccupation with saving the current economic order — although it welcomed any initiative aimed at ending violence in SA.

Nasser said he believed many criticisms were gut reactions. He said the report called for a new order in which all South Africans could participate meaningfully in the economy.

THE ECONOMY

BUSINESS circles this week were speculating about the contents of the government's economic "package" due in a fortnight and intended to boost the sick South African economy.

The alarm bells are ringing. Confidence is so low and the economic structure so desperately damaged that its ability to generate significant and sustainable growth is problematic, regardless of whatever fiscal stimulation the package might contain.

Various possibilities and permutations are being mooted in an attempt to salvage the sick economy. For example, the government could repay a loan levy and/or reduce taxes. The hope is that this would boost the economy by "giving" more money to people and business, thus inducing them to spend it.

The problem is that few are in a position to go on a spending spree. Consumers are still reeling from a drop in their real disposable income since mid-1984. It fell six percent in 1985.

Harsh memories from high interest rates, inflation, fiscal drag and the lack of job opportunities reduces the chances of a boom led by consumers.

Another possibility to stimulate the economy is for the government to spend more on, say, housing. But while this could provide jobs and induce local production, it is unlikely to make an impact. It is no use spending more money to hoard

government has obviously decided that talking to the ANC at the moment is out, and that it will go it alone when it comes to constitution-making. But the tremendous danger here is "talking to the ANC" was presumably intended to reveal the ANC as dangerous revolutionaries determined on the overthrow of South Africa and what democratic standards we have left. I don't believe anyone in South Africa knows how true this is. A great many people who have talked to the ANC came back with a different impression. Moreover, it is not calculable how much support the ANC really has among blacks. It has never been allowed to test its support at the polls. "Talking to the ANC" may have been aimed at the conservative whites. If it was, it will frighten the daylight out of them — and achieve very little else. But a large number of very influential radical blacks, whose goodwill is absolutely essential in the current crisis, may be permanently turned off. And if it was aimed at "moderate" blacks, its ultimate effect could be nothing short of disastrous.

SOWETO JUNE 16. The following deacons will be open to all members of the church on the 14th and 15th June in order to receive your flowers: Berea Methodist Church, 40 St John Road, Houghton; Holy Trinity Catholic Church, Bertha Street, Braamfontein; St Columba's Presbyterian Church, 45 Lurgan Road, Parkview; St Michael's, Onr Bryanston Drive and Mount Street, Bryanston; Temple Emanuel Centre, 38 Oxford Road, Parktown; Trinity Methodist Church, Onr 5th Avenue and 5th Street, Linden; Temple Shalom, Louis Botha Avenue, Highlands North. Rabbi Adi Assabi, Chairman of Rabbinic Council, United Progressive Jewish Congregation of Johannesburg, Temple Shalom; The Very Reverend Duncan Buchanan, Anglican Dean of Johannesburg; Mrs Jennifer Kinghorn, Society of Friends; Reverend Alan Maker, Immediate Past Moderator of the Presbyterian Church; Rabbi Dr Norman Mendel, Temple Emanuel; Bishop Reginald Orsmond, Catholic Bishop of Johannesburg; Reverend Ronald Steel, Chairman, Central Region, United Congregational Church; Reverend Peter Storey, ex-President of the Methodist Church.

Barend's puncture kit can't mend this blow-out

uncertainty no one, foreign or local, will invest in South Africa. The government, as yet, has not even recognised what is required to provide stability and attract investment, let alone acted on it.

Leaving confidence aside, another factor inhibiting the package is that the authorities are in no position to stimulate the economy to the extent required. Its manoeuvrability is limited by, firstly, record inflation which is way above that of most main trading partners and, secondly, a current account surplus which the government must nurse to repay foreign debt.

Stimulation is always a danger for inflation, as it creates demand. However, the record inflation rate is not a result of excess demand, but of high production costs as a result of the low rand and wage demands.

Inflationary expectations are also contributing to the price spiral as companies and workers push for more in anticipation of higher inflation.

Stimulation also threatens the current account because it encourages imports and South Africa's propensity to import is high. With more than

THE CASE FOR PESSIMISM

Whatever package this month to improve the economy confidence is so low and economic structure so weak that it is unlikely to have much impact. ALEXANDER CAMARGUE reports.

\$2.2-billion of foreign debt to be repaid, mostly this year, most of the R5-billion current account will go towards repaying foreign creditors.

Barclays reckons \$3.5-billion outside the net, of which \$2.5-billion was expected to be rolled over, matures in 1986. There are fears that foreign creditors may not be as willing to roll this as had been hoped. Worse still, capital, which the current account has to cater for, continues to pour out of South Africa.

These outflows are not confined to foreign companies but also reflect the high rate of disinvestment by local institutions. All this is not to mention the significant structural constraints that must be overcome.

Doonesbury

YOU'RE SURVIVOR! YES, AS AN ARCHITECT, THE MEAN IN THE AGE OF PSYCHOLOGY PRO-TECTS YOU FROM THE REAL WORLD. BUT YOUR ROOM-MATE AS YOUR PSYCHOLOGIST PRO-TECTS YOU FROM THE REAL WORLD. BUT YOUR ROOM-MATE AS YOUR PSYCHOLOGIST PRO-TECTS YOU FROM THE REAL WORLD.

HOW CAN ONE PER-SON PROVIDE THE DEFINITIVE ANSWER TO A DISORDER? STAKE MY GRAVE ON IT.

MARY I PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".

NOT GOOD ENOUGH. THE TRIPPER TRIPPER? HIS FINDINGS! JUST QUEERED YOU SAID TO BE MYSELF.

Doonesbury

MY POLITICAL VIEW? WHICH, NELLIE, DON'T GET ME STARTED! I COULD GIVE YOU AN EARFUL ON PART ONE! SOAK UP CITY!

OHAY, SERIOUSLY, I GUESS I'M AN FOR REPUBLICAN. I LOVE THINGLINE- I ALSO COLLECT OFF-Road SHIRTS FROM AROUND THE WORLD BECAUSE OF JACK-KEMPI!

DON'T LAUGH, HE REALLY DOES! SAY, YOU'RE NOT GOING TO TRUST THAT AROUND AND MAKE ME SEEM LIKE A WEIRD ARE YOU?

PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".

Doonesbury

MY POLITICAL VIEW? WHICH, NELLIE, DON'T GET ME STARTED! I COULD GIVE YOU AN EARFUL ON PART ONE! SOAK UP CITY!

OHAY, SERIOUSLY, I GUESS I'M AN FOR REPUBLICAN. I LOVE THINGLINE- I ALSO COLLECT OFF-Road SHIRTS FROM AROUND THE WORLD BECAUSE OF JACK-KEMPI!

DON'T LAUGH, HE REALLY DOES! SAY, YOU'RE NOT GOING TO TRUST THAT AROUND AND MAKE ME SEEM LIKE A WEIRD ARE YOU?

PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".

Doonesbury

MY POLITICAL VIEW? WHICH, NELLIE, DON'T GET ME STARTED! I COULD GIVE YOU AN EARFUL ON PART ONE! SOAK UP CITY!

OHAY, SERIOUSLY, I GUESS I'M AN FOR REPUBLICAN. I LOVE THINGLINE- I ALSO COLLECT OFF-Road SHIRTS FROM AROUND THE WORLD BECAUSE OF JACK-KEMPI!

DON'T LAUGH, HE REALLY DOES! SAY, YOU'RE NOT GOING TO TRUST THAT AROUND AND MAKE ME SEEM LIKE A WEIRD ARE YOU?

PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".

before substantial growth and employment creation is realised. Consider that since 1981, real GDP has grown by a mere 1.1 percent (from R60.6-billion to R61.2-billion at constant 1980 prices). The manufacturing and construction components of GDP — from where structural growth must originate — have dropped 11.7 percent and 11.6 percent respectively over the same period. Capital stock in the manufacturing sector declined last year for the first time since 1946. Capacity utilisation of the capital stock has dropped to 84.2 percent. It is clearly not only foreign companies that are contributing to the dismantling of the economy. More ominously, most of the meagre growth since 1981 has come from services — which cannot be relied upon to stimulate structural growth. Finance, insurance, real estate, and personal services grew 12.2 percent in real terms since 1981 and community, social and personal services by 21 percent. But the most frightening indicator of structural constraints is that in real terms, gross domestic fixed investment has declined every year since 1982 — a total decline of over 15 percent. Worse still, UBS estimates that over 60 percent of this has merely been the replacement of equipment, rather than the expansion of productive capacity. Important investors such as the S.A. Transport Services and Escam have cut back further on capital expenditure. The Bureau for Economic Research expects a drop of 14.9 percent in real fixed investment by public corporations over 1986. This has ripple effects throughout the economy. The bureau anticipates a further seven percent decline in gross domestic investment during 1986. Growth, measured by GDP, is a combination of consumer and government spending, investment, and net foreign trade — and consumer spending and investment are causes for alarm. Few economists expect consumer spending to be great this year. Nor is long-term growth likely to emanate from fixed investments, because uncertainty is too great. There are other constraints. Economists

inventory replenishment." The ability to create jobs in this manner is limited. Even if the economy should grow three percent in 1986 — which is unlikely — it is far short of the officially estimated 4.5 percent growth needed to absorb those coming onto the labour market, and does not begin to alleviate the plight of the estimated 4-million unemployed. Then there is the vital question of how sustainable this year's projected growth will be. Not even the authorities are bargaining on attaining three percent in 1987. It is within this dismal scenario that the economic package will be introduced. Only the most optimistic will believe these severe problems will be solved by tinkering with fiscal tools. Not even the miracle of a rise in the gold price, which has saved the economy in the past, seems on the cards. In any event, one cannot rely on such flukes. Economists agree that an overall strategy is needed as a matter of extreme urgency. The government seems to lack direction, tackling each crisis as it comes, with no long-term plan. There is no reason to believe the forthcoming packages will be any different. It is difficult to see how the package will induce significant growth and jobs. At best it might provide short-term relief. But the time for patchy solutions has run out.

ever seeing sister again. To make things worse, we had to calm Uncle Barney down. He had discovered the Comrades Marathon and was infuriated about the publicity it was getting. "Comrades!" We had to disarm him, take away his campaign posters and explain Bruce Fordyce was a runner — but of races, not gangs. While we were feeding Barney some Lactogen, we told him about Gloria. "Serves her right," he snarled. "The spare diet will do her the world of good." Your mother, demonstrating that she and Barney were on the same gene pool, snatched up his Walther PPK and pointed it at his temple. "Phone," she commanded. He dialled. "Talk." At this point I decided to get the double Chivas I had been promising myself all evening. When I returned, Barney was remonstrating and pleading with your mother. "Please," he whimpered. "They say she won't leave. She's screaming something about release one, pass all, the people shall reign striking rocks....do you think they've got her doing hard labour or something?" They must have persuaded her to go, because she arrived home an hour later, accompanied by her hirsute housemate Eva, three duvets and the video tapes. "What's an own recognisance?" she asked. "It sounds tricarneral." She says she's off Mikhail because he has workerist taste in movies and anyway she met a postman who needs his false consciousness replaced with a true, objective understanding of the women's struggle. Firsthand. My son. Do you happen to recall the low-cost insurance you found to cover theft, pebbles and insurrection on the family automobiles? Turns out the cost was so low we're no longer covered so I'm spending the weekend guarding the garage with Barney's armoury. You know, I could get to like that rocket launcher. Your father,

BY GARRY TRUDEAU. A grid of 12 comic panels. Panel 1: 'PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".' Panel 2: 'NOT GOOD ENOUGH. THE TRIPPER TRIPPER? HIS FINDINGS! JUST QUEERED YOU SAID TO BE MYSELF.' Panel 3: 'HOW CAN ONE PERSON PROVIDE THE DEFINITIVE ANSWER TO A DISORDER? STAKE MY GRAVE ON IT.' Panel 4: 'MARY I PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".' Panel 5: 'MY POLITICAL VIEW? WHICH, NELLIE, DON'T GET ME STARTED! I COULD GIVE YOU AN EARFUL ON PART ONE! SOAK UP CITY!' Panel 6: 'OHAY, SERIOUSLY, I GUESS I'M AN FOR REPUBLICAN. I LOVE THINGLINE- I ALSO COLLECT OFF-Road SHIRTS FROM AROUND THE WORLD BECAUSE OF JACK-KEMPI!' Panel 7: 'DON'T LAUGH, HE REALLY DOES! SAY, YOU'RE NOT GOING TO TRUST THAT AROUND AND MAKE ME SEEM LIKE A WEIRD ARE YOU?' Panel 8: 'PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".' Panel 9: 'NOT GOOD ENOUGH. THE TRIPPER TRIPPER? HIS FINDINGS! JUST QUEERED YOU SAID TO BE MYSELF.' Panel 10: 'HOW CAN ONE PERSON PROVIDE THE DEFINITIVE ANSWER TO A DISORDER? STAKE MY GRAVE ON IT.' Panel 11: 'MARY I PLEASE FOR SPEAK RESEARCH TO THE PRESS. HIS SUBJECT NAME IS "MAX TRIPPER".' Panel 12: 'MY POLITICAL VIEW? WHICH, NELLIE, DON'T GET ME STARTED! I COULD GIVE YOU AN EARFUL ON PART ONE! SOAK UP CITY!'

In defence of state control

THE CASE AGAINST THE MONOPOLIES

It's perfectly true that our existing state-run corporations are inept, bloated and bureaucratic. But that doesn't destroy the case for public ownership. DUNCAN INNES concludes his series

LAST week I argued against privatisation of state-owned companies on the grounds that such a policy was unlikely to produce a more open and democratic economy in South Africa. Instead, privatisation is likely to extend the already excessive domination which a handful of giant private companies exercise in our economy.

However, although I have argued against privatisation, I would also be among the first to acknowledge that many of the criticisms which the advocates of privatisation have levelled against existing state-owned concerns contain a good deal of truth. Such concerns are often inefficient, either because they have a monopoly over certain areas of activity (such as S.A.T.S.) or because they are run in a bureaucratic and even — dare one say it — ham-fisted way (the Post Office).

But to sympathise with such criticisms does not mean that we should throw the baby out with the bath water. Just because existing state-owned concerns are run in a ham-fisted way does not mean state ownership itself should be scrapped.

On the contrary, a case can be made that the way to secure a more democratic and efficient economy in South Africa is by extending and developing the notion of state ownership.

In order to make this case I want to deal, first, with the issue of whether or not state control is desirable at all and, secondly, I want to look at the criticism mentioned above.

As far as the first point is concerned, there are those who still argue that the state should not intervene directly in the economy under any circumstances. Instead, it should confine itself to establishing the legal-political framework within which private enterprise gets on with the job of looking after the economic needs of the nation.

These people tend to hark back to what they regard as the golden era of free trade and laissez-faire economic policies which were propagated by Britain in the 19th century. However, those days are long gone.

Modern-day nations' currencies are backed by their respective states; international free trade (if it ever existed on a world scale) has been replaced by the protective tariffs of the EEC, Japan, most third world countries and by US government-inspired economic sanctions against the USSR, Poland and Libya; states both capitalist and socialist still involve themselves to varying degrees in the financing of education, health, housing and welfare services.

For South Africa to try and kick against this world-wide tendency, either now or in the future, would be sheer madness.

Imagine if, in the interests of free trade, we were to lift protective

barriers for our industries and open ourselves entirely to overseas imports: we would immediately be swamped by cheaper imports which would send the import bill on the balance of payments soaring, drive our industries into ruin and throw millions of people out of work. It would be a form of national suicide comparable only to a political takeover by the A.W.B.

We might also recall what happened after our government, amid much self-congratulation, lifted exchange control restrictions on foreigners. Capital began deserting our shores at such an alarming rate that the government rapidly reversed its decision and reimposed the restrictions.

There is a lesson to be learned here. While allowing market forces a free rein might well work in one's favour when an economy is strong (since capital and resources are in any event being attracted to the economy because of its strength), when the economy is down those same market forces have a nasty habit of kicking one in the teeth. In a major economic downturn capital and resources tend to move off elsewhere and often it is only direct state intervention which can prevent an economic collapse.

The question then becomes not whether we should have direct state intervention in the economy, but how much state intervention is desirable? Here the criticisms mentioned earlier need to be examined. State intervention through ownership, so the argument runs, is inefficient because it either creates monopolies or excessive bureaucracies (or even both).

Let me say at the outset — and those who have read my book on Anglo-American will know this to be the case — that I feel uncomfortable with monopolies. But there is an important difference between state monopolies and those of private companies. In the latter case such companies are accountable only to their own shareholders and often such accountability is formal rather than real. In the case of state monopolies, so long as the state is fully democratic (which ours is not), state monopolies can be made accountable to the population as a whole.

Having said that though, it seems quite unnecessary to argue, as some find that they are willing to give more

democratic participation in decision-making. There is interesting evidence to suggest that improving workplace democracy has a very positive effect on productivity levels. Two Latin American scholars who undertook a study of Chile during the period of the Allende government (1970-1973) found a clear correlation between democratic participation at work and productivity improvements. They also point out that no major study has ever found a negative correlation between the two.

Given the widespread means about the low productivity levels of South African labour, we might do well to ask ourselves whether this doesn't have more to do with the abysmal lack of democracy in our economic (not to mention political) institutions than it does with anything else? Perhaps, by giving people a chance to share in owning the country's resources and enabling them to participate directly in decision-making, we might even find that they are willing to give more



NOVA SCANDIALES HANO MESERBIDIA UNO ENJOYINER BEBNDIG

SOUTH AFRICAN business is coming to the conclusion that it cannot adapt itself to the new South Africa by carrying on much as it has in the past. The drive to achieve a more representative complexion among employees at all levels will require a range of affirmative action programmes much more ambitious than the few in place today. Greater worker participation in programmes and other mechanisms, is likely.

Above and beyond these measures black small business must be encouraged by a variety of means, some similar to well-known minority business schemes in the US.

Such programmes and initiatives will be controversial and not always successful. Although corporate executives may take progressive stances, their work forces may be resistant to change and imbued with traditional attitudes. What is clear is that the complexion of South African business will in many respects be transformed, though the fundamental principles of private ownership will perform have to remain.

Specifically the Anglo American Corporation of SA is following three important strategies. They all reflect our general belief that what we do now will determine whether we are seen as a credible, non-racial organisation in a free enterprise society.

First, Anglo American is making a determined effort to visualise what linear projection of current practices, however progressive our manning and industrial relations policies may be. Credibility will require an absolute, mind-wrenching effort to grasp the future and translate it back to the real action we should be taking now.

Second, we must support and nurture effective and responsible trade union activity. It is impossible to face the future in industrial affairs if we have no one to talk to.

We see that this will be a difficult and bumpy road, but we also know that we must move along it, and hope that the trade unions will develop a genuine management role in human and social affairs. This effort will require very careful analysis of the future relationship between management and unions, as it will undoubtedly mature into some much greater form of worker participation.

Labour-management relations must evolve in this direction in order to stave off the kinds of extreme left-wing measures that have runned so much of the rest of Africa. This prospect also allows hope that intelligent self-interest in the trade unions developing from this greater responsibility and involvement ultimately will offset pressures for purely political solutions.

Third, the company must be a stalwart advocate of the free enterprise theme, with the important obligation that we position ourselves to be seen both practising and encouraging free enterprise.

It will be deeds, rather than words, that determine whether we are acceptable to a society that, with the best intentions in the world, will have simplistic views about wealth.

Business operates on a long-term basis. Anglo American needs to plan for a long-term future to encourage industrial and economic growth. If we can show that we are taking a long-term view of the future of South Africa, organisations like the ANC and the trade unions will be encouraged to do the same.

It is important to think about the best ways to change mindsets to achieve a democratic South Africa. Business can be at the cutting edge without

This misguided talk of chopping up 'monopolies'

THE CASE FOR BIG BUSINESS

Breaking down large corporations would be a mistake. Large companies have the expertise and the clout to finance major reform initiatives. By GAVIN RELLY, chairman of Anglo American.

resorting, as is sometimes advocated, to measures such as not paying taxes. Apart from eliciting the same kinds of counter-productive responses from government that foreign sanctions evoke, such moves would only further undermine respect for the rule of law.

Business leaders realise that the form of the state will have to change just as dramatically as the shape of their businesses.

But for all their specificity and agreement on the steps needed to dismantle apartheid, executives seem less united and articulate on what constitutional structure should replace the current system.

This matter will have to be negotiated, and business leaders' roles will in one sense be confined to mediating among various political forces. But they can advise on economic structures and, in their long-term commitment to free enterprise and to the idea of wealth creation, encourage political organisations to take a similar long-term view.

In regard to appropriate political systems, some business voices favour the federal option. It seems to provide the most scope for devolving and sharing power in a way that reflects South African social diversity, and to be most conducive to ensuring the survival of individual freedoms and free enterprise. Many, to be sure, fondly imagine that federalism can serve as a device to ensure continued white domination; the National Party's constitutional vision of an ethnic confederation or federation certainly qualifies as an example. No thinking business leader, however, believes that this is a viable political goal for white South Africans any longer.

At the same time, devices to ensure the protection of individuals and as proportional representation — reflect genuine and valid concerns. Indeed, the adoption of a bill of rights, now widely advocated in liberal and business circles in South Africa (witness the important business charter published by the Federated Chamber of Industries), is one way of helping to restore the classic Western democratic concept of the rule of law so tragically eroded during the apartheid era.

A bill of rights would not be worth the paper it was written on unless it was

BUSINESS IN PROFILE

The American Chamber of Commerce in SA (Amcham) was this week in the news for a controversial document advocating civil disobedience. In the latest in our series of interviews with business leaders, Amcham president FRANK LUBKE speaks about the document and the role of business in change

Name? Frank Lubke
Age? 47
Place of birth? Canada (dual citizen)
Positions? Chairman of Amcham, Managing Director of Abbott Laboratories

How did you come to send out the "Civil Disobedience" document? We have an Amcham social justice committee. We deal with things that affect the black population. This committee decided to ask the Go Ahead Foundation — one of a number of different organisations we consult with on such issues — to look at what specific pieces of legislation have an impact on the black community and are of greatest concern to them. The committee received this document from them and felt it would be worthwhile circulating it to the entire membership. The committee did not discuss, change or in any way endorse the document. We just attached a covering letter and sent it out, much as we send out newspaper articles of interest to our members. It was merely circulated for the consideration of our members.

Will it be discussed in future? Can you see Amcham endorsing the document? I can't say. We may be forced into discussing it now. Certainly, our social justice committee will look at it from time to time.

Civil disobedience is a phrase coined by Reverend Leon Sullivan (author of the Sullivan Principles) who recently wrote to all chief executives of US companies suggesting they follow a policy of civil disobedience in South Africa. A number of our members do not agree with this concept. The policy we do follow is one of support for the reform process and we will do everything in our power to participate in a constructive manner to achieve peace. We believe in constructive participation. Civil disobedience is just not our style.

Do you personally think businessmen could do or should undertake such "civil disobedience"? I don't think I can necessarily answer that. It must be up to each individual putting this document forward as a set of suggestions. It has been put forward by the Go Ahead Foundation as some of the options companies can take.

Would you support companies that take such action? Yes. If any company feels that they should take a stand on discriminatory legislation, then that is their right.

How much do you think business can do to starting from the simple things we can do already, such as push for specific laws to be withdrawn or reformed. We have submitted various memoranda to ministers from time to time. We get publicity for our role, but I give full credit to the initiatives of the FCI and Asscom in this regard.

Do you think US companies do enough to promote change? The American business community is a very small one in the economy. If US industry has to pull out, I don't think it will have any effect on the economy. There are plenty of South African businesses that are willing to take force for change, because we stand for free enterprise and that is a fundamental factor in the situation.

This article originally appeared in Foreign Policy, a prestigious American

journal.

A gale blows across the free enterprise bathtub

If this week's Project Free Enterprise wants to convince black unions of the benefits of capitalism, they've got an uphill battle ahead, argues DUNCAN INNES

THE publication this week of yet another "bold initiative to save South Africa" — this time in the form of Project Free Enterprise — raises serious questions about current business strategies to pull this country out of its current crisis.

One could be forgiven, in reading press comments on the report, for experiencing a sense of *déjà vu*. Demands for black freehold rights, direct black political representation and participation, the removal of group areas and influx control, multi-racial "central business" districts: haven't we been through all this before with the Federated Chamber of Industries' Business Charter?

Indeed we have — right down to the issuing of an Action Plan (the FCI called theirs an Action Programme, but it's close enough).

In terms of ideological content, too, there is a remarkable similarity between the two documents. Both seek to salvage what they call the "free market economy" or "free enterprise system" from the bashing it has been receiving of late. As Anglo American's Zac de Beer put it, in issuing his support for Project Enterprise: "We dare not allow the baby of free enterprise to be thrown out with the bathwater of apartheid."

While I can fully understand the business community's concern with wanting to rescue the free enterprise system, in my opinion their current strategy to secure this end leaves much to be desired.

For a start there is the question of follow-up.

Project Free Enterprise has called for the establishment of an Economic Participation Council which would be made up of senior business representatives, employer bodies and union representatives. Well, my guess is that most independent black unions will steer well clear of participating on a body like this, first, because they were not involved in setting it up and, secondly, because they are suspicious of anything which smacks of support for free enterprise.

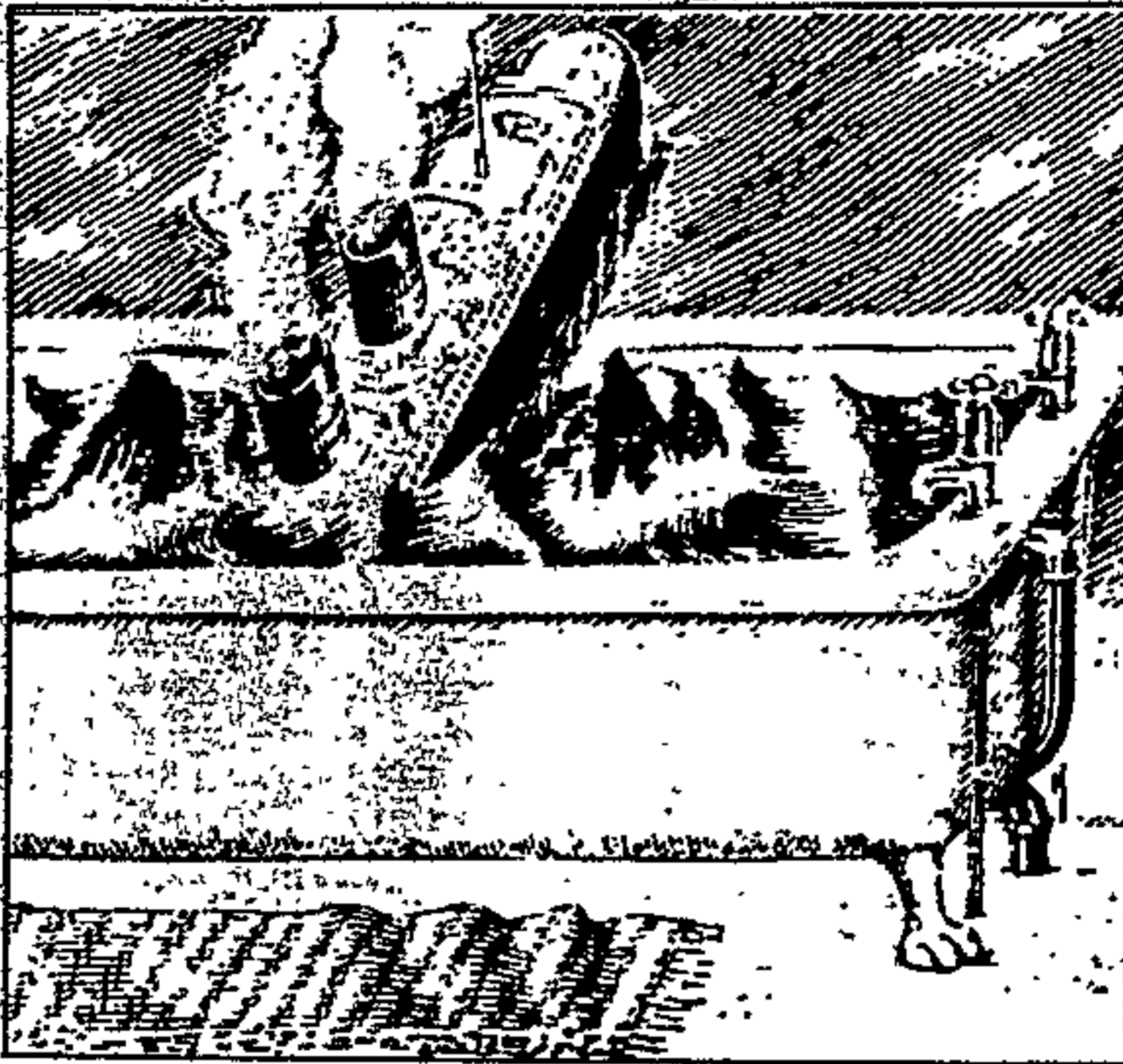
Cyril Ramaphosa of the National Union of Mineworkers (Num) made this perfectly clear in his speech to the Weekly Mail anniversary celebration: "Experience has shown it is too late for free enterprise to save the country. Workers want a socialist system because all they have experienced from free enterprise is poverty and low wages."

Some people might be tempted to dismiss Ramaphosa's comments as radical rhetoric intended simply as sabre-rattling. A recent survey conducted by Mark Orkin of the Community Agency for Social Enquiry (Case) suggests otherwise.

Orkin surveyed a sample of black people living in all 10 major metropolitan areas of the country. When asked which economic system they wanted to see in South Africa in the future — capitalism or socialism — a staggering 77 percent replied in favour of socialism and only 22 percent in favour of capitalism.

The government might want to argue that this simply proves the existence of communist agitation and infiltration that they have been warning us about for years. I would submit this is not so.

Black people's experience of racial oppression in South Africa is closely linked to their experience of exploitation as workers. It might be apartheid laws which have restricted their freedoms, but it is the free enterprise system which has denied them a living wage. It might be the



Group Areas Act which forces them to live in squalid townships, but it is high profits which enable so many whites to live in luxury and ease.

It is thus hardly surprising that increasing numbers of black people do want to throw the free enterprise baby out with the bathwater of apartheid.

As Colin Eglon of the PFP puts it: "If the free enterprise system fails to deliver the goods, the people will turn against the system — and they will try to replace it with something else — in all likelihood a Marxist system or some local variation of this. We must remember that an economic system survives only if it is relevant to the needs of the people."

The problem with business initiatives like the Business Charter and Project Free Enterprise is the majority of black people do not see them as producing meaningful change. Speaking for the FCI, Arthur Hammond-Tooke points out that both business and government have a responsibility to get blacks to participate in the economy and to share in its wealth. "We believe that the principles of the Business Charter underpin this process both at factory level and at a macro level."

While that may be so, it is concrete results which black people are looking for. They have heard enough statements of intent: what they want now are deeds. They do not want white initiatives which are imposed on them; what they want is that whites recognise some black initiatives for a change.

The recent union negotiations with Pick 'n Pay highlight this problem. While Raymond Ackerman ran advertisements throughout the press emphasising Pick 'n Pay's concern with the need for social change in South Africa, when it came to actual wage negotiations with Pick 'n Pay's black employees Ackerman resorted to smears and irresponsible public attacks to try and discredit the workers' representatives. What Ackerman needs to remember is that black workers will judge him, not on the advertisements he runs, but on the way he responds to their concrete demands.

The same argument applies even more pertinently to the current wage negotiations being conducted between Num and the Chamber of Mines. If there is one industry in South Africa which over the years has come to symbolise the exploitative and oppressive condition of black labour it is the mining industry. It was this industry which produced the convict labour system, the migrant labour system, the compound system. It was this industry which separated male workers from their families and paid poverty wages.

According to Professor Francis

Wilson of the University of Cape Town, between 1889 and 1969 the real wages of black miners actually fell.

What the Chamber of Mines must realise as it sits down to negotiate with Num is that this history forms a part of the thinking of black miners. It is present in the negotiating room.

So far the Chamber does not seem to have grasped this reality. In the same week as the Chamber offered black miners a 12-17 percent wage increase (which doesn't even match the increase in inflation) one of its members, Anglovaal, announced a 25 percent increase in dividends to shareholders.

Black miners will also be aware that this same Anglovaal, which last year refused to accede to their wage demands, has this year declared a net profit of R89.6-million — a 35 percent increase on last year.

As I said earlier, companies should remember when they seek to defend the free enterprise system that black workers will judge them on their deeds, not their words.

This perception does exist among some members of the business community. AECI is one company I know of which has sought to grapple realistically with this problem. But it is still a minority position which needs to be extended. As Benjamin Trisk of the Premier Group puts it: "It is incumbent upon business to have a vision of history and an idea of the future. Those with whom we negotiate are not only the representatives of labour. They are also, whether we like it or not, the dispossessed in South African society."

Doonesbury



Business confidence plummets to rock bottom

By Gareth Costa

The short-term movement of gold shares on the Johannesburg Stock Exchange will be highly dependant on the vagaries of the rand, while the industrial board could be in for a fall if the export and rand hedge stocks weaken.

This is the feeling of some stockbrokers who say confidence in the business sector has hit "rock bottom".

Mr Scott Hawker, an analyst at stockbrokers Anderson Wilson, said this morning that the only safe place for investors to be was in rand hedge stocks such as Min-orco, Sasol or Lonrho.

Mr Winston Floquet of brokers Martin & Company said that if the rand recovered along with business confidence off the now very low base and stabilised at about 40 US cents gold shares would come down a few points. They would, however, be snapped up by local institutions who were waiting on the sidelines along with many other investors who had missed the boat.

But he added that if sanctions were implemented the rand would come under increasing pressure, keeping it low and benefiting exporters and the balance of payments. This could help the econ-

omy revive a little.

Mr Hawker said that gilt rates had moved up recently which had had the effect of making industrial shares unattractive. He believed that they had become unpredictable and could well fall back since they have been largely supported by the export stocks.

It seems though, that much of the speculation has been stifled with announcement of the state of emergency. Everything is now out in the open and the volatility of the market could disappear.

Golds erratic

However, outbreaks of unrest could still have a negative effect on the rand followed by the consequent rise of mining shares on the JSE.

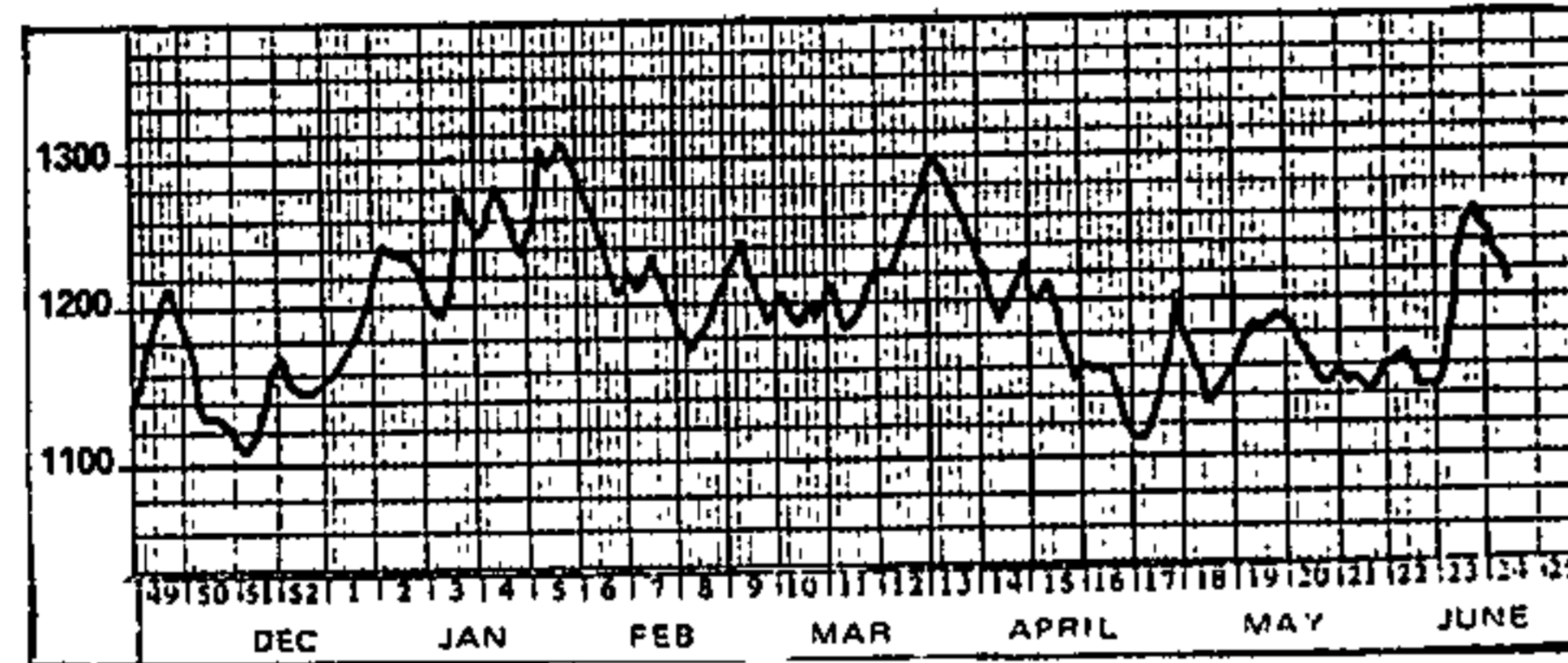
Gold shares have been behaving erratically with the rand's

fluctuations, as London dealers move in and out of the market. As they sell they flood the foreign exchange markets with financial rands, forcing the currency down and consequently the gold shares up.

Yesterday morning gold shares started to move strongly firmer as the rand slumped to this year's low of 35,55 US cents, and many reached record highs.

However, at lunchtime the rand firmed again to over 36 US cents and the gold index experienced one of its greatest falls as it plummeted 59,1 point. Vaal Reefs surged to a high of R254, before dropping back to R233 after closing at R244 on Wednesday.

De Beers also fluctuated up and down, as it moved up to R30,75 and then down to close at R28 after opening at R27,50.



The All Gold index on the JSE.

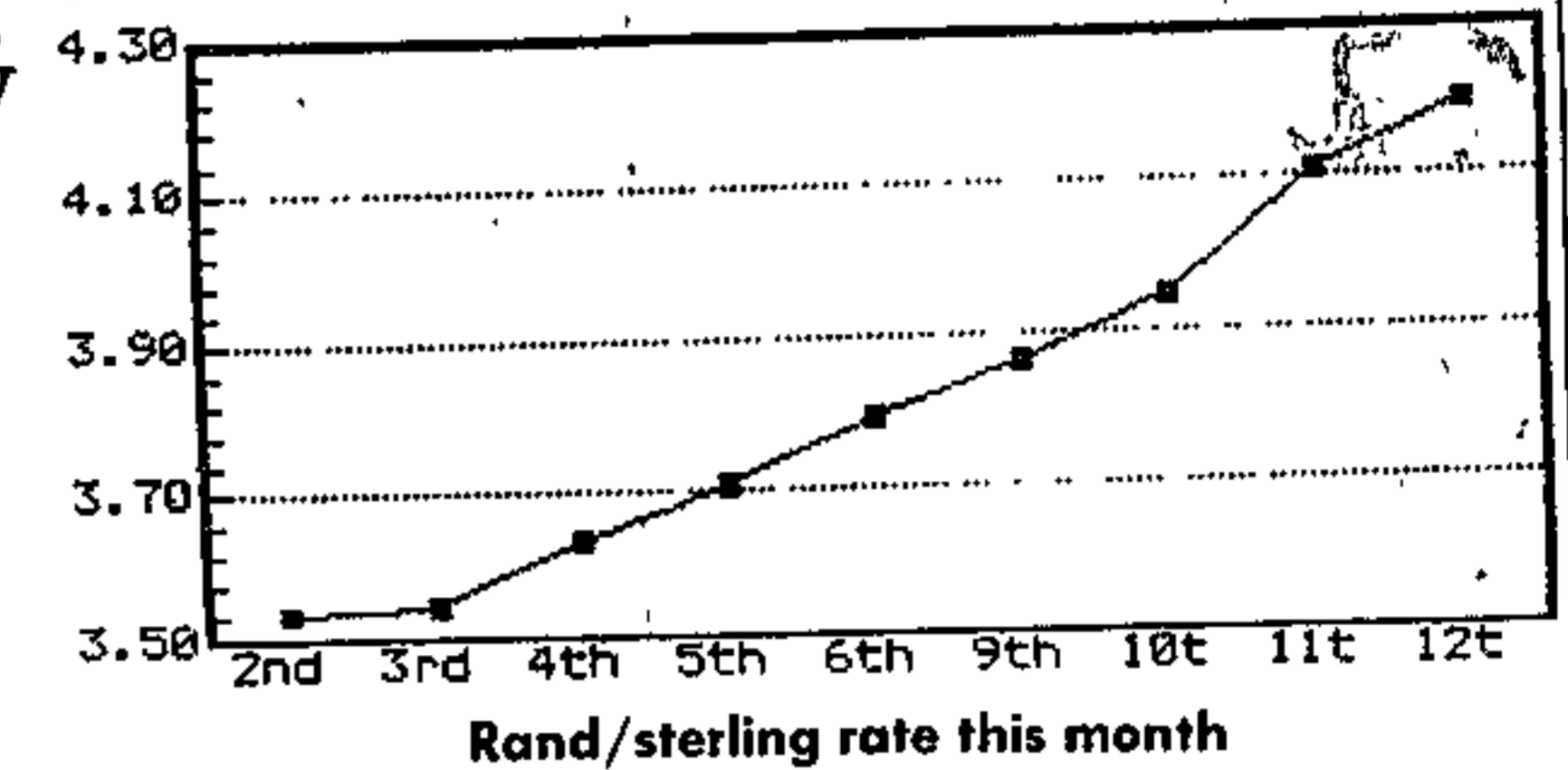
Rand may hit record lows, say dealers

By Sven Lünsche

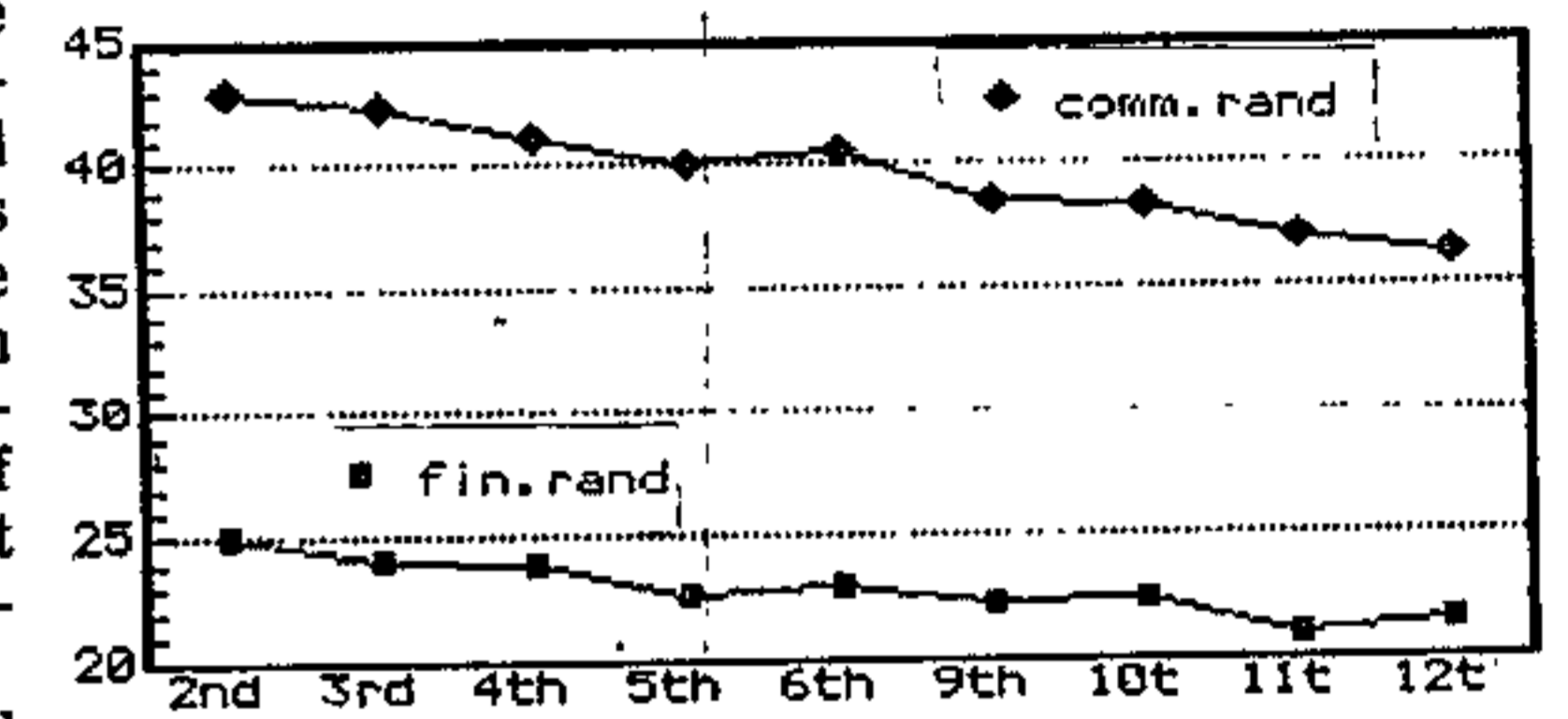
The rand is expected to hit record lows in the next few weeks, and although much will depend on the outcome of events on June 16, a negative trend has already been ensured by the declaration of a general state of emergency and the arrest of more than 1000 anti-apartheid activists.

This morning the rand was indicated at an early 36,35 US cents, slightly down on yesterday's close of 36,45 US cents and dealers said that the currency could trade below the 36 cents mark during the day's trading.

The rand is rapidly approaching its lowest exchange rate ever, which was recorded in October last year when the currency traded at 34,75 US cents, following similar actions by the authorities, namely a declaration of a partial state of emergency and widespread arrests.



Rand/sterling rate this month



Rand against the dollar this month.

Dealers said that they expect the downward trend to persist as the lack of political confidence both internally and overseas will send importers with a relatively high exposure running for cover.

"We are now reaching similar levels as last year September and October," said Mr Manfred Schutte, manager of the International Division of Standard Bank.

He added that extreme volatility on the forex market will prevail until after June 16: "From then onward I see no reason why the downward trend of the rand should be broken," Mr Schutte said.

Dealers are divided on whether the Reserve Bank will intervene to support the ailing currency. Mr Autrey Wilkie said that he expected the monetary authorities to intervene at levels of about 34 US cents, by providing dollars to the market and by strengthening foreign exchange regulations.

Mr Schutte sees no change in recently statements by the Reserve Bank that it will let the rand be determined by the forces of demand and supply and that its only role will be to intervene

within that framework.

A deputy governor of the Reserve Bank, Dr Pierre Groenewald, said that the bank will try to smooth out the pattern of the exchange rate.

He supported earlier statements by monetary authorities that neither a fixed exchange rate nor the closing of the forex market is imminent.

The financial rand is expected to trade at about 21 US cents today, down on yesterday's close of 21,65 US cents. It is also expected to drop slightly during the day's trading.

Apart from the weak dollar exchange rate the rand has been trading very negatively against sterling. It has shed almost 35 percent in value since the beginning of the year to close at R4,19 yesterday and this morning opened at R4,17.

ANCW 13/6/86 (49)

Economic controls 'should be removed'

Political Staff

A JOINT committee of Parliament has agreed that President P W Botha should be given substantial powers to temporarily remove restrictions on economic activities.

However, following representations from labour and business the committee has recommended to Parliament that some of the provisions of the Temporary Removal of Restrictions on Economic Activities Bill should be tightened.

The most significant of these is that there should be no suspension of the payment of contributions to the Unemployment Insurance Fund or the Workmen's Compensation Fund.

TWO PARTS

The committee has also recommended:

- Any changes should first be published in the Government Gazette to enable interested parties to make representations;
- The Bill should be divided into two parts with issues dealing with labour being separated and that the Minister of Manpower should be consulted by the President on issues affecting labour;
- The professions be added to the list of bodies which may be affected by deregulation; and
- No agreement between an employee and employer before a regulating agreement was proclaimed could be affected.

The joint standing committee of the three Houses found there was "a great need for deregulation in order to create economic opportunities".

ARGUS 13/6/86 49

Finrand slumps, UK shares in SA tumble

ard.

(Pty).
k.

From NEIL BEHRMANN

LONDON — Shares of UK companies with major interests in South Africa fell sharply on news of the state of emergency.

Those to tumble included Pilkington, Lonrho, Consolidated Gold Fields, Charter, Blue Circle and Standard & Chartered Bank.

The market feared possible UK sanctions following pressure by Commonwealth nations.

The financial rand slumped to just under 20 US cents before recovering to 21,5 cents in London. In sterling, the worth of South African divisions in British companies' balance sheets are only 14 pence for each rand worth of assets.

Two years ago each rand of South African assets was worth 59 pence. If British companies decide to repatriate their assets at current rates, losses would be substantial.

Before the reinstatement of exchange controls last October, British and other foreign companies could repatriate their assets

in commercial rands. Now, if they sell their assets, the proceeds can be taken home only in financial rands.

Even if they were allowed to repatriate proceeds in commercial rands, they would receive only 23,6p for each rand.

At the current financial rand rate a rand millionaire's assets, now worth only £140 000, would buy a small detached house in the less salubrious areas of London, or perhaps a two to three bed-roomed flat in Chelsea.

Most market makers believe that the financial rand rate could fall further, but with the above values in mind it appears that the rand is singularly cheap, say some analysts.

"If you talk about South Africa Limited, do you write off the whole country at 20 US cents for \$1?" says Mike Gordon, South Africa specialist at James Capel.

"At 20 cents to the US dollar or 14 pence to the pound, it seems the rate is near the bottom. Even so, the books of finan-

cial rand traders will be square, at least until the Soweto 10th anniversary is over."

After trading at 37 US cents to the rand soon after the debt moratorium last September, the financial rand tumbled to 23,5 cents in November. It recovered to 36 cents in March before sliding again.

The rate is at its worst ever level and its discount to an already depressed commercial rand is 42 percent.

A few years ago international brokers and fund managers were buying South African gold shares at yields of less than 7 percent, compared with international dollar bond yields of 12 percent. Greed predominated then. Now fear seems to have taken over.

With gold prices at R964 an ounce foreigners can buy mining shares on dividend yields of 10 percent to 15 percent for long-life mines, 15 percent to 20 percent for medium-life mines, while several short-life mines yield 30 percent or more.

FIN MAIL 13/6/86

INFLUX REFORM

49

What about land?

Government's plans to scrap influx control, set out in its White Paper on urbanisation, have been welcomed both at home and abroad. But with the dust now settling, there are other policy aspects in the document which are causing concern in property and industrial circles.

Not least is government's stated intention that "the present practice of *creating* a shortage of industrial land within the metropolitan core areas should continue." This, read together with its stated policy to prevent "excessive . . . economic activity in large urban centres" has developers worried. Understandably so.

It shows a lack of understanding of how private enterprise works, avers SA Property Owners Association (Sapoa) executive direc-

tor Peter Erasmus.

Quite simply, if implemented rigidly, it will prove a major setback to any attempts government might make to stimulate the economy, he believes.

The intentions expressed in the White Paper, essentially a restatement of previous decentralisation policy, shows that government has still not learned any lessons about trying to manipulate development around the urban areas.

Despite restrictions, industrialists have found ways to develop and expand in their primary market areas. One problem in the decentralised locations is a shortage of skilled, as opposed to unskilled, labour.

Government's past policy of creating an artificial shortage of land around metropolitan areas has thus merely pushed up land prices and added to the inflation problem.

"If there's to be any hope of revitalising the economy we must move away from this type of bureaucratic thought process," says Erasmus.

With more blacks expected to come to the cities, there is also concern about how government intends to handle the housing problem.

"Quite honestly," says Erasmus, "I'm disappointed that the White Paper pays so little attention to the private sector when it comes to providing housing."

He suggests that government should harness the private sector to provide housing for those who can afford more than the basics. Government's role, he says, should be to provide only fundamental shelter.

Further, he holds that government should confine itself to identifying broad, rather than specific, areas for black housing development in the cities.

"Market forces should be allowed to prevail," he says, "to allow blacks a choice of areas in which to live." ■

Massive clamp follows State of Emergency



● BOTHA

CHRIS CAIRNCROSS,
and Own Correspondent

STATE President P W Botha went on television last night to warn the nation to prepare for a siege economy.

Botha's speech came after a massive clampdown under the general State of Emergency imposed yesterday.

As many as 1 200 people are reported to have been arrested. They include numerous church officials, senior trade unionists and leading black politicians — some of them top officials of the United Democratic Front (UDF) and the Azanian Peoples Organisation (Azapo).

Initial international reaction to the clampdown was muted, but organised commerce, parliamentary and extra-parliamentary groups condemned it.

The British government expressed its disappointment, the US called for restraint and black opposition groups and West Germany voiced concern.

It is also believed US President Ronald Reagan sent a personal message to Botha.

Prepare for a Steer economy, P.W. Botha warns

PWS DA1 18/6/85

10 YEARS IN PRISON FOR UNAUTHORISED PICTURES

THERE has been a severe clampdown on the media as a result of the imposition of a State of Emergency. In terms of the emergency regulations published yesterday:

- Journalists face ten years in prison or a R20 000 fine if they photograph, sketch or make sound recordings of any public disturbance, strike, riot or boycott without permission from a commissioned police officer.
- It is also forbidden under the new restrictions to photograph, sketch or record the "conduct" of any member of the security forces "with regard to the maintenance of the safety of the public or the public order or for the termination of the state of emergency".
- Detainees may not be identified without official permission.

● See Page 3

In New York, UN secretary general Javier Perez de Cuellar summoned SA ambassador Kurt von Schrinding, and the Security Council was due to consult on a request by Zaire for an urgent meeting.

Botha's declaration drew strong condemnation from organised commerce and industry.

Assurances appeared for the emergency to be lifted as soon as possible, so that moderate opinion could be given another

opportunity to assert itself. The Federated Chamber of Industries (FCI) dissociated itself from government's strategy of political repression.

Wide powers have been given to the security forces in terms of the regulations, which allow for detention up to 14 days — or until the end of the emergency, should Law and Order Minister Louis Le Grange so decide.

Cabinet and security force members have been indemnified against civil or

● WIDE powers have been given to the security forces in terms of the new Public Safety Act regulations.

● THE US and Britain have reacted cautiously to the Emergency.

● OPPOSITION parties — except the right wing — have stayed it.

● REPORTERS face 10 years' jail if they photograph unrest without permission.

SEE PAGE 3

criminal proceedings arising out of the enforcement of the regulations.

Botha said he did not underestimate the sacrifices and problems that sanctions would entail. However, SA would not draw before anyone to prevent sanctions if they came.

"Committed as we are to peace and normal international relations, the world must take note and never forget that we

● To Page 2

P.T.O.

for a large-scale expansion of Foskor's export business to 2 Mt of concentrates by 1989. Secondly, greater exposure to the export market would help keep down increases in the cost of phosphate rock to local consumers who process it into phosphoric acid and will otherwise end up funding Foskor's operations through hefty price increases. These are some of the findings of a detailed report on the privatisation of Foskor published by stockbroking firm Mathison & Hollidge (MHI).

MHI suggests the phosphate producer be privatised through the Industrial Development Corporation (IDC) listing it on the JSE, and not by selling the company to a mining house. Researcher Nic Dinham suggests Foskor's worth is some R150m, and with the IDC initially holding back up to 30% of the equity, the market participation might be around R100m. Based on an expected dividend yield of between 8% and 10%, an initial listing price of between R8 and R10 a share is indicated.

The Director General for Trade and Industries, Sarel du Plessis, says he has read the firm's report on Foskor, but is not able to comment on its findings and proposals at this stage.

Foskor MD John Stanbury says: "The report is correct in its main thrust that Foskor could expand in a major way onto export markets given the necessary funds. My personal opinion is that Foskor should be privatised, because this would be advantageous to all concerned. A key point, however, is the timing of such a move. As the report points out, the last five years have been quite rough for Foskor, and it would be better to go for a listing when the company has shown decisively that it has turned around."

MHI suggests Foskor could push its concentrate exports to 2 Mt by the end of 1989 from present levels of about 700 000 t to meet keen consumer demand. The high grade of Foskor's concentrates is matched only by production from Russia's Kola Peninsula, where output is subject to erratic marketing tactics.

Dinham says Foskor is currently getting about \$43/t CIF Europe (R98 at R1/\$0,44) in what appears a highly profitable trade. He estimates Foskor's breakeven point is about

FIN MAIL 13/6/86 - Neville Glaser
FOSKOR 490 ~~2300~~ ~~2300~~ ~~2300~~

Privatisation benefits

The long-mooted privatisation of the Phosphate Development Corporation (Foskor) is looking an increasingly logical step, although it is probably unlikely to happen soon.

Privatisation could provide funds needed

WEEKLY MAIL 13/6/86

FROM JUNE '76 TO JUNE '86

54 84 104 124 144 164

The student web that sp

The government has cracked down hard — and frequently — on youth organisations since June '76. But the strong-arm tactics have had extraordinarily little effect. Today, student organisation is more elaborate, more widespread and a great deal tougher than ever. **SHAUN JOHNSON** speaks to youth leaders around the country

THE IMAGE persists of Soweto 1976 youths catapulting themselves to the forefront of broad resistance to apartheid.

But Soweto 1976 was a largely spontaneous, initially localised rebellion against Bantu Education. At no time was it a nationally coordinated assault, nor did it seriously threaten the power of the government.

Today intricate political programmes underlie the actions undertaken by various youth organisations. However much these programmes may differ, they share the common aim of transforming South African society, rather than sporadically confronting its more odious manifestations.

To the extent that the Soweto march of June 16, 1976 was organised, it involved activists from the South African Students Movement (Sasm) operating in an ad hoc action committee formed to protest against the introduction of Afrikaans as a medium of instruction in township schools. Sasm was organisationally limited, with pockets of support and a vast untapped youth constituency. The depths of youth energy and militancy had hardly been plumbed.

But developments on the youth front since then are an indication of the significance of the 1976 uprising. It offered a stunning vista of the possibilities for student and youth organisation in the ongoing, complex struggle against the South African status quo. Many activists have subsequently taken up the challenge in different ways.

While it is plain that the level of student and youth organisation — and as a corollary, the level of politicisation amongst youth — has risen startlingly since 1976, it has developed in different directions, and often in an uneven fashion. Today an organisational web spans the country; an intricate mesh of strands, some overlapping, some clashing, some loose.

The very inclusion of "youth" in this national picture is a development from 1976. Students and pupils are no longer the sole organisational target of activists. "The youth" writ large — young workers, the unemployed, young professionals and so on — can all be embraced somewhere in the present structures.

The picture is detailed; but one can extract two primary tendencies in current youth organisation. Each has to do with different traditions of resistance and resultant ideological splits.

The first and prevalent one is represented by hundreds of localised youth and student congresses affiliated to the United Democratic Front. They use the Freedom Charter as their point of political departure. It also includes such non-regional groupings as the Azanian Students Organisation (Azaso) and the National Union of South African Students (Nusas). They characterise their struggle as popular and progressive.

The second tendency comprises affiliates of the National Forum, including national structures like the Azanian Students Movement (Azasm), and many local groups like Johannesburg's Action Youth and the Western Cape's Students of Young Azania (Soya). While there are differences of interpretation and emphasis, all endorse to some extent the basic document of the Forum, the Azanian People's Manifesto.

Of course this diagrammatic outline crudely reduces the political nuances — products of endless debate within different communities — which colour the particular perceptions of specific



June 1976 through the lens of former Rand Daily Mail photographer Peter Magubane. Youths armed with

Opposite both the Pheleni Junior and the Orlando West High schools, the massive, animated crowd standing deep down the road, blocked the street entirely. Impish, bouant, they sang, waving placards. Five white police officers in blue uniforms stood side by side in the middle of the road about 15 paces away. They fond the sea of black faces below. Behind them more and more uniformed police, most of them black, and riot squad men alighted from police trucks, armed with rifles and accompanied by howling dogs. They strode down the tarred road towards the officers, the amassed pupils.

They joked among themselves as they moved on. Several women, some with babies strapped to their backs, watched in groups from the roadside. Eeriness hung in the air.

organisations and leaders. But it serves as a toehold for some understanding of the current state of youth and student organisation.

Those within the broad Charterist fold identify the emergence in 1979 of the Congress of South African Students (Cosas) as catalytic for youth organisation. Cosas held a conference in 1982 to confront the problems of student organisation, and mooted the formation of youth structures to cater for non-students, as well as former student activists. Youth organisations from all around the country gathered in 1984, and although it was decided that the time was not ripe for the formation of a national youth co-ordinating structure, contact and co-operation began between disparate groups.

The youth and student congresses participated in the launch of the UDF in August 1983. According to UDF youth officer Dan Montsisi, the emergence of youth structures occasioned a "delving back into the history of the struggle in South Africa. We drew on the experiences of groups like the ANC Youth League. We regarded ourselves broadly as a logical progression of that type of tradition, and the UDF was the overall co-ordinating organisation".

He says youth remain on the frontline in the confrontation between "the state and the people" in terms of their active involvement in community campaigns, not only with regard to education but in campaigns like consumer boycotts. "For the planning and execution of campaigns, you will always find the youth organisations doing the practical work. In the formation of street and

'Power! Power!' Then a shot

"Are you really going to kill our children," a woman in a group asked an African police sergeant as he strode past.

"No, there'll be no shooting," the officer said calmly. "The children are not fighting anybody, they are only demonstrating".

He was still talking when the white officer on the extreme right quickly stepped to the side, stooped down and picked up what seemed to be a stone. Then he hurled the object into the huge crowd. Instantly, the kids in front of the column scattered to the sides. They picked up stones, then hurriedly surged back into the street. "Power! Power!!" they screamed, hesitantly advancing towards the police.

THE fateful events that began the student uprising of June 16, as described by journalist HARRY MASHABELA in a new book, "June 16: The fruits of fear" by photographer Peter Magubane.

Bang, a shot rang out, then another and yet another. In rapid succession.

The throng broke up with pupils fleeing in all directions to the rugged ridge behind the two schools, into alleyways, side streets and into homes. Some collapsed in their tracks as they fled, some ran on. Some remained petrified in the middle of the road. Police paid no attention to them.

defence committees, the youth are central. And they are the first to be detained, the first to be shot.

"But this should not be confused with us thinking we are the vanguard of the struggle. That role belongs to our working parents," he says.

Montsisi feels that as a result of the overall co-ordination achieved through an organisation like the UDF, the militancy of youth today is equal in vigour to that of 1976, but that there has been a qualitative leap in political sophistication between then and now.

"The youngsters are daredevils today to quite a shocking extent. Their bravery is frightening. But they are also aware of why they are doing things. Even the very young understand the Freedom Charter, and see themselves as part of a struggle which involves the community as a whole. They also understand that their struggle is not for African people only." The UDF-aligned youth groups fully endorse the Front's approach to nonracial organisation, and politics of broad, popular opposition to apartheid.

Roseberry Sonto is president of the Cape Youth Congress (Cayco), one of the most prominent youth groups in the Western Cape. It emerged partly in response to the tricameral elections and seeks to unite youth in its area. Employing the branch and regional structures favoured by Charterist youth organisations, Cayco co-operates with like-minded groups like Azaso and the Western Cape Students Congress (Wescos).

He believes one of the major strengths of the current phase of student and youth organisation

has been the achievement of unity among "youth, parents, teachers, unionists and the communities. This means that although the youth still bear the brunt, we know that we have the support of the people, unlike before when our parents thought we were just *tsotisis*. And the fact that we consult them builds unity."

Sonto considers the UDF-aligned youth and student congresses to be the most widespread and influential youth organisations in South Africa, and regards their existence as a central element in the struggle against apartheid.

Support on most of the white English-speaking university campuses for the UDF-aligned student and youth movement is found in SRC organisations and Nusas. According to University of Cape Town SRC President and Nusas executive member Glenn Goosen, large blocs of white students have embraced such campaigns as the Education Charter and the removal of troops from the townships.

"I think we saw a change on our campuses last year," he says. "There is a degree of protest emerging again, and an increasingly militant sector of students is developing. This was partly as a result of the state of emergency."

A different ideological and strategic position is occupied by the Azanian Students Movement (Azasm), the youth wing of the Azanian People's Organisation and a major affiliate of the National Forum. Azasm was formed in 1983, to an extent as a result of disenchantment with Cosas. According to Azasm vice-president Xolisile Mnyaka, "We needed an

at spans South Africa



Youths armed with sticks and dustbin lids (left) confront the firepower of the police (right)

From the new Skotaville book JUNE 16, THE FRUITS OF FEAR

Then a shot rang out ...

fateful events that began the uprising of June 16, as by journalist HARRY ... in a new book, "June 16: of fear" by photographer Peter Magubane.

shot rang out, then another and in rapid succession: broke up with pupils fleeing to the rugged ridge behind schools, into alleyways, side as they fled, some ran on. petrified in the middle of. Police paid no attention to them.

They stared at those running away. A police dog charged at the diminishing group in the street. And the group stoned it dead. Police fire stopped just as suddenly. A kid and a man lay dead, with several others wounded.

It seemed everybody was terribly shaken, but much more so the students themselves. They were grim, sullen, baffled. Dumbfounded, they stood in groups all over the area while the wounded lay groaning on the ground.

For a moment, even the on-lookers who had watched the singing and placard-waving and then the blood spectacle were petrified with fright. The peaceful protest

had turned sour. In a devastatingly cruel sort of way, an unprovoked show of power.

Police climbed on to their vehicles. They drove away and camped on an open ground across the Klip River which runs between Orlando West and Orlando East townships. For a while, the scattered, bewildered pupils stood, as if in a trance. Then they regrouped, returning to the street. Helped by motorists and reporters, they collected the dead and the wounded. Some were driven to Baragwanath Hospital about two miles away, some were carried to the nearby Pheleni Clinic.

● "June 16: The Fruits of Fear" by Peter Magubane, with text by Desmond Tutu, Harry Mashabela, Marian Shinn, Monty Narsoo and Oupa Mthimkulu, was published this week by Skotaville.

achievement of unity among "youth, unionists and the communities. that although the youth still bear the before when our parents thought ... And the fact that we consult

the UDF-aligned youth and to be the most widespread and youth organisations in South Africa, existence as a central element in against apartheid.

most of the white English-speaking campuses for the UDF-aligned student movement is found in SRC and Nusas. According to University SRC President and Nusas executive Goosen, large blocs of white embraced such campaigns as the and the removal of troops from

saw a change on our campuses last says. "There is a degree of protest and an increasingly militant is developing. This was partly as of emergency."

ideological and strategic position is by the Azanian Students (Azasm), the youth wing of the Organisation and a major the National Forum. Azasm was 1983, to an extent as a result of Cosas. According to Azasm Xolisile Mnyaka, "We needed an

organisation to express the needs of black students, guided by the common statement of the oppressed and exploited of this country — the ideology of black consciousness."

Azasm claims a membership of some 30 000, with its particular strengths lying in the Western Cape, and some areas of the Eastern Cape and Transvaal. But it asserts that activists sympathetic to its ideology operate quietly in all areas of the country.

Azasm's black consciousness includes a strong endorsement of the socialist principles contained in the Azanian People's Manifesto. Mnyaka feels that socialist ideas have permeated deeply into the consciousness of black youth. Unlike the Charterists, Azasm does not regard the legacy of the Congress Movement as the authentic guideline for contemporary organisation. "Our differences started when black consciousness and other organisations drafted the Azanian Manifesto. Others felt that we could not do this because of the existence of the Freedom Charter," says Mnyaka.

"Our struggle is nationalist in character, but socialist in content, and we feel that the Charter is not a socialist document, but one which is going to create a 'non-white bourgeoisie'." Azasm, like the UDF-aligned congress structures, concentrates on building support amongst local affiliates. "We want them to understand that our aim is a scientific socialist state in Azania."

Azasm rejects the Charterists' conception of nonracialism, believing that in the "pre-liberation era", there is "no point in sitting down with the whites who are not oppressed. The only job we

give to white people in this era is to organise in their own communities, to tell white people that the black people are striving for a socialist Azania. But they must not expect to be able to tell us what our struggle should be. In the post-liberation era we can come together and discuss what is best for the sake of our country."

Black organisational exclusivity is not a principle shared by other Forum youth affiliates, such as the Students of Young Azania. Soya was launched in 1984, and is an affiliate of the Cape Action League (CAL).

"We arose out of splits in Azaso over their relationship with Nusas and the UDF," says Ashley du Plooy, one of Soya's leaders. "It was a coming-together of a broadly anti-liberal caucus." Soya has a relatively small membership — in the region of 150 — but presently lays stress on the permeation of its ideas rather than mass membership.

"We are trying to give content to ideas like People's Education," says Du Plooy. "Most students' conception of struggle is to shout 'Viva Mandela' and 'Pambeni ne ANC' (forward with the ANC).

"Soya's prime task is to connect socialist ideas with the mass of youth, and to show that things like boycotts will not necessarily bring us to a socialist solution."

Action Youth, a group which emerged in coloured townships around Johannesburg in 1983, is closely aligned to Soya's ideology.

"Through a combination of our theoretical input and practical work in the townships, we make our

contribution to youth organisation," says Salim Vally, an AY leader. The group has problems with the UDF-affiliated youth structures, arguing that UDF affiliates have to "toe a line", and that free debate amongst political tendencies is not encouraged.

Vally agrees that the UDF-aligned groups are currently more influential amongst the youth than Forum affiliates. "There are particular reasons for this," he says, "like the successful use of popular symbols, and support from liberal circles with a range of resources which we do not have."

The Inkatha Youth Brigade (IYB), inaugurated in 1977, is extremely powerful in KwaZulu, with a presence in Natal and parts of the Transvaal. IYB president Musa Zondi claims a membership for the Brigade of "close on half a million", and the organisation is tightly controlled and efficiently run.

Zondi vigorously opposes some of the actions of UDF and Forum-affiliated youth groups, especially regarding school boycotts. He says the Brigade sees its task as fighting for the rights of children to attend school, and to protect teachers and the schools. He foresees the possibility of increased hostility between the Brigade and other youth groups.

"We already have a battle situation in some areas," he says.

Zondi — who regards the Brigade and its parent organisation Inkatha as the genuine representatives of the "liberation movement" in South Africa — is clearly in no mood for compromise with other youth groupings on "unshakeable matters of principle", and the size alone of his organisation is such that he cannot be ignored.

One ominous result of the massive increase in pupil, student and youth participation in organisations of resistance is the sharpening of conflict between different tendencies. This conflict has recently taken on a physical form, and many committed youths have died in internecine battles.

Without exception, all youth leaders interviewed decried the use of violence in sorting out differences between groups, and all claimed to have initiated efforts to deal politically rather than physically with rival organisations. But battles go on in various parts of the country. Rumours of "hit lists" drawn up by various organisations to target rival leaders are rife in the townships. Leaders allege police involvement in instigating many of the clashes, but privately concede that this is insufficient to explain them all.

"It is a terrible problem," says the UDF's Montsisi. "It is very complex and sensitive, and invariably the press reports serve only to inflame people's emotions. But we realise the importance of efforts to defuse these clashes."

Soya's Du Plooy agrees that internecine strife is a frighteningly destructive element in the South African struggle. "What we personally wish for is a situation where groups can criticise each other within a comradely framework. We want our criticisms to be seen as honest and non-antagonistic."

The mushrooming of youth resistance organisations over the last 10 years has thus brought with it new and urgent problems. Many activists agree that groups must, for the sake of the country's future, look to themselves and establish whether they are at all to blame for the violence. Failure to do so — by all tendencies — may lead, in the telling phrase of Salim Vally of Action Youth, to "the sowing of the dragon's teeth of a future South African civil war".

Many organisations face a dilemma over the actions of sympathisers who do not consider themselves subject to "party discipline", and their inability to deal effectively with this problem may explain some of the outbreaks of violence. It is a crucial question as to whether negotiation between resistance groups can succeed in putting a stop to it, and indeed whether the political will is there to confront the task.

But despite the tugging of ideological tendencies within youth organisations of resistance, 1986 contains elements of the organisational fruit born of Soweto '76 — most graphically and simply represented in the rapidly growing numbers of politicised, committed young people.

As the Cape educationist Dr Neville Alexander comments, "the government is in trouble both in the medium and long-term, because it is facing a whole new generation of schooled youth, youth who are almost immune to suggestions of collaborationist politics with the government."

"A few years ago they might have been satisfied if concessions were made. Today they are talking about a total reorganisation, not only of education, but of society."

7028 1966
Labour
bill
changed

PARLIAMENT. — The bill which will allow the State President to temporarily suspend regulations governing economic activity has been amended following complaints from trade unions that the measure would interfere with sound labour practices and relations.

The amended bill, published here yesterday, requires that the Minister of Manpower be consulted before the issue of any proclamations that affect conditions of service and working hours, the registration of employees, the supervision and use of machines and the health and safety of employees.

The amendment was proposed by the Standing Committee on Home Affairs.

E Cape 'action team': nothing so far

By CATHY SCHNELL

FOUR weeks ago the Government announced the formation of the East Cape Strategic Development Team (ECSDT) to help revive a flagging economy — but no positive results have flowed from it so far.

Dr C Scheepers, chairman of the committee, confirmed this week he had still not appointed a regional co-ordinator and the 10 members for the team.

"The trouble with people in the Eastern Cape is that they seem to expect things to happen overnight. Organising a team like this takes time," he said.

"We are in a critical phase of negotiating for the appointment of a regional co-ordinator. Hopefully one will be appointed within the next two weeks," he added.

A co-ordinator from the Eastern Cape would be first choice.

So how long before the team actually starts work in the region and comes up with ideas for improving conditions? "I don't know. We are doing the best we can," he said.

The team — the Government's response to continuing pressures from the Eastern Cape for a better deal — was formed to co-ordinate development in the region.

Harsh criticism of the ECSDT has come from business and industry in Port Elizabeth. It has been accused of being a "talk team" and "duplicating the work already done by organisations in the area". It has also been accused of being a "stalling tactic".

Mr Tony Gilson, director of the PE Chamber of Commerce, said this week speed in getting this off the ground was an urgent factor. He feared business confidence in the area might diminish.

Mr Gilson said he hoped the appointment of a regional co-ordinator was not a delaying tactic. The Chamber of Commerce was concerned it might be a slow way of rediscovering already known factors about the area.

But Dr Scheepers said the causes of concern in the area had already been established by other organisations. "We won't spend much time investigating causes. We accept the groundwork has been done for us — which we are grateful for."

He said ploughing money into the area would not solve the problem. The ability of people in the area needed to be stimulated.

"The Government can support only a certain percentage of the people. Then the region itself must support its people and improve conditions."

BUSINESS CONCERN at emergency

49

S. TIMES

15/6/86

THE GOVERNMENT'S declaration of a State of Emergency this week will drive the economy into even deeper recession and lead to further international isolation — unless it is quickly followed by major new political initiatives and a clear-cut reform blueprint.

This is the view of some of the country's leading businessmen canvassed by Business Times in the wake of Government's countrywide crackdown.

Says Sanlam chairman Fred du Plessis: "We have reached the point where both the internal and external image of the country is one of being out of control. The state of emergency was therefore a necessary step in demonstrating that we can achieve that control."

Worrying

Dorian Wharton-Hood, managing director of the Prudential says: "The situation is very worrying. We've reached the stage where the reform initiatives are clearly not appreciated and that whatever we do is not enough. But pulling the army and police into matters can only make the situation worse and won't serve to stabilise the economic environment. This can only take place through accelerated reform."

Adds Trust Bank MD Chris van Wyk: "We face increasing difficulties in our international trading. Under the circumstances I feel that drastic security action was necessary. But it must be accompanied by an ambitious, bold, imaginative and accelerated programme of reform."

Dr du Plessis says Government's priority is to indicate its clear-cut long-term reform goals. "It is imperative

By David Southey

that it spells out its broad principles — what is and what isn't negotiable. The national mood is depressed, he believes, because there is confusion over Government's political intentions and goals.

He says: "We've been talking about breaking down apartheid but we don't seem to have any idea how we plan to deal with two separate, parallel civilisations after apartheid has gone."

Chairman of Premier Foods, Tony Bloom, told Business Times, he can only react with horror and despair at the imposition of a state of emergency.

He says: "There is no hope of returning this country to peace and prosperity by introducing a package of draconian measures such as this."

"Negotiation with credible black leaders is the only way out. What the Government has done is diametrically opposite to what they should have done."

"From a business point of view how can we continue to operate in a climate of no confidence. There is no major investment going on at the moment and no job creation. We are facing international isolation and double-digit inflation."

Dr van Wyk says SA's economic depression stems primarily from a bleak national mood. "If we're going to have drastic surgery now we must also have a therapeutic plan for the future. The alternative is for the country to sink deeper into a political and economic mess. It is critical for confidence that we do our utmost to make this traumatic experience as short as possible."

The National African Federation of Chambers of Commerce said:

"The least that can be done in order to free the country from the threat of constant instability and the claws of international sanctions is for the South African Government to seriously consider freezing political prisoners unconditionally."

Businessmen believe Finance Minister Barend du Plessis' long-delayed economic stimulation package will be only "half the message". The financial returns from such a package will be minimal unless confidence and the general mood can be swung around. Economists have repeatedly voiced their concern over the Government's delay in announcing stimulation — particularly in the areas of stepped up expenditure on black housing and education and in tax cuts in order to boost tumbling demand.

With unemployment particularly among blacks, not at catastrophic levels and SA's serious capital shortage being exacerbated by a virtual blockade from international sources, along with huge outflows on the balance of account of the business payments, businessmen are warning the Government not to impede domestic savings. At the moment discretionary (as opposed to contractual savings through life offices, for example) are subject to "punitive" taxation. It risk capital is to be generated, warn businessmen, such aspects as the 50% marginal tax rate on companies, non-distributable profits tax and two-thirds of dividends being taxed at high marginal rates are in need of urgent review. Government has dragged its heels on fiscal reform with the excuse that it does not wish to pre-empt the Margo Commission.

Says Dr du Plessis: "These old structures have got to be changed — and quickly. The sooner we can co-operate with the Government on this score, the sooner the private sector can proceed with job-creating projects and help create a greater level of confidence."

Disappointed

William van Wyk, managing director of Iscor says the current situation will not be favourable for the local economy coming on top of a world recession and the drought in South Africa.

Referring to the influence the current crisis might have on Iscor, he says: "We are part of the total world economy so it must effect us. Our results are influenced by what we do ourselves and by what happens overseas."

Zac de Beer, chairman of Southern Life and a director of Anglo American, told Business Times: "I am extremely disappointed that it should have been thought necessary to declare a state of emergency. It is vital for the Government to now negotiate with legitimate black leaders. The last two days have naturally made this much more difficult. Legitimate leadership includes black leaders now incarcerated.

"The Government's action will certainly undermine investor confidence both at home and abroad. One must expect a low rand value for some considerable time. This makes exports profitable in rand terms but hugely in-

And scrapping all discriminatory legislation against black people including patently offensive laws like the Group Areas Act, Black Urban Areas Act, the Land Acts of 1913 and 1936 and the Population Registration Act."

David Mostert, chief executive of Dorell believes the State of Emergency will have a positive influence on the domestic economy as it will contain further uncertainty and lead to a new wave of confidence, "but from an international point of view, it could hamper further investment in South Africa."

"We will have to swallow the medicine. Confidence is needed by big business and I don't think the Government could have handled the situation any differently."

To Page 2

Govt should 'reconsider timing for economic measures'

16/11/86 Bus DA1

GOVERNMENT should consider better timing for its expected economic stimulatory measures, as that would have a crucial effect on their success, says Afrikaanse Handelsinstituut president Christie Kuun.

"The declaration of the State of Emergency and the proposed economic-stimulatory measures leaves the question whether government shouldn't re-

BEULAH BROWN

consider its timing," Kuun said.

A better time should be considered as timing was crucial for the best effect from the measures at this stage.

Kuun said the AHI accepted government had to call a State of Emergency to maintain law and order, but that it was sorry that such far-reaching steps

were taken at a time when real reform measures were gaining momentum.

He said people should not panic but should rather do anything within their power to get the situation back to normal as soon as possible.

Businesses should take the necessary steps to accommodate the expected mass stayaway and possible boycott actions that could disrupt business.

49

Barend's boost welcomed, but 'it's only a short-term measure'

By Sven Lünsche and
Gareth Costa

While the short-term impact of the new government measures have been largely welcomed by economists, businessmen and industrialists, they add that these proposals will not on their own present a lasting stimulation to the economy — particularly in the area of business confidence.

One economist points out that what the Government is saying is that the private sector is not growing and so it has to take the initiative and get spending going.

However, the package is not expected to boost confidence in the economy and so the upliftment could be short-lived unless favourable developments on the political front are achieved.

The Government has not given details of where the money is coming from, it merely said that it would transfer money from the Central Energy Fund (CEF) and National Development Corporation to the Treasury.

Mr Danie Vorster, chairman of the CEF, said yesterday that the money to be used is that which is earmarked for synthetic fuels plants being planned, but this money is not needed until the plants are given the go-ahead which is at least six months away.

One economist said that it could be that the Government

was just playing with figures and that it would be creating money, and not necessarily lending from one department to the other. However, until the details are made clear the speculation will persist.

One of the daunting prospects for the country is the fact that it will have to register a four to five percent annualised growth in real GDP for the balance of the year, to make up for the negative 1.5 percent recorded in the first quarter.

In a television interview last night, Minister of Finance, Mr Barend du Plessis, said that he believed that this was possible since the present quarter was performing better than the last and the package announced should also make a contribution.

Incentives

There is general agreement that the package has been focused very well. "The package will assist hard hit sectors of the industry, namely the motor and the building and construction industry, while at the same time helps the cash flow of hard pressed individuals," said Standard Bank chief economist Mr Nicky Czipionka.

"It would have been useless to focus these packages at the upper- and middle-class consumers who usually save their extra money.

Another bank economist said

that to get consumer spending going, people who spend the money immediately on the daily necessities had to be provided with some incentives and this the Government has partially achieved.

The relatively massive injection of R750 million for low-cost housing has been particularly welcomed.

"The construction of low-cost housing has major advantages in that it is labour-intensive and local-content-oriented, as well as providing for the development of skills," one economist said.

Mr Czipionka added that apart from the boost to the construction industry "it might also alleviate some social concerns".

South Africa's cement industry has also welcomed these steps.

Pretoria Portland Cement managing director Mr Guy Luyt said yesterday: "This much-needed measure will provide a welcome boost to the cement industry, which is currently sitting on excess capital and will therefore have no difficulty in meeting any upsurge in demand."

The motor industry has generally welcomed the latest moves. NAAMSA director Mr Nico Vermeulen said that the measures were "the best news the industry had received in the past two years".

Apart from the measures

aimed specifically at the motor industry (namely the reduction of certain excise duties on cars to the tune of R70 million and the amendments to perk tax on the private use of cars) the industry also benefited from the selective reduction of surcharges on imports at a cost of R180 million a year.

"Maybe this could have been a super package before the current political and economic crisis, and while we are grateful to the Government we are sceptical whether this will alleviate the problem," said Toyota managing director Mr Colin Adcock.

Other motor industry sources say that there was a rumour that there would be reductions in Ladofca maximum rates along with the easing of HP requirements shortly. This could also help the motor industry.

Mr Rob Lee, Old Mutual's economist, said that the package had come pretty much as expected.

"The Government has been overspending to the tune of 30 percent in comparison to last year, and this package is only legitimising what has already been happening on the expenditure front. The impact will not be that great," Mr Lee said.

Emphasising that the economy needed more than a few short-term measures, Mr Czipionka said: "There should be no illusion that a fiscal package on

its own might change the course of the economy.

"The problems go a little deeper and some political action has to come in soon."

The question has been raised whether GST should not rather have been cut by about two percent since the amount of money involved would have been the same and the benefits more widespread.

Mr Du Plessis responded to this last night by saying that he was not sure whether the man in the street would have materially felt any GST reduction, and he felt it was better to direct the money into the areas that needed it most, such as in housing and the motor industry.

Mr Mike Brown, economist for stockbrokers Davis Borkum Hare, said that he felt the economy was flat on its back. The impression he got from the announcement was that the Government did not think it was going to get moving, and that this was a one-off spending spree which would merely hold the economy and stop it from slipping back.

Mr Brown added that he was forecasting a two percent growth in real GDP for this year.

He said that if the announcement lifted the rand, sentiment would improve, and along with it the economy.

Minister unveils package for growth

CMK Times
18/6/86

49

By GORDON KLING
Financial Editor

AN impressive jump in the foreign exchange value of the rand has provided additional impetus to measures announced by the Minister of Finance aimed at boosting growth and confidence in South Africa's beleaguered economy.

The package unveiled yesterday by Mr Barend du Plessis during the third reading of the budget debate in Parliament received mixed reaction from consumers and the business community, neither of whom can be sure what they will gain.

Speculation during the month before the announcement included predictions of a cut in GST to major income-tax reductions.

The biggest morale and pocket booster is an immediate repayment of the 1980 loan levy not due until December.

An individual taxpayer earning a taxable annual income of R5 000 six years ago can expect within days a cheque dated June 20 for about R50. The repayment of capital plus interest will total R206m to individuals and R86m to companies.

Other benefits are either unquantified or indirect. They include:

- Scrapping of the 10 percent import surcharge on a wide range of goods used primarily in local production, costing the Treasury R180m.

- An unspecified rebate of the excise duty on new motor cars. Cost is about R70m.

- A review of the fringe benefits tables applicable to the taxable value of company cars. The implication is a better deal, but details are lacking.

Job creation

- Negotiations are under way for the privatization of R2bn worth of toll roads.

- Another R5m is to be added to the R1,5m in the budget for development and a transfer of technology.

- An additional R750m has been allocated to economic housing.

- Job creation and training will be boosted by a further R50m.

- The Small Business Development Corporation gets another R50m on top of the R58m provided in the budget.

All told the concessions and expenditures will cost the Treasury about

R1,205bn (excluding the loan levy), R700m of it during the present financial year ending March.

Financing is by way of the Central Energy Fund and the Industrial Development Corporation, meaning the measures should not exert pressure for higher interest rates in the capital market.

PFP finance spokesman Mr Harry Schwarz is adamant the package will not stimulate consumer demand, nor encourage new investment.

Caution

"It won't create the improvement in confidence we need in South Africa," Mr Schwarz said last night. "I would rather have seen a major job-creation programme and reduction in GST."

Assocom also expressed disappointment on the missing GST cut. It regarded the package as a "positive factor" but said it was not clear if the steps would be enough to ensure the three percent real growth target for 1986.

The country's car manufacturers, however, were highly enthusiastic.

The minister's decision to err on the side of caution may well have helped the rand to gain more than 2c on the day.

The rand closed at 40,65/75 US cents, up from its 38,40/50 opening yesterday and Monday's 38,50/60 close. Far from orchestrating the rise, the Reserve Bank was again seen tapping surplus dollars from the market to control the ascent.

On the other hand preliminary figures released by the Reserve Bank yesterday show the economy is continuing to run out of steam.

The broadly defined M-3 money supply intended to grow by 16 percent to 20 percent, slumped to a rise of 9,21 percent year-on-year after a revised 11,73 percent rise in April.

Further monetary boosts in the form of lower interest rates to yesterday's fiscal prod remain a possibility.

(49) STAR 18/6/86.

Barrend's boost is welcomed

The Government's R1 500 million economic package, announced yesterday, has received a cautious welcome from the business sector.

And Urban Foundation director, Mr Jan Steyn, welcomed news of the allocation of R750 million for low-cost housing for the poor and disadvantaged. He said it could make a major contribution towards peace, progress and tranquility.

"Provided that land is made available and the funds are applied in accordance with sound developmental principles with the involvement of the communities themselves, the package could make a significant contribution," Mr Steyn said.

"A dynamic housing delivery process can ease a lot of the tensions to which many of our people are subjected," Mr Steyn said.

The Association of Chambers of Commerce (Assocom) welcomed the announcement of the fiscal package but warned that a "bold and imaginative" cut in general sales tax was needed.

The key to substantial and successful economic recovery lay in the rebuilding of consumer confidence, said Assocom president Mr Rocky Ridgway.

Assocom said that, although the package was limited, it would be a positive factor in business confidence. But it was not clear whether the steps went far enough to ensure a three percent growth rate this year.

Assocom's concern was that, apart from the welcome spending on black housing, the rest of the package was very thinly spread, Mr Ridgway said.

ECONOMIC AND POLITICAL STRATEGY

The success of the latest fiscal measures would also depend on longer-term economic and political strategy. The sooner the state of emergency could be ended, the better the prospects for economic growth, he said.

The Federated Chambers of Industry (FCI) welcomed the "limited package" of measures announced by the Minister, saying it would help instill confidence and get the economy moving by providing jobs and relief to severely depressed sectors.

FCI president Mr J R Wilson said the removal of the import surcharge on selected industrial imports was particularly welcome as it would help reduce production costs.

The early repayment of the loan levy would stimu-

late overall demand. The substantial additional appropriation for housing would boost jobs, aid urban reconstruction and create demand in a wide range of industries, Mr Wilson said.

The general manager of General Accident Insurance, Mr Clive Dean, said the package could benefit the short term insurance industry.

"Any moves that can help stimulate the economy and relieve the hardship caused by the recession can only be beneficial," he said.

GOOD NEWS FOR MOTOR INDUSTRY

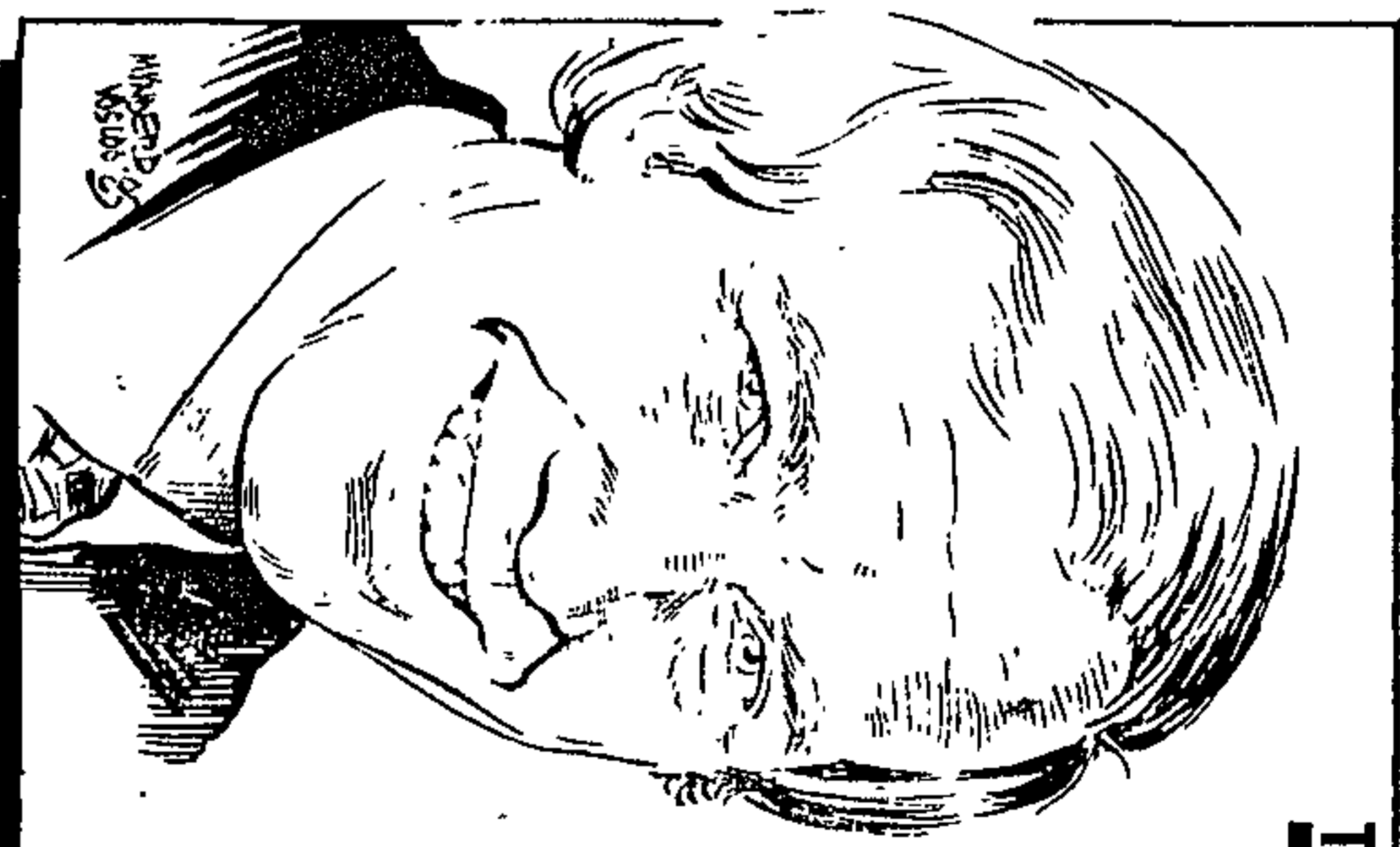
The Director of the National Association of Automobile Manufacturers of South Africa (Naamsa), Mr Nico Vermeulen, said the measures were "the best news the industry has received in the past two years".

Apart from those measures aimed specifically at the motor industry, the entire "broad and bold package" should have a beneficial effect on vehicle sales, he said.

With regard to the fringe benefit taxation, he urged an early announcement of the specific changes to remove uncertainty in the market place.

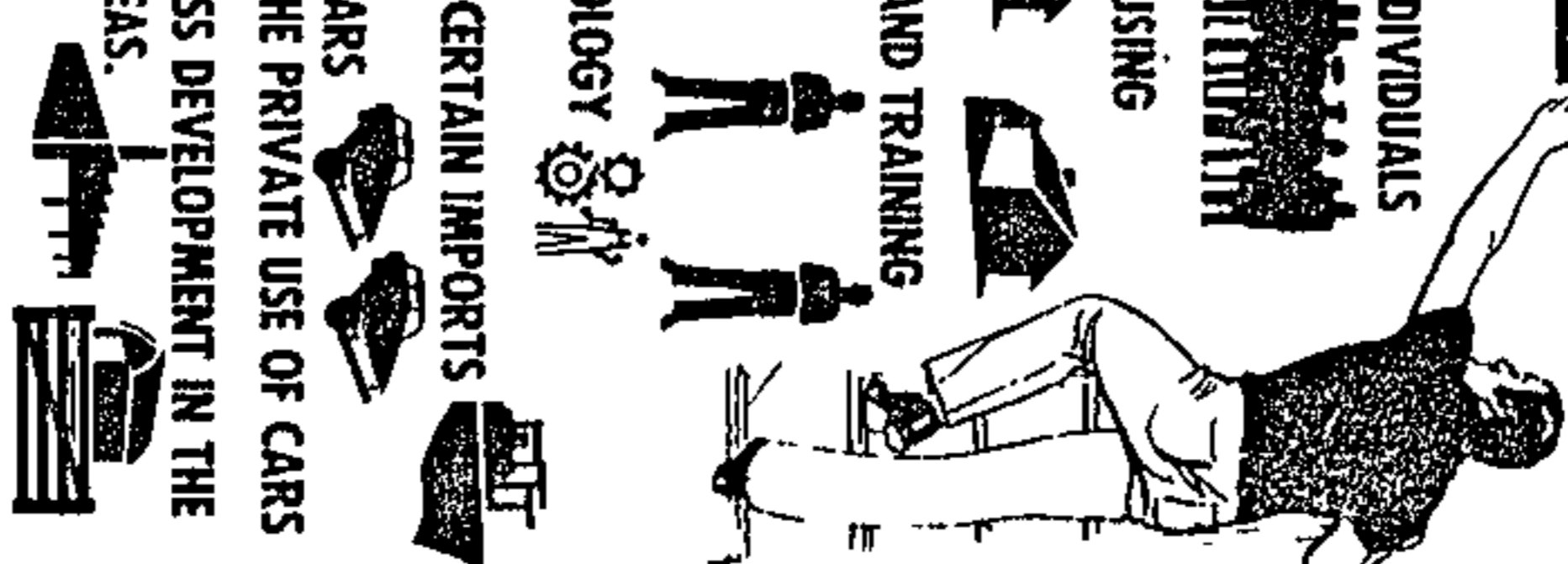
Managing Director of the McCarthy group's motor trading operations, Mr Theo Swart, called the economic package "good news for the ailing motor industry".

"We are delighted that the Government has answered our call for help," he said.



THE NEW ECONOMIC PACKAGE

- R292 MILLION TO 1,1 MILLION INDIVIDUALS
- R750 MILLION TO LOW COST HOUSING
- R50 MILLION TO JOB CREATION AND TRAINING
- R5 MILLION TO DEVELOP TECHNOLOGY
- SUSPENSION OF SURCHARGE ON CERTAIN IMPORTS
- REDUCTION OF EXCISE TAX ON CARS
- EASING OF THE PERKS TAX ON THE PRIVATE USE OF CARS
- R50 MILLION FOR SMALL BUSINESS DEVELOPMENT IN THE PLATELAND AND DROUGHT AREAS.



Reforms still needed, but ...

BUS > DAY

(49) (30/4/86)

Business gives nod to Barend's package

18/6/86

GERALD PROSALENDIS and HAROLD FRIDJHON

MAIN FEATURES AT A GLANCE

GOVERNMENT'S package — announced yesterday — has largely been welcomed by the private sector although, as is to be expected, it has evoked some criticism.

It will give a thrust to the economy in the short-term. It is not a long-term measure, nor is it intended to be, but is designed to pull the economy out of its trough.

There is, however, a unanimity of view that the package must go hand in hand with socio-political measures and deregulation, if confidence — the real target of the package — is to be lifted off the ground.

"This is a new approach by govern-

ment and is very welcome. It is straight stimulation, which will not increase the Budget deficit," says Anglo American economic consultant Aubrey Dickman.

- MAIN features in Finance Minister Barend du Plessis' package:
- R750m for low-cost housing for all population groups;
 - Repayment on June 20 of the 1980 loan levy amounting to R292m, with R206m going to individuals;
 - R50m for job-creation and training;
 - Selective reduction of surcharge on

- imports at a cost of R180m this year;
- Amendments to perks tax covering the private use of cars;
- Transfer of technology at a cost of R5m;
- Additional drought relief of R100m;
- R50m for the Small Business Development Corporation;
- Reduction of certain excise duties on cars at a cost of R70m.

nomy. This makes it essential that the package be flanked by deregulation, with new opportunities being opened to the private sector."

This implies that the further grant of funds to the Small Business Development Corporation (SBDC) is a constructive move.

Trust Bank MD Chris van Wyk describes it as a modest package with the right emphasis.

"It focuses on job creation through low-cost housing and a grant of R50m as well as appropriating an additional R50m to the SBDC.

However, there is a second important focus, says Van Wyk, and that is socio-political. It cannot be overlooked.

The package will not upset the import bill, nor the downward trend in interest rates.

"Neither the private consumer nor the business sector can afford to pay exorbitant interest rates," says Van Wyk, who feels it should not have an impact on inflation.

SA Breweries chairman Meyer Kahn says inevitably it will positively affect socio-political perceptions. "The package is substantial."

While some critics maintain the package does not extend widely enough, Standard Bank senior economist Nick Czipionka believes it has the right focus.

"A few targets have been selected, which means its impact will not be scattered. The repayment of the loan levy will have a favourable, if temporary, impact on confidence. This needs to be reinforced by action on the political front."

Barclays MD Chris Ball says it is important that most of the R750m for low-cost housing should be spent on site clearance and infrastructural development as soon as possible.

This would allow the private sector to contribute to building houses.

The massive boost to housing has a low-import component and should protect the Balance of Payments and add little more pressure to inflation.

Kahn says: "The large allocation for housing will have a considerable multiplier effect, with job creation in the construction industry and among building-material suppliers. In due course this will lead to a demand for furniture and appliances."

Secrecy crumbles

18/6/86 BUS > DAY

Business Day Reporters

GOVERNMENT secrecy about detainees began to crumble yesterday, as the names of some of the 2 000 said to be in detention began to emerge.

In separate developments:

Graham McIntosh, PFP MP for Maritzburg North, surprised Parliament yesterday by reading out the names of people and asking if they had been detained in the last five days.

McIntosh asked Adrian Vlok, Deputy Minister of Law and Order, if he could "tell us whether Bantu Julius Fuzile, Nabel Swart of the Alexander Sinton School, Khaled Desai of the Alexander Sinton School, Eric Applegreen, Janet Applegreen, Peter Kershoff, Martin Wittenberg, Mr C Merret, Mr S C Jocelyn, Prof Colin Garner, a number of people from Mpolweni, Moses Mkhize, Edna Mkhize, Nora Mkhize, Nkosinathi Mkhize, Swart Mkhize, Nkululeko Mkhize, Mondli Ndlovu, Simo Bhengu and Xoli Mngadi ..."

McIntosh said his aim was to find out who had been arrested on charges of public violence. The exchange ended amid loud interjections.

Charges of illegal possession of a firearm against Father Smangaliso Mkhathswa secretary-general of the SA

THIS newspaper has been produced under conditions amounting to censorship.

Permission to publish certain items of news has been sought from government's information bureau and refused. In other cases, officials would neither confirm nor deny reports put to them.

The bureau spokesman yesterday denied that it had "wilfully withheld information". But he added: "The bureau cannot comment on every incident and the daily Press conferences will clarify possible questions in this regard."

Business Day stands by its report that in some cases it has been unable to obtain confirmation or denial of information which, but for the restrictions, it would check for itself.

Catholic Bishops Conference, were withdrawn in the Pretoria Regional Court yesterday because, it was revealed in court, he is being detained.

Four Americans were arrested in Cape Town over the weekend under emergency regulations, a State Department spokesman said in Washington.

One, a Lutheran pastor, was later released. Another was detained at church services on Sunday.

US diplomats had not been allowed to see the two men. There were few details

● To Page 2 ➡

CBS man in court drama

A TRANS' AAL Supreme Court judge yesterday threatened to order security policemen from his courtroom for disturbing the proceedings.

He believed they intended to arrest CBS cameraman Wim de Vos.

De Vos was due last night to leave SA after his last-minute application failed in ordering that his deportation warrant, issued on Friday, be set aside until fur-

ther legal proceedings could take place.

After four hours of legal argument, Mr Justice A J Van Niekerk said he could not find that the Minister of Home Affairs, who signed the deportation order,

SIAMMA GAMES, SOPHIE TEMA and Sapa

18/6/86 ● To Page 2 ➡

Economists says measures are disappointing

Doubts expressed over Du Plessis' package

SERIOUS doubts are being expressed that government's latest attempts to stimulate the economy can achieve their objectives.

The measures announced by Finance Minister Barend du Plessis were described yesterday as disappointing by Sanlam's chief economist Johann Louw.

He doubted they would do anything to stimulate private consump-

CHRIS CAIRNCROSS

tion expenditure and believed government estimates that growth would reach 3% this year were far-fetched.

Old Mutual's chief economist Rob Lee discounted the effects of the package as being, essentially, meaningless.

He said government spending up to the end of May was already 30% higher than the figure projected in the Budget.

In relation to this expenditure the stimulatory package was comparatively small.

If government's over-spending was unable to provide the necessary stimulus, it was doubtful Du Plessis' latest proposals would do any better, Lee said.

Figures released by the Reserve Bank were disappointing. Like Louw, Lee was extremely doubtful economic growth would achieve the 3% annualised figure Du Plessis was confident of achieving.

"Business continues to lack confidence, and this situation will remain as long as the political situation is unsettled."

National Panasonic MD Terry Millar said the package was unsatisfactory in the eyes of the electronic home entertainment industry.

The huge slice of government revenue in the form of various duties and taxes, combined with the weak rand, had had a crippling effect on the industry, he said.

"Representations to the Minister of Trade and Industries stating the desperate plight of this sector of the economy and requesting counter-inflationary relief has been ignored," Millar said.

The survival of the industry depended on government easing certain restrictions, in particular the 35% excise duty placed on its products.

Millar said the electronic home entertainment industry was in as serious a situation as the motor sector, which had been granted relief.

Business Day

5c tax) For other prices, see Back Page
Province, Eastern Province 80c (71c + 9c tax)

SAVE R3210 ON A MAZDA

20 Eldi St. JHB. 331-0361

CITY MOTOR GROUP
Fenslopvoor • A Step Ahead

Board of Trade to get wide-ranging powers

THE Board of Trade and Industries (BTI) is to be given greater powers.

Draft legislation tabled in Parliament yesterday will free the board to undertake its own investigations and activities in addition to requests from the Minister.

The Board of Trade and Industries Bill will also enable the BTI to make greater use of private sector expertise through the creation of part-time board members.

CHRIS CAIRNCROSS
and DAVID FURLONGER

The legislation, which board chairman Lawrence McCrystal expects to become law later this year, is the result of recommendations by the Vander Horst Committee into the BTI.

The Bill is intended to enable the BTI the better to promote economic development in South Africa and the common customs union area.

Its functions will include advising the Minister on development of resources, advising on customs and excise duties and promoting competitive ability in industry.

McCrystal said yesterday the legislation would have two main effects — freeing the BTI to initiate its own activities and investigations, and allowing it to make fuller use of the private sector.

It will give the board the right to do

investigations at its own initiative, instead of on the instruction of the Minister, he said.

That is a far-reaching change which further highlights the independence of the board.

Welcoming the addition of part-time board members, he said, it was entable to attract people who can give all their time, particularly those from the private sector.



McCrystal

THE SUN OF 1988

49

BUD DAY 19/6/88

THE VITAL VIEWPOINT

Fuel levy, Sasol cash on loan

49

Anger over funding of govt package

3/10/81
12/3
83
19/6/86
27/11

ACCUMULATED profits from the sale of Sasol and the fuel levy will be used to finance government's stimulation package. This has aroused the ire of the Automobile Association and PFP spokesman for energy affairs Brian Goodall.

In his announcement of the stimulatory package earlier in the week, Finance Minister Barend du Plessis said part of the R1,200bn to be injected into the economy would come from the Central Energy Fund (CEF) and the National Development Corporation.

However, it is believed the money will only be lent to government and will be repaid at a later date.

Mineral and Energy Affairs Director-General Louw Alberts was unable to say yesterday how much would be lent to government from the CEF, what interest, if any, would be paid for the borrowed funds, or how and when the money would be repaid.

The Minister of Finance and Minister of Energy Affairs are negotiating the terms of the deal before the enabling

Business Day Reporters

legislation is passed.

This means the money will, in effect, increase the deficit before borrowing in an unusual manner, which will not necessarily be reflected in the official deficit figures. This "internal" loan will not, however, put pressure on the capital market immediately.

The capital market reacted positively to Tuesday's announcement. Rates

● See Page 3

dropped yesterday because financing the package will not tax the market by government offering further issues of stock to the public.

The Automobile Association's (AA) public affairs controller Iona Reed said the fact that much of the funding for the various stimulatory projects would come from the CEF would do little to dispel the scepticism that had always surrounded the fund.

The AA urged the authorities to take

● To Page 2

One star hotels fight off recession

Dispatch Reporter

EAST LONDON. — One star hotels are fighting the effects of the economic recession while their more luxurious competitors continue to struggle.

The monthly survey of hotel ratios by the University of Pretoria's Bureau for Financial Analysis showed that one star hotels fared considerably better than other grades in all divisions of their business in March this year.

One star hotels showed an increase in bed-occupancy rates compared with the corresponding month last year.

However, the survey showed that all grades experienced a decline in total real income during March. A general decline had commenced in November 1981.

Five star hotels made the heaviest weather in March with a decline of at least 35,9 per cent in total real income while the declines for other grades ranged between 29 per cent for four star hotels and 9,4 per cent for one star hotels.

All grades showed a decline in room occupancy with the one-star hotels faring the best.

Only one star hotels showed an increase of 4,5 per cent in bed occupancy compared with declines of between 23,3 per cent for five star hotels and 2 per cent for two star hotels.

Levy cheques in post boost welcomed

(49) DD 19/6/81

Dispatch Reporter
EAST LONDON — One aspect of the government's R1 205 million package aimed at stimulating the country's economy is that taxpayers can expect a cheque in the post before the end of the week in repayment of the 1980 loan levy.

East London's Receiver of Revenue, Mr E. R. B. von Hoesslin, said yesterday that taxpayers could expect their repayments any time between tomorrow and Monday.

The Minister of Finance, Mr Barend du Plessis, announced on Tuesday that R206 million would be repaid to individual taxpayers and a further R86 million to companies.

The chairman of the East London and Border branch of the Motor Industries Federation, Mr Dave Forsyth, said the concessions for the motor industry announced by Mr Du Plessis would benefit the manufacturer rather than the man-in-the-street.

This was because the concessions on motor vehicle excise duty applied to the tax paid at the source of the industry, he said.

"I believe that the announcement is aimed more at immediate relief for the manufacturer and will not have a tremendous affect for the consumer in the short term. In the long term, the concessions will enable the manufacturer to hold his prices down, benefiting the consumer later," Mr Forsyth added.

The minister announced a R70 million discount on motor vehicle excise duties and



MR DU PLESSIS

significant changes in the table for calculating fringe benefits tax on the private use of company cars. Full details are expected shortly.

The MP for Uitenhage, Mr Dawie le Roux, expressed the hope yesterday that the concessions for the motor industry "could turn the tide" for the industry.

He said he was pleased that Mr Du Plessis had made reference to the important role played by the motor industry not only to the economy, but also to job creation.

Mr Le Roux said the changes in the perks tax table were "very important", as the extent to which this would affect new car sales had not been realised.

The director of the East London Municipality's Management Services, Mr Leon Deetlefs, said Mr Du Plessis's announcement that R50 million would be allocated for additional job creation and training was not a long-term solution to unemployment.

"Obviously we have realised that there remains a high number of people without work in this region and, therefore, welcome something like this ensuring

further temporary employment.

"But it is not the long-term solution needed. The money allocated for creating temporary jobs will eventually dry up, and we will be back in the same situation unless a concerted effort is made to create permanent jobs through the further development of industry and commerce in the region," Mr Deetlefs said.

The president of the East London Chamber of Commerce, Mr Nico Cloete, said that the announcements would have a "very positive influence" on the building sector.

"I believe that because we have possibly the largest shortage of housing in the country, we would get the better part of the funds," he said.

Mr Du Plessis announced that R750 million would be spent on the provision of low-cost housing and that R50 million would be allocated to the Small Business Development Corporation.

"In the long term it will be of major importance to the building industry, which, in turn, would have a long-term effect on retail, with more money in circulation," Mr Cloete said.

"My only concern is that, with the government putting in all this money, it might stop other priority developments," he added.

Mr Cloete said that commerce was still waiting for a cut in taxation of the "upper echelon" of businessmen and said there was a dire need for added incentives for the entrepreneur wanting to get ahead in commerce.

Little relief expected for new car prices

44
NIM
19/6/86

Mercury Reporter

THE Government's economic stimulatory package might help reduce motor car costs by 1% or 2%, but costs had gone up 15%, Toyota's marketing director, Mr Brand Pretorius, said yesterday.

Mr Pretorius was responding to the concessions granted by the Government which included a reduction in excise duties, the removal of the 10% import surcharge on various components and materials and the easing of fringe benefit tax on company cars.

But Mr Pretorius pointed out: 'We are very grateful for the package that might have some positive impact on disposable income in the long term.'

He added that the proposals had to be studied in more detail.

Reducing

Mr Pretorius said one question would be whether there would be a price reduction, but this could not be done.

He said the drop in the rand over the past 12 weeks had caused the rand to depreciate against the yen by as much as a third.

'Our costs have gone up 15% and the Government's package might help 1% or 2%.'

A General Motors, South Africa spokesman said while they were obviously

very pleased with the concessions they could only comment fully once they had studied them in detail.

Samcor managing director Mr Spencer Sterling agreed.

'We are very pleased with the concessions that have been announced and that will obviously assist in reducing overall costs.'

'We cannot determine to what extent we will be able to pass these benefits on to the public until we get specific details,' said Mr Sterling.

Mr Dudley Saville, joint managing director of the giant McCarthy Group, said: 'I would think for the beleaguered motor industry any concession is welcomed.'

He said he believed the reduction in excise duties would slow the rate of price increases but doubted the industry was in any position to reduce prices.

'One has to have regard for the fact that manufacturers are currently losing large sums of money. It might restore viability to their businesses,' said Mr Saville.

He said fringe benefit tax was a key issue and although he did not know the specific proposals, it was an area which could have a meaningful impact in assisting sales.

He said a reduction in the general tax rate was necessary.

See also Page 13

ECONOMIC PACKAGE

FIN MAIL 20/6/86

49

A weightless wait

Why did it take so long? The growth packet unveiled this week by Finance Minister Barend du Plessis certainly did not err on the side of extravagance, nor does it contain any radical measures that might have called for weighty, time-consuming consideration.

The first leg of the package is intended to boost non-inflationary economic growth. In a nutshell:

- Capital plus interest on the 1980 loan levy will be repaid immediately (the cheques are dated June 20) at a cost of about R292m of which R206m will go to individuals and R86m to companies;
- The 10% import surcharge is to be removed on "selected" items (basically imported materials used in local production) at a



Finance Minister Du Plessis
... serving a curate's egg?

cost of R180m during the financial year;

- A rebate is to be given on excise duty on motor cars, estimated to amount to R70m this financial year;
- On the perks tax front, the table setting out the valuations attached to company cars will be made less onerous (strangely, no value is cited for this proposal);
- Negotiations are under way for the privatisation of some R2 billion worth of toll roads;
- Another R5m is to be added to the R1,5m in the Budget for development and transfer of technology; and
- Scraping the barrel, apparently, the minister repeated his previously announced further assistance totalling R100m to drought-hit farmers.

A second leg of the package is intended to embrace the programme for social and eco-

nomical upliftment via work creation and training:

- Another R750m has been allocated to economic housing;
- Job creation and training will be boosted by a further R50m; and
- The Small Business Development Corporation gets another R50m on top of the R58m provided in the Budget.

All told the concessions and expenditures will cost about R1,5 billion, of which R1,2 billion is fresh appropriations (the loan levy repayment, due anyway in a few months, had already been provided in March); only R700m of the R1,2 billion will probably flow through this fiscal year, as it is unlikely that spending on black housing can be built up above R250m by year-end.

So, without too much difficulty, the size of the package can be brought down from R1,5 billion to only R700m. Now you see it . . .

Financing will be largely through the cash-rich Central Energy Fund (also due to finance the Mossel Bay gas project), with provision appearing in the Additional Appropriation Bill in the usual way soon after parliament re-assembles next year. Another source of money is the IDC. "Certain legal requirements" preclude further details at this stage but they will be provided later by the Department of Finance in conjunction with Mineral and Energy Affairs.

This will relieve any pressure on the capital market or deficit before borrowing, which seems to have become a holy cow to Treasury, but smacks of accounting sleight-of-hand — and this at a time that many believe is ideal for deficit financing.

The package has been generally welcomed by business — which is so punch-drunk it would have welcomed any package — but there is some disappointment at its make-up. The failure to scrap totally the unfortunate import surcharge betrays a loss of nerve, while the loan levy repayment will only benefit those who actually paid tax six years ago.

A broader stimulus, which would have particularly helped the lower-income groups, could have been gained by a much-requested cut in GST. PFP finance spokesman Harry Schwarz sees this as the greatest omission in a "curate's egg with fewer good parts than bad."

This is typical of how the message lacks assertiveness at a time when economic deeds, not words, are needed. Despite the long delay in making the announcement, the proposals are still surprisingly vague. No details are given of what savings will be on the car perks tax, nor of the likely reduction in motor car prices from the excise duty rebate.

A less than ecstatic response was half

expected at Finance, where there is still concern that measures announced in the Budget and subsequent monetary stimulants have not fully had a chance to bite.

Du Plessis describes the additional fiscal measures as part of his "moderately expansionary" strategy. He believes they will encourage investment and consumer spending, making possible real GDP growth of at least 3% for the year. Few will share this optimism.

Moreover, lurking round the corner are the proposed levies to finance the new Regional Service Councils, whose scope has been expanded (see next story). If the timetable is to be met, they lie only three months away. These new imposts could cancel out much of the benefit of this week's package. ■

FIN MAIL 20/6/86
REGIONAL SERVICES COUNCILS

Wider base

Fears that the financing of the new Regional Services Councils (RSCs) will be an unwelcome, extra fiscal burden on the private sector will not be allayed by this week's Amendment Bill, which will give Barend du Plessis additional powers to determine how the levies will be calculated and paid, and by whom.

The Bill follows a decision that the original intention to use GST taxable values as the basis for RSC taxation was too narrow.

SPENDING TASK FORCE

Barend du Plessis also used the third reading of the Budget debate to announce the composition of the task force — heralded in March — to undertake a zero-base evaluation of State spending priorities.

Chairman is Jan Crawford, former senior partner of accountants Theron van der Poel. His deputy is former Wesco MD and Toyota director (among other companies) Danie du Preez.

Committee members include three Nat MPs, George Bartlett (Amanzimtoti), Kobus Meiring (Paarl), and Georg Marais (Waterkloof), as well as SA Breweries Executive Director Laurie van der Watt, the head of the National Institute for Personnel Research, Johanna van Rooyen, and the NPI's Jan Visser.

The group will be assisted by a small secretariat of officials from appropriate government departments.

Rand undervalued says Jan Lombard

49
CMT Times 20/6/86

LONDON. — The rand is undervalued in terms of its purchasing power but there are some advantages in this, the Deputy Governor of the SA Reserve Bank, J A Lombard said yesterday.

Lombard, in London for a Financial Times conference on gold, said the Reserve Bank had "very substantial reserves" to support the rand but would only do so if it felt fluctuations in its price were technical or temporary.

"As long as the rate lies below purchasing power parity, one expects South African ex-

porters to be doing rather well."

He said the rand's recovery to above \$0,41 from \$0,3570 a week ago showed that "the discount factor of political events has been fully absorbed."

Support

He added that "the Reserve Bank can support the rand when it is justified in doing so, because we still have very substantial reserves, particularly in gold."

The bank felt that "no central bank can really change the course of a currency, but it regards it as a duty to smooth out fluctuations when it can clearly make out a case that they are of a temporary or technical nature."

Lombard said SA was on schedule in making the debt repayments it agreed on with creditors last March in an interim settlement of a debt crisis, and was confident that further satisfactory

arrangements could be worked out.

"We are going on schedule. We are looking forward to maintaining our good understanding with the banking community," he said.

He did not think a R1,2 billion economic refraction package announced by the government yesterday would stoke inflation or distort the trade balance by sucking in more imports.

"It certainly will not create any inflation, because the level of real domestic spending has in the last year or so fallen below the level of potential production. There is quite a deflationary gap in the economy."

Boost

By boosting the building trade, he said, the package should especially benefit small businesses and subcontractors, and create a large number of jobs for skilled black workers.

Lombard said the Reserve Bank, which under a recently introduced system acted as the channel for all foreign exchange earnings on gold, did not intend to extend the same system to earnings on platinum and coal.

"That has not come up at all. I doubt whether it would really make much difference to the flow of dollars to the market," he said. — Reuter

Barend gives a little

The 1986 Income Tax Bill will stand as one of the most complicated and far-reaching ever. There are changes with both wide appeal (redundancy payments) and narrow (aircraft). And disappointments.

The Margo Commission on tax was due to report in terms of its mandate at the end of this month, but Finance Minister Barend du Plessis was almost as vague as he could be about when Margo will in fact report; whether the report will be made public; and when, or if, any changes can be expected. It is difficult to say what influence Margo had on the proposed amendments now on the table.

Nevertheless, the Bill proposes a number of welcome technical changes, especially in respect of perks and corporate tax. Conversely, Revenue continues its trend of cracking down on the delinquent taxpayer by opening the door to his professional accomplice.

The Bill proposes that Carl Schweppen-

The 1986 Income Tax Bill is a good example of the curate's egg, but with more good than bad parts. It shows that somebody up there has been listening to the fulminations of tax reform advocates. But when will Margo give us the real thing?

häuser, Commissioner for Inland Revenue, may waive the secrecy provisions in the Income Tax Act and report unprofessional conduct by tax advisers to their professional controlling bodies. Many CAs, for example Coopers & Ly-

brands' Paul Ferreira, have welcomed the move as likely to strengthen professional ethics generally.

There are the breaks. Among other perks tax changes, out-of-town allowances for foreign business travel can now exceed the current R100 tax-free limit; relocation costs may now also cover the costs of selling the employee's previous residence. Both are subject to the commissioner's discretion.

There is a fundamental change to the seven-year phasing-in of perks tax for approved housing schemes. Employees joining a company with an approved housing scheme in the 1986 tax year benefited from the phasing-in only to a maximum bond amount

of R50 000. The Bill proposes that the limit be scrapped.

As predicted by the FM, the Bill ends to some extent the use of "tax havens" — particularly Ciskei — by beleaguered South African taxpayers. Fisher Hoffman Stride's Solly Gerber reads the proposal as casting (as far as the TBVC countries are concerned) only bank and building society interest into the South African tax net.

Gerber sees as anomalous the omission of interest earned, say, from TBVC government stock. But he argues that the move will be the first of many designed to maintain the integrity of SA's tax base.

A new exemption is proposed for retired employees who continue to work on a part-time basis. The concession applies only where a taxpayer's cash pay is R5 000 or less; if they retired after 60 or due to ill-health; and the benefits were granted while in full-time employ.

As expected, certain technical loopholes have been plugged. Of note are a number of tax schemes spawned on the belief that tax-free payments — beyond sickness and death benefits — could be made through registered benefit funds.

Additional payments typically included share incentives, housing loans, retirement benefits and educational assistance. The amendment will in effect be retrospective: certain future lump sum receipts will be taxable even if the fund was established in the past.

A welcome relief measure hinges on redundancy payments — perhaps more common now than ever. If Schweppenhäuser is satisfied that a concession is warranted, lump sums received at the end of service will be taxed at the taxpayer's average rate for other income rather than at his top marginal rate.

The benefit can have substantial tax advantages. For example, an unmarried taxpayer with taxable income of R36 000 pays an average tax rate of 29,78%, but a marginal rate of 47%.

Notice of the married women's earnings

allowance in the 1986 Budget has been clarified. Up to the greater of R1 800 or 20% of a wife's net earnings can be deducted from joint income. The definition of *net earnings* has been given; happily it excludes investment income or income earned by a wife from a trade related to her husband's or his business.

The controversial *lifo* basis of stock valuation tax changes, as promised by Schweppenhäuser, appears in the Bill. Ernst & Whinney's Chris Hassall notes that the two *lifo* anomalies (indirect overheads and obsolescent stock) appear to have been rectified.

He advises:

- Taxpayers who took advantage of the anomalies can expect adjustments to returns of income; and
- Taxpayers should ignore the anomalies when computing any future provisional tax payments.

Hassall says the anomalous situation prevalent over the past two years — that group restructuring was severely hindered by the non-transferability of the *lifo* reserve — has been removed.

"But there is still the matter affecting not only group rationalisation but also third party asset acquisitions. This seems to have been overlooked. It concerns the phasing-in relief of overheads. No deduction of the overhead amount still remaining will be permitted in the transferee company."

Another welcome relief for corporate taxpayers removes anomalies in last year's hire-purchase allowance. That amendment sought to restrict the allowance to transactions with a credit period of a *minimum* of 12 months. For taxpayers whose claims became disallowable as a result of the 1985 amendment, the relief is now a phasing-in of the disallowances over a five-year period.

Yet further business relief refers to the 1984 amendment which limited the lessor's deduction of industrial and special aircraft allowances to the amount of taxable *rental* income. The result: even taxpayers who derived their income from normal operating leases were restricted in the deduction of the

capital allowances.

The Bill provides that taxpayers who lease out movable industrial assets or aircraft under operating leases can continue to deduct the capital allowances against *all* income. An operating lease is defined; the amendment applies retrospectively to the 1984 amendment.

As promised by Du Plessis, the Bill provides for the controversial international sponsorship allowance. The result is that *certain sponsorship costs* can be deducted against taxable income. In the result, the "double deduction" will mean the effective cost of international sponsorships is reduced to a mere 10% of the actual expenditure.

And the costs appear to be related to both direct and indirect costs, making the new rule favourable in the extreme.

Arthur Andersen's Pierre du Toit says the sport allowance relates to international sporting events and to any South African cultural or educational event — if approved by Du Plessis after consultation with the Minister of National Education.

It may be, says Du Toit, that this extension of the tax break could be aimed at smoothing the possibly difficult passage of an exclusive concession for sporting events through parliament. The amount of the qualifying costs are entirely within Du Plessis' discretion and apply to costs incurred in tax years ending on or after July 1 1986.

The 1986 Income Tax Bill gives taxpayers much to chew on. But in summary it must be said that one of its main characteristics (assuming all proposals are enacted) is the introduction of a host of further provisions made subject to the incontestable discretion of the commissioner.

Increasing discretionary powers are traditionally seen as abusive in tax and other law and the new Bill does nothing to allay such fears. A number of important amendments, notably on film tax finance, were overlooked. Overall tax planning will be just as difficult as in the past, if not more so.

For the sake of sanity, taxpayers should be told what happened to Margo.

20/6/86 BUDAPEST (92/49)

Motor trade gets a boost

makers, Econometrix automobile specialist Tony Twine said the proposed relief probably would not be passed on to consumers in the form of lower prices. At best, the measures could "delay an impending price increase in the future".

The exemption from the 10% import surcharge was not applied to imported automobile components that could be produced domestically. Such products include copper hose clamps, air distributors, gaskets, generators and a wide variety of other parts.

The import surcharge was removed

← ● From Page 1.

from imports that could not be produced locally, generally considered to be electronic components and other high-technology items.

The Government did not release information on a new table for calculating the taxable portion of company car use, which tax experts have agreed would also favor the auto industry. It was unclear whether the new information would be published today's *Government Gazette*.

FIN MAIL 20/6/86

ECONOMIC CLOCK

Ticking back

The "typical business cycle" clock of the *FM Blue Chip Forecast* ticked backwards last month, reflecting a stumbling economy characterised by general uncertainty and political dithering.

Delays in the long-awaited economic package, finally announced on June 17, did much to put the clock back. The crucial factor, of course, has been widespread lack of confidence. Whether the R1,5 billion package will change sentiment boils down to what will happen to the money that filters through to the consumer through the multiplier effect.

In its latest consensus forecast, *Blue Chip* says that, sadly, indications are that the trough reached in the fourth quarter of 1985 appears "to have been merely a pause in the downward trend." Production is down, and even "the stalwart mining sector is levelling off." Sales figures are "alarming," especially in credit-sensitive sectors.

Blue Chip notes that the first-quarter trade surplus was just over half the amount earned during the last quarter of 1985, at R2,45 billion. After service payments the overall surplus on current account for the first quarter is estimated at R1 billion, compared to R2,9 billion the previous quarter. *Blue Chip* says that, seasonally adjusted and

annualised, the surplus narrowed from R11 billion in the fourth quarter to just R2 billion.

However, Standard Bank says in its *June Review* that an improved outlook for world growth has opened the door for continued firmness or even improvement in the volumes and prices of many exports. "If there is one lesson to be learned from a study of the business cycle in SA, it is that only those domestic expansions that flow from rising exports are sustainable.

Temporary improvements

"Efforts to stimulate the economy, in the absence of a fundamental improvement in the international environment, have in the past led to very temporary improvements in production and employment ... and were responsible for creating balance of payments difficulties and exacerbating inflationary pressures."

Individual forecasters are increasingly gloomy, as indicated by their adjustments in the latest *Blue Chip Forecast*.

In May, for example, Volkskas expects GDP of only 2,5%, down from its April projection of 3,5%. Similarly, it now expects durable spending to be a *negative* 5%, as opposed to 1% growth estimated in April, while the inflation forecast is revised to 17,5% (17%). The current account surplus has also been revised down to R4 billion. ■

THE business community's initial responses to last week's declaration of a State of Emergency were divided. Some thought it would drive the economy even deeper into recession and lead to further international isolation, while others felt that the government needed to restore order to keep its reform programme on the rails.

While these different perceptions reflect varying degrees of opposition to or support for government policy, underlying them is an important question regarding PW Botha's economic motives for imposing this Emergency. Did he try to resolve the government's political problem regardless of the effect on the economy or is he hoping that the Emergency will somehow also be good for the economy?

To answer this question we have to know what the government identifies as the main cause of our current economic malaise. To be frank, they have not always been clear on this. During the past year or two various causes have been identified, including excessive consumer borrowing and spending, inflation, the deficit on the balance of payments, even unemployment.

This lack of clarity has led them to try a variety of economic "solutions": first they shoved us into a deep recession and, when that didn't work, they tried to lure us out with a budget offering some mild stimulation. That didn't work either.

The number of foreign companies voting with their feet against these policies testifies to that. In 1984 seven US companies quit South Africa, last year 38 left, and so far this year 13 more have gone.

At the same time dividend payments from South Africa to overseas shareholders have soared as foreign investors repatriate a greater share of their profits. Even local investors are withholding their capital.

All this was not lost on the government and the message finally began to get through that there is a crisis of confidence among the business community.

Not only this. The government also became aware that this crisis does not simply derive from our economic problems, but is also in response to the political crisis. It thus became clear that, in order to resolve the crisis of confidence, they had to tackle the political crisis head on.

The Eminent Persons' Group provided the government with some hope that perhaps the political problem could be resolved peacefully. If the EPG could be drawn into supporting long-term negotiations to resolve the political crisis, this might convince the business community that a peaceful solution was possible. Consequently, confidence would return and investment would pick up again.

The smash-bash solution to our economic woes

20/6/85 WEEKLY

Has the State of Emergency been declared to solve our economic problems ... or has it been declared despite them? DUNCAN INNES reports

But the EPG didn't bite. The South African government, it declared, is not prepared to negotiate fundamental change; instead, its reform programme is "merely designed to give apartheid a more human face". With their negotiation bluff well and truly called, the government's options narrowed dramatically. Real

negotiations are not an option yet, as these would involve the transfer of power to the majority, which this government is still too well entrenched and short-sighted to consider seriously.

Doing nothing was also no longer viable as the extra-parliamentary forces were getting too damned uppity and frightening off our best customers. That left the Big Stick.

Put simply, PW Botha is trying to smash his way out of the economic and political crisis.

There is, of course, a temptation to say he can't possibly succeed. After all, there is world repugnance against apartheid, there are sanctions, there is the militancy of South Africa's black youth, there are the UDF, Cosatu, National Forum

Against this, however, is ranged the power of the South African state and a cool gamble.

I won't dwell on the power of the state. As we are rapidly discovering, it is awesome.

organisations collapse,

And the gamble? The government hopes that it can ward off the full might of sanctions for some time yet. Summing up this view, a government source was quoted in a daily paper as saying: "In the end it is only money that matters." In other words, if the government can successfully smash internal resistance and restore order, the threat of sanctions will diminish as foreign investment returns — just as it did after the Sharpeville and Soweto crises were forcibly resolved.

Initial international responses to the State of Emergency suggest that the government's strategy may not be as absurd as it seems. Seven countries have already declared their opposition to sanctions, including our most important economic partners (Britain,

the USA, West Germany, and Japan). As Maggie Thatcher so pointedly notes: Unless sanctions are applied by the whole world, they will fail to bring down the government — and she for one has no intention of imposing them!

A second interesting response has been the recovery of the rand: From a low of 35,5 US cents last Friday it has risen to above 40 US cents. Even more remarkable has been the rand's recovery against the British pound: From a low of R4,40 to around R3,70.

This suggests a measure of confidence, at least over the short term, in the government's crackdown.

Will the government's gamble pay off? The answer to that lies less in the hands of the international community than in what happens inside South Africa. If the government succeeds in breaking the back of internal resistance then business confidence, both local and overseas, is likely to return. Overseas governments may express their moral repugnance for apartheid, but for many overseas companies "it is only money that matters".

However, the longer it takes the government to break internal resistance — and it needs to be emphasised that they face formidable and determined opposition from a number of quarters — the more their problems will multiply.

First,

Neither Thatcher nor Reagan (the two bulwarks against sanctions)

Second, local investors' confidence will be even further undermined if resistance continues. The government — cleverly, in my view — waited until after the Emergency had taken hold before announcing its most recent package of measures to stimulate the economy. The message was clear: Look, chaps, we've got the political thing sorted out now, so here's some cash (R1,5-billion) for you to go out and spend. But if the political thing comes unstuck — if the resistance doesn't break — then investor confidence will collapse again.

Third, the longer resistance lasts the more it will cost the state to try to suppress it.

This latest State of Emergency must send defence, police and related government expenditure soaring.

Having now committed itself to the path of popular resistance, the government has landed the economy in an unenviable position. Only if the government succeeds quickly and decisively in breaking resistance will confidence in the economy be restored. South Africa's economic future is being decided, not in the boardrooms of the nation, but in our streets.

As government expenditure increases, so our economic woes will multiply. Inflation will rise again, taxation or interest rates will go up (depending on how the government chooses to finance its increased expenditure) and our old friend, business confidence, will once again plummet.

2011/18
BUS 014
DETAILS of import surcharge exemptions and the reduction in motor vehicle excise duties announced Tuesday as part of Finance Minister Barend du Plessis' R1,5bn economic stimulation package were released by the Trade and Industry Ministry yesterday.

In general, the measures were seen as a boon to the struggling domestic motor car industry, which has seen unit sales slump by nearly 50% in the last five years.

Most of Customs Schedule 3 and certain items in Customs Schedule 4, which cover a broad range of foodstuffs, minerals, chemicals and manufacturing components, were excluded from the 10% import surcharge imposed last September.

The surcharge exemption applies to industries that import goods, components or raw materials for use in local manufacture. Items originally covered by the surcharge included all those not governed by the General Agreement on Trade and Tariffs (GATT).

As well, the ministry introduced new, more favourable, new formulae for calculating the excise duties on cars.

Nico Vermeulen, director of the National Association of Automobile Manufacturers of South Africa (Naamsa), said the recalculation of excise duties would result in an overall reduction in the levy of 35%. He said the actual reduction would

EP churches hard hit by recession but hopeful

W/E Post
21/6/86

(49)

By BARBARA ORPEN

CHURCHES in the Eastern Cape are struggling financially because of the present economic crisis and the high rate of unemployment in the area.

But heads of many churches spoken to this week were unanimous in their optimism that the church would remain strong because of the high level of commitment of its members.

Congregations, which are the sole financial contributors to churches, are being asked to provide more in the way of financial assistance.

The head of the Methodist Church in the Eastern Cape, the Rev George Irvine, said all the Methodist churches in the area were feeling the pinch, but the black congregations in rural areas were in a "chronic condition", being particularly badly affected by unemployment.

"We are looking very seriously at the situation and are going to our members for assistance. The church is particularly needed in these days and if financial support is removed a very valuable source of ministry will be cut off.

"But on the whole, the people remain loyal and generous, and because of this the church won't collapse."

He said two circuits had asked for student ministers instead of ordained ministers this year as a means of reducing costs.

Bishop Bruce Evans, Anglican Bishop of Port Elizabeth, said the Ford shutdown last year had had a severe effect on the size of congregations and had "left a hole" in terms of service as well as financial assistance in many churches.

In other communities, unemployment had affected the giving, but, although there had been a definite fall-off in black congregations in the rural areas, it had not been as severe as in the urban areas.

Bishop Evans said churches were struggling all over the country, but the Eastern Cape was "undoubtedly more badly affected".

Asked what would be done about the situation, he said: "We are seeking to increase the giving and I believe and trust in God that the standard will be maintained."

Bishop John Murphy, retiring Catholic Bishop of Port Elizabeth, said although the church was living in difficult times, contributions had not decreased to a noticeable extent.

Catholic churches in the rural areas, however, had been affected more severely than those in urban areas.

An optimistic development had been that contributions to the Bishops' Lenten Appeal, an organisation which helps students for the priesthood with grants and bursaries, had actually increased this year.

It was reported earlier this week that the NG Kerk is also in dire financial straits and owes thousands of rands to the Eastern Cape Synod.

The Moderator of the NG Kerk in the Eastern Cape, Ds Dave Marais, said churches in the northern suburbs and in Uitenhage were particularly badly affected and unemployment was one of the main factors behind the difficulties.

"But the situation is not so bad that we can't pay our ministers. It is mainly the missionary type of work that has been affected," he said.



Bishop JOHN MURPHY



Bishop BRUCE EVANS



The Rev GEORGE IRVINE

He's building industry's free enterprise champion

By ROBERT HOUWING

PAINTING contractor Mr David Matthews is a business rebel with firm convictions who has had more than one brush with authority

A champion of free enterprise, he despises unnecessary bureaucracy, vested interests, and the stifling of individual worker freedom.

Backed by similar-minded contractors, he formed the Small Builders Association eight months ago to fight these restraints, and became the first chairman.

The association already boasts membership of more than 120 and expects to represent the majority of building industry employers in the Western Province within a year.

This will enable them to sit on the building industrial council — a crucial breakthrough, considering that the association views the council in its current form as undemocratic.

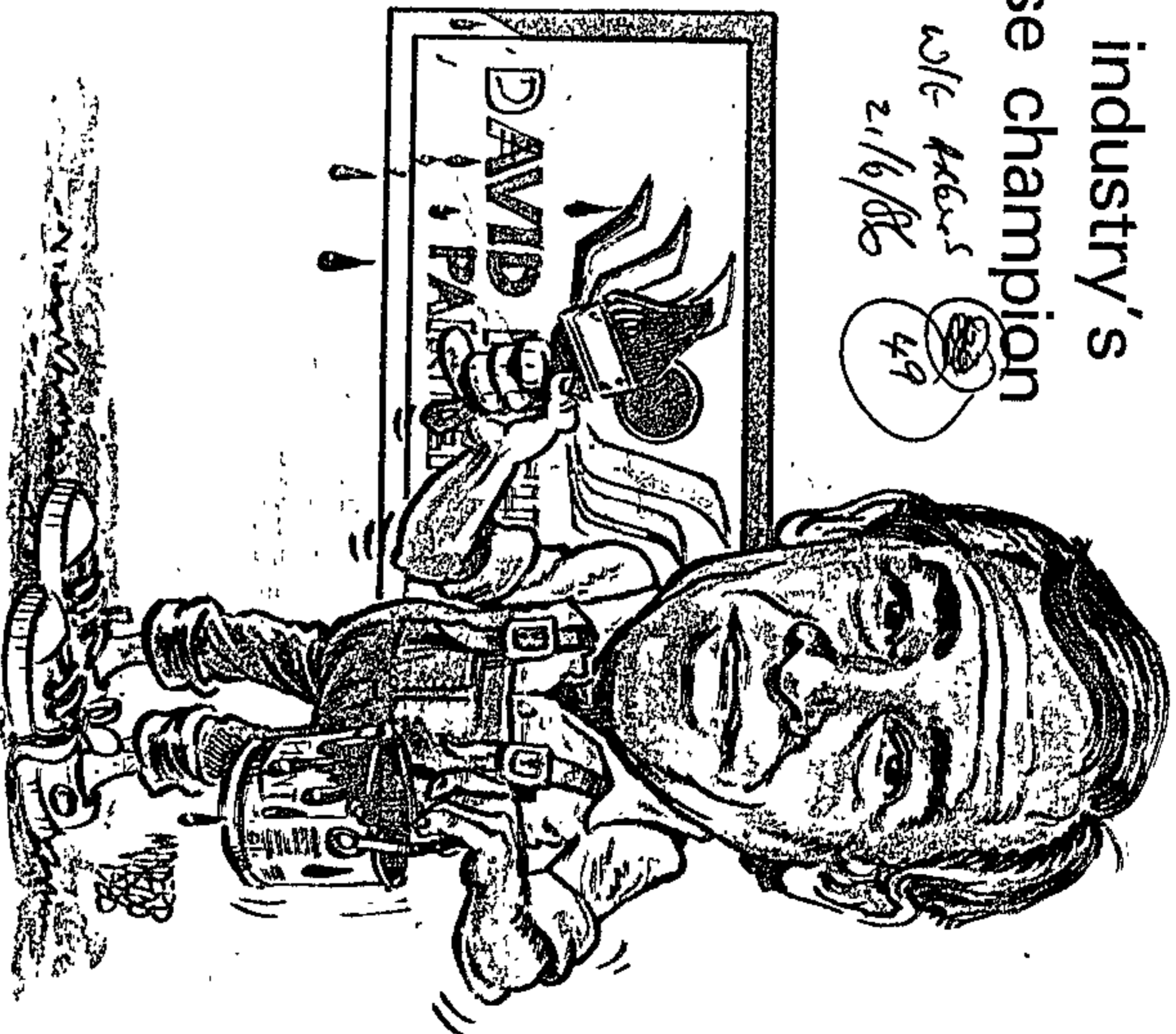
Less than 35 pc

Mr Matthews claims it represents less than 35 percent of all employers and employees in the industry, yet legislates for all.

Born in Durban in 1940, David Matthews spent two years at the University of the Witwatersrand before dropping out of a law degree course and hitch-hiking through Africa.

He spent five years in Paris and Madrid before returning to South Africa and getting involved in the building industry in Cape Town 20 years ago. In 1972, he was at the helm of his own company, David Matthews Painting Contractors.

*W/C Areas
2/16/86
49*



Mr David Matthews, chairman of the Small Builders' Association ... he says counter-productive legislation serves vested interests instead of industry as a whole.

"Like many things in life, my intrusion into the painting industry was quite unexpected — certainly not a family tradition."

Small minority

Mr Matthews's office at the Chippini Street headquarters is modest for a company chief. He drives a 1967 Jaguar, and lists diving and camping among his other interests.

What prompted his formation of the Small Business Association?

"The building industry is controlled in terms of its governing regulations by a small minority of the industry's participants.

"These vested interests are permitted by the Department of Manpower to propose legislation which affects the livelihood of thousands of people.

"Naturally, the legislation they put forward tends to serve their own interests, rather than those of the industry as a whole.

"The situation is clearly undemocratic. Furthermore, it unnecessarily increases costs, adversely affecting the consumer and, in the long run, the building industry itself."

Mr Matthews lists chief complaints as "grossly excessive" labour cost increases, excessive regulation, disre-

gard for economic conditions, wage fixing and restriction on working hours.

Flouting the hour restriction by working on a Saturday — he believes this would help decrease unemployment — landed Mr Matthews in court twice last year. The first time he was cautioned and discharged, and the second time fined R30 (or 15 days).

"Realising that most of the counter-productive regulation in South Africa originates not with the Government but with powerful vested interests — seeking to feather their own nest at the cost of society as a whole — our first major action as an association was to address a memorandum to the Minister of Manpower.

"It requested that any proposed legislation put forward by the Industrial Council should be seen beyond reasonable doubt to benefit the majority of participants in the industry."

Increase employment

According to Mr Matthews, the association gained a significant victory last month when the industrial council failed in an attempted prosecution and a clause in the Building Industry Agreement was declared *ultra vires*.

"This effectively eliminated job reservation in the building industry in Cape Town, whereby only a worker certified and approved by the industrial council could perform skilled work.

"The long-term effects of the court ruling will be to decrease building costs and increase employment in the industry.

"Vested interests may regard our association as a threat to their total control of the building industry, but it has been welcomed by many who regard the industrial council as an oppressive threat to their livelihoods."

Searle: motor industry is facing bumpy ride

By RALPH JARVIS
Motoring Editor

THE South African motor industry can expect a "pretty bumpy three or four years" as it fights its way out of the present slump in a "considerably impoverished country".

This is the view of Mr Peter Searle, managing director of Volkswagen of South Africa, who was addressing motoring journalists at the launch of the revised range of Passat vehicles at Umlalazi on the Kwazulu coast this week.

Commenting on the prospects for the motor industry in South Africa in the near future, Mr Searle said it was clear that several difficult years lay ahead.

"I guess there will be some casualties if the current situation continues," he said.

"We have additional costs which have to be passed on and the public can't pay. We are a considerably impoverished coun-

try compared with where we were several years ago."

Mr Searle said the motor industry was very conscious that the high prices were retarding sales and every effort was being made not to pass on the full cost to the customer.

"That is why motor manufacturers have been making such substantial losses. First of all they realise that if they pass on the whole cost they will lose most of their market and their dealer organisations. And they obviously don't want to do that.

"So we try to soften the impact by trying, every three months or so, to recover a little bit and hope the exchange rate doesn't decline in that period."

Mr Searle said the relief measures announced on Tuesday by the Minister of Finance, Mr Barend du Plessis, would help to offset some of the possible increases.

"But there is no question whatsoever that prices are going to go up over the next six to 12 months. A temporary respite is all we can hope for."

Mr Searle said that in one day the exchange rate could, if it dropped, virtually scrub out the advantages the Government had conceded.

"That is our major concern and that is something the Minister can't do much about," he said.

"But he has heard our problems and addressed the major points we asked him to consider.

"The relief is very welcome. It's as much as he can do. What's important, too, is that he's put more money into the pocket of the consumer.

"South Africa's problems, though, are more than can be solved by handing out more money. What we need is a turnabout in people's outlooks.

"It's high time we South Africans faced up to our problems and said we are going to make the best of them.

"Every country has its problems. I arrived in Europe and opened the Financial Times, and the first thing I saw was that at eight universities in Nigeria the police had clashed with students and there were 21 dead.

"In Australia 500 000 workers were on a full national strike.

"Our problems are not unique. Countries throughout the world are facing the problem of the haves and have-nots and major political problems, yet we have become the media event of the century.

"But apartheid is practically demolished, thank God. We have got to be a more just and equal society.

"The problem we have is a question of getting the parties together, of being

reasonable people. We have got to sit down together and talk to one another. We have to work out a way of living together, and we have to convince the world that we are determined to work out our problems in a reasonable manner.

"It's not only up to the Government, either. The Government is wrong in trying to take on the whole responsibility itself. We all have a responsibility, particularly those in business, and we are doing a great deal in this regard."

Mr Searle said the problems of economics had forced South Africa's motor manufacturers to improve their cost structures.

"The quality improvement of all manufacturers in South Africa has been substantial. We're producing better quality cars in South Africa today than most countries of the world, despite their automation."

S. JAMES

22/6/86
49

THE industrial holding sector perked up this week as renewed investor confidence followed the Government's R1,5-billion stimulation package.

Tagging a ride was the Murray & Roberts share price whose frightening headlong slide from R15 bottomed at R5,80.

Although the sector as a whole looks ready to move and the Government's housing programme seems to be good news for M&R, any significant gain in its share price must await results for the year to June, expected in September.

DIAGONAL STREET KERRY CLARKE



New thinking as M&R fights back

TRICK

The big question is whether M&R will be able to break even after the R35-million loss incurred in the first few months of 1986.

It looks a tough target at this stage, but M&R has three months to work on its figures, and could pull a trick or two out of the hat.

The longer-term outlook is also tough. The group's figures reflect two years at the mercy of depressed gross domestic fixed investment and there is the prospect of another four-year slog before GDFI recovers to its 1980 levels. Expectations are that earnings will take until 1990 to recover to 1984's 243c a share.

Determined not to let a decline in GDFI have such a harsh effect on results again — last year the dividend was cut for the first time in the group's history — management is considering a change of strategy which could see it concentrating increasingly on supplies and services.

DIRECTION

David Brink, former chief operations officer of M&R who takes over at the Skeen Boulevard head office in Bedfordview when Bill Bramwell, chief executive for 15 years, steps down on June 30, has strong views about the direction the group should be taking.

"Our overall strategy of diversification has not succeeded," he says.

"We diversified into consumer products and while our food companies have done well, the caravan business collapsed.

"The other tragedy is our international operation, which was supposed to protect us from the South Afri-

can business cycle. Right now we should be getting the sort of benefits that companies like Barlows and Haggie Rand are getting."

Two weeks ago, M&R announced a R35-million loss from operations since the beginning of the year. The loss arises from difficulties abroad, tough markets for manufactured housing and transport products, and costs involved in holding expensive staff in readiness for the Mossel Bay gas and AECI synfuel projects.

STANDSTILL

Mr Brink says less than half the R35-million loss is attributable to foreign construction operations. The group has overcome its difficulties by adopting a lower profile and entering into contracts with foreign partners. M&R declines to name the countries in which it has operations.

The disappointments overseas can largely be attributed to the debt standstill and anti-SA sentiment. Depressed consumer and investment spending have stymied SA operations.

Mr Brink says: "Traditional business cycles in South Africa have changed and the old theory of business cycles that work against each other has fallen out of the window.

"A new strategy needs to be adopted. Businesses must look carefully at their balance sheets because I don't think the old gearing ratios are valid any more.

"We have been overly dependent on GDFI, and we need to look more for bread-and-butter items — supplies that are needed by industry and mining on a continuing basis."

Mr Brink does not see M&R entering new markets of any significance this year,

but he expects acquisitions and mergers.

"There is a need for rationalisation in the construction industry and the supplies and foundry markets.

"Tendering is horrendous in the construction industry, and there has to be rationalisation. Nevertheless, we are making money out of construction across the board — there aren't too many construction companies who can say that. We have quite a good forward order book, but it is lower than last year, which was lower than the previous year."

Although GDFI is expected to recover to 1980 levels only by 1990, developments in the pipeline could stimulate M&R profits before then.

Privatisation of toll roads announced a few weeks ago will be one boost, and the Government's plans to embark on large-scale housing projects will bring in good business, as would further privatisation of construction activities.

START

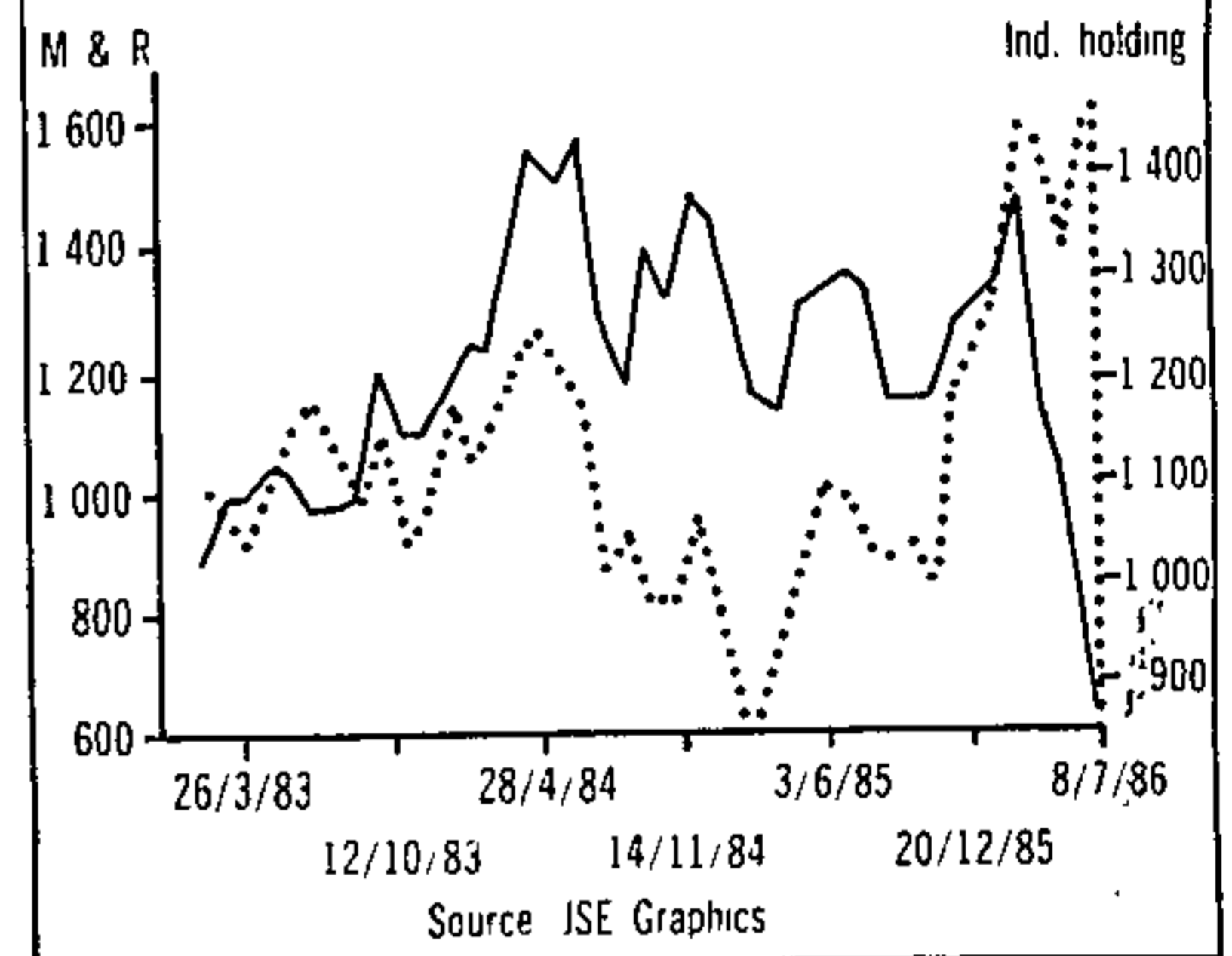
Mr Brink says "if and when" the Mossel Bay project goes ahead, M&R stands to benefit — it is doing conceptual design work for the project and the group's tug, supply, helicopter and undersea services are under commission.

Part of the R35-million loss was caused by the huge investment in holding engineers in readiness for the Mossel Bay and AECI synfuel projects.

"This has cost us millions, but we have decided to trim our sails until we have a more realistic idea of what is going to happen. We believe the Mossel Bay project will come about later rather than sooner.

"The latest view seems to

Comparison chart on monthly closing values from 28/1/83 to 13/6/86



be that construction will start in 1988."

Mr Brink declines to elaborate on M&R's profit prospects outlined in a statement of three weeks ago.

In it, the group hedged its bets by saying that although the R35-million loss had been incurred which could lead to an attributable loss, corrective steps were being taken to streamline operations. These could result in its meeting interim predictions of R22-million attributable profit in the year to June.

HEDGED

Certain restructuring has taken place — the number of operating sub-groups has been reduced from seven to five, and Mr Brink says changes of emphasis could take place in the next few months.

It seems unlikely that streamlining of the nature seen up to now can make up for the R35-million loss, and the group could fail to break

even.

However, a lower interest bill will help as gearing this year is lower than for a long time. Gearing improved from 40% to 28% in the period to December because of a R74-million rights issue.

HOLDING

The decks began slanting below M&R's share price in March on announcement of a 43% decline in earnings for the year to December. It was about R8 before the June loss announcement and fell to R5,80 in reaction.

The share is unlikely to recover to any great extent until the preliminary profit announcement appears in the second half of the year, but if M&R avoids a loss, the share price should start moving.

The share could be worth buying on current weakness, but investors must consider the opportunity cost of holding it. Confidence in M&R has taken a knock, and investors are likely to hold off at least until September.

22/6/86 S. TIMES (49)

Quick fix needed for Barend booster to turn economic tide

SPEED is essential if Finance Minister Barend du Plessis' R1,2-billion stimulation package is to have any impact on the shattered economy, say economists and businessmen.

Bureaucratic delays, poor planning and excessive reliance on State agencies to parcel out the money could lead to wastage and minimal effect on the worst-hit sectors of the economy.

There are even fears that because of the security situation in many townships, building and construction companies may have difficulty in carrying out their contracts.

Overspending

Economists say the Government's boost is likely to be much more than the R1,2-billion announced on Tuesday. Rob Lee, of Old Mutual, says State spending in the first two months of the fiscal year, April and May, was 30% up on the same time in 1985. The budgeted increase was only 14%.

That means about R800-million in only two months — and more than the R750-million booster planned for the rest of the fiscal year — has already found its way into the economy.

It is also speculated that because of the spending over-run and the likelihood that the deficit will be bigger

By David Southey

than budgeted for, Mr du Plessis avoided cutting GST and personal taxes. He also had to satisfy SA's foreign creditors and the International Monetary Fund that the Government was not about to resort to printing money.

Energy fund

There has been criticism of the Government's method of financing the package from the Central Energy Fund (CEF). However, University of Cape Town economist Brian Kantor says that because the Government had to use reserves outside its Budget revenue for stimulating the economy, the cash-rich CEF is as good a source as any to tap. Most of its funds are invested in Government securities and Treasury bills.

Nick Barnardt, of Stellenbosch University's Bureau for Economic Research, says the package will not affect the current account of the balance of payments or SA's ability to repay its foreign debt. Sectors to be boosted will spend most of the cash on SA materials.

Professor Kantor says the State should not be timid in increasing its borrowings under the present conditions, particularly if the booster

proves inadequate for spurring growth.

Mr du Plessis said on Tuesday that if growth indicators still looked sluggish in two months' time, the Government would inject additional funds.

Traders in the capital market are confident long-term rates will not be forced up in the event of the Government's funding requirements rising. Immediately after the measures were announced, long-term rates dipped by 20 points and continued to ease gently.

Economists believe more relief is on the cards from the Reserve Bank's side in the form of a one- or two-percentage cut in bank rate which would be followed immediately by a similar cut in prime overdraft and building society mortgage rates.

Money supply

Lower than expected growth in money supply in May of barely 9%, leaves plenty of room for stepped up borrowing from the banks — both by the Government and individuals. A key factor in the low money growth is the exceptionally slack credit demand banks are experiencing. This in turn is tied to the poor state of business confidence and political fears.

Seen in isolation, the R1,2-billion package is thus no more than a relief measure to help key sectors.

N/M
29/6/87
④

Many can't meet car repayments

Mercury Reporter

THERE has been a significant increase in the number of cars being repossessed by finance companies, says a Durban spokesman for one company.

He told the Mercury the increase had been between 10% and 15%.

Although some repossessions came from businesses which had gone into liquidation, a large proportion were private vehicles, he said.

'We have been getting a lot of individuals bringing in their cars saying they have been out of work for three or four months and can't pay.'

He said many of the cars were in perfect condition.

Very few of the cars were of the so-called 'exotic' class. Most were from the 'man in the street'.

He said his company was repossessing two or three cars a day at present, but added that cars repossessed were kept for 30 days to allow the owner a chance to pay the arrears.

'If it's not sorted out in 30 days we put a price on the car and take the highest offer after 14 days.'

Builders welcome Barend's boost

By Frank Jeans

Finance Minister Mr Barend du Plessis's R750 million boost for housing will create an estimated 30 000 new homes as well as nearly 140 000 jobs in the short term.

These figures are based on R25 000 for low-cost homes and on the principle that in spending R1 million in construction creates 186 new jobs.

And those 30 000 units will be more than the average annual home production by the private sector.

The benefits are even greater when the spin-off to ancillary industries is taken into account.

While the Government has now provided the cash stimulus, building leaders are unanimous that the industry must respond accordingly and get intensive housing projects under way and maximise the use of the R750 million allocation.

Mr Johan Grotsius, executive director of the National Association of Home Builders, says: "The decision by the Minister has come at a most critical stage when homebuilding activity is at an unprecedented low."

He emphasises, however, that to have the desired effect of stimulating housing and work creation, the scheme must be tackled "with vigour and without red tape".

Mr Grotsius also says that essential prerequisites must be borne in mind, the main ones being the affordability level and the urgent need for the industry to design and build homes at "varying levels of sophistication".



Johan Grotsius

"It is vital, too, that as an added impetus to the allocation we mobilise still greater amounts of private sector capital," says Mr Grotsius.

"The danger also exists that if this allocation is a once-off exercise it will add to the stop-go character of the industry which, in itself, has a harmful effect and impedes forward planning and generally affects stability."

Mr Lou Davis, executive director of the Building Industries Federation urges the Government departments involved in low-cost housing to "get their act together".

"These departments must now rapidly tackle the administrative requirements so that the R750 million can filter through to the private sector as soon as possible," he says.

The Bifsa director has little doubt that the latest measures will inject confidence into the industry which is "sadly depleted of resources at the moment".

"The building industry has been pleading for greater activity in the housing market and the R750 million injection should have some impact on conditions in this sector."

Referring to an additional R50 million earmarked for job creation and training, Mr Davis believes the labour-intensive building industry plays an important role in this regard by training people with virtually no skills.

"The further allocation of funds means that the builders' present efforts in job creation can be extended," he says.

Economy declines in most sectors

23/6/86.
BUS DAY

3% GDP hopes fade 49

HOPES of the economy achieving the targeted 3% real growth rate in the gross domestic product (GDP) this year appear to be remote.

The Reserve Bank's *Quarterly Bulletin* June issue said the "moderate" increase in GDP in the second part of 1985 petered out and, with a few exceptions, the economy showed real declines in most major productive sectors this year.

It said there was a decline of 2% in GDP in the first quarter. The *Bulletin's* statistical tables on GDP suggested the decline was only 0,8% but other statistics reflected a worrying flaccidity in the economy.

The probabilities are that the de-

HAROLD FRIDJHON

cline in real GDP gathered pace in the second quarter and a turnaround in the second half of the year of a magnitude which could produce the 3% growth is improbable. To achieve that, the growth rate would have to build up to about 6% which would appear to be out of reach now.

Real private consumption spending declined by 2,5% in the first quarter.

The *Bulletin* said: "Consumer surveys during the first quarter found a lack of confidence about future income rises. The erosion of personal incomes by an exceptionally high rate of inflation, as well as

by fiscal drag, contributed to the decline in consumer spending."

Real fixed investment continued to decline. Cutbacks in investment by state corporations were related to surplus capacity and the exclusion of SA from foreign capital and credit markets. Apart from mining, capital outlays in all major areas of the private sector continued to decline.

Salary and wage increases were below the inflation rate while registered unemployment, seasonally adjusted, rose from 79 700 in January 1985 to 137 700 in January 1986.

Bank advances were virtually static. Measured in terms of the inflation rate, they declined.

Barend's boost 'only a temporary solution'

24/6/86 STAT 49

By Frank Jeans

While Minister of Finance Barend du Plessis's R1,5 billion "shot in the arm" for the economy is welcome and will have beneficial spin-offs in the areas of housing and the motor industry, sluggishness persists against the background of political uncertainty, unemployment and rising costs.

This is the view of insurance giant, Sanlam which, in its latest Economic Survey believes the predicted three percent growth rate in domestic product this year is far from certain.

"It is doubtful that the Minister's package will lead to any marked revival in private consumption expenditure, particularly when it is considered that the additional expenditure will raise total Government spending in the present financial year by about only two percent," says the survey.

Pointing out that "attempts of this nature to bolster the economy" offer only a temporary solution to the country's problems, Sanlam says an estimated 543 000 blacks are at present out of work — equal to about 8,4 percent of the economically active population.

"The true situation is far more serious, however. At present unemployment in the non-agricultural sector is at almost the same level as in 1981.

"If the increase in the labour force is taken into account, we estimate that there are now about 1 million more people unemployed in the non-agricultural sector than in 1980.

"Add to this, the number already idle at that time and almost 18 percent of the total labour force must be now unemployed."

The survey says capital formation in South Africa has deteriorated alarmingly during the last few years and since investment is an important stimulus to economic growth and future job opportunities, it is important to create a climate which will encourage investment.

"The responsibility for this rests mainly with the Government. We believe that the acceptance of a comprehensive national strategy plan covering all facets of the economy — instead of continual ad hoc actions — could go a long way towards creating greater certainty, thereby making businessmen more willing to invest," it says.

Can Times 25/6/86

'Industry faces bleak outlook'

By AUDREY D'ANGELO

INDUSTRY faces the prospect of "bumping from one crisis to another" till SA's economic and political problems are solved, the chairman of Tongaat-Hulett, CJ Saunders, says in the annual report.

He thinks a long-term solution which will lay the foundation for export-led growth "in essence means accepting that SA must be governed by all the people".

Discussing the economic situation, Saunders says: "It is unfortunate that in its efforts to contain spending the government has cut the capital and not the current account.

In my view it is only government spending of a capital nature, coupled with a relaxation of official bottlenecks,

which can stimulate the economy in the short term."

"The building materials division is operating at below 60% of capacity and this only two years after we, as the industry's largest brick producer, were severely castigated for not being able to meet demand.

"The demand for bricks derives largely from residential building activity and this is influenced not only by availability of funds at affordable interest rates but also by public confidence.

"There is still a strong demand for housing from the Indian and black population groups but it is constrained by excessive regulations and a shortage of building stands."

The directors report that four brick factories were permanently closed during the year and a further three temporarily mothballed.

Miners seen as saviours of economy

BUDAY (49) 25/6/86

CHERYLYN IRETON

RECORD-BREAKING performance by the mining industry last year saved the country from political and economic disaster, according to outgoing Chamber of Mines president Clive Knobbs.

Delivering his presidential address in Johannesburg yesterday, Knobbs said the mining industry's earnings, assisted by the depreciating and "image-battered rand", had increased 36% to a record R26bn during 1985.

In the face of pressure from overseas financiers, these earnings had boosted the country's foreign exchange reserves and helped keep the economy afloat.

Investment in mining increased 11% last year while private-sector investment fell 6%.

Switching to political developments, Knobbs said he hoped the fateful events during 1985, including the toll of township violence, would press home the need for real, fast and acceptable change.

While applauding President P W Botha's reforms, Knobbs said government had not earned the respect of the outside world.

He warned pressures being exerted both internally and externally, threatened to encourage confrontation rather than conciliation.

Knobbs said those pressing for punitive sanctions were overlooking the sup-

port to reform that a prosperous economy would give.

On prospects, Knobbs said the decline in world oil prices meant better growth prospects for the industrial world.

"High levels of demand in these economies was good news for SA. However, the lower oil prices will have a disinflationary effect and this could mean immediate prospects for a sustained rise in the gold price are not especially favourable."

Knobbs predicted that the price of gold would remain fairly stable for the next year.

● See Page 4

New debt plan needed ⁽⁴⁹⁾ Barend ⁽²¹⁾

FINANCE Minister Barend du Plessis said yesterday that SA would again have to reach an agreement on foreign debt repayment next year.

Speaking at a Cape Town Press Club lunch he said SA continued to face the problem of foreign debt which restrained government in stimulating the economy as much as it would like to.

"But this is better than giving too much and having to apply the brakes again," he said.

26/10/86
TUESDAY
There had been a major change in fiscal policy and government now intended to spend "increasing amounts" on socially-orientated programmes, he said.

"However, we face the problem of foreign debt and at the end of next year we will again have to agree on a programme of repayment. We have to stimulate our economy in such a way as not to endanger our repayments." — Sapa.

● See Page 6

Package brings new hope for E Cape

Incentives

are hailed

By DENISE BOUTALL

THERE is optimism that the East Cape's new development team can tackle the regions' economic and political problems.

The director of the Midland Chamber of Industries, Mr Brian Matthew, said today that the parity with Natal in the delivered price of Iscor steel meant that just about every economic incentive sought by the region had been granted by the Government.

This will place local motor manufacturers on a par with market leaders, Toyota.

Mr. Matthew said the MCI would concentrate its input into the newly appointed East Cape Strategic Development Team on the political issues facing the region — in particular black housing, education and local government.

A 1984 MCI study comparing steel costs between a PE and a Pretoria motor manufacturer, had shown that the PE firm was disadvantaged by about R28 a ton.

Bringing steel costs into line with Natal was "fair", he said.

The only outstanding concession still sought by the chamber was that the rebate on rail tariffs for goods sent out of the region should be increased from the current 40% to 60%.

"I'm fairly confident that we will get that because we have been told it would be considered by the ECSDT," he said.

But for PE to benefit from concessions the national economy must be pulled right, he said.

It was essential that economic, social and political issues be addressed.

"To look any of these in isolation will lead to failure. It is also essential that there be input into the ECSDT from blacks," he said.

The newly appointed full-time co-ordinator of

the ECSDT, Professor Charles Wait, said today his task was to see that stumbling blocks which had already been identified were removed.

"We don't need a new study, we need action," he said.

The ECSDT would have direct access to Government so that decisions could be taken quickly.

His first task would be to make contact with the

various people who had investigated the region's problems.

Asked whether the committee would address political issues in the region Prof Wait said while political and economic issues were interwoven he would like to see people with political ideas and power work in parallel with the ECSDT. "They must not wait for this committee," he said.

E. POST

49

26/6/88

SA may not attain growth target — Croeser

APL Times 26/6/86 49

Own Correspondent

JOHANNESBURG. — Deputy Director-General of Finance Gerhard Croeser admitted yesterday that the government's target of 3% growth for the year was probably not attainable given the economy's weak performance in the first quarter.

Speaking at the mid-year Economic Outlook seminar sponsored by the Association of Chambers of Commerce of SA (Assocom), Croeser said: "We are trying with our stimulatory package to get demand up again.

"We may fall short of 3%. I wouldn't be surprised if we did."

Business leaders at the seminar, meanwhile,

questioned whether government's R1,5 billion fiscal stimulation package would have a significant effect, saying that business confidence was the missing key to economic recovery.

Recovery

"The fact is that the one very important factor to recovery is missing, and that is confidence," said Rand Afrikaans University economics professor Geert de Wet.

"We see that in the behaviour of investment and in durable spending."

Croeser, in turn, said business pessimism had begun to feed on itself.

"If we persist in talking about business confidence in an extremely negative light, then nothing this government can do will solve the problem," he said.

"I think we're talking ourselves into an economic and political mire."

Croeser said the primary intention of last week's economic package was to ease political violence by stimulating employment — "to get

jobs created, because that's where the unrest comes from".

Inflation, he said, was a secondary concern: "If we can only bring inflation down by taking people out of jobs, that certainly won't help the unrest situation."

But De Wet said the government's failure to confront inflation effectively in 1984 had caused the current economic problems.

"We must deal with inflation now, and thereafter we can stimulate the economy, if necessary, with fiscal policy," he said.

"We may well miss the boat, because the normal recoveries abroad will have to end some time."

Assocom chief executive Raymond Parsons advocated "a clear economic strategy in SA, which sets out how the different elements of economic policy fits together," and encouraged future actions by the Finance Minister to "concentrate on tax cuts — such as a reduction in the GST".

Parsons also warned of "fragmentation of economic policy," saying that steps like the government's recent concessions to the automobile industry could invite similar appeals from a wide range of special interest groups.

OWC Times

26/6/86

344 49

GOVT

sets up 'task force'

Chief Reporter

THE Minister of Finance, Mr Barend du Plessis, announced yesterday that a "small task force" of top businessmen had been formed to identify ways in which the private sector could help stimulate the economy through mass building and housing schemes.

This "task force", under the chairman of Sanlam, Dr Fred du Plessis, comprised Mr Meyer Kahn, managing director of SA Breweries, and Mr Derek Cooper, director of Barlow-Rand and other companies. They had held their first meeting a few days ago.

The minister, speaking at a Cape Town Press Club lunch, said building and housing were labour-intensive "and not so import-orientated".

'Star of Africa'

He sharply criticized "bureaucratic" practices and procedures in housing and rehousing schemes and said serious efforts must be made to eliminate them.

He said the stimulation of the South African economy, which he compared to "pushing a piece of string", had to be done in such a way so as not to endanger South Africa's foreign commitments.

The Republic must stabilize itself so that it could take its rightful place as "the star of Africa".

The government, Mr Du Plessis added, realized it could not generate sufficient funds on its own to provide the necessary economic stimulation, and had taken steps to involve the private sector as far as was possible.

Telling the tale

49 1845 27/6/86

To check the economy's health, some say, you need only take Edgars' temperature. With its countrywide presence and wide base of black and white customers, the clothing giant is a good indicator of consumer confidence. When that confidence crashed after 1982, so did Edgars' profits. With the deepening recession, Edgars has had to run faster to prevent an even steeper slide.

The recession revealed the group's strengths and weaknesses alike. With the benefit of hindsight, some may question former MD Adrian Bellamy's ambitious expansion plans. And then there was his heavy commitment to black consumer markets. Midway through 1983 Bellamy resigned, and Vic Hammond, who had been with Edgars for some 25 years, took over.

Hammond had his work cut out. In a falling market, he was contractually committed to Bellamy's five-year expansion plan. By 1986, the Edgars chain had added some 54 000 m² to its floor space, lifting its total area to 286 000 m².

It was not in the upmarket Edgars chain, however, but in Jet and Sales House, that the real problems lay. In the good years, Jet and Sales House were money-spinners for Edgars. But both proved vulnerable to recession: Sales House, because it relies almost entirely on black trade; and Jet, because against tough competition it has lost some of its fashion edge; moreover it has over-expanded.

Edgars is considered a key barometer of the state of our economy. While its long-term fortunes will essentially be determined by politics, analysts think it's looking good right now.

Where Sales House and Edgars trade mainly on credit, Jet is largely a cash store. While its performance has been poor, the credit component of group sales has grown, and with it, group debt and finance costs. However, concerted efforts have been made to help Jet reclaim its fashion image, says Hammond, and already there are clear signs that they are succeeding.

In 1983, Edgars was also having difficulty digesting the Ackermans chain, which it had acquired for R30m some years previously. Ackermans aimed at the bottom end of the market; an area of trade, Hammond admits, "we never really understood." In 1984, Edgars sold Ackermans to Pep Stores at a small loss, and the Cape-based chain is believed to have made a go of it.

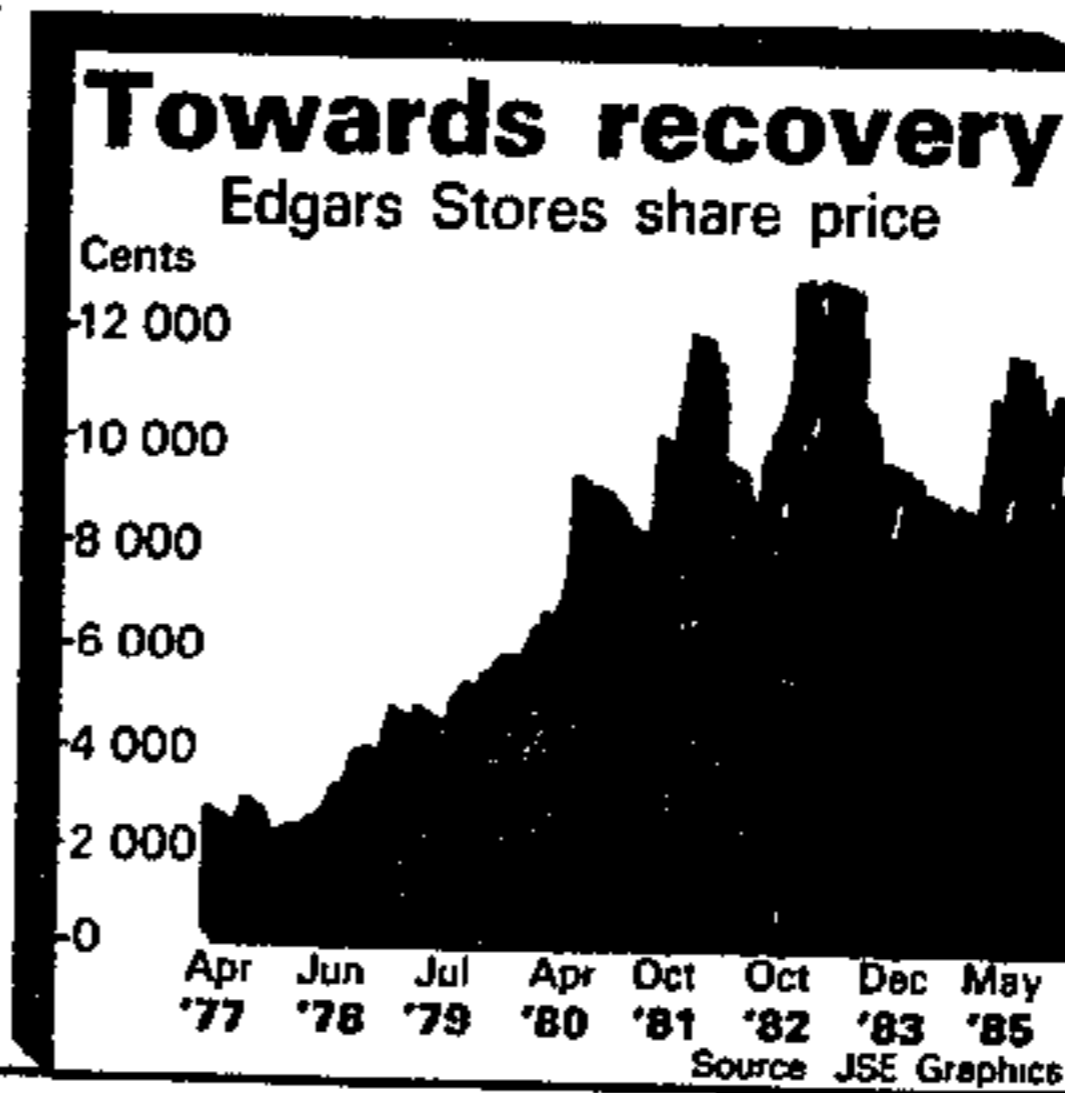
Problems notwithstanding, Hammond

turned his attention to cost and asset management, and generally to improving productivity. To his credit, Edgars' profits have remained stable since 1984, although the recession got a lot worse.

One of Edgars' strengths, in my opinion, is its superb marketing; the group employs a hard-sell approach targeted at selected segments of the market. While many competitors were cutting their advertising budgets, Hammond says, Edgars increased its ad-spend. For part of last year, he says, "we made the mistake of understocking our stores, and lost market share because of it."

The strategy now, he observes, is to stock up, and advertise aggressively: "It is working, and we are gaining market share." And with signs of a fledgling consumer recovery, he adds, Edgars should see a "significant" increase in earnings and dividends this year.

But the dizzy growth achieved throughout the Seventies, when earnings advanced at a compounded 23% a year, will not easily return. By the nature of its business, Edgars is particularly vulnerable to three damaging variables: high interest rates, high inflation rates, and poor black consumer spending. All these factors are present,



with none showing any inclination to go away. But Edgars has proved flexible in the past. It changed both its culture and direction when it needed to, and this adaptability has been its great strength. To understand the group, though, one needs to dig down into its roots.

Founder and first chairman Sydney Press began working for Edgars in 1935, eventually taking over the company. Hammond describes Press as a "firebrand entrepreneur," and brilliant trader. He adds: "His brother Hubert was a good administrator, and between them they made a balanced team."

Edgars pioneered term sales, and when Hammond joined its credit division some 25 years ago, "it became obvious to me that the company did not sell merchandise but credit." The firm was then broadly aimed at a family market, but showed little respect for marketing principles. It became obvious, says Hammond, that Edgars "had to shed its protective credit umbrella, and start merchandising."

Once Hammond identified this imminent shift in focus, he asked to transfer to the operations division. The group went through a rough patch, but with the focus now on merchandising, management made a watershed decision in the early Seventies to bring in American consultants. "Among others, we brought in Herb Segal, ex-president of Macy's, and Larry Lachman, ex-president of Bloomingdales, both of whom still consult for us," Hammond recalls. "They opened a new world to us."

The consultants taught Edgars about product assortment and market segmentation; about advertising focused at each individual family member, rather than at the whole family; and about display and lighting techniques aimed at promoting a "theatrical" environment.

By the early Seventies, then, Edgars was ready for a major change of direction. Where its stores had been small, downmarket establishments located mainly in rural areas, it soon moved upmarket and into the heart of city trading. When the first "superstore" was opened in Market Street, Johannesburg, its trading volume was so significant that Edgars had to begin looking at computer systems. Press may have realised instinctive-

ly that in this new climate of high-tech management, a change was needed. In 1977 he handed the operating reins over to Bellamy — a man perfect for the time, Hammond believes.

"He was a wonderful administrator, and the right man to pull together a group that had become far too loosely managed." Bellamy ruled with a firm hand, though, and Edgars



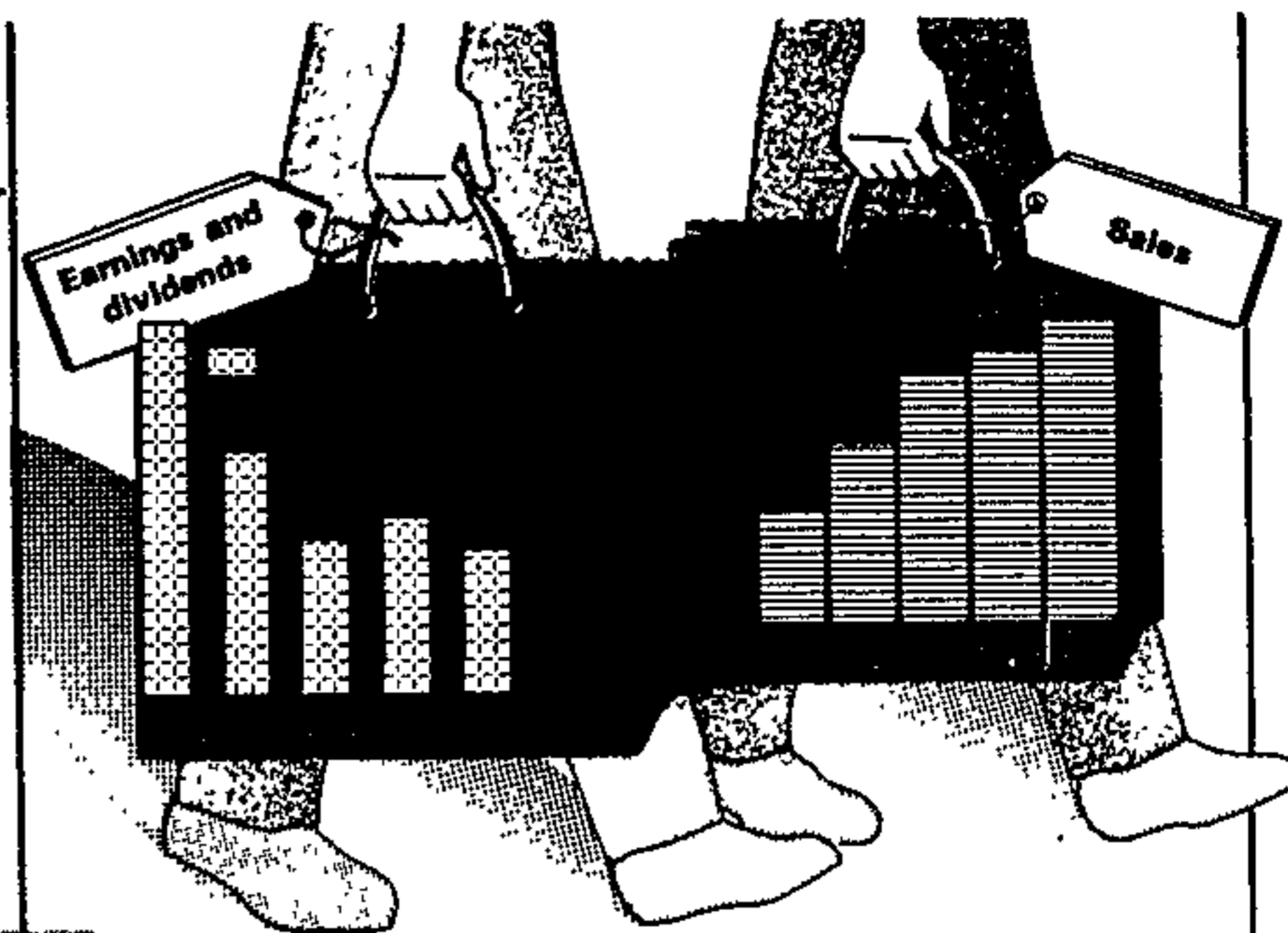
Edgars' Hammond

quickly slipped into an autocratic style of management. Throughout the late Seventies, the firm's growth rate was phenomenal and its image in the cities improved considerably.

In early 1982 SA Breweries raided for control. Press was having heart surgery in the US, and it was left to Liberty Life, also a major shareholder, to fight off SAB. Eventually, Liberty's Donald Gordon convinced Press to let go his stake for R52m — an attractive premium over market price — and control was relinquished to Breweries.

Edgars' corporate planning director Fred Haupt believes Bellamy may have felt uneasy about the change of control. "Suddenly, he found he had to answer to another board, and it was something of a culture shock," he recalls. In 1983, just when Edgars' profits began to fall, Bellamy resigned to take up a position overseas.

Hammond took over, and once again Edgars' culture began to change. Bellamy had spoken about decentralised management, but in the end, says Hammond, "he simply couldn't hand over the keys." Instead, notes Haupt, Bellamy operated through a cumber-



Edgars: Marking time

some management board, which had 14 members and met every week.

In the fashion world, says Haupt, "decisions have to be made quickly, and you just can't achieve that operating through a central board." Haupt believes that Hammond has achieved effective decentralisation, while retaining his essential control over key aspects of business. As Hammond himself puts it: "I have handed over the keys, but still hold the master key."

What about the future? Investors, certainly, are taking a bullish view of Edgars, a fact mirrored in the recent sharp rise in its share price (see graph). On the operating level, says Hammond, group sales are sharply on the increase, though off a fairly low base. Hammond tells me that Edgars will launch a new chain this year, aimed at the very bottom of the retailing market. "It will be called Express, it will carry a limited assortment, and will operate in high-traffic areas," he says. "It is a concept already working well for us in Zimbabwe."

It would seem that, since the Ackermans debacle, Edgars has gained experience and confidence in this sector of the market.

An impending rights issue to raise R50,4m will help the group bring its leased assets onto its balance sheet, so shielding the group from the vagaries of changing lease costs.

Ultimately, though, the group's short-term recovery and long-term growth will largely be determined by political factors. In the meantime, analysts will continue to view Edgars as a barometer of our economic health.

Neville Glaser



UBS's Falkena . . . competition pushing rates down

Stals says: "The initiative came from the building societies and follows a meeting with the Reserve Bank. We naturally support lower rates."

Not waiting for Monday, UBS, the largest society — no doubt seeking publicity pending its share issue — was notably first to announce reduced rates, ensuring favourable Sunday media comment. UBS is also highly profitable in a very competitive industry.

UBS economist Hans Falkena denies UBS was pushed by the authorities, and says UBS approached them for a reduction in tax-free investment rates. "The fall in rates is due to keen competition and because expensive deposits were rolling off society books." He suggests other societies had to follow.

But according to other large societies, besides moral suasion, Treasury reduced part and full tax-free investment rates by 1 and 0,5 percentage points respectively. Societies then cut rates to 16% (from 17%) for new bonds from Monday and for existing bonds from October 1. Bond rates are now 1,5 percentage points below the inflation rate.

Existing borrowers, now paying around 18%, will pay 17% from July 1 as the previous round of cuts announced in May comes through. Savers are not smiling as invest-

ment rates have also been reduced to maintain margins.

Allied senior GM Geoff Bowker claims there is no shortage of liquidity and the cost of attracting funds is falling. "The further drop in bond rates should be seen in this light and in the context of official plans to stimulate the economy. We hope lower bond rates will encourage demand for home loans and some benefit will rub off on to the building industry."

Such reductions, however, are unlikely to encourage growth via consumer spending by "putting money in the hands of consumers," as some have us believe. NBS MD John Bennett claims that 70% of homeowners will be unaffected because of employer subsidies. "Borrowers will pay the same amount because the employer's portion will be reduced."

All major societies report steady mortgage loan demand. The Reserve Bank *Quarterly Bulletin* notes: "Increased lending by societies in the first quarter was related to a significantly higher intake of new funds and a somewhat stronger demand for housing loans in response to lower mortgage rates."

By contrast, banks are experiencing very low credit demand. Not only rates are keeping borrowers away.

The impact on a society's profits will be negligible. Those going the equity route are unlikely to be delayed by lower rates. Says Bennett: "By paying investors less, societies will be charging borrowers less. Profits will hardly be affected and will have no impact on any listing decision."

Bowker disagrees and feels "lower rates will impact on profitability. There is certainly more pressure on margins, which will force greater efficiency and streamlining."

What are the prospects of further cuts, especially by banks and more particularly

EINMAIL # 27/6/00

BOND RATES

49

Path clear for prime

The latest round of building society interest rate cuts should be seen in the context of last week's economic package, which included a R750m housing provision. Both are attempts by the authorities to get the sick economy going.

But, like the package, such reductions will do little for the economy. SA's economic problems are much deeper and require, of course, far-reaching political concessions.

Admits one building society executive: "Government has made it clear that they want lower rates to stimulate the economy." However, Finance Director General Chris

49

FIN MAIL

27/6/86

ECONOMIC POLICY

Drugging the comatose

If the patient doesn't respond to treatment, give him another dose of the same medicine," seems to be government's approach to a flagging economy. Laudable though attempts to stimulate sluggish demand may be, there's little evidence its latest attempt will prove any more effective than earlier jabs.

Economists dismiss the June 17 package as "peanuts" and "trivial" Some even suggest that it was simply a ruse to satisfy existing government overspenders.

Of the R1,5 billion total, only R100m a month will flow through this fiscal year. Says Standard Bank: "Considering government spent R3,5 billion in May alone, the extra is minimal." Indeed, according to Standard's calculations the overspend was about R400m that month on a seasonally adjusted basis. Though it adds: "Of course, it's early days yet, and we'd rather wait for the first six months' figures before making a stronger point about overspending."

Back in September 1985 the economy had its first cash injection, totalling some R600m — the so-called "mini-Budget"

This "job creation package" included R150m for unemployment, R75m to the Small Business Development Corporation (SBDC), R50m for self-help housing and R25m for training. Some R400m was to come from a 10% import surcharge. This was 13 months after an "austerity package" intended to depress consumer activity.

It did little to boost the economy. According to the June Reserve Bank Quarterly Bulletin, covering the first quarter of 1986:

- Real private consumption expenditure declined 2,5%;
- The savings ratio deteriorated from 26,5% of GDP in 1985 to 23,5%.
- There was a 2% drop in seasonally adjusted real GDP;
- The ratio of real industrial and commercial inventories to real GDP dropped to just over 20%, compared to almost 25% at the end of 1984;
- Real remuneration for each employee fell 7% in the first quarter; and
- Real fixed investment continues to decline, with cutbacks by Sats, the Post Office and other government departments and public corporations.

The latest statistics for retail sales also show significant declines in real terms.

Not surprisingly perhaps, apart from increased investment spending from mining houses, real fixed capital outlays declined in all major (private) sectors," says the Bank.

Says Sanlam in its June Economic Survey: "Capital formation has deteriorated alarmingly during the past few years." In constant

terms, fixed investment by the manufacturing industry, for example, declined from R4,3 billion in 1980 to R2,3 billion in 1985. The contribution of gross domestic investment to GDE "has declined drastically since 1981, pointing to an increase in the consumption propensity."

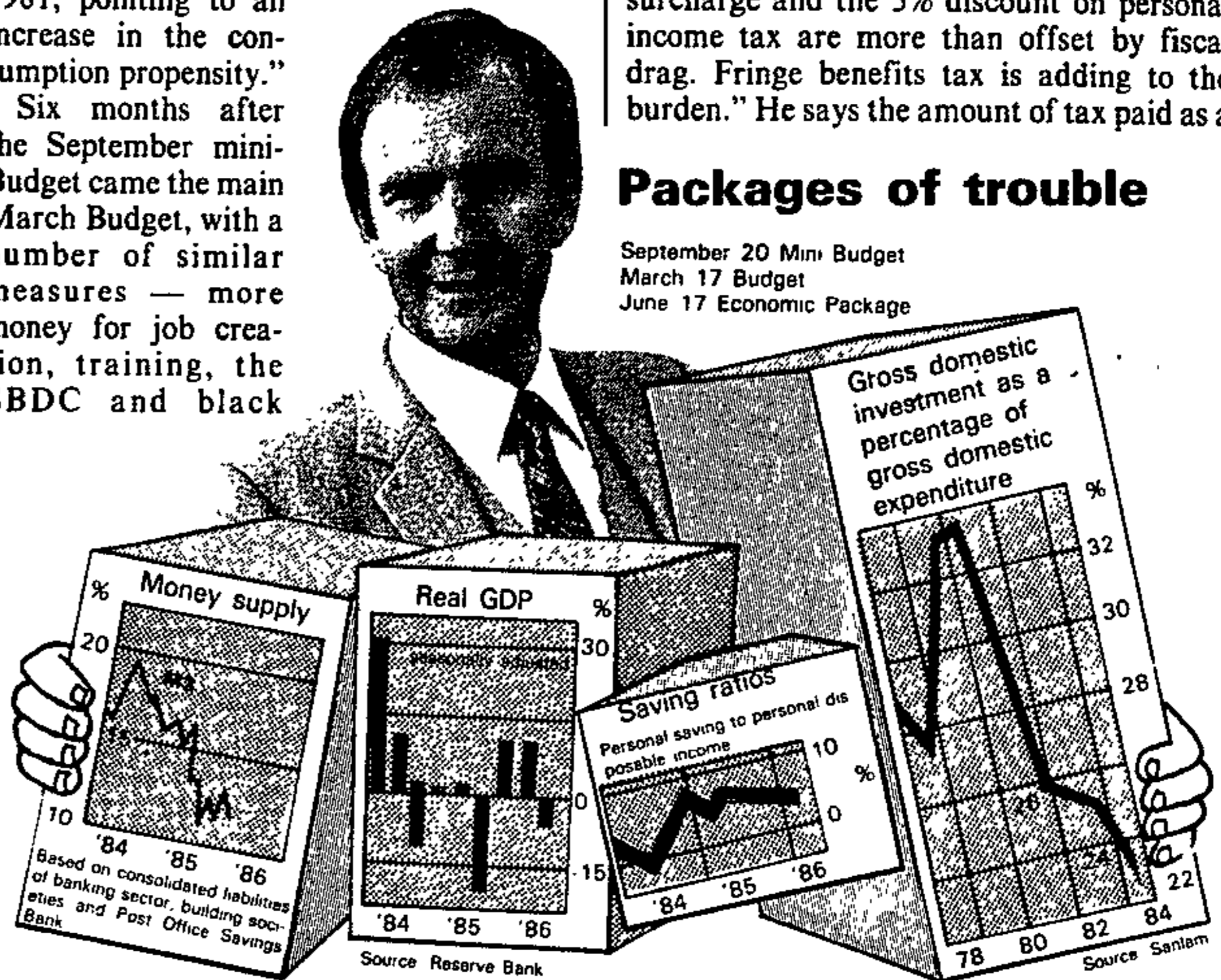
Six months after the September mini-Budget came the main March Budget, with a number of similar measures — more money for job creation, training, the SBDC and black

constraints: foreign debt repayment commitments, possible sanctions, defence spending, and high inflation among them.

As it is, he says, the March Budget couldn't work either. "The waiving of the 7% surcharge and the 5% discount on personal income tax are more than offset by fiscal drag. Fringe benefits tax is adding to the burden." He says the amount of tax paid as a

Packages of trouble

September 20 Mini Budget
March 17 Budget
June 17 Economic Package



housing — but scrapping the import surcharge on books. The latest package has much the same medicine. But, in keeping with the ad hoc approach, it included further removal of the import surcharge on "selected items."

The three jabs in the arm, for job creation, unemployment, low-income housing and training, total some R2 billion over a nine-month period.

Says Aubrey Dickman, senior economic consultant to Anglo American: "I don't see how you can measure the impact of government policies when you've got such a lack of confidence. But, clearly, the September mini-Budget didn't work, while we all felt the latest Budget wouldn't do much."

One economist says that for a stimulatory package to work one should look more at the prerequisites. "We need a greater feeling of security. Government must get to grips with the political situation and provide an economic environment that comes somewhere near to realising its potential."

Like most economists, he believes government lacks an overall strategy, applying measures on an ad hoc basis. "The authorities have not been bold enough," he says, conceding that this is partly because of the

percentage of income is still higher this year.

He might also have pointed out something often overlooked, that couples now completing their tax returns are no doubt discovering they owe large tax bills for the past fiscal year. Payments to Revenue here will obviously have an impact on disposable incomes over the rest of this year.

Louis Geldenhuys, economist at stockbroker George Huysamer, points out that capital spending on black housing should be seen in relationship to the rest of the public sector. "With public corporations, including Sats and the Post Office, cutting back so much, any beneficial effect is cancelled out."

But it appears government sees the consumer and investors as "unco-operative" in getting the economy going. As after Sharpeville, the authorities have taken the view that "if you won't spend it, we'll spend it for you."

Dickman says confidence is too low for tax cuts to be effective. "If confidence was strong then, yes, tax cuts would be very effective in stimulating the economy." Instead, the better route now is for government to play a leading role in low-cost housing.

Sanlam believes responsibility for restoring confidence rests "mainly with government," and calls for a comprehensive plan

More controls ahead

You have to hand it to Pretoria. Just when it seemed that government was making real progress down the road to deregulation, it is insistently pushing ahead with new legislation to give the Board of Trade and Industry (BTI) wide-ranging new powers in the overall direction of the economy.

The BTI, originally set up in 1944, has maintained a low profile of late, and as such bodies are going out of fashion — or should be in the current deregulatory climate — it might simply have been expected to wither away.

But Pretoria obviously thinks otherwise; and the new Board of Trade and Industry Bill tabled last week, designed to strengthen the hand of the BTI, takes no account of the fact that many of its functions have in any case passed to other bodies.

The BTI will, like the Competition Board, have the right to advise the Minister of Trade and Industry on ways to foster competition. And, like the Economic Advisory Council, it will have the right to advise on resource development, international trade, and financial assistance.

Confusion

There could be confusion — and the BTI's role might not be quite as benign as the Bill suggests. The State President, for example, will have the power of appointment.

Assocom, for one, believes that there could be considerable overlapping with the functions of other bodies — those of the Competition Board in particular. "We fear that many of the BTI's functions are already being handled by other bodies," says a spokesman.

However, it welcomes the provisions which allow for private sector executives to be co-opted as part-time members. Assocom itself hopes to have direct representation on some BTI sub-committees.

So far the BTI has concentrated on tariffs, Gatt regulations and protection — areas where there is little conflict with other bodies. But as the BTI will be able to act independently, there are fears that it will cast its net wider.

The BTI's new chairman, Lawrence McCrystal, comments: "Now we have a truly independent body." But it remains to be seen how independent the BTI will really be, as the State President — as usual — will have the power to appoint all full and part-time members.

Assocom is also concerned about the BTI's investigative powers in the new Bill. It is concerned that as the BTI's brief covers the entire Customs Union, it could on the face of it interfere unduly with the business activities of neighbouring states.

The Bill retains powers written into the old 1944 Act, which allowed an investigating officer of the board to enter premises in search of a commodity, book, statement or other document. The provisions also allow him to:

- Inspect or search such premises;
- Demand information from the owner or person in charge of the premises;
- Investigate anything found on the premises that is relevant to the investigation; and
- Demand an explanation of any entry in any book.

Anyone refusing to give evidence to the board, giving false evidence or hindering an investigating officer, will be liable to 12 months' imprisonment, a fine of up to R2 000, or both.

Although these powers were seldom used in the past, the BTI will no longer operate solely at the request of the Minister of Trade and Industry. The new independence of the BTI really means these powers could be used more freely, at the discretion of its officials.

Altogether, there's little to cheer supporters of the free enterprise system. McCrystal wants to see frequent revisions of import tariffs — but is this wise at a time when SA should be taking extra care not to alienate our trading partners?

It is also inappropriate that there should be a secrecy clause requiring a board member not to impart information to any other person. There is enough secrecy in government as it is.

The main reason for guarded hope seems to be that there will be considerable input from the private sector. McCrystal himself is a former director of Finansbank and remains a director of the Natal Building Society, and private sector advisers can be called in at any time as part-time board members. However, it may be recalled that in the Seventies he

attempted to push through a prices and incomes policy.

Perhaps the private sector representatives will be best occupied in steering the BTI away from what seems to be an increasingly interventionist philosophy. ■

Concept of business is 'politically disastrous'

By Kym Hamilton, Pretoria Bureau
One of the most extraordinary facets of the Project Free Enterprise report was the unanimous rejection of many Government policies and the perception of the causes of the country's present dilemma, said Mr Leon Louw, director of the Free Market Foundation.

But the finding that the Government was equated with business was politically disastrous, he said. It was shocking that this view was prevalent not only among unskilled workers, but also many of the country's managers.

Addressing a seminar in Pretoria yesterday on Project Free Enterprise's final report, Mr Louw said South Africa at present did not have a free enterprise economic system.

The basic issues which had to be addressed were the lack of black participation in the political process, undue centralisation of executive power, economic ignorance, and over-regulation.

Part of the problem was the failure by business in the past to communicate, and the wrong perceptions by many South Africans of the realities of a free enterprise system.

Big business was only now making a stand and committing itself to a dynamic political role to bring about change.

The perception among South Afri-

cans — black and white — of free enterprise had to be changed, said Mr Louw. Economic education was a priority.

There was nothing unreasonable in semi-skilled and unskilled workers demanding a 100 percent pay rise, he said. It was a logical demand based on their (wrong) beliefs.

These included a belief that Government and business were one, that capital for a business was easily obtained from the Government and bank — the bank was identified as an extension of Government — that managers took home a large slice of the company profits, and the way to redress the imbalance between poor blacks and rich whites was to pay whites less.

These prejudices were not a result of skin colour, but were based on socio-economic issues.



Mr Louw said South Africans had to be taught at all levels what was meant by a free enterprise system.

The over-regulation of the economy was seen as capitalism, and Marxism was seen as the opposite.

Mr Louw said the companies which took part in Project Free Enterprise envisaged a devolution of power and a limited central government.

He pointed out that South Africa was one of the few countries in the world with such a powerful centralised system of government.

R4 million injection for local industries

EVE POST
27/6/76



Post Reporter

MAJOR spin-offs for Port Elizabeth companies will arise from three contracts worth just over R4 million, which were awarded to C and T Products this month by the Department of Posts and Telecommunications.

The contracts — for 118 mobile units of accommodation — have also meant the company's workforce will be doubled from 80 to 160.

Mr Mark Frankel, group accountant of C and T, said the contracts would entail a "good amount" of sub-contracting to companies in Port Elizabeth.

"We are attempting to make sure the work remains in PE. We feel we obtained this contract for PE and we want to help our city as much as possi-

ble," he said.

The "spin-offs" will involve companies doing specialised work such as electrical fittings, laying of floors, and brake-fittings in the mobile units.

He said the company had competed against 11 other tenderers from the Transvaal and Natal, and had been awarded the contracts on the basis of the best offer.

"We were very fortunate to have won this contract," Mr Frankel said. "There is an enormous amount of work involved in compiling a tender. It takes a good few weeks to work out prices and designs according to specifications."

Asked what lessons could be learnt from the company's success, he emphasised that local firms must look farther

afield when tendering for work — especially with the present tight economic climate in PE.

"The only way to do that is to examine the Tender Bulletins very rigorously every time they appear. It is simply a case of adjusting — one cannot rely on what one has become used to."

Mr Frankel said the contracts were the largest the company had secured in quite a few years.

Although "victory celebrations" had abounded, the real party would begin when the contract was completed and another new contract was secured. That would be in March next year, he said.

"By obtaining a contract of this size, we hope to establish the industry very firmly in the city."

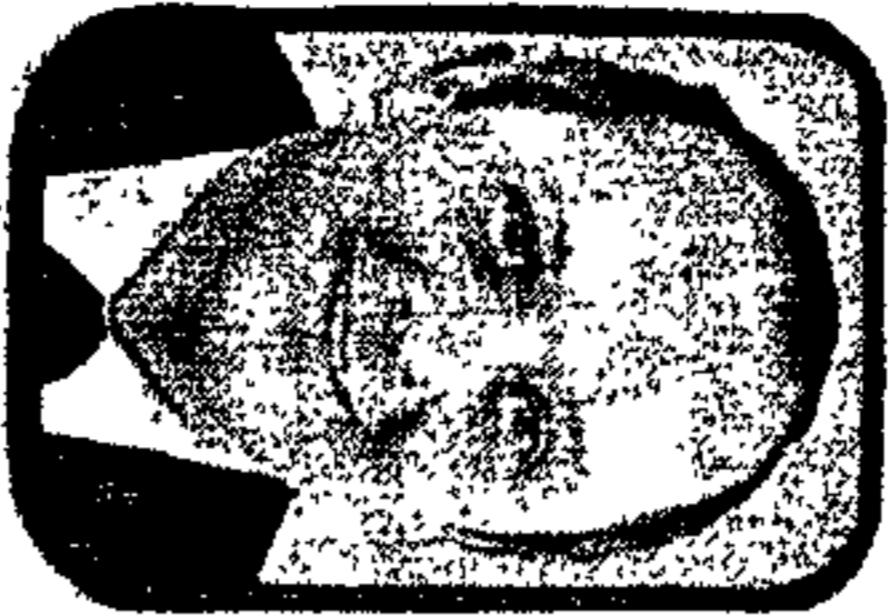
'Operation Rescue'

for key jobs

(49)

W/E Port 22/6/86

(EB)



By Bob Kernohan
Business Editor

IT has been a case of "operation rescue" for a go-ahead Port Elizabeth computer company, which has provided job security for 11 city families faced with an uncertain future.

By taking bold action during at the depth of the recession, the Response Group has increased its staff from two eight weeks ago to 20 today.

And the main beneficiaries have been Port Elizabeth people who would have been without jobs or forced to move to the Transvaal.

Company managing director Mr Martin Kruger said the rapid expansion had been made possible due to the signing of new con-

tracts — in the company's specialised field of motor industry statistics — and the absorption of a national company's city branch operation that was facing closure.

"With the imminent closure of the computer section of Samcor (Ford) in the city and with our signing a contract to process the Ford Dealer Services Bureau, we were able to

employ eight highly skilled personnel to provide continuity and enhancement of the bureau," said Mr Kruger.

"A similar situation arose with the decision of Micrographix/Bell and Howell to close their Port Elizabeth microfiche bureau in the city this month.

"Again, our group stepped in and by taking over the operation, excluding machine servicing, we provided continued security for a further three families."

The group has also recently signed new con-

tracts with BMW and Nissan.

"We look forward to a bright future in the city and have also purchased our own building in the centre of town," said Mr Kruger.

One gripe he has about the expansion has been the "negative attitude" displayed by some financial institutions in the city.

"But, while tightening our belts strictly to avoid the pitfalls of initial negative cash flow, we have faith and confidence in our staff and in the future," he added.

The group began operations in a small way in 1977

and soon made a name for itself by specialising in the motor industry.

This includes on-line links between manufacturers and vehicle delivery operations in cities throughout the country, providing on-the-spot information within seconds on exactly where vehicles are.

Analysis of monthly sales data available to National Association of Automobile Manufacturers (Naamsa) members has also become a speciality.

Latest developments include a programme developed in-company which, at the touch of a button, can provide up-to-date sales statistics on towns, provinces and regions. With the touch of another button, these can be transferred into either bar or pie full-colour graphs.

"We are negotiating to have this system — the only one of its kind in the country — more widely used in the motor industry," said Mr Kruger.

"We plan to turn this and other developments into new employment and financial opportunities for the Eastern Cape."

if e

W/G ARGUS 28/6/86

49

It's the workers who foot the bill for minimum wages

DOWN the well-worn cow paths of the mind ambles the fattest sacred cow of them all: minimum wages.

Even to suggest today that minimum wages are less than necessary, good, and self-evidently just, is to label oneself as an enemy of the people, a blood-sucking capitalist, and, at the very least, out of tune with the times.

At the risk of goose-stepping to a different drum, let me state unequivocally that minimum wages are a total fraud.

More, that the concept is used by manipulators of public opinion to further their own selfish interests by exploiting the very people they claim to be most concerned with protecting.

Included in price

Consider: whenever something is made for sale, the costs of the labour, the material, and the overheads are all included in the selling price — which is paid by the buyer or consumer at the time of purchase.

A free market means a free people, writes **DAVID MATTHEWS**, chairman of the Small Builders' Association, who queries in this article — the first in a series in **Business Argus** — the validity of what he calls the "sacred cows" of labour policies.

If wages are raised for so-called reasons of morality, then this increase is also included in the selling price and is paid for by the consumer.

The employer indeed advances the minimum wage on Friday afternoon, but it is the consumer, not he, who pays for it finally when the goods (or service) is bought.

98 percent

Who is the consumer? Ninety-eight percent of the time it is the worker — simply because he composes ninety-eight percent of the population. This means that minimum wages are not paid for by employers — they are paid for by other workers.

The extra R50 or so a month in wages that a worker receives as a worker is paid out when he buys the goods or services produced by his fellow workers in his own and other industries in his role as consumer.

If all workers received exactly the same minimum wage, they would be no better off because what they gained as workers, they would pay out as consumers.

To better-organised

Although minimum wages are advocated as being moral, they are, in fact, highly immoral, because they result in a redistribution of wealth — not

from capital to labour (as their advocates pretend) — but from the poorer section of society to the better-organised: from domestic and farm workers, for example, to the members of aggressively unionised industries.

At the same time, by fixing a minimum rate at which an employer may employ a worker and a minimum rate which a worker may accept, minimum wages deny access to the labour market to all those workers who are willing to work for less than the fixed rate.

Artificial scarcity

They create, in fact, an artificial scarcity of labour in order to inflate the earnings of those who manage to retain their jobs.

Minimum wages are simply a means of establishing a labour monopoly, which is no less reprehensible than a business monopoly.

For these reasons, they are clearly fraudulent and furthermore, against the interests of the workers as a whole.

sunrise finance

Distributional coalitions 'harmful to the economy'

By Peter Farley

Amid all the prognostications of doom and gloom that currently abound in local business circles, Ms Gill Raine of stockbrokers Frankel Kruger sees the possibility of some light at the end of the tunnel — if the benefits of free enterprise can be hammered home to the entire population.

Working from the conclusions drawn by Mancur Olsen in his 1982 work *The Rise and Decline of Nations*, Ms Raine suggests that "we have the opportunity to rise from the ashes if economic reality can prevail over political forces resisting change and if existing distributional coalitions can be replaced by freedom of opportunity in a competitive environment."

In order for this to happen, however, she points out that the priority must be to establish the advantages of free enterprise among the working class; "to promote education and the incentives to use education for its intrinsic value rather than its sorting function by opening up upward mobility to all races on merit."

Apart from drawing on Olsen's thesis, Ms Raine also compares SA's current position with that which faced Brazil and Argentina a few ago and the benefits to those economies after a return to civilian rule.

Common feature

"Not that SA is currently run by a military junta," says Raine, "but the common feature is that in a period of significant political change, existing distributional coalitions are broken down, allowing a return to economic efficiency and hence increasing real economic growth."

Olsen points out that in a stable society, special interest groups are able to form the strongest lobbies for special privileges which redistribute resources in their favour — tax concessions, import tariffs and export subsidies.

All these are granted by politicians who respond to the demands of constituents and the seemingly logical demands of special interest groups.

"The dense network of distributional coalitions that eventually emerges in stable societies is harmful to economic efficiency and growth, but so is instability. There is no inconsistency in this; first as special interest groups lead to mis-allocations of resources and divert attention from production to distributional struggle, so instability diverts resources that would otherwise have gone into productive long-term investments into forms that are more easily protected, or even into capital flights to more stable environments.

On the whole, stable countries are more prosperous than unstable ones and this is no surprise. But, other things being equal, the most rapid growth will occur in societies that have lately experienced upheaval, but are expected nonetheless to be stable for the foreseeable future." — Mancur Olsen.

"The smaller the number to organise the easier, hence lobbies by oligopolistic productive units are easier to form effectively than countervailing consumer groups."

Ms Raine points out that concessions in SA have been given to a troubled motor industry, but she asks: "What of the construction industry and other sectors so badly affected by the current economic situation?"

SA's problems are, however, compounded by the high unemployment rate, particularly in the rural areas. There are therefore demands that wealth be redistributed, which has to be financed through either higher taxation or increased government borrowings.

However, the former reduces the incentive for entrepreneurs and diverts the energies of the highly paid away from employment creation towards reducing their tax burdens.

"The need," says Ms Raine, "is to balance incentives for individual effort throughout the economy against the special-interest demands of lobbies, which overall are to the detriment of the economic efficiency of the SA economy."

She points out that SA has much in common with Argentina and Brazil. In 1985 the Argentine inflation rate fell from a monthly rate of 31 percent in June to only 1.9 percent in October. In Brazil inflation was rising at an annual rate of more

than 200 percent early this year.

Not that South Africa has hyperinflation, but both Brazil and Argentina have managed to control inflation and stimulate growth by refusing to adopt IMF austerity plans for controlling inflation and repaying foreign debt.

The IMF plan is to reduce inflation slowly through free markets — by the elimination of government controls and subsidies, tight money supply, limited public spending and building a trade surplus for debt repayments.

In South Africa, the last appears to be the main aim of IMF policy.

However, the side effect of this policy is the recession which the country is already experiencing and is likely to continue to be the experience unless the economy can be stimulated in a non-inflationary way. Asks Raine, "Do we need to wait for hyperinflation to hit before corrective action is taken?"

"Long-term success is not guaranteed — wage and price controls must be removed before it can be seen whether inflationary expectations have been broken — with the current figures reflecting "Soviet-style" inflation resulting from controlled wages and prices."

A major key to the future economic success of the country is the injection of foreign capital. Says Ms Raine: "Were political reform to become a reality, then



Gill Raine — some light at the end of the tunnel.

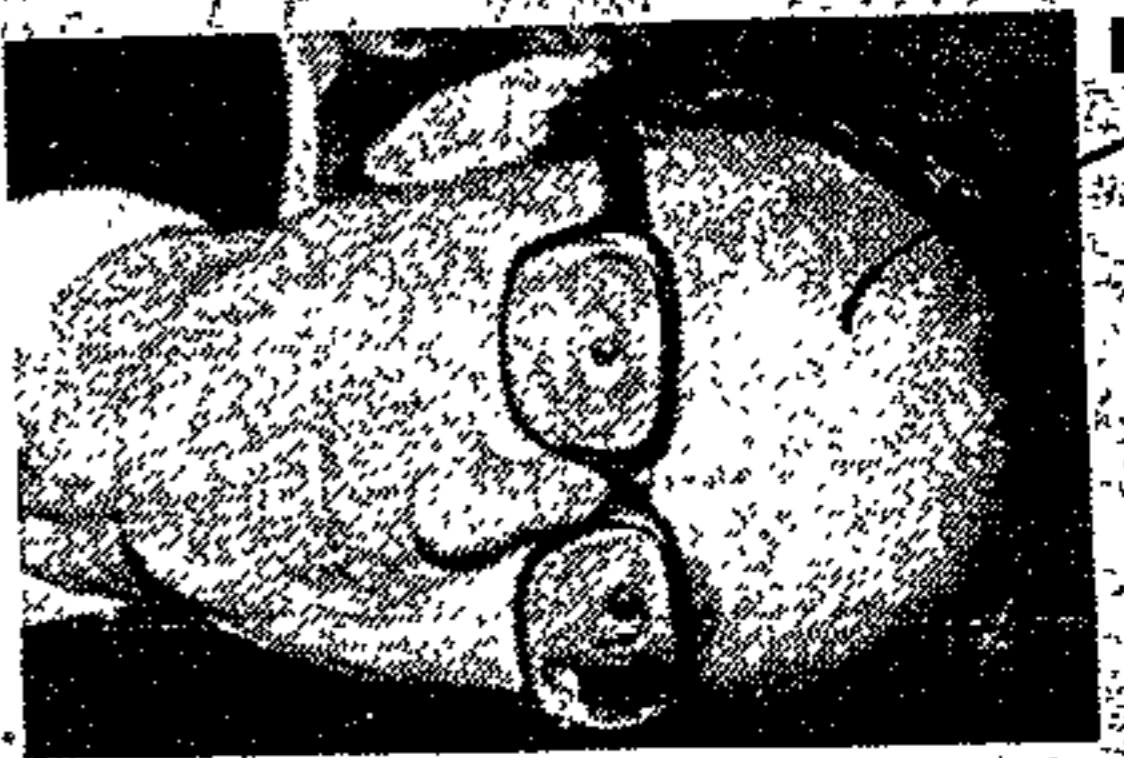
South Africa would be able to absorb resources from overseas to assist development efforts."

However, she points out that "the lynch-pin is political reform, followed by tax reform, and a social policy aimed at uplifting the least well-off, with particular emphasis on education."

But she adds that pure political reform will not restore foreign investment unless the risk return is sufficiently attractive.

"But confidence in the future will increase real domestic investment and possibly real foreign investment, as opposed to foreign loans which have increasingly dominated the former in recent decades."

She concludes by saying, "Confidence in a stable future must be restored to promote domestic and real foreign investment — both of which are crucial for real economic growth."



Aubrey Dickman... not much room to spend

3% growth out as slump continues

By David Southey

THE economy appears headed for another quarter of negative growth.

After the annualised 2,3% shrinkage in production in the first three months of the year, economists now estimate that the economy will have to grow by at least 6% in the second half if it is to come within striking distance of even a 2% increase for the year.

Deputy Director-General of Finance Gerhard Croeser admitted at this week's Assocom meeting in Johannesburg that the Government's target of 3% growth appeared remote.

Confidence

Economists at the conference agreed that there were few options left for either monetary or fiscal policy measures to inject confidence into the business community.

Anglo American Corporation economist Aubrey Dickman told Business Times: "Because of our external

% Change first quarter 86/first quarter 85, % change	
first quarter 86	first quarter 85
Private consumption spending: ...	-2,4
Govt. consumption spending: ...	17,9
Gross domestic fixed invest: ...	-22,1
Gross domestic expenditure: ...	17,8
Exports: ...	-26,3
Imports: ...	35,1
Gross domestic product: ...	-2,3

debt repayment requirements I would not think there is much more room for the Government to continuously pump up spending.

"In the circumstances, additional spending on black housing and other important socio-political projects is the right policy. It may also be necessary to reduce tax rates."

Rand Merchant Bank economist Rudolf Gouws says: "I doubt whether there is much more we can do on the tax side in the short term. Interest rates can drop a little more, but that won't really address the underlying problem of lack of confidence. The state of the economy is now in the politicians' hands."

Mr Gouws is worried that a deterioration in SA's political situation will undermine for-

eigners' perceptions of the economy. — particularly lenders who might impose even more onerous debt repayment terms. This would in turn soak up much of the surplus on the balance of payments and restrict economic growth next year.

Demand slack

Mr Gouws expects non-gold export growth for 1986 to be about 3% in volume terms, putting the projected surplus on the current account at about R5-billion.

Nonetheless, this would merely put SA exports back to 1979 levels and with a slowdown in growth among major trading partners next year looming does not augur well for 1987.

A marked slowdown in growth in the current quarter is indicated by the huge fall in retail sales since January. Sales in that month — measured in constant 1980 rands — amounted to R1 360,6-million and are expected to be R1 264,2 million in June — a drop of about 7%.

In straightforward money terms, January's sales were R2 813,2-million and June's are projected at R2 643-million — a drop of 6%.

Mr Gouws says that because inventories did not fall much in the first quarter (after sharp reductions in the December quarter), the overall decline in the growth rate will not be as severe as might otherwise have been the case.

On the other hand, fixed investment continued to slide in the June quarter while private consumption expenditure — of which retail sales are the largest component — also appears to have slipped significantly.

Unless the Government's new spending package is pushed ahead quickly, say economists, third-quarter growth may not differ much from trends in the first half of the year.



Rudolph Gouws... up to the politicians

21/6/86
30/6/86

Post Bu

Another call for help to the SA motor industry

ANOTHER prominent South African businessman has added his voice to the calls for help to be given to the motor industry.

Sidney Borsook, the executive chairman of Saficon Investments, the investment holding company with operations in motor vehicle trading, materials handling and the manufacture of motor components, says:

"The motor industry had a difficult 1984, a disastrous 1985 and the outlook for 1986 doesn't look much better."

Writing in Saficon's '86 annual report before the recently announced relief measures for the motor industry, he says that the amount of taxation directly and indirectly levied on motor vehicles, motor components and parts is excessive and has been inflated by a weak rand.

"The industry needs help quickly if it is going to survive as a viable contributor to our economy. Vehicle manufacturers cannot continue to absorb the heavy losses of the past two years and they are unable to pass on their full costs to the consumer without reducing the already depressed new vehicle market even further.

"So far motor dealers have not suffered to any great extent when compared to the tremendous losses suffered by the manufacturers. Nevertheless, unless profitability can be restored to reasonable levels, they will have great difficulty in financing the replacement of vehicles and parts stocks at prices which are rising at an alarming rate without resorting to unhealthy levels of debt."

The Saficon annual report illustrates how badly hit the motor industry was during the 12 months ended March 31. Vehicle sales through dealers were 22,4% lower than in the previous year.

Among the assumptions Saficon has used for the year ahead are that the Government will stimulate the economy further, that GDP growth will not exceed 3%, and that the rand/dollar rate will fluctuate between \$0,38 and \$0,45, and that the rand/yen rate will be Y70 to Y110.

Saficon also assumes that car sales will improve during the second half of the company's financial year but that new vehicle sales will be 5% lower than last year, gross margins will be marginally lower, and that operating costs will be 13% higher.

Policy-makers battle it out

New market split erupts over controls

30/6/86 BUDDAY 49

THE ideological split among SA's economic policy-makers, between free-marketeers and direct controllers has once again burst into the open.

Reserve Bank Governor Gerhard de Kock said last week certain accusations, that market-orientated policy was responsible for depreciation of the rand and low growth, were completely unfounded, or rested on either misunderstandings or fallacies.

The debate has been simmering for some time but it appears De Kock has finally thrown down the gauntlet to the direct controllers, many of them leading businessmen and civil servants, who have been lobbying against his free-market approach, as laid out in the De Kock Commission Report.

De Kock has long been seen as an

GERALD PROSALENDIS
Economics Editor

ardent critic of further controls on financial markets, as he says they would open the way for bureaucratic corruption. And markets, being what they are, would find ways of circumventing any official restrictions.

● Comment Page 4.

The battle is, to a degree, one for the ears of Finance Minister Barend du Plessis who startled free-marketeers last week with a threat to penalise economic development in urban areas and to compel investment where government preferred to see it.

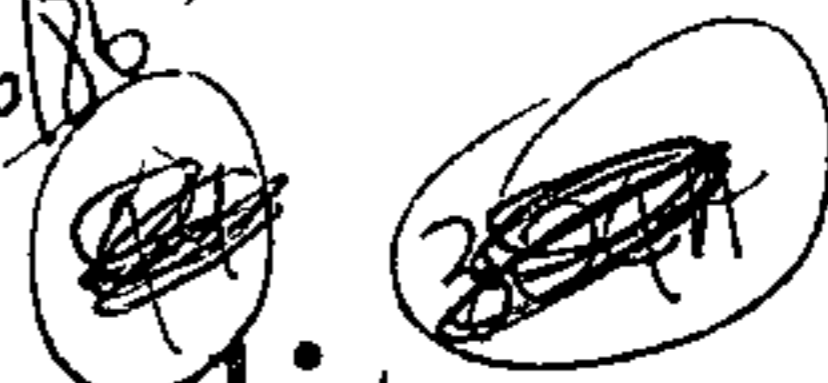
Some have interpreted De Kock's speech last week as a swipe at Sanlam

● To Page 2



P.T.O.

BUS DIARY 30/6/86



Ideological split erupts

← ● From Page 1

chairman Fred du Plessis, who has openly stated he opposes the uncritical application of free market policies in SA.

The debate has reached new intensity over the issue of impending sanctions against SA with some economists and business leaders, who feel SA cannot afford open markets not resilient enough to withstand overseas pressure.

Says one senior economist: "One wonders if De Kock is feeling he has a stronger hand. There was a feeling last year that the free-marketeers were losing ground and perhaps he is consolidating their position.

"His latest statements now throw the game wide open," he adds.

The controllers have been seen to be active in recent months and among their latest moves have been:

- Lobbying for tighter control on financial markets at Cabinet level;
- Suggestions by some senior officials that institutional investors be coerced into investing in high-risk, low-return ventures to create jobs;
- Recent suggestions that the introduction of a unitary floating rand had been responsible for the dramatic depreciation of the currency;
- Recent hints by monetary authorities that they may clampdown on banks thought to be speculating against the rand by holding dollar positions overnight; and
- Widespread attempts to prevent pending building society legislation — allowing societies to become joint stock companies and floating themselves on the JSE — being passed into law.

"Up to now, government has rejected Fred du Plessis' arguments, but by *force majeure* we might just end up with a siege economy.

"As long as government thinks this is an option, it will affect their other decisions," says a source.

In many ways the debate has centered around the plummet in the rand from roughly \$0,90 in 1983 to its record low of \$0,35 late last year. The direct controllers ascribe the currency's present weakness as largely due to free market policies.

Late last year suggestions were put forward, and supported by three large commercial banks, to fetter the foreign exchange market in an attempt to support the rand.

"It was paradoxical some banks should have been involved in this effort. The document was an open invitation for bureaucrats to descend on the banks and inspect their books," says one senior banker.

But De Kock said last week: "They (direct controllers) present statistical series to indicate SA's growth performance has been substantially weaker since the mid-Seventies than in the Sixties, that the rate of inflation increased and the rand depreciated.

"And they then imply because this happened after government made more use of market-orientated policy, the events occurred because this market-orientated policy was adopted.

"A further implication is that had we relied instead on direct bureaucratic control measures, these unfavourable developments would either not have taken place or not to the same extent."

Says another source: "People who tell government direct controls will solve our problems are giving unsound advice. And this leads people in power not to find urgent solutions for our political and social problems.

"This siren call is attractive, but it is dangerous and could lead the country onto the rocks."

I P C S O F E I R

ECONOMY - 1986

JULY - DEC.

~~JULY - DEC.~~

Most blacks are wary of the free enterprise system

THELMA TUCH

IT WAS the role of the private sector to lobby for fundamental changes in SA and it was tragic that it had taken so long to start doing so, organisations consultant Christo Nel said last week at the recent Project Free Enterprise (PFE) seminar held at the University of SA in Pretoria.

The state of labour in SA, he said, was deteriorating at an accelerating rate with more of the work force involved in strike action in the first quarter of this year than during the whole of last year.

Prerequisites for an ultimate solution in SA were that blacks were given the opportunity to buy property and work in areas of their choice,

and that they have a voice in both local and central government.

It had to be demonstrated to blacks that free enterprise and apartheid were not synonymous, he stressed.

To do this, Leon Louw, executive director of the Free Market Foundation, suggested that management introduce programmes for their em-

ployees on the benefits of free enterprise.

Blacks could not appreciate the free enterprise system because their advancement within it during the past 10 years had been minimal, according to Martin Nasser, of the School of Business Leadership at Unisa, and chairman of Project Free Enterprise.

GOVERNMENT FINANCES

An edgy start

Government finances are well outside Budget estimates, and interpretation of accounts under the new constitution is an exercise of futility. Control of unrest is a cost that will never be known, but can be guessed as appreciable.

April and May, the first two months of the fiscal year, show spectacular increases in spending by some departments — of over 100%. Defence spending for May increased 117% year-on-year to R800m (75% year-on-year for the first two months). House of Assembly Administration in April-May rocketed 133% to R1 billion. Other large increases were recorded by the Commission for Administration (192% to R108m) and National Health and Population Development (83% to R385m).

Overall, spending increased 29,7% for April-May and 35,4% for May alone compared to a year ago. These figures are more than double the 13,9% budgeted increase. Even without one extraordinary and unidentifiable item, the increase for April-May would have been of the order of 20,7%.

Implementation of the new constitution explains many increases. Education spend-

ing for whites is transferred to House of Assembly Administration, partly explaining the 12% decrease in Constitutional Development and Planning.

Analysis of April's revenue account is distorted by a number of factors. The year-on-year increase in GST revenue of 20,8% is high, as the actual rate for April 1985 was 11% against the current 12%. But the overall revenue increase of some 19% is ahead of Budget and almost matches the adjusted spending increase of 20,7%.

Finance Minister Barend du Plessis' economic package effectively pushes spending for the year to around R38 billion, implying a deficit of R7 billion on budgeted revenues.

It is likely too that Pretoria's new multi-sprocketed drive to collect cash from taxpayers will show appreciable results. ■

Worrall's debt jibe harmful says PFP

By Frans Esterhuysen
Political Staff

CAPE TOWN — Assurances from Minister of Finance Mr Barend du Plessis could not undo the initial harm caused by Dr Denis Worrall's "ill-advised" remarks suggesting that South Africa could renege on its foreign debt under pressure of sanctions.

This was said yesterday by a Progressive Federal Party spokesman on finance, Mr Ken Andrew, MP.

He was commenting on an explanation from Mr du Plessis that the remarks by Dr Worrall, the South African Ambassador to London, were not intended as a threat, but as a statement of fact.

Mr du Plessis had said in a statement that Dr Worrall had merely pointed out that South Africa would have to consider not repaying its foreign loans if it was put in an intolerable situation by the kind of sanctions proposed.

Mr Andrew said: "It is interesting to see that Mr du Plessis is attempting to undo the damage that is likely to be caused by Dr Worrall's ill-advised remarks about South Africa reneging on the repayment of foreign debts.

FIRST IMPRESSION

"Mr du Plessis can rationalise as much as he likes, but he is naive if he believes the first impressions created by Dr Worrall's remarks will not harm South Africa's financial standing."

Mr Andrew said it was unfortunate for South Africa that some Cabinet Ministers and senior officials seemed to think that belligerence and counter-threats were the way to handle "a very delicate and dangerous situation".

Good international relations were of great importance to South Africa, and it was about time the Government took swift action internally to bring about change, he said.

Externally, the Government should concentrate on "building bridges rather than handing out insults and making threats"

"Clearly South Africa should not accept being dictated to by other countries," added Mr Andrew.

To believe, however, that South Africa could ignore the advice of well-intentioned friends abroad, and to think the country could live in isolation from the rest of the world was short-sighted and dangerous.

FINMAIL 4/7/86
E CAPE UPGRADE 49

Task force named

Constitutional Development and Planning Minister Chris Heunis's long-awaited "task force" to help rescue the economically-ailing eastern Cape, coupled with Trade and Industries Minister Dawie de Villiers's announcement of a lower delivered steel price to users in the region, could be the necessary boost to ease growing economic problems in the region — but few are holding their breath.

The region has been particularly beset by



Heunis . . . trying to solve development problems

political "unrest." The task of Heunis's team is to "address, in a co-ordinated manner, the development problems experienced in the eastern Cape."

It is to be known as the Eastern Cape Strategic Development Team (ECSDT) and will be chaired by the chief executive director of Heunis's department, Frans Scheepers. The full-time project co-ordinator will be the Dean of the faculty of economic sciences at the University of Port Elizabeth, Charles Waite. The 17-member team will comprise representatives of State de-

partments, the Cape provincial administration, the local regional advisory committee, the Development Bank of Southern Africa and the SA Police.

Heunis denied that the appointment of the task team was a delaying strategy. "I wish to confirm once again the seriousness of the government's intention to take the necessary steps to place the economy of the eastern Cape on a sounder footing," he said.

To assist the team, he also appointed "private sector liaison committees" for the Port Elizabeth-Uitenhage and East London metropolises.

In the PE-Uitenhage region, the private sector committee will comprise: Tony Gillson of Assocom; Peter Searle, MD of Volkswagen; Ivan Krige, chairman of the Greater Algoa Development Committee; G C Albertyn, secretary of the PE Chamber of Commerce, and J H Pherson, MD of Dorbyl Automotive Products.

The East London committee will comprise: the city's chamber of commerce president, Nic Cloete; a local company director, Frans Meisenholz, and a local businessman, Max Phillips.

Heunis appealed for support for the task force from "local community and interest groups," but cautioned them "not to foster unrealistic expectations of the task team's ability to solve the development problems of the eastern Cape."

De Villiers's decision on the steel price was a result of "serious problems being encountered in industries" in the area, which has led to "a crisis situation with serious economic and social consequences for the region as a whole."

The price of Iscor's delivered steel to industrial consumers in the region is to be cut by 4% from October 1. This will result in a saving of between R18 and R30/t for consumers in the PE-Uitenhage and East London areas, and a saving of between R8 and R30/t for buyers in the region as a whole. Iscor had agreed to a government request that it bear part of the transport costs involved in getting steel to the eastern Cape, De Villiers said. ■

Bankers expect negative impact on rand as mediator quits

Leutwiler bombshell



Dr Leutwiler

By Neil Behrmann
LONDON — Dr Fritz Leutwiler's decision to end his role as mediator between South Africa and its bank creditors is expected to have a strong negative impact on the rand in the immediate future.

And a senior official speaking to *The Star* last night said Leutwiler's pull out was "serious" and disappointing.

The international currency markets are likely to be fairly quiet today with all US markets closed for Independence Day, but bankers said the rand was expected to ease.

There was some confusion yesterday as to whether Leutwiler had decided to end his mediator role because of a lack of real political change in South Africa.

Reuter quoted Leutwiler from Switzerland as saying: "There is nothing to resign... There is no contract." But he reiterated that he would consider mediating again if requested in the next major round of talks due next year.

Misunderstanding

He said there had been a "misunderstanding" between himself and his former Press spokesman, but declined to say how the misunderstanding had arisen.

Mr Erich Heine, a former official of the Swiss National Bank (that nation's

central bank) who has acted as a spokesman, told me that Leutwiler had decided to abandon his role as mediator when the state of emergency was declared several weeks ago.

He made the decision because the South African Government had not carried out his request to bring about "meaningful political reforms".

Dr Leutwiler managed to negotiate a settlement to extend repayment on South Africa's \$14 billion (R36 billion) of its \$24 billion (R61 billion) foreign debt last February.

The agreement "gave South Africa's politicians and economy some breathing space to introduce reforms", Mr Heine said.

"But this opportunity was not seized," he said.

At a media conference in February and in subsequent statements Dr Leutwiler continually warned that his patience would run out if there was no further political progress.

Dr Leutwiler is in a sensitive position because he is chairman of a large Swiss company Brown Boveri. His role

as mediator placed him in a sometimes embarrassing international spotlight.

He is known to be strongly in favour of Press freedom and has been open about Brown Boveri. When he was president of the Bank for International Settlements, the central banks' central bank, he gave informal media briefings to financial journalists.

I attended some of those briefings. One briefing in 1982 revealed that central banks would take firm action to counter an international banking crisis. Within weeks, central banks pumped funds into the financial system, interest rates dropped and a banking crisis was averted.

"Dr Leutwiler is well aware of the importance of Press freedom," said a banker.

Mr Heine emphasised that Dr Leutwiler was opposed to sanctions. Earlier this year, he said that sanctions would hurt "the sector of the population who are discriminated against, those who one claims to be helping".

The spokesman said, however, that Dr Leutwiler believed that the drop in direct investment was already an effective form of sanctions.

Dr Leutwiler's decision means that he will not be chairing the meeting planned for next April.

Bankers in London were "not surprised" to hear that Dr Leutwiler had

decided to withdraw. American banks in particular were putting pressure on him to increase the repayments on South Africa's debt. They had indicated time and again that they were unhappy with the situation in South Africa.

In an interview a fortnight ago, Dr Chris Stals said that South Africa had repaid \$2 billion of the \$24 billion debt. But the repayment had exacted a price on the economy.

Bankers were not sure whether there would be a mediator at next April's crucial meeting. When the initial agreement expires international bankers will try to obtain higher repayments.

South American countries and their bank creditors meet without a mediator.

The withdrawal of Dr Leutwiler is bad news for the South African economy, bankers said. As former president of the Swiss National Bank, Dr Leutwiler had influence over leading Swiss and German bank creditors. He always stressed however that he was an independent mediator.

In London Dr Leutwiler's withdrawal did not have an immediate impact on the commercial and financial rands which traded at 39.5 US cents and 23 cents respectively.



Dr Chris Stals

Anger at lack of economic sparkle

W.E. ARGUS 5/7/86 49

By DEREK TOMMEY
Financial Editor

BUSINESSMEN are getting upset and angry at the economy's lack of sparkle — at the absence of any sign that it has a growth future. Its resemblance to the Daeyang Family — hard aground and breaking up — is hitting their businesses badly.

It is also causing increasing pessimism about the prospects for solving the country's major, and most urgent problem, growing black unemployment.

As a result businessmen are putting increasing pressure on the Government for further action to revitalise the economy. Though they have welcomed the Minister of Finance's recent stimulatory package, there is a widespread feeling that given South Africa's problems much more needs to be done.

Mr Glen Moore, a researcher at the Bureau for Economic Research at the University of Stellenbosch, says: "What we need is the declaration of an 'economic state of emergency' to match the political one and help give businessmen more confidence."

Five-year plans and the like were out of the question because of their Communist associations, he says.

"Go bust"

"But we do need to do something that will enable businessmen to invest without having to worry that they will go bust."

Mr J. P. Spangenberg of the Bureau for Economic Research wants the Government to invest more in manufacturing so as to boost business confidence and also ease the black unemployment problem.

Like Daeyang Family: Hard aground and breaking up

The growth of manufacturing offers the greatest opportunities for increasing employment, he says in the bureau's latest survey of this sector.

But in recent years, instead of manufacturing providing South Africa's growing black population with more jobs and higher living standards, the reverse has been the case.

One reason is businessmen have not been investing in manufacturing. New investment has fallen alarmingly since 1980, says Mr Spangenberg.

This, along with the decline in the economy, has caused the number of jobs in manufacturing to fall steadily since 1982.

In 1980 manufacturing took 26,5 percent of gross domestic fixed investment. Last year the figure dropped to 15,5 percent. And manufacturing's share of the labour force fell from 19,9 percent in 1982 to 18,5 percent last year.

Altogether, the number of people working in manufacturing has fallen from 1 490 000 in February 1982 to just above 1 320 000 in February this year.

This is a loss of 170 000 jobs at a time when there should have been a huge increase to ensure a sound and healthy economy.

Mr Spangenberg also says that if the economy picks up, not much increase in black employment can be expected in the near future.

The low level of private

fixed investment in the past few years has imposed limits on the growth of new employment in manufacturing.

Moreover, Mr Spangenberg does not see the private sector putting more money into manufacturing until confidence in the country's growth has been restored.

Therefore he contends that the only way open to provide the additional jobs needed is for the Government to increase its own investment in manufacturing.

This view also shared to some extent by the Afrikaanse Handelsinstituut.

In a statement this week it welcomed the Government decision to accept almost all the President's Council's recommendations for the development and deregulation of small businesses.

But it added that in present conditions, when the economy is under enormous pressure, further government spending on capital projects would also help contribute to the economic recovery.

Depletion

Dr C J Human, head of the huge Federale Volksbeleggings group, has given some reasons for the problems facing South Africa.

"Unremitting pressure, particularly on the capital account of the balance of payments, is being experienced as a result of political perceptions," he says in his annual address to his company's shareholders.

The constant depletion of foreign currency has turned South Africa into a net-capital exporting country. This has put an effective damper on efforts to develop the country's abundant resources.



W/E ARGUS
5/7/86
49
QAD

Silent despair of a middle-class hit by sagging economy

LESTER VENTER
Weekend Argus Reporter

BEHIND the mortgaged doors of suburbia, many middle-class South Africans are living in silent desperation as the sagging economy erodes their livelihoods.

The frightening reality of destitution confronts many qualified, hard-working and successful white-collar and professional people as retrenchments and business failures combine with a shrinking jobs market.

Last year's all-time high of 6 278 bankruptcies and judgments involving R101,8-million against businesses and R564-million against consumers who could not meet debts points to personal traumas behind the statistics.

Middle class values lead affected people to hide their hardship and the harrowing consequences of financial straits have become their discreet agony.

Expensive cars are standing in driveways of owners who no longer have money for petrol.

Eviction order

Families wait for the eviction order that will follow several months of unpaid bond instalments on a house that couldn't be sold.

Food parcels are being delivered quietly to two-garage homes.

This is often preceded by parents experiencing the pain of sending a hungry child off to school.

Employment agency waiting room seats are occupied by former executives who will often now be prepared to take any job.

Relationships between husbands and wives, parents and

children are being torn by the stress of financial need.

Family violence, like shocking assaults on young children, is festering in homes that believed themselves immune to such degradation.

These facts emerged from interviews with social workers, welfare officials, crisis counsellors, business spokesmen and retrenched people.

"We have been seeing a lot of people under terrific stress," said a psychologist at the Child Welfare Society in Cape Town.

"More middle class, well-dressed people are turning up at the hospital social worker's door," said Miss Yvonne Herring, principal social worker at the Red Cross Children's Hospital.

"The recession is creating terrible stress and tension in families," said a Lifeline spokesman.

"We are getting more calls from younger people asking if we can feed them because they can't make ends meet," said a Meals on Wheels organiser.

"We know of many people — some of them our own members — who are currently living by their wits," said a member of a businessmen's community organisation.

"Very bitter"

"I'm very, very bitter," said an out-of-work construction manager with 23 years' service who was retrenched recently.

The interviews showed the problem is not widespread. But it is being seen in social brackets where it did not exist before — and it's growing.

A Bergvliet businessman, described as "very successful", had an income fully committed to a large house bond, car and other expenses. Then his business collapsed.

"Soon he did not have enough to give his children a piece of bread," said a member of a community organisation that took food to the family for three months before the man found a job.

Others have not been so lucky.

A schools health worker said under-nourished children at middle class schools was a recent phenomenon and the incidence was "considerable".

An unemployed man, said to have had a "high income", was desperate to give his child the blazer her school insisted on.

But he could not afford it and was not prepared to tell the school that.

He turned, finally, to the Department of Health and Welfare.

Help themselves

"By the time people come to us they are really down and out," said the department's assistant director for social services, Mr Frik Rousouw.

He said the slowly growing number of middle class people seen by the department "try everything possible to help themselves".

"Such people do not easily come for State aid."

Head of the section for social assistance Mrs Melani le Roux said: "It is a deeply troubled and despondent person who comes to us, because by that time he would have made many attempts in vain to get an income.

"They are not forthcoming; they are tense, get excited, and sometimes even aggressive."

The Department of Welfare has a special scheme for victims of the economic recession.

One of the manifestations of recession stress that worries social workers most is the rising level of violence that takes place behind closed suburban doors.

"A situation develops where everyone works on everyone else's nerves," said a counsellor.

Child abuse

"Our child abuse statistics have increased rapidly in the past year," said Miss Herring.

A psychologist at the Child Welfare Society described a recent case of a professional consultant who lost his job and was unable to find another.

His wife became the breadwinner of the family.

"There was a role change that was not spoken about," said the psychologist.

This led to the husband being beset by guilt — and the wife by an anger that she did not want to show because she realised the situation was not his fault.

Marriages and relationships with children, particularly teenagers, break under this sort of stress.

Counsellors say families in crisis should discuss their predicaments and children should be made part of the discussions and methods of dealing with the problems.

"The middle class has always been great at not showing needs or feelings," said the psychologist.

"What, in good times, is regarded as privacy becomes, in bad times, isolation."

Reflecting the sudden shock of loneliness and uncertainty that has overtaken thousands of retrenched South Africans, one said: "I don't know what's around the next corner."

Many middle-class South Africans are living in a state of desperation as the sagging economy erodes their livelihoods.

Qualified, hard-working and successful white-collar and professional people are facing destitution as retrenchments and business failures combine with a shrinking jobs market.



W/E ARGUS
5/7/86 (49) (28)

Silent despair of a middle-class hit by sagging economy

LESTER VENTER

children are being torn by the

"Soon he did not have

One of the manifestations

'Inward industrialisation' on cards

WEDNESDAY
7/7/86

Govt is given about-face on urban policy

49

A COMPLETE about-face in economic policy will be presented to the Cabinet by an Economic Advisory Council (EAC) sub-committee which could change the face of SA's cities. The sub-committee is drawing up a long-term strategy which is built on the inevitability of urbanisation and the need to nurture a domestic market. It will submit its report to the next EAC meeting on August 21 in Cape Town.

A key phrase being used by the authorities is "inward industrialisation" as a basis for sustainable growth.

Finance director-general Chris Stals said: "This is a deviation from government's earlier strategy to urbanisation. It is also a whole new approach to urban black people and will create new incentives for investment in urban areas."

"It is an important change of policy and also has political implications."

Reserve Bank Deputy Governor Jan Lombard, who first hinted at the idea

GERALD PROSALENDIS
Economics Editor

more than two years ago, said: "What we are talking about now holds the key to many of our political and economic problems."

Lombard saw the strategy as an alternative to import replacement and export promotion. He said: "It is a more broadly based strategy of economic development. As SA's First World engine of growth has ground to a halt, growth has come to be dependent on investment of savings in Third World opportunities."

"And these opportunities are not in the homelands but in metropolitan areas."

Underlying the strategy is the belief that the way for political and economic reform is based on urbanisation.

Reserve Bank Governor Gerhard de Kock said: "SA's urban population is rising at about 6% a year. This presents the country with enormous potential for growth."

12-year decline in economy, initiative stifled — bank chief

Staff Reporter

THE South African economy had been going backwards for the past 12 years because of the interplay between the forces of discrimination and bureaucracy, the managing director of Barclays Bank, Mr Chris Ball, said today.

He told delegates to the annual conference of the National African Federation of Chambers of Commerce and Industry (Nafcoc) at the Good Hope Centre that he was frustrated by the lack of imagination and lateral thinking in South African society.

"Irrational"

"The rigidity in our community during the past 40 years and determination to enforce a futile concept, come what may, have constrained our initiative.

"To be an intellectual has meant either to be ostracised or banished and it is a great tragedy that society has been deprived of the rich contributions of people like Breytenbach and his counterparts in the black community"

Mr Ball said he considered the detention of executives of the National

Education Crisis Committee as "irrational" and he did not understand the arrest of people such as Zwelakhe Sisulu.

He said the welfare of South Africa would require business to define and limit the role of Government so that people could be free to use their energies productively.

"Economic analysis in South Africa is generally dull, narrow and incomplete — certainly it is hardly appropriate as a contribution towards our future."

Mr Ball said the environmental history of black businessmen had given them little opportunity to develop the technical and commercial skills of their white counterparts.

"Secondly, the lack of wealth in the black sector means that there is not the availability of financial resources among the peer group of would-be black businessmen to meet their needs on an informal basis.

"There has also been a communication problem in that the available funds have been in the sector with alternative languages and behavioural norms."

8/7/86 (49) 10

'Free market place, not welfare in SA'

Staff Reporter

SOUTH Africa needs freedom for black people to enter the market place and compete on an equal footing with whites, not huge welfare programmes and State support, says the executive director of the Free Market Foundation, Mr Leon Louw.

He told the annual conference of the National African Federated Chamber of Commerce and Industry (Nafcoc) that not only had blacks in Southern Africa proved themselves the full equals of whites under conditions of equal freedom, but also elsewhere on the continent.

"Black Africa is not a universal economic disaster, as we are commonly led to believe.

"In the sweeping generalisations about the economic plight of post-colonial Africa there is an implicit, insulting and false assumption that blacks always govern badly and cannot themselves produce economic growth.

"We find in black Africa that countries with communism and socialism are failures and those with free or near-free markets prosper."

Mr Louw said Nafcoc had a responsibility to influence South Africans of all races towards a true understanding of the democratic ideal.

"It needs to convince whites that democracy in its proper form need not be feared, and to convince blacks that 'liberation' does not mean changing the colour of the despot.

"Nafcoc must convince white and black South Africans that the real issue is not race but ideology; that the clash is between those who want a future South Africa which has true individual freedom and those who want an unfree society."

COMPUTERS PROSPUR

**THE MULTI-USER
SPECIALISTS**
PH: 419 1507/8

Busi

8

Call for Marshall Aid plan in SA

Call for Marshall Aid plan in SA
9/7/86
49



A JOINT private sector and community-based Marshall Aid plan in SA "before the war starts rather than after it", was called for last night by Jan Steyn, the director of the Urban Foundation.

The allocation of R750m by the government to overcome the housing backlog could be the first step in the aid programme.

He also said in an address at the presidential dinner of Nafcoc that for SA to become an economic state of "real stature", it had to develop its internal framework and link up with the economies of the rest of the region.

Recording some of the actions that could be taken to avoid "the apocalypse", Steyn said: "... for SA to become an economy of real stature it must be able to employ its internal capital resources in an appropriate developmental framework and link up



Jan Steyn

with the economies of the rest of the Southern African region.

"Moreover," he continued, "well directed foreign capital dynamically invested towards eliminating discrimination and addressing the suffering of our people must be welcomed."

If SA were left to itself, it could still have a reasonably acceptable economy, with a limited export market and import substitution providing industrial expansion, he said.

Rapid and necessary urbanization of the black community could also begin to create a market of some substance.

In his speech, entitled "South Africa 1986: A Watershed Year", Steyn said there were well de-

signed initiatives, supported by the community, that were capable of rapid implementation on a scale which could dramatically affect people's lives.

Political transformation alone was not enough to impact upon the needs of our developing society.

"We now need development programmes on a scale in which the communities themselves are involved in every aspect of such programmes from decision-making through to implementation," Steyn said.

Alliances forged between organisations such as Nafcoc and the Urban Foundation, the employer bodies and the SBDC (Small Business Development Corporation) were evidence of the goodwill that still could be harnessed.

Steyn said: "These alliances prove that black and white South Africans can agree on common goals and can work together effectively to achieve these goals."

The formidable alliance of black and white business interests serviced by the foundation created a climate where influx control "simply had to go".

The success of that initiative should give courage to those who occupied the middle ground to continue to forge alliances for the achievement of specific goals.

NAFCOC president Dr Sam Motsueyane told the conference in considerable detail of discussions between the chamber and the ANC in Lusaka earlier this year.

He said the Nafcoc delegation had been "enormously intrigued" by the discussions which took place "in a friendly atmosphere".

The two organizations agreed on many key points.

Turning to the economy in general, Motsueyane said: "The so-called free enterprise system in SA is not free at all.

"The system has resulted in the concentration of wealth in the hands of a few corporations in the country, which is neither desirable nor morally defensible."

The Nafcoc conference in the City this week has provided a window into black business thinking and presented intriguing business views across the political spectrum. Barry Streek reports.

Kruger rands

JSE Closing			
	Buyers	Sellers	Sales
1 oz	990	995	993
1/2 oz	470	—	480
1/4 oz	—	25000	25000
1/10 oz	—	10500	10500

Cape Gold Coin Exchange		
	Buyers	Sellers
1 oz	990	995
1/2 oz	490	495
1/4 oz	230	235
1/10 oz	95	100

— Reuter

SA looks inward for economic growth

9/7/86

	STRATEGY FOR GROWTH with emphasis on...		
Strategy Characteristics	EXPORT-LED GROWTH	IMPORT REPLACEMENT	INWARD INDUSTRIALISATION
OUTPUT PATTERN	<ul style="list-style-type: none"> ● Mining and mineral beneficiation ● Some agricultural products and manufactured food products ● High tech industries 	<ul style="list-style-type: none"> ● Expansion in intermediate and capital industries 	<ul style="list-style-type: none"> ● Consumer goods industries resulting from rapid rise in expenditure by urbanised low income groups mainly Blacks ● Low cost housing
PRODUCTION FUNCTION	<ul style="list-style-type: none"> ● Heavy capital investment ● High labour productivity ● International marketing techniques 	<ul style="list-style-type: none"> ● Heavy capital investment ● Highly skilled labour 	<ul style="list-style-type: none"> ● Labour intensive ● High and low skills
SCALE OF ENTERPRISE	<ul style="list-style-type: none"> ● Large scale operations 	<ul style="list-style-type: none"> ● Large scale operations ● Monopolistic tendencies 	<ul style="list-style-type: none"> ● Smaller scale operations in larger numbers ● Rapid expansion of informal sector
ECONOMIC STABILITY	<ul style="list-style-type: none"> ● Volatile ● Highly dependent upon international business cycle and exchange rate movements 	<ul style="list-style-type: none"> ● Higher cost structure ● Cyclically less affected by international business cycle 	<ul style="list-style-type: none"> ● Stable ● Cyclically less affected by international business cycle ● Higher employment of less skilled labour ● Lower cost structure
SOCIO-ECONOMIC SYSTEM	<ul style="list-style-type: none"> ● Open economy internationally ● Continued domestic economic dualism 	<ul style="list-style-type: none"> ● Closed economy ● Continued domestic economic dualism 	<ul style="list-style-type: none"> ● Open economy ● Decline of domestic economic dualism
ROLE OF GOVERNMENT	<ul style="list-style-type: none"> ● Limited, possibly some export subsidisation 	<ul style="list-style-type: none"> ● Extensive, e.g. direct and indirect import control 	<ul style="list-style-type: none"> ● Selected deregulation
INTERNATIONAL RELATIONS	<ul style="list-style-type: none"> ● International economic integration and political co-operation 	<ul style="list-style-type: none"> ● Stimulated by international economic and political sanctions and boycotts 	<ul style="list-style-type: none"> ● Normalisation of international economic and political relations

Source: MERCABANK

WHAT ARE the drawbacks of the two, more traditional, approaches — namely, export-led growth and import replacement — as broad strategies for growth in SA?

LOMBARD: Firstly, all growth strategies are supposed to operate as "kickers" in the dynamics of development. They should provide some base for increased investment.

But import replacement had its day in the Sixties, when it was economic to replace the kind of products we used to import. Nowadays the scope for import replacement is much less — not that one is against this — and with present circumstances and a low exchange rate a lot takes place in any case.

This strategy does not, however, provide a broad enough base to serve as the main generator of massive employment — the name of the game in this country is to provide employment. Also, import replacement is capital-intensive. And one has to provide industries with protection against foreign competition.

Export promotion also has its problems. At this stage the type of exports we would have to promote in international markets would be capital-intensive. And the growing impediments to exports cannot be ignored.

Neither of these two strategies provide the base for massive employment. At present we are not looking at capital-intensive projects; rather we are looking at the opposite — labour-intensive projects.

WHAT about inward industrialisation as a strategy for growth?

LOMBARD: This strategy is prac-

A sub-committee of the Economic Advisory Council is looking at "inward industrialisation" as a strategy for growth in SA. It reports in August. Deputy Governor of the Reserve Bank Jan Lombard (pictured right), who first suggested the idea some years ago, talks to Economics Editor GERALD PROSALENDIS about the strategy's possibilities



tically unlimited in its scope, due to increased demand for goods and services that an urbanising population needs. It is an extensive, consumer-based idea.

The demand on which it is based consists of goods where SA has a comparative advantage in domestic production. The goods are simple and related to the needs of lower income groups. The transport cost of products would be a high percentage of its total price.

It is also goes hand-in-hand with a redistribution of the growth in income. It assumes a considerable distribution of income in the hands of lower income groups on a larger scale than has previously occurred. The main beneficiaries of the strategy will be the lower income groups.

Also, its import propensity is smaller than the average import propensity of the country. This is important for balance of payments reasons. For example, low cost housing, food packaging, standard clothing and fruit have low import contents.

The balance of payments constraints on growth along this path are much smaller than strategies of growth in the past.

FOR THIS strategy to get off the ground, does the country not need a great deal of foreign investment?

LOMBARD: No, it does not. The capital output ratio of these types of activities is much lower than the average ratio for the country has been in the past. Not much capital is needed for an increase in production. I would not be surprised if domestically-generated savings are quite sufficient to finance this type of growth.

WITH THE drain on SA's savings through repayment of overseas debt, will there be savings available to implement this strategy?

LOMBARD: That certainly is a problem. But I think when this kind of strategy is accepted by both the public and private sectors — and people realise that it is really the essence of politics in SA — then I doubt whether our overseas associates in banking and industry would want their capital back.

The present standstill came about not because SA was a bad debtor. The reason institutions overseas lost interest in SA were mainly political and because we were no longer economically interesting. If this kind of strategy was

enthusiastically supported and developed by the public and private sectors, we would find that our political and economic image overseas would vastly improve.

It would, in fact, be an important step towards us normalising our relationship with foreign bankers and investors and would show them that we are serious about reform — that we are prepared to put our money where our mouths are.

OBVIOUSLY, this strategy will go hand-in-hand with deregulation in urban areas. Could you give some idea of the type of measures to expect?

LOMBARD: Deregulation is almost a precondition for this process to get underway.

Although this is not my field, from casual observation I believe that the production functions of SA are heavily regulated. These regulations were conceived in the context of a highly First World economic system. Even for the First World system they are becoming burdensome.

For the less sophisticated Third World entrepreneurs they must be almost prohibitive. The number of procedures black businessmen

have to go through is large. If they really tried to comply with the regulations they would never get off the ground at all. Therefore, many of them operate without all the necessary permits.

The problem with a large number of regulations is that they are extremely costly to comply with. Not only do you need someone who knows all the industrial laws, commercial laws and municipal by-laws, but by complying with them pushes up the fixed costs of business.

This is a problem, because many small businessmen do not have the capital to cover fixed costs, nor can they operate with large enough margins to cover these costs.

DOES THIS strategy then focus on the informal sector of the economy?

LOMBARD: It would be a mistake if this strategy was only associated with the informal sector. The informal sector is important, but what we are really talking about is industrial production geared to supply surging demand from rapidly increasing lower income groups in our cities.

We are talking about the expansion of employment and investment in industry of all sizes — from large industries to backyard shows.

From a socio-economic point of view, we need the emergence of a lower middle class in our cities. These people — who regard independence, responsibility and personal freedom as important — traditionally have provided the backbone of stability.

We, then, are aiming for many medium-sized, independently-owned industries.

BUW DA

SEVERAL businessmen who visited the ANC last year said yesterday they could not support the National African Federated Chamber of Commerce's view that the ANC would promote private enterprise.

Nafcoc president Sam Motsuenyane, who recently met the ANC, told Nafcoc's annual conference this week the ANC believed in a mixed economy, like SA's present system, and encouraged the spirit of entrepreneurship.

The ANC was opposed to racial or monopoly capitalism, he said, adding that the ANC had been surprisingly accepting of most of Nafcoc's policies.

Anglo American executive director Zach de Beer said he had no grounds to be as hopeful about the ANC's economic plan as Nafcoc seemed to be.

Based on the meeting with the ANC and on documents and statements since then, he said there was no doubt

ANC will not support capitalism' 49 10/7/86

the ANC supported a mixed economy.

"But this is, as I understand it, a mixed economy based upon the Freedom Charter of the 1950s."

SA Foundation head Peter Sorour said he understood the ANC would initially nationalise large companies, with smaller companies participating in a scheme along the lines of a 50% shareholding with government.

The ANC appeared intent on a socialist economy of some kind; he said, but business's major argument with the ANC had always been that it was more concerned with wealth distribution than with wealth creation.

Hopes of upturn fading

Shock slump in economic growth rate

BUS DAY 10/7/86 (49)

REAL gross domestic product (GDP) declined in the first quarter at a startling annualised rate of 4.5%, making government's promise of 3% growth for the year appear virtually unattainable.

Central Statistical Services (CSS) figures released yesterday indicate that unless the economy can be swung around in the next six months, SA will have yet another year of negative growth.

The first-quarter decline was markedly steeper than the 2.3% annualised figure estimated last month by the Reserve Bank.

Economists caution, however, that the GDP figures of CSS and the Reserve Bank are not directly comparable and

Economics Reporter

that the Reserve Bank figure will not necessarily change because of the softer CSS report. Historically, however, the two figures have been relatively close.

But both figures point to a substantial decline in economic activity.

According to CSS figures, GDP fell to a seasonally adjusted level of R60,92bn for the quarter — down 1.2% from R61,63bn in the fourth quarter of 1985.

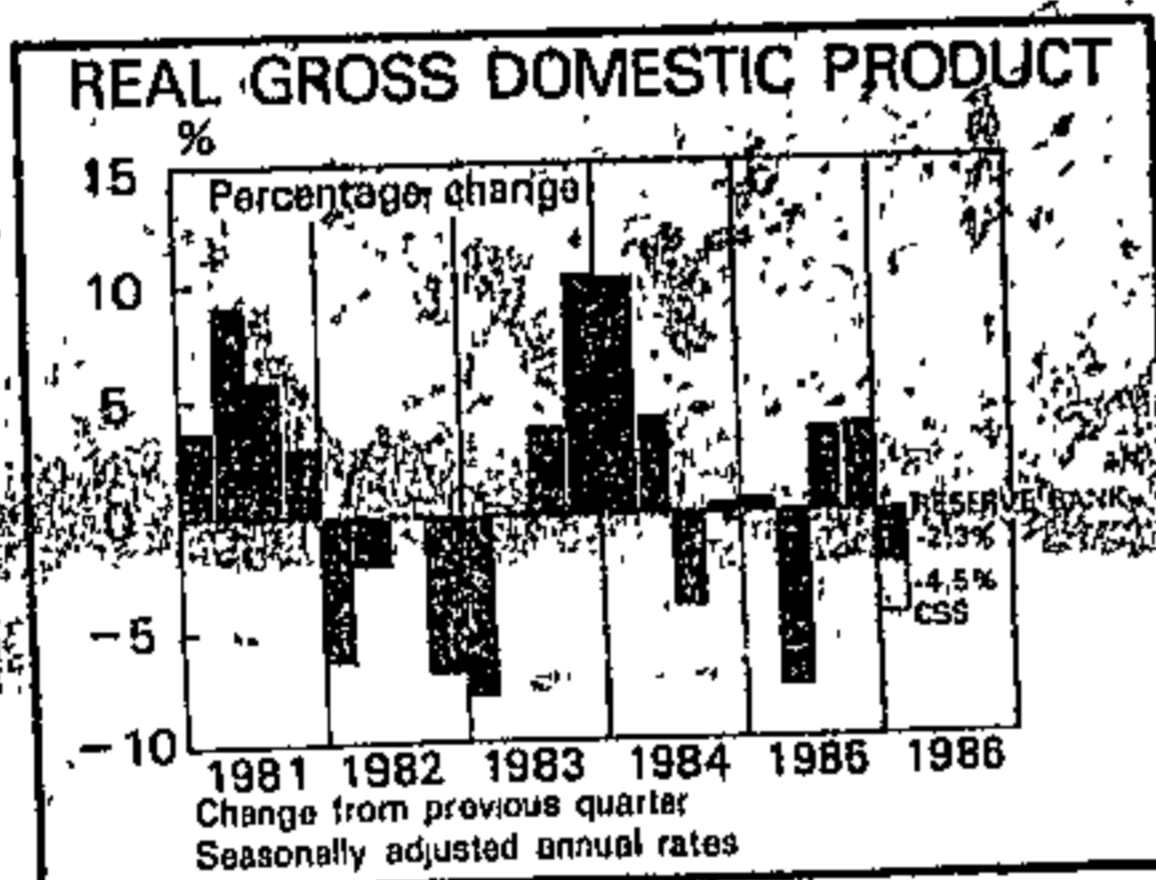
Trade, catering and accommodation services showed the sharpest decline among sectors, dropping 6.1% from the previous quarter.

Mining activity declined by 1.8%. The wholesale and motor industries contributed to the overall decline.

A decline in gold output levels, because of strikes and the mining of lower-grade ore, also had a negative effect on economic activity.

Economists said yesterday that the new report would not affect their growth forecasts for the year, which now range from 1% to 2%. Most said they were expecting a flat or slightly negative quarter-to-quarter change for the second quarter.

"It's all dismal, and we still believe the



● To Page 2 →

Shock fall in growth

10/7/86 BUS DAY (49)

outlook is dismal," said Econometrix chief economist Azar Jammine.

Old Mutual's Rob Lee said economic activity would rebound in the second half of the year as the rate of stock depletion slowed and consumer spending picked up.

In addition, GDP would be favourably affected by lower interest rates encouraged by government's monetary policy over the last six months.

"The stimulatory measures which government has applied — those factors always act with a lag," Lee said.

The Reserve Bank's GDP figure is based on market prices. CSS figures are

based on factor incomes, which omit indirect taxes, but include subsidies. Experts said it was impossible to tell how much of the difference between the two rates could be attributed to the variance in accounting methods.

In the fourth quarter of last year, for example, GDP grew by 1.1% from the third quarter, according to CSS and by 0.9%, according to the Reserve Bank.

Earlier figures have generally differed by one-tenth or two-tenths of a percentage point.

● From Page 1

GDP decline more severe than expected

Financial Staff
and Sapa

The decline in the real gross domestic product in the first quarter of 1986 was more severe than expected, says the Central Statistical Service (CSS).

The seasonally adjusted gross domestic product of R60 923 million for the period was 1,2 percent — 4,5 percent at an annual rate — lower than for the fourth quarter of 1985, the CSS said.

Decreases in real production occurred generally during the first quarter.

Trade, catering and accommodation services experienced a severe setback, showing a decline of 6,1 percent against the



PBB Hugo

last quarter last year.

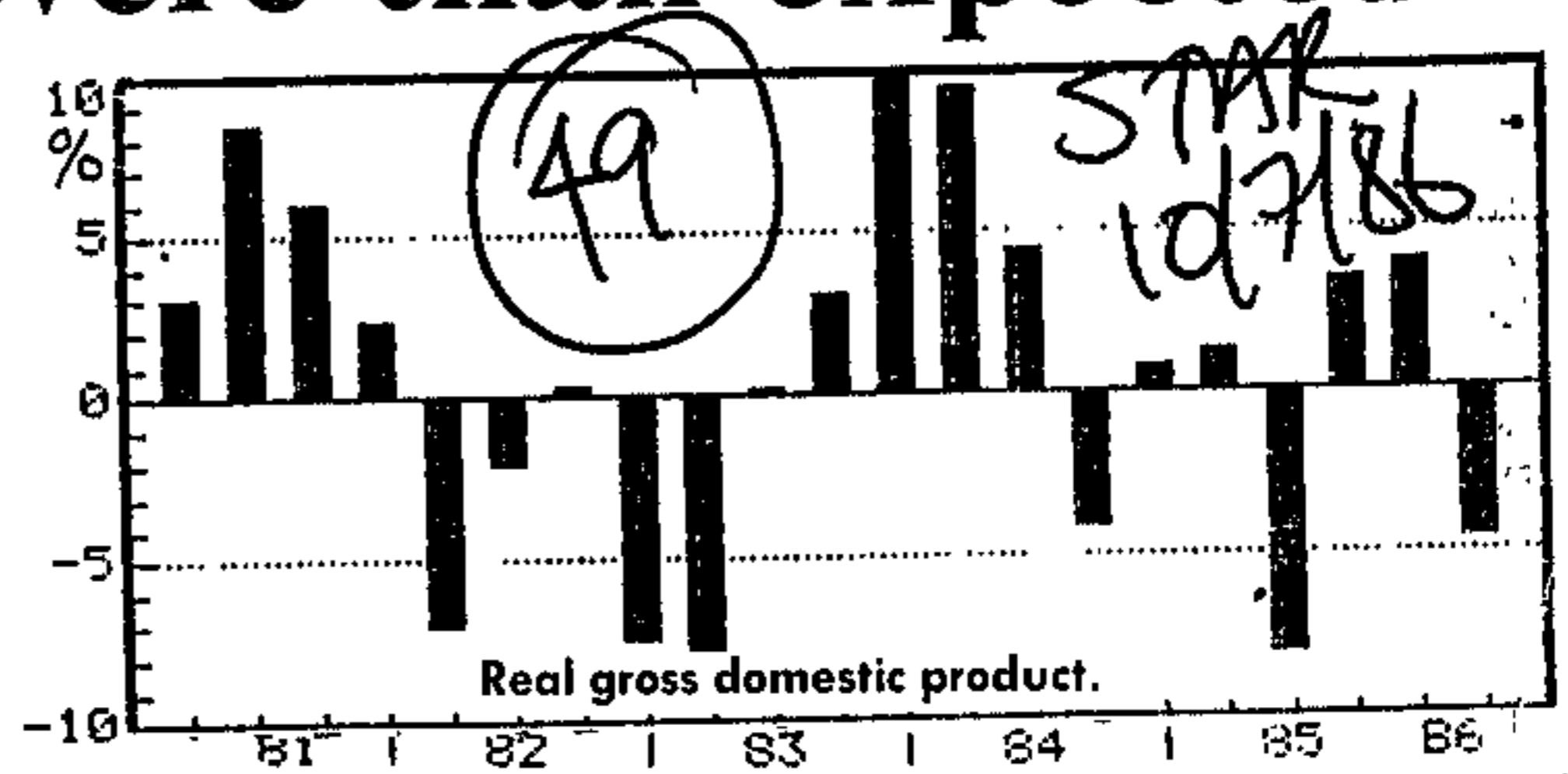
The wholesale and motor trades also contributed to the sharp drop, the CSS said.

Given the figures now released by the CSS, most economists believe that it will be impossible for the country to meet the authorities' forecast three percent growth this year, notwithstanding the boost given recently to the economy by finance minister Mr Barend du Plessis..

They point out that GDP probably continued negative in the second quarter and that an annualised growth rate of near eight percent would be necessary for the second half of the year for a final outcome of three percent growth for the full year.

However, most believe that growth for the full year will end up positive — but nearer one percent.

Boland Bank chairman, Mr



PBB Hugo, says in the annual report that it has become evident that an economic upswing is being hampered by a lack of confidence.

He says that even if economic growth of three percent is realised in 1986, it will be not be the result of increases in private consumer spending or in fixed investment.

"This implies a continued sluggishness in the demand for bank credit and will, furthermore, inhibit increases in inter-

est rates on the money market." He adds that true economic growth will depend mainly on fiscal stimulation and sustained high export earnings.

"The political reforms introduced in South Africa in the past months should reduce foreign pressure on the Republic and thus leave more scope on the surplus of the current account of the balance of payments for higher economic growth."

THE ECONOMY**It's time for business to start the march to peace**

STRANGE though it may seem, business in South Africa has come a fair way down the road to a more reasonable and equitable approach to the labour it employs. After all, JK Galbraith points out that it was only 60 years ago that the US steel industry worked a 12-hour day, a 72-hour week and, still more extraordinary, there was a 24-hour stint every fortnight.

Of course, there is nothing laudatory about South African employers' recognition that such practises are devoid of any morality, however much the supply of labour might outweigh its demand.

In the same text, American Capitalism, Galbraith argues that the organisation of labour as a countervailing power was essentially a function of the power that the US steel industry had.

It is always possible, of course, that such arguments are naive; enlightened labour policy or dismal labour exploitation may not, in the balance, affect the determination of workers to unite.

What is important for us in business in South Africa, however, is to acknowledge how selective our perception of power has become. A unionised work force and the institutionalised negotiation over a myriad of factors from overtime rates to detention of union organisers has brought us all, consciously or otherwise, to a recognition of the use of power in keeping a society in balance. Yet, at the same time, we seem unable to recognise political violence as an exercise of power (whether by the Right wing or Left) that is a response to the wide-ranging authority of the state.

Inevitably, in South Africa we will come to the recognition, as other people in other places have done so before, that the exercise of physical power by the people is better contained by freeing the channels of expression rather than by the unbridled and arbitrary use of force to shut down dissent and bury criticism.

Those who have any feeling for history whatsoever, therefore, will know that negotiation between white South Africans and black South Africans will have to take place across the widest of agenda unprescribed and, possibly, with significant eventual concessions from all parties.

Black majority rule in a unitary state is the encapsulated summary of political history in the rest of Africa, and it is the most likely end result for



The arguments of capital will ring hollow if business is not seen to have been forthright in its condemnation of state excesses, argues senior Premier Group executive **BENJAMIN TRISK**, who has written this piece in his personal capacity.

us as well. The critical argument now centres on how we reach that position and how we as white people, irrespective of our political colours, retain our place in the sun, enjoy the fruits of our innovation and enterprise, counter the arguments of socialists and those further to the Left and engage meaningfully in a reconstruction that will ensure a future for generations unbidden.

It is essential that business plays an increasing part in this debate because, if it does not, there will be no one to give substance to the argument of capital at the negotiation table, and the arguments of capital will sound hollow if business has not been forthright in its condemnation of each and every unbridled excess.

What were essentially two arenas for active capital's involvement have merged and become one. Ever since a few businessmen, albeit belatedly, grasped the nettle and voiced their criticism and their abhorrence of detentions, unrest, bannings, influx policies, inequitable education and the rest, there has been criticism, sometimes implied and sometimes expressed, that business should stay with the task of making money and

leave politics in the domain of the politicians. But the two are indivisible.

Lending greater weight to this position, and hopefully the lesson will be recognised by all, was the recent pre-emptive action by rank and file union members which ended with employers seeking meetings with the government to protest the detentions of union organisers.

Those businessmen who turn their face from the truth of South African politics may find a harsher truth inevitably awaits them; that their prophecies of socialist control will inevitably be father to the fact because when it was important to be counted they showed that capital bothered seldom and cared less.

Labour has to be convinced that if everything is equal tomorrow, if the means of all production are vested in the hands of the state, there is little chance that the next generation will be better off than the current one. That, at any rate, is the reasonable inference we can draw from numerous experiments in Africa. We have to bring labour to the point at which it perceives this country as a developed, reasonably industrialised model of achievement and success.

Of course, we can accept that South Africa presents a model influenced by a tortuous approach to racial thinking which, in turn, has distorted the view that the South African majority has of what the model is and means. However, it does not detract from the fact that South Africa has a vast industrial and commercial base on which to build stability and generate wealth.

Business has to be resolute in its defence of fundamental freedoms if it is to gain acceptance from that majority and, by association, acceptance of the economic structure that exists at present.

Through its defence of freedom, its constructive criticism of discriminatory, unfair and harsh practices, its even-handed treatment of people and its blindness to colour, business will increasingly be able to persuade labour that it should be regarded as a partner in its struggle for a fair deal, rather than as an oppressive influence.

SPACE

National student... The PSA has... from its...
 condition as "fine".
 The students were in-
 tured on Wednesd...

Business Report

FRIDAY, JULY 11, 1986

Call to modify free enterprise system

CAPC Times 11/7/86 (49) 928 2044

Financial Staff

THE free enterprise system in SA will have to be modified, the chairman of Barlow Rand, Mike Rosholt, said in Johannesburg last night.

"We must recognise that the central economic issue in future will inevitably be the process of income redistribution in favour of the lower income groups," he told a dinner for delegates to an international symposium at the University of the Witwatersrand.

"That process of income redistribution will be easier to live with if it is voluntary rather than forced.

"Having said that, I cannot emphasize too strongly that at the same time we must strive relentlessly to preserve

those aspects of our present system which remain valid and essential for the future well-being of the country.

"In particular, we must ensure that income redistribution does not become capital distribution resulting in an inevitable diminution of the income which is to be shared.

"We must try to ensure that over a period we all become equally wealthy and not equally poor."

Rosholt said the modified private enterprise system must be "seen as a catalyst for the redistribution of an increased national income".

It must also be seen as being fully aware of its additional social responsibilities and as "actively promoting power sharing rather

than being an accomplice of racial oppression".

Rosholt said SA stood on the brink of power-sharing between the races, and "in whatever form that occurs, the present balance in our economy between free enterprise and State socialism must tilt towards the latter."

The extent of that tilt would depend on how radicalized the new participants turned out to be and how powerful their voice in the new dispensation.

Unfortunately, "events and deprivation are hardening black attitudes to capitalism and free enterprise, and it is going to be difficult to reverse this trend."

An aggravating factor, said Rosholt, was the

government's recent commitment to the virtues and benefits of free enterprise.

"It would be better for the system if the government were to prove its commitment by discreet action rather than by public proclamation.

"The greater the latter, the stronger the black perception of the links between free enterprise and the current political system."

SA could not develop to the full extent of its great resources, human and material, without a political solution.

Equally, no political solution would be workable without the necessary financial muscle.

"It is paradoxical that access to overseas funds should have been cut off at a time when partly of



Mike Rosholt

its own volition, but partly also because of judicious outside pressure, SA has introduced overdue reform processes and has raised black expectations, which can never be fully funded in the siege economy we now face," said Rosholt.

Gencor Dolly 207 DDI show TCT

IN ra de Ar de th to Di ea st in h pr W pr pp (R 5 (E pr R O (4

Relly sees 3% GNP growth

Cape Times 11/7/86 49

By GORDON KLING
Financial Editor

ANGLO AMERICAN chairman Gavin Relly sees little prospect for a significant increase in the gold price, and notes that prospects for the corporation's international mining interests are based on an exceptionally unpredictable world economic outlook.

In an abridged version of the annual statement, released last night, Relly refers to a forecasted gross national product (GNP) growth in the leading industrial nations of little more than 3% a year for 1986/87.

Oil prices

The study, which incorporated current low oil prices, implied nil growth in real terms.

The explanation lay in problems caused by massive trade imbalances among major nations, difficulty in harmonizing monetary and fiscal policies, and numerous structural obstacles to greater economic efficiency, particularly in Europe.

Relly believes the forecast may be exceeded because the industrial countries, recognising their own interest in the plight of the developing countries, now seem more concerned to achieve higher rates of growth.

This was evident at the Tokyo Economic Summit, and faster growth could be expected should efforts by the US to bring about exchange or interest rate adjustments bear fruit, while

the oil price remained at current levels. That would mean some improvement in metal and mineral prices in real terms.

Prevailing economic uncertainties should be good for gold, he noted, but there were other factors "which suggest that a decisive move out of the current trading range is unlikely".

Economy

Turning to the SA economy, Relly says the stimulatory package announced by the government last month strengthened the probability of a modest recovery later this year, but "we seem to be as far away as ever from the goal of revitalizing our economic machine".

"The SA economy performed relatively well when the world economy was buoyant, but it failed to adapt quickly enough to the challenge of post-oil-crisis world."

Relly refers to the fact that SA must remain an exporter of capital, which could condemn the country to "inadequate growth at best, at worst to a vicious cycle of currency depreciation and mounting inflation".

Still it was possible that SA could develop along the lines of other more successful developing countries.

ANC in favour of private property, says Motsuenyane

W Mail
1/17/86
49

THE National African Federated Chamber of Commerce (Nafcoc) was "enormously intrigued" to find the ANC accepted "to an astonishing degree" most Nafcoc policies and projects, the organisation's president, Dr Sam Motsuenyane, said this week.

And Nafcoc treasurer, MSP Kutumela, said the ANC had told them it "looked to Nafcoc to save the country economically" in a post-apartheid South Africa.

Motsuenyane also said the ANC had agreed that private ownership of property was to be allowed at all levels and the spirit of entrepreneurship encouraged.

He revealed this in an extensive reportback at Nafcoc's annual congress in Cape Town on discussions earlier this year between the ANC and Nafcoc.

In response to a question, Motsuenyane said the ANC believed in a mixed economy. At present South Africa was a mixed economy because some things were owned by the government and others by individuals.

The ANC was certainly opposed to the existing capitalist system in South Africa because of its nature. "They wanted nothing to do with racial capitalism — what is sometimes called monopoly capitalism."

"Mr Tambo actually said to me there is no way the ANC can impose a foreign system on South Africa. We have to evolve a system from within the country."

Anyone who nullified the ANC was not coming to terms with reality.

"That is why the government must talk to the ANC and must not try to influence them by remote control."

He said the two-day meeting with the ANC took place "in a freindly atmosphere of warmth and brotherly understanding".

Nafcoc was "applauded for its pioneering role in the development of black business ventures in South Africa."

"Black business was perceived as having a definite role in the liberation struggle of the black people for the very reason that its development up to now has been subject to the very constraints which handicap the black community generally," Motsuenyane said.

The two organisations discussed issues such as "the elimination of racialism in the economy, land distribution, privatisation of services, examination of the freehold land ownership system, full participation in the economy by all racial groups in the country with as little government interference as possible, freedom from arbitrary detentions, the elimination of discrimination in employment, the ending of residential apartheid, the restoration of basic freedoms to all citizens, movement away from economic dualism by a careful study of income inequalities and contracts."

The country's best-known African businessman, Dr Sam Motsuenyane, flew to Lusaka for his own talks with the ANC — and says he was surprised to hear Oliver Tambo applaud black business ventures. BARRY STREEK reports from Cape Town

"These are relevant issues which any government after apartheid has gone cannot ignore."

It was regarded as important that bridges be built to ensure solidarity especially among the underprivileged in order to enable them to overcome any further exploitation and manipulation by others.

Increased dialogue, the de-emphasis of tribalism and the promotion of mixed schools was also agreed upon.

"Nafcoc's role was perceived as being complimentary and not in opposition to that of other black organisations whose objectives are the creation of a democratic and non-racial society in South Africa."

"This being the case, Nafcoc would be expected to co-operate with other organisations insofar as the following national issues are concerned: observance of national commemorations, the formulation of joint strategies to promote dialogue, the formulation of a common agenda for dismantling apartheid and co-operation on key economic issues," Motsuenyane said.

The two organisations agreed the homeland policy was "a device for assuring continuous supply of cheap labour while avoiding the granting of full political, civil, economic and social rights to black workers" and the homelands "as presently structured had no chance of permanent survival or future at all".

They had also agreed it was "in the country's best interest that the spirit of entrepreneurship be nurtured, encouraged and not crushed" and that "private ownership was to be allowed at all levels".

Privatisation was to be allowed with limited interference by the state in a mixed economy managed by skilled persons.

They agreed that "fair distribution of land among the people who work on it, to ensure a greater spread of wealth in the country" and that positive discrimination or affirmative action might have to be sanctioned to bridge the economic backlog after centuries of discriminatory policies."

"Desirable economic policies must seek to remedy existing social problems such as poverty, inadequate housing for the poor, and generally aim at the upgrading of the living standards of all people."

"The so-called free enterprise system in South Africa is not free at all, the system has resulted in the concentration of wealth in the hands of a few corporations in the country, which is neither desirable nor morally defensible."

"Racial barriers are an obstacle to the attainment of economic freedom in the country," he said.

Motsuenyane was applauded when he said that against the background of a mounting outcry both at home and abroad for the initiation of "serious discussions, with credible black leaders leading towards the creation of a new social order in which all South African will have freedom to share fully and equally, it has become quite imperative that the South African government speak directly to the ANC."

"The fact that the ANC has in its membership communists should really not deter the government from instituting essential negotiations with that organisation which could in the end bring the much-needed stability, peace and a new sense of direction into the socio-economic life of the country," he said.

THE WEEKLY MAIL

WE HAVE MOVED

to 190 Marshall Street, Johannesburg

Our postal address is PO Box 260425, Excom 2023

Our phone numbers are 337-5350/1/2/3/4

Our telex is 4-86379

00117/86

Rosholt: modify free enterprise

44
407A

JOHANNESBURG

The free enterprise system in South Africa will have to be modified, the chairman of Barlow Rand, Mr Mike Rosholt, said last night.

"We must recognise that the central economic issue in future will inevitably be the process of income redistribution in favour of the lower income groups," he told a dinner for delegates to an international symposium at the University of the Witwatersrand. The topic of the symposium is "What Boundaries for Business?"

"That process of income redistribution will be easier to live with if it is voluntary rather than forced. Having said that, I cannot emphasise too strongly that at the same time we must strive relentlessly to preserve those aspects of our present system which remain valid and essential for the future well-being of the country.

"In particular we must ensure that income redistribution does not become capital distribution resulting in an inevitable diminution of the income which is to be shared. We must try to ensure that over a period we all become equally wealthy and not equally poor.

"We must aim at a situation in which our first world economy, based on increasing exports and import substitution, can finance itself and generate the wealth required to fund the third world sector."

The latter should deal as effectively as possible with the greatest single national problem, unemployment. It could do so "by investing pri-



Mr Rosholt ... central issue will be how to redistribute income.

marily in labour intensive industries such as agriculture and urbanisation."

Mr Rosholt said the modified system must be "seen as a catalyst for the redistribution of an increased national income, as being fully aware, as many of its adherents are, of its additional social responsibilities: as actively promoting power sharing rather than being an accomplice of racial oppression." Such a system had been correctly described by Professor Jill Natrass at the University of Natal as "concerned capitalism".

Changing free enterprise in South Africa was essential because the country stood on the brink of power-sharing between the races, said Mr Rosholt. "In whatever form that occurs, the present balance in our economy between free enterprise and state socialism must tilt towards the latter."

The extent of that tilt would depend on how radicalised the new participants turned out to be and how powerful

their voice in the new dispensation. Unfortunately, "events and deprivation are hardening black attitudes to capitalism and free enterprise, and it is going to be difficult to reverse this trend."

This was especially so when "generally speaking, black trade unions have made it very clear that they are committed to class struggle and eventual economic control — their views ranging from mixed socialism at one end to Marxism at the other".

An aggravating factor, said Mr Rosholt, was the government's recent commitment to the virtues and benefits of free enterprise. "It would be better for the system if the government were to prove its commitment by discreet action rather than by public proclamation.

"The greater the latter, the stronger the black perception of the links between free enterprise and the current political system."

Mr Rosholt said it was clear that South Africa could not develop to the full extent of its great resources, human and material, without a political solution. Equally, no political solution would be workable without financial muscle.

"It is paradoxical that access to overseas funds should have been cut off at a time when partly of its own volition, but partly also because of judicious outside pressure, South Africa has introduced overdue reform processes and has raised black expectations, which can never be fully funded in the siege economy we now face." — Sapa

Buthlezi's view P13

Call for leadership

Adding its voice to the welter of business lobbyists calling for social and economic reform, Standard Bank weighs in with its June Review.

FIN MAIL

11/7/86

41

The dilemma, it says, is that although capitalism and free markets offer the best chance for providing jobs and of wealth creation, "the capitalist approach has become discredited in the eyes of many of the poorer sections of the community. Free enterprise is regarded as having failed to deliver the goods, and seen as a by-product of apartheid."

The best chance of meeting SA's extraordinary growth requirements lies in promoting the free market system, yet a strong body of domestic opinion favours a socialist society. There is a "disquieting degree of support for the Soviet system, especially among young blacks," it says; "naive and emotional but none the less effective for all that."

In spite of perceptions, especially among blacks, "proper practise of capitalism in the longer term is totally at odds with the principles of apartheid. Free movement, free markets and free association are at the heart of the market mechanism. There is evidence of growing acceptance of this central premise in government circles," the bank adds.

SA is the workshop and powerhouse of sub-equatorial Africa; it has a national will, depth of resources and capacity for organisation unique in the continent. "It would be unfortunate if the West, however sincere its convictions, helps to bring the country to its knees at a time when the battle for the abandonment of apartheid is won, and the true challenge is to modernise its socio-political and economic structures," says the bank.

SA is far from being the beggar nation typical of the developing world. Its commercial, financial and technical drive and acumen are superior to any in Africa and equal to much of Europe. SA's people are capable and energetic; but they need leadership. "The crux of the problem is a lack of confidence, which stems from a perceived *lack of direction* from government in political and economic spheres."

Standard Bank says that this entails an urgent and rational programme of thorough-going economic and political reform that takes into account free movement, free markets and free association, and readiness on the part of government to negotiate with all sectors of opinion, *without exception*.

"If this were to materialise no-one need be unduly concerned about the short- or long-term future."

Otherwise, if we stick with the "current constellation of internal and external forces, the movement may be towards a siege economy" . . . which would make "the adoption of a strategy to optimise long-term growth impossible." ■

DD 11/7/76
49

Economy ready to pick up, says Scheepers

Dispatch Reporter
EAST LONDON — The economy of the country had bottomed out and was ready to pick up again, the chairman of the task force committee appointed by the government to bolster economic development in the Eastern Cape, Dr C. F. Scheepers, said here last night.

Dr Scheepers visited East London yesterday to meet local industrial-



DR SCHEEPERS . . .
Economy ready for upswing.

ists and businessmen.

He said in an interview there was every indication the economy would pick up, but everything hinged on the confidence of investors, consumers and the security of the country.

Dr Scheepers said the country would have to "ride the tide of pending sanctions" and be prepared to do without those who proposed sanctions against it.

The unrest had a detrimental effect on the economy in that it negatively affected the attitude of investors, he said.

Boycotts also undermined business confidence resulting in businessmen becoming reluctant to offer services which they would normally supply. This, too, had a detrimental effect on the economy.

Dr Scheepers said his talks with the East Lon-

don private sector liaison committee were "fruitful".

There are two liaison committees in the Eastern Cape, one for the Port Elizabeth-Uitenhage area and another for East London.

The East London committee had raised a number of points it wanted referred to the government and had inquired how it would fit into the new structure and what its powers would be, Dr Scheepers said.

He said his delegation had inquired from the local committee what its priorities were and how it wanted them implemented.

Dr Scheepers said he would be meeting the Port Elizabeth committee and then report back to the main committee in Pretoria and also to the Department of Constitutional Planning and Development.

Politics and beauty at Nafcoc conference

Black business is big business

w/ ARGUS 12/7/86

49

FAB

By DALE LAUTENBACH

Weekend Argus Reporter

A PRETTY woman in a glittery silver dress said she owned a dry-cleaning business in Butterworth ...

She dreamed of running a fashion boutique in East London

A man in a pinstripe suit was in "the advertising game".

"But I'm really a politician at heart," he said. "I'm just biding my time."

The people who travelled from all over South Africa to attend the 22nd Annual Conference of the National African Federation of Chambers of Commerce (Nafcoc) this week were there in spite of two very bad years, in the words of their obviously popular president, Dr Sam Motsuenyane.

"Absent"

They were there from their 18 different regions in spite of the state of emergency and in spite of the fact that a number of members were forcibly ... "absent".

Peak attendance at the conference — for the presidential address on Tuesday — was estimated at between 1 200 and 1 500. But other events on the programme too were well attended.

Delegates and local members of the public thronged to the closing celebration, the Miss Nafcoc Beauty Contest. Many came in black tie and evening glam and though it might seem an unlikely event, on the face of it, to be held annually by a chamber of commerce, it symbolised many of the contradictions which characterise and are absorbed by the Nafcoc body corporate.

Who would have guessed, as the bright young beauties floated into the floodlights wearing sheeny metallics and butterfly chiffons, that they represented only half the usual number of regional finalists because political instability had made competitions in many of the regions impossible this year?

Harder line

Who would have guessed, as the crowd roared at the MC's throaty jokes, that the concerns voiced throughout the conference and reflected in its resolutions, were those which turned a cold shoulder on the State President's plan for a National Statutory Council; were those which would now be considering a harder line on sanctions and disinvestment?

And just when it seemed the Government was inflating its waterwings, hoping to take to the apparently safe shallows of black business and a moderate black middle class.

The conference delegates and attendants were there for a variety of reasons and while many mouthed the maxim that business people have a firm political responsibility, they could be drawn little further on the state of the nation. They were really interested mainly, it seemed, in learning new skills to better their businesses — from one-roomed shoe-repair stores to supermarkets and general dealers ... dotted around the country.

Speaking for his little stake, one man said he was there simply because: "I love Nafcoc."

Unbanning

Others did not even make the connection between their business concerns and the very theme of the conference: *Black Business — A Factor in determining the Political Future of South Africa*

mandated to review policy on disinvestment and relationships with Government-related institutions.

"Stop futile attempts to reform apartheid," resolved Nafcoc, calling for negotiation with acceptable leaders.

Exclusion

"And this is not new, Nafcoc is not more politicised than ever before," said national co-ordinator Mr Gabriel Mokgoko. "You must remember that Nafcoc was founded in protest in 1964 — founded in protest against exclusion, non-participation and apartheid legislation. This year's resolutions are just a development of the things for which we have been calling all along, those cornerstones like citizenship and land rights. We are an independent organisation and not pushed around by anyone."

Three Johannesburg businessmen — an attorney, an advertising executive and a management consultant — waged ideological battle over a lunch-time beer.

"I think Nafcoc has a balanced view of what the South Africa of the future should look like with a non-racial economic structure," said Mr Martin Sebesho. "I think it is an important catalyst for change now, I think it is rising to the political challenges and I'd describe it as realistic rather than moderate."

"Political circumstances are forcing Nafcoc to change," said Mr Jabu Sibiyi.

"It's fruitless to address economic issues because politics in this country dictate to everything," said Mr J T Moleya. "The youth is turning more and more towards socialism — no one has given them a real alternative. And black business is moving into an area of direct conflict with the youth."

They speak of unemployment, of highly qualified young men without jobs.

They are men of business, they represent capital and admit to saying "Hi comrade!" in the townships in order that they may pass safely. But on the bottom line they claim to identify just as much with the "struggle" as do those radical comrades.

They fire their ideas in turn and all at once: "Yes, black business could do a lot more. The youth represent the momentum of the struggle but they don't have a long-term strategy."

On fence

"There's no ray of hope for the kids in Soweto whether they go to school or not. Business has not shown them the benefits of going to school. Blacks today want total change."

"The youth doesn't want to go into the CBD. They want to go into Parliament."

There is frustration and impatience: "Nafcoc is on the fence. It should take a stronger political



Dr Sam Motsuenyane

stand."

And don't imagine, they say, that there is a clear-cut and reliable line between black middle-class capitalism and the struggle. They are hesitant to describe themselves as middle class.

Another grin. "Let's just say I'm evolving affirmatively in an effort to effect change in my little way. I don't have to carry an AK47."

"We don't feel excluded from the struggle."

"We're all fighting in our different fashion"

Those cornerstone issues of citizenship and land rights — the essential human dignity of which Dr Motsuenyane spoke more than once — were not obfuscated in the minds of the delegates by concessions like the opening up of CBD's.

"It's the riddle of the tortoise and the hare," said Mr Sebesho. "You open the CBDs but the standards remain the same. How can blacks enter that competitive market disadvantaged as they are in terms of experience and capital?"

"We need more training so that blacks can compete in the market place on an equal footing. Opening the CBDs should go hand in hand with a fund to facilitate the acquisition of technical skills and knowledge among the emerging black entrepreneurs.

"Perhaps there should be affirmative action on the part of town councils in a deliberate effort to have blacks come into the CBDs and the industrial areas."

"We don't want to come into the CBDs if we cannot even own land there," said Mr Abram Napo of Lebowa. He said let the people buy land, buy farms. "Nafcoc should encourage people to create employment which means an improvement in lifestyle and in turn a greater stability. And land ownership makes for greater patriotism."

Influence

"De-regulate business, remove the constraints. Given the chance, the black business community could offer a non-violent solution. We can influence events."

Mr M S Mokumo, cattle breeder and businessman, presented a paper on agriculture to the conference "Open up farming land," he said. "For every one job opportunity in commerce and industry, five could be created in agriculture."

Nafcoc, he believed, had a powerful political responsibility to shoulder. "It's strength is that it can set up lines of communication. It is an economic body and its methods are negotiation. I don't believe it is too moderate. Using other methods would not work. We mustn't destroy what we want to keep. We're not going to pretend we don't need whites and white expertise. Open the market and let us compete and show our worth."



Chambers of Commerce (Nafcoc) this week were there in spite of two very bad years, in the words of their obviously popular president, Dr Sam Motsuenyane.

"Absent"

They were there from their 18 different regions in spite of the state of emergency and in spite of the fact that a number of members were forcibly... "absent".

Peak attendance at the conference — for the presidential address on Tuesday — was estimated at between 1 200 and 1 500. But other events on the programme too were well attended.

Delegates and local members of the public thronged to the closing celebration, the Miss Nafcoc Beauty Contest. Many came in black tie and evening glam and though it might seem an unlikely event, on the face of it, to be held annually by a chamber of commerce, it symbolised many of the contradictions which characterise and are absorbed by the Nafcoc body corporate.

Who would have guessed, as the bright young beauties floated into the floodlights wearing sheeny metallics and butterfly chiffons, that they represented only half the usual number of regional finalists because political instability had made competitions in many of the regions impossible this year?

Harder line

Who would have guessed, as the crowd roared at the MC's throaty jokes, that the concerns voiced throughout the conference and reflected in its resolutions, were those which turned a cold shoulder on the State President's plan for a National Statutory Council, were those which would now be considering a harder line on sanctions and disinvestment?

And just when it seemed the Government was inflating its waterwings, hoping to take to the apparently safe shallows of black business and a moderate black middle class...

The conference delegates and attendants were there for a variety of reasons and while many mouthed the maxim that business people have a firm political responsibility, they could be drawn little further on the state of the nation. They were really interested mainly, it seemed, in learning new skills to better their businesses... from one-roomed shoe-repair stores to supermarkets and general dealers... dotted around the country.

Speaking for his little stake, one man said he was there simply because: "I love Nafcoc."

Unbanning

Others did not even make the connection between their business concerns and the very theme of the conference: *Black Business — A Factor in determining the Political Future of South Africa*. One woman from Natal spruited spoke of her supermarket, that she would like to move into the newly opened CBD to avoid the "unrest problems." She was here to discuss business, she said, not politics, and she left in a cloud of White Linen.

But at the end of the day the resolutions passed by this multi-faceted group of people with their various concerns called firstly for the urgent unbanning of exiles and all political organisations, for the release of all political detainees and for meaningful negotiation with the African National Congress. The Nafcoc summit to be held in October was resoundingly

just a development of the things for which we have been calling all along, those cornerstones like citizenship and land rights. We are an independent organisation and not pushed around by anyone."

Three Johannesburg businessmen — an attorney, an advertising executive and a management consultant — waged ideological battle over a lunch-time beer.

"I think Nafcoc has a balanced view of what the South Africa of the future should look like with a non-racial economic structure," said Mr Martin Sebesho. "I think it is an important catalyst for change now, I think it is rising to the political challenges and I'd describe it as realistic rather than moderate."

"Political circumstances are forcing Nafcoc to change," said Mr Jabu Sibuya.

claim to identify just as much with the "struggle" as do those radical comrades.

They fire their ideas in turn and all at once: "Yes, black business could do a lot more. The youth represent the momentum of the struggle but they don't have a long-term strategy."

On fence

"There's no ray of hope for the kids in Soweto whether they go to school or not. Business has not shown them the benefits of going to school. Blacks today want total change."

"The youth doesn't want to go into the CBD. They want to go into Parliament."

There is frustration and impatience: "Nafcoc is on the fence. It should take a stronger political



Dr Sam Motsuenyane

stand."

And don't imagine, they say, that there is a clear-cut and reliable line between black middle-class capitalism and the struggle. They are hesitant to describe themselves as middle class.

Another grin: "Let's just say I'm evolving affirmatively in an effort to effect change in my little way. I don't have to carry an AK47."

"We don't feel excluded from the struggle."

"We're all fighting in our different fashion."

Those cornerstone issues of citizenship and land rights — the essential human dignity of which Dr Motsuenyane spoke more than once — were not obfuscated in the minds of the delegates by concessions like the opening up of CBD's.

"It's the riddle of the tortoise and the hare," said Mr Sebesho. "You open the CBDs but the standards remain the same. How can blacks enter that competitive market disadvantaged as they are in terms of experience and capital?"

"We need more training so that blacks can compete in the market place on an equal footing. Opening the CBDs should go hand in hand with a fund to facilitate the acquisition of technical skills and knowledge among the emerging black entrepreneurs."

"Perhaps there should be affirmative action on the part of town councils in a deliberate effort to have blacks come into the CBDs and the industrial areas."

"We don't want to come into the CBDs if we cannot even own land there," said Mr Abram Napo of Lebowa. He said let the people buy land, buy farms. "Nafcoc should encourage people to create employment which means an improvement in lifestyle and in turn a greater stability. And land ownership makes for greater patriotism."

Influence

"De-regulate business, remove the constraints. Given the chance, the black business community could offer a non-violent solution. We can influence events."

Mr M S Mokumo, cattle breeder and businessman, presented a paper on agriculture to the conference. "Open up farming land," he said. "For every one job opportunity in commerce and industry, five could be created in agriculture."

Nafcoc, he believed, had a powerful political responsibility to shoulder. "It's strength is that it can set up lines of communication. It is an economic body and its methods are negotiation. I don't believe it is too moderate. Using other methods would not work. We mustn't destroy what we want to keep. We're not going to pretend we don't need whites and white expertise. Open the market and let us compete and show our worth."

In summary Dr Motsuenyane, who dashed off after his final address to catch a plane for London, reminded the delegates of the challenges they face, of the homework to be done.

"The actual and potential power of Nafcoc in the community must be recognised. We must take an active role in the political life of this country to restore peace and the human dignity of the black man. We challenge the Government to remove all barriers which impede black development. We cannot advance economically while stultified by discrimination."



Picture: DANA LE ROUX, Weekend Argus

The lighter side of the Nafcoc conference in Sea Point included a fashion show featuring top models, from left, Cynthia Malgas, Pat Mfihlo and Henrieta Mazana.

Nafcoc resolution pays tribute to women

By DALE LAUTENBACH
Weekend Argus Reporter

A SPECIAL resolution passed at the 22nd Annual Conference of the National African Federation of Chambers of Commerce (Nafcoc) paid tribute to women emerging into meaningful roles within the organisation.

One speaker (a man) described women as "facilitators of change" and called for their inclusion in the organisation at all levels — from grassroots to national.

"Let's have a national woman

speaker at next year's conference," was the call.

"I think women have a key role in the future. They'll drag us kicking and screaming into the 21st century," said Nafcoc national coordinator, Mr Gabriel Mokgoko.

He said the large numbers of women at the conference this year was not an unusual sight and neither could one assume that they were present only in their capacity as wives.

"Many of them are the minds behind the businesses, whether

they run them alone or with their husbands," he said.

He spoke of some possible reasons why women have taken on this entrepreneurial role so confidently and said that although it was a speculative thought, the effects of migrant labour over the years offered a logical explanation.

Shrewd managers

Left often with the "business" of family (and any housewife would testify that running a family is

business all right) these women have had to become shrewd managers of money and resources.

And this is expertise they have put to commercial use in supermarkets, general dealers, chemists, dry-cleaning businesses and a host of other enterprises.

Mr Mokgoko said women were naturals to take over the running of events like the annual Nafcoc beauty contests and the fashion shows but when challenged, he admitted their role could be much broader and more serious.

"There are already women on the committee of the scholarship fund. Their main concern is the future of their children and I can see women bringing to the fore some issues which men might take lightly."

"Many mothers have seen their children leave the country... this is a major concern for women in all the regions. Once they're in leadership positions, their voices will be heard and these are issues close to their hearts which will be raised," he said.



12/7/86 WTE Post



49

Gloomy picture for PE engineers

Weekend Post Reporter
THE economic recession is biting into the pool of experienced, qualified engineers in South Africa.

The secretary of the Eastern Cape branch of the Engineers' Association of South Africa, Mr Thorat Jansen, said this week that last year 450 qualified engineers left South Africa, compared with 324 in 1984.

Chairman of the Eastern Cape branch of the SA Institute of Civil Engineers, Mr Gerrie Albertyn, said he knew of two qualified civil engineers in PE who were emigrating shortly to the United States. Last year, another two emigrated — one to Australia and the other to Britain.

However, he does not think the exodus will be too disruptive of the local economy should business here pick up, as major firms simply send in engineers as needed.

Although he knew of no architects who had left Port Elizabeth recently,

the vice-chairman of the local branch of the SA Institute of Architects, Mr John Blair, said there was "little or no private sector development" in PE, and most work available was for the Government.

Mr Jansen said that while the total number of graduate engineers in SA would remain around the February figure of 11 649 because of newly graduated engineers from the universities, qualified engineers between the ages of 30 and 40 were increasingly leaving SA.

While he did not know the exact number of engineers who had left PE, he said they were mainly people who had worked for companies that had either closed down or cut back on staff.

Another factor damaging the profession was that non-registerable engineers were being appointed to senior posts, "and if this increases, the quality of work being produced could drop".

Much in-house design

and construction work was being done in the public sector, he said, as Government departments cut back their budgets.

He said there was very little, apart from the creation of more jobs in PE, to stop the loss of engineers.

The whole question will be discussed at the national council meeting of the EASA on July 15, at Isando, he said.

One man affected by Ford's closure was Mr Jack Griffin, who was with the company for 24 years. He now works for a consultancy.

Mr Griffin said Ford's departure had affected the jobs of about 36 people in different engineering categories.

These included four graduate engineers (BSc Engineering), four Government-ticketed engineers (including himself), six with technikon engineering diplomas, 10 product engineers, five or six project engineers and six draughtsmen

I REMEMBER a retired colonial writing to The Times during Britain's three-day week in 1973. He was protesting at some apocalyptic editorial claiming that Britain was doomed and would never be the same again.

Wrong, he said. Britain had no problem at all. It would do what it had always done in such situations, muddle through.

It may be little comfort to nations experiencing great political or economic difficulties to say so, but they muddle through more often than not. And the ones that muddle through best are those which panic least when under pressure.

Take the siege economy, which now threatens not just South Africa but — through the nature of regional interdependence — nations throughout the southern half of the continent.

Conventional wisdom rightly holds that sieges are bad. They involve a constraint on free trade. They distort economies. They impose costs on victim governments and therefore on taxpayers. They lead to internal corruption. They rarely succeed in their political objectives.

In the past year in South Africa, an anti-theftist has developed. It states that the siege weapons — trade and financial sanctions — are not necessarily the agents of economic doom.

Profits

They protect domestic producers, encourage import substitution, devalue the currency and make more competitive those exports that get out. Disinvestment means higher retained profits.

The search for a synthesis of these viewpoints is full of ironies. Restraints on trade are, of course, mostly characteristic of socialist-planned economies. In South Africa, a nationalist economic policy has been that of Labour movement the world over a large public sector. High levels of social spending, ubiquitous parastatal corporations, price and employment controls.

Thus SA has enjoyed a decade of filtration with free market economies, but never with much conviction from the government. As Mrs Thatcher has found in Britain, an interventionist bureaucracy, once in place, is exceedingly hard to do without.

Hostile

All economies operate under various forms of trade sanction. Some hostile, some self-imposed. Britain's food sector is widely overpriced as a result of British and European agriculture policies rigging the market: a self-imposed siege to protect British farmers. Britain denies itself the benefit of new technology imports by public purchasing policies that discriminate in favour of domestic products.

Many Third World countries are

By SIMON JENKINS
Political Editor of the
Internationally-renowned
publication, The Economist

What will happen if there's a



ASIAN CRISIS



JENKINS:
Economics need to be able to breathe

currently subject to full economic siege: the debt backlog and resulting IMF intrusion experienced by Ghana or Brazil or the overvalued currencies and foreign exchange imbalances of Nigeria or Zimbabwe. All these sanctions embattle and impoverish. Yet, far from toppling governments many such sieges serve to keep existing regimes in power.

It is particularly ironic that it should be socialist governments abroad who so eagerly threaten a siege economy as the most effective weapon against an apartheid government. It is precisely the mechanism

most of them use to prop themselves up.

It is a constant mistake of commentators — mostly from growth-obsessed First World countries — to believe that impoverishing a country must by definition destabilise its government. Sometimes it does, sometimes it doesn't.

African and Latin American states daily demonstrate their willingness to prefer the security, or self-esteem, of their governments to the prosperity of their peoples. Few such regimes suffer internally from seizing the chance to snub multinationals, burn the fingers of a few foreign bankers and protect a few domestic producers. Why should South Africa be any different?

Impact

Assessing the impact of siege is equally problematic. It is never all or nothing: total freedom or total bondage. It is a matter of degree, the outcome of a complex mixture of freedom and regulation. How much trade would

through anyway? What are the substitution effects? How exactly would workers move out of the sanctions-hit formal sector into the informal sector? How would government react, would it free internal markets or do what besieged regimes often do, which is restrict them?

South Africa has been experiencing various sanctions for a number of years, including the drastic devaluation of the rand and the virtual cessation of new overseas lending.

Since this has coincided with a recession and will coincide shortly with the ending of influx control, it is hard to disentangle what economic variables are likely to be affected by what cause.

Take for instance the much-valued employment impact of sanctions. Most of the relevant surveys are of sanctions-vulnerable sectors, based on assumptions that make them almost worthless. One recently predicted one million unemployed, assuming "total" sanctions (which are inconceivable) and

an even spread of impact across the economy.

No attempt is ever made to assess the impact of sanctions/import substitution on the informal sector, where surely most of South Africa's future growth will be concentrated. But who knows? The essence of siege economies is that their statistics, especially on employment, become increasingly unreliable.

Increasing trade restrictions would come at a time when influx control is being relaxed. Estimates on the impact of this vary wildly. All a visitor to South Africa can

observe is that cities of the prosperity of Johannesburg and Durban and Cape Town seem astonishingly underpopulated (yes, even Alexandra and Crossroads) compared with Lagos or Sao Paulo or Bombay.

If the Latin American experience is any guide, an impoverished rural population, throughout the subcontinent, will flock to urban South Africa.

The pro-sanctions lobby leans heavily on the assumption that such movements will mean soaring unemployment, and that this will mean a political cataclysm. There is no such evidence of a causal relationship.

These are, of course, guesses based on largely unquantifiable experience elsewhere. But at very

least, these consequences of apartheid's progressive decay could obliterate any further sanctions effects.

The message is not that economic sieges are a good or bad thing, but that they are a fact of international economic life.

Most countries have industrial policies directed at protecting strategic industries, rationalising the inefficient and promoting employment. Many Third World states also seek to avoid being the dumping ground of international conglomerates and secure the advancement of their own entrepreneurs and encourage the training of their own staff.

By hyping the impact of sanctions, businessmen make a number of mistakes. They give great comfort to the pro-sanctions lobby abroad. If powerful businessmen say South Africa cannot "survive alone", say the lobbyists, then surely sanctions must work.

Defensive

Equally they foster in government a fortress mentality, goading Ministers to over-react, to introduce ever more defensive measures to go down the path of intervention, expropriation and bureaucratic corruption. Such over-reaction tends to be irreversible.

Siege economies are regarded as short-term phenomena because those who help establish them — whether as hostile sanctions or supposedly benign self-disciplines — are usually short-term thinkers. They have an actual or metaphorical gun at their heads. Yet the short term, in modern politics, tends to go on for a long time.

Siege economies do not imply destabilisation as such, but the temptations for governments which they bring in their train can shut off safety valves, political as well as commercial.

The steady erosion of apartheid in recent years would appear to have been helped by the lingering flexibility still built into South Africa's political community, partly free speech, partly free markets, a parliamentary tradition, elites continuing to operate independent of government and army, in business, the media, academic life.

Siege economies threaten these safety valves by paralyzing governments. They lead to states of emergency and repression, making the economy rigid and society brittle. Economies, however besieged, need to adjust to new equilibria to meet changing circumstances. They need to be able to breathe.

(Based on an address given to the "Boundaries for Business" conference organised by Wits this week.)

1981 -- 3 -- NO. 1000000
HAWAII
Myra Mark
MEMORANDUM FOR THE
ECONOMIC FRAMEWORK
A
I
ECONOMICS
OF
1000000

PE motor vehicle body builders cut staff by 33

14/7/86 Eve Post
149

Post Reporter

THE depressed state of the economy had made it necessary for motor body builders Welbit Oddy to retrench 33 salaried and hourly paid workers last week, the company's managing director, Mr Bill Oddy, said today.

About half of those who

had lost their jobs on Friday were salaried staff but none were in managerial positions.

No further retrenchments were planned, he said.

Mr Oddy said the company employed some 600 workers. Of these about 80% were hourly paid workers.

Urban plan decision today

*ave ports
15/7/82
(49)*

(signature)

Municipal Reporter

FUTURE development of Port Elizabeth's urban environment could soon be in the hands of an advisory committee if a recommendation to the City Council's Policy and Resources Committee is accepted at its meeting this afternoon.

At a meeting of councillors, officials and representatives of the Institute of SA Architects' Eastern Province Committee on June 16, concern was expressed about the quality of the city's urban environment.

It was felt that there was a need for the establishment of a body to advise the council on a co-ordinated strategy for Port Elizabeth's development in the economic, sociological, physical and tourist spheres.

The proposed committee would consist of the chairmen of the Policy and Resources and Land Usage committees and two representatives each of the Institute of SA Architects, the Afrikaanse Sakekamer and the Midland Chamber of

Industries.

The committee would be authorised to co-opt representatives of other institutions or interest groups.

• The Policy and Resources Committee will also consider the appointment of urban design consultant Mr Revel Fox as a consultant on the King's Beach Master Plan.

Mr Fox has already been appointed to advise on development of beachfronts in Durban, East London, Richards Bay and Mossel Bay.

Professor Danie Theron, head of the University of Port Elizabeth's Architecture Department, who was also considered for the consultancy, was due to address the committee this afternoon on the question of appointing both an Advisory Committee and Mr Fox.

Prof Theron believes it would be "premature" to appoint someone like Mr Fox for the King's Beach project because the beachfront is integrally related to the rest of PE.

AI, is
sepa-
atten-
leath-

For information...

249

~~249~~

Local business gloomy at factory closure

DURBAN — A cloud hangs over business at Richards Bay and Empangeni after the announcement that the Triomf factory will close.

Yesterday firms of liquidators were seeking support from Triomf creditors before the appointment of a provisional liquidator by the Supreme Court.

Several sectors of the regional economy in this Zululand area will be affected when the large exporting factory closes — mainly engineering suppliers, fabricators and erectors.

One of five main industries in the area, Triomf employs 1100 people, owns about 100 houses for white staff, and provides a vast amount of business for hundreds of small supply and engineering service companies.

A manager of one supply firm said his main concern was the effect on property prices and

rent levels if the company sold off its staff houses.

When Triomf laid off staff last year, rents were under pressure as more homes came onto the market — already over-supplied.

Then the company took on staff again, and the position reversed.

The town clerk of Richards Bay, Mr Theo Tolmay, said he still had a "slight hope" the Triomf plant would continue to operate. — Sapa

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

Economy vulnerable but . . .

Volkas sees turn for better

GERALD PROSALENDIS

AGAINST the background of disappointing developments in the economy in the first quarter, provisional information would seem to indicate that matters took a more favourable course in the second quarter, says Volkas Bank in its *July Economic Spotlight*.

It says there are still some serious problems and certain developments in the political and security areas may cause damage to the economy.

From information relating to retail sales, car sales, the hotel industry and general comments by businessmen, it may be inferred that private-consumption expenditure was still sluggish in the second quarter.

"Therefore it will come as no surprise to learn that there was a further decline in real private consumption expenditure. It would also appear that fixed investment decreased in real terms and that trading and industrial inventory levels dropped to even lower levels."

However, in contrast to the poor performance of the domestic expen-

diture components, real production levels could have risen. Provisional statistics for April and May leave the impression that imports rose at a substantially slower rate in the second quarter, compared with the first quarter. In fact, in real terms, imports probably declined.

Exports on the other hand probably improved in real terms, compared with the first quarter.

"Even though real gross domestic expenditure probably tended to decline, it would nevertheless appear that, compared with the first quarter, one might expect positive growth in the real gross domestic product," says *Economic Spotlight*.

It says also: "It is estimated that the second quarter will show a surplus of about R1,6bn on the current account — about double the figure for the first quarter and even better than the figure for the second quarter of 1985."

But, the sustained loss of capital via the capital account is the single most worrying economic problem.

Govt spending in early months up 24% on last year

Mercury Correspondent
JOHANNESBURG—Government expenditure of just over R10 billion for the first three months of the current fiscal year is running at 24,4% above last year's figure.

In his Budget speech, Finance Minister Barend du Plessis said his estimated expenditure for the year of R37,447 billion would be 13,6% higher than the revised figure of R32,977 billion for fiscal 1985/86.

The Treasury's outlays vary from month to month and are usually higher in the first few months of the fiscal year. But the 24,4% increase, calculated by comparing the first quarter of this year with the first quarter of last year, is a grim warning that expenditure is likely to overshoot budget considerably.

Compared with last year, Defence spending is up 32,4% at R1,585 billion. Police outlay is 28,4% higher at R361,5 million and Pris-

ons spending up 24,1% at R130 million.

Spending by Transport is 89% higher at R186 million and Trade and Industry is up 37,2% at R302 million.

Spending on National Education has increased by 23% to R33,1 million and Education and Training is 37,3% higher at R283 million.

Inflow

The largest percentage increase is in the spending of the Commission for Administration, which was 197% higher than last year at R112,8 million.

Revenue, too, is well ahead of last year's inflow.

During the months April to June the Treasury collected R6,885 billion, which was 21% more than it had garnered in the first quarter of 1985. Inland Revenue brought in R6,318 billion while Customs and Excise contributed R566,6 million.

The fiscal year is still too

young for any realistic assessment to be made of the outcome of the revenue estimates.

The deficit before borrowing was R3,191 billion, compared with the budgeted deficit of R3,944 billion for the full year. But as revenue accrues very sluggishly to the Treasury during the first few months of a fiscal year, the borrowing is usually heavy.

The financing of that deficit, however, suggests that Mr du Plessis is going to raid the private sector for a lot more than the R893 million in new bonds which he provided for in his Budget.

The Public Investment Corporation which is down to provide R3,25 billion this year has already taken up bonds to the value of R1,25 billion.

Foreign loans and credits amounting to R13,6 million were repaid and R1,1 million was raised.

Hope of economic improvement

49

ENE Post
16/7/86

Business Editor

THREE leading financial institutions have expressed cautious optimism that the economy could be on the threshold of improvement.

They also hint that the Government could be considering further stimulatory action, including early repayment of the 1983 loan levy of nearly R300 million, lower GST and a further drop in the bank rate.

Senbank says in its latest capital market report that no immediate upswing in the economy

could be expected as the result of Finance Minister Barend du Plessis's R1 500-million stimulatory package last month.

But the bank adds that the package, together with a possible increase in private sector confidence, could "provide adequate incentives for the establishment of a sound basis from which a lasting upswing phase could evolve".

Volkscas pinpoints confidence as the key factor in any possible upswing.

It says in its latest Economic Spotlight that

while the Minister's package is unlikely to boost activities, it could inject confidence into the economy, especially if viewed together with other aspects of Government financial policy.

Southern Life says in its latest economic comment that the only "tragedy" of last month's package was that it was not announced at the time of the March Budget.

But it adds: "Provided the fiscal injection is spent quickly and effectively, the economy will be

receiving all the boost it can reasonably expect from the policy side.

"The rest is up to the consumer."

All three institutions believe that 3% growth this year is unlikely.

Volkscas says this is "utterly remote" at present; Senbank that it is "over-optimistic", and Southern that 2,4% growth is more realistic.

Southern also cautions that a realistic inflation rate is between 17% and 18% — 1% higher than it had previously forecast.

BW DAY
17/7/86 (49)

Barclays tears into 'negative' policies

LESLEY LAMBERT

THE only adjustment the economy has achieved in recent years, to bring it in line with changing international economies, has been negative adjustment, says Barclays' economist Cees Bruggemans.

He adds in the latest *Barclays Brief* that the Reserve Bank's action programme to facilitate adjustment has been a negative policy which has not yielded the expected positive results.

"The SA economy knows only one kind of 'adjustment' — the negative kind. It is capable of reducing spending and output, and consequently imports, for a while in response to a deterioration in export performance. However, that is the only kind of adjustment it appears to be capable of in a general economic policy framework."

Therefore, says Bruggemans,

raising interest rates while managing the currency down to lower levels succeeds only negatively.

It helps to cut business spending ... and working capital requirements. But it does not generate the dynamic response that transforms industries, creates new ones, and divests from old ones in the process of creating new viable sources of exportation that would help to sustain the balance of payments, and thereby ensure the lifting of the perpetual constraint on domestic growth in an open economy.

"Monetary policy can only be one leg, albeit an important one, in the triumvirate whose other two legs are fiscal and industrial policy," says Bruggemans.

West Bank development not ruled out

Dispatch Reporter
EAST LONDON — Industrial development on the West Bank has not been ruled out entirely and more meetings on the controversial question are to take place.

This emerged in an interview yesterday with the project co-ordinator of the Eastern Cape Strategic Development Task Force, Professor Charles Wait.

Prof Wait was in East London yesterday to take evidence from local bodies as part of the task force's development strategy sub-committee.

The sub-committee took evidence from Pro-

fessor Phillip Black, of Rhodes University, and the East London liaison committee.

Prof Wait said one of the topics raised was the development of the 83 ha of land identified by the municipality.

"I understand it is a very emotional issue and we have asked the local liaison committee to bring all the factions together to enable us to take evidence from them.

"The idea of the task force was that it had to sort out snags in development. If West Bank is a snag, we will have to try to sort it out."

Asked whether the government had come out against the idea of developing the West Bank, Prof Wait said he was under the impression that the government had not yet made a final decision.

He said it appeared that the logical thing to do would be to develop Berlin, where infrastructure had been built up long ago.

"There are a few consolidation matters to be sorted out there. After that we will look at what the problem is with Berlin and try to get it off the ground. A local Berlin committee has already been established to do that.

"But we have to ask whether, should Berlin fill up, where would we go next? This is why we have to take more evidence on the West Bank and look at all the other industrial development land."

He said Prof Black also made a point about the Sada area, which is densely populated but has no industry as most of Ciskei's successful industrial drive had been between Mdantsane and Dimbaza.

"Sada has not developed and we will see what can be done. Prof Black suggested agriculturally based industry. We will take up the idea."

Prof Wait said the textile and motor industries were the other two components discussed.

"We are keen to keep GM, Volkswagen and Mercedes Benz in the Eastern Cape and various suggestions will be going forward.

"We also want to see what can be done about labour-intensive textile industries. The South African textile industry is suffering because of US quotas and it is not easy to export.

"We want to suggest that the textile industry be given specific attention in the government's export promotion programme."

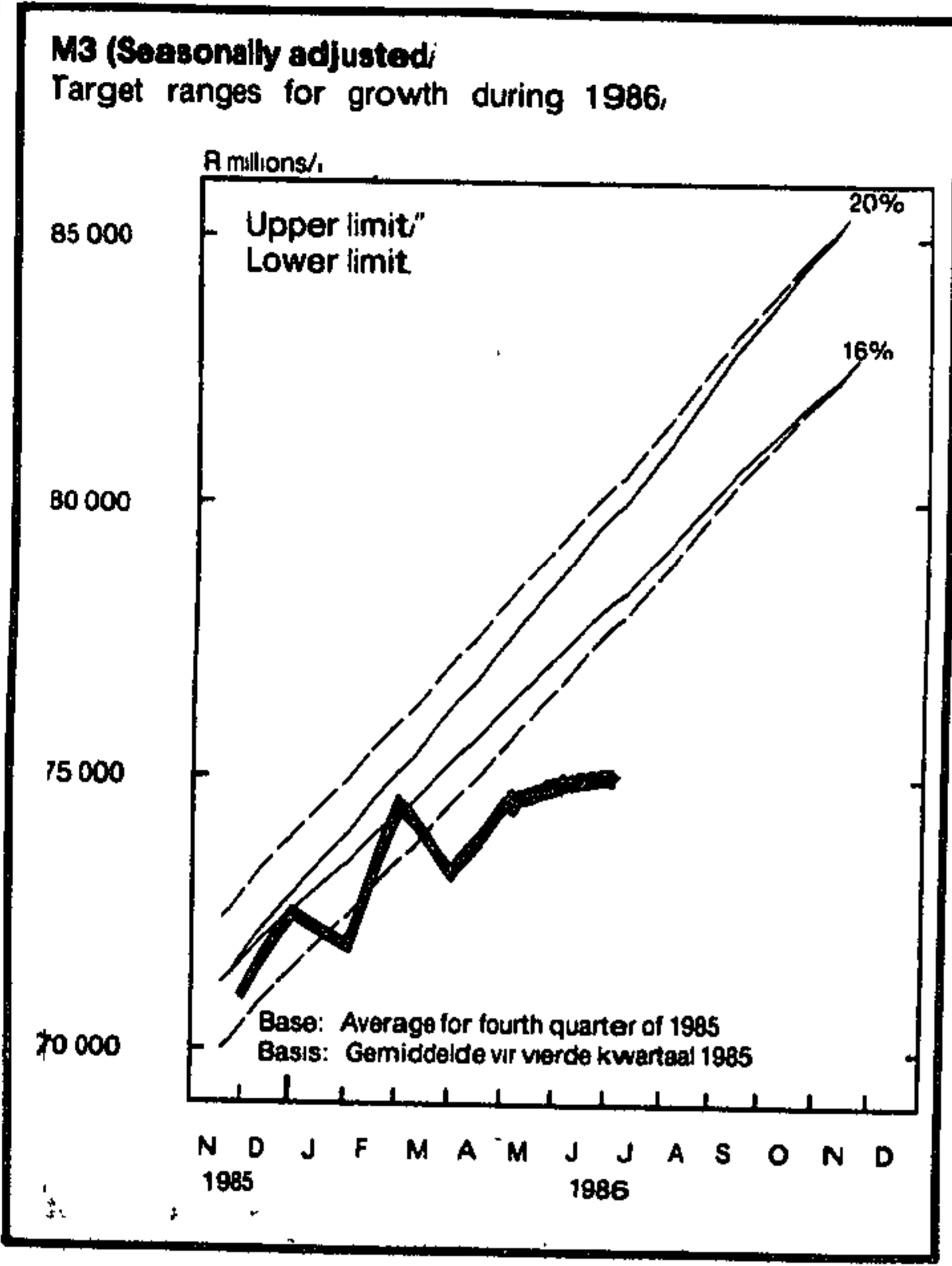


PROF WAIT

ECONOMY

Plan to boost becalmed economy

AKBurs 18/7/86 49



Financial Editor

SOUTH Africa's economy is almost becalmed and further measures to stimulate it are likely, the Governor of the Reserve Bank, Dr Gerhard de Kock, has indicated.

In a statement issued in Pretoria he says the economy this year is unlikely to attain the 3 percent growth rate which the authorities expected.

It now appears that the best that could be expected would be a growth rate of between 1,5 percent and 2,0 percent.

The latest money supply and other figures had confirmed the need for the progressively more expansionary policy stance adopted by the Treasury and the Reserve Bank in the past 12 months.

"The figures also open the way for the possibility of further growth orientated measures in the period ahead."

Dr de Kock said the rate of increase of the broad money supply (M-3) remained well below the target range of 16 percent to 20 percent.

Seasonally adjusted M-3 money supply figures for May have been revised upwards to

R74,96 billion giving an increase of 10,71 percent in the 12 months ended May. But the provisional June M-3 is R75,28 billion, giving an increase of 9,27 percent on a year ago.

Dr de Kock said the money supply figures were welcome from the point of view of curbing inflation and maintaining a large current account surplus.

"They confirm that excessive bank credit creation is no longer a problem and that demand inflation has been eliminated.

"But the figures are also disturbing because they reflect the sluggishness in real capital outlays, consumption, production and economic activity in general," he said.

An analysis of Dr de Kock's money supply figures shows that they ought to have been between R2,5 billion and R5,0 billion higher to meet the Government's projected target range.

The need to get this huge additional amount into circulation would seem to open the way for some increase in Government spending, and certainly for a further decline in short term interest rates.

Government is unlikely to bail out Triomf plant

By Bruce Cameron
Political Correspondent

CAPE TOWN — The Government is highly unlikely to bail out the Triomf factory at Richards Bay where more than 1 000 people face unemployment.

A spokesman for the Department of Trade and Industry said yesterday that there were a number of reasons why the Government could not intervene to save the factory.

The first was that the main product of the factory — phosphoric acid — was "totally over-supplied" on the international market.

"It would not be a viable venture for the Government to invest taxpayers money for reasons of saving jobs or earning foreign exchange.

Intervened

"It does not seem to be the best way to spend taxpayers' money."

Secondly if the Government intervened to save one company it would also have assist its competitors.

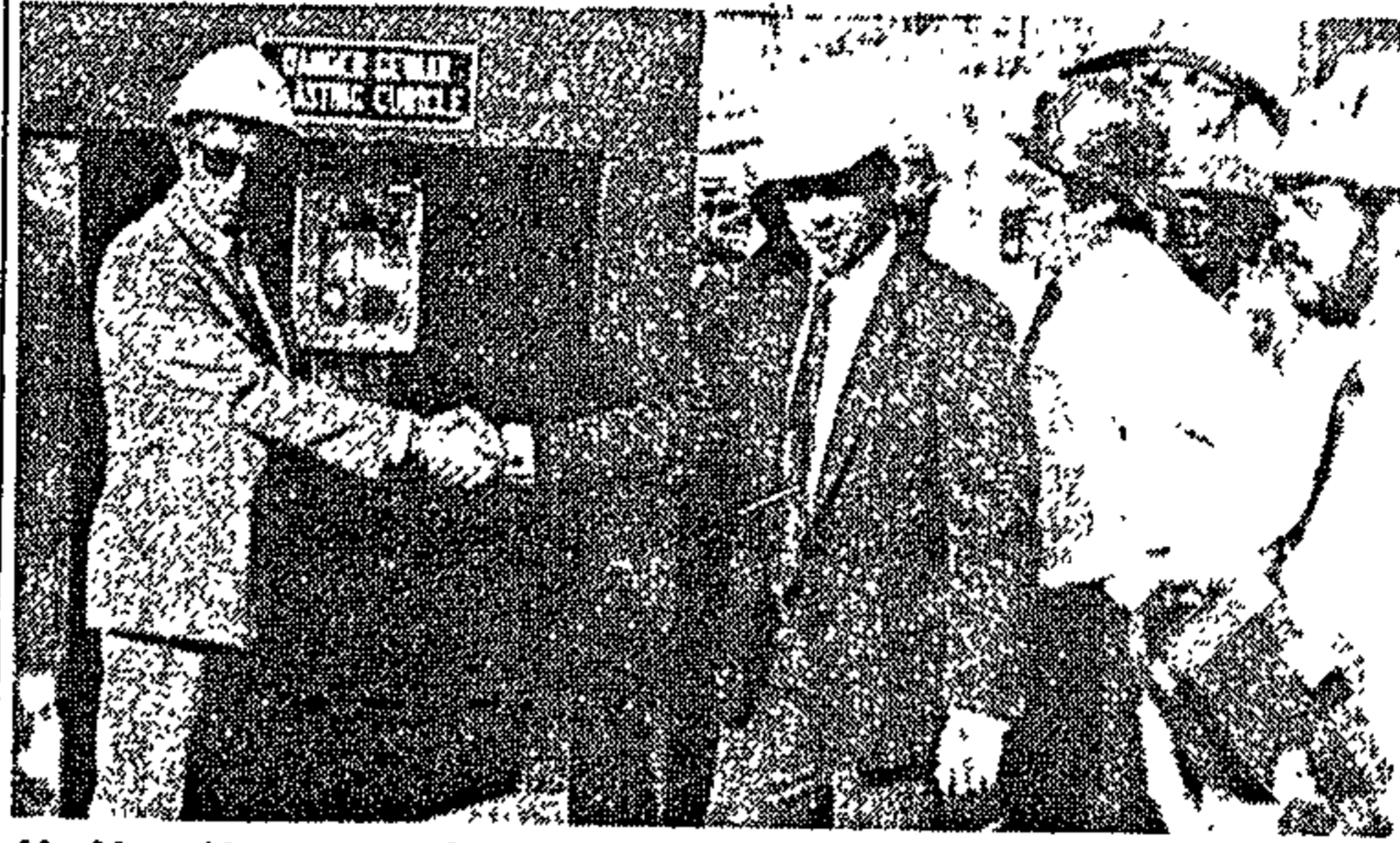
The spokesman said the government was committed to free enterprise.

He pointed out that the Richards Bay plant had been receiving substantial decentralisation benefits.

Official request

He rejected criticism by Nampo, a major shareholder in Triomf, that the Government's attitude was unco-operative, particularly as it was spending millions elsewhere creating jobs.

No official request had been received for the Government to assist.



Mr Nap Meyer, Anglo American Corporation regional manager, OFS North, congratulates Mr Jim Porter, section manager, Western Holdings, on the successful progress in sinking Western Holdings No 1b shaft. Looking on is Mr Louis Van Niekerk, site manager and master sinker at Shaft Sinkers.

Sinking started in March and is expected to be completed in November next year. Work has already reached 103 m below the collar. Seven stations will be excavated and the total depth of the shaft will be 560 m.

De Kock 'not sanguine' as prospects of real economic growth slip

Financial Staff

Real growth in the South African economy this year is not expected to match the monetary authority's earlier estimate of three percent and is more likely to be somewhere between 1,5 percent and two percent.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday the reason was that the upswing to develop a significant momentum in the first half of the year failed to materialise.

He said the rate of increase in the growth of the broad money supply (M3) remained well below the target range of 16 to 20 percent.

The provisional estimate for M3, seasonally adjusted, for May 1986 had been revised upwards from R73,9 billion to almost R75 billion, giving a 10,71 increase over the 12 months.

The provisional estimate for June at R72,3 billion was an increase of 9,27 percent over the 12 months and Dr de Kock said the provisional estimate had to be compared with the lower limit of the target "tunnel" for

June of almost R77,6 billion.

Taken with other statistics, such as the demand for bank credit, retail and wholesale sales and fixed investment, the money supply figures point to an economy that is crippled by uncertainty. Dr de Kock said it was not a sound position and he was not "sanguine".

The statistics opened the way for more steps to be taken to encourage growth. They also confirmed the need for the more expansionary policy stance adopted by the Treasury and the Reserve Bank over the past year.

However, on the positive side, the statistics indicated that demand inflation had been eliminated and credit creation was no longer a problem. They also helped the country to maintain a large surplus on the current account of the balance of payments.

On the negative side, they reflected the sluggishness in real capital outlays, consumption, production and economic activity, in general.

L
pa
by

The tr
into a
holdin
step 1
new p
it was
compa
change

This
dispos
another
BBA's
project
85 per
deals &
BBA

new La
Mitche
Landlo
sole ve
SA, an
ing to
for fur

L
In th
has bee
high-fly
Exchan
turnove
past tw
has ris
to arou
manag
worldw

Neve
consolid
ties inf
ments b
around

Oil

NEW Y
sharply
disappe

West.
ed at \$1
day and
morning

North
trading

Oil in
Output
a day, a

Fed Volk sells Sent

Back out of the bush

There is no protection against the spread of ideas.

In the late Sixties, when policy makers were still erecting massive, immovable, unworkable structures to contain economic, political and intellectual life, new ideas were already thrusting up between cracks in the granite.

They were rooted in American notions of public choice.

"The perception grew that decisions should be made from the bottom up, not from the top down," says Jan Lombard, Deputy Governor of the Reserve Bank, former head of the University of Pretoria economics department and one-time adviser to Dr Hendrik Verwoerd.

"Put another way," says Senbank chief economist Johann du Pisanie, "it means applying to a nation and its government the same micro-economic principles applied to households and firms — viewing government as an industry producing services for a market free to express its political preferences."

The theories were developed in *The Calculus of Consent* by James Buchanan and Gordon Tullock. Published in 1962, the book influenced a generation of South African economists.

But the assault on Verwoerdian philosophy was not only from without.

Says Lombard: "By the end of the Seventies, the walls of dualism were crumbling. The masses of non-enfranchised people from the periphery were moving in on the institutions of the core. By then, the political establishment had virtually abandoned its faith in the Verwoerdian constitutional paradigm.

"The aims had become impractical, much too costly and it was completely out of touch with real socio-economic processes, particularly relating to industrialisation and urban-

isation."

A logical reaction to the failure of central planning, says Lombard, was to turn to free market principles. "If the political programme for reforming the social framework proves ineffectual, there is no alternative other than to rely on the automatic and, it is to be hoped, impersonal disciplines of the market to maintain order, at least in eco-



Deputy Governor Lombard . . . opportunities in urbanisation

nomics affairs."

Meanwhile, failed decentralisation policies were increasing already serious structural unemployment. A crisis was in the making and an alternative strategy was urgently needed.

Lombard turned to "inward industrialisation."

He believes that the creation of labour-intensive industry and a new class of consumer in the cities can generate growth. In the short term, this would create jobs for people on the economic periphery. Long-term, it would absorb them into the mainstream (see "The third option," *FM* January 31).

It could also provide an alternative to import-export policies, which had failed to generate enough growth in the core economy.

Says Arthur Hammond-Tooke, chief economist of the Federated Chamber of Industries: "SA has followed a peculiar course in industrialisation. We did not exploit the potential for consumer and intermediary products with a high labour component and relatively high capital output ratio. Instead, we moved into manufactured raw materials like steel, ferro-metals and a wide range of heavy chemical industries behind protective barriers, sold domestically above world prices."

The result was inflated production costs, missed export opportunities and diminished and negative growth. So traditional development models had failed. Perhaps inward industrialisation could succeed.

Now, says Lombard, we must accept the inevitability of urbanisation and implement policies to make it a dynamic, creative process. While there is "a need to strike a balance between development of the major metropolises," he is convinced that industrial fragmentation — "decentralisation into the bush" — will fail. Continued attempts to impose it will be totally counter-productive.

Which is where "the economics of democracy" is relevant. "If policy makers are to assess correctly the opportunity cost of their decisions," says Lombard, "they must be close to the people for whom they make decisions."

Nor is this the only political lesson to be learnt from economics. We must remember that no undertaking can succeed if the customers are dissatisfied — if free enterprise doesn't deliver the goods, consumers will look elsewhere.

GIVING AND TAKING

49

Keeping to tradition, government finances are running ahead of revenue and spending estimates. Latest stats show that for the first three months of the fiscal year (April-June) revenue swelled by 21% compared to a year ago.

The increase at Inland Revenue was a modest 20%, against 47% at Customs and Excise. Exchequer issues for the three months increased by 25%, with absolute decreases in only four areas. The Bureau for Information, a new entry in the 1986 accounts, spent R4,9m in the quarter.

The largest decrease in money terms, Constitutional Development and Planning, was an 8% drop to R1,3 billion.

Main reason is the transfer of white education to the House of Assembly where issues increased 122% to R1,4 billion.

Other notable increases were by Transport (88% to R186m); Commission for Administration (198% to R113m); National Health and Population Development (59% to R514m); Defence (33% to R1,6 billion); and House of Representatives (33% to R399m).

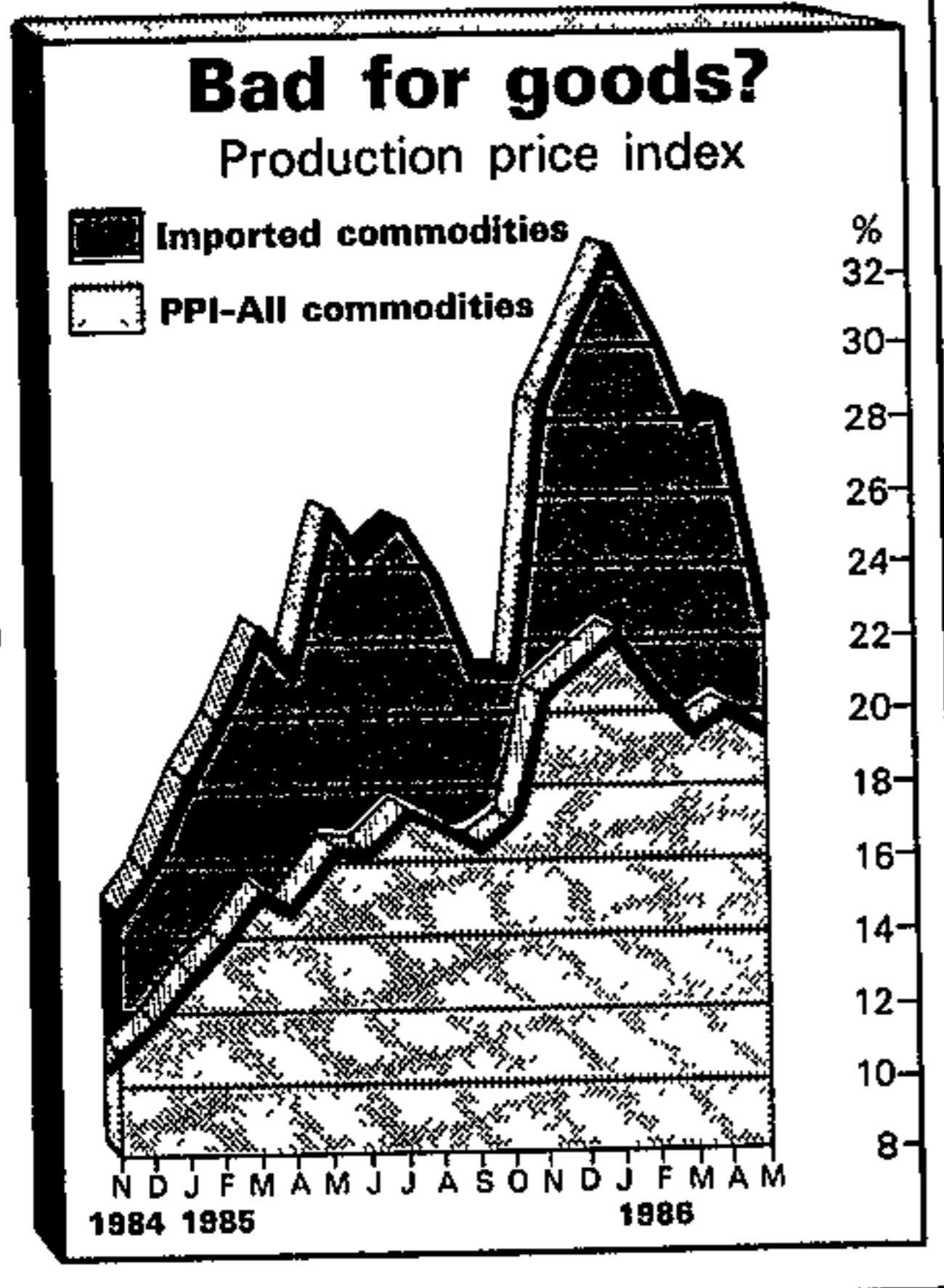
Interpretation of government finances is hindered by changed constitutional structures. And revenue for this fiscal year is yet to be affected by company provisional tax and gold mine payments. ■

FIN MAIL 18/7/86
PRODUCTION PRICE

38 49

Touch of the hypers

For the third month in a row, the imported component of the production price index (PPI) fell — from a peak of 227,8 in February down to 225,5 for May, from April's 226,4. A slight improvement in the overall exchange rate would appear to be responsi-



ble. The monthly change was minus 0,1% March on February, minus 0,5% April on March, and minus 0,4% May on April.

With the locally produced component rising 2,4%, month on month, the all-commodities index panned out at a 1,7% increase. This is higher than the monthly rate for April (1,0%), caused by increases in food, up 3,4%, non-metallics up 3,8%, metals up 3,7%, and machinery (non-electrical) up 2,2%.

The year-on-year increase for all commodities in May was 19,6%, compared to 20,1% the previous month. It peaked at 22,2% in January, underpinned by a massive 32,7% increase for the imported price component. But the latest year-on-year increase for imported goods dropped to 22,4%.

Says Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff: "I've generally found a lag of three months between moves in the exchange rate and the outcome in the PPI. So with the rand hovering around US38c, I expect the imported price component will rise again within the next month or two."

Added to this, of course, is that imports are not denominated only in dollars, where there has been some benefit from a weak US currency. Import prices in yen or Deutsche-marks, for example, have been more stable against the rand, pointing to an underlying upward cost pressure from third-currency goods.

Growth of PPI was mainly held down by mining and quarrying, down 11,1%, with petroleum and coal products down 7,3%. This suggests that cost reductions in raw materials may not have been passed on, perhaps because of stockpiling, plus possible higher labour costs in the secondary sectors.

The food increase may be seasonal. But Steenkamp finds the other increases puzzling. "Perhaps we see here the result of an increase in unit cost of production as sectors reduce their utilisation of capacity." They may also reflect an increase in labour costs in

sectors facing strong trade unions.

Nevertheless, Steenkamp says: "I find the trends in the local component of PPI worrying. They are despite a severe recession where we have not seen large-scale salary and wage pressures on the economy overall — though there have been instances of high wage settlements.

"Tender prices have also been low: look at the operating margins of construction companies, for example.

"So it is most alarming. One can only imagine what will happen when the economic environment improves, allowing producers to pass on all their cost increases to the consumer."

Steenkamp says that, based on his econo-

metric model — which he claims has worked well for a number of years — inflation this year should have been around 11% to 13%, depending on the exchange rate performance.

"However, this is obviously out of the question in view of current trends, suggesting that inflation has become, or is becoming, self-generating. This could be the start of the road to hyperinflation."

FIN MAIL 18/7/86
WITS CONFERENCE 49

Capitalism SA style

KwaZulu Chief Minister Mangosuthu Buthelezi and Anglo American chairman Gavin Relly both suggested that "capitalism with a touch of African communalism" is most likely eventually in SA. This added an unexpected dimension to last week's Wits



**US economist Williams ...
blacks better off in free market**

conference, *What boundaries for business?*

Prof Walter Williams, the conservative US economist, argued that the economy was over-regulated and that blacks would benefit from economic freedom. However, in discussions, there appeared broad agreement among businessmen present that, in addition to free market principles enough, there was a need to find an African dimension.

Simon Jenkins from *The Economist* said that preaching deregulation and free enterprise in SA was like converting the Chinese

to Christianity — you could never expect total success.

Barlow Rand chairman Mike Rosholt had his own definition of African communalism as "an eclectic combination of social democratic beliefs" and said he believed blacks would not necessarily swing to radical alternatives if capitalism were able to provide improved material benefits. He called for a system of "concerned capitalism," quoting Jill Nattrass of the University of Natal, and said SA should seek to preserve a mixed economy.

John Burton, of the (UK) Institute of Economic Affairs said that to deregulate and privatise an economy was not as simple as people thought.

The two main philosophers of privatisation, Madsen Pirie of the Adam Smith Institute, and Sir Alfred Sherman, an adviser to the British PM, disagreed on the definition of privatisation.

Burton said Sherman maintained that merely to transfer ownership of a monopoly from the public to the private sector means the "State disguised as private." This point of view was argued by Prof Joubert Botha, head of the Wits Economics Department.

Only a small element of competition had been introduced after privatisation in the UK of companies such as the Mercury telephone company, Burton said. One explanation was that the market was too small to support further competition.

On these grounds, some argued that the much smaller South African market would be even less ripe for competition in areas such as telecommunications, power and water. But, of course, that is not necessarily consistent with regional experience in other Western countries. ■

FYN M 10/7/76

BLACK BUSINESS

49

Nafcoc moves Left

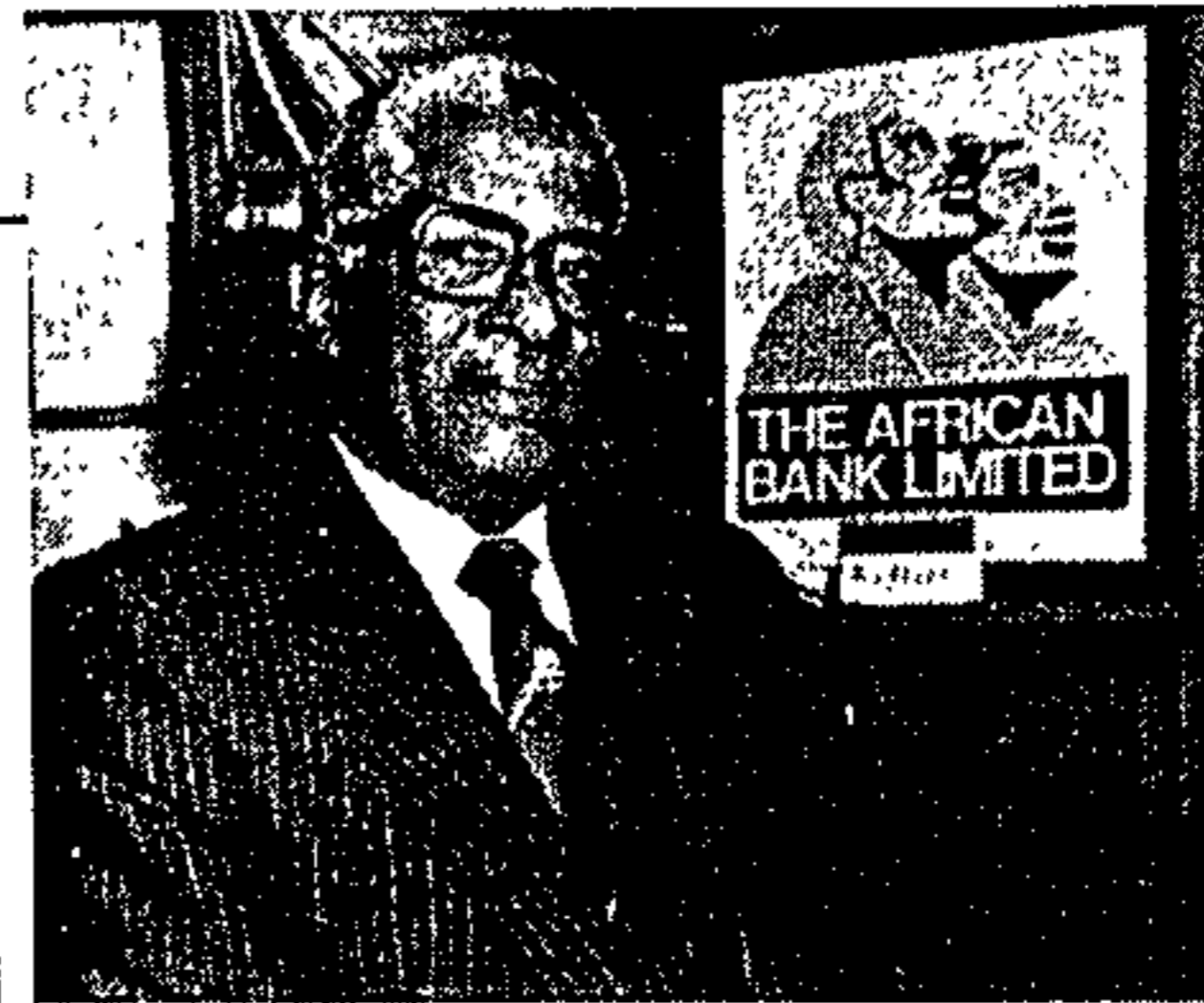
The 15 000-strong National African Federated Chamber of Commerce (Nafcoc), which one would have thought comes closest to a moderate, capitalist class of blacks likely to take part in government's reform process, has shifted its stance leftwards.

In resolutions adopted at its recent AGM in Cape Town, the black business body rejected the idea of joining government's proposed National Council (NC). This body is officially seen as "the starting point of power-sharing and the beginning of a government of national unity."

Nafcoc further decided to reconsider its attitude to the thorny question of sanctions against SA; it had until then supported greater investment in the country. The disinvestment/sanctions issue is to be reviewed by Nafcoc's regional bodies when they meet in October this year, by which time whatever "measures" the international community decides to impose against Pretoria will have come on stream.

The tougher mood was prefigured in the tone set during the week-long conference. Its president, Sam Motsuenyane, told delegates that, while the organisation "may" talk to government about the NC, it will not serve on "any advisory bodies until Nelson Mandela and other political prisoners are released; the ANC and PAC unbanned; and until government starts negotiating with credible black leaders."

Nafcoc also called on government to review as a "matter of urgency" the Land Act in order to allow black farmers greater flexi-



Nafcoc's Motsuenyane . . . listing preconditions

bility; and to create a single education system for the country. It issued a call to the international community to help bring an end to detention without trial.

By rejecting the NC, Nafcoc has added yet another conservative voice to the many black individuals and organisations that have condemned the council. The reasons for this centre on its intended function as merely advisory, and because of the perceived exclusion of credible black leaders.

The Progressive Federal Party's national chairman, Peter Gastrow, says serious note should be taken of Nafcoc's attitude. According to Gastrow, Motsuenyane's stand placed the proposed NC in a "crisis of legitimacy" even before the plan has been clarified. "Coming from a very moderate organisation, it is an indication of the strength of feeling against any attempt to co-opt black people without real power-sharing. Once again, only negotiations with recognised leaders will take the government out of its logjam," he said.

Interpreting Nafcoc's changed mood, Gastrow said there appeared to be a view that sanctions would considerably shorten the transition period before apartheid was destroyed: "I do not share that view, but the fact that this sector of black opinion is reconsidering its stance suggests a growing solidarity within black ranks to isolate the government and to oppose apartheid, whatever the costs."

Even in the black community, a belief exists that Nafcoc, like the African Teachers' Association of SA (ATASA), is shifting its stand in order to align itself with "progressive" organisations, mainly because of pressure often levelled against its members by radical activists. ■

Mercury 21/07/86

Ambitious plans for coast towns

49

~~2000~~

By Colin Vineall
Property Editor

IN SPITE of the recession, millions of rands are to be poured into development of Natal's coastal towns, mayors and town clerks were told at a 'municipal showcase' at the weekend. The civic dignitaries met

in Port Shepstone, Amanzimtoti and Pinetown to talk about achievements and prospects for their towns in a travelling conference sponsored by insurance and property giant Sanlam.

Mr Duncan Collocott, Town Clerk of Margate,

said entrepreneurs and financiers were meeting town officials to discuss a multi-million-rand revamp of the beachfront area in an effort to maintain the town's remarkable growth.

He said talks with the Government had resulted in a R100 000 grant to improve the airport, now rated the second-busiest in Natal.

Port Shepstone's Mayor, Mr Peter King, said the Boboyi Marina project, which had collapsed, was not yet dead, and disclosed there was a good chance of it still going ahead with a different developer.

36
36
36
36
86
86
86
86
86
86
86

But the most exciting developments in the town were a proposed four-storey building in a central area known as 'the dip', which would have two major tenants and parking for 500 cars, and another development involving Settlers Park, where as much of the environment as possible would be preserved.

Mr John Bosman, Mayor of Amanzimtoti, said the town had begun its own 'indaba' with a black township on its borders and a delegation would soon visit Ulundi for talks about possible joint administration.

Mr Bosman also disclosed that Pipeline Beach, to the north of the town's desegregated beaches, would also be opened to all races and extra facilities such as pools and toilets were being planned.

Millions more for retirement homes were featured in the report by Kingburgh's Mayor, Mr Steve van der Wath.

Scottburgh had built 300 flats in the past three years said Mayor Peter Lang.

In contrast, Councillor R E S Mfeka of Umlazi outlined life in the township in which 500 000 people were served by one football field, one tennis court, one swimming pool and one cinema.

Today's ...

Tek gets R25m M-Net contract

EAST LONDON — The East London economy is to receive a shot in the arm with the award of a R25 million contract to a local firm to manufacture decoders for M-Net, the company launching the country's first independent, all-entertainment pay TV service.

Contracts worth a total R50 million have been awarded to Tek Corporation, whose TV and refrigeration plants are situated in East London, and National Panasonic of Cape Town, for the manufacture of decoders needed to unscramble the station's signal.

The move is a boost for the South African electronics industry which has been contemplating retrenchments and four-day working weeks because of the economic downturn.

In the case of Tek Corporation, it means the re-employment at its East London plant of 150 skilled staff previously laid off because of the recession.

The chairman of M-Net, Mr Ton Vosloo, said contracts entailed the supply of 100 000 decoders over the next 10 months — 50 000 by each company — at the rate of 10 000 decoders a month from early next year.

"In effect, the contracts mean that the local electronics industry as a whole, taking distribution, warranties and back-up into consideration, will get a boost of some R50 million in the next year.

"There is also the distinct possibility that the decoder contracts may be extended for another two years, which means that the industry as a whole will benefit to the tune of R150 million."

The managing director of Tek Corporation, Mr Mike Bosworth said, "The contract is a sign of

confidence in the South African electronics industry.

"In particular, it will be a boost for East London, one of the most depressed areas in the country, where our plant is situated.

"It will mean that we will re-employ 150 skilled staff laid off because of the recession."

Mr Vosloo said, "Given the ability of the local electronics industry to manufacture a high-tech device like the M-Net decoder, subscribers to the service will be assured of continuity of supplies and overall containment of costs."

He said the cost of the decoder to subscribers — including the cost of distribution and a special remote control unit — was expected to be in the region of R550 to R600 but that a final price was yet to be determined.

M-Net goes on the air on October 1 this year on the Reef and in January next year in Pretoria.

Mr Vosloo paid tribute to Grinaker Electronics for the pre-production run of 5 000 units adapted for flat buildings and hotels, during which industrial design was optimised.

The 5 000 decoders — to be delivered from August 1 — are adapted for multi-unit dwellings such as hotels, blocks of flats, sectional titles schemes and cluster housing developments, which will need only one decoder and one UHF aerial each.

The technology for the decoder was adapted and developed by a team headed by Professor Willem Smit from the University of Pretoria's Laboratory for Advanced Engineering — LGE.

"M-Net examined decoder technology on

three continents in order to find the best option for the piracy-proof standards we wanted," said Mr Vosloo.

"The work done by LGE shows that when it comes to electronics expertise, South Africa has what it takes."

Mr Vosloo said that M-Net had received 10 tenders for the decoder contract, including three from companies in Japan, Taiwan and South Korea.

"Our intention from the start has been to contribute as much as possible to the development and expansion of the South African electronics industry.

"The top tenders by the South African electronics industry proved to be competitive with those of overseas companies which, given the fact that this is a high-tech venture, was most gratifying," Mr Vosloo said.

The piracy-proof decoder unveiled by M-Net is smaller than the conventional video cassette recorder.

Subscribers will pay a monthly fee for service which will include a movie a night, documentaries, comedies, series and serials, popular music, children's programmes and sport.

The station will have no news or political content and will be devoted purely to entertainment.

In the initial stages, the station will broadcast two hours of "open time" daily from 17h00 to 19h00, which means that anyone with a suitable antenna will be able to view the channel free of charge. This will give viewers the opportunity of sampling the service before subscribing.



Signing the contracts worth R50 million for the manufacture of M-Net decoders are, from left, Mr Mike Bosworth, managing director of Tek Corporation, Mr Ton Vosloo, chairman of M-Net, and Mr Terry Millar, managing director of National Panasonic. In front of them are prototypes of the decoders.

Task team has no

The names of the team which would serve on the East Cape Development Task Force under the chairmanship of Dr C. F. Scheepers were published on June 27 and the first meeting was held on July 2. It was clear that the intention was not to waste time.

Nine days later Dr Scheepers and his project co-ordinator, Professor C. Waite, (he was a teacher in East London at one time), were in East London conferring with the local team of Cloete, Meisenholl and Phillips, once more making it clear that no time would be wasted.

Dr Scheepers and Professor Waite listened carefully and patiently and went off with a clear and unexpurgated version of the obstacles in the path of East London's progress.

Some solutions were touched upon and we believe immediate action will follow in respect of them. The others are yet to be addressed, defined and classified at subse-

quent meetings under the Chairmanship of Mr Louis Koch, Development Advisory Committee. By the time you read this report the first meeting will have been held and the ball will have started to roll.

Objectives

This development task force does not possess a magic wand which is going to whisk away the problems and establish us in a land of milk and honey by having a white paper printed.

There is little that is likely to be achieved that will not be by the sweat of our own brows, our own determination and the willing participation of all people — black, coloured, Indian and white. The task force will give guidelines, possibly enhanced powers of decision to run our own operation more effectively and perhaps some measure of actual assistance to help us over a hump.

We will have to man-

our battle lines and we will have to win the fight against adversity and hopelessness.

It is the right time to restate our immediate and longer term objectives. I list them as I see them. My colleagues, and you the citizen, may wish to amend them.

1 The satisfactory accommodation of the needs of the black people of this area in terms of employment opportunity, housing, self-determination and an obstacle-free path to advancement. The initial target would be Duncan Village and a second black city yet to be established, close to the industrial axis.

2 Securing existing industrial, commercial and services establishment and going for an annual growth of not less than 4 per cent. Government should give a lead by decentralising some of the government functions and allowing this area to benefit from tax-funded building operations as in Pretoria.



If I were to name one single priority factor I would say it is the willing, committed efforts of our black people to help build a strong economy. I acknowledge at the same time that the fruits of those endeavours should be fairly distributed.

PE dilemma

The task force is not looking at East London and its environs only. It is looking at the whole of the Eastern Cape in the framework of Ciskei and Transkei, which means, specifically, Port Elizabeth as well. The loss of a large part of the vehicle manufacturing industry to other regions has brought severe economic and political repercussions to the Port Elizabeth — Uitenhage complex. White East

Mercury = 21/07/86

Gold shares boom predicted

49

89

~~scribble~~

Mercury Correspondent
JOHANNESBURG—The surge in the gold price to \$355.50/\$356 in New York over the weekend could herald a run on gold shares similar to the platinum boom.

The combination of a higher dollar price — convincingly above the \$350 barrier — and a weak financial rand acting as protection against foreign profit-taking, could warm up the gold board this week, say brokers.

A conjunction of stars — gold remaining at \$347 in past weeks, indicating a breakthrough on charts; the coming US Congress debate on the national debt (the US is technically in default); Bank America's shock losses, the Bank of Oklahoma's collapse, bringing the failure of US savings and trusts institutions to more than 40 this year; plus the debt repayment problems of Mexico and

Venezuela, are all bullish for gold.

In the shorter term, fears of production disruption at gold mines point to a gold price rise.

Brokers have in past weeks persistently predicted a gold breakthrough. A gold price of \$360 could see the rand strengthening to \$0.40, easing SA's import bill of strategic products such as oil.

Oil imports were said to have caused last week's rand slump.

The run in diamonds, platinum and mining houses in the past week could well signal a similar run on gold shares.

But the strength of the industrial market in the face of a faltering economy came into question on Friday. Experts were calling the market overheated as yields narrowed dramatically.

De Beers stood at a yield of 1.8%. Such yields were

seen in the late 1960s boom and analysts were beginning to distrust the JSE's run when Wall Street was faltering.

New highs in minings and selected rand-hedge stocks were achieved on relatively low turnover.

The JSE's total turnover

in ordinary shares, at R169.4 million, showed only a small percentage gain on low volume trade in past weeks.

Dealings in industrials perked up at nearly R70 million, but mining board volume was relatively weak at R99.4 million.

at Post 22/7/86

Signs of economic upswing stronger

49

Business Editor

SIGNS a mild economic upswing could be on the cards continued today as the rand pushed through the \$0,40 barrier in the wake of a drop in the inflation rate.

After opening this morning at \$0,3985, it quickly went up to between \$0,4015 and \$0,4025 before settling between \$0,4005 and \$0,4015.

Bankers were optimistic that the currency could maintain its level above \$0,40.

Gold continued to trade above \$350, although slightly down on yesterday's close. Today it was \$353,60 (\$354,20 at yesterday's close) and some bankers were hopeful of long-term prospects.

Other encouraging developments included:

- The Johannesburg Stock Exchange's key indices — a barometer of business confidence — rose to a new high, surpassing the January 27 figure.

- Krugerrand prices soared by 14,5% to R1 155 as dealers reacted to a likely "rationing" of supplies.

- Short- and long-term lending rates softened.

With the US dollar remaining weak on international markets, the rand also gained against other foreign currencies today, with R1 buying 0,85 of a German mark compared to 0,83 yesterday, and 62,1 Japanese yen (61,7 yesterday). Sterling was also weaker and it took R3,7 to buy £1 compared to R3,75 yesterday.

However, the financial rand — used mainly in major overseas transactions — dropped to a new low of \$0,1938, meaning it takes R7,7 to buy £1.

DD 29/09/86

Rebirth of SA as nation signals hope says Wiese

Business Editor

EAST LONDON — The fact that South Africa had finally accepted its third world characteristics meant that solutions to its problems could be sought against the right background, the executive chairman of the Pepkor group of companies, Mr Christo Wiese, said yesterday.

Mr Wiese was the guest speaker at the annual meeting of the Border Metropolitan Development Corporation (Bomedco).

"What gives hope is that we have finally accepted that we are an African nation," he said. "In many respects, as a nation, we are reborn. This creates its-own dynamics, its own challenges and opportunities.

"Now that we have come to accept this fundamental fact — that we are a third world nation with simply a first world veneer — we will be able to seek solutions to our problems against the right background."

Mr Wiese said South Africa had reached a critical stage in its development. There were those who felt time had run out while others saw the dawn of a new era.

"There is also a division between those who believe the new South Africa can be created from the ashes of outmoded political ideology and those who believe it will be created from the ashes of the country as a whole.

"If we are going to build a secure future, indeed any future, then we will have to address this basic division in our society and the full realisation of having embarked upon a path of reform. The art of reform is order amid change and change amid order."

South Africa's ability over the past few years to withstand the simultaneous disasters of a declining gold price, drought, a rampant dollar and the worst political turmoil in its history were indications of its ability to overcome adversity.

South Africa was committed to a new political dispensation. "Considering the complex nature of our society, I believe the principles contained in our new constitution are superb and compare favourably with any other Western democracy. What does now remain is the full practical implementation of these proposals in a manner that meets the aspirations of all groups in South Africa.

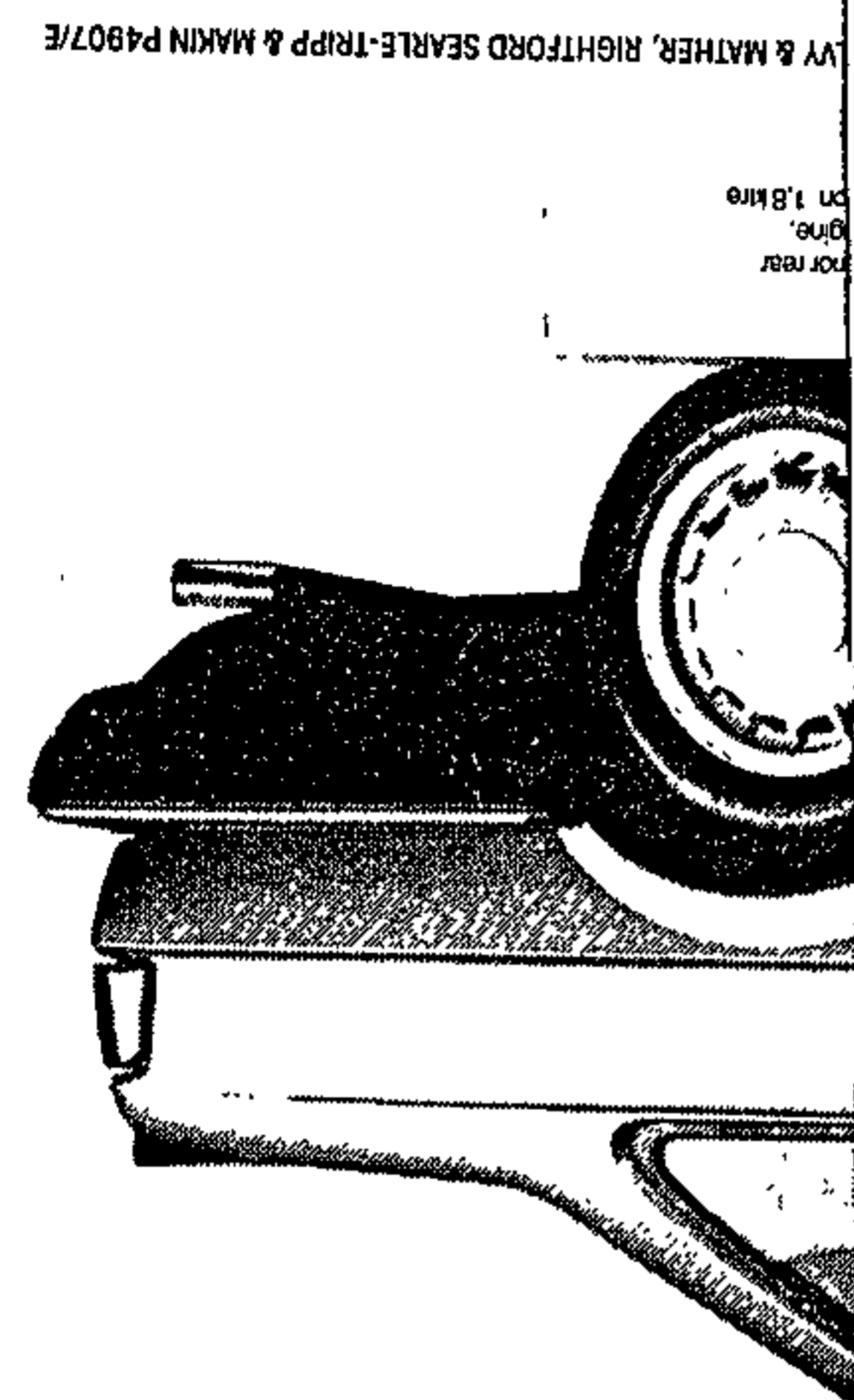
"We are well on the way to solving our problems. For too long we have deluded ourselves about the extent and nature of the problems facing us but I am heartened by the new resolve that our society has in tackling the real issues with honesty and sincerity."

Another positive pointer to the future was the fact that as more people gained education and skills, the economy would grow. What had been achieved up to now was by a "mere handful" of entrepreneurs and skilled manpower.

A burgeoning consumer market also offered a golden opportunity to raise production and marketing skills to new heights.

Mr Wiese said South African businessmen had learned some hard lessons and developed a new understanding of the risks of today.

"In these times of recession, strife and turmoil, I believe we as South Africans need to resolve that we can build a better South Africa. We are ultimately a nation of survivors and dreamers. We are the children of great nations and cultures — the war-



Passat CLi.
om Volkswagen?

might keep you too relaxed,
be driven.
engine powers the car smoothly
just fractionally
Flat out, Passat CLi has a top
on and performance brake
and firmly under the driver's
the new fuel injected
ical.
ent on record to say that
nderrated car on the road.
He called
et."
e mud to a shoe". He called
dded to Passat's already
ng, what is Sarel's opinion
ed."
ore.

LV & MATHER, RIGHTFORD SEARLE-TRIPP & MAKIN P4907/E

port rear
gine,
on 1.8 litre

Balance economy and population — Rive

SORKS
49
23/7/86

Speaking at the annual general meeting of the SA Permanent Building Society yesterday, Dr Louis Rive said that South Africa's most basic problem was to balance economic growth with population growth.

"Empirically, we know that this can be achieved only by raising the standard of living of the masses. Let us therefore make this national priority number one," the former Postmaster-General said.

"The current syndrome of despondency is an indictment against ourselves. Surely, we have not lost our vision, our innovative ability, our drive and our will to survive? What would appear to be insurmountable problems

are in fact glorious challenges and opportunities.

"The Government's White Paper on urbanisation presents such an opportunity. I would suggest, though, that urbanisation *per se* should not be seen as the total answer. It should be seen as an integral part of the entire scene of which rural development, industrialisation and a small business development are equally important components."

TOTAL PLAN

What was needed was a total socio-economic plan accommodating all these elements.

"I am convinced that we are not serving the best interests of our country by fragmented planning and unco-ordinated action. The thing that bothers me is the lack of a comprehensive plan into which the micro-planning which is being undertaken by *ad hoc* institutions can fit in a meaningful way.

"To come back to the theme of a home for stability, it is my view that, with proper planning, deregulation and devolution of power, there is almost no limit to what we can achieve with the resources at our disposal."

If the contributions of the State, local authorities, financial institutions, the employer and the individual were judiciously channelled and synchronised with a macro socio-economic plan, the distorted face of South Africa could be changed within 10 years.

"We shall have our new South Africa," said Dr Rive. — Sapa.

Experts see only gloom ahead for our economy as . . .

SA's trading partners head for nil inflation

By Michael Chester

Economists are in despair over evidence that South Africa is limping behind on crutches while its world trade partners are rushing to the winning post in the global contest to find solutions to inflation problems.

And most see little sign of any dramatic shrinkage to single-digit inflation as consumers struggle with debt burdens and falling standards of living and wages and salaries fail to keep pace with the prices spiral.

The dismal failure of South Africa to crack the inflation conundrum is underscored in comparisons of international trends over the past decade.

While its annual rate of inflation has even worsened compared with 10 years ago and races ahead at 16.9 percent (even with a mild improvement over the past couple of months), the rate in Britain has been hammered down from 19.7 to 2.5 percent, in the United States from 11.7 to 1.6, in Japan from 18.1 percent to only 1.1 percent — and in West Germany it has been forced into reverse.

FALLING PRICES

Consumer prices in all four overseas countries are now actually falling month by month compared with a year ago.

In South Africa, the identical supermarket shopping basket that cost R100 only five years ago had a price tag of R183.80 last year and now costs R218.80.

This time next year, if the consumer price index stays at its current level, the same basket will cost R255 or more.

Meat prices have soared 120 percent since 1980, grain

products by 152 percent, coffee and tea by 149 percent, fruit by 110 percent, cold drinks by 142 percent, and vegetable prices have almost doubled.

Clothing and footwear is 105 percent dearer. The cost of housing is up by 147 percent. Furniture prices have more than doubled. And education costs have risen 220 percent.

"The danger signals were spotted more than a decade ago", reflects Dr Azar Jammine, of Econometrix, "but the impact on South Africa was softened in the 1970s by the fact that inflation was a universal phenomenon and the whole Western world was hit by a series of oil price crises.

CRITICAL

"It has been from 1980 onwards that trends have become critical. South Africa allowed a credit explosion and a wild spending spree that has worsened the problem.

"Recession and the tumble of the rand exchange rate have camouflaged many of the dangers, because import volumes have been forced lower and our exports have enjoyed a price edge over competitors.

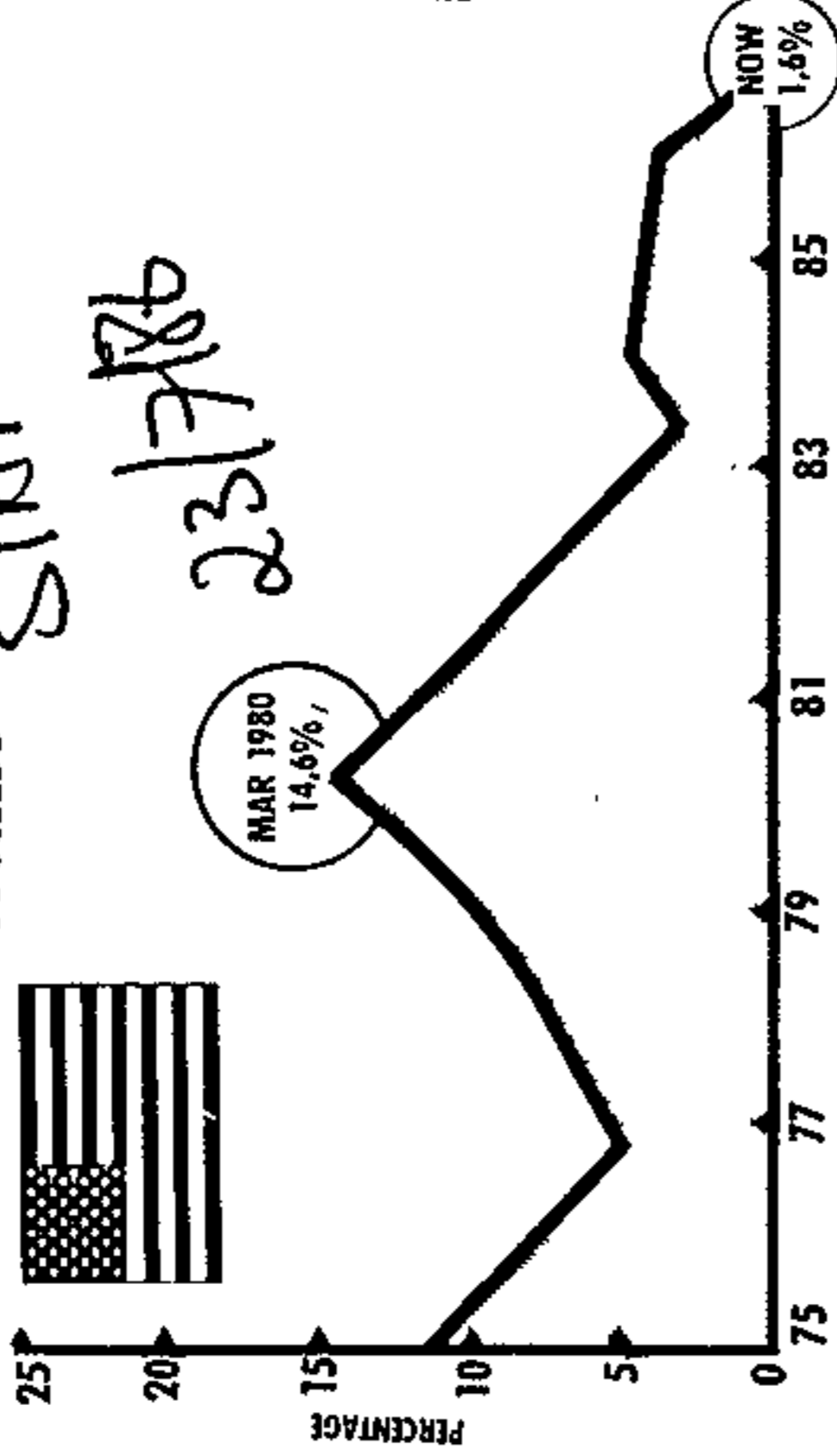
"However, when the economic recovery begins and imports increase to fuel the revival, and if the rand steadies or even improves and thus blunts the competitive edge of exports, the shock waves will be enormous.

"South African exports, costing more and more to produce, will simply price themselves off the overseas shopping list.

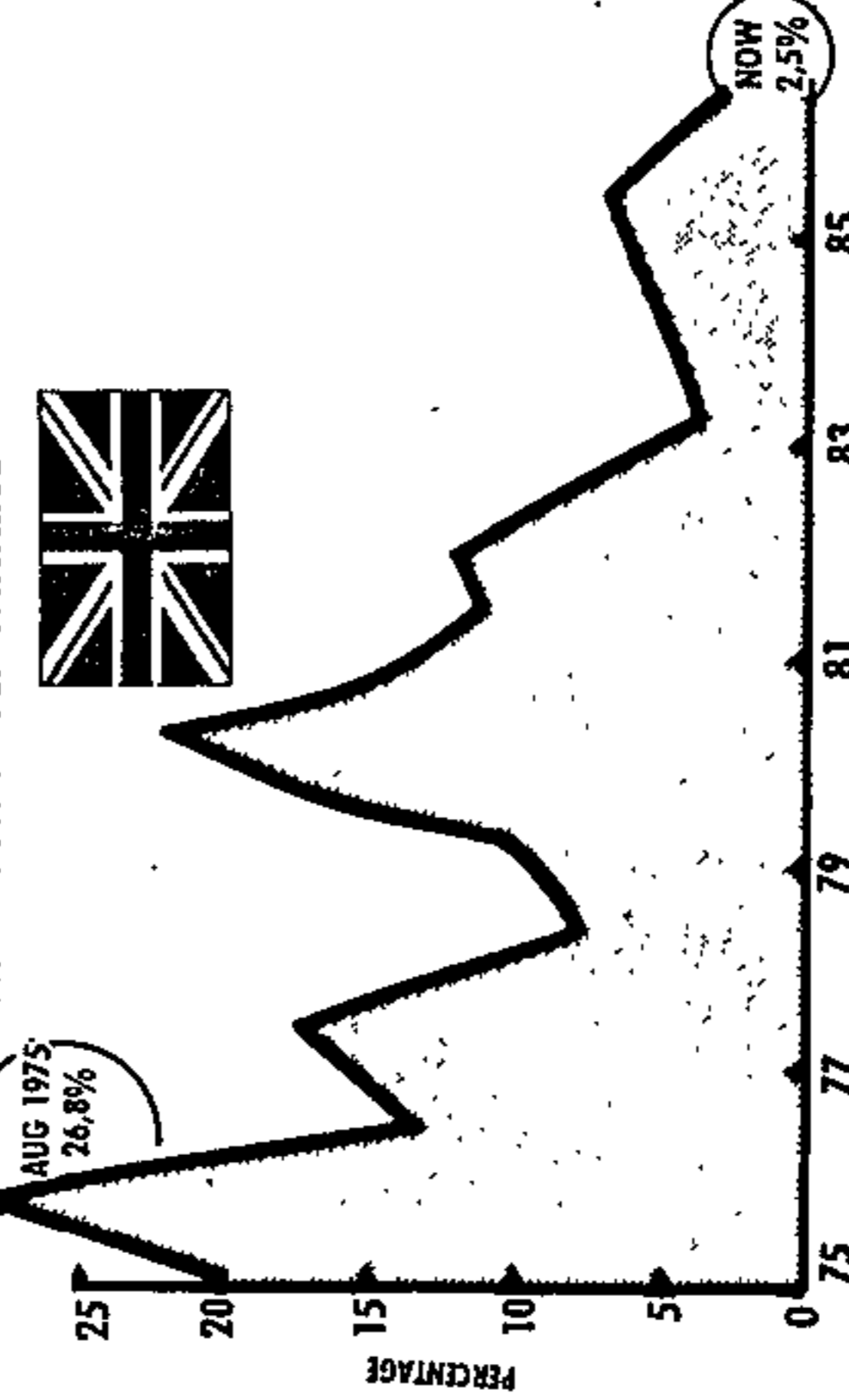
"And our living standards will fall further and further behind.

"It's a classic dilemma. South Africa dare not exercise the sort of disciplines that were applied overseas and entailed steep

US — UNCLE SAM SUCCEEDS



UK — JOHN BULL WINNING



risers in unemployment.

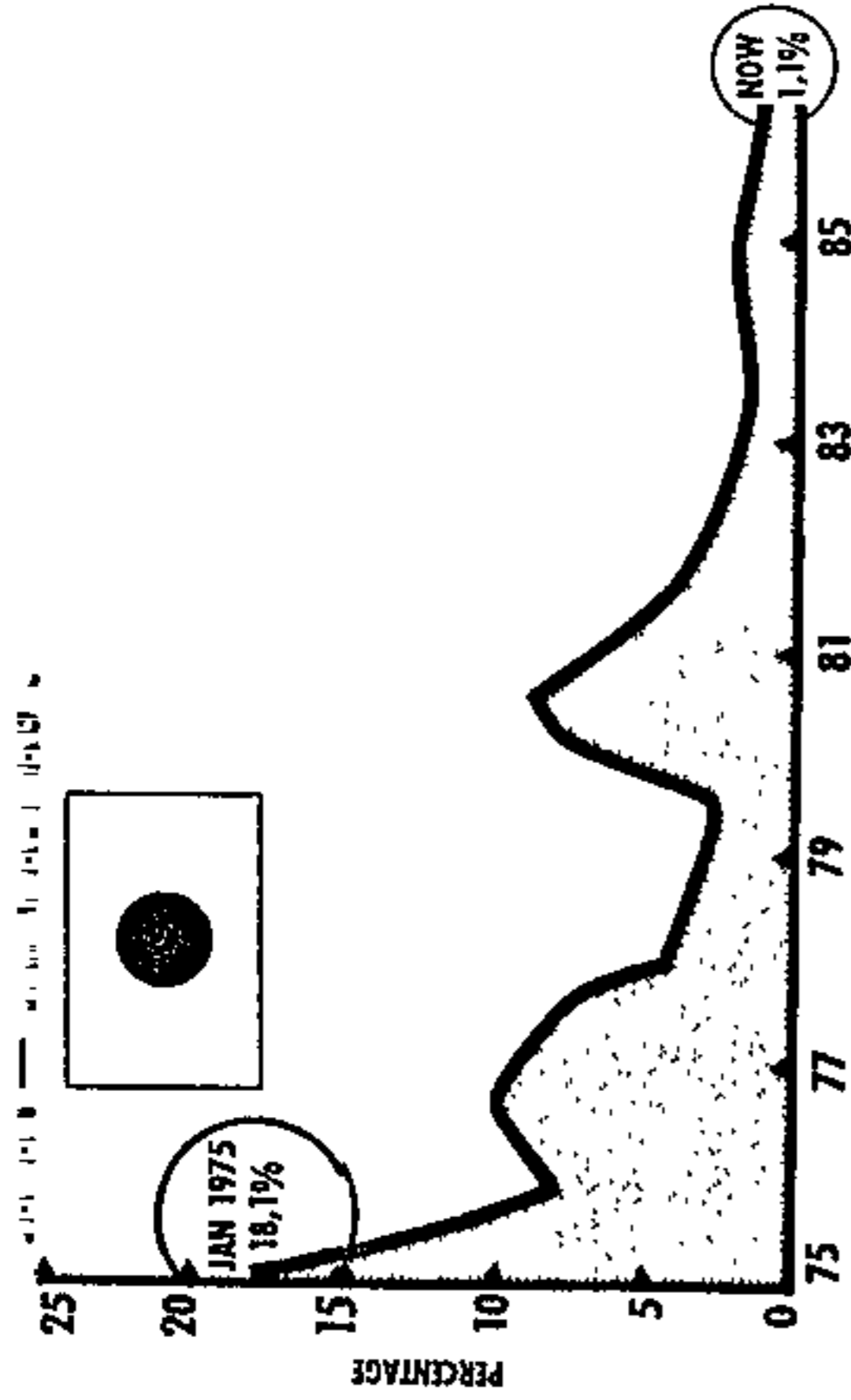
"If the Reserve Bank slows the rand-note printing presses for too long it will throttle the consumer spending needed for an economic revival and throw even more people out of jobs.

"And if the presses thunder on it will mean worse inflation."

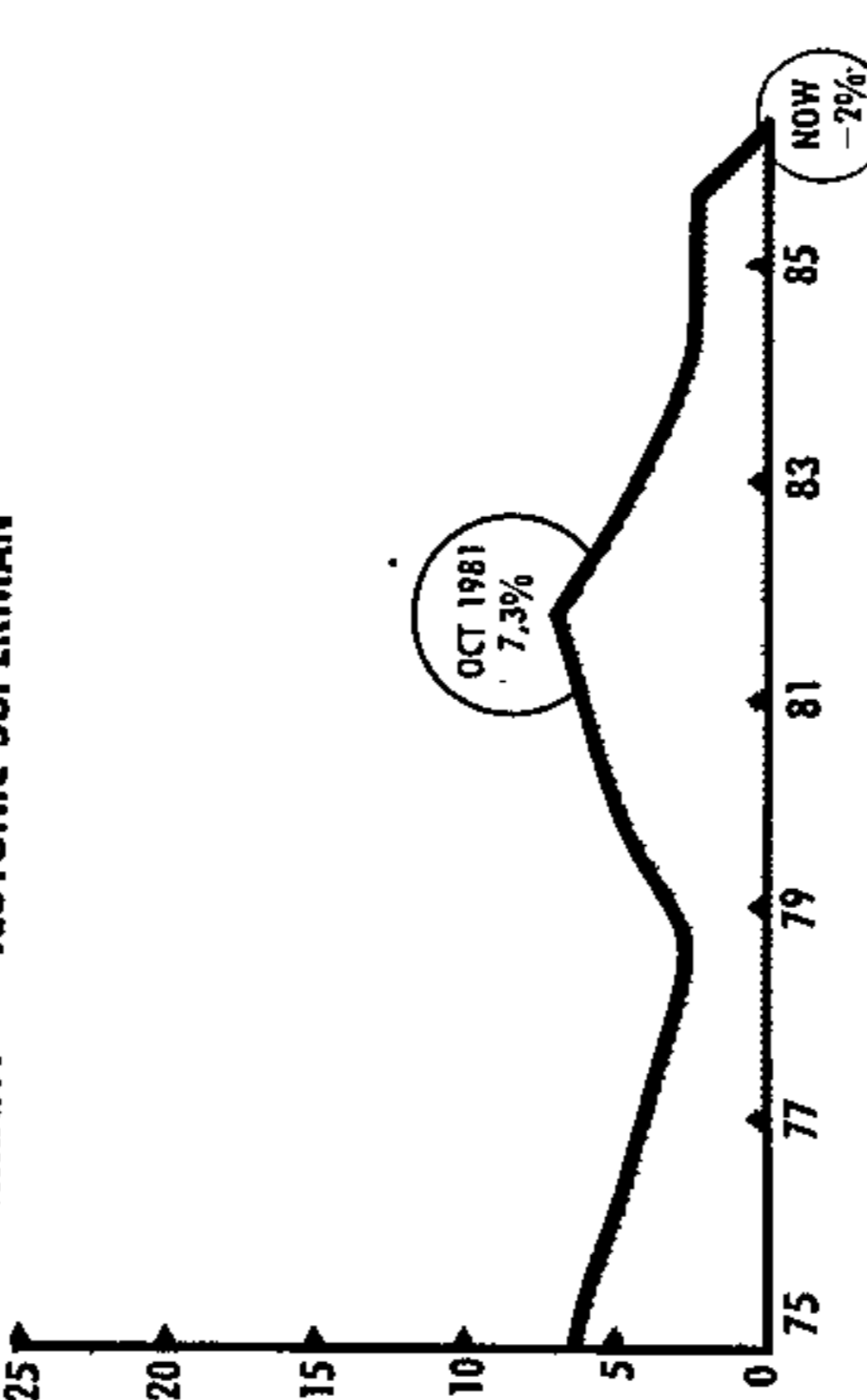
Economists are sharply divided in their forecasts of which way inflation will go from now. Sanlam predicts the annual

rate will ease a shade to work out at an average of 17 percent for 1986 as a whole, with the possibility of a shrinkage to about 13.5 percent next year.

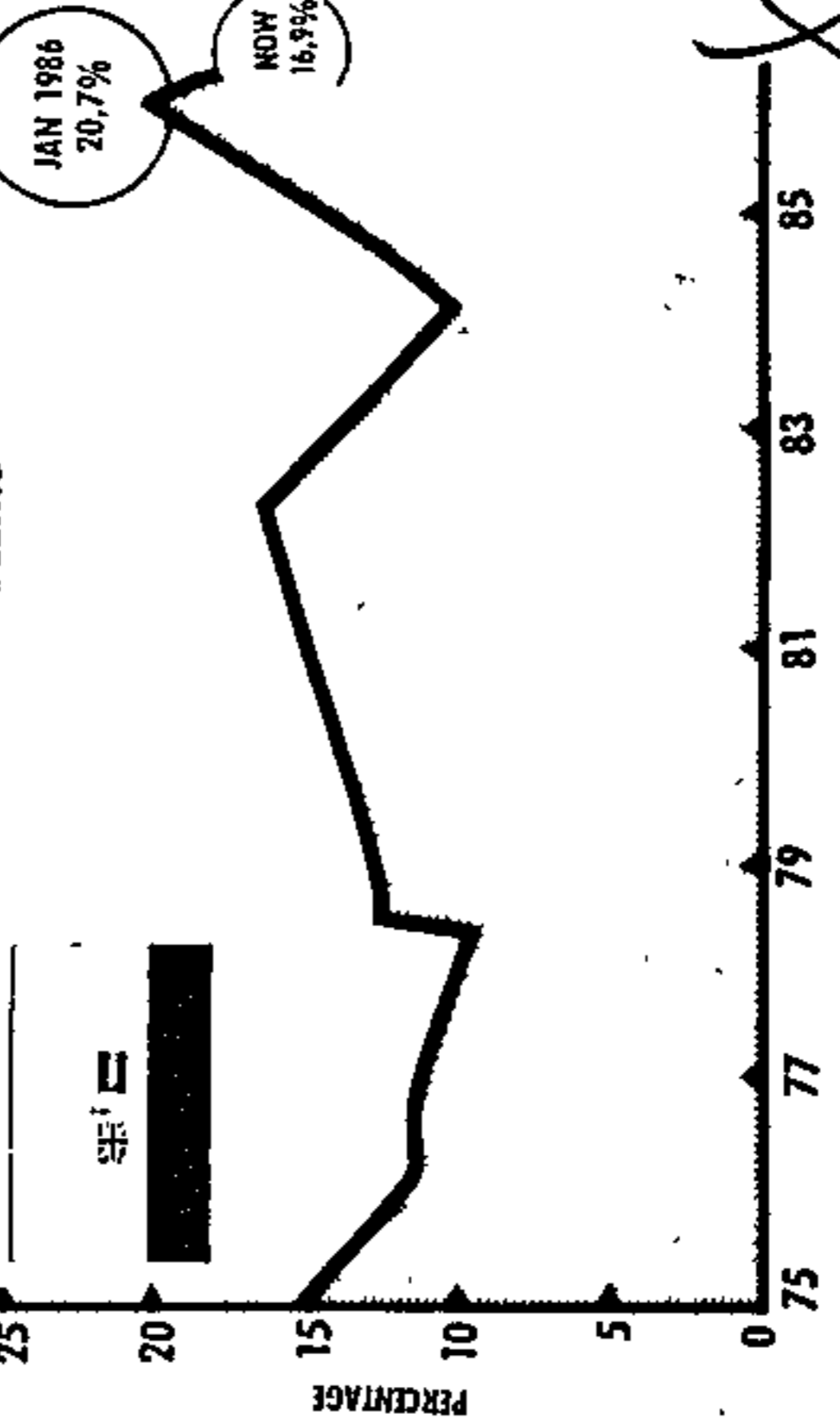
At the opposite pole, Professor Geert de Wet of the Rand Afrikaans University fears that inflation may flare as high as 30 or even 40 percent inside the next year or two unless "some very unpalatable measures" are taken by the Government.



W GERMANY — TEUTONIC SUPERMAN



SOUTH AFRICA — CHRONIC PROBLEMS



10-YEAR INFLATION TRACK RECORDS

	Jan 1975	Peak	Now
	%	%	%
SOUTH AFRICA	15,2	20,7 (Jan 86)	16,9
BRITAIN	19,7	26,8 (Aug 75)	2,5
UNITED STATES	11,7	14,6 (Mar 80)	1,6
JAPAN	18,1	18,1 (Jan 75)	1,1
WEST GERMANY	6,1	7,3 (Oct 81)	-0,2

Old Mutual sounds warning on Government overspending

By Sven Lünsche

While the recently announced financial package of R1,5 billion has provided some stimulus to the worst hit sectors of the economy, there is a real danger that continued Government overspending will nullify the effect of this stimulatory package.

In its monthly publication *Economic Monitor*, Old Mutual says that the first two months of the 1986/87 financial year saw Government spending almost 30 per cent up on the same period last year.

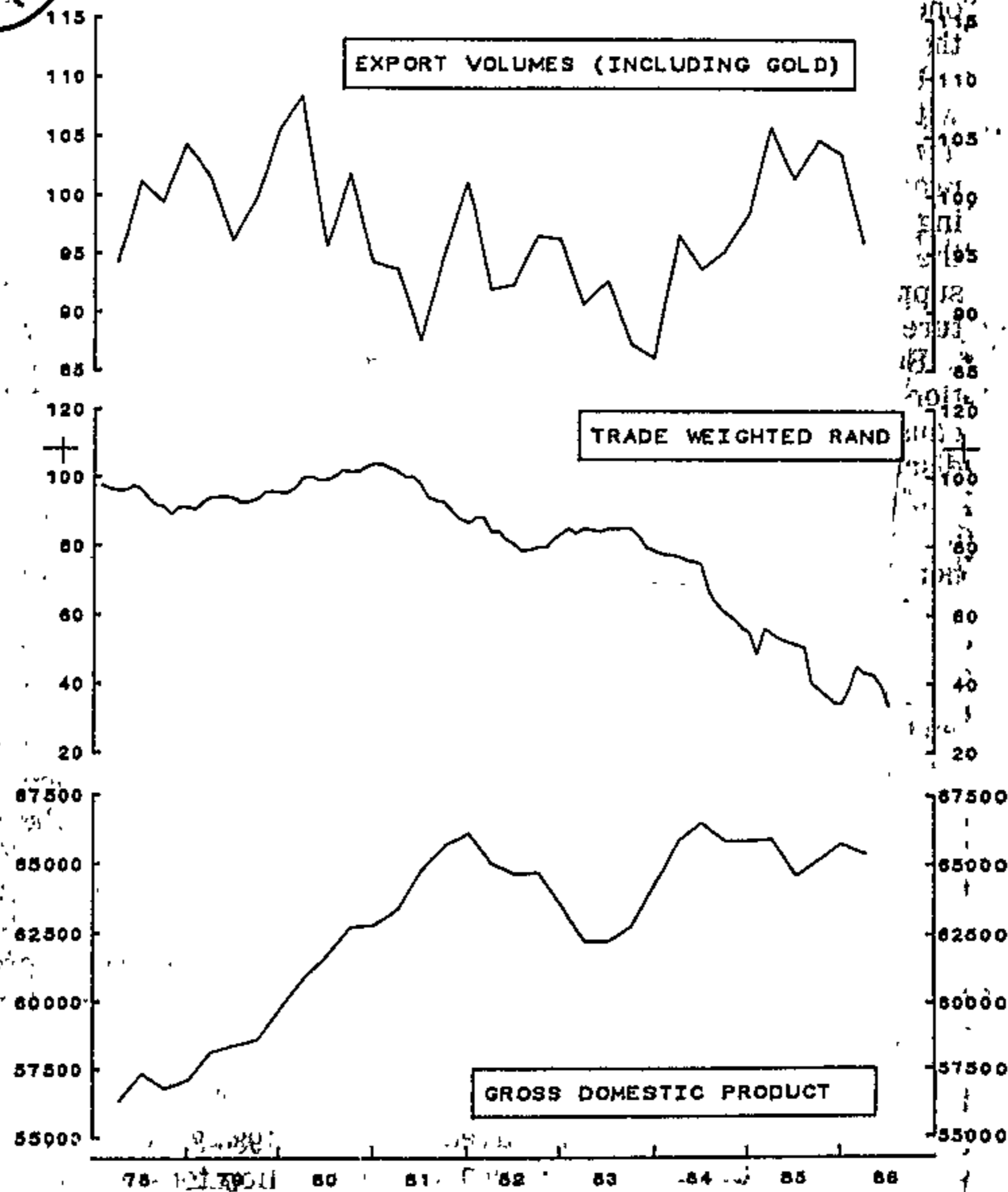
The seemingly unstoppable momentum of Government spending has also prevented overdue tax relief for the consumer, as "major tax cuts on top of overspending could result in a potentially enormous budget deficit, which is a far too risky strategy in current circumstances", Old Mutual said.

FISCAL DRAG

On the expenditure side the economy witnessed the continued decline of private consumption expenditure, after a moderate improvement late last year.

At present, wage increases are struggling to keep pace with inflation, while fiscal drag still seems to be increasing the tax burden and it is therefore difficult to see more than a moderate revival in consumer spending during the rest of 1986.

On the international front, the first quarter of 1986 saw a decline



South Africa's economic indicators

in the current account surplus from the near record surplus in the previous quarter.

Export volumes were 3,7 per cent lower and this was reinforced by a stronger rand and consequently lower rand export prices.

Import volumes on the other hand rose 7,9 per cent with exceptionally large gains made by the 'unclassified' category, which primarily consists of oil and arms imports," Old Mutual noted.

The surplus should improve, however, as South Africa's major trading partners are showing accelerated growth and the country is still benefiting from the fall in the dollar dominated oil price.

The recent collapse of the rand

has wrecked chances of a continued drop in the inflation rate and Old Mutual predicts that it will remain at the current levels of about 17-18 per cent.

"Beyond 1987 the inflation rate is difficult to predict, but it is quite clear that the demands currently being made on the South African economy from both domestic and international sources are severely restricting this country's scope for non-inflationary growth," Old Mutual said.

Inflation could also spiral, as the imperative need for economic growth, couple with the absence of effective disciplines on these demands, leave an outcome which includes even higher level of inflation as the most likely alternative.

23/7/86 STAR 49

SA could attain 2% growth

28/7/86 (49) BUDAY
THE SA economy can still achieve a growth rate of around 2% in 1986, but the duration of any economic expansion depends on external pressure facing the country.

Old Mutual's July *Economic Monitor* says future economic performance revolves around claims by creditor banks on outstanding foreign loans, the sanctions threat and the probability of falling commodity prices on world markets.

Nevertheless, chief economist Rob Lee is not convinced of the continuation in the pattern of a falling inflation rate. "The chances of this trend continuing for the rest of 1986 were dealt a blow by the recent collapse in the rand through the transfer of imported inflation."

Lee expects the Reserve Bank to exercise caution with further reductions in short-term interest rates because:

ALAN SENDZUL

□ The lower interest rates fall, the more difficult it will be to get them high enough in time once the need for restrictive policy arises;

□ The lag between changes in interest rates and their impact on the real economy is at least six months. The stimulatory influence of lower interest rates could appear late in 1986, making further cuts unnecessary.

In its July *Economic Survey*, Sanlam says an average inflation rate of 18% is likely. It is, however, more optimistic on inflation prospects because it believes continued weak demand for goods and services and further falls in the bond rate will curb price increases.

On interest rates, Sanlam foresees at least a one percentage fall in prime overdraft.

Old Mutual's Lee expresses surprise that government's fiscal package will release only R700m in this financial year.

He says: "If overspending continues at anything like the 30% overshoot for April and May, it will dwarf the effect of the stimulation package.

"These overruns in spending probably explain why major tax cuts have been resisted, particularly lower GST."

Sanlam's July *Economic Survey* suggests that consumer spending is essential for economic growth in SA's case because the foreign sectors' contribution has been reduced.

"We believe it's crucial that the tax burden of individuals be lessened and that the inflation rate is also lowered. Consumer willingness to spend depends on sentiment which is measured by confidence in the future economic and political situation."

Share profits, Minister urges

23/7/86
44/12/86
FUE

THE Third World community in South Africa should be able to "taste the fruits of free enterprise in the form of profits rather than wages", the Deputy Minister of Finance and of Trade and Industry, Mr Kent Durr, said last night.

Addressing the Port Elizabeth President's Club, he said there was vast scope for business to contribute to the reform process.

"If our Third World people are to be fully integrated into the free enterprise system, they must be encouraged to taste its fruits in the purest form."

He said this could be achieved by giving workers rewards accruing to initiative and enterprise.

"To be blunt, I am referring to profit rather than wages."

An intermediate step in this direction would be the granting of share options, a step which appeared to have merit and to be particularly suited to the current exigencies of South Africa.

"Our ultimate goal should, however, be the creation of entrepreneurs in the true sense of the word — those who venture rather than those who simply provide funds."

He said in that respect the Small Business Development Corporation and allied bodies were doing "a great job".

Social advance and expanding democracy were not possible without rising standards of living born of economic expansion.

"Far from trying to retard the inescapable extension of political rights and economic participation, we should ardently embrace it as a solid foundation for the peace and progress of our sub-continent," Mr Durr said.

He also called on businessmen to spread their investments more into areas like providing infrastructure and work opportunities areas where SA's Third World needs were greatest.

● Speaking at a Johan-

nesburg Executives Association of SA meeting today, Mr Durr said that countries applying punitive economic measures against SA were doing so primarily to serve their own best economic interests.

The bottom line of the increasing momentum against SA should be recognised for what it often was — the protection of industries and jobs in other countries in a difficult economic climate.

"Against this background, it remains essential that South Africa maintain its existing export markets since, once pushed out, it will be twice as hard to re-enter them," Mr Durr said.

"All the measures taken against South Africa were direct violations of the General Agreement on Tariffs and Trade."

Citing Australia as an example, he said it was not coincidental that some of SA's loudest detractors were vying for the same export markets

for coal, iron ore and agricultural products.

Similarly, in the United States the Democratic Party's Sanctions Bill targeted on the three major industries of coal, steel and uranium.

These struggling sectors in America would be the greatest beneficiaries of sanctions because they were in direct competition with SA, he said.

Describing events as "a long history of hypocritical double standards", Mr Durr said questions arose about loans which were made available when apartheid was "in full force" but which, ironically, were called up when the government was in the process of eliminating discrimination and was committed to constitutional reform.

"Possibly the very reason for this phenomenon is the picture painted by the media of reform leading to a Marxist regime, and big business anxiety about further reform resulting from this situation."

Many ask for tax extensions

Mercury Correspondent
JOHANNESBURG—Heavy demands are being made on receivers of revenue throughout the country for tax payment extensions, the chief director of the Directorate of Inland Revenue, Schalk Albertyn, said in Pretoria yesterday.

From Johannesburg alone, 60 834 requests for extensions had been received in the past six months.

'This is a reflection of the recession,' Mr Albertyn said.

Unemployment, inflation higher than normal salary and wage increases, and shrinking disposable incomes all added up to making the tax collection operation more difficult.

However, the directorate's tax audit teams and its

inspectorate were steadily gathering millions from tax-shy salary- and wage-earners and companies.

Since October 1984, Mr Albertyn said, R170 million in unpaid GST had been discovered.

Unpaid GST collections were averaging about R8 000 000 a month.

In the first six months of the year R49 million was netted compared with R43 million in the same period last year.

Inspectorate staff working on income tax and estate duty investigations found R16,5 million owed to the State in the first six months of the year.

Audit teams have discovered additional untaxed company and individual income amounting to R517 million so far in 1986.

Battery firm to wind down

JOHANNESBURG —Duracell Batteries has announced the winding down of its operation in South Africa. All staff have been informed of the decision.

The winding down will commence from tomorrow. It is expected that the process will take approximately six months to complete.

Announcing the decision, the general manager, Mr John Klette,

said: "Our business is entirely dependent on imported products from Europe and the dramatic and continuing fall in the value of the rand against all major currencies, coupled with the imposition of the import surcharge, has totally eroded our commercial viability. We see no prospect of these circumstances improving in the foreseeable future." — Sapa

Govt 'tardy on PE incentives'



(49)

BE VE Post 24/7/86

By BOB KERNOHAN Business Editor

ELEVEN weeks after the Government pledged to act "expeditiously" to provide improved industrial incentives for the Port Elizabeth/Uitenhage area, businessmen are still waiting for them to be granted.

Managing director of General Motors Mr Bob White and development officer for Port Elizabeth Mr André Crouse said last night that because of this businessmen were continuing to pay a "penalty" for being located in the area.

Mr White told the annual meeting of the local branch of the South African Property Owners' Association: "The additional incentives we were promised have not been forthcoming.

"General Motors is still paying a penalty for being located in Port Elizabeth of between R80 and R100 on each vehicle we build as the transport subsidy we receive has not yet been increased to bring it in line with other areas."

He added that the situation at Volkswagen could not be much different.

Mr White also disclosed that the 40% subsidy already granted and which Government had indicated would be increased to 60%, effectively provided a subsidy of only 25%.

"This is caused by the way in which the subsidy is administered," he said.

Mr White urged that the Government stand by its commitment to provide the same incentives as for other areas.

"All we want is the same treatment as everyone else, so placing us in a better position," Mr White said.

Mr Crouse said that when the Government announced at the beginning of May that improved incentives would be granted, he had been told that they would be announced "the following Thursday".

"But we are still waiting for that Thursday," he said.

Professor Charles Wait, who heads the Eastern Cape Strategic Development team, said today: "The reason for the delay is that whenever you change the decentralisation concessions — or anything in the decentralisation package — it has to be approved by a multilateral committee."

This committee comprised members from South Africa and the four

TVBC countries (the independent homelands).

"Of course, a man in PE can ask, why he must wait for approval from Venda, but it works the other way around, too," he said.

Mr Van Zyl Cillie, vice-chairman of the Region D Development Advisory Committee, confirmed that the improved incentives were "still in the pipeline".

GROWTH RATE

Admitting the obvious

SA
49
FINMAIL
25/7/86

So it's finally official. As has been apparent for some time, the authorities accept that the economy is not going to grow by 3% this year. Accompanying the June money supply figures, Reserve Bank Governor Gerhard de Kock not only put a spark into money markets by hinting at a new round of rediscount rate cuts (now expected this month, possibly this week), but confirmed what economists have for some time been saying about growth. He talks about a real GDP rise of 1,5%-2% — this still seems too optimistic.

As it is becoming increasingly clear that the economy did not show much improvement in the second quarter (after declining in the first quarter), while only a modest performance is likely for the rest of the year, economists have been steadily downgrading their forecasts. Lower interest rates and the latest (but, De Kock also hints, possibly not the last) fiscal package will at best provide short-term relief for some.

Even a modest real GDP rise is unlikely to bring significant and sustainable relief and will still imply a further fall in per capita income.

Although not too much should be read into growth figures per se (there is nothing magical in a single, albeit important, indicator), any growth this year will be off a very low base and revolves largely on the expectation that the decline in inventories will continue to slow. Such growth does not generate jobs, nor develop the economy. Economists — for one, stockbroker George Huysamer's Louis Geldenhuys — consider that "even if there is positive growth in 1986, we might as well consider the economy not to have grown."

So what is to be done?

As far as monetary policy is concerned, De Kock said the way was open for more steps to encourage growth. The last straw that triggered this reaction was the poor June money supply figures, showing the Bank is unable to keep within its money target ranges.

In this it is not alone, but whereas most central banks exceed their target, SA cannot keep within the bottom end of the 16%-20% range. Early M3 May estimates have been revised upwards from R73,9 billion to R74,96 billion, an annual increase of 10,71%. June estimates amount to R75,3 billion (9,27%), short of the lower target limit of R77,6 billion.

The money and capital markets immediately got a lease of life (only last week the feeling was that the Bank would act later rather than sooner in reducing rediscount rates for the eleventh time since May 1985). The BA, Treasury Bill and Land Bank bill rates all dropped sharply to three-year lows and are some 50-90 points below the rate at

which the Bank rediscounts such paper (see *Markets*).

While the Bank has in the past kept the market waiting for weeks before acting, bankers note that with all relevant information needed before the Bank can reduce interest rates out — inflation (see page 44) and low money supply — together with high liquidity and the poor state of the economy, the Bank is in a position to act. As Trust Bank's Kobus Roetz says: "The time is ripe."

Once the Bank acts, commercial banks will probably drop rates across the board with little delay — especially if the Governor calls them in, as he has in the past. The question is whether building societies —

some 17 percentage points in 16 months). "Savings are now channelled into inflation hedges rather than new fixed investment (with all its adverse effects on economic growth), personal savings are at an all time low, capital flight cannot easily be stopped, while the economy is caught in a vicious inflation/deflation spiral with disastrous effects."

Looking at the fiscal side, Deputy Finance Director-General Gerhard Croeser has conflicting evidence about the impact of the recently introduced fiscal package. "It is difficult to assess, there are differing views." Certainly, economists have grave doubts about the likelihood of the package (and lower interest rates for that matter) solving SA's serious problems.

Croeser, more cautiously than De Kock, says no further extraordinary measures are planned, "but through spending we can do more to stimulate the economy if necessary. In times like this, we must adopt a hands-on management approach." He maintains that a deficit before borrowing in excess of 3% of GDP "would not necessarily be inappropriate, and will not exert undue pressure on the capital market or interest rates. We should be careful to maintain a relatively stable interest rate pattern in the present conditions."

The FM has argued for some months that in present circumstances the deficit before borrowing should not be allowed to constrain policy, a view now endorsed by Old Mutual (see page 44).

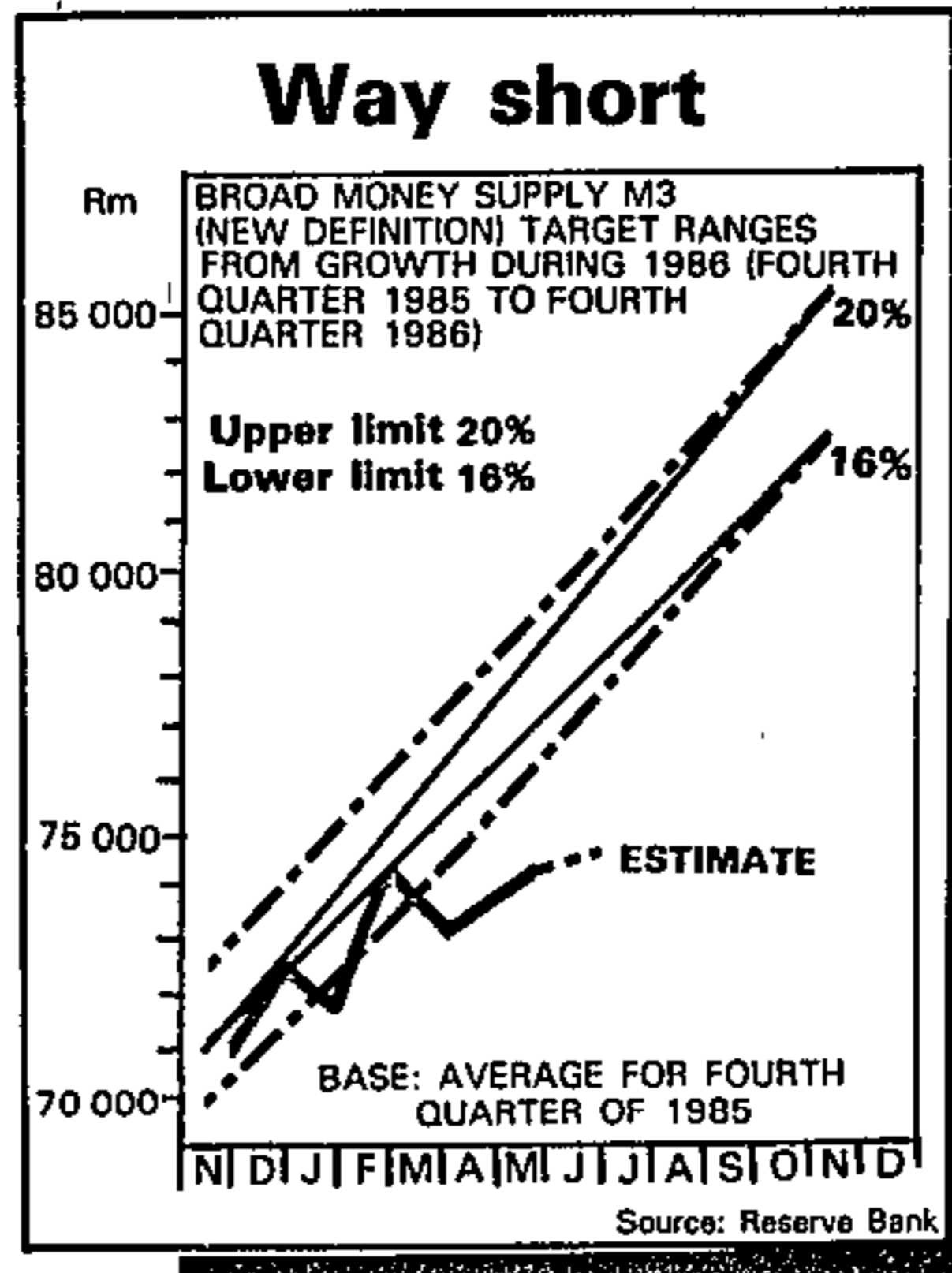
Even a deficit before borrowing of 3% (2,25% was budgeted in March) is hardly relevant. JCI's economist Ronnie Bethlehem reckons the economy can accommodate over 5%. "The crucial thing is to service the foreign debt and get unemployment down," he says, adding that the obvious trade-off between these two objectives makes the policy decision more difficult.

However, no monetary or fiscal fine-tuning will help. Nothing short of major political restructuring will provide the stability essential for economic development. As Geldenhuys says: "Drastic problems require drastic solutions."

This, however, appears further off than ever. The Finance Ministry seemingly does not have enough influence to bring it about.

Croeser feels that business is "magnifying problems instead of turning issues into something positive." He has a point, but business simply has nothing to be confident about. Not only foreigners are divesting and boycotting; local business is reluctant to commit funds.

Having got this year's forecasts wrong



locked into high lending rates — will do the same, and if they don't will banks be prepared to lose market share by reducing their deposit rates.

In the highly competitive lending market, Barclays' senior GM Jimmy McKenzie says much depends on societies: "Banks will have some difficulty this time as they may not be able to get their cost of funds down by the same amount as the lending rate cut, mainly because some institutions will be locked into high interest rates on recently introduced savings products. This will squeeze their profit margins. Banks will not wish to lose market share of deposits to these institutions."

UBS economist Hans Falkena responds that banks "have no excuse for delaying cutting rates." He admits the last round of cuts was expensive, but feels societies will lower their rates "with a time lag."

He is, however, not happy about a monetary policy that promotes negative real interest rates (the real interest rate has dropped

earlier on, economists are wary of predicting economic performance for 1987, but most expect slow growth. "It is difficult to look so far ahead in such a fluid situation," says Volkskas's At Engelbrecht.

Not that high

49

SA's central government budget deficit, as a ratio of GDP, has compared favourably with those of both developed and developing countries throughout the Eighties. It has averaged only 3,1%, as opposed to 3,3% for industrial countries and 5,3% in developing countries, say economist David Mohr and economic analyst Rian le Roux, in the latest *Economic Monitor* published by the Old Mutual Economic Research Unit.

This was not always the case. Between 1960-1969, it was 2,4%, against 0,7% and 1,2% respectively; and between 1970-1979, 4,5% against 2,2% and 2%. "The rising period occurred during an era of very high real economic growth (1960-1975) whereas the declining trend took place during an era

of low real growth (1976-1985). Broadly speaking, it would appear as if fiscal policy tended to reinforce the direction of real economic growth."

Though the figures tend to understate the deficit because of some transfer of spending "off budget" and the exclusion of still outstanding foreign exchange losses for the Treasury account, Mohr and Le Roux believe the fiscal position "is not nearly as unstable or as out of hand as is sometimes thought." They argue that the size and financing of the deficit (of central government, not the entire public sector) cannot be condemned as profligate. On the contrary, fiscal policy in isolation, has been unduly conservative.

"A disturbing feature is that this has been at the expense of the private sector, both businesses and individuals, in terms of a rapidly increasing real tax burden and increasing share of government in the total economy."

Though the steep increase in capital market rates and the slowdown in GDP has meant a rising ratio of interest payments to GDP, the current 3,5% "still compares favourably with most industrialised nations." There will, however, be cause for concern in the future if GDP growth does not increase or rates do not decrease.

However, "there is no clear-cut evidence that increased government borrowing was the main factor behind the sharp run-up in capital market rates. Both in terms of demands on gross savings and the amount borrowed in relation to institutional cash flows, it is clear that the sharp increase in rates must be attributed mostly, if not entirely, to other factors" — for instance, an escalating inflation rate and expectations about future inflation. ■

F (N 1412 25/7/86

49 289

Unfounded optimism

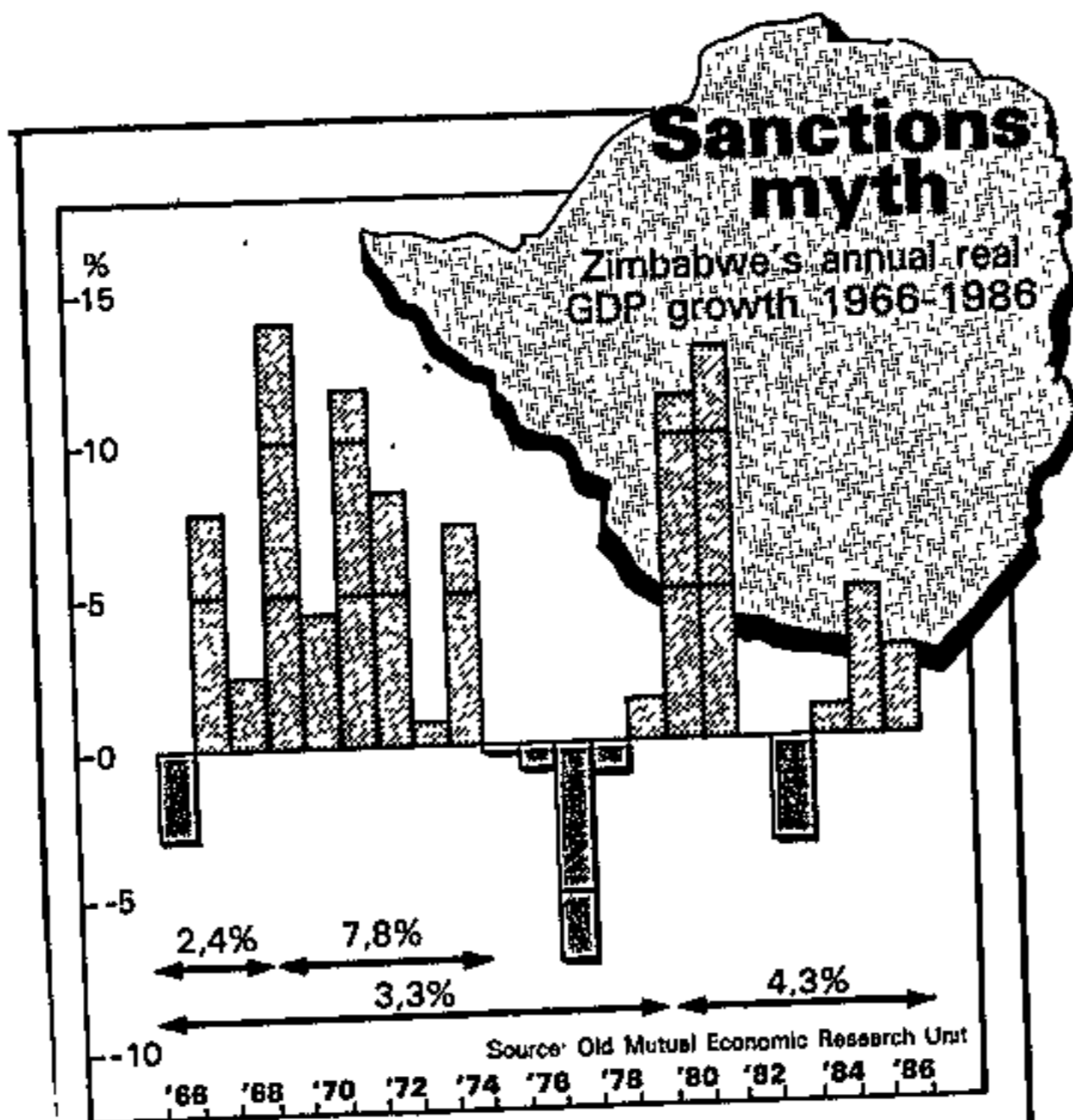
The perception, in some quarters, that economic sanctions would be ineffective — or even beneficial — is “profoundly mistaken,” says Old Mutual chief economist Rob Lee. In the latest *Economic Monitor*, published by the Old Mutual Economic Research Unit, he points out: “Whatever the political dynamics, there should be no doubt that sanctions can only result, over the long term, in a reduction in overall living standards of potentially marked severity.”

While some sectors and companies could benefit from import protection, any advantage to the community as a whole would be limited and temporary. Moreover, the protection conferred on specific sectors would result in reduced efficiency and higher prices because “protected industries are, by definition, uncompetitive,” says Lee.

He believes that ill-founded optimism about the effects of a siege “demonstrates a basic misunderstanding about how the economy works.” It is in line with pressure by government on the private sector to invest — at a time when utilisation of existing capital is way below capacity.

He believes that those who use the Rhodesian experience after UDI to substantiate their views are subscribing to a myth. The point is elaborated: “The reality is that Rhodesian economic performance, in terms of job creation and improving living standards over the whole period of UDI, was extremely poor” (see graph).

Growth immediately after UDI was part of a worldwide commodity price boom. Later it succumbed to drastic oil price increases



and the stagnatory effects of sanctions. Only with the lifting of economic siege in 1981 did the economy revive.

Warning: curbs could benefit business in SA

LONDON — The House of Commons Foreign Affairs Committee will warn tomorrow that far from having the desired effect in the short term, sanctions against South Africa would provoke a surge in business and commercial activity as the country coped with the situation, according to a report published here yesterday.

The Guardian said the all-party committee, which has been hearing evidence for several months from a wide range of South African and other opinion, had concluded that South Africa would repeat the experience of Rhodesia where the internal econ-

omy took over many of the services previously provided from abroad.

The report said the committee would make no recommendation as to future British Government action on sanctions because there had been disagreement between Labour leftwingers and Conservative MPs.

The Guardian predicted that the committee's report would further fuel the row.

The opposition has condemned the Prime Minister, Mrs Margaret Thatcher's anti-sanctions policy, and the shadow Foreign Secretary, Mr Denis Healey, wants comprehensive sanctions to be imposed.

However, the Conservative chairman of the committee, Sir Anthony Kershaw, said yesterday that imposing sanctions was probably the only thing to do if South Africa was unwilling to negotiate.

In a television interview, Sir Anthony said three sorts of sanctions could be imposed — a ban on the export of minerals, a cutting of air links and a ban on the export of vegetables, fruit and wine.

● The British Foreign Secretary, Sir Geoffrey Howe, in a radio interview from South Africa, forecast yesterday that

at some stage South Africa would have to take steps towards reform.

"The case I have been putting across on behalf of the European Community — and it is the same case as the Commonwealth and the United States are putting — is that the release of Nelson Mandela, and other political leaders and the unbanning of the political parties are vital if South Africa is to start on the dialogue that is necessary," he said.

For serious political dialogue on the future of South Africa, political prisoners had first to be set free before there was a chance of promoting peaceful change, Sir Geoffrey said.

"The longer that is put off, the greater will be the risk of mounting violence and economic warfare. The key steps have to come from the South African Government if the log jam is to be broken.

"They understand the rest of the world is profoundly interested in that," Sir Geoffrey said.

"They are to some extent resentful of the influence the rest of the world is trying to bring to bear but that cannot be a reason for not pressing the case I am pressing." — Sapa-RNS

State called on to cut its spending

29/7/86
GODDARD
(49)

THE Transvaal Chamber of Industries (TCI) has called for government spending to be curbed.

A TCI spokesman was responding to reports that government's first-quarter spending had soared to more than 24% over Budget while the private sector was fighting to stay alive.

"Prudent businessmen are looking at every possible way of reducing costs. Retrenchments are the order

MICK COLLINS

of the day in commerce and industry, but employment in government departments is increasing," he said.

Viewed against a background of almost certain increases in demand for manpower, brought about by regional service councils and the tricameral Parliament, industry is justifiably aggrieved.

"Already about one person in four of the economically active population works for the State. Funds to

pay this enormous staff will need to be found somewhere — and we know where," the spokesman said.

The TCI feels that if more money could be left in the economy it could be used by the private sector to create jobs and help broaden the tax base, increase economic activity and stimulate small business development.

"More cash is needed in private hands but not from 'printing press' sources. It must come from genuine

reductions in public sector expenditure, leading to reductions in the direct and indirect taxation burden."

Asking and getting might seem to be still far distant, but the burden now being carried by the private sector must be lightened.

"Government spending must be contained within the limits imposed by revenue. Higher tax rates, new taxes and more levies are not the answer. Government must stop over spending," the spokesman said.

before the meeting, it was felt the

What the hard line

WORLD REPORT

BUSINESS**OM: moderate growth still on**

JOHANNESBURG — There has been a notable deterioration in economic performance and prospects in the past few months, but renewed or moderate growth should still be possible in the second half of 1986 and in 1987, says Old Mutual's chief economist, Mr Rob Lee.

Writing in the July issue of the Economic Monitor, he states that "latest official estimates for domestic production indicate a decline in real activity in the first quarter of 1986 and, although SA gross domestic product (GDP) figures tend to be very volatile, latest indicators do not suggest any marked improvement in the second quarter.

"Credit demand remains weak, even though the prime cost of borrowing is substantially lower than the inflation rate, and broad money supply growth is well below the target announced at budget time. The slack demand for credit partly reflects the deteriorating real wealth position of borrowers, but is also strongly influenced by an alarming lack of consumer and business confidence.

"Political developments, both domestically and internationally, have played a major role in undermining confidence. In these circumstances it should

be clear that there are limitations to what economic policy by itself can achieve in assisting economic recovery."

The sustainability of this cyclical recovery is greatly constrained by the following factors:

- The demands for higher government spending for socio-political reasons, and the resultant need for higher taxes.

- The high inflation rate.

- The high cost of imported goods, particularly capital equipment needed in any upswing in investment.

- Weak commodity prices for some exports.

- The claims of foreign bankers for some repayment of their outstanding loans.

- The international community's demand for sanctions.

On the question of sanctions, Mr Lee warns that there seems to be an attitude or belief in some quarters that sanctions are not something to be too perturbed about, and even that the economy could benefit from the imposition of meaningful and effective sanctions.

He says this view is profoundly mistaken. Whatever the political dynamics of the situation, there should be no doubt that, while some

sectors and companies could benefit because of protection from imports, such sanctions can only result over the long term in reduction in overall living standards of potentially marked severity.

"The belief that the Rhodesian economy did well out of sanctions for example, can only be described as a myth, since the reality is that Rhodesian economic performance, in terms of job creation and improving living standards, over the whole period of UDI was extremely poor.

"It was quite clear that the demands being made on the SA economy from both domestic and international sources, were severely restricting the country's scope for non-inflationary growth. A cyclical recovery in the economy was therefore expected to be of short duration — around two years — while the longer term growth rate could not be expected to be significantly better than the poor average growth rate of only 1,9 percent over the past 10 years.

"At the same time the need for some growth is becoming imperative and, in the absence of effective discipline, an outcome which includes an even higher level of inflation seems likely."
— Sapa

Interest rates take a tumble as gold rises

Mercury Correspondent

JOHANNESBURG—Long-term interest rates tumbled yesterday to a 12-month low as investors in the capital market scrambled to buy up available bonds to profit from the changing interest rate pattern.

An extra boost was given to the bullrun as the gold price again thrust through the \$350 barrier—the metal rose \$6 to an afternoon fix in London of \$353,60—after Cuba suspended payments on its short-term commercial debt to Western countries because of a shortage of foreign exchange.

In Johannesburg, the bellwether government bond (RSA 13% 2005) fell 43 points to 15,9% before edging above 16% to close at 16,04%, probably on profit-taking. Other marketable bonds followed the drop with lower yields giving way to strong demand.

Escom loan 160 11% 2009 plummeted to 16,5% from 16,85% on Friday. Sats 7,5% 2008 fell to 16,36% from 16,69%.

Turnover from bond trading on the JSE topped R700m even though buying interest was keen last week when turnover reached R3 500m.

Average

It appears some institutions have been caught too liquid—one reputedly has an average life of its gilt portfolio of less than three years—and are moving into the higher-yielding capital market to get better performance on investment portfolios.

Also, investors are switching to higher-yielding, longer-term gilts because they are wary of the recent peaks reached in the equity market and the accompanying low yields.

Another boost came from the rand which

weathered month-end import demand, closing yesterday at \$0,39.

Rates should continue their downward march if buying pressure persists, the Bank Rate is cut as expected, gold holds above \$350 and inflation continues to drop.

Analysts have for some time expected a technical correction in long-term rates. 'The gap between long-term and short-term interest has been too extreme.'

Also, the market fears the imposition of controls on the financial markets because of impending sanctions.

At the end of June last year long-term rates stood at 14,8%. Since then they have been rising with mounting bad news on the economic and political front to peak in November last year at 18,34%.

Discount

Abroad attention was focussed on US Federal Reserve chairman Mr Paul Volcker's congressional testimony today, dealers added.

Little impact had come after Bank of Japan governor Mr Satoshi Sumita, at a meeting of central bank branch managers earlier yesterday, reiterated that the bank has no intention of lowering its 3,5% discount rate in the near future, dealers said.

There is also little prospect of an early German discount rate cut, following statements to that effect last Friday by Bundesbank vice-president Mr Helmut Schlesinger, they added.

The market awaits the release of US trade data for June tomorrow, June leading indicators on Thursday and July unemployment data on Friday.

Employers set out social and economic objectives

BUS DAY
20/7/86
49

Privatisation research sees reduced govt role

GOVERNMENT spending and public sector involvement in the economy should be reduced to 20% of gross national product (GNP) by the year 2000, privatisation research commissioned by employer organisations shows.

However, the overall pace of change must be dictated by the ability of the economy to fund and absorb it.

A policy memorandum — distilled from the research material — has been submitted to cabinet ministers involved in drafting a White Paper on privatisation.

Key objectives

The memorandum sets out the view of the private sector on key economic and social objectives for privatisation, as gauged by Assocom, the Afrikaanse Handelsinstituut, the Agricultural Union and the Federated Chamber of Industries.

The organisations recommend that pilot projects should be used to reduce risks and to avoid disruption and that a number of advisory bodies and subsidiary task groups be established

LESLEY LAMBERT

to ensure impartiality in implementation.

The main objectives of privatisation are:

- To reduce the cost of services to the taxpayer, and consequently to help reduce the tax burden, especially the marginal rate of tax;
- To broaden the tax base and increase revenue collection as economic activity is stimulated;
- To boost the economy by increasing opportunities and individual entrepreneurship and to spread economic ownership;
- To benefit consumers by way of increased competition that will boost efficiency and eventually lead to more innovation;
- To allow the market to satisfy the needs of individuals and communities with the least intervention from the political and regulatory process.

The memorandum defines privatisation as "the partial or total transfer of assets and/or functions from the public to the private sector under various arrangements". The transfer of assets is expected to be one of the

main, although complex, priorities.

It says that a pre-condition for successful privatisation is that it should be accompanied by planned deregulation — the scrapping or rewriting of laws or regulations inhibiting the effective operation of the private sector in the production of goods and services previously supplied by the state.

A coherent strategy for privatisation implies a deliberate decision to change the role of government and to re-define the relationship between the public and private sectors.

New opportunities

Privatisation should lead to more balanced relationships between entrepreneurship and public administration. It should also spread economic ownership more widely among the population and create new opportunities in the private sector.

Priorities include the ranking order of most easily saleable assets and services, the areas of highest demand escalation which the state cannot meet, and the economic impact needed to revitalise the economy and to stimulate job and entrepreneurship creation potential.

*Recession
Mercury 31/07/86
Hits sick
49*

pets — and

the vets

Mercury Reporter

MORE and more people, hit by the recession and spiralling costs, are opting to have their pets 'put down' rather than pay a vet for the necessary treatment, says Dr Gareth Bath, chairman of the Natal Branch of the Veterinary Association.

He also said there had been a marked increase in animal neglect.

Vets were now having to treat the problems caused by owners trying to treat their pets themselves or their waiting too long before seeking professional help.

As a result vets were also experiencing the financial pinch and in several cases qualified vets had found it difficult to find employment.

The increase in animal cruelty and neglect has also been noted with concern by Durban SPCA officials, who say they believe it is as a result of the worry and frustration caused by unemployment.

Cruelty

Mr John Horsfield, Durban and coastal area cruelty-prevention manager of the SPCA, said: 'People are obligated by law to seek a vet's assistance for their animals and the fact that they do not have the money is no excuse.'

'If they approach us for help, we will treat the animals of the underprivileged.'

Incidents of cruelty and failing to render the necessary veterinary assistance have increased dramatically over the past six months.

So have the numbers of people flocking to the SPCA Cato Ridge headquarters for assistance with their sick pets.

In 1984, 8 500 went for help, and the figure for the same period this year is 11 000 — an increase of 2 500.



Building societies should all go to pot ...

58
49

TIMES are tough, with building societies, small businesses and offices all feeling the financial pinch nowadays. But there is a simple way they could all make a bit on the side to help combat rising rentals and the like.

They should set themselves up as hotels for pot plants, offering rates for weekends or special terms for longer stays while the plants' owners are away on holiday.

This would relieve the fearful tensions suffered by vacationing pot-plant owners and the even more fearful tensions experienced by pot-plant sitters.

For an amazing fact of life is that pot plants stuck around building society offices, shops and other places of business all seem to thrive like sections of the Amazon rain forest.

And this is even though such plants are neglected, rejected and used as ashtrays, with nary a person saying a kind word to them, in direct contradiction of the much-publicised idea that plants do better if people say nice things to them.

So, if people could be persuaded to pop their plants into such premises they could go away, happy in the knowledge that their Busy Lizzies would be in champion condition — or even better — on their return.

Naturally the business concerned would charge a small fee for this — and would also save on having to buy or hire plants to decorate their premises.

There are hotels in America which take in plants as 'guests'. Owners going on holiday book in their *monstrosa horribulus* or whatever and the little ones are looked after so expertly they come to no harm whatsoever.

There's a need for such establishments here — and, for the reasons I've outlined, building societies and other businesses are ideally suited to fill this gap.

And that way we stay-at-homes would be relieved of that annual bind when friends and neighbours ask if we'd mind looking after their pet plants while they vanish overseas or to somewhere exotic like Plettenberg Bay.

Once upon a time this wasn't all that difficult.

You just gave the things the occasional slosh from a watering can — and rubbed the dust off the leaves the day before the trusting owners returned.

But that was in the good old days before pot plants became complicated and every owner became a horticultural expert, burdened down with superficial knowledge of plant foods and plant psychology.

Now you're instructed to make sure that such and such a plant gets a dose of so and so every week or so, and to be sure to stroke the leaves of that one as it seems to stimulate its growth.

Nowadays plant-sitting is far more complicated — and risky — than baby-sitting.

I know.

Recently I acted as stand-in father for a friend's stoepful of plants.

During his six weeks' absence I watched in fascinated horror as things which should have stayed a verdant green turned to a dried brown — in spite of the fact that I followed their owner's instructions to the written letter.

And a frilly, ferny thing he asked me to speak to every day curled up and expired — even though, towards the end, I actually pleaded with it 'Please don't die'.

The plants' owner hasn't spoken to me since his return.

The sooner building societies and the like take in pot plants the better it will be for the economy — and for ungreen-fingered people like me.

Map 31/6/86

Sanctions may lower interest rates—Barclays

JOHANNESBURG—Barclays Bank's deputy managing director, Mr Barry Swart, said yesterday that if full sanctions were imposed on South Africa, 'Local interest rates could tumble'.

He said there was liquidity, mainly a result of the lack of credit demand due to the recession. It was also Reserve Bank strategy, he added.

More pressure to lift insurance premiums

JOHANNESBURG—Locally registered branches of foreign re-insurance houses are fast cornering the South African short-term re-insurance market with the inevitable result that premiums will rise and hit both companies and the man in the street, Mr Clive Dean, general manager of General Accident Insurance Company, said.

He has called on the government to scrap the 'approved reinsurance' legislation, introduced in 1981 as an amendment to the Insurance Act, which lays down that only re-insurance placed with locally registered re-insurers can be taken into account in calculating the statutory solvency margin.

'It is dangerous to allow this small monopoly of locally registered foreign reinsurers to get such a grip on the short-term insurance market. If it continues, South African companies and individuals will be forced to fork up higher premiums.'

'Already some of these reinsurers have been pretty vocal in forecasting increases in their rates,' said Mr Dean.

'The state of the market being what it is, direct short-term insurers in South Africa, like ourselves, are being forced to use these locally registered (but predominantly foreign-owned) re-insurers in order to keep their solvency margins up. The market is at their mercy.'

Mr Dean said any reinsurance which his company and other insurers placed with overseas parents waters down their solvency margins—sometimes to dangerous levels.—(Sapa)

Property performs behind forecasts

JOHANNESBURG—The Sage Group's three property trusts, CBD Fund, Fedfund and Pioneer, have performed marginally behind forecast, but 'Still satisfactorily in the circumstances,' in the six months ended June, the board says.

Sage Property Trust Managers, management committee of the three trusts, show growth in earnings and dividends of 3,6% in CBD Fund, 6,2% in Pioneer Fund and a decline of 8% in Fedfund.

'The period saw a continuation of the decline in demand for accommodation of all types, resulting in sustained pressure on rental levels and increased vacancies,' the board says.

'Although adverse conditions were anticipated in previous reports, the extent and prolonged nature of the decline was not foreseen and this, together with a further reduction in interest rates, has resulted in the performance of the trusts being marginally behind original forecasts.'

Conditions in the property sector are not expected to change materially during the second half of the year and results for the year as a whole are consequently likely to reflect a similar trend to that achieved in the interim period, the board says.

CBD Fund's net

and dividend per unit for the half year increased by 6,2% to 12,56 cents, based on 92,83m units in issue.

In the first half of last year, net income and dividend per unit was 11,83 cents, based on 69,80m units in issue.—(Sapa)

Opec tries to up price

GENEVA—The Organisation of Petroleum Exporting Countries has won pledges from more than half its members for voluntary cuts in production totalling 1,6m barrels a day, Opec president, Mr Rilwanu Lukman, said yesterday.

The planned cuts are aimed at boosting oil prices, which have dropped from \$32 a barrel last December to as low as \$8 on some world markets.

Mr Lukman refused to say whether the countries that made the pledge on cuts would go ahead if the other Opec countries refused to join them.—(Sapa-AP)

'Further sanctions may cause exporters, who have up until now been the stars of the economy, to suffer,' Mr Swart said.

But the 'Cloud of uncertainty over the economy would be lifted and in the short-term demand could be stimulated.'

Mr Swart said that since last year's debt crisis, foreign exchange volumes were down by around 50%. Additional sanctions would curtail activities further.

Barclays was not experiencing any difficulty securing credit lines from international banks but he believed industrialists were finding it more difficult to do so.

While a cash trade basis would slow business he could foresee no real difficulties.

Mr Swart did not see Pretoria reneging on its \$24 billion debt, but 'If people were driven into a corner they may react irrationally.'

The rand would probably fall in the event of sanctions, but he did not give a figure.

Further sanctions would lead to more bad debts, already at a high level due to the worst post-war recession, he said.

He saw South Africa's gross domestic product growing only by some one percent this year, keeping rates down. Prime, currently at 14,5%, should fall to 13% by the end of this year.

The bank's capital position was relatively comfortable, adding if the bank believed it needed additional capital, 'It would go out and get it.'

Far out-doing its 19,5% after-tax profit recovery in 1985, Barclays reported a half-year after-tax profit 150% higher than a year ago.

At R69,2m (R27,5m), it is not far short of the R86,6m recorded for the whole of 1985.

Earnings per share rose to 107,5c (59,6c).

With the interim dividend unchanged (35c) and a second dividend of 78,75c declared per preferred ordinary (40c in January), dividend cover rises to 2,5 times (1,7).

Commenting on the results, managing director Mr Chris Ball said: 'An improvement on the interest turn and on other non-interest earnings, tight control of costs and the initial benefit in operating efficiency from heavy investment in systems are the main reasons for our encouraging performance.'—(Reuter)

49 ~~49~~ PUN M/AL

1/8/86

Lower forecasts

The past few weeks have been notable for downward revisions of growth expectations by both private and public sector spokesmen.

The year began with general agreement that 3% real GDP growth was probable, encouraged by the "false bottom" in late 1985. Commentators heaved an almost audible sigh of relief at being able to bear good tidings, rather than the doom and gloom of the previous two years.

The 3% forecast was based on the assumption that the financial consolidation phase of the private and corporate consumer was drawing to an end (if it had not already ended), and that demand growth would then resume.

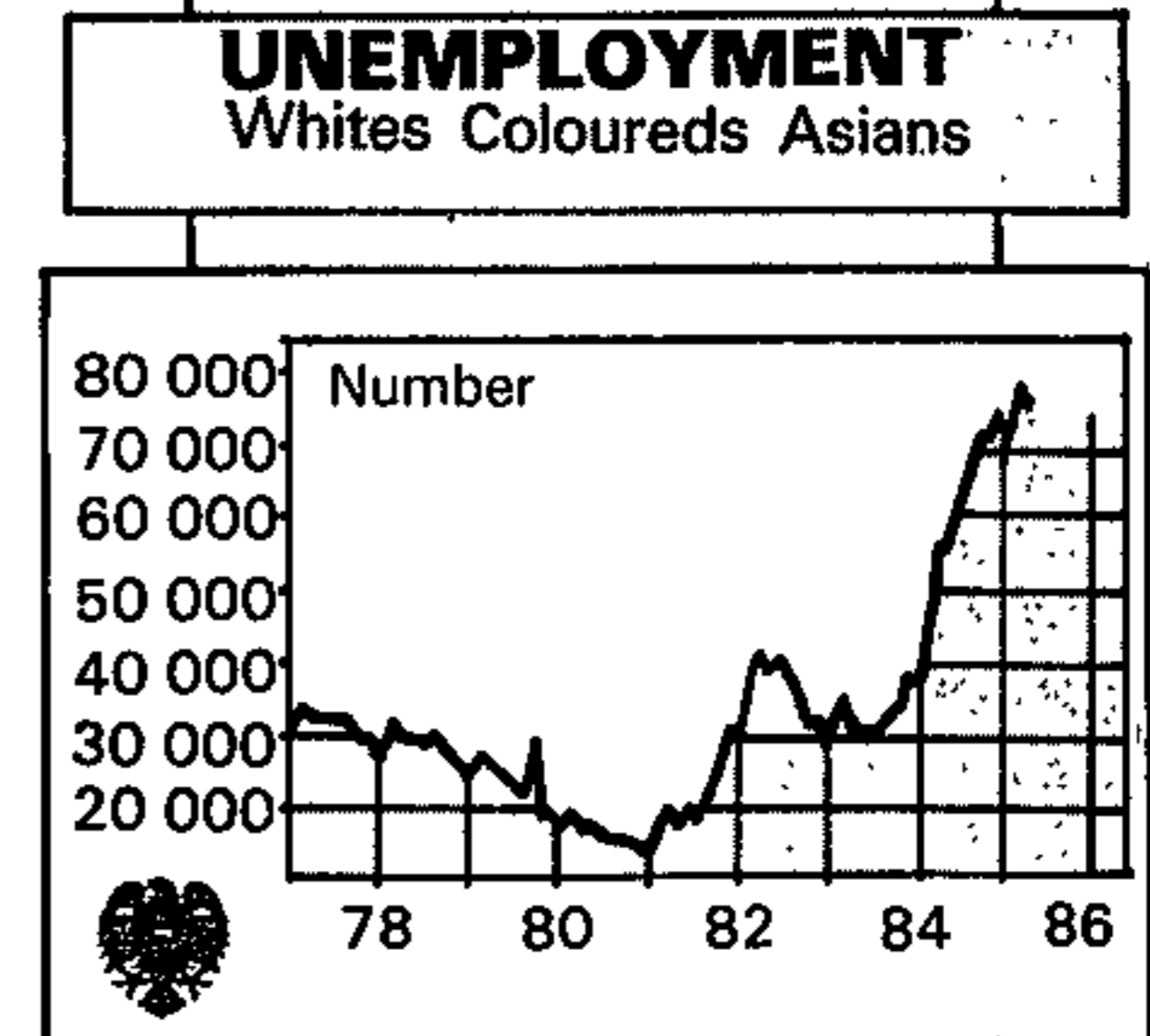
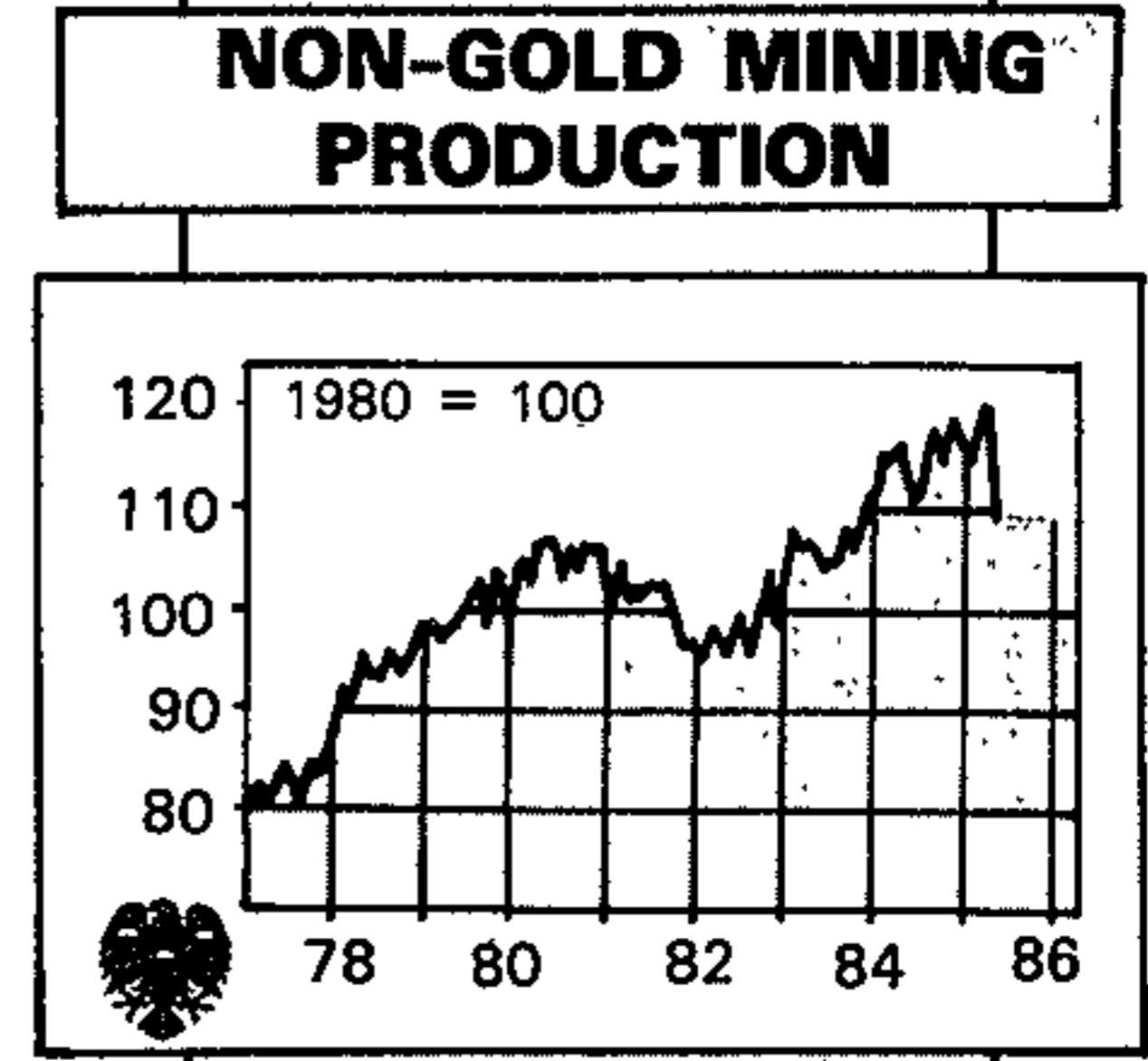
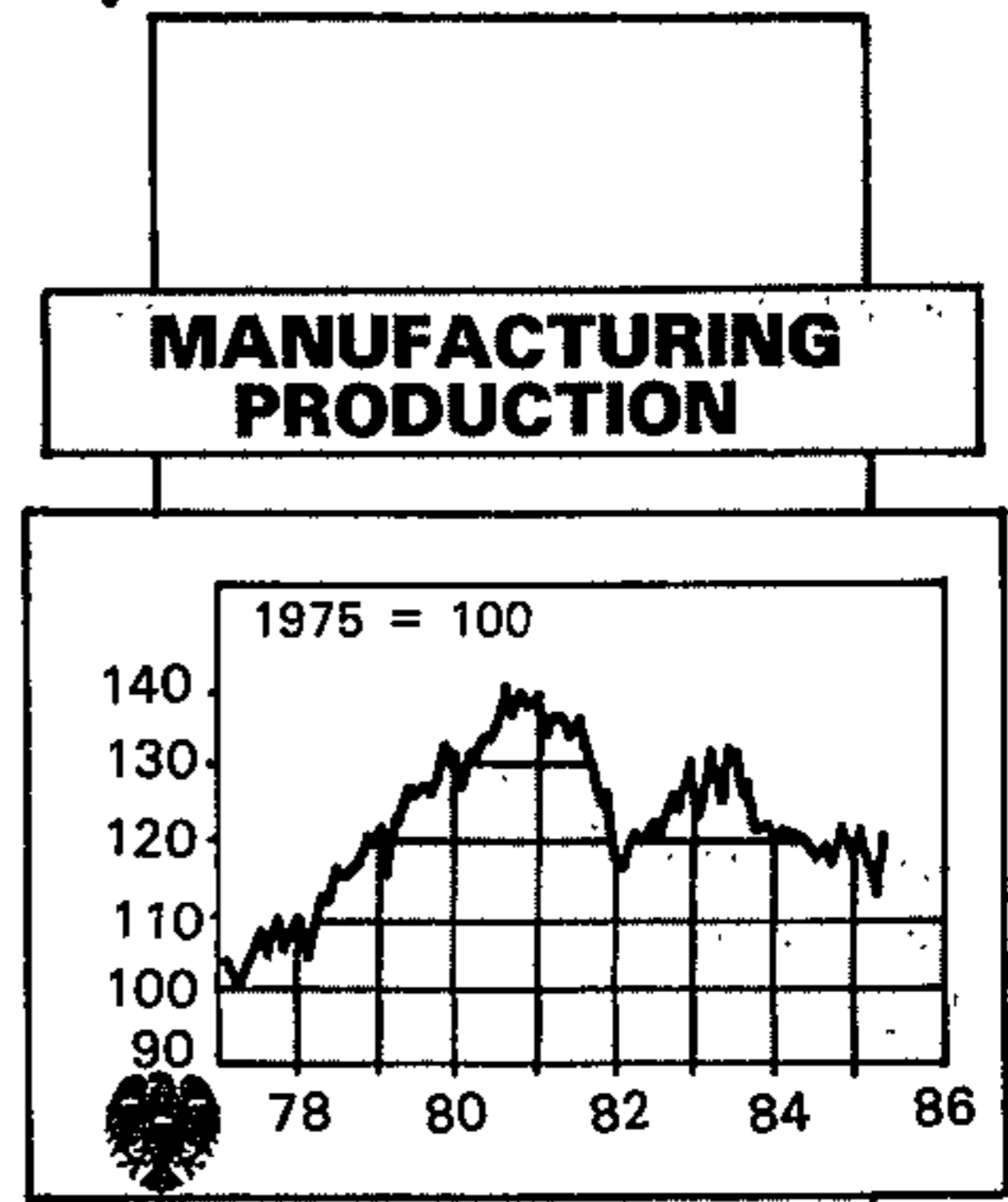
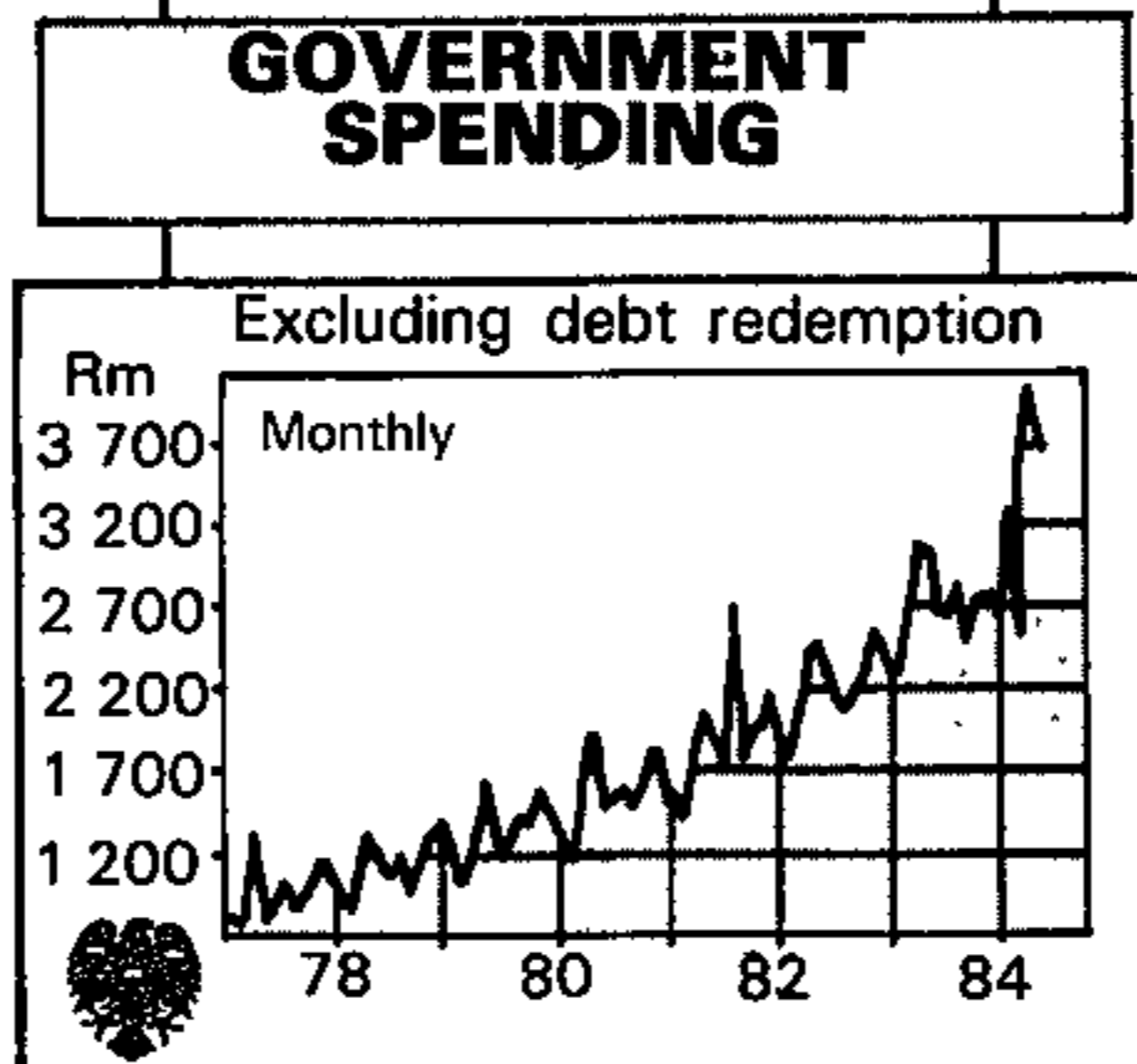
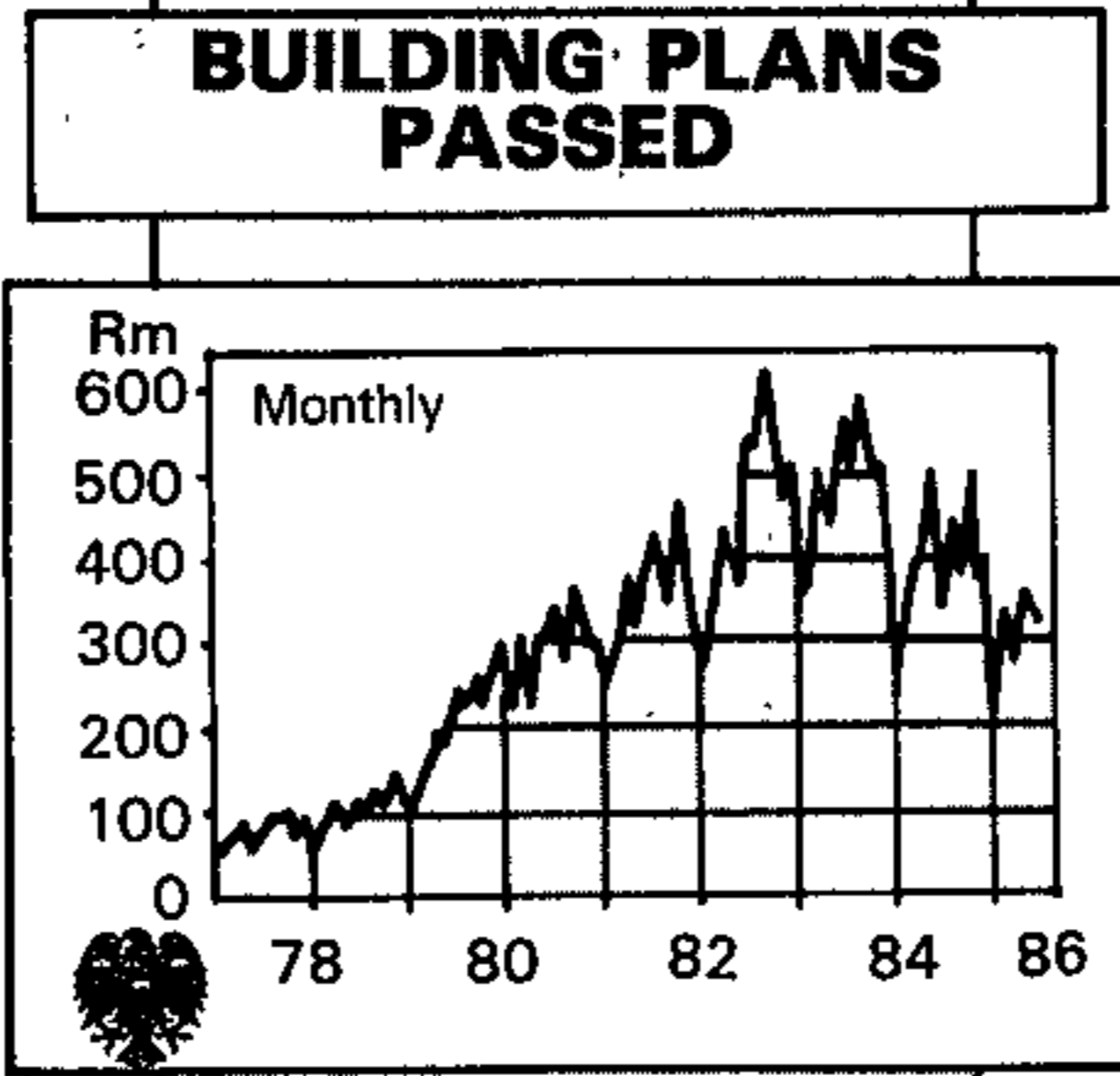
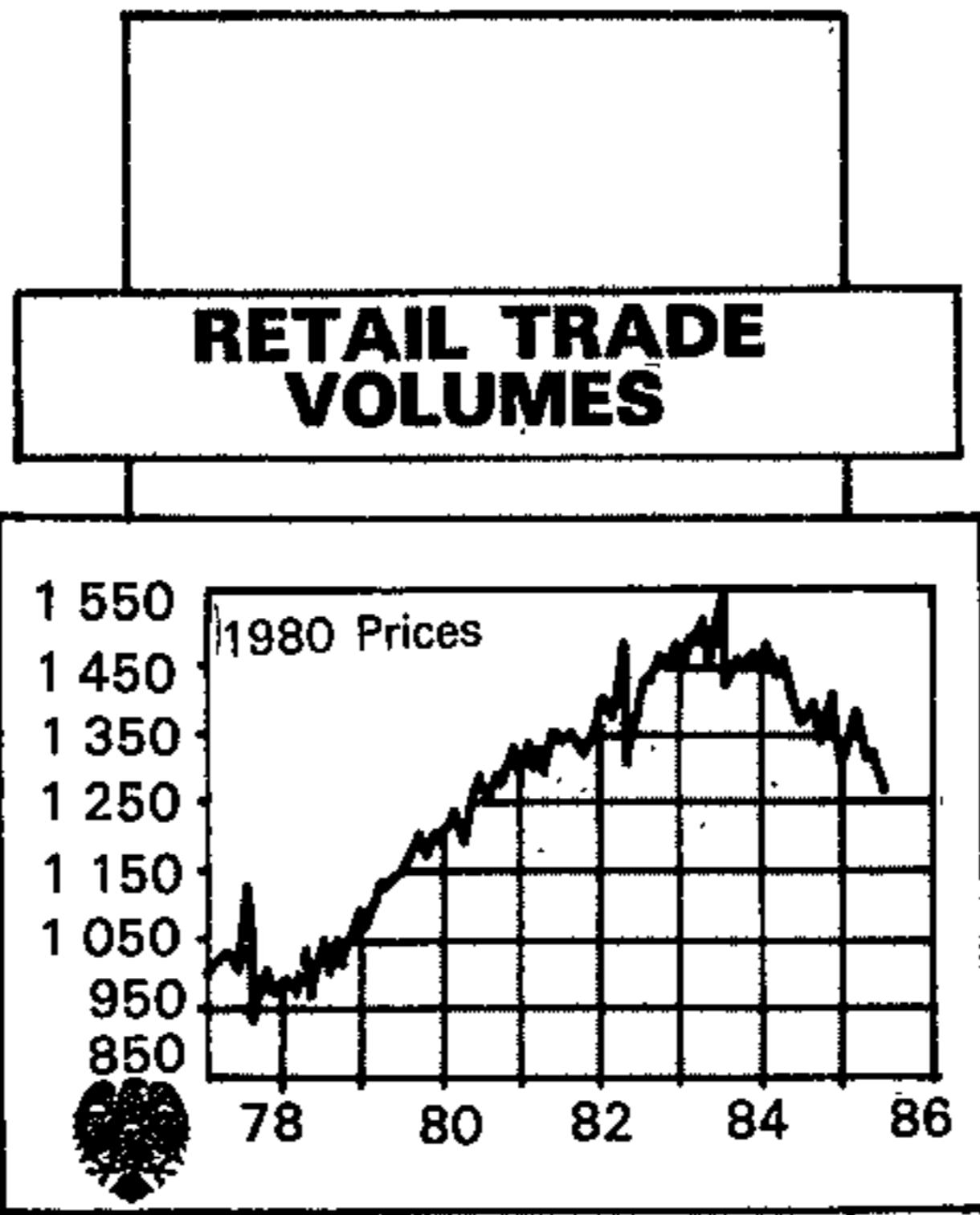
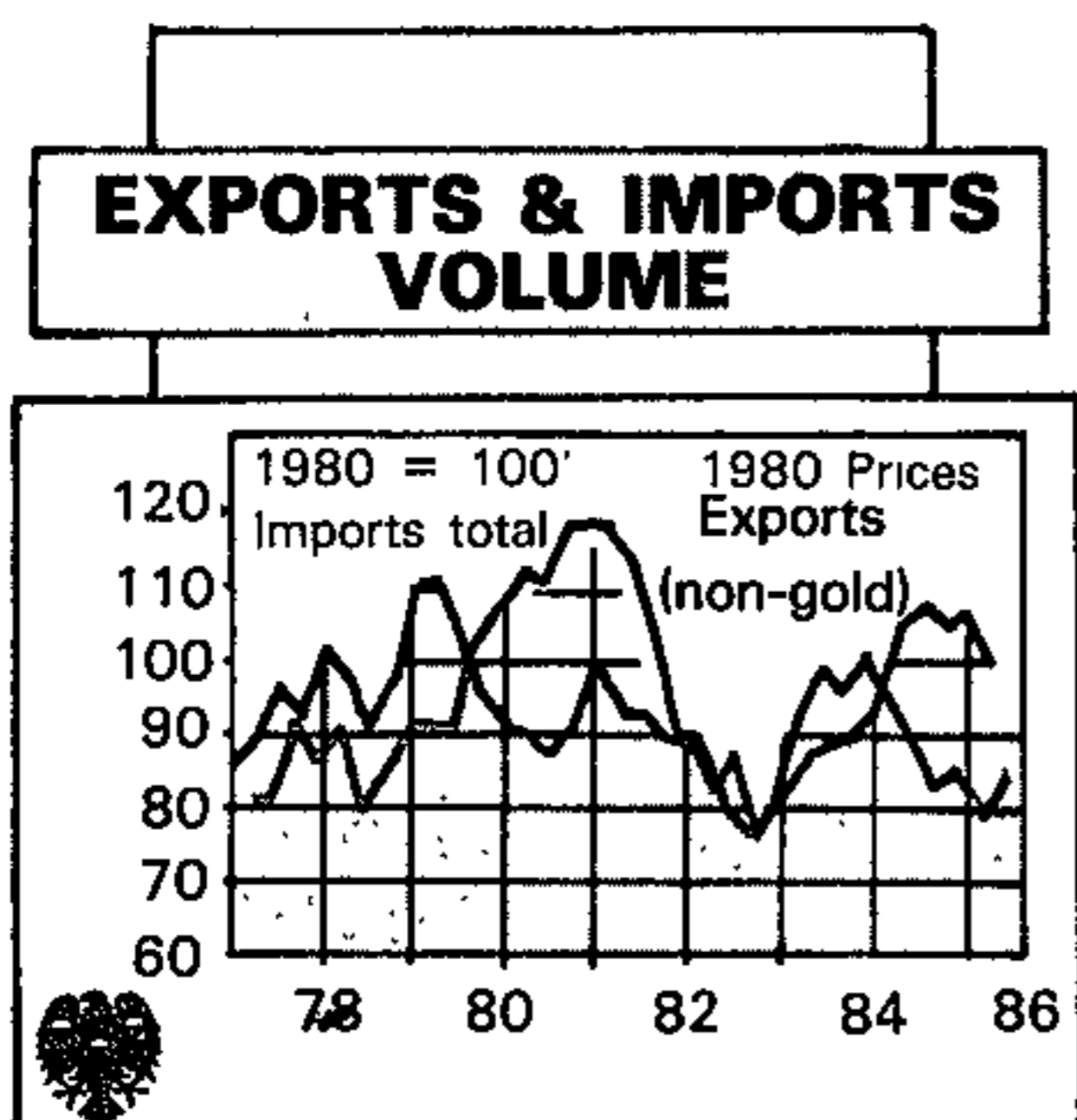
Not that this reflected belief in a return to prosperity. Even 1984 — the year of abrupt termination of the mini-boom — weighed in with 5% real growth. However, after the stress that the economy had experienced on its downhill slide, even such a moderate growth forecast was welcome.

Since then, it became apparent that consolidation by both private and corporate consumers was still in progress well into the second quarter. With this realisation came downward revisions of projections. Official expectations are now just over half the 3% figure; other forecasts are lower.

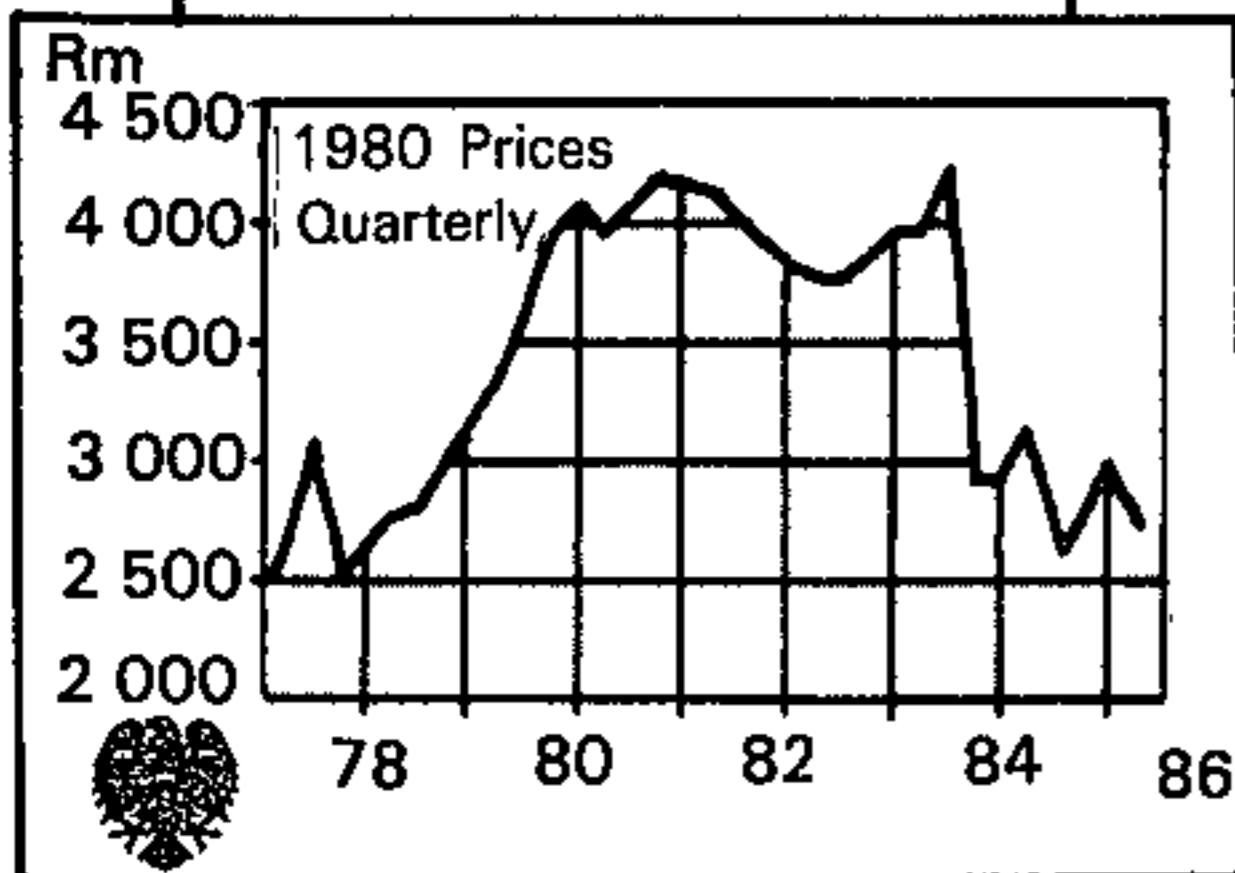
There is some evidence that a support level in consumption spending is not far away — notably a degree of buoyancy in the non-durables sector and a distinct slowing in the rate of decline in other categories of consumer demand.

Reaching such a support level would not necessarily mean that consumer demand will immediately bounce up again, however, as in previous business cycles. The well-identified factors of declining real incomes and lack of confidence indicate that consumption spending could remain static for a significant time, and it would need a major lift in sentiment for any meaningful gain to be achieved.

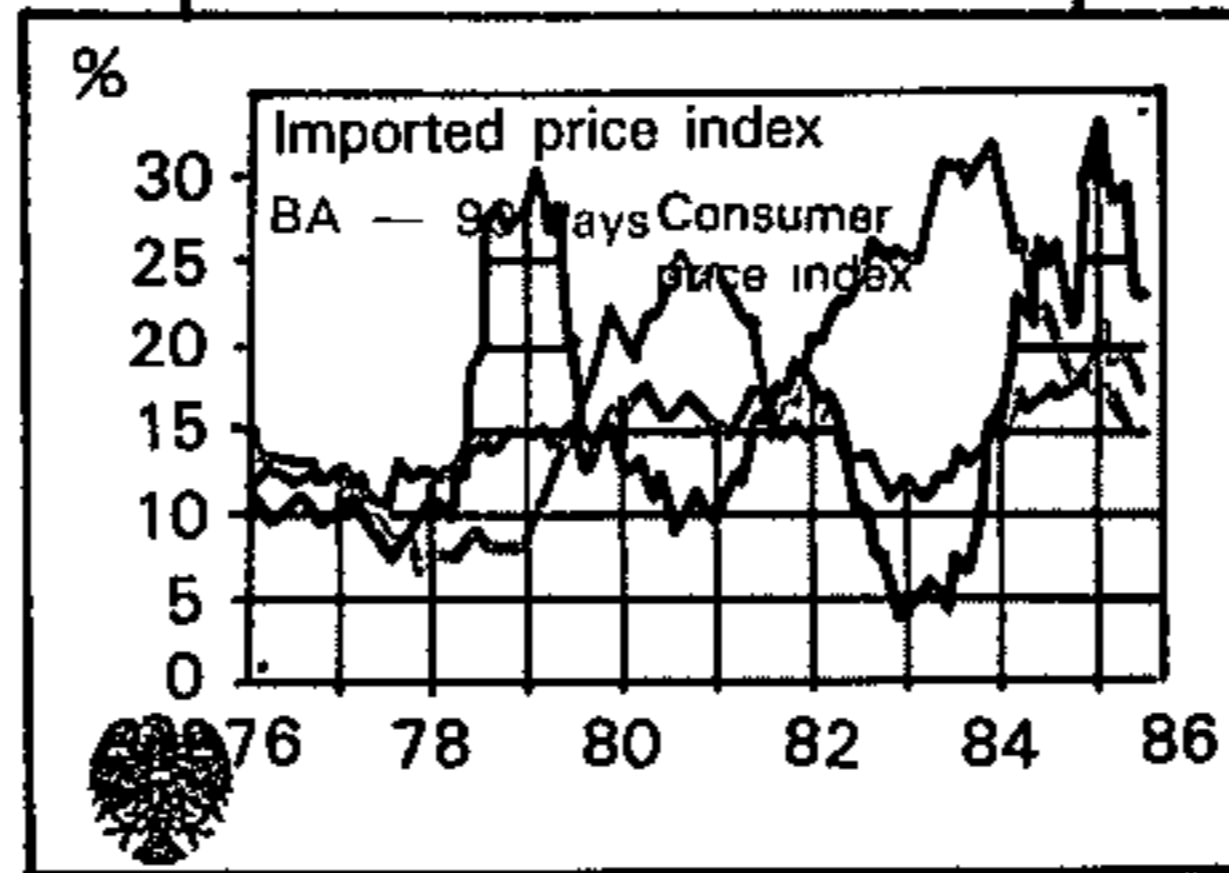
Faced with such a meagre consumption demand outlook, not much is to be expected.



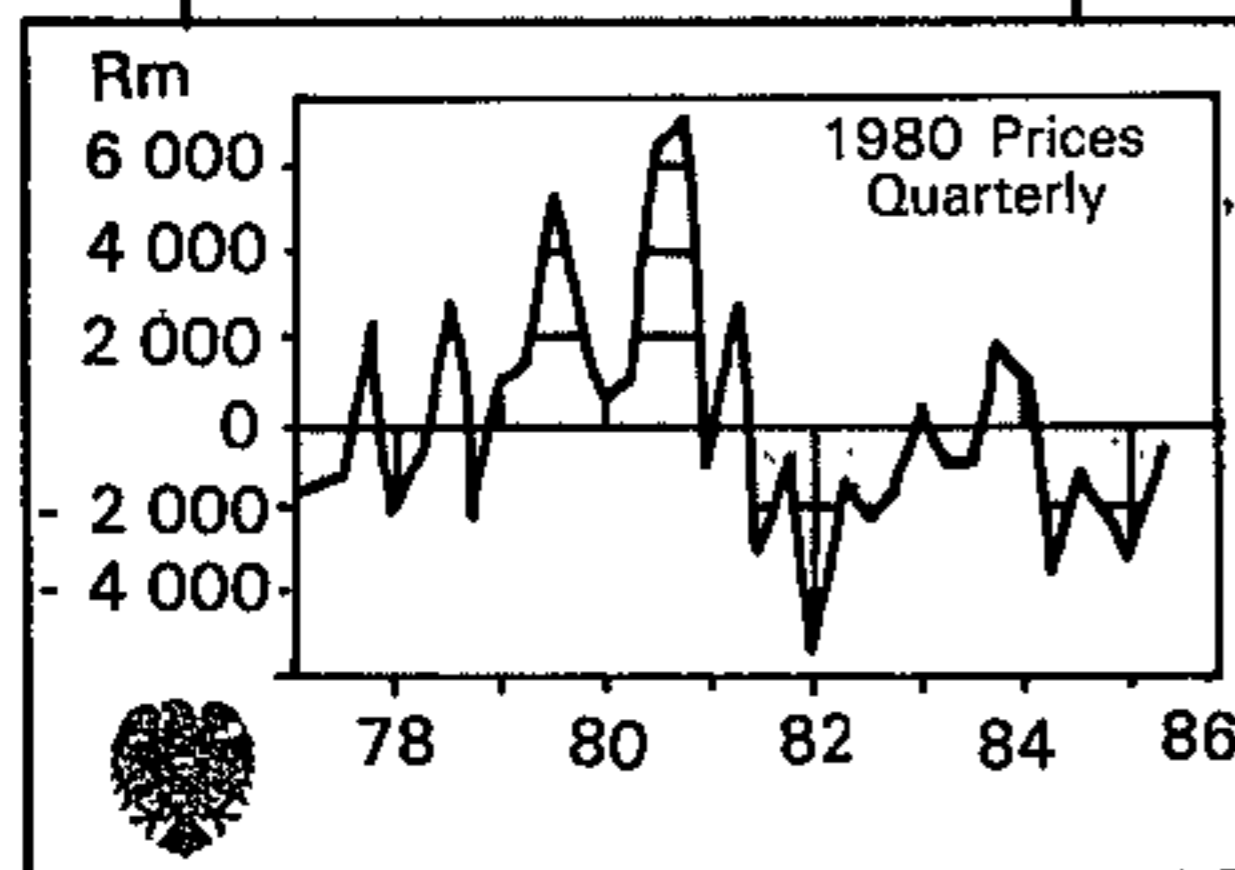
PRIVATE CONSUMPTION DURABLES



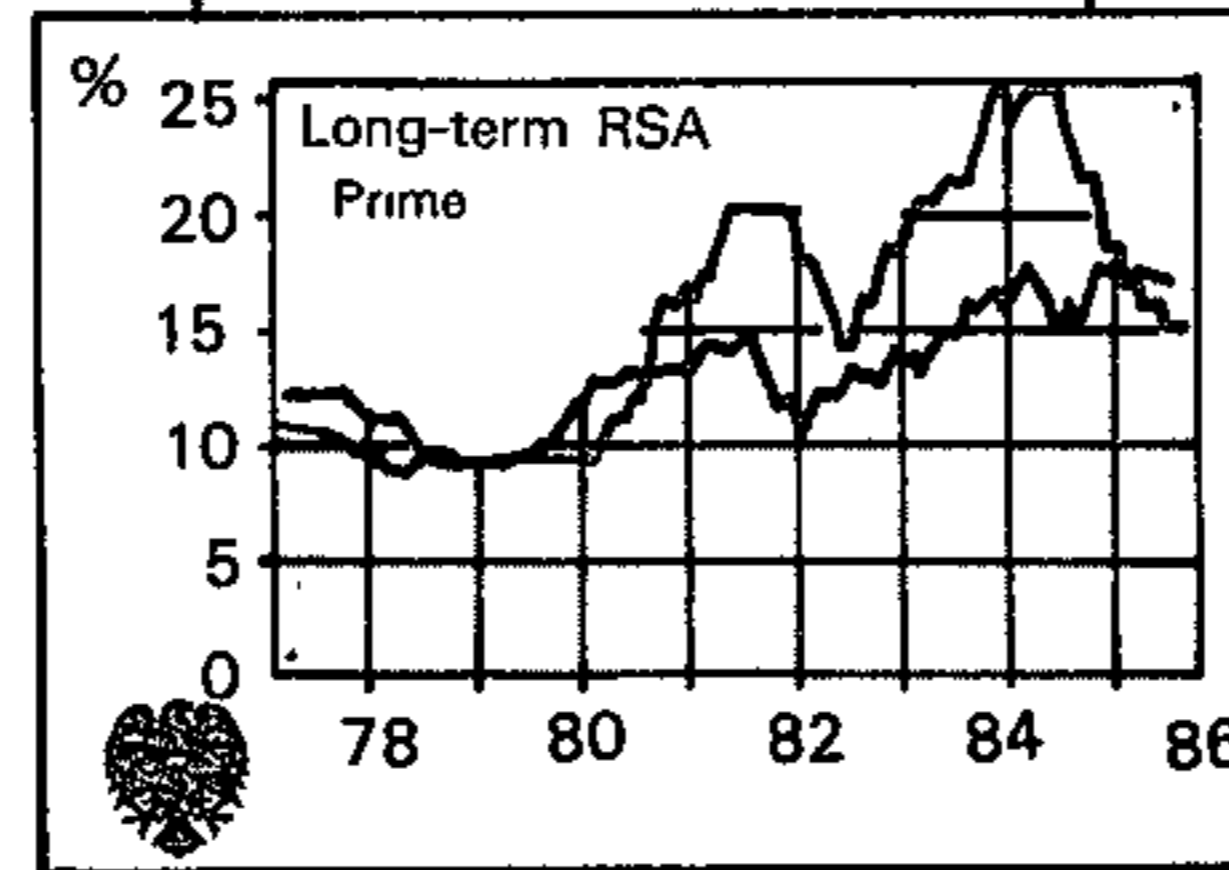
INFLATION



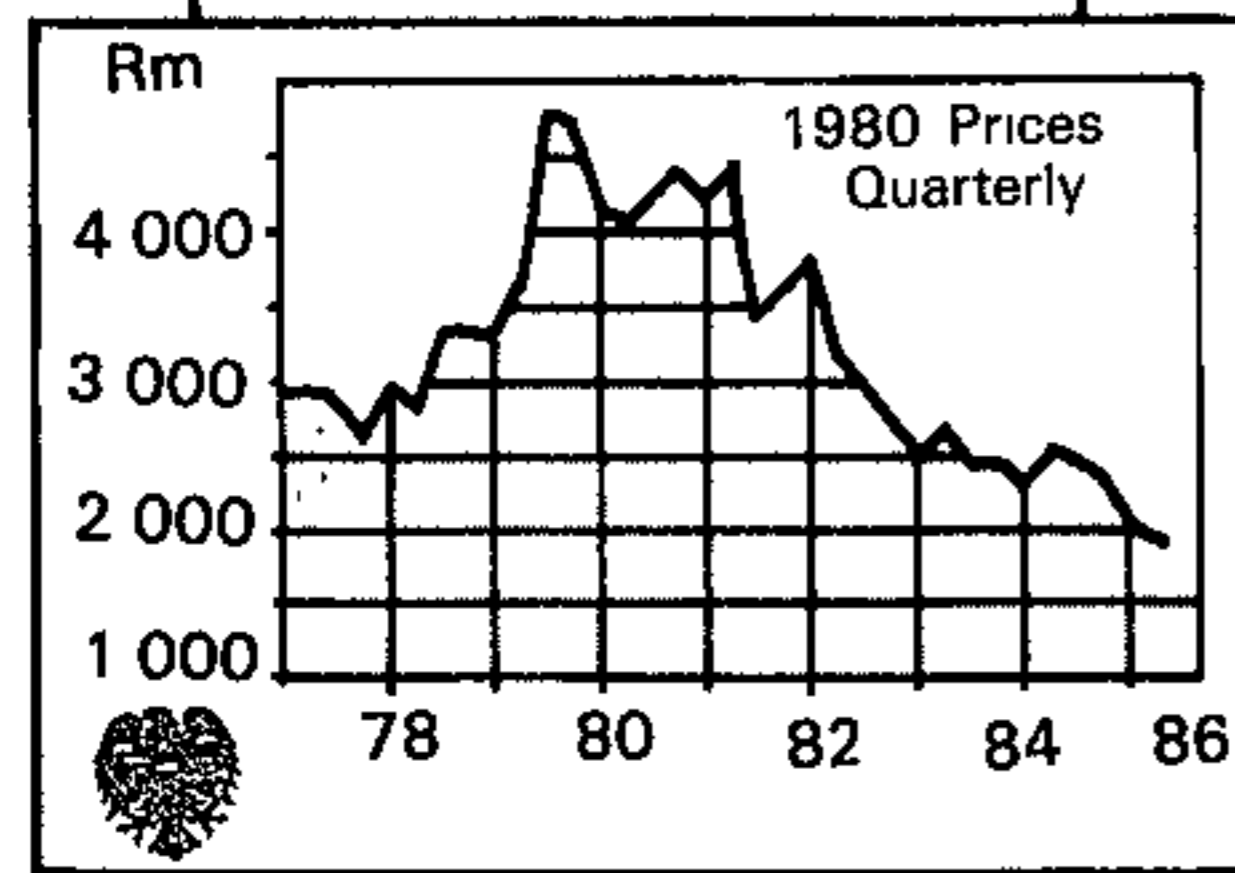
CHANGE IN INVENTORIES



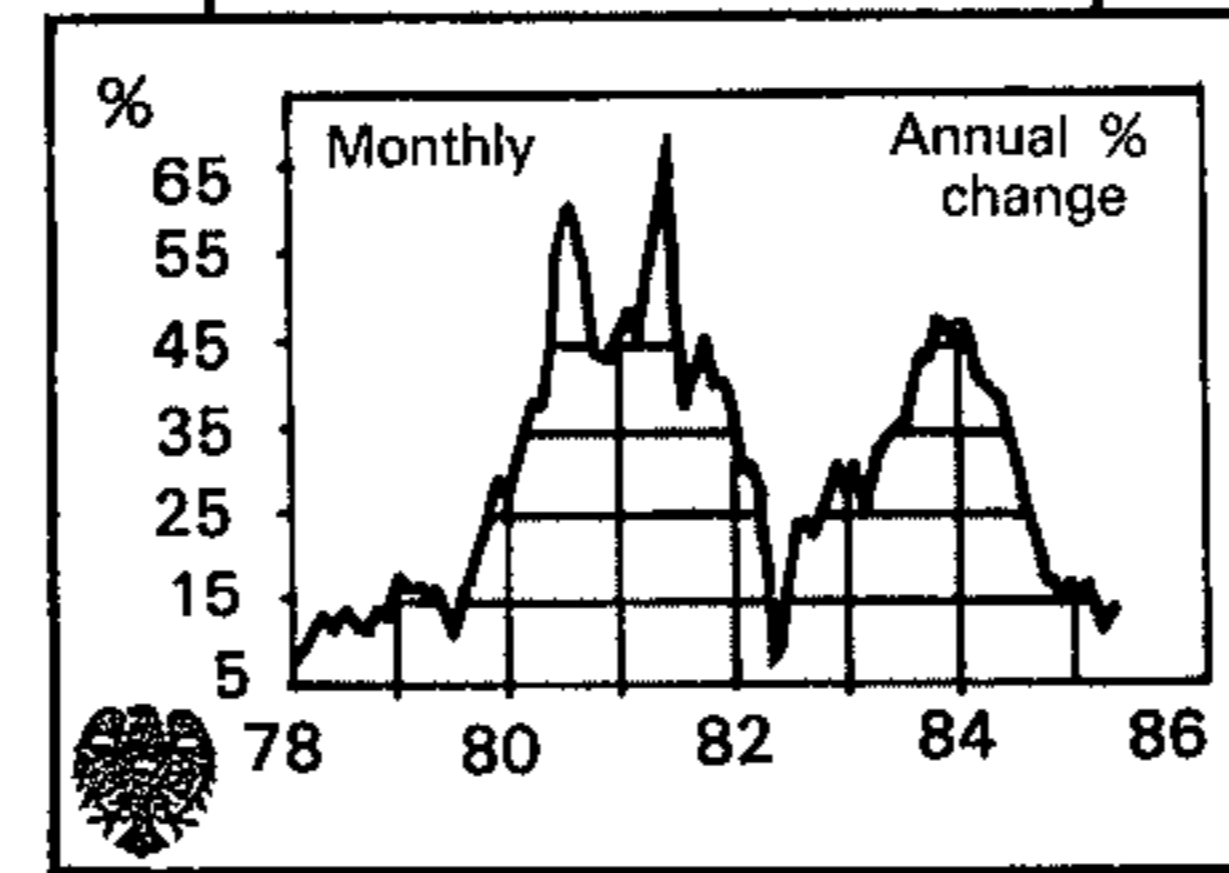
INTEREST RATES
Month-end figures



FIXED INVESTMENT MANUFACTURING



COMMERCIAL BANKS
Discount and Advances



on the investment side either. Since investors are largely motivated by expected returns, high uncertainty regarding SA's economic future does not indicate an early turnaround from the downtrend in fixed investment characteristic of the past half decade.

This soggy outlook for two major categories of domestic demand has positive aspects. Non-oil imports are unlikely to rebound alarmingly from present low levels, and interest rates could continue to reflect the sluggishness of the domestic economy by dropping further and remaining low.

Exports, however, remain a worrying factor. Revenues from this source during the first half fell foul of domestic production problems and tightening, sourced in boycotts, has already been felt in some areas. This leaves two other possible sources of growth — inventories and government spending.

The stock position of the economy as a whole was distorted in the first quarter by the imported oil inventory effect. Excluding this one-off occurrence, non-oil destocking continued in the first quarter, although more slowly than in immediate past periods.

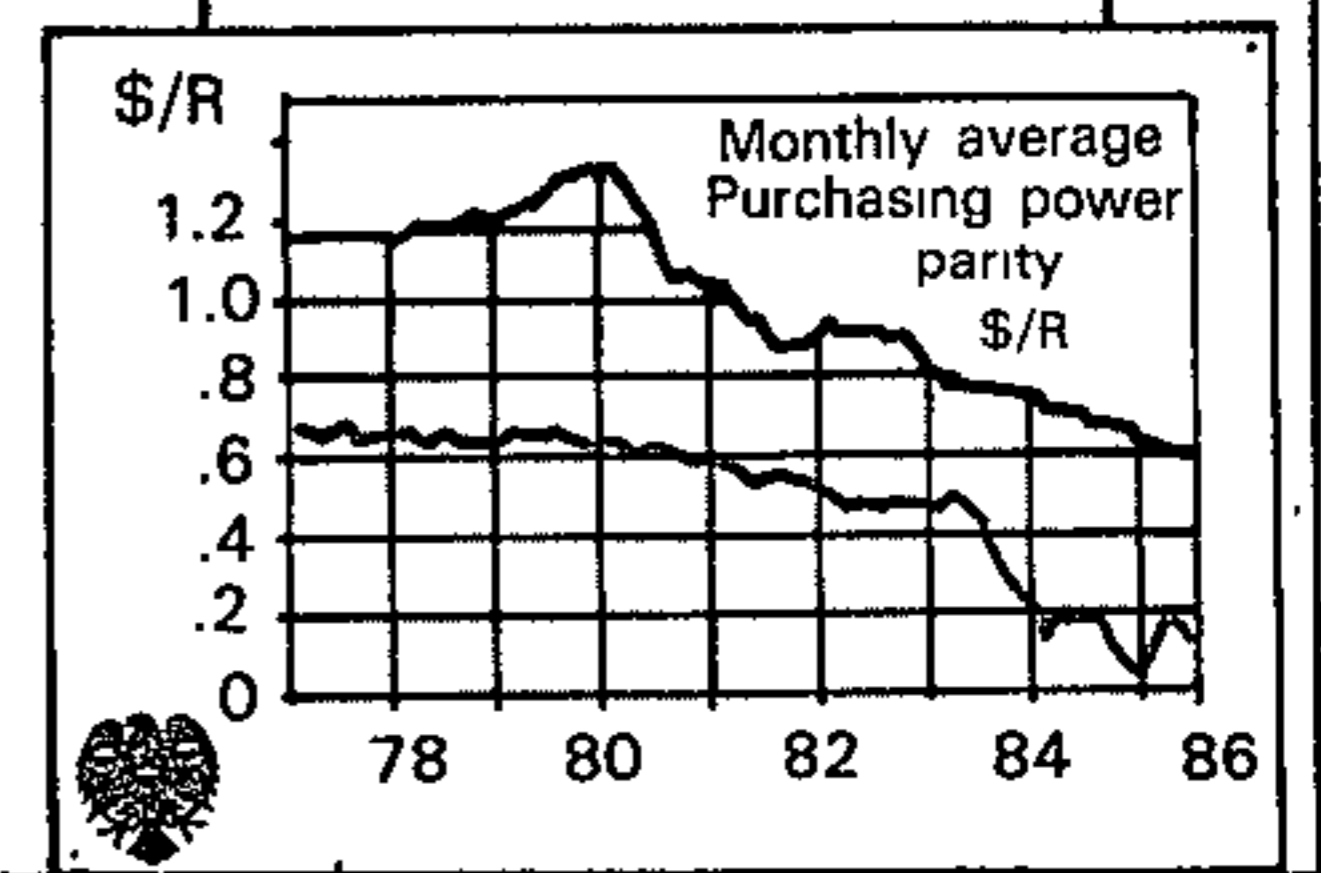
During the second quarter, anecdotal evidence would suggest further stabilisation in this area, and indicate some contribution from intermediate demand towards GDP over the rest of 1986 and into 1987.

Indications, too, are that government spending could provide a stimulation if it continues for the rest of 1986 at the rate at which it began the present fiscal year. The possibility of further packages also cannot be ignored.

However, to rely on State initiatives for growth without the private sector taking up the cue would mean a larger State share of the economy and further burden on the public and interest costs.

The key to getting the private sector going again remains confidence-linked — in both the economic and political senses. Short of a major increase in the gold price, a lifting of sentiment would have to be domestically induced.

ACTUAL AND PURCHASING POWER Rands



State spree threatens economy

3/8/86 (49) SUNTIMES

THE State's spending spree could derail the economy, say economists.

The Budget estimates presented in March will be exceeded by a huge amount if the Government does not rein in expenditure.

The State's accounts for the first three months of the fiscal year show that spending was running at 24,4% — or about R2,4-billion — ahead of that in the same time last year. The budgeted increase was 13,6% for fiscal 1986-87.

Economists and businessmen are concerned that undisciplined spending by the Government, especially in unproductive areas and on public-service wages and salaries, might squeeze out the private sector's growth-generating potential.

There are also fears that excessive spending may be "leaking" through to the balance of payments, soaking up scarce foreign currency and depressing the rand.

Confidence lack

For its part, the Government may well see its expenditure over-runs as necessary to take up the slack in the economy as a result of the private sector's lack of confidence and unwillingness to borrow for restocking or

By David Southey

fixed investment.

It might also draw comfort from the fact that revenue for the three months at R6,9-billion was 21% ahead of income in April-June last year.

The problem, according to Standard Bank economist Nico Czipionka, is that the Government appears to have adopted a "scatter-gun" approach to additional spending, most of the over-runs being recorded in unproductive areas such as defence, police and prisons.

Dangerous trend

He says: "The Government should not lose sight of its commitment to shrinking the public sector. There is no evidence that its extra spending is helping to underpin the economy. Additional expenditure should be carefully focused."

Mr Czipionka would like to see certain departments' spending mushroom, notably on housing, education and job-creating projects. He believes that if this spending were announced by the Government, as it did with its R750-million black housing booster, and sold as an "open-handed policy change" instead of unplanned devi-

ations, some confidence would be restored.

Rudolf Gouws of Rand Merchant Bank says: "The long-term trend in Government finances provides many of the reasons for what is wrong with the economy. For instance, if it continues with the trend of funding current spending from borrowings it will exacerbate the savings shortage."

Dangerous

Mr Gouws says it is dangerous to try to stimulate the economy in current circumstances by State spending.

"This is not primarily a cyclical downturn we are in. It is a structural problem involving the political situation and total lack of confidence. To think you can stimulate the economy without addressing these fundamentals is to invite serious problems on the balance of payments, for the rand and for inflation."

Sankorp economist Peet Strydom warns of a "terrible drainage on the capital account" if the extra spending and stimulation are not accompanied by political moves to reintroduce confidence among businessmen. Mr Strydom says: "The bleeding process on the capital account will destroy whatever economic growth momentum there is."

Bank keeping interest rate low to revive economy

Top economic adviser calls for optimistic business spirit

Dispatch Reporter

UMTATA — The South African Reserve Bank is deliberately keeping the interest rate low to encourage business to revitalise and stimulate the economy, according to the adviser to the governor of the bank, Dr D. W. Goedhuys.

At a public lecture at the University of Transkei here yesterday, he said the bank's task was to stimulate the economy. This process had begun in May last year, and the bank rate had been reduced, in steps, from 21,75 per cent to the present 10,5 per cent.

Business activity had, however, continued to be depressed and money supply had been falling below the target rate. Due to the impeded growth of the money supply, a desire existed to stimulate the domestic economy.

The threat of trade boycotts was depressing, but business opportunities did exist, he said.

"Labour is waiting to be employed and financial capital from local sources is abundant. We at the Reserve Bank are ready to support development. Our motto is: 'Go for growth' — let's start building in an optimistic spirit.

"The appalling, depressed conditions of business call for stimulation in the economy."

He said the rate of money growth, the interest rates and the exchange rate were intimately tied together, but the rate of money growth was now the priority.

Turning to the Reserve Bank's gold-marketing role, he said Transkeians represented the single largest group working on the 44 mines in South Africa. "Gold means a great deal to the Transkei economy. They are intimately connected."

He said gold from the mines was sent to a refinery where it was cast into bars before being taken to the Reserve Bank. The bank then purchased the gold and sold it overseas.

Gold was not sold on behalf of the mines, but was bought outright in rands. The gold most often went to Switzerland where it was bought there by a consortium of three banks who paid in dollars.

He said most of the gold was ab-

sorbed commercially, for example in jewellery and coins. It was also used to meet investment demands, in terms of which it was often sold in bullion or bars.

When unrest or "other developments" occurred, the investment demand would be higher and the price would rise, Dr Goedhuys said.

Gold had always been a popular savings medium because of a distrust in national currencies. Investment demands reacted to currency fears which made the price move, he said.

"If the American people preferred to hold gold then the price of gold would be spectacular."

He said people distrusted currency because it was tied to monetary policy.

At times, priority had to be given to stimulating business activity and protecting the value of a stable currency — otherwise known as fighting inflation. This was reflected in high interest rates and a decreasing amount of available money, he said.

Government bonds, bills and foreign exchange were used to influence rates and also affected the aims of monetary policy. He said the public sector needed to be co-ordinated with the monetary policy because heavy borrowing by the public sector could put upward pressure on the interest rates.

He said the aim was to keep aggregate spending in line with the economy's output of goods and services.

There had been an outflow of capital since September 1984 which became worse in 1985. A R10,4 billion net capital outflow was recorded in 1985, he said.

There was no option except a floating exchange rate, which should be managed by trying to smooth out the more erratic jumps without resisting market trends.

"It's impossible for us to be stable in a sea of instability," he said, referring to the other fluctuating currencies.

He said the Reserve Bank fully supported the Minister of Finance, Mr Barend du Plessis's package of measures to stimulate the economy, which was announced on June 17.

CAM 7/11/82 (49)

SA economy in confidence crisis — BER

THE SA economy at large was "grappling with a confidence crisis, the likes of which have not been experienced since the World War II," the Bureau for Economic Research (BER) at the University of Stellenbosch said in its latest quarterly analysis of economic prospects which was released yesterday.

The bureau said the authorities "on various occasions attempted to use stimulatory measures which were orthodox in nature, arising from a certain economic philosophy, which did not read the situation and character of the economy correctly — hence the introduction of policies which did not appear appropriate in the circumstances."

Recovery

The bureau said it could be safely stated that the economy was unlikely to show a significant or broad-based recovery over the next six months.

There was a lack of consumer confidence

and that there could be no doubt that socio-political factors underlay the lack of confidence.

The lack of confidence could be addressed to some extent by a greater willingness of government to pro-actively formulate and articulate the ultimate objectives in its political reform programme, and by imparting a greater degree of dynamism into its economic policy.

"What is needed is something different from the orthodox anti-cyclical economic policies.

Population

"Whatever policy is introduced should be aimed at the population at large and not primarily at the First World sector."

"In view of this uncertain situation within the country it can safely be assumed that the brain drain will continue as will the outflow of capital. This will put the remaining resources under great pressure." — Sapa-Reuter

BOUDDAY 6/8/86

FINANCE

49

Uncertainty grips economy — BER

THE economy is in an unprecedented grip of political and economic uncertainty which threatens to disrupt productive resources.

This is the view of Stellenbosch University's Bureau for Economic Research (BER) in its quarterly issue of *Economic Prospects*.

The present economic stagnation can be sourced to the lack of confidence and rising uncertainty which translates into a low level of investment programmes, leading to further bankruptcies and a higher unemployment rate, says BER.

It also causes businessmen and consumers to go for liquidity, which results in overall demand staying sluggish.

Nevertheless, BER expects inflationary pressure to remain. "It appears unlikely that inflation will fall below 17% on average for 1986." Thus far the average is 18%.

BER feels that under normal circumstances, the economy might have picked up within the next 12 months lifting capacity utilisation; the rand would have firmed against other currencies and; the benefits of SA's trading partners should have begun to rub off.

But distortions from heightened political and economic unknowns have arisen from the urgency of higher government spending to counter pessimism.

ALAN SENDZUL

BER believes that short-term interest rates will continue to fall in 1986. This it justifies by the view that increased economic activity remains remote and credit demand is stuck in low gear, meaning that there is virtually no pressure to ration funds at this stage.

With flat internal demand for consumer and producer goods likely to mean a drop in the volume of imports, BER expects the balance on the current account to show a drop to R4bn surplus for the calendar year in 1986.

BER would prefer to see a monetary policy operated through interest rates being relegated to its proper place, that is "to provide the correct lubrication to an economy which is on the move", and not for one which is struggling to take off.

Also, more appropriate measures should be taken to reduce inflation. But BER is silent on exact details.

Finally it would like to see the authorities substitute their approach of "eliminating excess demand" with one of "elimination of under-supply".

"The private sector could make a contribution by trying to develop inurement to civil unrest by regarding it as an endemic phenomenon and learning to live with it," says the report.

Expert sees interest rates moving up once more

Business Day Reporter

SANCTIONS will probably result in interest rates reversing from their present downward trend and moving upwards again.

A research paper prepared by Leon Steenkamp for stockbrokers Senekal, Mouton and Kitshoff says export sanctions will have an adverse effect on foreign exchange earnings and therefore on the current account of the balance of payments.

In turn, this would diminish net domestic savings and, of course, SA's capacity to service and repay foreign debts. Monetary policy could become less accommodating, giving rise to a hardening of rates.

In addition, as long as the current market-related exchange rate system is in force, the rand could come under further downward pressure, thereby giving upward impetus to long-term rates.

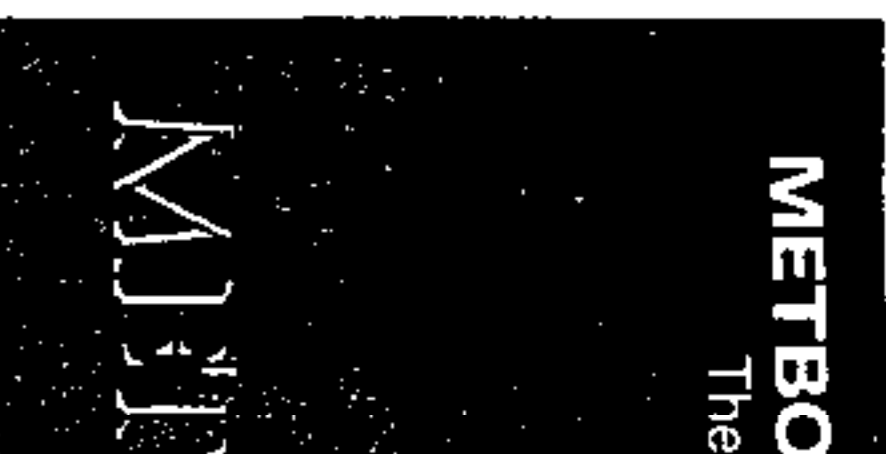
Longer term, rates could ease depending on the adaptability of the economy to sanctions.

Theoretically, sanctions on the supply of goods to this country could result in an easing of interest rates because lower imports and, possibly, a not-too-diminished export performance (because of sanctions-busting) would result in a current account surplus.

On the other hand, rates in the longer term could start to move up as funds are applied to investment in import-replacement goods.



The Star BUSINESS



mic growth could hit next year *8/18/87* *300K* *49* brokers

	1986	1987
U.S. Real GNP Growth (%)	2.9	3.0
Gold Price (\$/oz)	350	370
Balance on Current Account (Rm)	6110	5720
S.A. Real GDP Growth (%)	1.6	4.3
Gross Domestic Expenditure (%)	3.2	5.5
Private Consumption Growth (%)	-2.9	3.2
Gross Fixed Investment Growth (%)	-7.6	10.0
Monetary Growth (%) (M3)	13.4	17.5
Dollar / Rand Exchange Rate (US cents)	0.41	0.35
Consumer Price Index (%)	18.2	17.6
Long Term RSA Yield (%)	17.2	18.0
3 Month B.A. Rate (%)	11.7	13.3
Prime Rate (%)	14.75	16.25

Economic outlook for this year and next.

third quarter of this year, then lack of foreign capital inflow, strong demand for domestic capital resources along with rising demand for credit will push interest rates up over the forecast period.

Long-term capital market rates are expected to rise by about 1.5 percent between now and the end of next year.

"The three-month bankers acceptance will rise from an average

percent in the final quarter of 1987 and prime rates from 14 percent to 18.5 percent over the same period," says the report.

Davis Borkum Hare also believes that the expected improvement in the economy, continued high inflation, further downward pressure on the rand, economic and political uncertainty along with negative rates of return from money market investments will provide further

"Hedge buying of equities will remain the prime rationale for investment," it says.

"Rand hedges, sanctions busters (import replacement industries) and companies likely to benefit from capital spending look the best special situation selections."

With sanctions now set to bite, DBH's reference to mineral products highlights South Africa's potential retaliatory clout.

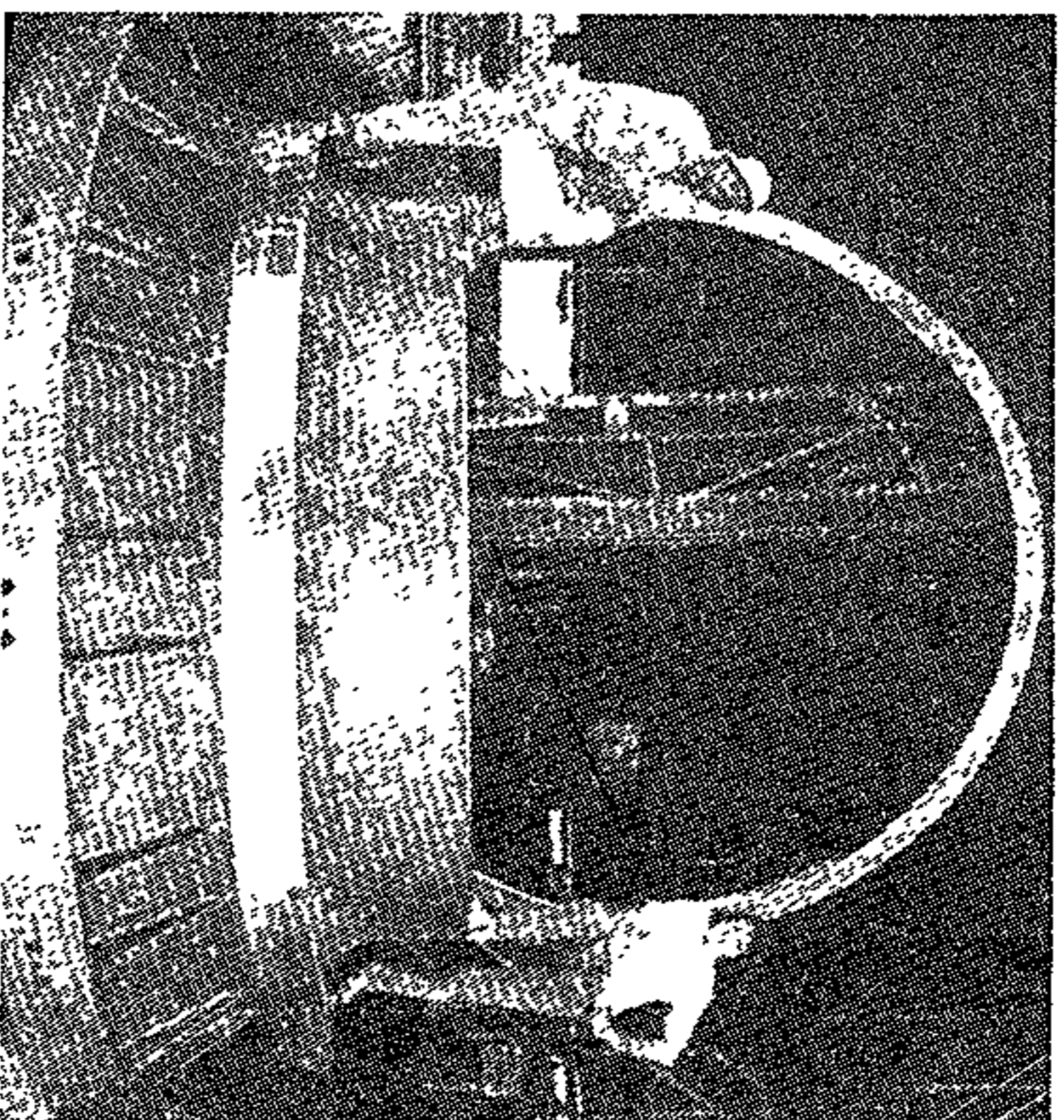
Last year mineral exports, including gold, totalled R22,6 billion, or 64 percent of total exports.

"On balance," says the report, "it is believed that only a relatively small percentage of South Africa's mineral exports will be affected by sanctions action over the next year."

"Coal, steel and uranium are the minerals most likely to be affected. Total loss of income should not exceed R1 billion."

In the longer term, if foreign pressures on South Africa grow, other minerals could come under the sanctions spotlight.

Only gold, platinum, chromium, diamonds, and the major export income earners, accounting for 70 percent of



One of four steel trunnion castings made by Cemento Foundry, a member of the Cementation group, for a Bradford Brecker, the primary crusher in a Transvaal colliery.

The casting, which weighs 12 tons and is 4,2 m in diameter, required close tolerances on concentricity and ovality. It replaces the overseas design, which was a welded fabrication.

Credit rates eased by 1% from today

The maximum interest rates applicable to money lending, credit and leasing transactions are to be dropped by one percent from today, says the Registrar of Financial Institutions, Dr R W Burton.

For amounts up to R2 500, the maximum rate would be 28 percent, while that for greater amounts would be 29 percent.

Details of the amendments, in terms of the Usury Act, would be published in today's Government Ga-

Spotlight on

By Gareth Costa

THE HAGGIE group produced a nine percent increase in earnings to 110c a share for the six-month period to end June, which saw it weather a sustained strike as well as increased difficulties in the export market.

The interim dividend payment, however, remains unchanged at 25c and MD Mr John Feek says that they would rather wait for the final figure before they decide on an increase.

The group had fallen short of budget, and the increased earnings were well below inflation. He expected the next six months to be much the same.

Turnover for the period rose 18 percent, three percent of which is attributed to growth in volumes, and the other 15 percent to price increases.

The company lost 20 working days over the period due to a 17-day strike, May day, Labour Day and a funeral, resulting in a 15 percent drop in tonnage. Mr Feek says it was impossible to make it all up in three months.

Due to present economic uncertainty, they would be starting to hedge in the currency market to a small extent.

"The partly owned operating subsidiaries, Consolidated Wire Industries and Macdem group, have shown significant improvements in their operating profits for the first half of the year. They have increased their turnover not only in rand terms, but also in volume."

On the balance sheet net borrowings, including preference shares, are 12 percent of shareholders funds, minorities and deferred tax, compared with 15 percent at the year end. Total liab-

ties er. D. mar retu earn bene T, R12; poin stric tion the inco' perc T for of the div "vol pro fibr ing sho yea N abo yea aft per 1 to wa Af. cor for Me to

New stimulation is not foreseen ^{business} _{1/18/78} (A)

ALAN SENDZUL

FURTHER stimulatory measures by government this year are not foreseen, says Santamtrust in its July *Market Opinion*.

In the latest report it backs up this view by citing:

- The limitation to which demand can be stimulated if the current account surplus is to be maintained for foreign debt repayment purposes;
- The present high inflation rate. Although inflation seems to be retreating, the danger still exists that it can accelerate again as prices are adjusted to reduce cost pressures and widen margins;
- That stimulation alone is not enough to right the low business confidence and lack of investment caused by political uncertainties and;
- The authorities are limited by the size of possible tax cuts and increases in government spending.

As far as the stock market is concerned, Santamtrust cautions about selecting shares other than those which are less likely to be affected by sanctions.

"As long as we can remain competitive and be the most important supplier of certain commodities to the West, chances for successful sanctions are small."

Sanctions will hurt most where SA is a small supplier to export markets, he says.

Transkei AG warns against borrowing

(49)

Dispatch Reporter
UMTATA — The economic outlook for South Africa was "very bleak" and this had dire ramifications for Transkei, the Auditor-General, Mr Jiyana Maqubela, said yesterday.

He was speaking at the 10th annual meeting of the shareholders of the Bank of Transkei at which the chairman, Mr J. van Vuuren, presented his review.

Seconding the review, Mr Maqubela said it had to be realised how closely linked Transkei's economy was to that of South Africa.

"When the South African economy sneezes, all Transkeians contract the cold economically," he said.

On the positive side, Mr Van Vuuren said in his review that it was encouraging to ascertain from provisional statistics that Transkei had a real growth rate in 1985.

However, it would appear that the primary and secondary sectors of the economy could not escape the ill winds of the recession and other problems being experienced in South Africa.

"Consequently, poorer business conditions were experienced in several sectors of the economy which had a negative effect on the demand for bank credit and heightened the possibility of larger bad debt amounts.

"The management of the bank is aware of these developments and is taking the necessary steps to protect shareholders' interests," Mr Van Vuuren said.

He said prospects were uncertain and it was difficult to make any forecasts about business conditions for the coming year.

"The management is compelled to exercise greater caution but continues to emphasise the necessity of taking all possible steps to increase effective service and functioning."

Mr Van Vuuren said the economic future of any country was determined largely by the dedication of its inhabitants and appealed for the effective application of the the country's assets and other production resources.

He appealed for the scarce production resources of the country to be used to the maximum benefit of its people and the country.

Mr Maqubela said indications were that disinvestment in South Africa would increase and that although Pretoria had made it difficult for investors to withdraw their capital accelerated disinvestment was almost inevitable.

He said new loans to the government and private sector would become more difficult.

"While the arguments are essentially political, their effects are bound to be damaging. The inability to raise finance for ongoing capital and agricultural development has dire consequences for a developing economy."

Mr Maqubela said the Transkei Government had to face four problems:

- The inability to mobilise enough resources to achieve a desired growth rate;
- The absence of foreign investment coupled

with the fluctuating exchange rate;

- The inability to obtain foreign aid and;
- The lack of tax elasticity.

"The very intractability of these problems imposes severe restrictions on the ability of the government to promote the desired growth rate.

"It is therefore inevitable that the government will yield to the temptation of overborrowing in order to implement developmental projects and at times to meet recurrent payments. It is an indisputable fact that Third World countries indulge in massive borrowings year after year.

8/8/86
FIN MAIL

FREE ENTERPRISE

Action stations

"Popular capitalism," which would enjoy the support of both blacks and whites, is becoming a catch phrase as employers and academics scramble to give free enterprise a better image in the townships, and to separate it from apartheid in the minds of blacks.

The Unisa School of Business Leadership's (SBL) two-year study, which resulted in the Project Free Enterprise (PFE) report which recommends moves to popularise capitalism on the shop floor, has attracted unprecedented interest: 7 000 copies have been mailed to key businessmen, politicians and academics all over the world and another 10 000 have been sold, mainly in SA.

Now — scarcely a month after the PFE report — Assocom, the AHI, the FCI and the SA Agricultural Union (SAAU) have issued a joint policy statement on privatisation and deregulation.

The document lays down some guidelines, regulations, and safeguards to make sure that privatisation is not just a staggering bonanza for big business. It considers private monopoly to be no better than public monopoly. As an Assocom spokesman put it: "It would be no good if Sanlam owned the Post Office."

The report points to the pitfalls of too hasty privatisation including a possible deterioration of minimum standards, cost escalations, disruptions of supply, and inadequate consultation.

The paper calls for safeguards against allowing strategic assets to fall into the wrong hands; legislation against manipulation and speculation on the stock market; and moves to encourage competition.

Above all, the employers stress that "economic opportunities arising from privatisation and deregulation should be spread as widely as possible, and especially to small investors and entrepreneurs."

Small Business Development Corporation (SBDC) legal adviser, Johan Naudé, welcomes the employers' systematic and comprehensive comments and hopes that privatisation will lead to a growth in subcontracting and, therefore, of small business.

"However," he adds, "I would not like to see too many safeguards which are, after all, regulations, until after zero regulation areas are created."

Roger van Niekerk, director of the Privatisation Unit — an offshoot of the Free Market Foundation — says big business cannot be denied a role in privatised companies and that the small man can best participate through a shareholding.

He says the best hope is to contract out many local authority functions to small business. This would have the added benefit of depoliticising some functions of black councils, which are now highly unpopular.

So far, nobody has suggested a specific timetable for privatisation, but the priorities must be the most easily saleable assets and

services, the areas where the State cannot meet demand — such as health care, education, and low-income housing, as well as areas which lead to economic revitalisation.

A White Paper on privatisation is now being considered by government and a spokesman in Pretoria's privatisation office says that the views of the employer organisations "will be taken seriously."

Privatisation is a fundamental component of PFE. Project chairman Professor Martin Nasser believes it is essential that government gets out of the mainstream of the economy; and he sees small business, created through deregulation, as the major job creator of the future.

He tells the *FM* the government's reaction to the PFE report has been "neutral to positive," with particular praise coming from Kent Durr, Chris Heunis, and Gerrit Viljoen.

Another of the legs of popular capitalism is black advancement, which Nasser says companies have not so far regarded as sufficiently important. The attitude of some whites on the shop floor also means it is difficult to make the formula work.

However, since it will be impossible to fill all management posts with whites in the future, black advancement will no longer be a moral issue but a matter of necessity. ■

Economic growth could hit 4,3% next year — brokers

8/8/86 S.M.K. (49)

By Frank Jeans

The South African economy should grow by 4,3 percent next year, compared with the 1,6 percent expected for 1986, according to stockbrokers Davis Borkum Hare.

However, the firm says in an economic research project entitled "The 'Political' Economy" that the interaction between politics and economic development, particularly with the significant impact of political events on the economy over the past year, make it doubtful that any significant development of the economy can take place without meaningful political reform and a sharp reduction in the level of violence.

While the South African economy will continue to be buffeted for the rest of the year with declining spending, rising unemployment and general political uncertainty, 1987 should see the start of a general improvement.

Inflation spiral

Indeed, the drop in real wages over the past 30 months will, by then, be held and together with an expected 13 to 15 percent rise in employment, private consumption spending will increase by about three percent.

There is an encouraging pointer in the firm's prediction in one of the main barometers of economic performance — the car and vehicle sector which should see a 30 percent rise in sales from its present "very low base".

The study foresees little ease-up in the inflation spiral because of the declining rand, the effects of drought, rising State expenditure and administered price rises.

"On average, Consumer Price Index rises of 18,2 percent is forecast for this year and 17,6 percent in 1987," it says.

Both short and long-term interest rates should bottom in the

	1986	1987
U.S. Real GNP Growth (%)	2.9	3.0
Gold Price (\$/oz)	350	370
Balance on Current Account (Rm)	6110	5720
S.A. Real GDP Growth (%)	1.6	4.3
Gross Domestic Expenditure (%)	3.2	5.5
Private Consumption Growth (%)	-2.9	3.2
Gross Fixed Investment Growth (%)	-7.6	10.0
Monetary Growth (%) (M ³)	13.4	17.5
Dollar / Rand Exchange Rate (US cents)	0.41	0.35
Consumer Price Index (%)	18.2	17.6
Long Term RSA Yield (%)	17.2	18.0
3 Month B.A. Rate (%)	11.7	13.3
Prime Rate (%)	14.75	16.25

Economic outlook for this year and next.

third quarter of this year, then lack of foreign capital inflow, strong demand for domestic capital resources along with rising demand for credit will push interest rates up over the forecast period.

Long-term capital market rates are expected to rise by about 1,5 percent between now and the end of next year.

"The three-month bankers acceptance will rise from an average of 11 percent in the third quarter of this year to about 15,7

percent in the final quarter of 1987 and prime rates from 14 percent to 18,5 percent over the same period," says the report.

Davis Borkum Hare also believes that the expected improvement in the economy, continued high inflation, further downward pressure on the rand, economic and political uncertainty along with negative rates of return from money market investments will provide further ammunition for a stock market advance.

"Hedge buying of equities will remain the prime rationale for investment," it says.

"Rand hedges, sanctions busters (import replacement industries) and companies likely to benefit from capital spending look the best special situation selections."

With sanctions now set to bite, DBH's reference to mineral products highlights South Africa's potential retaliatory clout.

Last year mineral exports, including gold, totalled R22,6 billion, or 64 percent of total exports.

"On balance," says the report, "it is believed that only a relatively small percentage of South Africa's mineral exports will be affected by sanctions action over the next year."

"Coal, steel and uranium are the minerals most likely to be affected. Total loss of income should not exceed R1 billion."

In the longer term, if foreign pressures on South Africa grow, other minerals could come under the sanctions spotlight.

Only gold, platinum group metals and diamonds — the major export income earners, accounting for 70 percent of mineral export reserves — would remain inviolate under full sanctions conditions.

Inspectors will keep an eye

By David Braun
Correspondent

CAPE TOWN — Inspectors to monitor the affairs of banking institutions and a registrar of banks and building societies are to be appointed in terms of proposed legislation introduced yesterday.

The Financial Institutions Second Amendment Bill was introduced in Parliament by the Minister of Finance. It is to be considered by the Joint Standing Committee on Fi-

nance.

The Bill provides for the administration of the Banks Act, the Mutual Building Societies Act and the Building Societies Act to be assigned to the Reserve Bank.

The proposals contained in the Bill arise from certain recommendations by the Jacobs Committee of Inquiry which was briefed to investigate these aspects by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa.

The Committee's recommendation

that supervision over institutions and building societies referred to the Reserve Bank accepted by the Government.

The Bill amends the Reserve Bank Act in order to allow the bank to appoint a registrar of banks and building societies. It further amends certain provisions of the Banking Act to provide for the appointment of registrars and the delegation of powers and the transfer of certain

8/8/86.
FIN MAIL

FREE ENTERPRISE

Action stations

"Popular capitalism," which would enjoy the support of both blacks and whites, is becoming a catch phrase as employers and academics scramble to give free enterprise a better image in the townships, and to separate it from apartheid in the minds of blacks.

The Unisa School of Business Leadership's (SBL) two-year study, which resulted in the Project Free Enterprise (PFE) report which recommends moves to popularise capitalism on the shop floor, has attracted unprecedented interest: 7 000 copies have been mailed to key businessmen, politicians and academics all over the world and another 10 000 have been sold, mainly in SA.

Now — scarcely a month after the PFE report — Assocom, the AHI, the FCI and the SA Agricultural Union (SAAU) have issued a joint policy statement on privatisation and deregulation.

The document lays down some guidelines, regulations, and safeguards to make sure that privatisation is not just a staggering bonanza for big business. It considers private monopoly to be no better than public monopoly. As an Assocom spokesman put it: "It would be no good if Sanlam owned the Post Office."

The report points to the pitfalls of too hasty privatisation including a possible deterioration of minimum standards, cost escalations, disruptions of supply, and inadequate consultation.

The paper calls for safeguards against allowing strategic assets to fall into the wrong hands; legislation against manipulation and speculation on the stock market; and moves to encourage competition.

Above all, the employers stress that "economic opportunities arising from privatisation and deregulation should be spread as widely as possible, and especially to small investors and entrepreneurs."

Small Business Development Corporation (SBDC) legal adviser, Johan Naudé, welcomes the employers' systematic and comprehensive comments and hopes that privatisation will lead to a growth in subcontracting and, therefore, of small business.

"However," he adds, "I would not like to see too many safeguards which are, after all, regulations, until after zero regulation areas are created."

Roger van Niekerk, director of the Privatisation Unit — an offshoot of the Free Market Foundation — says big business cannot be denied a role in privatised companies and that the small man can best participate through a shareholding.

He says the best hope is to contract out many local authority functions to small business. This would have the added benefit of depoliticising some functions of black councils, which are now highly unpopular.

So far, nobody has suggested a specific timetable for privatisation, but the priorities must be the most easily saleable assets and

services, the areas where the State cannot meet demand — such as health care, education, and low-income housing, as well as areas which lead to economic revitalisation.

A White Paper on privatisation is now being considered by government and a spokesman in Pretoria's privatisation office says that the views of the employer organisations "will be taken seriously."

Privatisation is a fundamental component of PFE. Project chairman Professor Martin Nasser believes it is essential that government gets out of the mainstream of the economy; and he sees small business, created through deregulation, as the major job creator of the future.

He tells the *FM* the government's reaction to the PFE report has been "neutral to positive," with particular praise coming from Kent Durr, Chris Heunis, and Gerrit Viljoen.

Another of the legs of popular capitalism is black advancement, which Nasser says companies have not so far regarded as sufficiently important. The attitude of some whites on the shop floor also means it is difficult to make the formula work.

However, since it will be impossible to fill all management posts with whites in the future, black advancement will no longer be a moral issue but a matter of necessity. ■

Tutu tells Chinese he likes socialism

SHANGHAI — The Archbishop-designate of Cape Town, Bishop Desmond Tutu, paying his first visit to a Communist country, said yesterday he preferred socialism to other political systems.

He told reporters he was impressed by Chinese communism's apparent tolerance of divergent opinions.

However, he said: "I am opposed to communism. I am opposed to anything that is atheistic and I would not myself want to live in a communist society."

He said he also opposed capitalism because it favoured profits over people.

"I abhor capitalism. The way the West has operated by and large in this matter of apartheid gives me no reason to want to change my views about capitalism," he said.

Bishop Tutu arrived in Shanghai on Friday for a week-long visit. He is expected to meet senior leaders of China's Communist Party in Peking later this week.

He said: "I am not an economist or a sociologist. I am but a poor religious leader and all I can do is to try to have a vision of the kind of society I would like to see. It would be a compassionate society, one that cares for people more than things."

Biggest boom in gold exploration

Mercury Correspondent

JOHANNESBURG—The greatest gold exploration boom in the history of South African mining is now under way with expenditure of about R150m a year for the first time.

The boom has reached such proportions that up to R8m in cash, the highest price ever, has been paid for a farm to gain the mineral and mining rights in the Potchefstroom area.

Because of the programme of drilling, there is a severe shortage of drills and as soon as these are available from one area they are moved at speed to another.

About one-third of this activity has been south of

the Free State mines; another third is in the area between Klerksdorp and Randfontein.

The remaining third is throughout the Witwatersrand Basin including areas close to the Evander gold mines, south of Johannesburg in the Crown Mines lease area; also to the south of Nigel and between Soweto and Randfontein Estates mine.

The drilling to the south of the Free State goldfields led to the establishment of the Beatrix, Beisa and Joel mines and extensions to older mines are expected

method complex geological structures previously difficult to interpret can be identified.

Mining circles are confident that a new deep level mine will be established by JCI south-west of Western Areas gold mine.

Further west in the Potchefstroom district, drilling on the farm Gerhardminnebron by Anglo American's associated company New Central Wits resulted in core assaying 1 756 cm/gt.

There are reports that another core of much higher value has been assayed

12/16/84 BUS DPT

49

Du Plessis, De Villiers come in for blistering personal attack



● DU PLESSIS

A BLISTERING personal attack was launched yesterday against the Ministers of Finance and Trade and Industry by Sanham's retired chairman Andreas Wassenaar, who questioned their ability and competence to handle their respective portfolios.

Effectively labelling them as incompetent and not fit to be in charge of the country's economic reins, Wassenaar charged that SA was being let down badly by Finance Minister Barend du Plessis and Trade and Industries Minister Dawie de Villiers.

He told a delegation of businessmen

CHRIS CAIRNCROSS
attending an SA-British Trade Association (Sabrita) lunch in Cape Town: "It is my personal view that they will continue to let the country down because they are not qualified to take the decisions required of them."

"They have to act on the advice of somebody, and they are not qualified to discriminate between good advice and bad advice."

Wassenaar said President P W Botha should remove Du Plessis and De Villiers from their posts, combine the two portfo-

lios into one, and find an individual who had the qualifications, competence and experience in economics and finance to head the Ministry.

He said: "He must be the best man we have in SA. His qualification should definitely not include the fact that he won a seat in some constituency."

It was conceivable that such a step by Botha would inject renewed confidence into SA's ability to weather the storms that lay ahead.

Wassenaar said two "big blunders" committed by Du Plessis had led him to question the Minister's competence.

The first was Du Plessis' announcement of his intention to push the perks tax through. The question Du Plessis had apparently not appreciated sufficiently was how important it was to decide just how those perks should be brought into the tax net.

At the time (July 1984), the economy was on a downward trend and the motor industry was somewhat vulnerable. Wassenaar said: "One would have thought that the indications were for anybody with experience to see that 'car perks' should have been brought into the tax net in a time of economic strength."



● DE VILLIERS

relating to arrest

Rush for shares as gold price takes off

40
12/8/86
Mercury Correspondent

JOHANNESBURG—As the gold price rocketed yesterday on European markets, soaring to a peak last reached in 1984, records were shattered on the Johannesburg Stock Exchange.

In London the metal touched \$398 an ounce, easing under profit-taking to an afternoon fix of \$388. The JSE turnover reached a new peak of R109 million of which mining shares accounted for R90,5 million.

With platinum as the leader, the surging prices of the two noble metals have been sparked off by fears of South African retaliation to sanctions and growing anxiety about deflation in the world economy, London analysts said yesterday.

Yesterday the Wall Street Journal predicted that gold would continue to rise sharply in coming weeks.

'As stock markets are seen to be peaking people are looking for something else to invest in and gold is the obvious thing,' said one London analyst.

Anxiety about the world economy — and particularly fears of a pending recession in the U S — could send gold on an upward spiral.

Platinum jumped more than \$50 dollars to \$555 yesterday before falling back to \$538,50, still up 7% on the day.

Yesterday, the JSE opened in high gear. It was the bull market that gold and stock market analysts had been waiting for.

Johannesburg brokers said that the inevitable correction in the gold price to \$387,70 at the London afternoon fixing was not expected to stem the bull run on shares as their books were crammed with unfilled orders.

The gold board chalked up 35 new highs with individual gains stretching to more than 16%. Golds dominated the top 20 list with individual stocks' turnovers ranging from R1 300 000 to R7 000 000.

The rand did not respond to the exuberant gold price. The commercial rand could only manage a 70 point gain since Friday and closed at \$0,3885.

Barclays,
Volkskas
drop
interest
rates

Finance Reporter

BARCLAYS and Volkskas banks have joined Standard Bank in dropping their interest rates for depositors, following the fall in the prime overdraft rate.

At Barclays the rates are effective from August 8. For notice deposits the rate drops 0,5% for call to 8 months, by 0,75% for 9 to 11 months and by 1% for 12 months to 60 months.

For Bob accounts there is no change up to R1 000; from R1 000 to R15 000 it drops by 0,5% and over R15 000 by one percent.

Volkskas new rates are, with old in brackets:

Savings accounts (from August 16): R5 000-R9 999 7,25% (7,7%); R10 000-R14 999 7,75% (8,5%); R15 000-R19 999 8,75% (9,5%); R20 000-R24 999 9% (9,75%); R25 000-R39 999 9,25% (10%); R40 000-R50 000 9,75% (10,50%).

Special deposits (from August 14):

Randgrow 9,5% (10%); 32 days 9,5% (10%); 60 days 9,75% (10,25%); 88 days 10% (10,5%); 185 days 10,5 (11%).

Fixed deposits 6-8 months 10,5% (11%); 9-11 months 10,75% (11,5%); 12-17 months 11% (12%); 18-23 months 12% (13%); 24 months 12,5% (13,50%);

Volkskas Savings bank: 12 months 11% (12,%); 24 months 12,5% (13,5%); 36 months 13% (14%); 60 months 13% (13,5%).

(Sapa)

S.A.'s ills due to Trade and Finance ministers says ex-Sanlam chief

CAPE TOWN—The country's economic ills were directly attributable to actions by the ministers of Finance (Mr Barend du Plessis) and of Trade and Industry (Dr Dawie de Villiers), Dr A D Wassenaar, former chairman of Sanlam, said here yesterday.

To recover economically, South Africa needed an economic leader as strong as 'we fortunately have on the political field' he told a lunch meeting of the South African British Trade Association (SABRITA).

Decisions

'While the State President was facing a momentous political task, he and the country were being let down badly by the two ministers in charge of our economy.

'It is my personal view that they will continue to let the country down because they are not qualified to take the decisions required of them.

'In the final analysis they generally act on the advice from the civil servants. I have a strong feeling that economically the RSA is governed by the civil service, not by the elected Government.'

There were two avenues to solve South Africa's immediate economic problem. The first, 'beyond our control,' was a dramatic increase in the price of gold, or a colossal inflow of investment funds from abroad.

'The second avenue is the hard one, but within our control, namely to fight back.

'As a starting point one would like to see a clear admission that we reject committees as our salvation and recognise that we need just as strong leadership in the economic field as we fortunately have on the political field.

'Leadership of this nature can only come from a leader, not from a committee.

'We have to accept as a strong necessity that the

departments of industries and finance should be united in an economic department under a minister of economic affairs, assisted by deputy ministers of finance and industries.

'One should try to eliminate from the management of our economy the problem of the left hand not knowing, or not caring, what the right hand is doing,' Dr Wassenaar said.

South Africa's economic ills were due to inflation, which he considered had much to do with Government current account spending and interest rates introduced in July 1984 by the present Minister of Finance.

'We are looking for the cause of our escalating inflation rate in too many places, overlooking the fact that Government spending on current account by an excessively large civil service on escalating salary scales, and on a pension scheme which might be described as a financial time bomb, are basically the main reasons for our high

rate of inflation, which is tending to rise ever higher.'

When the economy was on a downswing due to South Africa's inflation rate running at seven to eight percent higher than its main trading partners, the Minister of Finance had committed two 'Big blunders.

'Within days of his appointment as Minister of Finance he rushed in (where wiser men did in fact fear to tread) when he announced his intention to push the perks tax through immediately.

'It was obvious in July 1984 that the economy was on a downward trend and that the motor industry was somewhat vulnerable. One would have thought that the indication was there for anybody with experience to see that "car-perks" should have been brought into the tax-net in a time of economic strength, not in a time of increasing economic depression.

New cars

'The minister attacked the motor industry's achilles heel, namely the demand for new cars, at the very worst time, thereby making himself to an appreciable extent, responsible for the present depressed state in the motor industry, and for the increasing unemployment which has occurred in the motor industry.'

Soaring gold price will help S A to pay her debts

JOHANNESBURG—Reserve Bank governor Gerhard de Kock said South Africa would continue to meet foreign debt commitments and soaring gold prices would boost the whole economy.

His remarks, in a telephone interview with Reuters, followed renewed speculation that international sanctions may encourage Pretoria to delay debt repayments.

Last week Finance Minister Mr Barend du Plessis said any erosion of the current account surplus due to sanctions would reduce South Africa's capacity to service its \$24 billion foreign debt.

R215m repaid

South Africa repaid R215m to the International Monetary Fund last week, Dr de Kock said.

It was the third repayment of a one billion Special Drawing Rights loan South Africa obtained from the IMF in 1982.

In terms of the IMF agreement, South African began repaying the loan in eight quarterly instalments, beginning in February this year.

Dr De Kock said yesterday: 'We are fully meeting all our commitments as

agreed.' Asked if Pretoria would continue to meet debt repayments, he said: 'There is no problem with that.'

He said sustained strong gold prices would be a shot in the arm for the recession-hit economy, rocked by over two years of political violence.

On Monday gold surged to 394.50 dollars an ounce at the London morning fix, its highest level for 30 months. It slipped back slightly yesterday to \$386.10 dollars.

'The gold price doesn't have to stay at \$395 dollars. If it stays at around the \$380 level that would be a tonic for the whole South African economy,' Dr De Kock said.

It would boost exports and tax receipts, increase South Africa's current account surplus and tend to strengthen the weak rand, he said.

This week's rally in gold and platinum prices was sparked by fears that South Africa, the world's largest producer of both metals, might retaliate against threatened sanctions by cutting supplies.

At present, exchange rates, each one-dollar rise in the gold price increases the value of South Africa's gold output by some R55

million (\$21 million dollars) over a full year, Dr De Kock said.

'At \$300 per ounce, at the present exchange rate, the value of gold output is R16.4 billion (6.2 billion dollars). At \$400, it would be R21.8 billion (8.3 billion dollars) per year, so there's quite a difference,' he said.

Dr De Kock said South Africa was meeting its foreign debt repayments out of its current account surplus. Gross gold and foreign exchange reserves had not fallen at all in the last three months in spite of debt repayments, he said.

Freeze

In the past week, South Africa had repaid R215 million (\$82 million) to the International Monetary Fund, the latest repayment on a credit it received in 1982, Dr De Kock said.

South Africa froze repayments on \$14 billion of its foreign debt last year when overseas banks, worried by mounting violence, cut credit lines.

Under a rescheduling agreement hammered out with foreign creditors earlier this year, South Africa agreed to repay some five percent of the frozen debt before June next year. — (Reuter-APC)

Pavlov-like, the mood swings to optimism

Weekly Mail

15/8/86

49

It is exactly a year since Rubicon I, which precipitated financial "sanctions" imposed by foreign banks. These led in turn to the drowning of the rand, the debt crisis, economic stagnation and profound gloom.

The leap in the gold price earlier this week represents possibly the first glimmer of light since then. The mood already appears to be shifting, Pavlov-like, back to extreme optimism.

But as the eventful past week has shown, Rubicon I's backwash continues to affect financial markets, and will help shape the impact on the economy of whatever gold price rise, or sanctions, might occur.

Firstly, interest rates dropped again last Tuesday, for the 11th time since May 1985. This reflects the continuing economic stagnation and the collapse of the demand for credit.

Counterposed to this was the booming Johannesburg Stock Exchange, where aggregate share value and trading volumes seemed to be reaching new highs almost daily last week. The overall JSE index of share prices has risen 12 percent since late June, and 27 percent this year. Daily trading volumes on the gilt (bond) market far outweigh even those on the Exchange.

Currency movements however indicated South Africa's disastrous external position: the financial rand slipped to a new low of \$0,1775, indicating that net capital outflows are again rising, partly as a result of political developments (the State of Emergency). Nearly R8-million left the country in the second half of 1985, but this dropped to "only" R830-million in the first quarter this year. These capital outflows have led to a 44 percent drop in the Reserve Bank's gold stock — the bulk of South Africa's internationally acceptable funds — over the past 13 months.

On the face of it, these developments are contradictory. Large capital outflows should "normally" be associated with tighter money market conditions and rising, not falling, interest rates.

And economic stagnation and poor profitability are not the usual context for rocketing share prices. Certainly, South Africa's two most recent episodes of falling interest rates — in 1979-80 and 1982-83 — were associated with balance of payments surpluses based on a higher gold price, which boosted liquidity and eased the money market.

This was also true of the initial drop in rates last year, when the lower rand eventually produced a trade surplus.

The events of a year ago transformed the picture, leading to the apparent paradox.

One of the effects of economic decline and political instability has been a massive and self-reinforcing loss of confidence in the rand, both

A year since Rubicon I, the mood has swung back to optimism. The paradoxical reason: as the currency plunges, money is pouring into the only assets which offer a return greater than inflation: shares. STEVEN GELB reports

internally and externally. Foreign and local investors alike have rearranged their asset holdings, with the common motive of avoiding as far as possible the risky and wasting asset which is the South African currency.

One consequence has been the large capital outflows, representing disinvestment from South Africa, as foreign creditors and other investors seek more secure assets with higher returns than South Africa with its dropping rand can offer.

Internally, poor markets and high levels of excess productive capacity have removed any incentive to invest in new plant and equipment. But holding cash is not worthwhile, either: the real interest rate (the difference between the nominal rate and inflation) is negative, so that bank deposits simply lose their value.

All that's left as a destination for corporate cash flows is financial assets, which might offer a return greater than inflation. Consequently, money is pouring into shares and even into long-term bonds, the market for which was totally moribund only a few months ago.

And as these markets have picked up, they have become a magnet for speculators looking for quick profits. This has further accelerated their rise.

Rubicon I caused a "flight from money" — an attempt to escape from the rand's shrinking value, internally and externally — reflected in current financial market conditions.

In other historical situations, such a development has contributed to very rapid rises in inflation. While inflation remains a major problem in South Africa, one reason it has not worsened (so far) may be the presence of financial markets offering other ways of holding wealth.

Nevertheless, just as accelerating inflation would indicate that something was seriously amiss, so does the present situation, despite the appearance of confidence over on Diagonal Street.

The underlying problem is the legacy of financial "fragility", a situation in which a financial crisis can be triggered even by some relatively minor event.

In South Africa, fragility increased after the falling gold price and international recession ended the "gold boom" in early 1981.

In the ensuing five years, markets and production shrank and corporate profits declined.

But the financial superstructure still

grew rapidly, as companies borrowed, here and overseas, to keep their operations moving. Bank loans to companies rose by 35 percent per annum during these years.

Foreign debt, of course, kept pace, trebling as a proportion of Gross Domestic Product.

The debt crisis, forcing the economy into even deeper stagnation, has helped to resolve the situation (at quite a cost) by partially collapsing the fragile financial edifice. This is indicated by the capital outflows which have reduced the foreign debt burden, and the significant rise in bankruptcies.

Nevertheless, the economy would be in even worse shape if the logic of financial collapse had worked itself out completely.

Not that this was likely to be allowed to happen: the benefits of a more stable financial system would be far outweighed by the economic and political costs of a total collapse. This was why the government and the other banks stepped in to indicate their support for Nedbank during the recent scare.

One factor helping to keep the structure standing is that old bogey, ever-rising government spending, which pumps money into the system.

Perhaps more important has been the uneven impact of profitability problems and income distribution.

The large institutions — the mining houses and insurance companies — have benefitted greatly, at least since 1984, from the economy's general problems: the falling rand, inflation, and so on.

Thus instead of a series of major business failures (Dion's, Kirsh, Triomf, etc.), there has been increasing concentration of ownership and control, and the diversion of large amounts of cash from these institutions into shares and bonds.

In these ways, financial collapse has been avoided, but at a price of continuing financial fragility.

Current developments suggest that the debt crisis has relocated the problem of fragility, rather than resolving it. Capital outflows and swelling share values cannot be combined indefinitely with a shrinking productive base. Speculative activity, even by larger institutions, in the markets for stocks and bonds is sure to increase.

In addition, there is the certainty of sanctions, including possible legislated financial sanctions.

Thus renewed financial crises can be expected to develop in the future (and the future is very soon in South Africa these days). The question is: will the government and/or the major financial institutions repeatedly be able to stave off fuller financial collapse?

Stay tuned.

15/8/86 FinMail

PRODUCTION PRICE

49

Short-term fall

Although increases in the production price index (PPI) continue to slow — June was the fourth month in a row — several danger signs point to a reversal in trend.

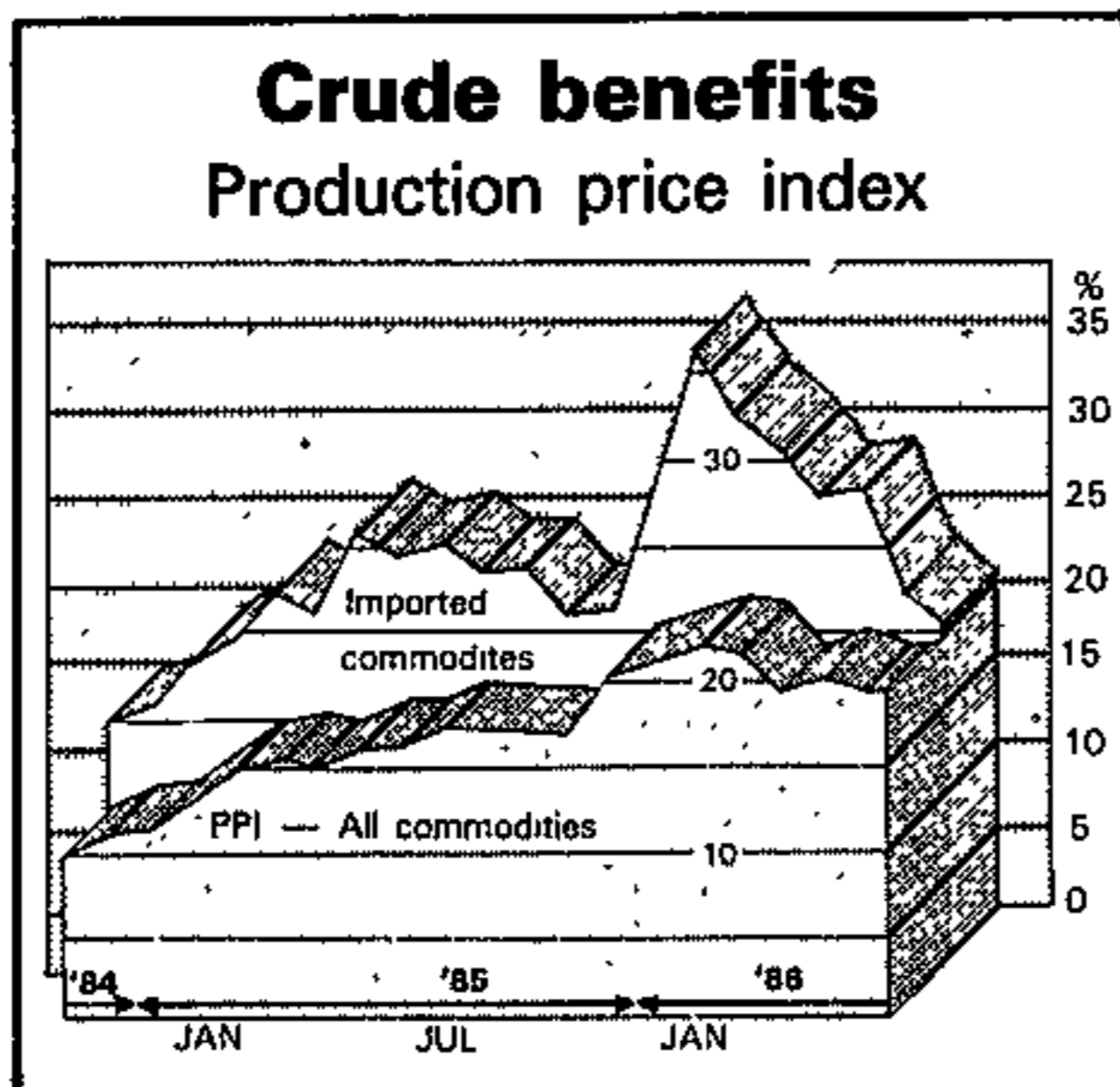
For June, the annual PPI increase was down to 19,03%, compared with May's 19,6%. A peak of 22,2% for all commodities was reached in January. The overall index rose by only 0,8 to 213,3, an annualised rise of only 4,5%.

A massive reduction in the monthly index for mining and quarrying was largely responsible for the June decline. The month-on-month index here was *minus* 10,5%, attributed to imports of strategic materials, probably oil.

In June, the world oil price was declining and clearly had a significant impact on PPI, despite the weakening rand and increases in certain locally produced items. Agricultural produce, for example, leapt by 6,6%, fresh meat increased by 4,1% and textiles were up 3,6% in June month-on-month.

Says Leon Steenkamp, economic consultant to stockbroker Senekal Mouton & Kitshoff: "This amazes me because it is happening during a period of weak demand. The economy is still depressed and we should, instead, be seeing a tapering-off in price increases."

However, it is probable that, at least for food, inelasticity of demand is allowing producers to pass on cost increases. Producers



are having to absorb some cost increases for some commodities for the time being.

Says Steenkamp: "I expect inflation generally to remain on a downward trend only until demand picks up." Indeed, with inflation around 17% in a depressed economy, "it doesn't augur well for CPI when producers pass on price increases as the economy picks up."

"So next year we should see inflation accelerating again."

At the same time, large price increases late last year and early this year will be out of the system, so statistically at least, year-on-year CPI will no longer benefit.

Already the world oil price has been firm-

ing, which points to a reversal of the trend in price indices. Add the more recent depreciation of the rand and the imported component of PPI could go up in the second half of this year. The outlook is, therefore, not good.

The increased threat of sanctions will also not help. Imports are generally considered to have been cut to the bone. So SA could be forced to turn to the black market for some goods, especially "essentials," and this will put further upward pressure on inflation. ■

Du Plessis and De Villiers reply to attack

THE Ministers of Trade and Industry and of Finance media secretaries yesterday responded to a blistering attack made earlier this week on the Ministers by former Sanlam chairman Andreas Wassenaar.

The statement issued by the Ministers' press secretaries read: "Dr Wassenaar's reflections on the Minister of Trade and Industry and the Minister of Finance have been brought to the Ministers' attention, as were his previous statements of the same kind.

As far as the Wassenaar attack was concerned, the media secretaries said: "Inasmuch as this charge is simply a repetition of his previous verbal attacks, and since his views are not shared by the majority of businessmen or by other leading figures in the sphere of economics, with whom both Ministers regularly consult, the Ministers do not deem it necessary to comment on Dr Wassenaar's statement or any consequential report."

Black pupils stay away

THOUSANDS of pupils in Soweto, Katlehong and Alexandra stayed away from school in the past two days and 11 vehicles and two private homes were burnt.

Pupils and teachers told *Business Day* the boycott was in protest against the presence of the SADF at some schools.

The Bureau for Information said Wednesday's events marked a "sharp increase" in the level of unrest.

On this day students burnt their newly introduced cards, stoned and gutted delivery vehicles.

The bureau said more than half the unrest-related incidents reported on

Wednesday had occurred in Soweto.

It said stone-throwing incidents and arson occurred and 11 vehicles and two private homes were set alight by students who streamed out of the schools.

Most damage was caused in Katlehong, on the East Rand where groups gutted a delivery vehicle and four trucks in separate incidents, causing damage estimated at R500 000, the bureau said.

"In the rest of the country, incidents were of an isolated nature and in line with the general trend of the past few weeks," it added.

Senate adds ban on SA textiles

WASHINGTON — The US Senate voted yesterday to add a ban on imported South African textiles to a list of punitive sanctions against the country.

The textile ban, approved by a vote of 67-29, is one of dozens of amendments designed to strengthen the sanctions Bill.

Textile imports became a symbol of that effort after the administration of President Ronald Reagan signed a new textile agreement with South Africa. The

agreement came in the midst of controversy over apartheid and the loss of US textile industry jobs because of foreign imports.

The Republican-controlled Senate signalled its overwhelming support for at least some form of sanctions when it voted 89-11 this week to end debate on the sanctions legislation. The vote for a textile ban underscored that point. — Sapa-AP.

Smaller banks fill gap in dealing lines

RESTRICTION of foreign exchange dealing lines by some foreign banks has had little practical effect on the general availability and cost of trade financing to SA companies, banking and trade sources say.

In fact, several smaller European banks, who historically have not taken part in such lending, have recently begun to offer dealing lines, filling the gap left by larger banks that have cut back on such activity.

But the identities of these new players in the SA foreign exchange business have not been determined.

Currency dealers at major Johannes-

Economics Reporter

burg banks said forward trade credit was still available, but that fewer foreign banks were offering such lines.

A banker said: "We certainly can get forward cover. It just may not be as available from as many banks."

As well, the spreads charged on dealing lines, which usually range between five and ten points, had not increased.

SA Foreign Trade Organisation GM Ann Moore said export financing had not been affected by the tightening of trade finance. She said: "The big multination-

als aren't hurt because of their wide banking connections. I'm sure they can raise cash through overseas connections."

And smaller companies could easily find export financing facilities through local banks.

The Electricity Supply Commission (Escom), which depends on dealing lines to support export business, has had "no one say to us that export financing would not be available," finance GM Larry Harper said.

"I'd be surprised if banks don't want to do business, because they don't have to carry the risk if they get guarantees."

PRICE MOVES AT A GLANCE

REUTERS

Durr warns against rogue economy

PORT ALFRED — South Africa would have to act skillfully to maintain the highest degree of normality in an economy under sanctions, the Deputy Minister of Finance and of Trade and Industry, Mr. Kent Durr, said last night.

He said it was vital that after sanctions South Africa would take up its place in the world economy where it had left off.

He cautioned against a rogue economy which would not adapt to normal trading patterns and conventions.

South Africa did not adhere to a policy of isolation but pressure from outside could lead to it.

The business sector should respond appropriately to sanctions by working to minimise dislocation and inconvenience. There was a challenge to create im-

port substitution industries to meet the needs of local consumption.

The policy of inclusion rather than exclusion should be followed in economic life while seeking to expand democracy.

It was a tragedy that South Africa had to focus its attention on the corrosive effects of sanctions rather than being able to invest all its resources and energies on

reform imperatives.

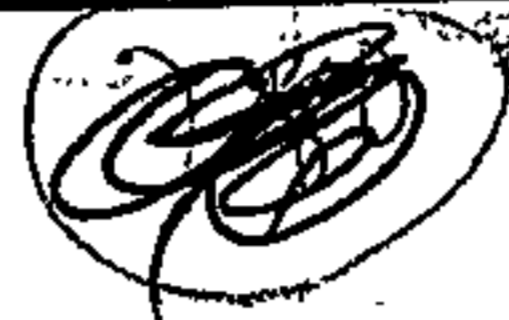
He said the latest speech by the archbishop-elect of Cape Town, Bishop Desmond Tutu, recalled to mind the saying that "Nobody is so moral as he who has become estranged from his God."

It was also South Africa's most vocal critics who allowed normal trade to proceed, he said of Zimbabwe. — Sapa

all business

DD 16/8/86

49



New incentive for PE, U'hage

Eve Post 18/8/86

(85)

(49)

S
1

By **BOB KERNOHAN**
Business Editor

AN anxious four-month wait by Port Elizabeth and Uitenhage industry for improved industrial incentives is over.

Mr Dougie de Beer, chairman of the Government's Decentralisation Board, said from Pretoria today that improved transport incentives and increased preference on State tenders would be introduced from September 1.

Equalisation of steel prices — announced seven weeks ago — would also be introduced, although certain aspects of this had to be finalised.

The announcement by Mr De Beer — who was in the city on Friday for discussions with the Midland Chamber of Industries — means that the PE-Uitenhage area will receive the same benefits on steel, transport and tender preference as the East London area.

"The transport incentive will be increased from 40% to 60% and State tender preference from 4% to 5%."

Mr De Beer said local authorities and industries would be advised of the changes and the increased transport subsidy passed on to them by SATS.

The Minister of Trade and Industries, Dr Dawie de Villiers, first announced on May 2 that the Government would move "expeditiously" on improving incentives.

Since this and a subsequent announcement by the Minister of Constitutional Planning and Development, Mr Chris Heunis, local businessmen and industrialists have become increasingly impatient that promises should be turned into action.

Major reason for the delay was that the independent TBVC states had to be consulted on any changes to incentives, which were first introduced in 1982 and revised in October last year.

Professor Charles Wait, chairman of Region D's recently appointed economic task force, said today he was sure local reaction would be favourable.

"What we need now is for the forces which are geared to market PE-Uitenhage to grab this new development and make every possible effort to sell the area as an industrial centre."

Mr Adam Bage, vice-president of the MCI and finance director of Volkswagen, said: "We are very glad that at last the effective date of the improved incentives has been announced and that is as soon as September."

"Coming on top of the improved sales performance of the local vehicle industry, the announcement should provide a further welcome boost to the confidence of PE-Uitenhage."

MINISTERS' Council be-

Delegation has high-level talks

By DIRK VAN ZYL

Political Correspondent

CAPE TOWN — An Association of Chambers of Commerce (Assocom) delegation met the Minister of Trade and Industry, Dr Dawie de Villiers, here today to discuss the general state of the economy and particularly the possible effects of the looming extended sanctions against South Africa.

Later this week Assocom leaders, together with those of other business organisations including, it is understood, the Afrikaanse Handelsinstituut (AHI), are to have similar talks with the State President, Mr P W Botha.

The effect of sanctions will feature high on the agenda.

In an interview here today, Assocom's president, Mr Rocky Ridgway,

confirmed that he would be among business leaders who would be having discussions with Mr Botha.

Mr Ridgway said he would also be seeing a number of other Cabinet Ministers this week and said he had today, with a small Assocom delegation including the organisation's executive director, Mr Raymond Parsons, seen Dr De Villiers.

"I came away with the feeling that he had a very pragmatic approach," Mr Ridgway said.

He added that he was "not talking to anyone" about his pending meeting with President Botha — with whom he has had a number of previous discussions, both as president and deputy president of Assocom ("I haven't kept count") — not even

wanting to confirm that it could be tomorrow. The discussion would be about "the economy in general".

On sanctions, Mr Ridgway said a distinction should be drawn between the effect on the SA economy and the issue of sanctions-busting.

He had "no knowledge whatsoever" about the latter, he added, and dismissed as "the biggest lot of nonsense" reports that this would be the focus of the discussions.

He said that in the present times he and Assocom "frequently" met Ministers to discuss the economic situation.

On the pending meeting with President Botha he added: "I would be hesitant to dramatise. The effect could be far less dramatic than some of the more dramatic members of the public think."

BUSINESS

How Third World debt hurts SA economy

By Roger Gidlow
The 1982-86 Third World debt crisis has exacerbated the weakness in commodity prices, and this in turn has aggravated the debt crisis. The South African economy, moreover, has not been immune to these developments, not least as regards their impact on the price of gold.

Much emphasis can be placed on the potential positive influence of the debt problems of developing countries on gold in view of the instability which is threatened to the international banking system as countries struggle to service their debts. Unfortunately, this same crisis also has negative implications for commodity prices in general, and indirectly this almost certainly exerts an adverse influence on gold prices.

Commodity Price Weakness. The prices of commodities, excluding petroleum, fell by some 40 percent during the period from 1980 to 1982. About one third of this decline was recouped during 1983, mainly in response to economic recovery in the United States, but prices started to weaken again late in that year. They have on balance been declining ever since, and on average are now below the bottom level of the 1980-82 recession. Indeed, since late last year both petroleum and tin prices have fallen sharply. In real terms the prices of commodities excluding oil are now lower than at any time since the end of World War 2.

Causes of Weakness. Various

factors can be cited which help to explain the current weakness of commodity prices. These include the sluggish state of the world economy, and the failure as yet of the fall in oil prices to stimulate global economic growth. Also, reference is made to the low rate of investment, and its skewness in favour of services and high technology industries which do not consume much raw materials.

Technological changes

There is also the influence of technological changes which result in savings of materials while creating the scope for the exploitations of lower grade minerals, as well as the adverse effect on demand of improvements in inventory control and high interest rates.

On top of all these factors, commodity prices are being undermined by certain ramifications of the Third World debt crisis. Developing countries are faced with a critical shortage of foreign exchange as they battle to service their foreign debts in

the face of weak prices for their commodity exports. Hampered in their efforts to boost manufactured exports, difficulties which partly stem from trade protectionist measures imposed by developed countries have maintained, if not increased, the volume of their commodity exports despite the continued fall in commodity prices.

The dominant theory of balance of payments adjustment, advocated by the IMF, has consistently laid stress on export-led growth in debtor countries. While this policy has merits in the case of manufactured exports, despite the obstacles, it has proved to be somewhat counterproductive with commodity exports. As these exports have been aggressively sold, prices have tended to weaken even further, and so the debtor countries are not necessarily garnering extra revenues.

Many primary producing countries are devaluing their currencies regularly to compete in the face of the present low prices for commodities. Unfortunately the demand for these

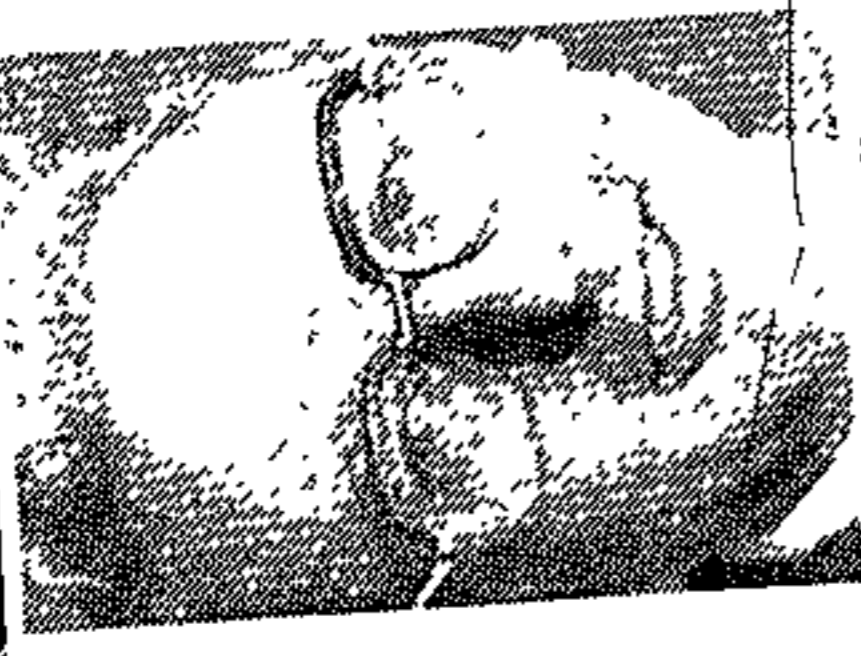
items remains depressed, since price cuts do not boost offtake materially. A major effect of such devaluations in developing countries is a reduction in real wages as the rises in nominal rates, and the result is even lower demand for commodities in these countries.

The protectionist tendencies in the industrial countries are not only restricting South African exports directly, but also indirectly through the impact of such measures on producers' commodity exports.

Limited scope

Faced with limited scope for expanding manufactured exports they are maintaining, if not augmenting, their exports of primary products in already depressed market conditions. The resultant even lower prices are faced by all sellers including South Africa.

These trends in turn are helping to depress rates of inflation in Western countries, and this



Dr Roger Gidlow

almost certainly has served to diminish investor interest in gold. Any alleviation of the foreign debt problems of developing countries, which affords them greater flexibility in the sale of their commodity exports, would remove one of the causes of the present slump in commodity prices. In so far as this provides scope for some improvements in these prices the gold markets may receive greater support from investors who become fearful of higher rates of inflation.

It is, however, an ill wind that blows no good at all. The fall in the rand in recent years can be ascribed partly to be debilitating effects of falling commodity prices, although political developments have also been crucial. The fall in the external value of the rand has provided an important cushion for the local mining industry, and in general it should be well placed to benefit from any eventual pick-up in commodity prices, notwithstanding the actual and threatened trade sanctions.

20/1/86

Commodities crisis is bad news for gold price

20/8/86

BUSINESS

320 49

Tax experts look upon value-added tax with touch of scepticism

Economics Reporter

GOVERNMENT indications that it may swap General sales tax (GST) for some form of value-added tax (VAT) have left tax experts scrambling for answers to some unfamiliar questions.

They say it is certain that the removal of GST would not mean lower taxes for consumers. In fact, some say, the switch to a VAT may provide government with an opportunity to increase the burden. "Government must have a very good reason to impose this tax — and that is to increase tax revenue," says Divaris-Stein's Costa Divaris, who points out that government considered and rejected a VAT system before it adopted GST eight years ago.

At this point, too, government officials have given no clues as to what form a VAT would take, if enacted. Some experts believe the Margo Commission has considered recommending a tax similar to the one implemented earlier this year in New Zealand; another says the new system could be modelled on VAT in France.

VAT varies in its application from country to country. In its broadest definition, however, it is a tax levied at every stage in the production process and passed ultimately to the consumer. Every taxpayer in the process except the consumer is rebated the tax paid on

Some tax experts say it is certain that the removal of general sales tax (GST) would not mean lower taxes for consumers. In fact, some say the switch to a value-added tax (VAT) may provide government with an opportunity to increase the burden.

his purchases.

For example, if a manufacturer buys R100 of inputs for his factory, he must pay a VAT, say 15%, on the purchase price to the seller. If the same manufacturer sells his finished product to a distributor for R150, he must collect the VAT, again 15%, from his customer.

The manufacturer must give to Inland Revenue the difference between the VAT he collects — in this case, R22,50 — and the tax he paid on his purchase. In this way, government receives an incremental tax only on the value added to the product by the manufacturer.

The process repeats itself from distributor to retailer, and from retailer to consumer. Like the manufacturer, both distributor and retailer are refunded the VAT paid on their respective purchases. Only the consumer cannot recover his tax expense — unless the consumer is a foreign visitor.

The UK has one rate, currently 15%, charged on all goods. Other countries, like France and Ireland, have a system of multiple rates that range from 5% on basic foodstuffs to 35% on some luxury items. Such a system probably would involve greater administrative ex-

pense, both for industry and for government, and probably would take several years to implement.

Tax experts say, however, that Inland Revenue could gain several advantages by a move to VAT. First, it could reduce the revenue lost each year to tax evaders — retailers who charge their customers GST, but do not report tax collections to Inland Revenue.

With VAT, says Arthur Anderson tax manager Richard Rubin, "all that would be lost to evaders would be the profit at that last stage. There still would be means of avoiding the tax, but they would be less dramatic in their effect."

In addition, a new system could be more comprehensive in scope, eliminating the many exemptions that characterise GST. "The form GST has taken in SA has been determined on an *ad hoc* basis and people have tended to structure themselves around the exemptions," Rubin says.

Finally, government would experience a one-time revenue gain from the shifting of tax collection into the manufacturing end of the production process. Although consumers still would bear the ultimate tax burden, government would get the money sooner.

how
liable
eaping
uring
t the
small
nced,
but
original
rd it,
men
ership
ng was
rk in
ed are

- Harsh penalties await those who do not comply

GST will still be around — experts

DESPITE the anticipated introduction of value-added tax (VAT) by Finance Minister Barend du Plessis, general sales tax (GST) will be around for another three to four years, tax experts say.

And while GST is still a way of life, businessmen should be aware that penalties for failing to comply with legislation are harsh and costly.

Many companies are now commissioning independent reviews of their procedures to avoid falling foul of the Receiver of Revenue.

Ed Hoffman, a partner with accountants Peat Marwick, says the Sales Tax Act is a maze and is one of the most difficult laws to administer.

"Few companies have specialists in GST. Many managements have now called for independent reviews. The last thing they want is to be unpleasantly surprised by penalties because of an oversight uncovered by a snap inspection by the Receiver's office."

At 10% a month, a retrospective GST penalty can be as much as double the original tax.

"Some of our investigations have brought to light examples of firms in danger of incurring heavy penalties because GST is being incorrectly applied," says Hoffman.

The good news is that many investigations revealed over-payments of GST, which, when corrected, benefited cash flows.

Hoffman says one of the most common problems lies in the use of exemption certificates and interpretations by company buyers on what is exempt and what is not.

Buddy
20/8/86
MICK COLLINS

The Act's schedule 2 sets out exemptions for specific sectors such as manufacturing, commercial, mining and quarrying enterprises.

He says: "Our experience has shown that buyers are aware of exemptions applicable to their specific enterprise, but are quite unaware that within the exemptions there are non-qualifying goods."

If a tax investigation uncovers non-payment of GST on a non-qualifying item, the Receiver may calculate consumption of these items bought for three months or a year.

He may then extrapolate this back to 1978 and levy not only the GST but also penalties up to 100% for the entire period.

Hoffman says: "The incorrect application of GST for capital projects undertaken by a manufacturer for use in his own factory has in some instances led to overpayment of sales tax.

"This is a complex area which needs to be fully investigated." Fuel in bulk, such as piped gas, is also exempt, but if bought in cylinders, the tax applies.

Hoffman says: "As many vendors are not using their debtors' allowance correctly, they are paying GST unnecessarily." Contracts which carry escalation clauses, retentions, penalties and bonuses can also present problems.

Penalties for late performance do not affect the GST due. Tax is payable on the full amount of the contract irrespective of any deductions. Conversely, any bonus for early performance does not attract tax.

CEMENT MANUFACTURING INDUSTRY, R.S.A.
AREA A: Alberton, Bellville, Benoni, Boksburg, Brakpan, The Cape, Durban, Germiston, Inanda, Johannesburg, Kempton Park, Kimberley, Klerksdorp, Krugersdorp, Nigel, Pinetown, Pretoria, Randfontein, Roodepoort, Simonstown, Springs, and Wynberg, Municipal Area: Port Elizabeth;
AREA B In all other areas.

Slight curb in govt spending

20/8/86
49
Economics Reporter

GOVERNMENT spending, marked by a cut in development aid and slower growth in military expenditures, eased in July to R3,1bn, just 10,8% above expenditures for July, 1985.

But total expenditures for the first four months of the 1987 fiscal year still are well ahead of the 13,6% increase on fiscal 1986 levels projected by Finance Minister Barend du Plessis.

And, because revenues have grown at a pace slower than expenditures, government's deficit before financing as of July 31 grew to R3,9bn — just slightly less than the amount budgeted for the entire fiscal year.

For the four-month period ending July 31, government spending totalled R13,4bn, up 21,2% from the same period

● To Page 2 →

Slight curb in Govt spending

a year before. If the finance minister's budget is adjusted for a four-month period, government would be R90m over budget.

At the same time, government revenue growth also slowed in July, reflecting lower tax collections by Inland Revenue. For the four months ending

49 ← 20/8/86
● From Page 1
July, revenue totalled R9,5bn, up 15,8% from the 1985 period. Inland Revenue receipts increased by 12,3% in the same time — a growth rate substantially lower than the rate of inflation.

GOVERNMENT spending is expected to exceed budget by about 3% this fiscal year, an official source says.

The increase would put spending for the year at close to R39bn, from a budgeted figure of R37,6bn. But the latest estimate excludes special one-time expenditures on defence and housing, so the final budget could approach R41bn.

Spending for the first four months of the fiscal year ending July 31 totalled R13,4bn, up 21,2% from the same period in 1985. The total was R900m higher than the level to be expected had government kept to its promise of a 13,9% increase in spending from 1985 levels.

The official, who asked not to be named, said he expected revenues to come close to government's budget forecast of R33,6bn. Collections of personal income tax and corporate tax have been

Govt spending 3% over budget

Economics Reporter

lower than expected for the year to date, because of slower than expected economic growth. But higher tax collections from gold mines later this year — based on gold prices higher than forecast — are expected to compensate for the shortfall in other areas.

If the new estimates prove accurate, government could be left with a budget deficit before financing of at least R4,9bn — R1bn higher than forecast. This would create a need for new financing, which probably will remain readily accessible through new stock issues or draws on the

● To Page 2

Govt spending 3% over budget

stabilisation fund — equivalent to "printing" new money. Normally, this would be inflationary, but in the current depressed economy, government has room to increase money supply without pushing up interest rates.

The source said government was "not happy" with the spending excesses in some departments. He said, however,

that an overall increase in spending of 3% over budget would not be seen as excessive.

If it is to hold expenditures for the year within 3% of budget, government will have to keep spending at, or close to, budgeted levels for the rest of the year.

● From Page 1

CAPT 4/1/86 2/18/86

Barclays sees no sign of an upturn

JOHANNESBURG. — Most spending and production indicators are continuing to move sideways or still declining, "giving little indication that an economic rebound is imminent", the current Barclays Business Brief states.

"Demand for money is increasing only slowly in nominal terms, and falling rapidly in real terms."

The bank says it is difficult to assess whether this state of affairs is allowed to continue unchecked by design, or whether "it is merely the unfortunate intensity of the prevailing gloom and doom absorbing whatever stimulus is being provided by the authorities."

Priority

"Undoubtedly, the balance of payments remains a high priority area in the eyes of the government, particularly the reduction of foreign indebtedness."

"A growing economy would trigger rising import levels that could so easily threaten the balance of payments priority, making a domestic growth policy an unthinkable route to follow, at least to some."

On the other hand, says Barclays, private confidence remains depressingly low, making such a surge in demand unlikely.

It points out that the government is spending on a much higher level than foreseen in the March Budget, with spending in the first fiscal quarter of this year 24% higher than last year.

"However, tax revenues are also higher than budgeted."

"As a result, the State is further increasing its share of the overall economic cake through a rising tax burden, without providing the benefit of stimulus which would prod the economy to higher production levels."

"The government is spending whatever monies it wants to spend on priorities only it can determine, and it is doing this without endangering the apparent priority of maintaining a healthy current account, stockpiling strategic goods, and repaying foreign debt at a stupendous rate," says Barclays.

It says that inflation appears to be easing and may drop to remarkably low figures by February next year, using the year-on-year convention, once the difficult November-January base period is left behind.

However, "future movements of the rand will be heavily impacted upon by political development, both domestically and externally," says Barclays.

"This can mean that the rand/dollar exchange rate, but particularly the trade-weighted rand, will remain highly exposed and could continue to feed through into a higher inflation rate." — Sapa

Govt puts up R3.1m to aid detainees families

AN AMOUNT of R3.1m has been made available to assist the families of detainees.

But confusion exists as to just how the money is to be allocated.

Making the announcement yesterday, Minister of Finance Barend du Plessis said R3.1m of the R750m earmarked for the provision of housing and job creation would go to families of detainees.

In addition, R3m would be made available to rebuild the houses of black policemen which were destroyed in unrest-related incidents.

Initially the Department of Finance stated the R3.1m would be administered by the Department of Justice, but the department has denied this.

Later it was disclosed the money would be handled by the Department of Constitutional Development and Plan-



● DU PLESSIS

Own Correspondent

ning, but a spokesman for the department said he was unable to give any information about the scheme.

Reacting to the news of the allocation, the Detainees Parents' Support Committee (DPSC) said yesterday it was "stunned" by what it described as the government's "absolutely bizarre" announcement.

"I can't imagine people going to ask for relief from the very people who are detaining their children and families," a DPSC spokesman said.

She compared the offer to the SADF's appeal to people in the townships to approach them with their complaints regarding alleged SADF assaults.

A Repression Monitoring Group (RMG) spokesman said his organisation viewed it as "a cynical move" by government.

"It would be absurd to expect families to be grateful. The government can't buy off the hostility detainees' families feel."

Free market discipline

22/08/10
Bussell
49

THE POOR results of the economy over the past few years made many authorities doubt the wisdom of continuing with our economic policy in the present SA based on a market-orientated system.

A country occupied with such drastic changes in its social, political and constitutional structure cannot continue to leave its economy to a market-orientated structure, the critics claim.

The markets could not handle the tensions in the underlying changes and could not, therefore, send out the correct signals — with results that wrong decisions are taken.

This was why SA had landed in an overseas debt crisis, why the value of the rand continued to decline, why the economic growth rate sank to an average of only 1% a year over the past five years, why there was a high rate of unemployment among all race groups. Why, too, there were losses and bankruptcies among private undertakings.

These critics go further and say we must change the system — that the new SA in which First and Third World economies must be brought together, must have another economic structure.

We need, according to them, a fully controlled economy where a central authority — government — would decide what is to be pro-

Director-general of Finance Chris Stals, speaking last night at a ceremony marking his appointment as honorary professor at the Unisa School of Business Leadership, warned that more stringent discipline will have to be applied to the SA economy. Intervention in the economy, not strictly in accordance with the principles of the free market system, might also be necessary. This is an edited version of his address

duced, how it should be produced and for whom it should be produced. In such a system, they claim, the socio-economic targets of the new SA can be more easily reached.

It has been shown over and over again that the free market-related economies of the West deliver better results in terms of economic growth and development than the fully planned system of communist countries.

Must we then throw the market-related system overboard in this time of change from the old SA to the new? There is a way out — and it lies in the recognition of economic discipline in the changing SA.

Economic discipline is always important, but in the current circumstances it is vital for SA. Because for us it concerns the maintenance of a free market system.

If we are not prepared now to discipline this system we could lose it. In the contradiction lies the answer — control the free market system with stronger disciplines, or lose it.

SA is in the process of reform and change. It is a process which gives rise to friction, unrest and violence. In such circumstances markets do not work well.

The reform process aroused expectations and needs which could not be simultaneously satisfied with the resources available to us. These expectations have to be tempered by the disciplines of the market mechanisms at a time when the mechanisms are not working well.

The problems experienced by the SA economy in the past few years are, to a great extent, the results of external factors — such as drought, a fall in the gold price or political developments.

Insofar as these problems were not handled well by the system, it was not the result of weakness in the structure but, rather, a result of the faulty working of the disciplines in the system. Therefore we do not need to reject the system but only to improve the disciplines.

Stringent disciplines will have to be applied to the SA economy, and the authorities will have to play a

bigger role in applying the needed discipline. It might even be necessary to intervene in the economy in a way not strictly in accordance with the principles of the free market system.

The reform process concerns, in the first place, the people of the country in all their diversity and cosmopolitanism. It concerns political rights for this heterogeneous population and the accepted principle that there should be a sharing of power at the highest level.

It concerns equal opportunity. Eventually, it concerns the economy — equal opportunity for all, higher living standards and the elimination of the great differences between the haves and have-nots.

SA has bound itself to a market orientated system based on the capitalistic principles of the market mechanism. It is a structure based on private ownership of property and in which initiative and decision-making determine the direction of the economy.

It is a structure which allows the greatest possible freedom for the individual to make his own decisions. As far as economic decision-making is concerned, a system was wanted with a great deal of devolution of authority. It is not government which makes all the decisions, but the people themselves who, by their activities in the markets, freely exercise their choice.

Insurance industry answers the critics

Growth proves service is right

A great deal is often made of the size and influence of the life insurance industry in South Africa. We are often, but incorrectly, seen as "fat cats" or as "octopuses" spreading our tentacles into all the various facets of the South African economy.

I would like to present another dimension of the generally perceived view of what the industry apparently is and does.

It is quite clear that the industry can grow, and continue to do so in the changing circumstances which affect this country. If it is not providing any essential and meaningful service, the fact that our industry is growing must prove we are providing a service desired by the public.

If one looks at the ninefold increase over a decade in the security provided by the industry, as reflected in its asset holdings against future commitments now moving towards R40 billion, this is only natural to seek reasons for such an achievement.

Competitive

I believe one of the main reasons for this development is the competitive element which is alive and well in the industry in South Africa today. Of all the industries of which I have some experience, I know of none which is so competitive as the life assurance industry.

The situation at present is that roughly 30 life insurers in this country have the opportunity to pit their skills and resources against one another. It is a free market for which there has been no artificial restriction. Each life office has a plan, strategies which, within the constraints of the law, will give them a greater opportunity in the market place.

And the growth of annual premium income, from R2.1 billion to R6.2 billion over the past five years, can be regarded as a barometer of the effect of keen competition, even under the influence of recessionary conditions.

In addition, due to the investment expertise I have referred to, the industry has shown that it can handsomely outpace inflation in the returns it makes to those who have the greatest stake in the industry —



Mr. Pierre Steyn

the policy-owners and their beneficiaries.

Because the competitive edge lies in the ability to maximise returns while reducing administrative and other costs, thus improving the benefits policy-owners receive, this is an area receiving continuous attention from the industry.

The latest Annual Review of the Life Offices Association to some extent reflects this approach and, according to the quoted figures, there has been a progressive decline in the ratio of operating expenses to total income, that is, a continuous improvement in the productivity of the industry.

It has now reached its lowest level, 12.5 percent. Ten years ago the ratio was 18 percent. If one thinks in terms of inflation, and its impact on the costs of providing life assurance, it is obvious that the success we are achieving is obvious.

One other reason for the success of the industry is the relative freedom it has enjoyed from legislative restrictions. I say "relative" because in recent times there have been restrictions which have affected the industry in its ability to draw savings from the public.

It is obvious — in the public interest — that legislation is necessary to provide protection for those whose savings represent security in future years. The authorities, as you know, are in the process of drafting a new Insurance Act to replace the current one which, with amend-

ments, has served the country for more than 40 years.

We agree developments have taken place, for example the introduction of new products undreamt of in the 1940s. The changed circumstances of the country call for a revision. The LOA intends to make some of the best qualified people in the industry available to provide our input on the draft Bill to the Registrar and to co-operate closely with him in formulating the new Act.

As you know, the LOA has made detailed submissions to the Margo Commission on the question of taxation of the industry. We have also been given the opportunity to make verbal representations and we now await the decisions of the commission with great interest.

Opposition

Too often the industry is perceived as a Middle-like organisation, building up vast wealth and power. In fact, it acts only as the agent of the individual policy-owners or investors.

Action that unnecessarily or unfairly hampers the industry in the duty it owes to those who want to provide for their own future must be vigorously opposed. This opposition needs to come not only from the industry itself but also from those who rely on it for benefits they should legitimately enjoy. It is for this reason, for example, that the industry has welcomed the

South Africa's three mega-corporations, Anglo American, Sanlam and Old Mutual, which between them reputedly control more than R100 000 million of corporate assets, are repeatedly accused of monopolistic tendencies which "undermine free enterprise". Roblin McGregor, controversial author of "Who Owns Whom", has told the Government that South Africa will slide into "banana republic status" if these economic power blocs are not broken up.

Is there truth in the accusations? Mr Pierre Steyn, chairman of the Life Offices Association (LOA) and managing director of the insurance giant Sanlam, says not. He told a recent LOA media seminar in Johannesburg it was time the carping stopped and that the insurance industry should be given credit for what it was doing for South Africa and her peoples. Here are excerpts from his speech.

proposals of the De Kock Commission for the gradual phasing out of prescribed investments. The flexibility of the industry to invest, within the parameters of security, where it wishes, has long been a bone of contention. Prescribed investments have to date largely inhibited the maximising of returns which life insurers could make available to policy-owners.

To restrict the activities of life insurers for no other reason than that they appear to be a ready source of capital is to place a penalty on efficiency — efficiency which I believe has contributed to the success of the industry to date.

I said I hoped to correct some perceptions of the industry. I would like to deal briefly with assertions that the industry wields too much power and influence per se.

We are engaged in a constant search for investments on behalf of beneficiaries, and seek to ensure that those investments are effectively controlled and capably managed.

There is constant competition between life insurers on investment strategy and also between the life assurance industry and other savings industries (eg banks).

Each life office has the freedom to implement the strategy which it believes will in the long term give its policy-owners, as well as shareholders, good reasons to be doing business with it. South African life offices are not

allowed to invest abroad. Faced with a massive cash flow, which I believe arises from the industry's ability to invest and market with a large and liquid equity market. I do not think it is correct to portray this as a near monopolistic trend which undermines the spirit of free enterprise. As I have said earlier, there is fierce competition within the industry.

Economic power which may exist is under continuous challenge. Furthermore, we have examples abroad, particularly in Japan, where large conglomerates exist, and where the material benefits accrued to ordinary citizens can be seen plainly in the strength of that country's economy.

Arbiters

And perhaps the best arbiters on whether there is in fact any abuse as far as the life insurers of South Africa are concerned, are those who benefit most from the industry, the policy-owners and shareholders.

As statistics show, millions of policy-owners stand to gain substantially from the growth of an industry which is already paying out benefits which increased from R935 million in 1981 to R2 848 million last year — a growth rate of more than 30 percent per annum.

Tens of thousands of South Africans would have been very much the poorer were it not for the almost R3 billion paid out to them last year — let alone all the preceding years — by our industry.

Pensioners, widows and orphans have benefited handsomely from life assurance, as well as the countless investments in South Africa's infrastructure and our job-creating activities.

I believe, therefore, it is high time the ill-informed critics of the life assurance industry stop carping about the alleged dangers posed by life insurers and give some credit for the clearly beneficial role we play.

~~49~~ 49 FINMAIL 22/8/86.

GOLD

Will gold do the trick?

Once again people are looking to gold to bail SA out of its economic malaise, and once again they will be disappointed.

For one thing, foreign debt constrictions have changed all the rules; for another, we can no longer get away with relying on one major export. Local labour profiles and overseas economic developments have changed all that.

Having leapt to \$395/oz, the metal is already \$20 lower. Although it may stay around these levels, the impact is uncertain. What is certain is that, with SA in such turmoil, the "typical" effects of a higher gold price will be distorted.

In normal circumstances, the economy would be boosted — the rand would rise as a result of an improving balance of payments and confidence; the reserves would rise and thereby increase money supply which, in turn, would stimulate the economy.

"Normal rules," says Volkskas economist, Adam Jacobs, "are topsy turvy." The economy is so intertwined with the political crisis that economic fundamentals are of little more than academic interest. The economy simply does not move as "economic fundamentals" would suggest.

This abnormal situation is reflected in the most visible and immediate barometer — the rand. The currency has failed to appreciate in response to the higher gold price.

Why? Reserve Bank Governor, Gerhard de Kock, cites adverse leads and lags and "substantial" repayment of foreign debt. "Despite this," he adds, "there has been no decrease in reserves over the past few months."

The popular market explanation is that the Bank is accumulating foreign exchange,

instead of using such revenue to boost the rand. Standard Bank, discussing last week's activities in the forex market, says the Bank "for reasons best known to itself," only sporadically supplied dollars.

"This suggests the Bank is either intent on allowing market forces to determine the rand's level, or dollar receipts are being set aside for alternative purposes, possibly foreign debt repayment," it says. The Bank may be reluctant to see the rand appreciate much, as money could pour out even faster and export earnings would be damaged.

De Kock says the Bank has not been withholding dollars nor building reserves, but has been "protecting the gold and forex reserves. Since the Bank has paid mining houses in rand, we feed all the weekly dollars from gold sales into the market." He says gold was sold from the reserves at \$390-\$395 (which with hindsight seems wise); this excess of dollars has been retained. Thus, only the composition of reserves has changed, not the underlying amount — a total of R3,9 billion.

Some economists, including FCI's Arthur Hammond-Tooke, believe the gold price surge prevented the rand from falling even further.

The abnormal situation is emphasised by Old Mutual economist, Rob Lee, who says that if, on waking from a 10-year sleep, an economist was told that SA has a current account surplus equivalent to 6%-7% of GDP, he would forecast a high growth rate. "If, on top of this, our economist was told that there had been a stimulatory policy for 18-months and yet the economy was still in recession, he would think you were nuts."

Many still rely on the "gold times, good

times" syndrome. They consume more, invest more and borrow more when the gold price is up — all conducive to pushing the economy out of the doldrums. However, it is a moot point how distorted perceptions have become and whether a gold price rise is sufficient therapy to lift spirits.

SA owed international creditors some \$24 billion at the end of 1985. This is substantially lower now, given large oil credit and IMF loan repayments, as well as other debt repayments both in and out of the standstill net. De Kock says new figures about remaining debt will soon be available, as a census is under way.

At present, with annual gold output of almost 22m ounces, a \$30 gold price rise brings in an extra \$660m annually. A \$100 increase in platinum brings in \$250m.

Repayments easier

Any boost to the reserves from greater gold proceeds will obviously make repayments easier and hence reduce pressure on the balance of payments and consequently the rand, but it would need a massive increase to alleviate the overall pressure of the foreign debt shackles.

Against the poor state of reserves and large capital flight, gains from a higher gold price are marginal. "Dollar demand arising out of the debt and other forms of flight money will impair the impact extra gold earnings would usually have," says economist, Stephen Gelb. JCI economist, Ronnie Bethlehem, reminds us that net reserves are still negative: "Before having any significant impact on the local economy, we must reconstitute reserves."

Lee believes that additional revenue from gold "should help finance government over-spending." but estimates the budget deficit will, nevertheless, be R2 billion higher than the budgeted R4 billion.

It will also take a much higher gold price to entice foreign investment. While foreigners might purchase gold shares, the economy is so shaky and the hassle factor so great that gold does not look like changing foreign minds about SA. ■

BUILDING SOCIETY LAW PASSED

Now that the Building Societies Bill has finally been passed (it was some seven years in the making), the United Building Society (UBS) will finalise details of a JSE listing at a board meeting on Friday. Relieved UBS CE and deputy chairman Piet Badenhorst tells the *FM* full details can be expected next week. He has little doubt the UBS will be the first to gain a listing.

The Bill was obviously a priority; it was placed first on the order paper on the second day of the new session of parliament, having lost out in the first day to a Conservative Party filibuster on KwaNatal. Second on the order paper was its

sister, the Mutual Building Societies Amendment Bill, preserving a modified mutual structure for societies wanting it.

Badenhorst welcomed the legislation as a declaration that government "is serious about bringing more equal competition into the financial arena." He is, of course, convinced the legislation will enable building societies to compete more equally and meaningfully with other financial intermediaries.

He believes the consumer will benefit from greater choice, which will boost competition, in turn meaning better rates for both depositors and borrowers through finer margins.

MONEY SUPPLY

Move into short term

The latest figures for money supply indicate a shift away from long-term deposits, strongly suggestive of a market belief that interest rates have bottomed.

Though one must never read too much into any monthly economic figure in isolation, the

massive jump in M1 by over R2 billion in June, against a less than R500m increase in long-term deposits of the private sector, including building societies, could mean a roughly 18-month cycle is drawing to a close.

For June, M1(A) rose 30,37% year-on-year to R13,7 billion, a big jump on May's increase of 22,7%. This aggregate comprises coin, banknotes, cheque and transmission deposits with banks, building societies and the Post Office savings bank.

Growth for M1 (M1(A) plus other demand deposits) remained negative at a much-reduced *minus* 3,67% year-on-year, though, at R24,1 billion, almost R2,2 billion up on May. M2 (M1 plus other short- and all medium-term deposits) rose annually 8,35% to R54,7 billion, only R233m up on May.

M3 (M2 plus long-term deposits and savings) rose 9,9% to R75,7 billion. The broadest measure of money supply, it is chosen by the Reserve Bank for monetary targeting. Although the target is between 16%-20% annual growth for 1986 (see graph) estimates seem to be gradually working their way off the bottom of the map.

Says Rudi Gouws, group economist at Rand Merchant Bank: "I wouldn't read too much into the monthly surge in M1. If you want to gauge economic policy, you must look at the target used, M3."

"This shows the weakness in credit demand. Commercial bank lending again declined from May to June. Total advances and discounts in commercial banks dropped to R30,5 billion, below even the February R30,7 billion. The drop is even greater if you consider it is in nominal terms, before inflation."

This suggests a further easing in monetary policy — that is, lower interest rates still — especially as the money market shortage has been hovering around zero for some days (see *Markets*).

Says Pierre Faure, director of Securities Discount: "Given the performance of M3, short-term rates could even go lower."

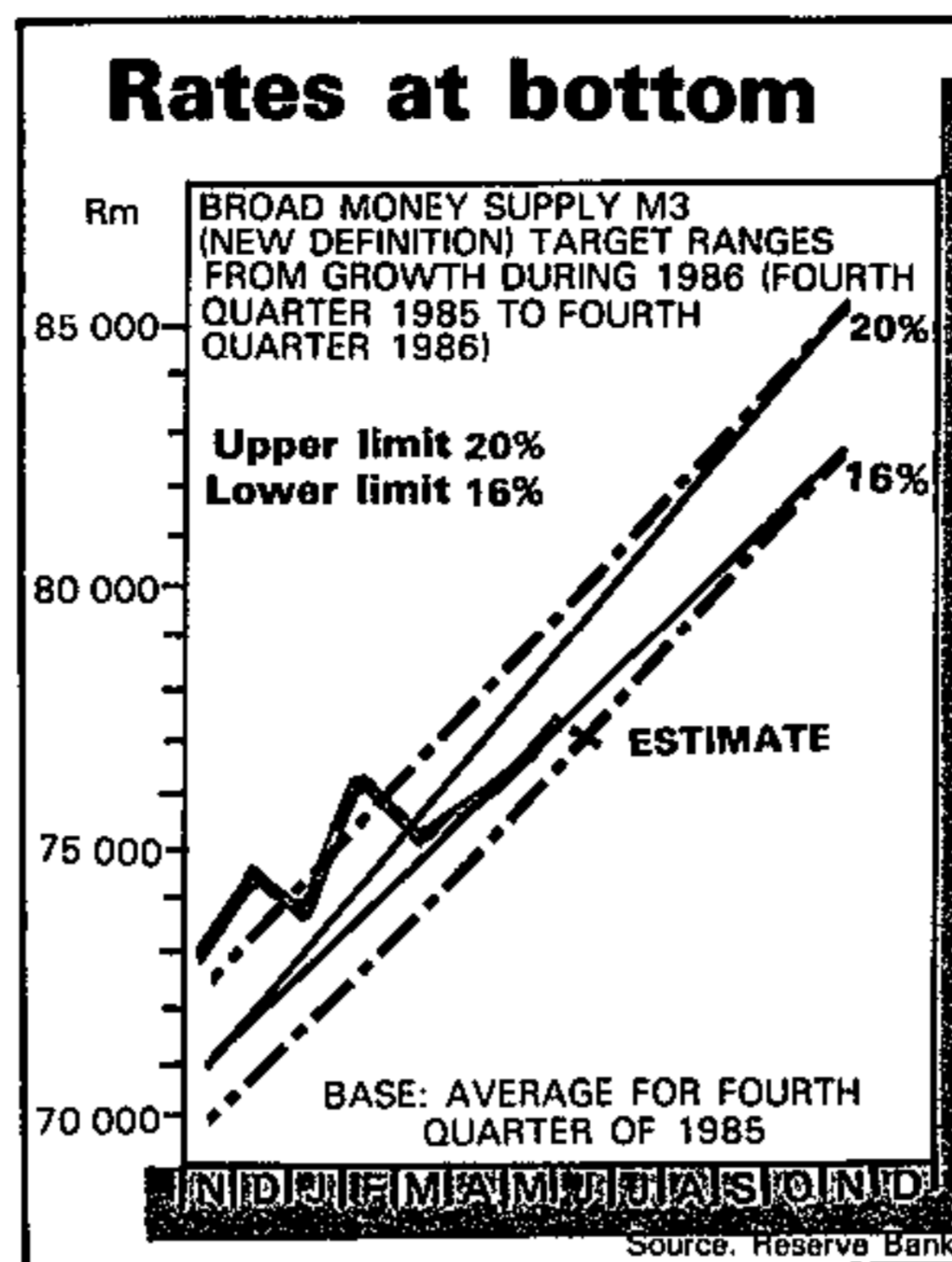
"On the other hand, (Reserve Bank Governor Gerhard) De Kock may be reluctant to allow this. For, if the economy picks up, it could cause a sudden jump in interest rates. Instead, rates may be held at current levels as a sort of smoothing-out operation."

So the latest monetary aggregates may show that depositors are taking a cautious view, moving money to the shorter end in the belief that interest rates are close to bottom.

"We've all become Reserve Bank watchers," adds Faure. Since the Bank has the ability to create a market shortage through open market operations it continues to hold psychological sway, at least, over interest rates.

Besides, as a policy tool it is clear that even lower interest rates will not stimulate credit demand. As government repeatedly claims: "We've done all we can; it's now up to the private sector."

In turn, however, the ball ends up back in government's court. Until it returns stability to the political and economic environment,



confidence will stay low and bank lending will remain depressed.

As for targeting, Gouws remains a supporter. "Maybe the targets were set too high initially. And of course, failure to meet targets is why we've had an easing of monetary policy."

But there's also the maxim that when an economic indicator becomes a policy tool its statistical value becomes meaningless. Could this have happened to money supply? ■

ACCOUNTING

Perm's gymnastics

Perhaps nothing taxes the brain so much as financial gymnastics. The *FM's* article on the new international standard for gilt accounting (July 18) has resuscitated questions on the SA Perm's accounting practices.

Two years ago, in its 1984 financial year, the Perm changed its basis of accounting by including interest from bondholders for a period after the year-end. It closed its books as usual on March 31. Interest due from bondholders is charged, and so due, payable and accrued on the 15th of every month.

In previous financial years the Perm only accounted for interest income until March 15. But in 1984 it decided to include cash due for the full month (mid-March-mid-April). The idea, the *FM* understands, is that since the Perm is taxed on all income for March in any financial year, it should account for all income "due and payable" in that year.

The Perm thus changed its accounting basis for bondholder interest from a receipt to accrual basis. But it did not apportion income due after year-end. Simple? Not so.

For one thing, the change boosted reserves by R35m. Interest for "March" amounted to R50m, less tax of R15m.

Moreover, the Perm did *not* adjust interest receivable for the previous March (1983). On an accrual rather than a receipt basis,

this should no longer be included in income. The interest income of R50m was not expensed, nor shown net of expenses. The expense, interest paid to investors, is said to be 80% of interest received from bondholders.

So the anomalies in summary: the R50m was not expensed; income from the previous year's March was not deducted; and reserves swelled. What this does to future profits, and what precedent "borrowing" from future income is for financial institutions, is unclear.

The Perm says the issue was fully aired; its treatment was accepted by the Registrar, and the Public Accountants and Auditors Board. It admits contention in that: "the issue is not one of right or wrong. It revolves around an opinion on accounting treatment — where, naturally, interpretations differ."

"The issue is the most appropriate treatment ... and we believe the Perm's treatment is most appropriate." The Perm says the R50m was not expensed since its matching of interest payable (to depositors) to interest receivable from bondholders is performed on an open book.

But it could have estimated an interest expense, created a provision, and so reduced the transfer to reserves. The following financial year, the provision would be reversed, to fit the matching concept and cash flows.

But the real gymnastics is how an institution can increase reserves by R35m by reference to a clause in its bondholders' documents that interest is payable on the 15th of the month. The Perm's argument that "the interest expense payable to depositors has been raised in full to March 31, and likewise the interest revenue to which the Perm is entitled at March 31 has been raised in full," is bare indeed.

Bringing the full R50m to account is a new principle, which the Perm may be expected to apply with consistency. So interest receivable, for example, on gilts (payable half-yearly in arrears) should not be brought to account on an accrual basis until due and payable. The Perm does not account for gilts on this basis. ■

INSURANCE COMMISSIONS

Slashed for crime

Well, it has finally happened: insurance brokers' commissions are being reduced.

The possibility has been in the air for a couple of years (see *FM* November 2 1984). Arguments ebbed and flowed until December 1985 when an announcement of commission cuts was made, only to be withdrawn a few months later. This pulled the rug from under the feet of a number of insurers who had gone ahead with cuts.

This time the reason for cutting commissions is more tangible. Claims for crime-related losses have risen so much that insurers have been having second thoughts, believing that necessary premium increases should be accompanied by a contribution from brokers by way of reduced commis-

military matters.

day.

29
RUS DOY 22/8/76

Schwarz upset by SA's massive spiralling bill for the homelands

le
e-
vs
it
id
sa
ld
at
ty
il-
ug
n-
n-
in
he
ld,
dy
u-
ic



● SCHWARZ

FUNDS given to independent homelands by government should be for specific purposes and not just poured into a pool, PFP Finance spokesman Harry Schwarz said yesterday.

He was reacting to the announcement by Foreign Minister Pik Botha that government spending on Transkei, Boputhatswana, Venda and Ciskei spiralled to R1,8bn in the past financial year.

Schwarz said funds should be spent on projects approved and monitored by SA.

"We must be satisfied the money is

GERALD REILLY

being spend on worthwhile projects, including the relief of poverty and hunger, and job-creation."

He added that funds should not be used for grandiose projects, such as massive international airports, large assembly and other government buildings, when there was a crying need for money to be spent on other things:

Schwarz said, however, SA had a moral obligation to help the TBVC countries.

"We don't say we would revoke their independence. They are part of SA and aid can be justified provided the funds are well spend."

Africa. Dividend warrants will be posted on or about 30 September 1976.

In terms of the Republic of South Africa Income Tax Act 1962, as amended,



Stals says stringent disciplines needed

Govt may have to intervene in the economy

19

STRINGENT disciplines would have to be applied to the SA economy, Finance director general Chris Stals said in Pretoria last night.

At a function to mark his appointment as honorary professor by the School of Business Leadership, Stals said the authorities would have to play a larger role in the application of the required disciplines.

He said: "It may even be necessary to intervene in the economy in a way not strictly in accordance with the principles of the free market system."

SA was committed to a market-oriented economic system — as such a system would best meet the needs of a "new" SA — but in the current transition stage it was under great pressure.

SA was in a process of change, particularly in the social and political fields, but that also exerted great influence on the country's economic policy.

Stals said that change was taking

GERALD REILLY

place against the backdrop of some important specific characteristics of the country's structure.

SA was a land of diversity, which manifested itself in the composition of the population, and also in the dualistic nature of the economy.

SA was a rich country, specially by virtue of its mineral wealth.

SA was a part of Africa, but was accepted neither by Africa nor by many other countries.

Stals said against that background the reform process created economic expectations that could not easily be met in the short term.

At the same time, it was accompanied by the friction of unrest that impeded the efficient working of the market mechanism.

In the economic sphere the process of change, therefore, demanded strict disciplines.

● See Page 8.



SOUTHERN SUN HOTEL

'Domination by minority is doomed'

L
o
c
a
l
t
e
r
n
e
t
i
v
e
p
u
b
l
i
c
i
n
f
o
r
m
a
t
i
o
n
s
e
r
v
i
c
e
s
d
i
s
t
r
i
b
u
t
e
d
a
r
t
i
c
l
e
s
t
e
n
e
r
f
a
c
t
o
r
i
a
l
s
c
o
p
e
s
o
r
t
i
c
l
e
s
i
s
s
u
e
s
r
e
m

op
nt
e-
le
to
s.
n-
of
a
in
tt
g
s
l
h
e
r
y

THE RESERVE BANK says in its 1986 annual economic report that the marked downward movement of the economy — that accompanied the adjustment process of eliminating excess demand that had been allowed to arise during the 1983/84 "mini-boom" — came to an end in the second quarter of 1985.

"The encouraging recovery that commenced in the third quarter of 1985 and was confirmed in the fourth quarter, did not, however, build up sufficient self-sustaining momentum to continue smoothly through the first half of 1986.

"The recovery, in fact, faltered in the first quarter of 1986 before regaining some lost ground in the second quarter.

"Present indications nevertheless are that the SA economy has consolidated its earlier advances and is now in the process of moving on to somewhat higher levels of expenditure and output," says the report.

Gross domestic output is estimated to have shown a modest positive growth at an annualised rate of 1.5% in the second quarter of 1986.

This followed an encouraging advance of 2.5% in gross domestic product in the third and fourth quarters of 1985 and subsequent fallback in the first quarter of 1986.

In the four quarters to the end of June 1986, growth in gross domestic product has averaged 1%.

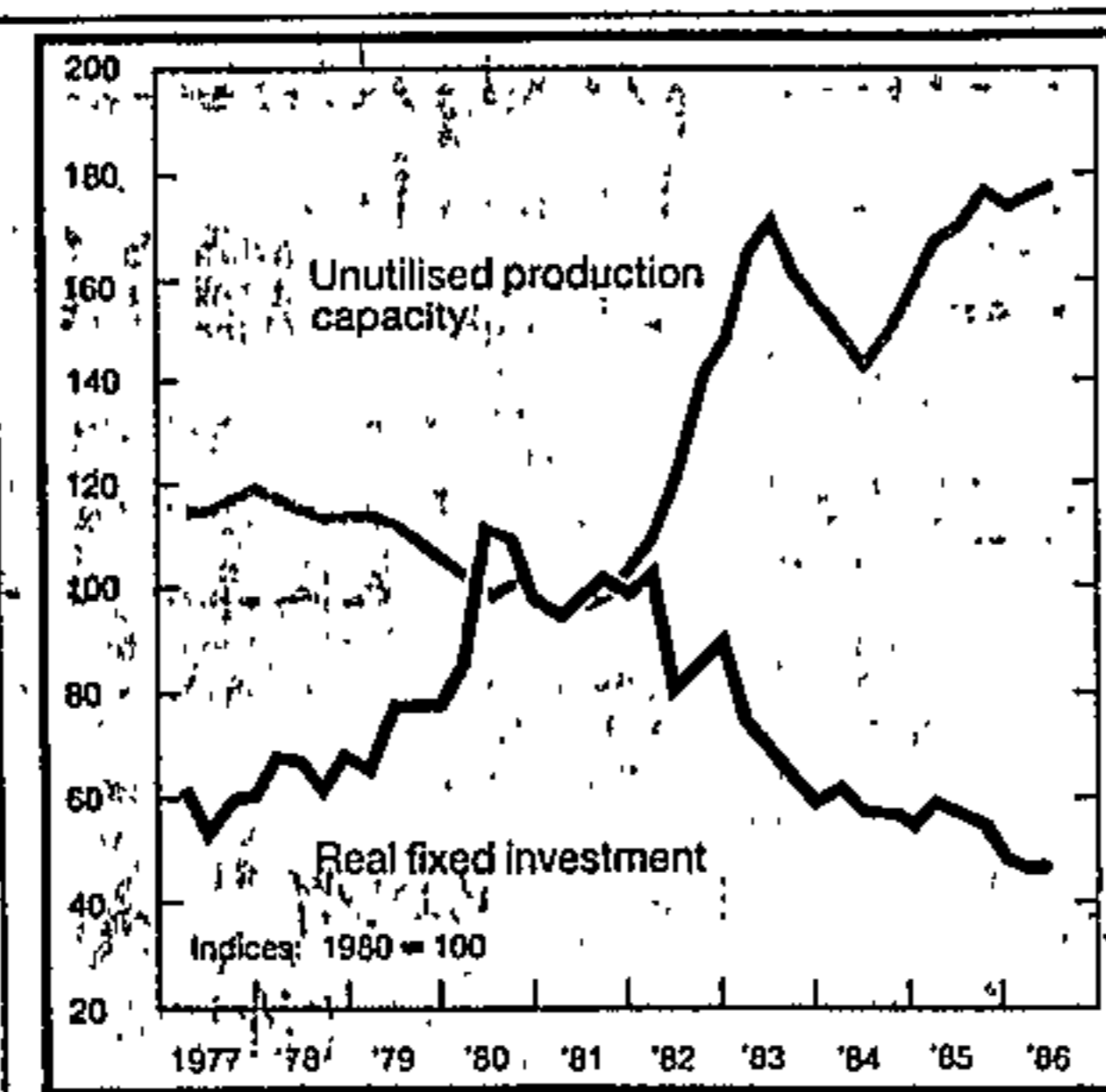
However, by the middle of 1986 real gross national product was still significantly below its level in the second quarter of 1984.

In the second half of 1985 and the first half of 1986, the decline in real personal disposable income did not represent "fiscal drag," but arose from the failure of household incomes to keep pace with the rate of inflation.

In the four quarters to the middle of 1986, real private consumption expenditure on durable goods recovered significantly, rising by 8%. Real expenditure on non-durables increased marginally by 0.5%, whereas real spending on semi-durables and consumer services remained essentially unchanged.

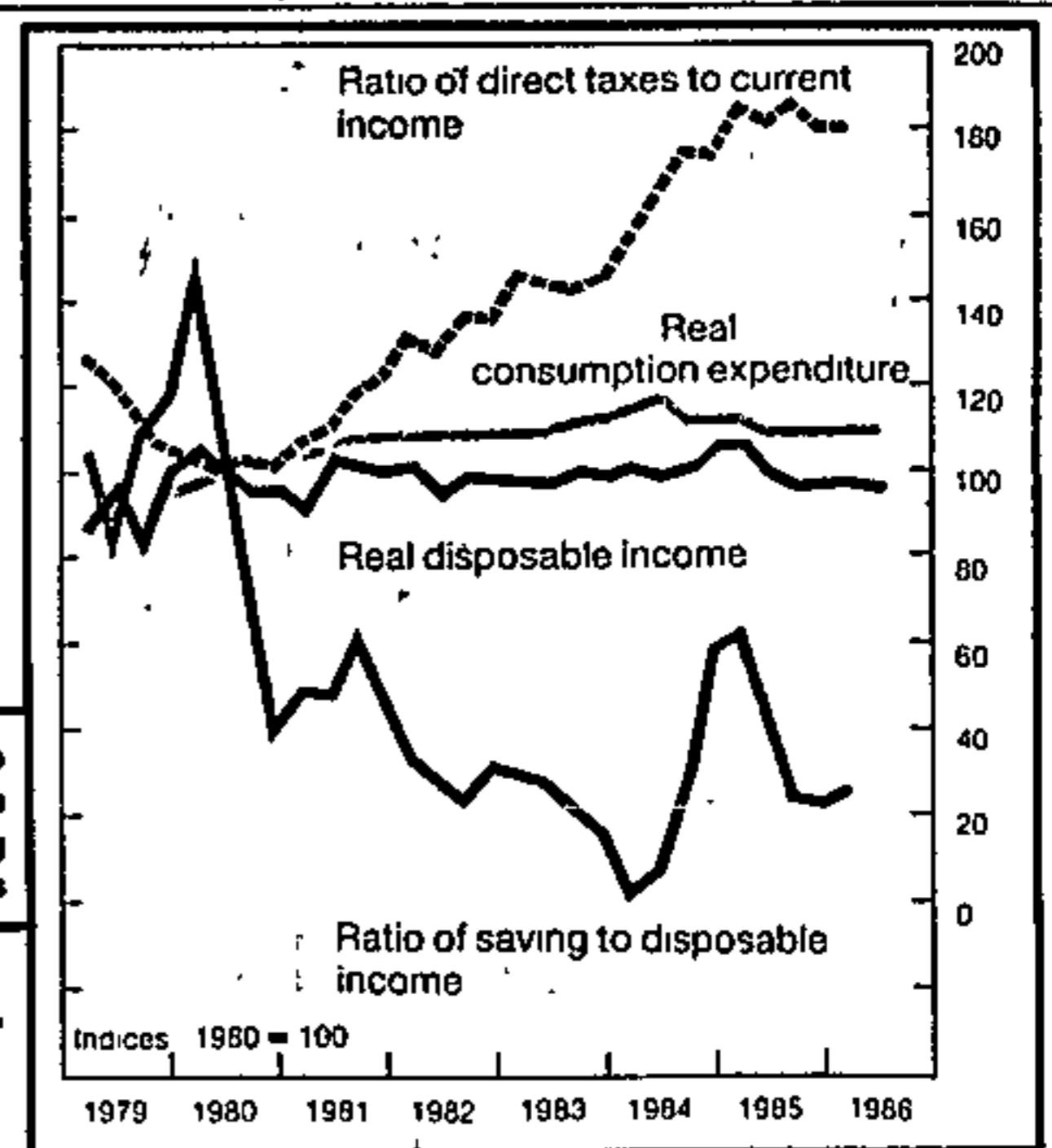
"The mild recovery in total real private consumer spending was not, however, spread evenly over the four quarters concerned. A fairly marked revival in real consumer spending in the second quarter of 1985 was followed by an abrupt downward adjustment in the first quarter of 1986, which, in turn, was somewhat more than fully reversed in the second quarter of the year," says the report.

Real fixed capital formation, which has been declining since 1982, continued to do so at an accelerating pace from the middle of



Real fixed investment and unutilised production capacity in manufacturing

Tax burden, disposable income, consumption expenditure and saving of private households



GERALD PROSALENDIS/Economics Editor

SA economy 'moving to higher levels of output'

49 BUSDAY 25/8/86

1985 to the end of June 1986.

The volume of gross fixed investment expenditure in agriculture declined by 21.5% in the four quarters to mid-1986, after a decrease of 9% in the four quarters to mid-1985.

In the manufacturing sector, real fixed investment declined by 7% (6.5%) in the four quarters to the end of June 1986. As a result of the declines in new investment, the stock of productive assets in manufacturing shrank by 2% in the four quarters to the end of June 1986, after having increased by 0.5% in the four quarters to the end of June 1985.

Mining houses increased their capital spending by only 0.5% (1.3%) in the four quarters to the end of June 1986.

Public sector investment in the transport and communications sector dropped by more than 17% in the four quarters to the end of June 1986, after rising by 15% in the previous four quarters.

Real capital expenditure by general government departments increased, however, by 14.5% in the four quarters to end of June after declining by 1.5% in the previous four quarters.

Real fixed investment by public corporations declined sharply by 28% in the four quarters to the middle of 1986, after a marginal increase of 0.5% in the previous four quarters.

Total real inventories declined sharply in the third and fourth quarters of 1985. However, a considerably lower rate of depletion occurred in the first half of 1986.

The gross domestic savings ratio amounted to 22.5% in the second quarter of 1986, compared with 19.5% in the same period in 1984. It had increased to 27.5% in the course of the 1984/85 business contraction.

The ratio of gross domestic investment to gross domestic product declined from 23% in the first half of 1985 to 19% in the second half, and to less than 18% in the first half of 1986.

On the capital account of the balance of payments, the near-equilibrium between long and short-term capital movements that had arisen in the second quarter of 1985 was upset by unexpected new developments after the middle of 1985.

The resultant large net outflow of foreign capital and intensified downward pressure on the exchange rate assumed critical pro-

portions, but the standstill on certain foreign debt repayments and measures of exchange control that were put into effect did not succeed in stemming the net outflow and downward pressure was exerted on the exchange rate.

"This pressure bore little relationship to the strength of SA's international trading position and the realities of the economy."

In turn, the behaviour of the exchange rate assumed a pivotal position in determining the inflation rate.

D eclines in net gold and other foreign reserves of the banking system, and slow growth in domestic bank credit, explained for a continued decline in the rate of growth in the money supply that began at the beginning of 1985.

The absence of excessive domestic demand, the lack of vigour of the economy and the strong position of the balance of payments on the current account justified further adjustments to both monetary and fiscal policy.

The Reserve Bank lowered Bank rate — the rate of rediscounting Treasury bills for the discount houses — 11 times between May

1985 and August 1986. Shifts in government's spending policies sought to encourage consumption and investment spending.

By August this year, however, the "real" economy remained relatively subdued by a lack of confidence in the future, and this was exacerbated by the possible enforcement of economic sanctions.

Nonetheless, conditions have been created that should prove conducive to a more vigorous upturn in private spending, and the economy is well positioned to meet any increase in demand.

Conditions favourable for a return to more buoyant rates of growth in spending include:

- The relaxation of monetary policy;
- Relatively low real interest rates;
- A willingness by the authorities to allow an acceleration of the rates of increase in bank credit and the money supply;
- Government's more expansionary approach to its own spending policies;
- The rise in market value of various consumer-owned assets;
- Some reduction in the burden of household debt; and
- A low rand, which is discouraging imports and encouraging exports.

Busom. (49) 22/8/86

SA has no choice but to move forward — Barend

THE private sector was last night called upon by Finance Minister Barend du Plessis to abandon negative and defeatist attitudes and accept that SA had no choice but to move forward.

He told the Greek Chamber of Commerce and Industries of SA in Johannesburg that the political and social reforms taking place needed a strong economy.

He said: "In the attainment of that, we all have a part to play."

Du Plessis said there appeared to be a general lack of business confidence, arising to a large degree from non-economic factors.

"I call on the private sector to depart from negativism and defeatism and accept, just as does government, that SA has no choice

but to move forward."

Outlining medium-term government financial policy, he said a number of bottlenecks had to be rectified, but the short-term recovery of the economy could not be delayed.

Serious attention would have to be paid to maximising work opportunities, reducing the inflation rate, consolidating foreign debt and tightening public spending.

"SA can simply no longer afford to tackle unnecessary luxury projects or to leave any production capacity under-utilised.

"We are still a largely developing country and must use our resources and abilities optimally."

Du Plessis said sanctions would inevitably create problems.

"But we cannot permit this threat to undermine our economy and create growing unemployment and poverty for the people of SA without taking suitable counter measures.

"We must protect and manage our economy in a way best fitted to so unnatural a set of circumstances."

The best interests of South Africans would be government's highest priority in dealing with the problems.

"We now have no other option but to create the strongest basis possible for a future that will unlock the exciting economic potential of SA, to the benefit of all," he said. — Sapa.

Standstill fails to stem outflow

R2.6bn drain from SA in six months

GERALD PROSALENDIS
Economics Editor

BOTH the standstill on repayment of foreign debt — imposed in September last year — and stricter foreign exchange controls have failed to stem the flow of capital from SA.

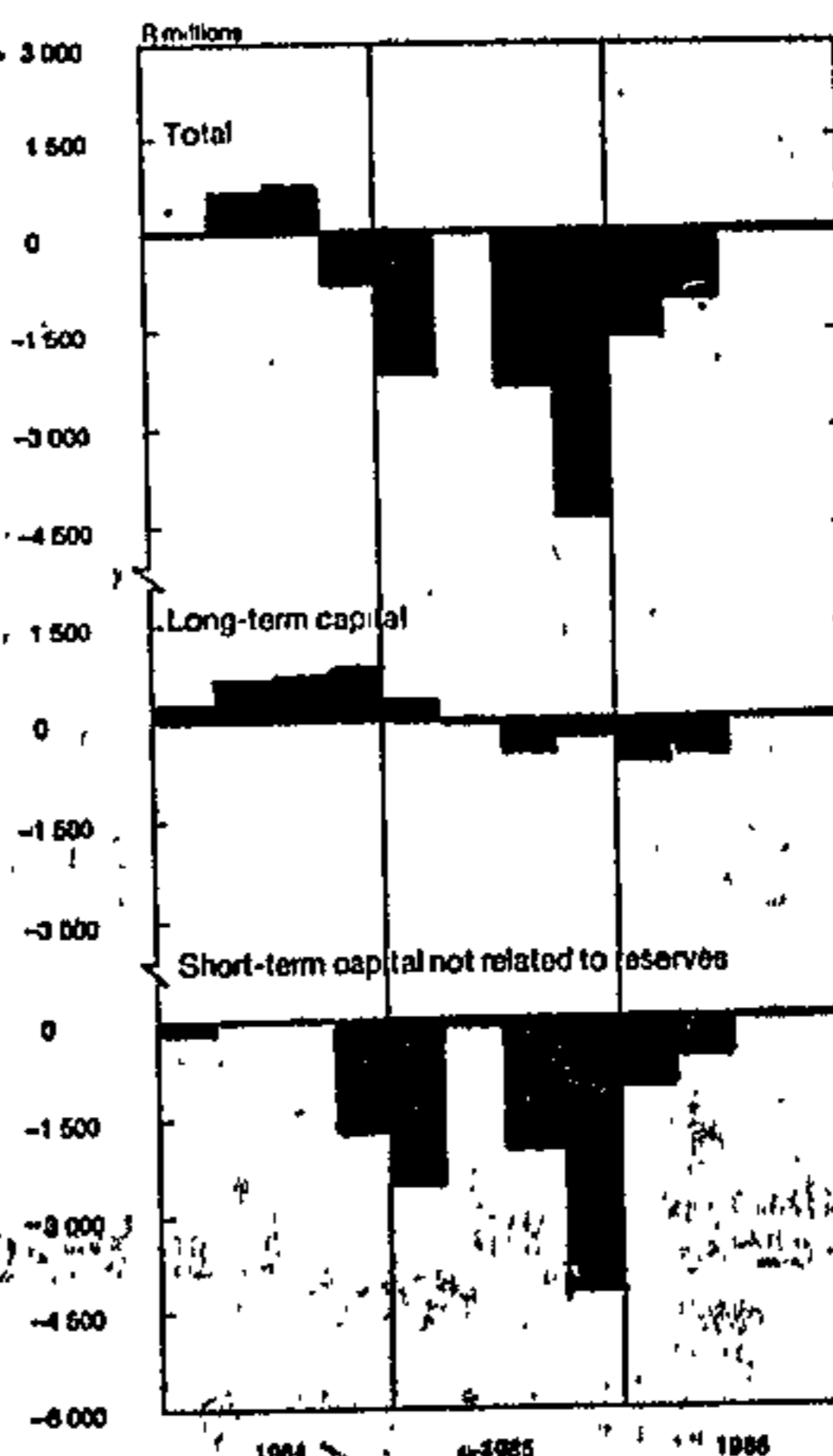
For the first six months of this year alone, a total of R2,646bn short- and long-term capital flowed out of the country, according to figures released today in the Reserve Bank annual economic report. The figures exclude changes in foreign liabilities related to reserves.

The report says the large increase in short-term capital outflows in the second half of 1985 was partly due to having to repay large amounts of loans outside the standstill net "that may well have been rolled over if SA's credit rating had not been reduced by the imposition of the standstill".

And, the net outflow of short-term capital in the third and fourth quarters of 1985, immediately after the standstill

● To Page 2 →

Capital movements



R2,646bn flows out of SA

was implemented, were substantially larger than before, says the report.

The standstill and other foreign exchange control measures also led to an outflow of long-term capital in the second half of last year, consisting mainly of repayments of debt by government. At the same time the inflow of long-term capital of net new borrowing by public corporations dried up completely after the standstill came into effect.

According to the report, SA had a net outflow of capital of R1,032bn in the second quarter of this year.

This comes after an outflow of R1,614bn in the first quarter and R4,422bn in the fourth quarter of last year. In 1985 as a whole, there was an outflow of R9,231bn.

In the second quarter of this year the net outflow of long-term capital totalled R476m, and was made up by a R70m outflow for government, R110m for public corporations, R33m for the banking sector, R117m for sales of listed securi-

ties by non-residents and R146m "other". "Outflows of long-term capital continued to be recorded in the first half of 1986 as foreign loans falling due had to be repaid without new loans commonly being made available," says the report.

The outflow of short-term capital in the second quarter of this year totalled R556m and remained high "in the light of perceived threats of intensified economic sanctions against SA and news of continued social unrest".

Other factors which had influenced the outflow of short-term capital were:

- Adverse leads and lags as imports switched to a cash basis from credit and as exporters held proceeds overseas; and,
- Certain private enterprises arranged for maturing foreign debt to be repaid through the intermediation of SA banks.

● See Page 4

THE
two
big
col
fro
su
We
so
Mo
Re
(M
su
so
be
Co
bo
sa
of
st
"le
la
c
w
T
f

25/8/86 BUS DM (49)

CALLS Tim's 25/10/86

Measures to stem capital outflow fail

(49)

Own Correspondent
JOHANNESBURG. — Both the standstill on repayment of foreign debt — imposed in September last year — and stricter foreign exchange controls have failed to stem the flow of capital from SA.
 For the first six months of this year alone a total of R2,646 billion short and long-term capital flowed out of the country, according to figures released in the Reserve Bank annual economic report.

Changes

The figures exclude changes in foreign liabilities related to reserves.
 The report says the large increase in short-term capital outflows in the second half of 1985 was partly due to having to repay large amounts of loans outside the standstill net "that may

well have been rolled over if SA's credit rating had not been reduced by the imposition of the standstill".

And, the net outflow of short-term capital in the third and fourth quarters of 1985, immediately after the standstill was implemented, were substantially larger than before, says the report.

The standstill and other foreign exchange control measures also led to an outflow of long-term capital in the second half of last year, consisting mainly of repayments of debt by government.

At the same time the inflow of long-term capital of net new borrowing by public corporations dried up completely after the standstill came into effect.

According to the report, SA had a net out-

flow of capital of R1,032 billion in the second quarter of this year.

This comes after an outflow of R1,614 billion in the first quarter and R4,422 billion in the fourth quarter of last year.

In 1985 as a whole, there was an outflow of R9,231 billion.

In the second quarter of this year the net outflow of long-term capital totalled R476m, and was made up by a R70m outflow for government, R110m for public corporations, R33m for the banking sector, R117m for sales of listed securities by non-residents and R146m "other".

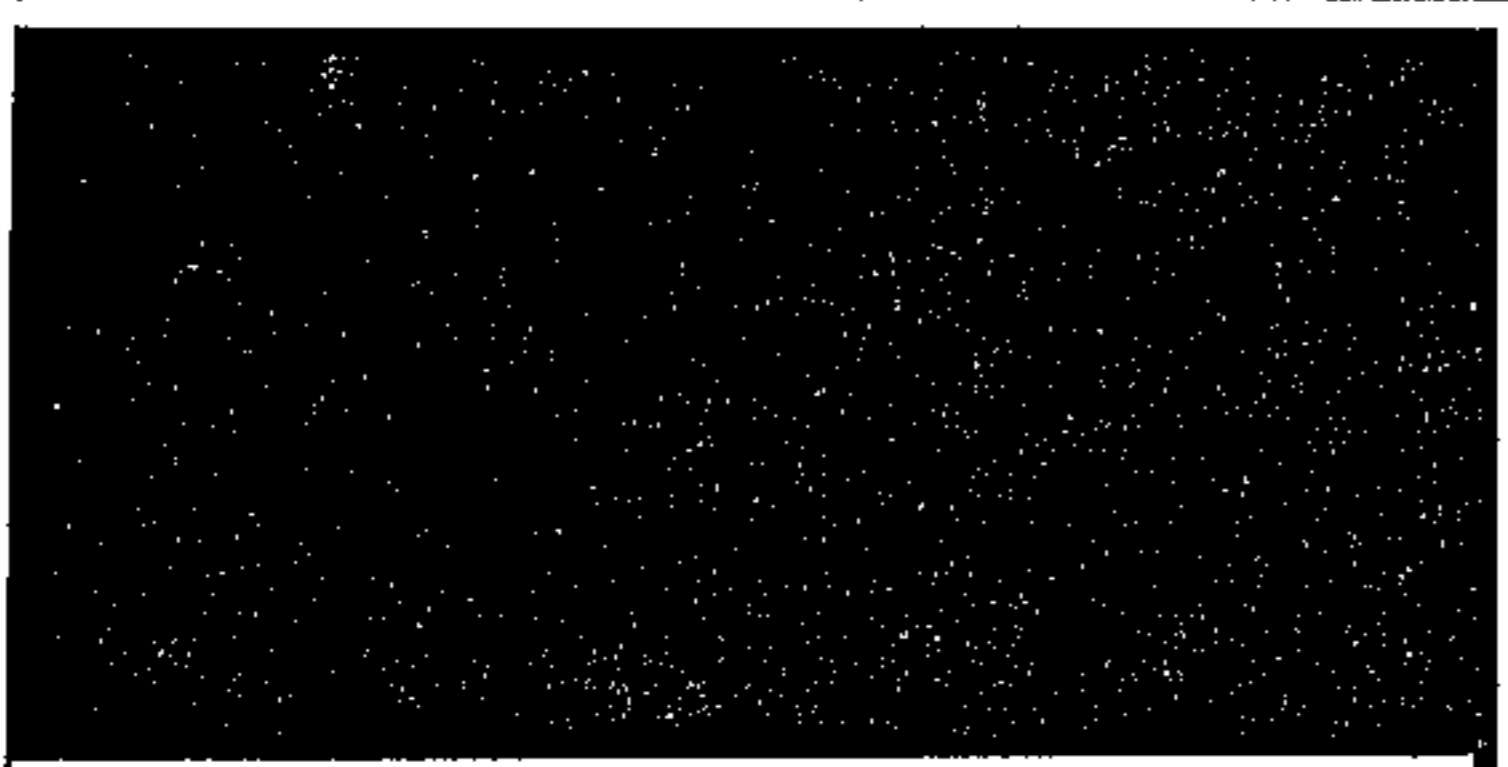
"Outflows of long-term capital continued to be recorded in the first half of 1986 as foreign loans falling due had to be repaid without new loans commonly being made available," says the report.

Threats

The outflow of short-term capital in the second quarter of this year totalled R556m and remained high "in the light of perceived threats of intensified economic sanctions against SA and news of continued social unrest".

Other factors which had influenced the outflow of short-term capital were:

- Adverse leads and lags as imports switched to a cash basis from credit and as exporters held proceeds overseas; and,
- Certain private enterprises arranged for maturing foreign debt to be repaid through the intermediation of SA banks.



June 1986

Note	30 June 1986 (unaudited) Rm	30 June 1985 (unaudited) Rm	31 December 1985 (audited) Rm
2	1 242,7	713,3	908,6
	1 353,3	447,8	912,5
	2 596,0	1 161,1	1 821,1
	709,9	187,7	574,3

Total income...

Government of Zimbabwe regarding

(1) trade sanctions between the Republic and these countries and (ii) restrictions on the transport of goods to and from these countries through the Republic; if not, why not; if so, when in each case;

(2) whether he will furnish the House with information on the matters discussed on these occasions; if not, why not; if so, (a) what matters were discussed and (b) what was the outcome in each case?

The MINISTER OF TRANSPORT AFFAIRS (for the Minister of Foreign Affairs):

(1) (a), (b), (i) and (ii) Regarding the effect of sanctions on neighbouring states that might be imposed by foreign countries, discussions were from time to time held with representatives of the Zimbabwean Government through our Trade Representative in Harare. South Africa has no such representation in Lusaka.

The South African Government does not believe in trade sanctions and boycotts and does not impose such actions against other countries as we are against the interference in the internal affairs of other countries and we believe that ideological differences should not stand in the way of trade.

It has been decided, in line with international practice, to take certain steps to protect sectors of the South African private sector and to obtain a correct statistical picture of transport and trade patterns and also to ensure that transit traffic reaches its destination. These steps are handled by the relevant Departments and not by the Department of Foreign Affairs.

(2) Falls away.

HANS SWIKA
Zimbabwe/Malawi/Mozambique goods transported to/from

*12. The LEADER OF THE OFFICIAL OPPOSITION asked the Minister of Foreign Affairs:

HoA

The MINISTER OF FOREIGN AFFAIRS:

(1) No. The BLS-countries and the TBVC-states perform this task themselves. RSA institutions such as the Central Statistical Services, Reserve Bank, as well as the Development Bank of Southern Africa do, however, on request assist the TBVC-states in a technical and advisory capacity in this regard. Moreover a Sub-Committee on Financial Statistics has been established in the SATBVC multilateral system where problems in this regard are discussed and efforts are made to find solutions jointly. This co-operation has also resulted in the training of future statisticians from the TBVC-states at the University of Pretoria to enable them to attend to the specific needs of each independent Black state.

(2) (a) and (b) Fall away.

HANS SWIKA
Allowances/pensions
1134. Mr L F STOFBERG asked the Minister of Constitutional Development and Planning:†

(1) With reference to his reply to Question No 1008 on 23 May 1986, on what basis does his Department keep statistics on the payment of (a)(i) maintenance allowances for unmarried mothers and (ii) other social allowances and (b) social pensions;

(2) whether he will furnish the available statistics on maintenance allowances for unmarried Black mothers; if not, why not; if so, what are the relevant statistics?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) (a)(i)(ii)(b) All social pensions are paid by way of a computer program, which is programmed on such a basis, that data relating to specific types of pension, cannot be extracted. In compliance with the regulations promulgated by virtue of the Children's Act, Act 33 of 1960, cohabiting adults do not qualify for a maintenance allowance for their children. The current policy is that maintenance allowances are paid to mothers whose husbands—

(i) are serving prison sentences;

(ii) have eloped; or

(iii) are deceased

in respect of a maximum of four children, but in the case of an unmarried mother, only in respect of one child.

(2) During July 1986 children's allowances were paid to 8 218 mothers, including unmarried mothers, in respect of 17 884 children, at a rate of R11,00 per child per month for normal maintenance, and R48,00 per month per child in foster-care.

HANS SWIKA
Reference books/influx control
1160. Mrs H SUZMAN asked the Minister of Constitutional Development and Planning:

(a) How many (i) males and (ii) females were arrested by officers of Development Boards for offences relating to reference books and influx control in each of the main urban centres of the Republic from 1 January 1986 up to and including the date on which arrests for such offences were suspended, (b) what was the total number of such arrests in the Republic during this period and (c) on what date were arrests for such offences suspended?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) Arrested by officers of Development Boards:

	(i) Male	(ii) Female
Bloemfontein	44	14
Durban	0	0
Johannesburg	0	0

V

Siege economy would knock SA — De Kock

LA
Cape Times 27/1/86

JOHANNESBURG. — SA's economic growth and stability were bound to be adversely affected if international sanctions turned it into a siege economy, Reserve Bank Governor Gerhard de Kock warned yesterday.

In his annual address to bank shareholders, De Kock said the government was drawing up a long-term economic strategy dealing with issues like export promotion and import substitution.

Strategies

These strategies were essential, but it was unlikely that they, alone, could prevent "irrational and emotional forces" behind the sanctions and disinvestment campaigns from transforming SA into some form of siege economy, he said.

This might well confer benefits on some domestic industries by reducing foreign competition.

"But as the experience in other countries has shown, these advantages would at best be limited and short-lived. A siege economy would inevitably tend to become a tightly regimented one subject to a maze of direct bureaucratic controls," he said.

This would limit scope for private enterprise



Gerhard de Kock

and effective competition to promote economic development.

"In the final analysis, the combination of continuous capital outflow and a siege economy would be bound to have adverse effects on economic growth and stability," De Kock said.

Politically-induced pressure on the capital account of the balance of payments was already affecting the SA economy more adversely than trade sanctions were likely to do.

Foreign investors and bankers, plagued by uncertainty over SA's political problems, had been withdrawing capital and credits from SA for more than 18 months.

"By force of circumstances SA has therefore become a capital-exporting country."

SA had repaid nearly

\$3 billion of foreign debt since the end of 1984.

De Kock said any technical assessment of prospects in SA must lead to the conclusion that the scope now existed for "a renewed cyclical upswing in the short term and a considerably higher real average rate of growth in the medium and long term".

Suggestions had been made that statutory and other measures be taken to compel insurance companies, pension funds and mining houses to invest more in job-creating directions.

Adjustments

But he warned: "While certain adjustments to taxation and financial legislation affecting these institutions might well be desirable for other reasons, attempts to force them to invest in low-earning high-risk directions could undermine their financial soundness and inflict harm on the economy."

Pointing out that there was enormous potential for rapid economic growth in Southern Africa, he called on SA, Southern African states, major industrial countries and international financial institutions to co-ordinate their development strategies to unlock the riches of the region. — Reuter

Metro Group beats forecast

Cape Times 27/1/86

JOHANNESBURG

Apr 6 Times 28/8/86 (49)

Banker happy with current situation

By GORDON KLING
Financial Editor

MEMBERS of the South African-German Chamber of Commerce and Industry were yesterday advised that a dramatic improvement had occurred in the overall level of confidence in SA in the past few months.

In what must be the most simplistic business address attended by Business Report in some time, Finansbank executive chairman Piet Liebenberg also attempted to ridicule government critics, slandered the press, and implicitly praised the state of emergency.

Liebenberg also selec-

tively quoted from a Business Day leader, giving a false impression of its reasoning.

The respectful audience actively pursued aspects of the unusual speech during a relatively lengthy question period.

This elicited the opinion, stated as fact, that SA was an oil exporter, and the view that the bank hoped to be in a position to buy businesses at bargain-basement prices thanks to mass disinvestment by US firms during the next six months.

Comparing what he regarded as the most important issues of ten months ago with today,

Liebenberg said: "You will, no doubt, recall the amazing number of local people during the latter half of last year who were constantly telling the State President how to run the country. "From the luxury of their armchairs they gave their well intended advice every day.

"At one stage I estimated that we probably had about 10m prospective State Presidents within our borders. The only difference between then and now is that we seem to have the same number, (or greater), of advisers from beyond our borders."

He believed confidence probably struck

an all-time low in the week before last June 16.

"Some local and most, if not all, foreign media tried their utmost to create an impression of an inevitable 'peoples revolution' or at least a period of widespread and uncontrollable riots," he opined.

Apparently unaware, to be charitable, of the explosion on Tuesday night of new violence in Soweto which has reportedly claimed at least 12 lives, Liebenberg said firm steps taken by the authorities had resulted in a relatively quiet period since June 16.

"The direct outcome of these firm government actions is that the confi-

dence factor made a dramatic improvement to date."

- Liebenberg's eight-point agenda for business includes the advice to continue to develop, coordinate and cooperate, consider new political structures, and set an example.

During the question session he noted that all foreigners he had encouraged to visit SA had gone away with a different outlook on its problems.

He responded with stony silence to a suggestion tossed-off after the meeting broke up that he should have invited Sir Geoffrey Howe.

Share compared with a loss of 11.8c before



TRADE

41605 38886 (249)
SA exports jump 36,7 percent

Financial Editor

SOUTH Africa's long-heralded but long-delayed export-led boom at last seems to be happening. Exports last month rose to R3,84-billion, their second highest level ever and a 36,7 percent increase on the year ago figure. (The record export figure was R4,1-billion set in October, last year).

This brought earnings from exports in the three months ended July to R10,6-billion, an increase of 23 percent on the R8,62-billion earned in the same period last year.

While some of the increase in this year's export earnings reflects higher gold and platinum prices, it also would seem to indicate an improvement in export sales right across the spectrum.

If this rate of export earnings is maintained it should not be long before other sectors of the economy also start to share in the gains being made by the export industries.

Imports last month were also sharply higher rising to R2,85-billion, an increase of 52 percent on the year-ago figure of R1,87-billion — but only fractionally less than the record R2,86-billion import figure in

January.

For those who are seeking a continued high balance of payments surplus, the jump in imports may be a little disappointing. But more encouragingly, it could be an indication that traders and manufacturers have noticed an increase in the economic tempo and are starting to rebuild their stocks.

However, one cannot be certain about this, as the increase in imports might just be the result of further stockpiling of petroleum products by the Government — the factor behind the record level of imports in January.

Altogether South Africa had a trade surplus of just under R1-billion in July which brought the trade surplus for the seven months ended July to R7,1-billion.

In the same seven months last year the trade surplus was R6,29-billion.

For those dearly wanting to see an end to the recession in South Africa, the July trade figures are the most satisfying for some time.



Apartheid has squandered R56 000m?

By BARRY STREEK
Political Staff

APARTHEID cost South Africa more than R56 000 million in lost income last year and about 12 cents in every rand spent by the State went towards maintaining segregation, Professor Michael Savage of the University of Cape Town said last night.

These shocking estimates were based on "extremely" conservative estimates and they indicate that between ten and 21 percent of the annual budget is devoted to financing the machinery of apartheid.

Professor Savage, who delivered his inaugural lecture at UCT last night, said the South African political system had given birth to 13 houses of parliament and the President's Council, with 1 720 members.

It had also resulted in 121 ministers of government and at least 21 deputy ministers and had spawned 151 government departments.

Between 1980 and 1986, the cost of Parliament, including the tricameral system and the President's Council, had risen by 140 percent, he said.

"The economic cost of running 151 departments, each having separate managerial and administrative staff, separate budgets, separate accounting procedures and often providing duplicated facilities and services is difficult to probe."

He said the government's decentralization programme had cost R776,5 million to operate in 1985/6.

"This again is a conservative estimate, not taking into full account the cost of the 26 government departments, development corporations and parastatals involved in running the programme; nor the large capital costs involved in its operation."

Professor Savage said: "It would seem reasonable to conclude that some 12 cents out of every rand spent by the State in 1985/6 was directed toward maintaining and enforcing segregation, in imposing apartheid programmes, and on policing and guarding the system."

A low estimate of the direct annual cost of apartheid amounted to R2 800 million, a medium estimate to R3 900 million and a high estimate to R5 700 million.

"It must also be stressed that they refer to direct expenditure in one year only and include neither past capital costs of items such as buildings, vehicles, and so on, nor to any of the economic costs born by individuals and non-State bodies in having to operate under the apartheid system."

He said R8 000 million had been lost in economic growth and R56 000 million had been lost in gross national product in 1985 "as a consequence of the apartheid policy".

This provided indications of the enormous economic losses that South Africa faced because of the policy and amounted to "a squandering of the resources of this nation".

● Apartheid is bleeding SA, page 8

ARKEN 28/8/86 (28/8/86) 49

'Apartheid cost R8 000-million in lost growth'

Education Reporter

TWELVE cents of every rand in last year's national Budget was spent on maintaining apartheid — and that's a conservative estimate, says University of Cape Town sociologist Professor Michael Savage.

Counting "the cost of apartheid" in his inaugural lecture at UCT last night, Professor Savage said he estimated South Africa's apartheid policies cost the country R8 000-million in lost economic growth in 1985 because of racial restraints on economic and human resources, loss of potential skills and lost investment.

It was impossible to accurately determine the economic or social costs of apartheid, but by studying budgets, auditors-general reports and consulting economic and social researchers he had arrived at some — mostly conservative — estimates of the direct costs of apartheid.

- The immediate costs of running three Houses of Parliament and 10 legislative assemblies (with 1 270 members, 121 ministers and 151 Government departments) was more than R49-million a year.

- The tricameral system had seen the cost of running Parliament rise by 140 percent in six years.

His figures excluded R20-million for extensions to the tricameral system, R6-million for refurbishing Tuynhuys and R2,5-million on houses for seven new Cabinet Ministers.

- Duplicated facilities (such as in health and education) provided by the 151 Government departments cost more than R130-million a year.

- There were "vast wasted costs" in maintaining a bureaucracy to implement, police and defend apartheid.

Pass laws had been abolished but more than 1 000 officials were still employed by former development boards at an estimated cost of R12,7-million.

The State spent an average of R6,7-million a year applying trespass laws.

- Operating the homelands policy cost an estimated R776,5-million in the 1985/86 financial year.

- R551-million of this was spent by the Department of Trade and Industry on decentralisation.

- More than R804-million had been spent on underpinning the homelands policy.

- Apartheid cost neighbouring states vast sums in war damage, sabotage, loss of exports and tourism.

Other costs — in terms of human suffering, humiliation and anger and lost economic and educational opportunities caused by apartheid — were impossible to measure.

THE ECONOMY

Whose discipline?

49
F.M.
29/8/86

A siege economy would inevitably tend to become a tightly regimented one subject to a maze of direct bureaucratic controls. This would limit the scope for private enterprise and effective competition to promote economic development and to raise standards of living. — Dr Gerhard de Kock, governor of the Reserve Bank, in his annual address.

If we are not prepared to discipline the free market system, we will lose it. The market's own disciplines may not be compatible with the short-term political objectives of reform. (If the market's own disciplines do not work) total spending will have to be subjected to tough norms and controls. The authorities will have to be prepared to impose some discipline in ways that may not be reconcilable with a system of a free market-orientated economy. — Extracts from the inaugural address of Dr Chris Stals, Director General of Finances, as honorary professor at the Unisa School of Business Leadership.

In the cosy world of officialdom, no doubt it will be claimed that these two views are not mutually exclusive. It is only a matter of emphasis. After all, does not Stals concede that in the long run Western market-orientated economies have outperformed their centrally planned socialist counterparts?

Does he not concede that our civil servants lack the necessary manpower (but, apparently, *only* the necessary manpower) to take better decisions than Adam Smith's "invisible hand"?

Does he not, too, agree that if we cannot control State spending, the battle will be lost anyway? Nevertheless, Stals's message is clear. We live in abnormal times; and these demand abnormal solutions.

In contrast, the message flows unmistakably — if obliquely — from De Kock's address, that interference with market mechanisms does not work. He hits out at those who have advocated pegging of the rand, and says bluntly that it is now more widely appreciated that last year's liquidity crisis had little, if anything, to do with the abolition of the financial rand in February 1983 and the return to a unitary exchange rate system.

In retrospect, even last year's adjustments, such as paying mines in rand for gold and compelling exporters to take out forward cover, had "relatively little effect on capital movements and the exchange rate." So why persevere with these distortions, one may well now ask.

Pace Stals, the only disciplines that work are those of the market place. If the civil service lacks the manpower to outguess the "invisible hand," how can it be logical to propose — even in abnormal circumstances — that it should

make far-reaching decisions on basic economic activity?

The way to check "unjustified" salary increases is to free labour markets, not to impose wage and price controls, as Stals hints.

We've tried price controls: they didn't work, even in much less complicated times. Income policies have never worked; true, they can hold back money incomes for a time, but at great cost — especially when the dam bursts.

The roots of our economic malaise do not entirely lie in political unrest and the threat of sanctions. Take export performance. It would be nice if we could attribute the steady decline in the contribution of exports to GDP to a broadening of the economic base; but that is just not true.

The terms of trade are in a secular decline. This is the basic reason why we can no longer rely on export-led growth. Fortunately, there is evidence — both anecdotal and from company reports — that retail sales are picking up sharply. When pent-up demand is satisfied, the tempo could slacken; but if some growth is sustained, it will be the first real evidence that we are turning the corner. The next step could

be a reversal of inventory cut-backs, which could flow through into manufacturing activity — especially as the low rand will automatically diminish competition from imported goods.

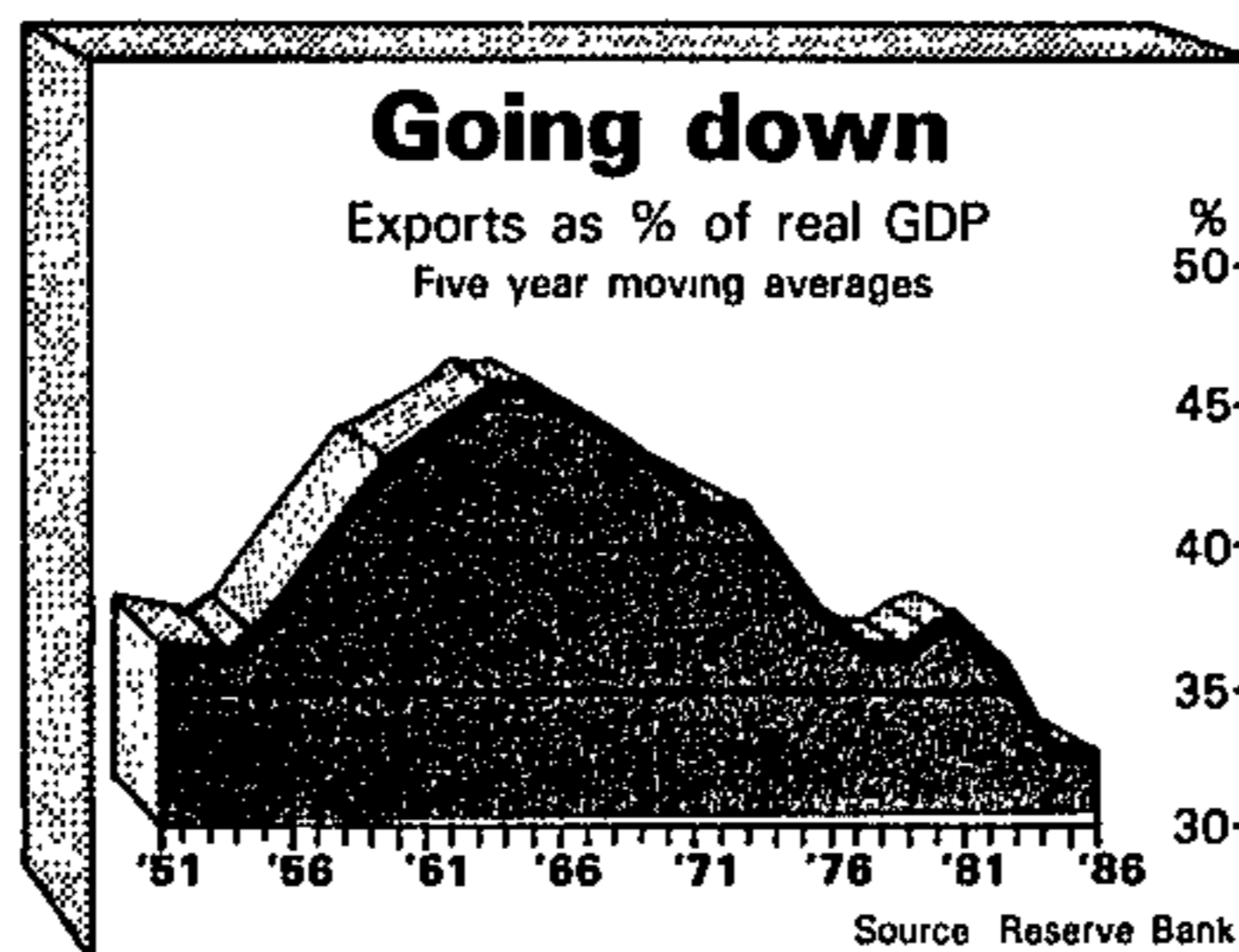
De Kock is able to list a number of potential stimulatory forces: the current account surplus (now projected at R5 billion-R6 billion this year), surplus capacity, the downtrend in inflation (despite July's setback), and expansionary monetary and fiscal policy. One could argue whether fiscal policy is indeed expansionary;

that may be the theory, but it's less convincing in practice. But even ignore that element, and it's still an impressive list.

Maybe we can come close to 2% growth by year-end. But the last thing we need is for sanctions hysteria to trigger a whole range of controls and distortions. De Kock stresses the difference between the "broad long-term economic strategy" now being formulated by government and a "socialist master plan." It's an important distinction that one hopes will be widely understood.

There is another difference of emphasis. To some (implicitly, including De Kock), a continuation of political reform is essential to restore confidence and prosperity. To others (and intentionally or not, Stals gives the impression of falling into this camp), the priority is socio-political reform. The market must, if necessary, be suborned to accommodate this.

In the long run, there may be a shared view of the ultimate nature of society. The *FM* believes both avenues must be pursued simultaneously. But unless the economy is allowed to make its own decisions on the efficient allocation of resources, political reform will be nugatory. ■



49 INVESTMENT DECLINES 29/8/86

In the year ending June, real investment in agriculture fell 21,5% (compared to a 9% drop in the 12 months to June 1985) — thanks to declining net incomes, rising equipment prices, and increasing debt and servicing costs. Manufacturing dropped 7% (again compared to a 6,5% drop over the previous 12 months) as the stock of productive assets shrank 2% and capacity utilisation slipped from 87% in the second quarter of 1984 to 84,4%.

Not even the mining industry increased real capital spending, which fell 0,5% (up 13% to June 1985). There was a 10% drop (17% fall) in household investment and a

massive 28% decline (grew 0,5%) in real public corporation investment. And SA is supposed to be a developing country.

It also emerges that in the year to mid-1986 real gross domestic expenditure increased 1% after falling by 10,5% in the previous 12 months, real private consumption expenditure rose 1,5% (negative 7%) with an 8% rise on durable goods. Import volumes dropped 4%. The ratio of real government spending to real GDP returned to 15,5% in the first half of 1986 after declining to 14,5% in 1985's final quarter from 15,5% in the year to mid-1985.

ECONOMIC CONDITIONS

A tale of woe

49 Fin Mail 29/8/86

The Reserve Bank's 1986 annual economic report makes miserable reading. Hardly surprising, as it covers, after all, one of the most depressing periods in SA's economic history — the year to end-June. It says: "Indications are that the economy is still in the process of recovering, albeit slowly and erratically, from the 1984-1985 recession," and repeats its latest (downwardly adjusted) estimate of 1,5%-2% real growth for 1986 — which many think unattainable.

The report cites the decline in average real wages and reluctance to enter into long-term spending patterns as a major contributor "to a situation by mid-1986 in which the economy had not begun to exploit the usual, mutually reinforcing, effects of a cyclical revival."

It continues: "By August the real, as distinct from financial, side of the economy remained subdued by lack of confidence and a pervasive sense of uncertainty. Few signs were discernible of a more spirited revival in consumer demand."

The Bank scratches for positive factors, citing "relaxed" monetary policy; relatively low real interest rates; official "willingness" to accept an increase in bank credit and money supply; the stimulatory effects "still to be exerted" by increased government spending; higher values of consumer-owned assets; the reduction in real household debt; low inventory levels; and the effect of the relatively low rand in discouraging imports (including those needed to develop the economy), encouraging exports (ignoring foreign pressure), and raising the rand value of export proceeds.

Following the "upturn" that began in the third quarter of 1985 only to fade in the beginning of 1986, second quarter real GDP

"recovered marginally" to an annual rate of around 1,5%. Real GDP growth in the year to June was 1% — "still significantly below its level in the second quarter of 1984" — with only commerce (down 5,5%) showing no output improvement.

Between mid-1985 and mid-1986, the largest production gain was in agriculture (6%), with growth also in mining and quarrying (2%), transport and communication (0,5%), financial services (2%), and general government (3,5%).

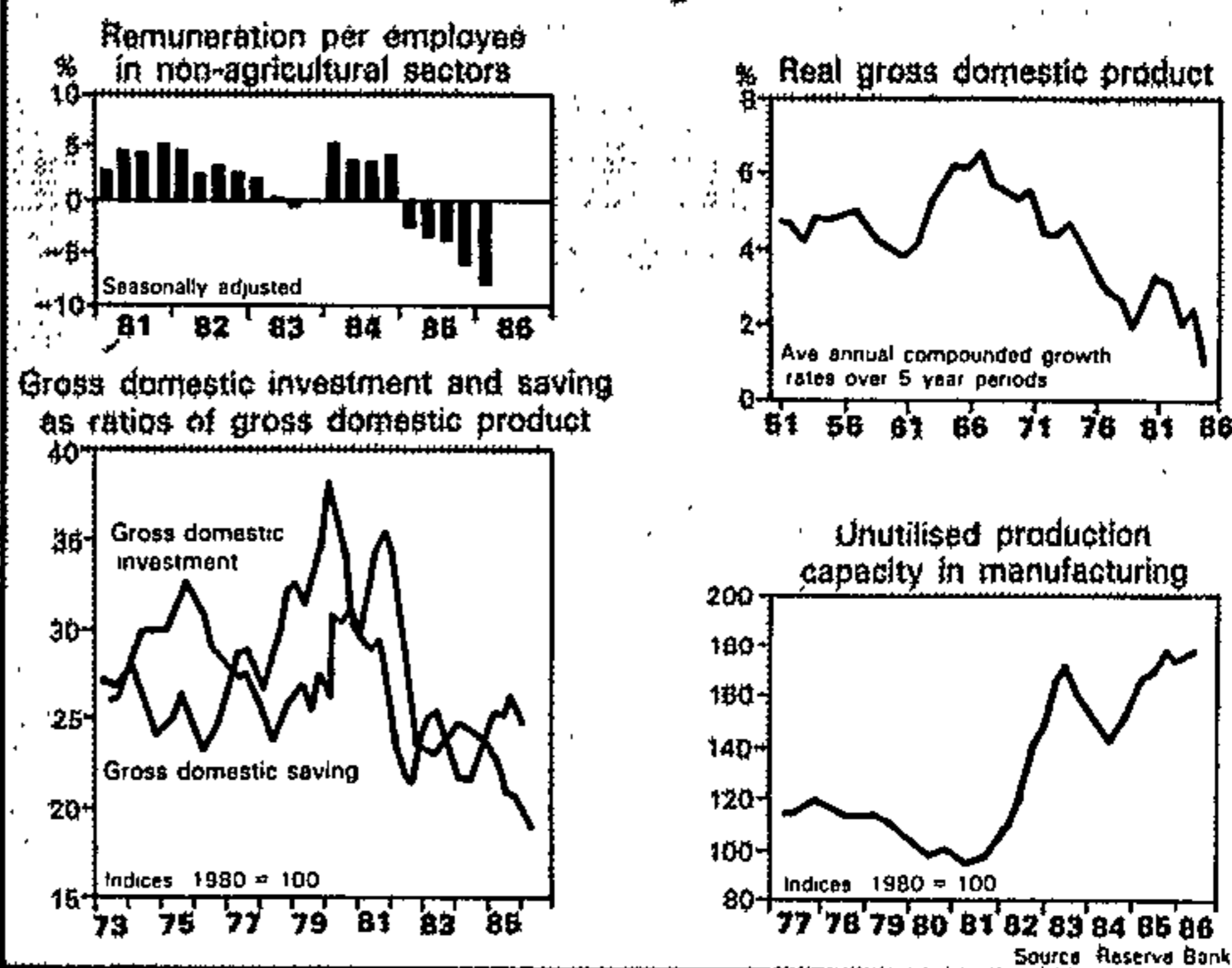
In the year to mid-1985, only agriculture (18,5%) and financial services (1,5%) grew.

But any growth this year is unlikely to ease the plight of the unemployed and poor, while those fortunate to have jobs are unlikely to gain in real terms. Nor is growth likely to be accompanied by long-term structural investment.

The major disasters are in real gross domestic fixed investment (GDFI) and real remuneration per worker — both continue to decline at an increasing rate.

The real rate of labour remuneration was 7,7% less in the first quarter than in the same time in 1985. This year's second quarter saw 11% remuneration growth when inflation was over 17%.

The sorry tale



Reflecting the severity of worker bruising, the report notes the unusual phenomenon that an increased share of the operating surplus in total factor income arose partly from declining total real wages.

In a typical upswing, the increase in relative share of the operating surplus is accompanied by a rise in total real wages. "This served to bring home both the extent and widespread nature of the decline in real living standards."

Seasonally adjusted annual non-agricultural employment was unchanged in the first quarter (at levels similar to 1985's first quarter) after increasing by a marginal 0,8% and 1,7% in the third and fourth quarters of 1985.

The Bank takes cold comfort in this misery: "These developments clearly demonstrate that effective monetary and fiscal demand management policies can prevent wage and salary increases from being an inflationary element."

Such an attitude of deeming effective policy more important than social conditions is a major reason for the current mess.

Union leaders will also see red when they read "the facts show the extent to which labour, even when increasingly well-organised or unionised, may be exposed to the ill-effects of price level increases." The facts may show this; but not only is it cynical to score "monetarist" points, their misery is certainly not a sole product of inflation. The inflation-busting strategy of 1984, which the Bank insists on referring to as "the adjustment process," still reverberates — in no small manner.

INV
In the year ending June, real inv in agriculture fell 21,5% (compa 9% drop in the 12 months to Jun — thanks to declining net income, equipment prices, and increasing and servicing costs. Manufa dropped 7% (again compared to drop over the previous 12 months stock of productive assets/shrank capacity utilisation slipped from the second quarter of 1984 to 8
Not even the mining industry is real capital spending, which fell 13% to June 1985). There was a 1 (17% fall) in household investme

Not since the first quarter of 1982 has real GDFI increased. Worse still, the report says it is declining "at an accelerating pace" and is disturbed at the "uninterrupted decline in capital formation in the manufacturing industry."
Apart from the 14,5% increase in capital expenditure by government, real GDFI declined in all sectors in the year to mid-1986 (see "Investment drops"). Real inventories fell, but at a lower rate of depletion "in particular among commercial and industrial inventories and diamond and agricultural stocks." This is small comfort as real inventories have fallen in all, but two quarters since the end of 1981. The GDFI-GDP ratio has plummeted from averaging 30% in 1980-1982 to under 18% in the first half of 1986. ■

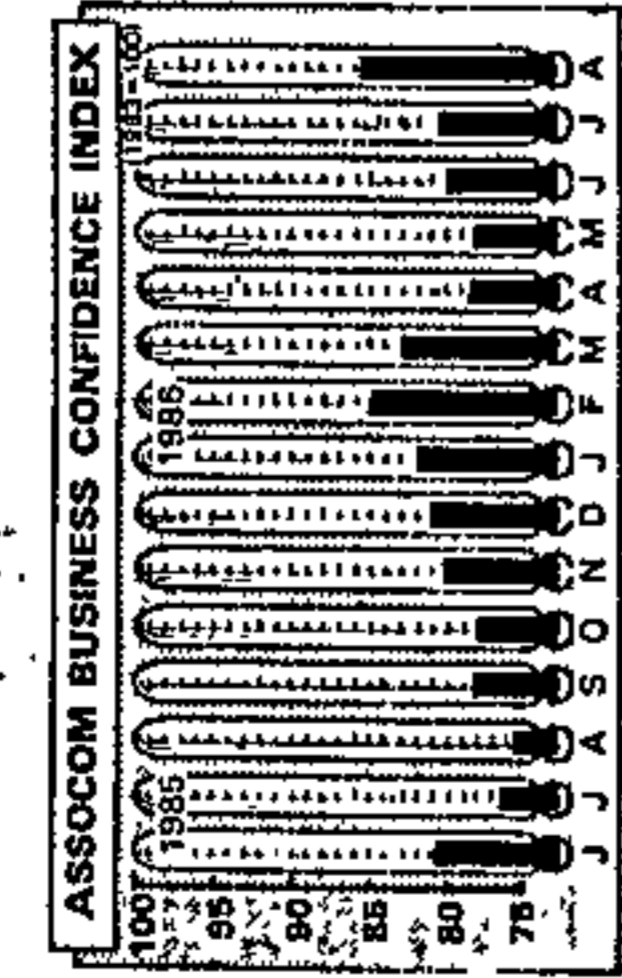
real SA is y, mid-e in the con- neta- rable . The 3 real ial of 985's ear to

Assocom notes dramatic upswing in business confidence

AFTER sinking to near-record lows in the previous quarter, business confidence appeared to improve dramatically in August, the Association of Chambers of Commerce (Assocom) said yesterday.

It added that its business confidence index (BCI) — a composite of 13 economic indicators, including the rand-dollar exchange rate, unemployment and inflation — surged to 85.7 in August, from 80.1 in June and 80.9 in July.

The stronger gold price, stimulatory economic policies and the perception of



Economics Reporter

relative social calm in most areas were among the main elements which had contributed to some recovery in the index, it said.

But Assocom said there was "still a long way to go to rebuild business and consumer confidence on a large scale".

The group admitted there was still no evidence of a recovery in private investment — a key barometer of business optimism.

The index is not a subjective measure of actual business sentiment, but rather an approximation of confidence measured through quantitative business and economic data. Thus, last month's improvement in the index does not necessarily mean business executives felt significantly more confident.

Still, Assocom said in a statement accompanying the index: "Although there are still several critical factors facing SA's economy, the recent trends in the BCI do seem to presage an economic

upturn.

"It is now unlikely that economic growth in 1986 will exceed 2%, but if current trends are sustained, SA could look forward to a growth rate of 3% plus in 1987."

A key element in the strengthening of the index was the tentative evidence of renewed consumer spending, Assocom said. In part, it said, higher consumer spending was explained by the end of boycotts and the return of many black consumers to the marketplace.

External pressures likely to put lid on country's growth

By Garner Thomson
The Star Bureau

LONDON — South Africa's projected growth rate has proved elusive, and is expected to be lower than originally forecast by the *Economist Intelligence Unit* just six months ago.

The EIU now believes the average growth rate for 1986-90 will be 3,3 percent, instead of the 4,2 percent it originally calculated.

The reasons for this, its says, include growing sanctions threats and already existing boycotts, as well as the "increasingly evident effects of the political situation on international and domestic confidence".

The update report adds: "Stringent Press curbs make it all the more difficult to chart current events, let alone project their future course, but, even if the security clampdown since June 12 has succeeded in some-

what reducing the degree of physical violence, there is no sign that either the underlying determination to see white domination ended, or the government's determination to see it retained, has in any way diminished. A long period of political strife thus remains in prospect."

The *Economist Intelligence Unit* believes comprehensive or mandatory sanctions are not an immediate prospect, but warns that "a gradual stepping up of the external pressure is likely", with coal, iron and steel, and possibly farming sectors, liable to be particularly hard-hit in their main Western export markets.

There are already signs that growth prospects are beginning to suffer. The loss of external capital is one aspect of this, "but consumer attitudes have also been changing, with an apparent reluctance to engage in long-

term commitments, evidenced in sluggish sales of durable goods and new housing."

Against these negative trends, the EIU places the "political discount" on the exchange rate of the rand.

This has made South African goods increasingly competitive on international markets, despite the dampening effect of sanctions, boycotts and the threat of more to come, the report says.

"With the weaker domestic demand, the current account surplus is projected to remain substantial throughout the period. On the revised forecast, the surplus is projected to decline gradually to US\$2,5 billion by 1990."

A report published today by the Anti-Apartheid Movement says Shell's presence in South Africa makes it, along with Barclays, chief among international

companies propping up the apartheid system.

But Shell has responded by saying the Shell Shadow Report "creates an impression which is incorrect, misleading and tendentious".

The Shadow Report claims Shell is supplying oil to South Africa, thus breaking the embargo of all the main oil exporting countries. Shell rejects the claim.

The report also says Shell is contributing specialist knowledge to South Africa, by drawing on the resources of the Royal Dutch/Shell group worldwide. This knowledge it would not have access to otherwise.

Shell is also accused of helping the South African Government by supplying the army and police with oil products and through its involvement in mining and exporting South African minerals.

2/9/86

49

50

SA economy looks brighter

JOHANNESBURG — The upward thrust in the gold price and a strong bull run in the financial markets have strengthened confidence in the economy's ability to turn the corner.

Tentative as the early signs of a take-off may be, it appears as if the economy is on the move.

Yesterday, a buoyant rand rose to \$0,4020 — its highest level in three months — and closed the day at \$0,40.

Gold was fixed in London yesterday afternoon at \$391,75 — its highest in two years. It rose to \$392 in earlier trading, close to \$8 above Friday's level.

In response, the JSE all-gold index surged 34 points to a new peak of 1727. The advance helped push the JSE overall index 20 points higher to a record 1882.

The governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday: "In July and August, retailers reported a pick-up in sales. Although this upward movement comes off a low base, it is clearly in the right direction."

He said South Africa's foreign reserve position was more comfortable now than it had been for some months and debt-related outflows should be reduced between now and the end of the year. — DDC.

Industrialists in plea for ⁴⁹ imaginative ^{SOAK} Govt strategy ^{2/9/76}

By Stan Kennedy

The Transvaal Chamber of Industries has called on the Government to introduce some new and imaginative thinking in economic strategy.

It was reacting to the concern expressed by Governor of the Reserve Bank, Dr Gerhard de Kock, at the reluctance of the private sector to expand real fixed investment, when the cash flow of financial institutions was large and the stock exchange "booming".

The chamber says in its bulletin: "It seems to us that the failure of Government to implement appropriate economic strategies has a great deal to do with the reluctance of the private sector to expand real fixed investment. In a capitalistic society, a prudent businessman will normally only invest where he anticipates he will make real profit.

"Given the current economic strategy of the authorities, he can only see his investment trapped between the twin jaws of taxation and inflation."

The situation was complicated by the rand's weakness. Capital equipment and raw materials cost considerably more than they did, making return on investment less attractive.

"Of course, there is always the sleeping partner, the Receiver of Revenue, who stops sleeping as soon as the venture is out of the red and stretches out a taking hand."

The chamber wants a plan which will take the entire economy into account instead of a patchwork of ad hoc short-term remedies which, it says, distorts the overall economic scene, leading to further short-term remedial action and further distortion ad infinitum.

Rand, gold spur confidence

SA economy shows signs of turning the corner

BUS DAY 49

2/9/16

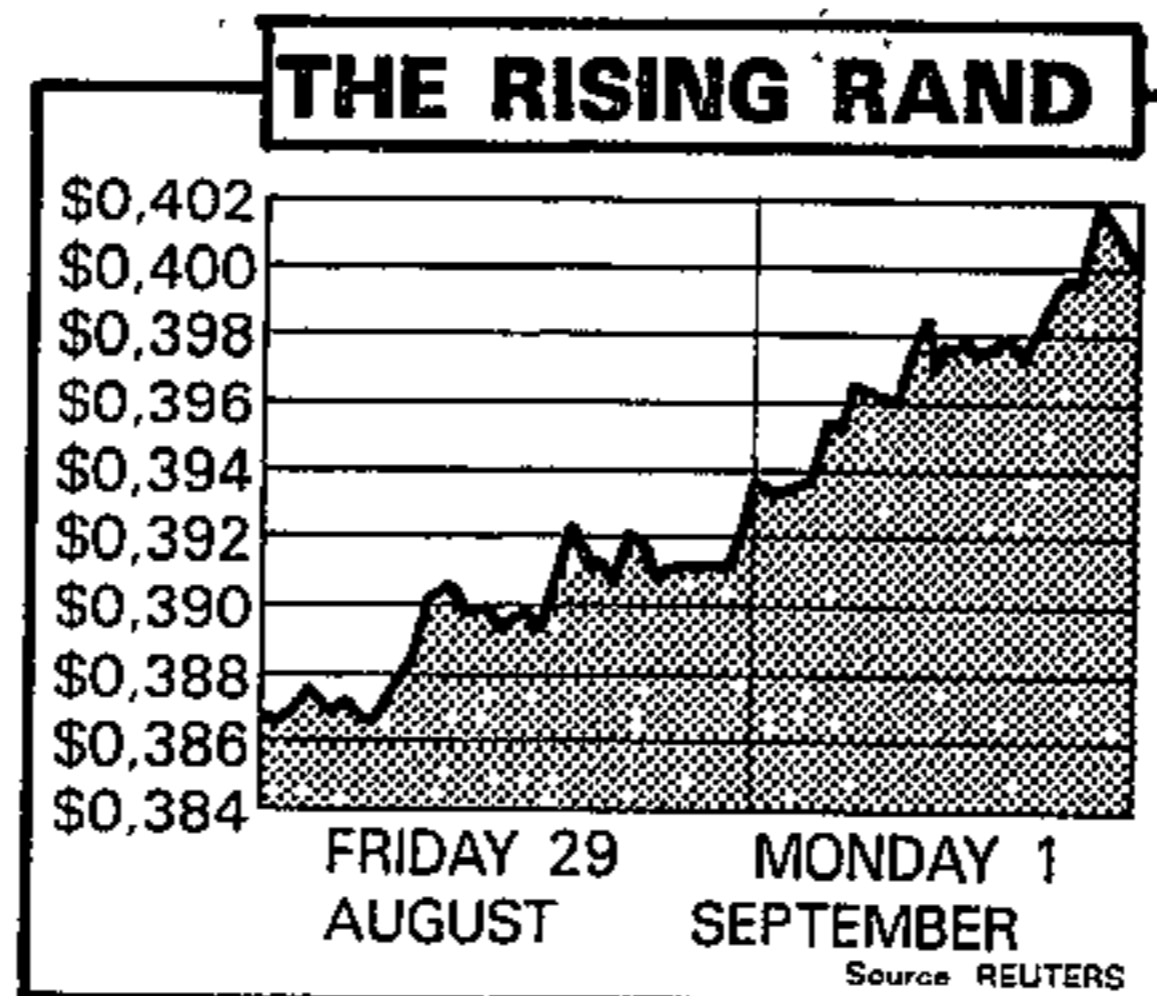
Business Day Reporters

THE upward thrust in the gold price and a strong bull run in the financial markets have restored confidence in the economy's ability to turn the corner.

Tentative as the early signs of a take-off may be, it now appears as if the economy is on the move.

Yesterday, a buoyant rand rose to \$0,4020 — its highest level in three months — and closed the day at \$0,40. "The pressure on the rand from leads and lags has eased, although a reversal has not yet occurred," says Reserve Bank Governor Gerhard De Kock.

Gold was fixed in London yesterday afternoon at \$391,75 — its highest fix in two years. It rose to \$392 in earlier trading, close to \$8 above Friday's close. In a prolonged effort to agree to a London gold fix, bankers spent 61 minutes around the table — an indication of heated interest. The longest session so far this year was a marathon 65 minutes on January 16.



In response, the JSE all-gold index surged 34 points to a new peak of 1 727 (see panel). The advance helped push the JSE overall index 20 points higher to a record 1 882.

On the capital market, the long-dated benchmark RSA 13% 2005, which only nine months ago peaked at 18,45%, seemed headed towards the 14% barrier. In lively trading yesterday, it closed at 14,03%.

The money market shortage remained

relatively small at the end of August — the amount granted through the discount window was less than R1bn — and short-term rates are continuing to fall. This is despite August being seasonally tight because of tax payments.

De Kock says: "In July and August, retailers reported a pick-up in sales. Although this upward movement comes off a low base, it is clearly in the right direction."

He says debt-related outflows on the capital account should be reduced between now and the end of the year.

"It is clear that in the first eight months of the year we repaid substantially more than two-thirds of what we are likely to repay. For the moment the worst is over as far as the outflow on the capital account is concerned.

"Our reserve position is more comfortable now that it has been for some months," he says.

"The second round of unfavourable leads and lags, which began in May this

● To Page 3 →

Economy shows signs of upturn

year, is now coming to an end. The current account surplus in the third quarter will be larger than outflows on the capital account."

All this means that SA has cash in the kitty from rising export earnings and falling foreign debt commitments, at the same time that there appears to be a revival in consumer demand. If these two trends continue, there is good reason

to hope the economy will show a reasonable growth in the fourth quarter.

The next step in this nascent growth will occur when retailers restock inventories to replace goods sold. This should have a secondary expansionary effect on the manufacturing sector.

BUS DAY 49 From Page 1

SOM 2/9/86.

BER takes pessimistic view of economic scene

49

CAPE TOWN — The economy seems to have performed worse than expected during the first half of this year, the Bureau for Economic Research at the University of Stellenbosch says in its latest Building and Construction survey.

The Bureau says the poor performance can be ascribed mainly to a slackness in final demand stemming in part from a low level of both domestic business and consumer confidence.

Economic indicators show the business cycle appears firmly set on a downward course and "the economy is unlikely to show a significant recovery over the next six months".

Gross domestic expenditure showed positive growth in the first quarter of 1986, but the 1,4 percent growth rate was unbalanced.

Real private consumption expenditure declined by 2,2 percent, while real gross domestic fixed investment declined by 13,3 percent.

The only sector to register positive growth was Mining and Quarrying.

"The implications of this type of situation are simply further increases in unemployment and a continuation of the difficult position of businessmen in particular," the BER said.

Wages and salaries decreased by 7,8 percent, and if the population growth is taken

into account, these had "declined substantially over the past year."

It said aggregate real personal income was expected to continue to decline.

"It is unlikely that the recent attempts by Government to bolster consumer demand by way of lower interest rates and repayment of loan levies will have a significant impact on consumer demand."

The building industry was experiencing a lack of confidence, and this, coupled with an oversupply of floorspace in non-residential buildings, were the main factors in the deterioration of the industry.

"International sanctions hold serious implications for the building industry — most importantly the ban on new fixed investments in South Africa.

"The ban will also have the effect that international firms operating in South Africa will not be able to expand their existing operations by means of imported capital. Firms may also decide to terminate their operations in South Africa, contributing further to the oversupply of space in all types of buildings," the Bureau said.

As part of its fiscal strategy to boost the economy, the Government had invested R750 million in low cost housing — over and above the R500 million announced in September last year — and these measures could restore some social stability in the country. — Sapa.

Economic prospects improve

By Frank Jeans

There is a more positive outlook for the economy and while there remains a poor state of confidence underscored by socio-political problems, there are encouraging signs in export performances and consumer psychology.

Indeed, spending is likely to increase and preliminary indications are that this is already apparent in key areas of durables and semi-durables.

The other side of the economic picture, though, still reflects turbulence which only social peace can eventually eradicate.

This was the message which Nedbank general manager, Mr Merton Dagut took to the export seminar organised by the South Africa Britain Trade Association (Sabrita).

And while the good news is that gold sales continue to boom, the downside shows that, despite the debt standstill, there was an estimated R2,65 billion capital drain during the first half of this year.

Pointing out that the price of running the economy on optimism at home and credit abroad was unemployment and business failure in recession, Mr Dagut said that by the middle of this year, the real economic adjustments had almost been completed.

"There is now very little excess demand,

available domestic resources can cope with the workload, the current account of the balance of payments is in surplus and the external value of the rand has stabilised, albeit at what most of us feel is an uncomfortably low level," he said.

"We have earned on visibles account from gold sales almost R40 billion and spent only R24,6 billion in current visible dealings abroad."

There is now an enormous amount of industrial slack which can be taken up quickly to meet any upswing.

Another positive point is the encouraging increase in export earnings which was enjoyed as the low level of the rand more than offset sanctions fears and realities.

"The low rand is also a highly effective import dampening device and so serves also as a strong encouragement to import replacement activities."

The Nedbank GM, on the other hand, believes that open-ended optimism is still not called for and provided two clear economic pointers to substantiate his view.

Firstly, the high inflation rate, which must be a cause for concern and secondly the emigration rate and the level of the financial rand which show that people are "voting with their feet".

Business in

SA told not

to be too

confident

The Star Bureau

LONDON — South African businessmen have been cautioned against being over-confident in the country's ability to bust sanctions.

As the US, the EEC and Japan prepare to consider what new economic measures to impose on South Africa, director of the South Africa Foundation in London, Mr David Willers, warned on television that "we cannot afford to be sanguine" about the costs of sanctions.

Mr Willers' warning came after a BBC Newsnight interviewer had remarked that his attitude was considerably more "downbeat" than other South Africans who had been more optimistic about the country's capacity to overcome trade restrictions.

He was speaking on the eve of talks between South African Foreign Minister Mr Pik Botha and his counterpart in Japan.

South Africa needs Japan

Mr Willers said: "I don't think we are going to run out of beer in the pubs, but when it comes to the range of commodities that are being considered for embargoes, particularly coal, it is difficult to off-load 40 million tons of coal which is readily identifiable — and since Japan takes 6.2 million tons of that, we cannot afford to be sanguine about the costs of a coal embargo."

British viewers were told that South Africa needed Japan's business more than Japan needed South Africa's.

Mr James Bartholomew of the *Far Eastern Economic Review* said exports from South Africa to Japan represented eight percent of total exports and imports 10 percent, but the corresponding figures for Japan were both under one-and-a-half percent.

He said if Japan imposed a coal ban, South Africa would lose a market for 20 percent of its coal exports.

Britons back sanctions

The Star Bureau

LONDON — Most British voters are in favour of comprehensive or selective sanctions against South Africa, according to an independent random street ballot.

The ballot, organised by the United Nations Association, was carried out in 22 centres and showed 56.36 percent in favour of comprehensive sanctions and 23.71 percent in favour of selective measures. Only about 16 percent were against any kind of action.

A large number of people failed to vote for fear that sanctions would hurt black people, but said they would otherwise have liked to see some kind of action taken.

49

~~49~~

3/9/86

SMR

5/9/86
REVIVAL
FINANCIAL
49

Getting under way?

One has to go back a long way to see so many encouraging signs all at once. Is this the beginning of the consumer boom we've all been looking for? Even confidence seems to have improved, according to Assocom's monthly survey.

So far we've seen:

- An encouraging boost to retail sales over the past two months;
- Much-reduced pressure on the BoP following repayment of the bulk of foreign debt commitments to June 1987;
- An apparent turnaround in office space rentals;
- A gold price of around \$393, its highest in two years;
- A rand touching US41c, its highest in three months; and
- A further fall in the Treasury bill rate, suggesting that another one percentage point cut in Bank rate, to 9,5%, is possible.

Assocom's Business Confidence Index (BCI) has risen from a low of 78,6 (1983 equals 100) in May to 85,7 in August — the highest since it began in January 1985. It was 80,1 and 80,9 in June and July respectively.

Assocom attributes the trend to increases

in the dollar price of gold; JSE investments; real imports; motor and retail sales; and a lower prime rate.

"The first stage of an improvement in business confidence appears to have materialised," it says. But it also points out that August saw the rand fall against the dollar, a rise in the inflation rate and net emigration from SA.

In its latest Building and Construction report, the Bureau for Economic Research says its composite coincident indicator, portraying the course of the business cycle, is still on a downward trend. "The composite leading indicator, which has consistently given advance notice of a turning point in the business cycle, likewise appears to be firmly set on a downward course," it adds. This suggests the economy is unlikely to show a significant or broadly based recovery over the next six months.

Likewise, Assocom at this stage finds no evidence of a recovery in private investment. It says this will not occur until there is less political uncertainty and consumer and export demand expand sufficiently to absorb the present surplus capacity in the economy.

This is against a backdrop of continuing political turmoil, foreign economic pressure, persistent inflation and capital flight. Nor has there been any structural investment.

As Assocom cautions: "There are still several critical factors facing the economy and there is still a long way to go to rebuild business and consumer confidence on a large scale."

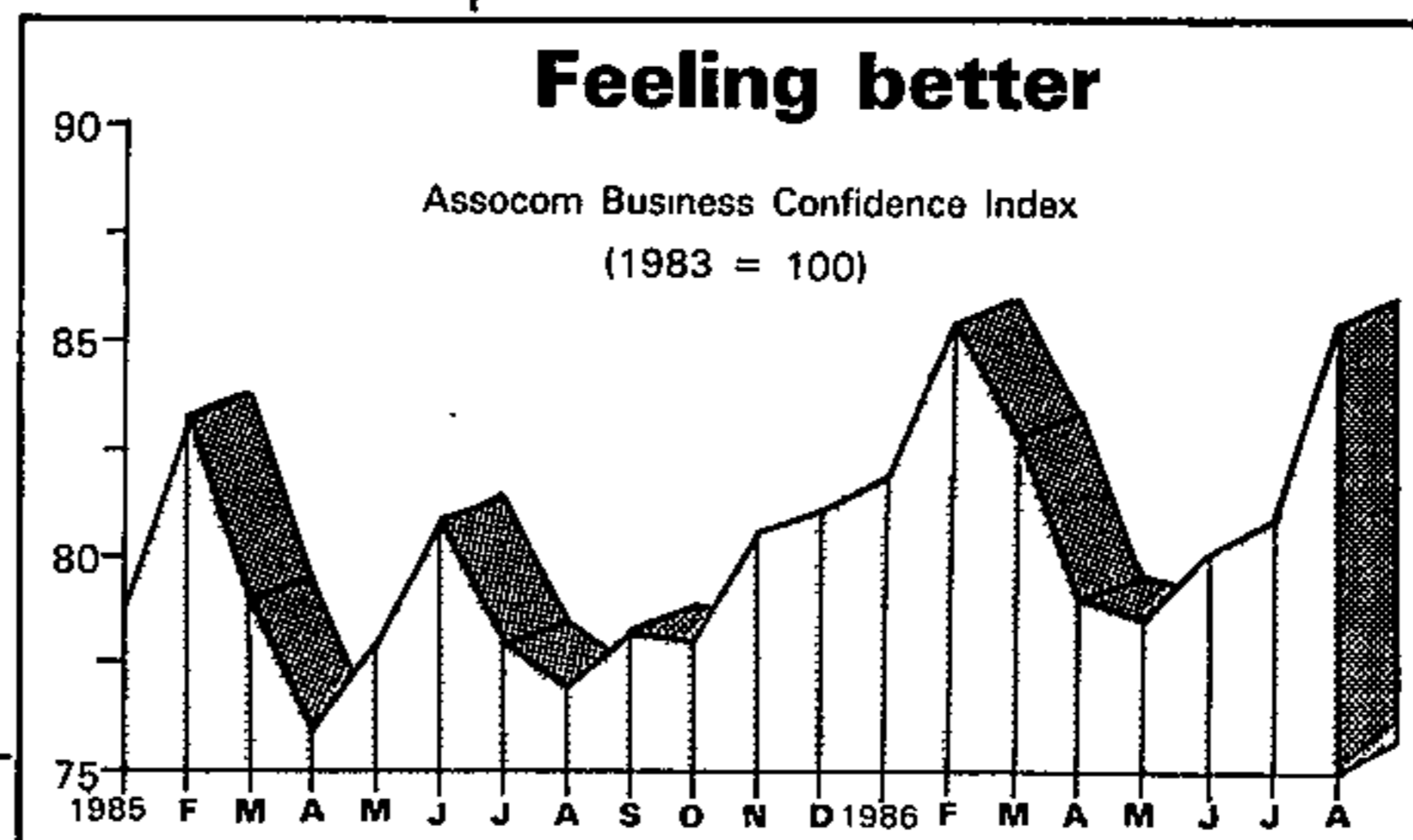
Finance Director General Chris Stals is nevertheless pleased. "After almost five months of rising consumer expenditure it looks as if we are settling into a period of steady consumer-led expansion."

In this light, he rules out the much-talked-about possibility of a further fiscal package to stimulate the economy. "The authorities have done enough to stimulate the economy for the time being and provide the basis for the private sector to take over."

He says: "It is still too early to talk about a recovery, and the encouraging conditions are still confined to consumer expenditure. There is no new capital investment yet."

Assocom notes the pattern of renewed consumer spending "is still unevenly spread over sectors and regions and seems to be concentrated mainly on durables and semi-durables," while renewed business activity is still patchy.

But we live in hope. ■



SA pays back \$3-bn of debt

CAPE TINT
9/9/86

(49)

By AUDREY D'ANGELO
Assistant Financial Editor

SOUTH AFRICA has already repaid about \$3 billion (R7,3 billion) of foreign debt since the end of 1984, the Governor of the Reserve Bank, Dr Gerhard de Kock, said in Cape Town yesterday.

The outflow of capital from this country should now slow down.

And if the rise in the gold price is sustained it will strengthen business and consumer confidence, add impetus to the economic recovery and help to prevent "the irrational and emotional forces behind the present sanctions and disinvestment campaigns from transforming SA

into some form of siege economy".

Dr De Kock was speaking at a South Africa British Trade Association (Sabrita) lunch.

Disclosing that a total of R4 907 million of foreign debt had been repaid in the first half of this year, he said that the worst of the outflow of capital from this country was "now behind us".

Present indications

were that the current account surplus for 1986 would be between R6 billion and R7 billion, he said.

This meant there was now scope for "a more vigorous" upswing in the economy in the short term and "a higher real average rate of growth in the medium and long term".

Dr De Kock said additional trade sanctions now seemed inevitable, but it remained to be seen how comprehensive they would be and whether they could be made effective in practice.

Financial sanctions, however, had been in existence for more than a year and were having a serious effect on the economy.

Dr De Kock said that SA had the resources to raise the standard of living of everyone in sub-Saharan Africa.

"But not if we continue to lose capital at the rate we have been doing. There is no future in winding down the economy by repaying debt all the time."

Law and Order

The rise in the gold price, if sustained, would be "of material assistance in overcoming the harmful effects of the existing financial sanctions", he said.

But there were at least four basic requirements for any lasting solution to SA's economic difficulties, he said.

"Firstly, we must continue to apply an appropriate short-term monetary and fiscal strategy.

"Secondly, there must be a long-term economic strategy for SA.

"Thirdly, law and order must be maintained.

"Fourthly, there must be comprehensive further political and constitutional reform."

● Debt repayment 'more favourable', page 8

INSIDE

10/9/86

49

RECOGNISE THE...
EVENING POST, WEDNESDAY, SEPTEMBER

Economic slump finally bottoming out — Durr

By DIRK VAN ZYL
Political Correspondent.
CAPE TOWN — The South African economy has weathered its worst tribulations of recent times and the slump could finally be bottoming out.

This is the view of the Deputy Minister of Finance and of Trade and Industry, Mr Kent Durr, as well as UCT economics Professor Brian Kantor and the latest Standard Bank economic review.

Mr Durr said yesterday proposed sanctions would not be worse than the disinvestment campaign and the debt standstill, which South Africa had weathered.

His confidence in the future was not based on simple optimism — the signs had been there for some months.

Interest rates were down, inflation would show a downward trend, the gold price was up, the rand was firmer and the country had a healthy balance of payments.

"The challenge to South Africa is not sanctions, but to develop our country and our economy.

"Then sanctions will dissipate into manageable proportions. Sanctions are a bad thing, but I am not fearful about them in the short and medium term.

"As the economy and trading climate in South Africa improve, the sanctions debate will be seen in a different perspective", he said.

"People will not want to be excluded from a developing South African market.

"The worst thing that happened was the debt standstill. It has made us a capital exporter.

"We are still paying, but things are looking up."

Prof Kantor joined those who believe the economic slump is bottoming out.

Recovery is likely to be tentative and bumpy in the short term, he said, and not all indicators used to back the recovery argument are holding up.

Recovery should begin from the third quarter of the year and he expects "moderate real growth rates of both expenditure and output" in 1987 — but no boom.

Everything hinged on socio-political developments.

"The 'unrest' index may prove to be the

most important indicator of the state of the economy."

Standard Bank notes that the current state of the economy is reminiscent of the situation which prevailed late last year, when a recovery looked probable, but faded quickly.

This time, says the bank, the chances of the upward movement being sustainable are bigger.

Major retailers had reported significant turnover increases in July and August, and the extent and spread of these rises was encouraging.

But figures released on Monday by the National Association of Automobile Manufacturers' of SA show new car sales dipped by 8,2% from July to August.

PE job, property markets improve

49
Eve Post
11/9/86

'Natalie' the mascot brings luck to her team



PE job, property markets better

● From Page 1

always lower than in the other big centres, had not dropped by the same percentage as in Johannesburg and it appeared that some equilibrium had now been reached.

On the availability of jobs, three out of four consultancies reported an improvement.

The manager of a personnel consultancy said although August had been one of the best months since the consultancy opened its doors in Port Elizabeth four years ago, it would only be possible to assess the trend in two or three months time.

Management consultant Mrs Sharon Snowden said there were more openings at the middle management level this year than in 1985.

"It would appear that, last year companies were

holding back on employing people at that level because of the low volume of business."

Although the trend had varied from month to month, there was a slight improvement due to the volume of business in the area increasing slightly.

Mr Dave Williams, director of another firm of management consultants, agreed that over the past few months there had been more jobs available.

However, it would only be possible to assess the trend later this year.

"From this time on the number of jobs available usually decrease, as people hold on to their jobs towards the end of the year to get the benefit of year-end bonuses. If the volume of jobs available remains unchanged over the next few months, we'll be able to say that there is a positive trend."

By DENISE BOUTALL

THE long-awaited "bottoming out" of the Port Elizabeth economy — judged by the number of jobs available and property sales — might finally have occurred.

Personnel consultants and property agents interviewed this week report definite indications that the worst might be over.

At least one large estate agency had its best month in two years in August and one personnel consultancy reports that August was its best month in four years.

While experienced property men are confident that there is a new trend, personnel people are more cautious about predicting a turnaround and emphasise that while more jobs might be available at the middle-management level, they see no immediate impact on the employment situation for unskilled or semi-skilled workers.

Estate agent Mr Ray Long said August was the best month the company had experienced in two years and that by today its agents had done almost as much business as they did during the whole of last month.

He said people realised that the prices in the property market were rock bottom and that they should buy now.

Other people who had sold their properties and invested their money in banks were now finding it worth their while to invest in property. A year ago the interest earned on 30-day call money was 23% — this had now dropped to 9.5%.

Another experienced property man, Mr Philip Bowman, said there had been a distinct improvement in the past six weeks.

"At least people respond to the advertisements and are actually looking at show houses again."

He described it as a case of "pent-up buying".

"The people buying now are families who have held off buying a bigger and better house and now simply can't stand it anymore."

Government employees were another group who were very careful buyers and, having looked at lots of property, were now saying "let's buy".

On the other hand, there were also "pent-up sellers" who had held off selling, but now either

had to sell because they needed to downgrade their lifestyle, or were being transferred. Others, he admitted, were simply sick to death of estate agents and potential buyers walking through their houses.

Another indicator was that some agents were advertising that they needed houses to sell.

Mr Bowman said he saw no possibility of

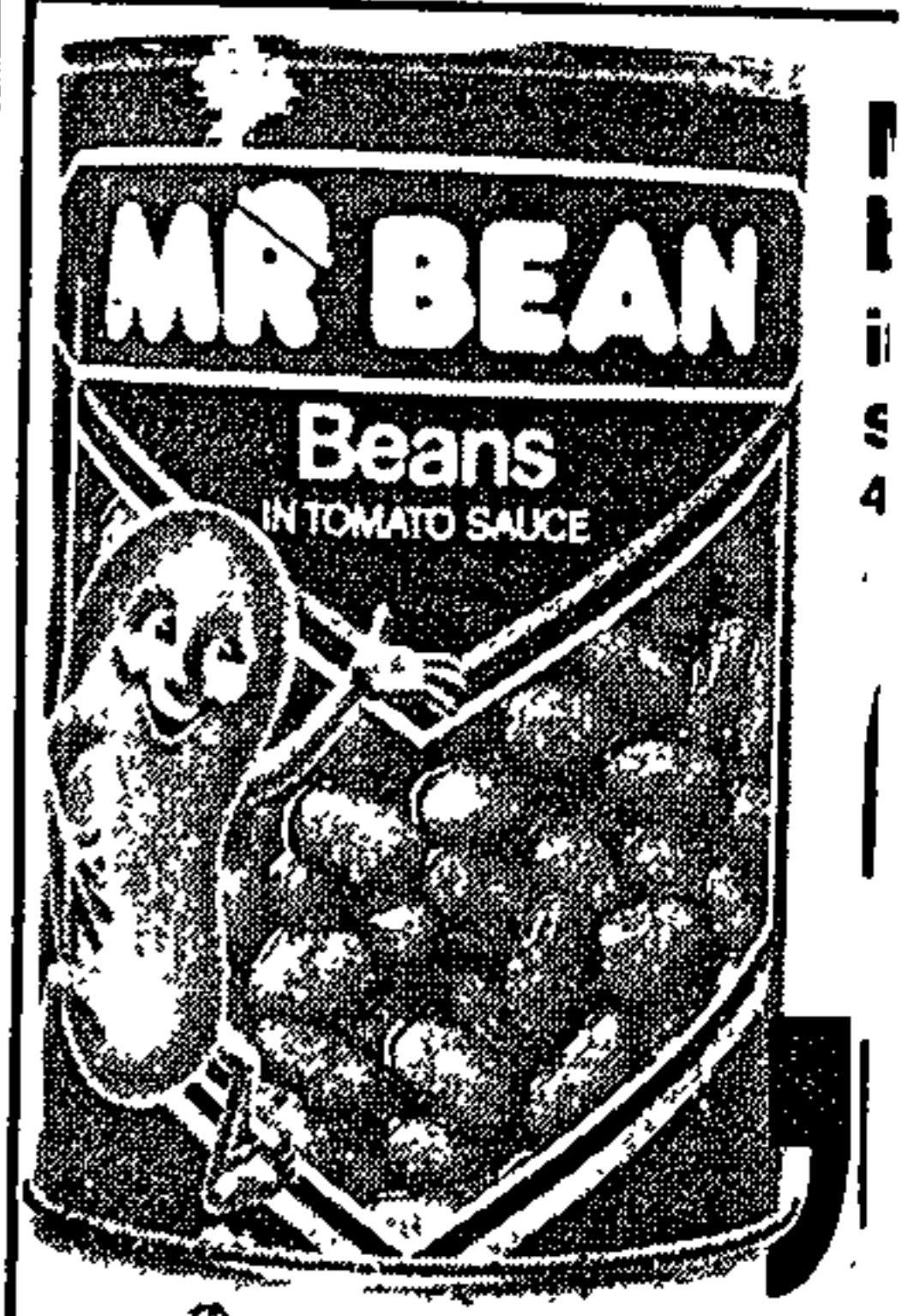
prices shooting up. "The situation of an adequate supply and a soft demand won't change for another six months."

Mr Ferdie Hartzberg said since the beginning of August his agency had sold more properties than in the preceding three months.

Port Elizabeth property prices, although

● Turn to Page 2

Check
LOW PRICE
THE PROOF IS ON OUR



Price valid until 13/9/86.
Available at Checkers Walmer, North I
Uitenhage, Despatch, Geyrandale & G

LOW PRICE AND REAL VALUE MEET

49 Eve Post 11/9/86

Big boost for financial rand

11/2/80 Mercury Correspondent

CAPE TOWN—S A's commercial banks have been officially advised that they could begin accepting financial rand investments for a host of new investment categories.

Details of the new dispensation remain sketchy, however, in spite of a week's delay in their release.

Basically the banks can now accept applications for the remission of non-resident's funds to S A at the financial rand rate in two new categories:

- Property, whether commercial or residential.
- Business ventures capable of generating employment opportunities.

The circular to the banks does not go into detail on property transactions, but the Reserve Bank general manager of exchange control, Mr John Postmus, said on Friday all applications would be considered on merit. 'Favourable treatment will be given to investments resulting in an increase in economic activity.'

In the case of a non-resident purchasing a house, for example, only 50% of the purchase price would be allowed via the financial rand. Where the investor purchased a property development company, the full cost would qualify for financial rand. But in the case of a non-resident remitting funds to build a house (which would mean creating some jobs, of course), well, that is one of the grey areas that have yet to be worked out.

It seems more than likely, however, that the authorities will err on the side of leniency. After all, the financial rand discount is effectively a barometer of foreign confidence in the S A economy and it has been at a record low for most of last week.

The financial rand rallied strongly on Friday to close at \$0.1830/80, up from morning lows at the previous day's close of \$0.1785/0 1815. Still, an em-

cess of 50% remained with the commercial rand trading at \$0.3815/25.

There is no change in the use of emigrant's blocked funds.

SA 10 5 50p discount

Second best principle ignored — academic

DD 11/4/84
49
348

Dispatch Reporter

GRAHAMSTOWN — Development economists and national planners had generally ignored the "second best principle" in welfare economics, the head of the Department of Economics and Economic History at Rhodes University, Professor Philip Black, said in Grahamstown last night.

He was delivering his inaugural address on campus.

"The fact that free and uncontrolled markets may not operate in an efficient and equitable manner does not render neoclassical welfare economics obsolete," he said.

Recent evidence on the economic performance of Hong Kong, the Republic of China, Singapore and South Korea, the "Gang of Four", showed spectacular successes traditionally ascribed to the outward-looking, market-orientated policies pursued by their governments.

But this was only half the truth. The many other factors contributing to the growth of these countries included:

- Various fortuitous developments in the world economy;

- Particular geo-political relationships with the United States;

- The formation domestically of political

structures and class relationships conducive to economic progress;

- What might be called the right kind of state intervention.

This included the selective use of export incentives coupled with import tariffs and quotas, various restrictions on foreign investment and a floating exchange rate.

Professor Black said radical economists agreed with the neoclassicists that the villain of the piece in developing countries was the government.

Under international capitalism, the governments of most third world countries entered into a collaborative relationship with foreign and other private owners of the "means of production".

"Such an arrangement suits both parties," he said.

Multinational companies needed the co-operation of government to protect their own position of dominance against potential rivals.

Likewise the government depended on multinationals for an adequate supply of foreign capital and a stable balance of payments position as well as to further its material wellbeing.

It was largely for this

reason that many developing countries had pursued a strategy of import substitution while at the same time maintaining an over-valued exchange rate to facilitate the entry of foreign capital.

"What these policies have achieved domestically is to encourage multinationals to initiate and expand the production of western-styled luxury goods by inappropriate, usually capital intensive techniques thus precipitating a process of growing inequalities within the poor countries."

The need for interdisciplinary research in the social sciences had been widely recognised during the past two decades. But efforts in this field had not met with much success.

There were presumably many reasons for this apparent failure. Few would deny, however, that the potential for meaningful contributions in this area did exist.

"It should not be difficult to indicate the precise manner in which the existence of an extended family system may affect entrepreneurial behaviour, labour mobility and the savings propensity; or to specify the parameters in which particular forms of social stratification and

political organisation may undermine the operation of product and factor markets," he said.

The success of interdisciplinary research would ultimately depend on the ability of the social scientists to separate the chaff from the wheat by choosing the most appropriate set of variables from the multitude of real-world data.

There was no reason why the economist should not broaden the scope of his analysis.

THE ECONOMY

A MONTH ago when the threat of sanctions against us became an unpleasant reality, the economic mood of the country was downright miserable. Then the platinum price took off, rising over \$200 (R500) in a month. Not to be outdone, gold also soared, rising by some \$60 (R150). Suddenly the economic mood in the country changed — and euphoria became the name of the game.

But is it justified? Firstly, it is unlikely that gold's recent move is just a flash in the pan. In April this year gold's prospects were looking good. It had been to below \$300 and bounced back to trade between \$315 and \$330 and, subsequently, between \$330 and \$355. It was building a solid support base at these levels and looked set to break upwards — which is what it has now done.

There are good, fundamental reasons for this. Inflationary conditions are beginning to reassert themselves in the United States. This is partly because attempts to stimulate consumer demand in the States by lowering interest rates are likely to put upward pressure on domestic prices. The other part of inflationary pressure is coming from the declining value of the dollar against other currencies.

The problem the American economy faces is that it ran up a massive balance of trade deficit during the long ascendancy of the dollar on world currency markets. A strong dollar meant that America exported less and imported more.

Even though the dollar has been falling for a while, America still has a massive trade deficit. For the month of July the deficit was a record \$18-billion (R45-billion), which translates into a whopping great annual deficit of \$200-billion (R500-billion), up from last year's record of \$148-billion (R370-billion).

To counter this the US authorities have embarked on a two-pronged strategy of lowering domestic interest rates and encouraging the dollar to fall in the hope of promoting US exports and inhibit imports. However, a spin-off of this policy will probably be that it stimulates inflation — which is good for gold.

Then there is the Western banks' financial exposure to the Third World. African, Asian and Latin American countries owe over \$800-billion (R2 000-billion) to Western banks and governments. And as the Non-Aligned Movement made clear at its summit last week, Third World countries are questioning both the wisdom and possibility of repaying such enormous amounts.

John Maynard Keynes once pointed out that if you owe the bank a hundred dollars and can't repay it, you have a problem. But if you owe the bank one

The bank has a headache and we have a golden egg

As that most jovial of optimists, Gerhard De Kock, knows full well, the nastier the world's problems, the better for gold — and for us. **DUNCAN INNES reports**



Gerhardt De Kock ... The worst debt is behind

million and can't repay, then the bank has a problem. With over \$800-billion in outstanding debts, Western banks have a problem — which is good for gold.

Add to this Western fears about the effect sanctions and political unrest will have on the South African economy — especially on the West's supply of gold and platinum — and you have a number of extremely good reasons why gold, and precious metals in general, seem set for a strong bull run. In other words, their prices are going to go up.

As most of the local press and that most jovial of optimists, Gerhard de Kock of the Reserve Bank, have not been slow to point out, all this is marvellous news for the South African economy.

Since every \$10 rise in the price of gold is worth about \$200-million (R500-million) to the South African economy if sustained for a year, a rise such as we have just seen from \$350 to \$420 would bring in an extra \$1,4-billion (R3,5-billion).

This is more than we could reasonably expect from direct foreign investment in a year. So even if sanctions cut off our supply of foreign capital, a gold price of around \$420 would still give us access to the kind of foreign exchange we will need to grow.

But can gold remain at \$420 for a full year, which it has to do to earn us the full \$1,4 billion?

Over the short term I expect the gold price to pull back a bit, possibly to around the \$380 mark. It has gone up too far and too fast to sustain itself above \$400 for much longer.

Furthermore, the dollar has taken a knock recently and seems set for a short-term upward correction, which would depress gold for a while. However, I expect the gold price to rally again towards the end of the year, reaching \$500 early next year.

If this is correct, then we can look forward to major improvements in our foreign exchange earnings over the next year or two. But what are we to do with this sudden manna from heaven?

There are various options. The authorities can, for example, use most of it to pay off our own foreign debt. Or they can use it to pay off our own foreign debt. Or they can use it to stimulate the economy. Or they can use it to promote the government's reform policy. Or they can use it to control township resistance and to punch Messrs Mugabe *et al* on the nose.

Since these options are not necessarily in conflict with one another, we are likely to get some blend of the above: a sort of economic potpourrie. However, there are some signs which suggest the form this potpourrie might take.

De Kock has made it clear that he thinks the worst of the capital outflow, arising mainly from our foreign debt repayments, is now behind us. This suggests there will be an easing up on our debt repayments at least over the next half-year — even though we still owe \$23-billion (R57,5-billion), which is only slightly down on the amount we owed this time last year.

Given the depth of our current recession, we certainly don't want to blow all our foreign exchange on repaying this debt. Yet an exposure of this magnitude is particularly worrying when bearing in mind that, if inflation takes off in the US, interest rates are likely to rise as well.

This means the interest payable on our debt will go up. In the light of this — and considering the development problems we face now and in the future — it makes sense to earmark a substantial proportion of our foreign exchange earnings to repaying this debt.

But if the authorities do not intend

few months and more attempts to stimulate employment and promote exports.

Although such measures will probably produce an economic upturn over the next year, it is starting from such a low base and in such a depressing political environment (locally and internationally) that it is unlikely to make any major dent in existing unemployment levels.

Instead, investors — especially the large institutions — are likely to direct their funds towards the stock exchange and into take-overs and mergers.

Regarding the latter, it is far safer to take over an existing company with an established market than to risk a large capital outlay on a new product when demand is flat.

Liberty Life's recent take-over of Prudential Assurance and the link-up announced this week between the Natal Building Society and Norwich Union Life Insurance are pointers to the future — a future which will produce further domination by large

corporations.

Rush for shares as gold price takes off

40
12/8/86
Mercury Correspondent

JOHANNESBURG—As the gold price rocketed yesterday on European markets, soaring to a peak last reached in 1984, records were shattered on the Johannesburg Stock Exchange.

In London the metal touched \$398 an ounce, easing under profit-taking to an afternoon fix of \$388. The JSE turnover reached a new peak of R109 million of which mining shares accounted for R90,5 million.

With platinum as the leader, the surging prices of the two noble metals have been sparked off by fears of South African retaliation to sanctions and growing anxiety about deflation in the world economy, London analysts said yesterday.

Yesterday the Wall Street Journal predicted that gold would continue to rise sharply in coming weeks.

'As stock markets are seen to be peaking people are looking for something else to invest in and gold is the obvious thing,' said one London analyst.

Anxiety about the world economy — and particularly fears of a pending recession in the US — could send gold on an upward spiral.

Platinum jumped more than \$50 dollars to \$555 yesterday before falling back to \$538,50, still up 7% on the day.

Yesterday, the JSE opened in high gear. It was the bull market that gold and stock market analysts had been waiting for.

Johannesburg brokers said that the inevitable correction in the gold price to \$387,70 at the London afternoon fixing was not expected to stem the bull run on shares as their books were crammed with unfilled orders.

The gold board chalked up 35 new highs with individual gains stretching to more than 16%. Golds dominated the top 20 list with individual stocks' turnovers ranging from R1 300 000 to R7 000 000.

The rand did not respond to the exuberant gold price. The commercial rand could only manage a 70 point gain since Friday and closed at \$0,3885.

Looking promising

Dr Chris Stals heads the Department of Finance. The *FM* spoke to him as the economy shows tentative signs of recovery. It is, too, the first anniversary of his appointment and of last year's unilateral freeze on certain foreign loan repayments, temporary closure of the markets, and reintroduction of the two-tier rand. Stals, also chief foreign debt negotiator, will meet major foreign creditors later this month.

FM: With signs that the economy is at last on the mend, how do you view the situation?

Stals: After almost five months of rising consumer expenditure, it looks as if we are settling into a period of steady consumer-led expansion. This is a welcome change. But it is still early to talk about recovery. Encouraging news is confined to consumer expenditure, but this should absorb surplus capacity and work through to stimulate investment. **Is further fiscal stimulation planned?**

The authorities have done enough through monetary and fiscal policy to provide the base for the private sector to take over. In addition we must still assess the effect of the June programme.

With government spending way above budget are we not heading for the same problems that overspending caused in 1984?

The 1984 mini-boom was excessive. Today, with the economy in strong recession, we must provide incentives through government spending and can be more accommodative without overstimulating. We have learnt from the past and do not want another mini-boom, but a long, steady upturn that feeds into wealth-creating investment.

You emphasise the shift in policy priority to the old Keynesian remedy of spending our way out of recession. How will excessive inflation be eased?

Inflation is not our top priority now; growth and employment, rather, are essential. It is too risky to go flat out and tackle inflation. With inflation of a cost-push nature caused mainly by a weak rand and wage demands, excess demand will not have much effect.

But how will inflation be brought down?

We hope the rand and balance of payments will stabilise. Already on a quarter-on-quarter basis inflation is much lower, around 13%. Theoretically we should tackle inflation with tight monetary measures and fiscal restraint. But this will be too costly in terms of employment and growth.

How will we achieve the 4,5% growth needed to absorb people coming on to the labour market, let alone reduce unemployment?

This is why our attention is on job creation and training. But responsibility falls also on the private sector.

Officials have indicated frustration with the private sector. Are there plans to force such investment?

Not really. We hope that the proposed changes to the tax structure being investigated by Judge Margo will provide incentives to invest. We can't make them invest.

Given structural economic damage and continuing political turmoil, how realistic is an average annual 4,5% long-term growth rate?

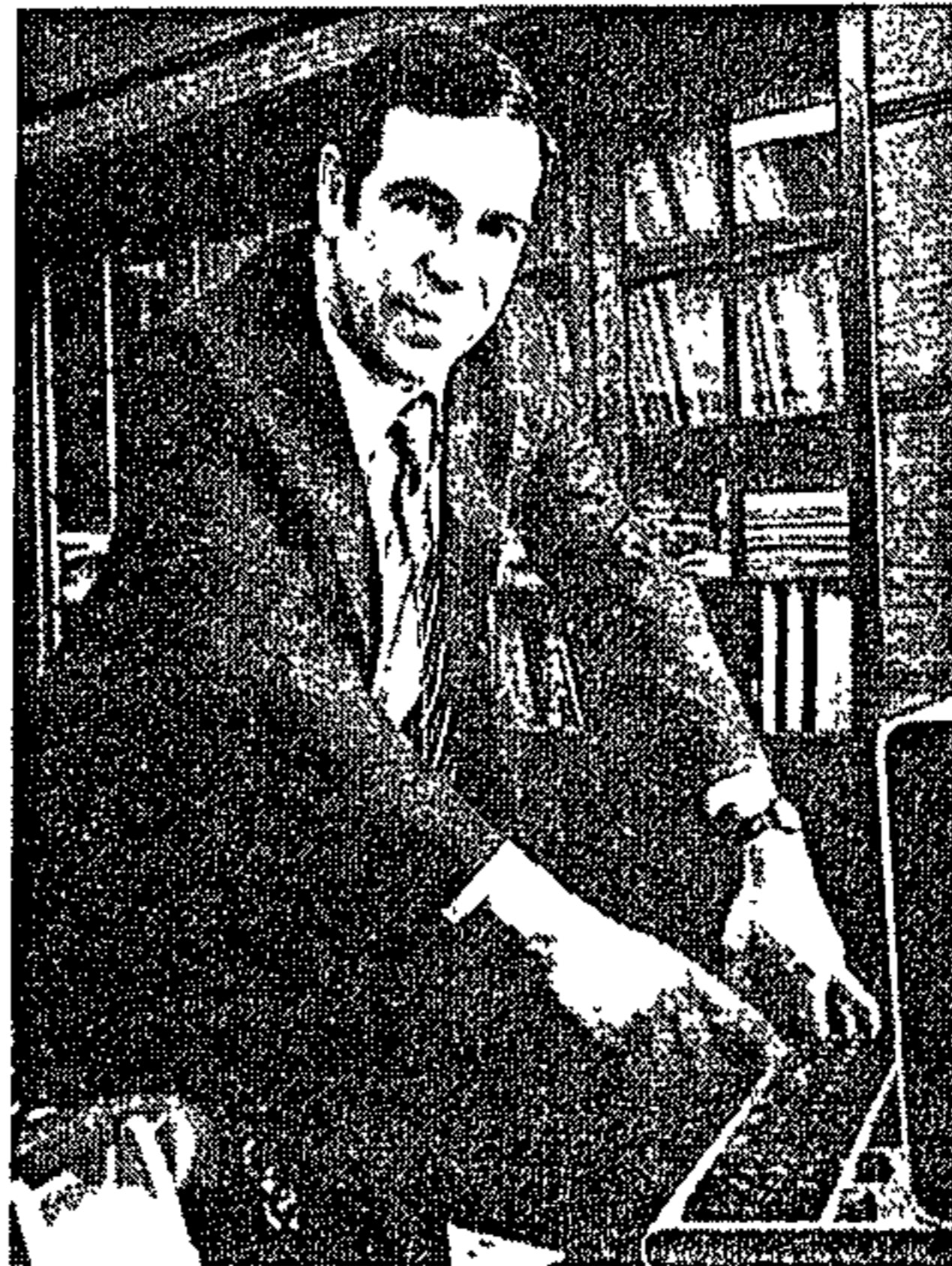
It is ambitious. A more realistic assumption is mild consumer-led recovery over the next few years, restrained by capital flight and political changes.

Can business ignore the political climate?

It's their view. But the political process will continue; we must learn to live within it and take a longer-term perspective.

As custodians of the economy which, you agree, is undermined by political crisis, is it not the economic authorities' responsibility to make political demands?

We can caution politicians of the consequences of their decisions, but it is not for us to tell them what to do. Similarly, they do not try to run the economy.



With hindsight would you agree that the March Budget was too cautious.

Yes. At the time we were working with 1985 fourth-quarter figures, which indicated an upswing had begun. We wanted to be cautious in the knowledge that further measures could easily be added — and were. **There is concern that the June R1,2 billion package is taking too long to have an impact, especially the R750m allotted to housing.**

The housing programme takes time to plan, especially because of the special arrangement with the private sector. Because we are waiting for the private sector to come back to us with proposals, little has been spent so far, despite our being ready to transfer money. As soon as this happens and we are satisfied, money will be transferred. We have agreed to make R400m available. **And the rest of the money?**

This has been allocated to various departments and is now their problem.

How is it ensured that these departments will spend the money to advantage?

Each department provided projects — such as old-age homes, houses, creches, township development — on which it could spend immediately. There was no shortage of them. The Auditor General monitors this to ensure money is used effectively.

At times fiscal and monetary policy have had opposite objectives. What is the relationship between the Treasury and Reserve Bank?

It is still good. We liaise through numerous committees at all levels, and meet monthly at top level. It is easier to adjust monetary than fiscal policy. This is why policy has seemingly been at loggerheads.

What is happening to the proposed regulation of the gilt option market?

This has been on ice due to more immediate concerns and no real urgency. However, things are moving again. At two meetings in the past month we completed draft proposals and identified areas which need more work. Proposals should be finalised within two months, ready for draft legislation to pave the way for a formal market and greater discipline.

There are two main chapters on banking supervision and accounting principles. Two people are overseas investigating electronic markets and prudent requirements.

How has repayment of foreign debt gone?

It has worked out roughly as expected in terms of the current account surplus and repayments. SA has already repaid about \$2 billion of an estimated total commitment of \$2,3 billion due by June 1987.

Should this ease pressure on the rand?

Theoretically yes, but much depends on leads and lags.

This implies that the current account surplus in the next few quarters should exceed capital outflows. How long will SA, a developing country, export badly needed capital?

This is an unknown factor, largely dependent on political developments.

What do you expect from the talks in London this month with major creditor banks?

It is a technical review meeting. No matters of principle will be discussed — they will be dealt with in April when we meet again. **What then, given that the "agreement" in February merely put SA on probation?**

Banks' pressure against SA has not eased, but it is still early. We have not begun to consider our proposals.

What is the position of mediator Fritz Leutwiler?

He will not attend, as he is not really needed for technical discussions. Leaders from both delegations will conduct procedures. Leutwiler may be called nearer the April talks. He has made it clear that he is prepared to assist if need be.

City boom on cards as business speeds up

CMT 13/9/86

49

By ROGER WILLIAMS
Chief Reporter

A DRAMATIC quickening of pace in the Cape Town market place has been revealed in a Cape Times survey.

Turnovers are lifting from the recession across a broad front, and optimism has returned to the employment-generating clothing, retailing and tourism industries.

● The Cape Clothing Manufacturer's Association says employment in the industry has jumped by about 1 000 in the past month to over 51 000. Factories are working at full steam to get out summer lines which are moving well from the shops.

● Cape Town Chamber of Commerce director, Mr Alan Lighton, says feed-back from members of the chamber showed that "business is definitely on the upward trend in the retail trade — and all the signs are that we are going to have a good Christmas season at the Cape."

● Captour's managing director, Mr John Robert, says the outlook for the coming holiday season is "very encouraging indeed." Hotels reported strong bookings.

Statistics supplied by Captour's visitors' bureau in central Cape Town showed a remarkable turnaround. Where the number of people who called there in July was down 10 per cent on last year, the August figures showed a 10 per cent rise on the same month a year ago.

"We are finding that the hotel bed-occupancy rate in Cape Town is higher than in other cities," Mr Robert said. "Tourism is picking up again."

Mr Aubrey Coppin, provincial manager of one of the major store chains, said his July and August figures were

25 percent up on last year, and the September figures so far were 35 percent higher than the corresponding period in 1985.

"What is more," he added, "our national figures show that the Western Cape is more buoyant than the rest of the country."

"If the present trend continues, I'm confident we are in for an outstanding summer season."

Mr Coppin said major contributing factors to the present upward trend were a more-favourable business climate and the easing of hire-purchase restrictions, with smaller deposits and longer periods allowed for repayment.

Beating budgets

Mr Michael Boyes, manager of a leading City department store, reported a dramatic quickening of the business pace at his store in the past few weeks, and also expressed optimism about Christmas trade prospects.

Mr John Barry, regional head of a leading supermarket group, said: "We're beating our budgets, and generally finding that things are a lot more buoyant than they were earlier in the year."

"We're in a much more aggressively-competitive market in the Cape than you will find elsewhere in the country, and the result is that food prices are generally lower here."

"I'm confident the present trend will continue — and that we're in for a good season."

'Peace at any price a must'

post
ave
1/19/81

By RALPH JARVIS
Motoring Editor

JOHANNESBURG — One of the top men in South Africa's motor industry, Mr Colin Adcock, said here yesterday it was more essential for the economy at this stage to have relative peace "at almost any price than to continue with orchestrated unrest on a grand scale".

Mr Adcock, managing director of Toyota South Africa, was speaking at the launch of the new Toyota Conquest RSi Twin Cam 16-valve and the uprating of the whole Corolla series.

He also said there were definite signs of a recovery in the economy, despite the drop in new vehicle sales in August.

Mr Adcock said that if one looked at the cornerstones of apartheid, it was clear that something had happened to each one of them except the Group Areas Act.

"The fact that what has been decided has not always happened is not the fault of the law-makers, but very often the fault of a bureaucracy which can make sure that it does not happen," Mr Adcock said.

"State of emergency or not, the country is in a better general political condition than it was in the first half of this year.

"I don't think any of us has to like how this has been achieved, but that it has been achieved is unarguable."

Mr Adcock said many black people did not want the state of emergency to be lifted. At least, he said, they felt they were living

in relative peace.

"They wouldn't want it to be around forever, but right now I think they are probably better off."

He said it was because of this relative peace and because of other related events he believed South Africa was very close to seeing a revival in the economy.

Describing dealer sales as the true barometer of the motor industry economy, Mr Adcock said their sales indicated that a slow but sure improvement was on the cards.

Mr Adcock said that though the sales for August were down on the July figures, if one added the July and August Naamsa figures together and divided by two, the sales for those two months were a considerable improvement over the average sales for the first six months of the year.

However, he said while most people looked at the published Naamsa figures, the real barometer of the economy was the dealer figures.

"Dealer sales throughout the first half of the year, with the exception of one month, were never higher than 12 500.

"Dealer sales in July were over 14 500. I don't yet know what the August figures are, but my guess is that dealer sales were very close to 14 000. And that is a barometer.

Mr Adcock said the sign of a general economic improvement were already evident — furniture sales and electrical goods had already recovered.

Survey calls for bold action on East Cape

Dispatch Correspondent

PORT ELIZABETH — Imagination and bold action were required to break the "vicious circle of economic stagnation and violence" in the Eastern Cape, a survey of black unemployment in the Port Elizabeth/Uitenhage area has found.

The report was compiled by two academics at the Port Elizabeth campus of Vista University, Professor M. Levin, professor of economics, and Professor A. P. du Plessis, professor of business economics.

It shows the comparison between two surveys of blacks in the residential areas of Port Elizabeth and Uitenhage, one conducted in July 1985 and the second in August this year.

While the unemployment rate has dropped slightly from 56 per cent last year to 54,3 per cent, the survey emphasises that, considering the proportions that unemployment reached in the black community in the areas, this drop might be "regarded as trivial".

What was significant, however, was that there had been no increase in the unemployment rate.

"It may appear ironic to emphasise the importance of employment creation at a time when unemployment in the Eastern Cape is as high as it has been during the past two years.

"However, it seems that this area, and South Africa at large, is caught in a vicious circle of economic stagnation and violence.

"As long as unemployment is as high as it is, there is very little chance that political unrest will disappear.

"On the other hand, it is highly unlikely that there will be an economic recovery as long as political unrest prevails because political unrest undermines confidence, and confidence is needed for investment and an increase in economic activity," the report said.

Imagination and bold action were required to break the cycle and this was the "challenge facing the Eastern Cape and its people".

The survey did not exclude from the unemployment rates people who had not tried to find a job over the preceding month and found that "there is very little use for blacks registering as unemployed and many of them have given up looking for a job".

Included in the employed group, which lowered the unemployment rate, were people with temporary jobs — such as the R4,00 per day schemes — and those "underemployed" such as domestics or gardeners who work only a few days a week on a regular basis.

The survey estimates the group of "underemployed" constitutes anything up to a quarter of the economically active black population.

While there was a decrease from 7,9 to 6,8 in the average number of people living on a site, the number of children increased on average from 31 per cent to 33 per cent and old people from 4,9 per cent to 5,8 per cent of the site population.

"This suggests that the people who have left were younger people who were not tied down by the responsibilities of family life."

Unemployment was probably higher among the younger generation and, as they do manage to find employment, they marry and start their own households. More tolerance of squatting has helped them to become independent and the organised resettlements in Kwanobuhle and Motherwell, "might well have contributed in this respect."

The fact that there was virtually no change in the ratio of males to females per site, supported this argument, the survey found.

A spot check on sites used in the July 1985 survey showed some of the unemployed had left for the Eastern and Border areas.

497 DD/6/9/88

3. Pr
C
W
E

5. Le

6. !

Minister: economy in the melting pot

JOHANNESBURG — South Africa was in the midst of a programme of change that would transfer resources from its First World to Third World economies, eventually merging the two completely, the Minister of Finance, Mr Barend du Plessis, said here yesterday.

Addressing an international conference on gold, he said high growth was needed in the First World economy to fund and support the Third World component.

Due particularly to gold mining, the South African economy had developed into a dual system — where certain rural areas with little mining activity had tended to fall behind in the sphere of economic development.

In the short term the South African economy was well geared for a more vigorous upswing than that experienced over the past 12 months.

“Monetary policy has been progressively re-

laxed and various stimulatory injections have been made through special fiscal measures.

“Should this now be reinforced by the traditional engine of growth for the South African economy and the gold price hold above the 400 dollars per ounce level for some time, nobody will be able to dispute that the ingredients have been mixed and the stage set for a strong upsurge in the domestic economy over the next 12 months.”

However, in the medium term the government would have to concentrate on extensive social reform programmes.

“We are indeed investing a large proportion of our resources in human capital.”

It would become clear that gold could continue to support the economy for at least another 30 years, Mr Du Plessis said.

He told the confer-

ence that gold:

- Accounted for 10 per cent of the gross domestic product.
- Provided the State Revenue Fund with R2,6 billion during 1985, in the form of lease payments and taxation.
- Provided employment for more than 500 000 people on the mines. About 40 per cent of employees came from neighbouring countries.

The average wages for black miners had risen by some 130 per cent from 1980 to 1985, during which time the consumer price index increased by slightly less than 100 per cent, he said. — Sapa

d
tribution : All
tribution : Yes
tribution : Yes

for the conference.

PW plans an economic development conference

By Colleen Ryan,
Political Reporter

The State President, Mr P W Botha, last night announced he would convene an economic conference on November 7 to plan a development strategy for Southern Africa.

Speaking at the Gold 100 banquet in Johannesburg, Mr Botha said the theme of the conference, involving "leading South Africans in the economic and business fields and members of my government", would be "Forward with Confidence".

"The Government remains committed to establishing and maintaining an investment climate," he said.

The conference, to be held in Pretoria, will be the first major meeting between the private and public sectors since the Carlton and Good Hope conferences of the early 1980s.

Addressing the more than 800 banquet guests, Mr Botha hit out at "those radical elements whose leaders hide beyond our borders" who advocated "violence, nationalisation and so-called socialism".

NATIONALISATION

"The haunting spectre of nationalisation is not of our making. It is a fear instilled by those who are at present bent on the destruction of our economic wellbeing by means of ill-considered punitive action against us," he said.

Mr Botha said the Government and the vast majority of South Africans were determined to stand up against "these forces and to protect our children".

South Africa also had responsibilities to undeveloped regions.

"We must synchronise our highly developed First World economy with the Third World economy which is part of our heritage," he said.

Mr Botha said South Africa had an acknowledged leadership role to play in Africa.

"In fact, we have a message of hope to a cynical world bereft of much of its goodwill and integrity. A great movement of evolutionary broadening of democracy is being carried out by us."

Referring to the Government's reform programme, he said: "Constitutional reform would be virtually meaningless without concurrent socio-economic reform and upliftment."

17/9/86
BUS DAY
(49) (250) (538)

'Govt must generate economic growth'

Summit gets a warm welcome

THE economic summit planned for November 7 in Pretoria has been welcomed by businessmen, organised commerce and industry and the Progressive Federal Party.

Among items identified as requiring discussion at the "Forward with Confidence" conference, announced by President P W Botha at a conference in Johannesburg this week, were the impact of sanctions, government's long-term political programme and its plans to stimulate growth and cope with unemployment.

But the agenda has not yet been finalised and a spokesman for the office of the President said details would probably be announced next week.

PFM finance spokesman Harry Schwarz was enthusiastic about the conference but said it would have to be non-party political and specifically address itself to the restoration of business confidence and the impact of sanctions on the economy.

He said for business confidence to be restored it was essential that the National Party should outline its long-term political objectives.

Barclays National Bank senior GM Jimmy McKenzie agreed, adding that government plans to generate economic

GERALD REILLY
and LINDA ENSOR

growth and deal with the enormous problem of unemployment would also have to be on the agenda.

Schwarz also emphasised the need for follow-up action.

He said: "It is not enough for government to state its case. Working groups must be constituted to continue discussing and dealing with the problems after the conference and to continue the liaison between government and the private sector."

The attendance by trade union representatives was also crucial.

Federated Chamber of Industries CE Johan van Zyl said the conference could be of great importance "at this crucial stage in the economy" but this would depend on the way it was structured.

However, it should be something more than just short speeches as happened at the Carlton conference. There would have to be an interchange of ideas and two-way communication.

Afrikaanse Handelsinstituut CE Fred Stockenstrom and Assocom president Rocky Ridgway also welcomed the opportunity for the public and private sectors to enter into dialogue.

Judgment reserved on roads rezoning appeal

He said the money for all three projects would have to be raised.

□ □ □

17/9/86
BUS DAY

Summit gets a warm welcome

49

THE economic summit planned for November 7 in Pretoria has been welcomed by businessmen, organised commerce and industry and the Progressive Federal Party.

Among items identified as requiring discussion at the "Forward with Confidence" conference, announced by President P W Botha at a conference in Johannesburg this week, were the impact of sanctions, government's long-term political programme and its plans to stimulate growth and cope with unemployment.

But the agenda has not yet been finalised and a spokesman for the office of the President said details would probably be announced next week.

PFP finance spokesman Harry Schwarz was enthusiastic about the conference but said it would have to be non-party political and specifically address itself to the restoration of business confidence and the impact of sanctions on the economy.

He said for business confidence to be restored it was essential that the National Party should outline its long-term political objectives.

Barclays National Bank senior GM Jimmy McKenzie agreed, adding that government plans to generate economic

GERALD REILLY
and LINDA ENSOR

growth and deal with the enormous problem of unemployment would also have to be on the agenda.

Schwarz also emphasised the need for follow-up action.

He said: "It is not enough for government to state its case. Working groups must be constituted to continue discussing and dealing with the problems after the conference and to continue the liaison between government and the private sector."

The attendance by trade union representatives was also crucial.

Federated Chamber of Industries CE Johan van Zyl said the conference could be of great importance "at this crucial stage in the economy" but this would depend on the way it was structured.

However, it should be something more than just short speeches as happened at the Carlton conference. There would have to be an interchange of ideas and two-way communication.

Afrikaanse Handelsinstituut CE Fred Stockenstroom and Assocom president Rocky Ridgway also welcomed the opportunity for the public and private sectors to enter into dialogue.

Judgment reserved on roads rezoning appeal

JUDGMENT has been reserved by the Appeal Court in Bloemfontein in the appeal by Johannesburg City Council against a decision that set aside its interim town planning scheme for the extension of roads in the vicinity of the Hypermarket at Cheltondale.

The scheme provided for the rezoning of certain public open spaces and residential and business sites to "public road". It was intended to extend certain roads to give a freer flow of traffic to Louis Botha Avenue. — Sapa.

F
t
B
m
su
Op
de
Di
ins
26
1
ho
La
ve
pr
Fo
no
dal

1
Ant
FRI
A

Bo
PRE

M
C
L
M

MENT TO L

Economists predict 5% above budget

Government revises spending estimate

Economics Reporter

GOVERNMENT spending has slowed considerably in the past two months, moving closer to the budgeted projection of a 15,8% increase on actual expenditures last year.

Total expenditures for August were R2,7bn, up 9,8% from the August 1985 figure, according to the account of revenues and issues published in last Friday's *Government Gazette*.

For the first five months of the fiscal year, including August, spending totalled R15,8bn, an 18,3% increase over the same period a year earlier.

A senior government official said his earlier statement that spending for the year would be about 3% over budget was still "reasonable".

Economists analysing the budget, however, said spending would more likely end up 5% above budget.

Government also published a revised estimate of its expenditure for the current fiscal year, reflecting a 1,7% increase on the budget tabled in March.

The Department of Finance said total expenditures for the year were budgeted at R38,21bn — representing a 15,8% increase over actual 1985 spending. The original budget provided for an increase of 13,9%, to R37,57bn.

The figures on government issues, although still well above Finance Minister Barend du Plessis' budget, show the level of excess has declined since June,

when spending for the first three months was 24,4% above the 1985 period.

The decrease indicates that government made special, one-time expenditures at the beginning of the year that may be smoothed out by next March.

In August, the largest increases in issues were recorded in House of Assembly Administration, Development Aid and Defence. Issues for Constitutional Development and Planning — the largest single departmental budget broken down in the figures — declined by 6,5% to R416,7m.

Issues reflect funds issued by government to departments for expenditures. They may not match actual spending in a given month.

At the same time, revenues continued to be slightly sluggish. Tax revenues in August — a month marked by heavy tax collections from mining groups — rose just 3,3% from August 1985 to R3,3bn. For the first five months, revenues rose by 12,2% — slightly below the 12,9% projected by Du Plessis — to R12,85bn.

The combination of higher spending and static tax revenues left government with a deficit before borrowing for the first five months of R2,9bn. Government projected a R4,0bn deficit in its first budget.

THE rand looks set to confound pessimists who have been talking it down since it lost ground from \$0,50 in May.

That is the view of world-renowned chartist Brian Marber, in SA for the Gold 100 conference. He says the recent behaviour of the rand points to a \$0,46 to \$0,47 exchange rate within the next three weeks, and sets the ultimate target for the currency at \$0,58.

Marber, who operates from a purely technical analysis, has an enviable track record for predicting currency, precious metals and bonds.

He has identified parallels in the rand market with the US dollar shortly before it entered the four-year bull run up until 1985.

The first pointer in his analysis is the rand's momentum index. This shows whether a currency is overbought — and therefore due for correction — or if it is oversold.

Marber says: "Preceding virtually any major change in direction of a

Rand set to confound pessimists?

ALAN SENDZUL

currency is the signal that it is extremely overbought.

The rand has also crossed its one-year moving average. When this occurred in January, the rand rallied from \$0,42 up to \$0,50.

More recently in May, when the currency was headed downwards it plunged to \$0,3550 from \$0,44, after crossing the one-year average.

Marber says: "If you think chartists don't belong to the real world, would you have believed anyone who said in 1980 that the dollar would rise to DM3,45 when it was only a shade below DM2,00?"

Shift dispute leads to firings

UP TO 50 workers at SA Druggists' distribution centre at Elandsfontein have been dismissed after a dispute over implementation of night work.

The company's wholesale division GM, Sid Hurwitz, said the dismissals came after more than a year of talks with the Black Health and Allied Workers' Union, during which work-

ers refused to accept the new shift system.

The company declared a dispute with the union last month. Attempts at mediation failed and, late last month, it effected a legal lockout.

Union officials were unavailable for comment.

49 BUS DAY 12/9/86

BUS DAY 12/9/86

ALAN FINE

or
or
ad-
ref
or
sc.
ce
he
by
in-
ce
ay
he
ld
x-
2c
o-
c

I
S
O
n
n

Economic optimism returns as rand, gold show strength

By Sven Lünsche

There's a new mood of optimism about the economy which has not looked in better shape since the standstill on debt a year ago. The rand has firmed strongly against the dollar and the Johannesburg stock market soars to new heights virtually every new trading day.

Gold has moved firmly through \$400 an ounce and the foreign exchange reserve position looks more very healthy.

In London yesterday the bullion soared by almost \$4 to close the day's trading at \$418.50. In New York bullion closed at \$417.35, compared to Wednesday's \$413.55.

Interest rates in the country are falling and the country biggest bank in the home loan business, Barclays, is set to make a major announcement concerning mortgage rates and funding of such in general.

While it is early days yet, all the signs are beginning to point to an upturn in the economy.

The rand, reflecting the surge in gold and the weaker dollar, has risen strongly to 45 US cents.

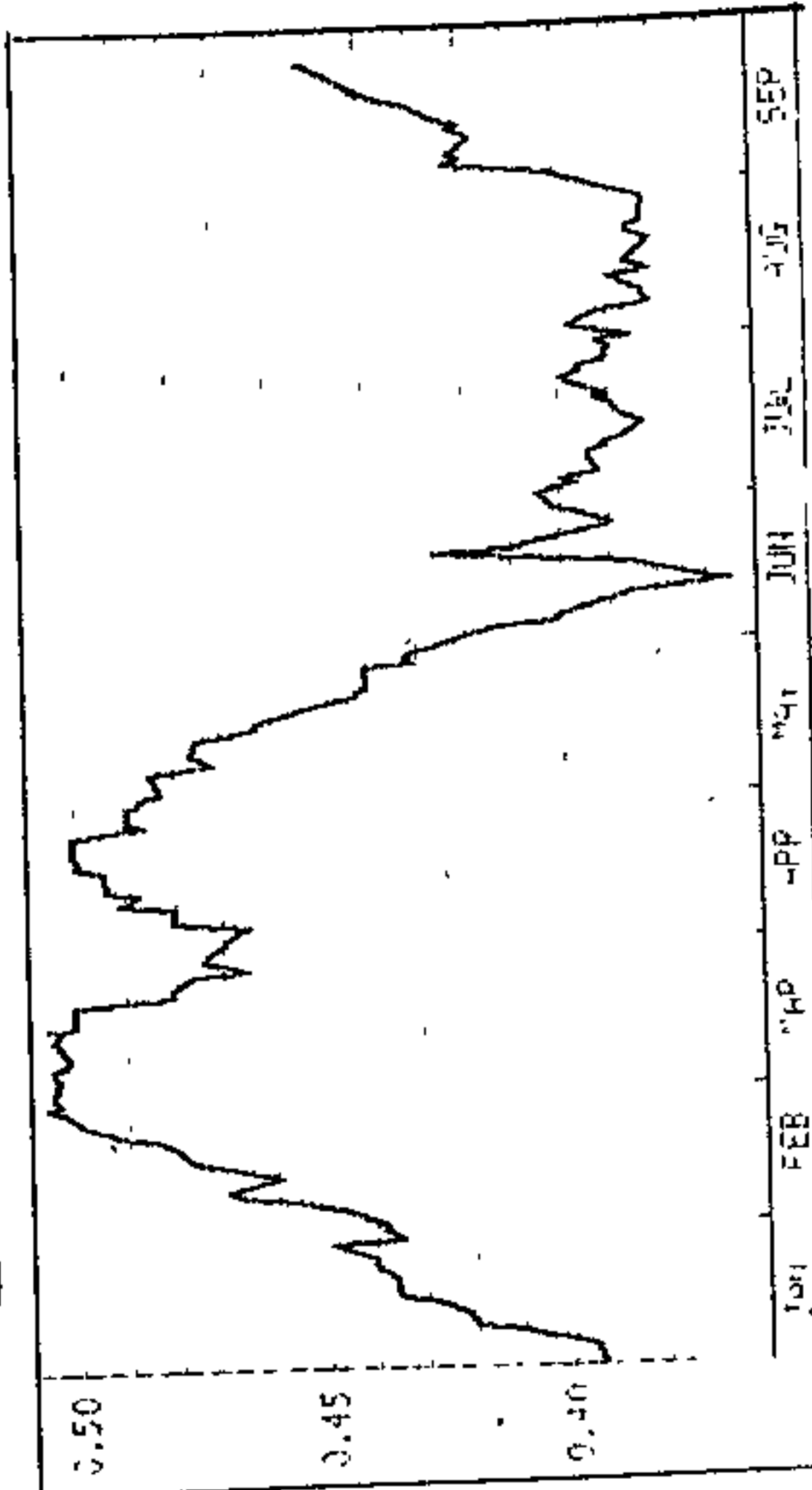
plunged by more than five US cents since the beginning of the year, when it traded at 28 US cents.

The Johannesburg Stock Exchange again saw share prices soar to record heights yesterday, as the gold price continued to firm. Dealers are now confident that the bullion will establish itself at the current levels of between \$400 and \$425 during the next two to three months and move upward to about \$450 by the end of the year.

As a result both the JSE Over-all and the All Gold index were quoted at record closing levels for the last three days.

The overall index stood at 2 034 points yesterday, which represents a 74 point gain during the week and 52 percent increase in the index since the beginning of the year.

The performance of the All Gold index, the major contributor to the current boom on the JSE, has been even more staggering. It closed yesterday at a record 1 965, about 90 points up on last week's closing rate and 63 percent up on the January fixing of 1 181.6.



Dollar/rand exchange rate

This is almost three US cents up on last Friday's close and is the highest level it has recorded since May this year.

Since June the rand has moved in a trading range between 38 and 40 US cents and it is only since the gold price started to move substantially in August, that the rand has moved upward.

It gained almost one and a half US cents yesterday to close the day's trading at 45.05 US cents and analysts said that the major boost came from the im-

portant psychological barrier of two Deutsche mark, for the first time this year.

The financial rand, however, has come down slightly at the same time as the commercial rand started its recent upward trend.

The finrand closed yesterday at 21.90 US cents, more than a cent down on last week's closing rate of 23 US cents. Reflecting the continued drop in overseas investor demand for local shares, the financial rand has

Sanctions in revenge are wrong, says church

(49)

SMK
19/11/86
Religion Reporter

The Gereformeerde Kerk has warned that it would be wrong to implement counter-sanctions in revenge if sanctions were implemented against South Africa.

The church criticised talk of vengeful counter-sanctions, particularly against this country's neighbours who propagated sanctions against South Africa.

In its official publication *Die Kerkblad*, the Gereformeerde Kerk im-

plied that South Africa should address the issue which gave rise to threats of sanctions, rather than talking about retaliating with counter-sanctions.

RESPONSIBLE

"Any criticism against a person or country must be weighed and considered to determine whether you are perhaps guilty — and responsible before God to fix what is wrong," it said.

Neighbouring countries could be hurt by counter-

sanctions, but South Africa would have to live with them in the future.

Acts of vengeance were unchristian and negative.

Sanctions could mean an increase in unemployment. If that happened, Christians should use the opportunity to love their neighbour and do good.

If sanctions were implemented, the situation in the country would deteriorate, but a simpler lifestyle could serve the kingdom of God, *Die Kerkblad* said.

LAWRENCE SCHLEMMER

Moving off-camera

There's a certain poignancy in Prof Lawrence Schlemmer's decision to quit the Centre for Applied Social Sciences at the University of Natal to take up a new research post at Wits.

The day he stood amid the ruins of his fire-blackened office on the university campus in Durban and surveyed the damage done to a life's work, he wore the expression of a man defeated.

Bone-weary of his high political profile — which he says he does not relish and did not seek — he is finally moving on.

"Sometimes it is easier to start afresh somewhere new," he reflects. "One avoids that sense of standing in one place."

For a man as busy as Schlemmer, the sense of helplessness and outrage at the loss he suffered must be profound. There are many times he turns to his filing cabinets for reference — only to find that his carefully accumulated research material has been destroyed or damaged beyond salvation. For an academic of his stature, it must be heart-rending, and he admits "it has slowed me down considerably."

In his new function at Wits, Schlemmer is likely to be less conspicuous. He plans to set up a new research department attached to the business school which will study the effects of both public and private sector policy, regionally, nationally and internationally. It's an area, he says, which is of growing importance. Latterly, much of his time has been consumed by South African policy studies and scenario-sketching of future political outcomes. His talks on the subject are much in demand.

Going back to Wits, will, in a sense, be like a second home-coming. He has fond memories of his early days spent there in the Sixties as a research officer and lecturer after he graduated from the University of Pretoria.

In the intense world that sociologists in SA live in, Schlemmer is probably pre-eminent. As a consequence, perhaps, he has attracted more than his fair share of controversy — a condition, some say, which ultimately led to the fire bombing of his office.

Schlemmer came to Natal University 22 years ago to set up the establishment's first centre for social research. In 1973 the centre was accorded institute status, and, when it



Schlemmer . . . seeking the quiet life

acquired teaching functions, its name was changed to the Centre for Applied Social Sciences.

It was inevitable that through his work Schlemmer would quickly be drawn into the dark vortex of black politics, riven as it is with fractious in-fighting and disputes over strategy and ideological objectives.

The consolidation proposals for KwaZulu and the subsequent report on the region's political options by Prof Jan Lombard, pressed home to the KwaZulu government the need for systematic

research into these areas. It turned to Schlemmer as the most suitable person to head the newly formed Inkatha Institute.

By now he is well known for his detailed research into black attitudes for the Buthe-zezi Commission. But probably his most controversial assignment was the study he did among black workers which revealed that most were opposed to disinvestment. Predictably, he was pilloried by black militants and left-leaning academics who attacked the study as unscientific and subjective.

"In SA," he philosophically says, "everything is politicised. One must also expect knowledge, which is an important aspect in the political process, to be attacked too."

However, he sticks with his survey's findings. Subsequent polls — there have been 11 of them in all — have shown that "you can't get more than 25% of people coming out in favour of a clear-cut disinvestment policy."

In future, Schlemmer is likely to have his hands full. He plans to retain his connections with the *Indicator* publication he started, is writing a book on social change in SA, updating a recent study on the prospects for peaceful change, is working on an HSRC project on intergroup relations, assisting the Urban Foundation with a policy review and is drawing up an employment code for the KwaZulu government. In addition, he hopes to keep his links with KwaZulu-Natal while offering inputs to the Natal Indaba — an initiative he believes offers real hope for the future.

"I don't want to fall into the trap of thinking that the whole world is established around the Witwatersrand," he says.

A typically retiring academic, Schlemmer lives quietly with his books and dogs for companions in a rambling, leafy home on

Durban's Berea. Indeed, it's the quiet life he has always wanted and, out of the public gaze, he has every hope of finding it. ■

49

W/E Post
20/9/83

High inflation 'devastating' SA lifestyles



Weekend Post
Correspondent

JOHANNESBURG — The continuing recession has had a devastating effect on the lifestyle of the average South African, with 63% of blacks and 27% of whites having to make drastic cuts in expenditure this year.

In spite of some despondency, whites in particular are not quite as pessimistic about the country's economic future as they were last year.

These are findings of a study by the Markinor Research company into the effects of the recession on the expenditure patterns of black and white South Africans.

The survey found that blacks have been hardest hit, but all the low income earners have had to change their spending patterns drastically.

According to the survey, Afrikaners have been particularly badly affected.

Most of the whites affected believe the reason for the hardship is economic and blame Government

mismanagement of the economy, with the drought playing a part.

Conversely, blacks are almost unanimous that the problem and the solution is political.

Disinvestment is seen as a direct cause of much of their economic misery.

The survey also shows that 89% of blacks believe the country's economic situation will deteriorate in the short term.

● Inflation has hit a whopping 18,7%, according to figures released yesterday — the third-highest figure since 1920.

And for low-income earners the rate is up to 19,1%, the worst on record. Middle-income earners' inflation is even higher, at 19,2%, while upper-bracket folk are better off with a figure of 18,3%.

But gold's leap yesterday to over \$430 an ounce promises South Africa an additional R1 000 million assuming the price stands for a year. Up nearly \$20 an ounce, it closed in London at a 3½-year high of \$430 to \$431.

Tomorrow is D-day for segregated

By NORMAN WEST
Political Reporter

A MAJOR and potentially damaging row is looming between the Association of Management Committees (Assomac) and the Government over the new local government proposals.

Last year Assomac gave the Government a 12-month ultimatum — to accept direct coloured and Indian representation on local councils or it would disband.

And tomorrow in George the association meets to consider its threat.

If it goes ahead and dissolves, it will cause acute embarrassment to Mr. Chris Heunis, Minister of Constitutional Development, who has pinned hopes on local government proposals that entail racial-ly separate local authorities.

However, there are conservative elements in Assomac, including some MPs,

who want management committees to be retained in order to undergird their participation in the tricameral parliament.

This is because most coloured and Indian MPs are also members of the 183 coloured Management Committees (CMCs) and Indian Local Affairs Committees (LACs) affiliated to Assomac.

Refused

Most MPs regard the CMCs and LACs as their only visible link with communities they purport to represent in the tricameral parliament.

This week's congress comes after MPs

from the House of Representatives and the House of Delegates refused to support legislation that would have helped implement the local authorities.

The president of Assomac, the Rev Edward Manikkam, a Solidarity Party MP in the House of Delegates, is expected to step down as president because of lack of progress by the Government.

In terms of a motion passed at last September's 12th annual congress of Assomac in East London, this week saw D-day for management committees.

There are those in Assomac who insist that it would be "an act of betrayal" if, in

terms of the East London decision, members of management committees did not resign en masse.

If this happens it could cause the collapse of the management committee system brought about by an Act of Parliament in 1963.

Deadline

If not, the powerful Kensington-Wynberg management committee in the Peninsula intends moving a motion of no confidence in the Assomac executive.

Some MPs feel they can no longer afford to be seen to support racially-based

local authorities.

The ambiguous policy of Assomac, however, seems to be that they want nothing to do with racially-based local authorities, but at the same time they want more powers in order to be seen to "deliver the goods" — a favourite Labour Party phrase.

The Minister of Local Government and Housing, Mr David Curry, wrote to the State President in January this year requesting an interview for the Ad Hoc committee of Assomac, and bemoaning the slow pace of progress over more powers for management committees.

In a subsequent interview the commit-

tee had with Mr Botha and Mr Chris Heunis on May 2, according to minutes of the meeting, Mr Botha remarked that he was aware the community was suspicious of "the whole local government scheme".

tee had with Mr Botha and Mr Chris Heunis on May 2, according to minutes of the meeting, Mr Botha remarked that he was aware the community was suspicious of "the whole local government scheme".

Confusion

Mr Botha had remarked further "that on the principle and policy of devolution of power, the various aspects would fall into place and would become successful".

But there remains a lot of confusion within the ranks of Assomac and the Labour Party itself.

The secretaries of urban management committees, particularly in the Cape

Peninsula, share the concern of the "young turks" within the Labour Party that the time had come for "coloured" and "Indian" management committees to be scrapped — and they want it done at Assomac's congress this week, in terms of the motion adopted last year.

But this motion has clearly put Assomac and the Labour Party on the horns of a dilemma.

More conservative rural management committees have put motions on the agenda aimed at:

- Overturning the motion and so extricating Assomac from the embarrassing mandate to disband if direct presentation did not become a fact.

- Gaggling the Cape Peninsula secretaries — usually better schooled than ordinary delegates in matters of local government — from leading the anti-management committee debates, as was the case in the past.

WUS D41
Pessimistic
'87 outlook
GERALD REILLY
SA's top 100 industrial
companies foresee
gloomy economic and
political developments
next year.
Inflation will range
between 17%-23% in
1987, executives of the
firms forecast in a
Unisa Bureau of Market
Research survey.
Most of them (89%)
predict an average
growth rate of 2,1% next
year.

NESS

Commodities

3,25c	Copper (3-mths)	£961,00
p 13,7	Platinum	\$599,00 (\$582,50)
30,80	Sugar	£80,50 (£80,00)

Investec Bank  Metboard

One group.
Two traditions.

INVESTEC

A new level of investment banking.

MUNDELS 12689

Economy has set off on ^{23/9/86} recovery road, says ^{SMR} Sanlam 49

By Finance Staff

Higher levels of expenditure and production have started the South African economy on its road to recovery, says Sanlam in its September *Economic Survey*.

But, it says, serious obstacles, including uncertainty about the country's political future and the withdrawal of foreign capital, still have to be overcome.

Apart from the positive growth in the primary sectors of the economy, the growth is reflected in the slight improvement in real private consumption expenditure.

Sanlam indicates, however, that the more favourable tendencies are restricted largely to the trade sector, linked to an important degree to the normalisation of expenditure by blacks, the easing in hire purchase conditions and the repayment of the loan levy.

Also, there was a continued sharp decrease in real fixed investment, attributed to the low level of capacity utilisation, and a lack of confidence about the future.

High unemployment and inflation are further problem areas pointed out by Sanlam.

"The prices of a broad range of consumer goods and services climbed steeply during the last month and seriously dampen our expectation of a considerable reduction in the inflation rate."

Apart from the more expensive food products, higher housing costs also contributed to the rise in the rate.

"In view of the downward trend in bond rates and more stable rentals the sharp increase of three percent in the housing component came as a complete shock."

TRADE SURPLUS

On the balance of payments, Sanlam writes that total net foreign debt service repayments reduced the total trade surplus for the first seven months of the year from R7,1 billion to about R3 billion.

Intensified trade sanctions will not have a noticeable effect on the current account of the balance of payments this year and Sanlam estimates a surplus of R6 billion is still attainable for 1986.

"In the long term, however, it may be assumed that in the foreseeable future the surpluses

on the current account of the balance of payments will be largely neutralised by continued capital outflows."

Sanlam says this will contribute toward the external value of the rand remaining under pressure, although it will remain relatively strong in the short term, and the country's potential for growth being seriously restricted.

On the monetary front, Sanlam expects interest rates — both long-term and short-term — to maintain their downward trend at least until the first quarter of 1987.

Interest rates are currently being determined largely by the demand for and supply of funds, with inflationary expectations playing a secondary role, and the expected favourable ratio between supply and demand will continue to keep rates down for at least six to nine months.

"It is likely, however, that interest rates will be subjected to upward pressure from the second half of 1987 as the revival in the economy gains momentum and inflation again comes to the fore as an important determinant of long-term rates in particular."

De Kock damper for controls lobby

49

Assocom hails stand on siege economy

23/9/86

Paul Day



DE KOCK

RESERVE BANK Governor Gerhard de Kock's siege-economy statement has been welcomed by Assocom.

De Kock warned that such an event would mean tight regimentation and a maze of controls.

"This would limit the scope for private enterprise and competition to promote economic development and to raise standards of living," De Kock added.

Assocom said in its quarterly *Assocom Review* that perhaps this "timely assessment" would damp the ardour of the lobby for

sanctions and controls.

It added this lobby had persistently denigrated attempts to stimulate free-market forces.

It had also argued in favour of a return to the hybridism that fettered free enterprise for years by controls supervised by officials.

Those who advocated the return of controls appeared to have lost sight of all the abuses which became part of the system, said Assocom.

"The imposition of bank ceilings gave rise to financial black markets. Import control led to

trafficking in permits as well as other undesirable practices."

Increasing worldwide discussions on sanctions appeared to be seen by many as justifying their belief in casting aside market-oriented policies and preparing for a withdrawal into a siege economy.

"One can detect almost a note of relief in some circles as the sanctions threat draws nearer."

Finance Minister Barend du Plessis had, however, made it clear that sanctions were bad news while De Kock had several times indicated that he stood behind market principles. — Sapa.

Grim warning on SA's economy

Post Correspondent
JOHANNESBURG —
South Africa is "bleeding
to death economically",
Mr Adam Jacobs, chair-
man of the Economic
Affairs group of the *Pre-
toria Afrikaanse-sake-
kamer*, has warned.

Mr Jacobs, economist
of Volkskas, urged in a
special report a fresh
"Buy South African" cam-
paign and a clampdown
on the importing of luxu-
ry goods and products to
preserve the country's
foreign reserves.

He said the Minister of
Finance, Mr Barend du
Plessis, had recently an-
nounced further "stimula-
tion" measures for the
economy, totalling R1 500
million.

But on analysis it was
clear that only about R700
million of this would find
its way into the domestic
economy in the present fi-
nancial year.

He added that the state
of the balance of pay-
ments situation was giv-
ing major cause for con-
cern.

It was true that it now
showed a reasonable sur-
plus mainly because of
the low level of activity
domestically which had
resulted in a drop in im-
ports.

But the continuing out-
flow on the capital
account of the balance of
payments was absorbing
the total surplus on the
current account, so no re-
serves could be built up or
imports afforded.

CHRIS CAIRCROSS

TWO prominent economists have no doubt that the economy is at last beginning to move.

There are, however, differences of opinion -- or at least pessimism in some quarters -- over the likely duration of the recovery.

Sanlam chief economist Johann Louw acknowledges that all indicators signal economic activity gaining momentum, but cautions it is still too soon to say whether the

improving business climate will last.

Louw says he is worried it may run out of steam with the slight return in consumer confidence again foundering on further political unrest.

Louw suggests there are special features connected with this particular consumer-led recovery, in that it is linked to a significant

degree to a release in pent-up spending by the black community -- which could quickly be turned off should the flames of unrest in the townships flare up once more.

He notes spending by whites appears more muted, with no marked increase in bank borrowing.

Louw concludes it is most unlikely growth this year will be much more than 1.5%.

Economists Louw and Lee optimistic

49

Old Mutual chief economist Rob Lee is more confident about extent and duration of the recovery.

He notes there are clear signals in the US which suggest the recent strengthening in the price of gold is sustainable.

Other positive developments which give Lee cause to reason the upturn is sustainable include:

□ A hardening of prices of other exports;

□ Rises in the exchange rate of the rand;

□ The fact that the full impact of government's accelerated spending programme has not filtered through the economy yet; and

□ The probability of sharp increases in wages and salaries. Lee reckons on a growth rate of about 2% this year -- a forecast higher than most.

He predicts a rate of 4% is not out of reach for 1987, particularly if the price of gold remains above \$400 an ounce.

Major UK conference on SA faces the flak

26/9/86
WCCOAT
19
4

A MAJOR conference on the "Southern African Economy After Apartheid" opens at York University in England next week — and although it was planned before the issue of academic boycotts attracted such widespread international attention, it unwillingly faces the full force of the current controversy.

The four-day conference, which focusses largely on the economic implications of dismantling apartheid, is to be attended by some 100 academics from all over the world, including about 25 South Africans.

Landeg White, Director of the York Centre for Southern African Studies (CSAS), which is hosting the gathering, says the conference is "purely academic. No resolutions will emerge, it is a forum".

He believes it can go ahead without "the kinds of problems which have faced other international conferences which have run into trouble. We are not looking for limelight".

Overseas conferences now almost automatically face difficulties if they include South African-based academics. The African National Congress publicly maintains its hard line on their "absolute isolation", but the organisation has confirmed that it is often asked by various institutions to "screen" academics.

White says the ANC has agreed to send a delegation to the conference as observers, and is "quite confident" that they will attend. In a telex to the Weekly Mail this week, the ANC said

"no decision has yet been taken on the York conference".

The CSAS has been in contact with the ANC "recognising the absolute need for such groups to be represented in our discussions", but vehemently rejects any suggestion that the organisation "screened" South African delegates.

"The ANC was not in any way responsible for validating those who are attending, or for keeping anyone away," he says.

White declined to name the South African participants before the conference, but said they represented a broad spectrum of "South Africans who are interested in seeing apartheid go as quickly as possible". There were certainly no government representatives, he said.

He could not confirm the attendance of any Afrikaans-speaking academics, but said there were definitely no staff members of Afrikaans universities.

White rejected out of hand any suggestion that the conference funding was South African-linked.

"This conference is a sincere attempt to address the future of Southern Africa," he said, "and we hope to achieve serious discussion of papers and an identification of research priorities.

"We think it is valuable and are encouraging as little publicity as possible until it is an accomplished fact."

● The Academic Boycott:
See PAGE 12

South Eastern Areas Development

Region's needs outlined (49)

BUSHMAN'S RIVER — Certain areas in Region D were in "dire straits", despite the recognition that it was a priority region for development.

So said the head of the Department of Economics at Rhodes University, Professor Philip Black, in presenting a case for a sounder economic approach and a more selective application of policy, including financial incentives for promoting growth in the region.

He told delegates at the annual congress of the South Eastern Areas Development Association (Seada) that Region D was poor in relation to the rest of South Africa. There were also vast intra-regional differences.

The Port Elizabeth-Uitenhage and East Lon-

don-King William's Town areas compared unfavourably with other metropolitan areas.

In the 10 years from 1970 the gross total product had been 1,9 per cent a year compared with three per cent a year elsewhere. There had been a negative growth of minus one per cent in real per capita income and on average unemployment was upwards of 45 per cent, rising as high as more than 60 per cent in Grahamstown.

There were also notable differences in performance between the metropolitan areas, with Port Elizabeth-Uitenhage showing a serious structural decline. The hinterland had lost lots of its potential skills and in the Seada area there had been an abso-

lute decline of minus two per cent in gross economic product in the past 14 years.

There had, however, been positive growth in the Border area, though Transkei had been lagging for 10 years, Prof Black said.

This showed growing inequalities which could be seen to be economically and politically motivated.

The economic recession was severe, and "most inappropriate" policies had been implemented.

The attractive incentives available to Border could explain the decline and economic crisis in the Port Elizabeth-Uitenhage area.

"Most important are the incentives which

have applied over a long period and more especially since 1982, since when there has been a vast expansion," Prof Black said.

The manufacturing industry in East London-King had expanded its workforce from 7 000 to 26 000 in three years.

The hinterland was "diabolically poor".

"The South African taxpayers' money is being used to undermine South African workers," Prof Black said.

"Is this the cost we must pay? If so we should be sure of the economic and social cost."

Selective policies should actively promote production of appropriate products. Port Elizabeth had export potential for motor components, hides,

Reports by
JILL JOUBERT

skins, electrical goods and farm produce.

East London-King was significant for textiles and clothing. The policy should be to promote these goods and services in areas which had comparative advantages.

There was room for improvement in the incentive scheme. The hinterland should be treated in the broad context of Region D. It should be slotted into a differentiated, comprehensive approach based on sound economics.

Prof Black said there was a case for the selective promotion of agriculture, through encouragement to grow for urban markets and link-ups with food manufacturers.

Neville: status enhanced

Dispatch Reporter BUSHMAN'S RIVER — The status of the South Eastern Areas Development Association (Seada) had been enhanced since representations to the Regional Development Advisory Committee (RDAC) had to be routed through it. This was said by the

association's president, Mrs Thelma Neville, at Seada's annual congress here yesterday.

"Whatever the criticism of and complaints about RDACs, this body plays an important role in stimulating development in Region D," Mrs Neville said.

The RDAC was the recognised channel through which Seada had to work. It had direct communication with government and the official channel to the RDAC was through Seada.

"Whatever other means are used will only take longer."

Seada was as important "as we choose to make it", Mrs Neville said.

The "latest information" on Regional Service Councils (RSCs) was that a local RSC would include Riebeeck East, Alicedale, Pater-son, Grahamstown, Bathurst, Port Alfred, Kenton, Bushman's and Alexandria, she said.

"Alexandria, however, wants out and Seada would like to see So-

merset East, Bedford and Adelaide included."

Seada had "continued pressing" for a fifth (Eastern) province with Grahamstown as its capital, Mrs Neville said.

Pressure for a second veterinary faculty in the Eastern Province was also being maintained, she added, and the RDAC supported Seada's claim for a deeds registry in Grahams-town.

Further developments included an invitation to all local authorities within the Seada area — including black town councils, community councils and management committees — to join the association.

The Seada executive had also looked at housing, electricity, water supply, the retention of branch rail links in the Seada area, the preservation of steam trains, the establishment of industries and job opportunities and the problems relating to the SA Broadcasting Corporation, its rationalisation, broadcasting reception and service.

Meyer: farming the backbone of growth

Dispatch Reporter BUSHMAN'S RIVER — The importance of agriculture must not be overlooked in the development of Region D, the president of the East Cape Agricultural Union and member of the Regional Development Advisory Committee (RDAC), Mr Tobie Meyer, said at the opening of the annual South Eastern Areas Development congress last night.

He said agriculture was the backbone of a dynamic rural economy. Region D was no exception. Its gross domestic product in 1984 totalled R96 million, the major commodities being milk, pine-apples, wool, mohair, beef, mutton and chicory.

Agriculture employed a permanent workforce of nearly 10 000.

Mr Meyer said there was room for improvement in manpower and financial management but farmers were accepting their responsibilities to improve the quality of life of their labourers.

He said incentives for industrial decentralization would enhance regional development, while developing people and natural resources would create a climate for progress. Population growth should be curbed.

Education was hampered by insufficient facilities. "Blacks often have to travel long distances if they want to attend high school. This is why trained scholars are not returning to the platteland."

The positive aspects of the area included its sound marketing structure, potential for tourism, educational institutions, and infrastructure.

The RDAC had sought the advice of a management training consultant to formulate a strategy for the development of Region D. It was hoped the outcome would be a co-ordinated strategy embracing industrialisation, agriculture, tourism, marketing and urbanisation.

President re-elected

BUSHMAN'S RIVER — Mrs Thelma Neville was re-elected president of the South Eastern Areas Development Association (Seada) at its annual meeting here yesterday.

The vice-president is Dr Brian la Trobe, a former mayor of Grahams-town.

The committee includes representatives of the municipalities of Alexandria, Bathurst, Bushman's River, Kenton-on-Sea, Grahams-town, Fort Beaufort, Adelaide, Bedford, Pater-son, Port Alfred, Bathurst and Post Relief. — DDR

SA pulling out of recession

AP 29/9/86

Dispatch Correspondent

JOHANNESBURG —
Leading economic indicators show South Africa is pulling out of the recession which has gripped the country for the past four years.

The latest employment figures released say the number of white urban adults in full-time employment is increasing and now significantly exceeds the figure for last year.

Market Research Africa's employment index shows that 52,4 per cent of white adults were working full-time in July 1986, compared with 47,8 per cent in July 1985.

This employment trend is on a steady upward course with increases registered in November 1985 (49,8 per cent) and March 1986 (50,2 per cent).

The number of self-employed now stands at 6,3 per cent, slightly higher than in July 1986 when it was 5,8 per cent.

The index, which was started in March 1985, regularly measures the employment of urban whites and metropolitan blacks.

The figures released continue to show a steady forward movement of wholesale and retail trade with credit information men quoting a definite slowdown

in liquidations and sequestrations.

The Duns Business Failure Report, which was released at the weekend, shows that 277 business failures were recorded in July. This figure is 19 per cent down on June and 9,6 per cent down on July 1985.

"It is expected that the present failure rate will begin to ease by year-end as the upturn in consumer demand translates into improved profits and fuller order books.

"The impact should be felt relatively quickly due to low inventory levels. Companies that are likely to benefit in the short term from the consumer upturn are those in the furniture, household appliance, clothing, footwear and food industries where demand has been strongest."

A report from the quarterly meeting of the National Clothing Federation says all major retailers recorded an upturn in sales from the beginning of July.

Manufacturing production figures for July hit a nine-month high when volumes of 97,9 per cent were recorded, which was 2,3 points up on June's 95,6, using a 1980 base of 100.

Indicators show signs of upsurge

SA poised to pull out of recession

49
BLVDAY
29/9/86

SOUTH Africa is poised to pull out of the soul-destroying recession which has gripped it for the last four years.

Leading economic indicators are at long last showing a positive upswing.

Foremost of the indicators is an optimistic Reserve Bank forecast which says that despite the prospect of sanctions, a large current account surplus is projected for the remainder of the year.

"Positive real growth in three out of four calendar quarters confirms that a low point in real economic activity was reached in the second quarter of 1985.

"From late August, positive effects on business and consumer sentiment were exerted by a surge in the dollar prices of SA precious metals, plus a recovery in the rand exchange rate vis-a-vis the US dollar."

Latest employment figures show the number of white urban adults in full-

MICK COLLINS

time employment is increasing and now significantly exceeds last year's figure.

Market Research Africa's Employment Index shows that in July this year 52,4% of white adults were working full-time, compared with 47,8% in July 1985.

The employment trend is on a steady upward course, with increases recorded in November 1985 (49,8%) and March 1986 (50,2%).

The number of self-employed now stands at 6,3%, slightly higher than in July 1986, when it was 5,8%.

Other figures continue to show a steady forward movement of wholesale and retail trade, with credit information men quoting a definite slowdown in liqui-

● To Page 2: ➡

End seen to recession

49
BLVDAY
29/9/86

dations and sequestrations.

The Duns Business Failure Report, released at the weekend, shows that 277 business failures were recorded in July. This figure is 19% down on June and 9,6% down on July 1985.

"It is expected that the present failure rate will begin to ease by year-end as the upturn in consumer demand translates into improved profits and fuller order books.

"Companies that are likely to benefit from the consumer upturn are those in the furniture, household appliance, clothing, footwear and food industries where demand has been strongest."

A report from the quarterly meeting of the National Clothing Federation says all major retailers recorded an upturn in sales from the beginning of July.

"It is therefore quite possible that after a 45% contraction in clothing output over the past four years, the clothing industry has reached a turning point and better times lie ahead."

Manufacturing production figures for July hit a nine-month high when volumes

of 97,9 were recorded, which was 2.3 points up June's 95,6, using a 1980 base of 100.

Preliminary government figures on wholesale trade indicate that August will once again show a real increase.

Indications are that at constant 1980 prices, sales will peak at R2,83bn, against R2,77bn in August 1985.

This is the fourth month in a row for which increases have been recorded.

Retailers countrywide report healthy upswings in retail sales. Most majors are predicting increases of between 15% and 20% in turnover figures.

Statistics released earlier this month by Central Statistical Services, Pretoria, show that total retail trade sales for May showed an increase of 11,6%, compared with May 1985.

April indicators were up on those of April 1985 by 11,9%.

● See Page 3

BUW PAH
29/9/86
49

Sive warns on pay rise expectations

GERALD REILLY

FINANCE Minister Barend du Plessis will have to add at least R600m to his 1987-88 Budget if 385 000 central government workers' pay-rise expectations are to be met, says PFP public sector spokesman Reuben Sive.

The management committee of the Public Servants' Association (PSA) meets in Pretoria this week, prior to discussions with the Commission for Administration, on salary increases in the new financial year.

Central government's annual salary bill is currently in excess of R4bn.

Senior public servants have said a 15% salary rise will not be unreasonable, taking into account that general salary levels have risen by only 10% over the past two years.

Although the PSA speaks only for central government department workers, whatever deal is negotiated will apply to police, prisons and defence force personnel. And, if precedent is followed, the 230 000 Sats and 95 000 post office workers will get the same treatment.

Whatever the extent of the salary rises granted to post office and Sats workers, they can only be provided for from higher tariffs, Sive says.

SA 'poised to pull out of 49 recession'

Mercury Correspondent

JOHANNESBURG—South Africa is poised to pull out of the searing recession of the past four years.

Leading economic indicators are at long last showing a positive upswing.

Foremost is an optimistic Reserve Bank forecast which says that in spite of the prospect of sanctions, a large current account surplus is projected for the rest of the year.

Positive real growth in three out of four calendar quarters confirms that a low point in real economic activity was reached in the second quarter of 1985.

From late August positive effects on business and consumer sentiment were exerted by a surge in the dollar prices of South Africa's precious metals, plus a recovery in the rand exchange rate vis-a-vis the U.S. dollar.

Latest employment figures released say the number of white urban adults in full-time employment is increasing and now significantly exceeds the figure for last year.

Market Research Africa's Employment Index shows in July, 1986, that 52,4% of white adults are working full-time, against 47,8% in July, 1985.

This employment trend is on a steady upward course, with increases registered in November, 1985 (49,8%) and March, 1986 (50,2%).

Companies likely to benefit from the consumer upturn are those in the furniture, household appliance, clothing, footwear and food industries, where demand has been strongest.

National Party's Cape congress

Go ahead for R4bn water scheme

Dispatch Reporter

EAST LONDON — South Africa and Lesotho have agreed in principle to go ahead with the R4 billion Lesotho Highlands Water Project (LHWP).

This was announced last night by the State President, Mr P. W. Botha, who said the scheme would double the Vaal River's resources and stabilise supplies from the Orange River.

It would open the interior of Lesotho and also give a much-needed boost to the South African civil engineering industry, which had been badly affected by the recession, and also provide employment for thousands of labourers.

Construction of the access road alone would provide jobs for about 2 000.

Mr Botha said the scheme was one example of how South Africa was tackling its own problems and those of the region. A treaty had been drafted and arrangements were being made for it to be signed by the foreign ministers of the two countries.

"Measured by any standards, the LHWP is vast and impressive," Mr Botha said. "When fully developed, six major dams will have been built, four of which will be higher than any of the existing dams south of the Zambezi.

"The funds required will be huge," Mr Botha said. "At constant July 1985 prices, the first sub-phase alone will cost R1 400 million out of a total of R4 000 million for the whole project."

Mr Botha described it as "the largest and most far-reaching enterprise ever agreed between South Africa and one of its neighbours".

The cabinet had studied various implications of the scheme and had concluded that the extra

New system to manage economy

Dispatch Reporter

EAST LONDON — The government will soon introduce a new economic management system to enable it to make a five-year economic plan and a 10-year forecast to ensure the best use of the country's capital resources, the State President, Mr P. W. Botha, announced at the congress.

Mr Botha said the state had looked critically at its finances and financial matters over the past five years.

"Planning over a wide front was undertaken on the part of the government during the past number of years ... and these years of preparation will bear fruit in next year's budget.

"To ensure that South Africa's finances and capital resources are applied in the best possible way, a new set of criteria for decision-making will be instituted shortly.

"These will involve, among others, factors such as the availabil-



Dispatch EAST LON objectives of ticians and pended on ation of th against Sout State Presid Botha, said gress.

Some cou forefront of campaign v protect and own econom

"Are san considered babwe beca try is fast wards dictatorship

"Are san considered as a result and oppres Sikhs?

"Are san considered large group which do undemocrat but strive struction of Mr Botha as

He went it appear

449 N/M 30/9/86

P W tells of five-year plan for S A economy

ORMANDE POLLOK
Political Correspondent

EAST LONDON—President Botha last night announced a five-year economic plan for South Africa to ensure the best use of its money.

Speaking at the National Party congress here, Mr. Botha also hit out at countries and people who wanted to see South Africa's downfall while there was diminishing democracy in the rest of Africa.

'Through our new financial management system we will soon be able to make a five-year plan and a 10-year forecast with regard to State expenditure in terms of current expenditure as well as capital expenditure,' Mr Botha said.

'To ensure that South Africa's capital resources are applied in the best possible way, a new set of criteria for decision-making will be instituted shortly.

Battles

'These new criteria involve, among other factors such as the availability of capital, the income on capital and the provision of State guarantees.'

Mr. Botha said all countries had to fight their own battles and sort out their own problems and South Africa intended to do just that.

South Africa's problems particularly in the economic and financial fields were smaller than those faced by other countries in the rest of Africa.

There were few who had looked more critically at

their finances and financial management in the past five difficult years than the South African Government.

These years of preparation would bear fruit in next year's budget, he said.

Mr Botha also dealt at length with the concept of diminishing democracy and said there now was 'madness' in that those who were trying to defend democracy were being pictured as 'oppressors'.

Freedom

'They are being isolated and weakened while those who are bent on the destruction of freedom and Western civilisation are presented as the freedom fighters of the world,' said Mr Botha.

'When nations who are striving to keep the flame of democracy alive have to adopt measures which do not accord with a Utopian end-ideal of democracy and human rights, they are cursed by those who seek their destruction.'

South Africans who believed in freedom were sick and tired of the treacherous tricks of subtle supporters of the Left, communism and socialism who try so hard to appear as if they are apostles of peace and defenders of democracy, said Mr Botha.

PW launches 5-year plan for financial management of SA

David Braun
Political Correspondent

EAST LONDON — South Africa is soon to get a new financial management system with a five-year plan and a 10-year forecast on state spending.

President P W Botha announced this last night during his speech at the opening of the Cape-National Party congress.

He said that in the difficult times experienced by the economy over the past five years there were few people who had looked more critically at its finances and financial management system than the State itself.

During the past number of years planning over a wide front was undertaken by the Government.

Institutions such as the Central Economic Advisory Service, the recreated Economic Advisory Council and the National Priorities Committee of the State President were involved.

"It is my pleasure to be able to announce that these years of preparation will bear their first fruit in next year's Budget.

"Through our new financial management system we will soon be able to make a five-year plan and a 10-year forecast with regard to State expenditure in terms of current expenditure as well as capital expenditure.

"To ensure that South Africa's capital resources are applied in the best possible way, a new set of criteria for decision-makers will be instituted shortly," Mr Botha said.

The criteria, he added, involved among others, factors such as the availability of capital and the provision of State guarantees.

Capital could not just be provided. Somewhere this had to be done on the basis of priorities, he said.

● Possibly prompted by sanctions, the Commissioner of Customs and Excise issued a significantly abridged monthly foreign trade

report in Pretoria today, omitting the usual breakdown of world trading zones and of the type of products South Africa imported and exported, Sapa reports.

The preliminary report for the year up to the end of August only reflected the total amounts of money traded.

A Customs and Excise spokesman, asked if it was intended as a counter-sanctions measure, said he could not comment on the abridgement.

The report showed, however, that South Africa recorded a favourable trade balance of R8 249,4 million for the year up to the end of August.

This was an increase of R1 123,6 million against the end of July figure, and R444,6 million more than had been recorded by the end of August last year.

By the end of August this year, South Africa had exported goods worth R26 606,3 million while imports ran to R18 356,9 million.

SMR
49
27/9/76

CAE Text 30/9/86
240 business failures monthly 49

By ANDREW MOTH

BUSINESS failures are continuing at a high rate and according to Dun and Bradstreet, the average monthly failure rate for this year is 240.

Seen in conjunction with the annual report of the Credit Guarantee Corporation, the figures make a gloomy picture.

The Credit Guarantee Corporation report for the year ending on June 30 records the most business failures in South Africa since the corporation was established 30 years ago.

Number of claims

Chairman C H J van Aswegen's statement said the number of claims received in the year nearly doubled, with the value of claims paid increasing by 57% to R19,8m, compared to R12,6m in the previous year.

The value of anticipated claims at the year-end jumped by 90% over the 1985 figure, which itself had increased by 72% over the 1984 figure.

D & B said that 244 SA businesses failed in July. This figure is 19% down on June and 9,6% down on July 1985 and creates the impression that the outlook regarding business failures is improving.

However, D & B says the average monthly failure rate for 1986 is 240 and the impressive decrease in the July figure is due to June's very high failure rate of 301.

Failure rate

D & B expects that the failure rate will begin to ease by the year-end as the upturn in consumer demand translates into improved profits and fuller order books.

"The impact should be felt relatively quickly, due to the low inventory levels presently being held, although much depends on the ability of companies to translate debts into cash.

"Companies that are likely to benefit in the short term from the consumer upturn are those in the furniture, household appliance, clothing, footwear and food industries, where demand has been strongest."

The number of judgments against businesses in July increased by 11% on June to 4 576.

The average monthly number of judgments this year is 4 189, which is 7% higher than 1985's.

Value of judgments

The value of judgments was down 18,6% on June and 9% down on July 1985. The total value of judgments is 54% higher, at R13 123 000, than the average monthly value for 1985.

D & B points out that as recently as 1983 the average monthly value of judgments was about R2m, giving a compound annual growth of 190%, indicating the severity of the recession from which we are emerging.

As with liquidations, this figure is expected to ease as general trading conditions improve.

First aim of govt five-year plan

Public sector spending to go under lash

THE first objective of President P W Botha's five-year plan is to get runaway government spending under control, starting next year.

Officials describe the plan, drawn up by the Central Economic Advisory Service headed by Jan Dreyer, as a fundamental change in the way government handles its finances and as a drive to get the public sector in harmony with the economy. It will provide a yardstick with which to measure government efficiency.

"The five-year plan will introduce order into government spending during the next five years by balancing expenditure with revenue — it is not an economic plan for the economy as a whole. However, if we send government spending in a certain direction, it must have some impact on the economy," says acting Director-General of Finance Peter Wronseley.

A source close to the formulation of the plan says: "The absence of a long-term expenditure plan has made it difficult to contain public expenditure. It became possible for departments to get a foothold in the Budget, which then soared in subsequent years."

11/10/86
49
BUDGET

GERALD PROSALENDIS
Economics Editor

Under the plan, officials expect government spending to come extremely close to Budget.

"If, in a particular year, a department overspends, it will have to cut back in subsequent years to keep within its five-year spending plan," says Wronseley.

Any planned or unavoidable spending falling outside the five-year projections might well have to be financed by unconventional means, such as the selling off of assets.

The plan will also address the small pool of savings available after the termination of foreign capital. "Because of this, government has to be prudent with how it uses savings, and mindful of the pressure it places on the domestic capital market," says a source.

The five-year plan is based on the view that government spending should not be too far out of kilter with general economic growth. It will therefore be linked to economic growth projections and macro-economic recommendations recently made by a sub-committee of the Economic Advisory Council (EAC), chaired by Sasol's Joe Stegmann.

1/10/86
SPAR (circled) (49)

BER sees beginnings of economic recovery

By Stan Kennedy

Encouraging developments since the half-year mark could spell the beginning of a revival in the economy, says the Bureau for Economic Research, of the University of Stellenbosch.

This is despite anaemic economic activity in the first six months of the year and the sanctions threat dampening confidence.

Among positive developments were increased retail sales, a balance of payments which enabled the country to honour debt repayment obligations, an increased gold price, an increase in the dollar value of the rand and a lower bank rate.

The bureau says in its latest *Manufacturing Survey* that, disregarding politics and the adverse international environment, a sound basis exists for the South African economy to gather momentum.

The manufacturing sector, which makes the largest contribution to the gross domestic product (22,3 percent) and employment creation (18,5 percent) should be the major force in directing the economy to the path of prosperity.

Its share of total exports last year was 33,1 percent, second to gold, which was at 43 percent.

The bureau believes effective sanctions could present a great opportunity for manufacturers in import substitution giving, at

the same time, the South African entrepreneur the necessary incentive.

While emphasising the benefits of import substitution, it points out that it does not make a plea for moving towards isolation.

"The economy should retain links with world markets in order to generate growth to its full potential. Exporting should remain a high priority."

In its survey of the manufacturing sector, the bureau found 51 percent of the 402 respondents had increased export volumes in the first half of the year compared with the same period in 1985. Export volumes of 30 percent were unchanged while only 19 percent reported decreases.

Expectations for the second half were encouraging, with most expecting their volumes of exports to improve.

Thirty-nine percent viewed sanctions as a serious problem, 43 percent regarded them as a slight problem and 19 percent did not see them as a problem.

Twenty-eight percent considered uncertainty about the exchange rate as a problem, 42 considered it slight and 30 percent found it no problem at all.

Although the level of real activity is improving, many obstacles are still in the way of a healthy manufacturing sector. One is its inability to curb rising production costs, which are not expected to ease soon.

Bureau forecasts economic revival

By DENISE BOUTALL
A RANGE of encouraging developments during the third quarter could spell the beginnings of a revival in the economy, the Bureau for Economic Research at the University of Stellenbosch says in its latest manufacturing survey.

The bureau has also called on South African manufacturers to make use of the "forced opportunity" of sanctions to develop their skills with a view to both the domestic and the foreign markets.

Positive indicators in the third quarter were

increased retail sales, a balance of payments which enabled the company to repay its debts on schedule, an increase in gold price, an increase in the dollar value of the rand, a lowered bank rate and increased sales and production volumes reported by manufacturers.

Other signs of a bot-
toming out were that there was no further drop in employment in the second quarter and overtime hours worked started picking up in the first quarter.

Production started to

pick up in the second quarter and it would appear that real activities did improve over a wide range during the third quarter.

"The manufacturing sector started to pick up in the second quarter of 1986 and improved further during the third quarter and is expected to gain further momentum in the fourth quarter."

Manufacturers were still not very confident about general business conditions though.

"However, a definite easing in the intense degree of pessimism has

stepped in. Together with improved real activity levels, this may put the manufacturing sector on the road to more prosperous times."

Factors hampering improvements were the high production price index of imported commodities (29,9%) and of South African production (18,8%) as well as high labour costs.

In addition, the level of demand remained low in spite of easier credit and a drop in short term interest rates.

The results of special survey on sanctions showed that 51% of the

manufacturers increased their exports in the first half of 1986, 30% experienced no change and 19% had a decrease. Most expected exports to increase in the second half of the year.

Of the manufacturers who export, 39% saw sanctions as a serious problem, 43% felt it was a slight problem and 19% saw it as no problem.

The bureau comments that in the long term manufacturing exports will have to increase to a large extent if it is to provide the necessary growth incentive

3/10/86

THE ECONOMY

49

WEEKLY MAIL REPORTER

A RISE in Assocom's Business Confidence Index (BCI) for last month is the latest in a series of pointers to a modest upturn in the economy.

The index is slightly after-the-fact (everybody knows gold and retail sales rose recently) and short-term.

But, coming after the Reserve Bank's optimistic assessment of prospects in its quarterly bulletin published this week, it does provide a summary of the evidence that a bit of light is shining at the end of the long, dark tunnel — in purely economic terms.

After all, the political factors that have kept the economy depressed for so long remain.

Even Assocom's index is affected by the State of Emergency.

Assocom adds a caveat to its latest notes on the index: "The BCI is based upon the behaviour of certain key markets identified by research as important to business confidence. Reliable markets depend upon free flow of information to function properly. In terms of the State of Emergency, this free flow of information is not present in South Africa at the moment — and the BCI must be seen in that context."

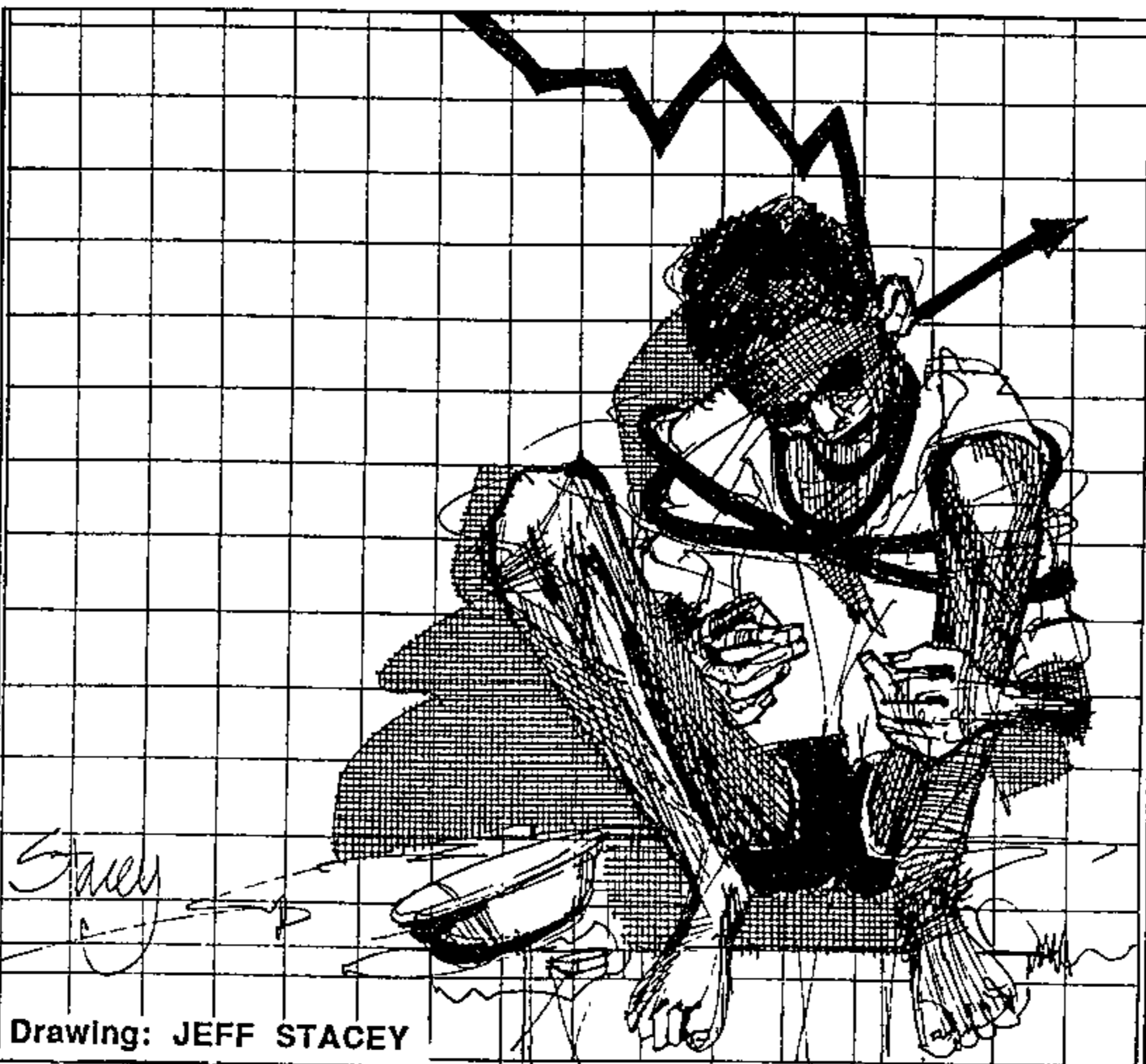
The index, made up of 13 economic indicators which have the greatest bearing on the business mood, after declining in the first half of 1986, rose to 89,9 last month, the second month it showed a positive increase (see report).

Assocom's economists, like other commentators, point out that the picture is not entirely one of blue skies and brightness yet.

For one thing, inflation at over 18 percent is still high, and private fixed investment remains depressed.

Nevertheless, 11 of the 13 sub-indices that make up the Assocom index improved in September:

Assocom sees light — but a cloud hangs at the tunnel's end



Drawing: JEFF STACEY

- The rise in the dollar price of gold boosted business sentiment.
- There was an increase of about 10 percent in the rand/dollar exchange rate.
- Share prices surged, triggered by the increased prices of platinum and gold, and helped by some improved profitability in a number of industrial sectors, accompanied by continued demand for capital from the public for new listings.
- BA (Bankers Acceptances) rates, on average declined.

- There was a slight increase in retail sales.
 - The prime rate (the interest rate banks charge their best customers) dropped from 14 percent to 13,5 percent.
 - Registered unemployment (all races) as well as net emigration showed slight improvements.
- Assocom said in a statement this week: "Assocom believes that the behaviour of the BCI reflects another modest strengthening in the business mood.

"Although the evidence of an economic upswing remains fragile, business confidence continues to improve in anticipation of yet better times.

"The incipient upturn will have to be carefully nurtured, as what South Africa needs is sustained economic growth."

Assocom also said the rise in the index stemmed mainly from:

- The impact of the higher gold price.
- Stimulatory economic policies.
- A short-term adjustment by the business community to the realities of intensified economic sanctions and other South African political uncertainties.

Assocom says there is tentative evidence of an upturn in consumer spending, but cautions: "Further information on retail sales, trade, and manufacturing output is needed before it can be said that the economic recovery is irrevocably under way."

Two of the 13 sub-indices declined. Most important was the rise in inflation as measured by the Consumer Price Index. This Assocom identifies, with new sanctions, as a serious threat to renewed growth.

"In addition, the number of new motor cars sold declined, although the figure was still positive after seasonal adjustment."

Also, Assocom notes: "There are still no signs of a recovery in private fixed investment, and there is unlikely to be any such development until the economic and political omens are more favourable from the long-term point of view."

As the public sniffs recovery in the air, indicators such as the BCI come under scrutiny.

Aware of this, Assocom, in a statement accompanying the release of its latest index and economic comment, has gone to some lengths to explain how its business confidence index is arrived at, and to put it into perspective.

"As a short-term barometer of business confidence," Assocom notes "the index has had a good track record in broadly reflecting shifts in business sentiment."

Two examples are the reaction to the "Rubicon" speech in August 1985, and the index detecting the failure of the expected economic recovery to materialise earlier this year.

"More recently, it appears to have identified the 'bottoming out' of the economy in mid-1986."

The index is a "market-related composite index," Assocom stresses.

"It reflects not what businessmen are saying but what they are doing and experiencing in certain selected markets."

Since a market is "a phenomenon of the mind", some markets (like the stock exchange) may be more optimistic than others (like the motor vehicle market) and Assocom's index reflects the net result.

The sub-indices that make up the business confidence index (base year: 1983) are, in detail:

- Dollar price of gold in London.
 - Rand-dollar exchange rate; commercial and financial rand.
 - Merchandise imports (in real terms)
 - Consumer price index.
 - Johannesburg Stock Exchange All Market index.
 - Three months' BA rate.
 - Prime lending rate.
 - Car sales.
 - Estimated retail sales (in real terms).
 - Number of insolvencies of individuals and partnerships.
 - Registered unemployment among all races.
 - New companies registered.
 - Number of people migrating to and from South Africa.
- Assocom says it is looking into incorporating spending on private fixed investment and demand for credit. Meanwhile these will be covered in the economic commentary that accompanies the release of the index.

ASSOCOM'S BUSINESS ^{IV} CONFIDENCE INDEX		
	1985	1986
January	78,6	81,9
February	83,3	85,5
March	79,1	83,0
April	76,1	79,0
May	77,9	78,6
June	81,0	80,1
July	77,9	80,9
August	76,9	85,7
September	78,2	89,9
October	78,0	
November	80,6	
December	81,1	

3/10/86

49

Factory challenge

People may well expect housing to provide jobs and economic growth. But unless new property is given away it assumes consumers, whether black or white, have sufficient means to secure tenancy. It may be so in some cases, but surely not on a sufficient scale to "get things going."

So what about other sectors, manufacturing in particular?

As the Bureau for Economic Research (BER) says in its latest *Manufacturing Survey*: "The South African manufacturing sector should be a major force in putting the

ti
s
g
t
r

economy on the road to recovery. It is the largest contributor to gross domestic product and employment creation."

It says sanctions may well create a great opportunity for manufacturers in terms of import substitution. "The opportunity to produce goods which have previously been imported might give the South African entrepreneur the necessary incentive which has been lacking for so long," it adds.

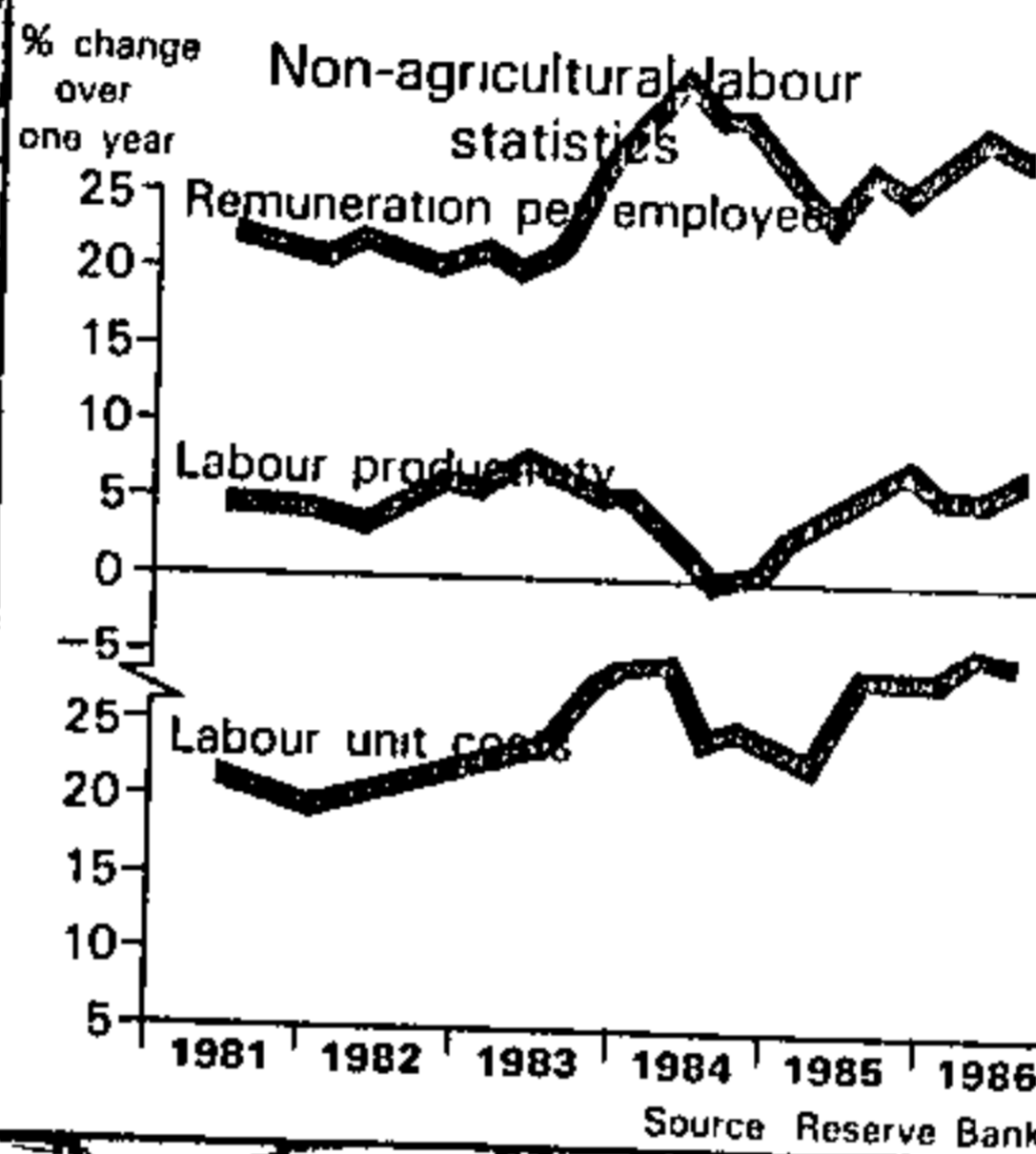
But exporting should also remain a "high priority." The goal cannot be to become self-sufficient, it says, "but to use this forced opportunity to develop our own manufacturing skills with a view to both domestic and foreign markets. It is "of the utmost importance that manufactured products be exported to a far greater extent."

At present, though a sound basis exists for the economy to gather momentum, there are many obstacles in the way of a healthy manufacturing sector. These include:

- The sanctions threat;
- Internal political instability;
- Lack of demand; and
- The inability of manufacturers to curb their rising production costs.

But there are nevertheless signs of an improvement. Says BER: "The manufacturing sector started to pick up in the second quarter of 1986 and improved further during the third quarter, and should gain further momentum," judging by responses to its survey of manufacturers.

Wages of recession



According to official data, "real activities" — that is, volume of production, employment, overtime and capacity utilisation — had declined more slowly or had begun to improve by the second quarter of 1986. Though it is extremely difficult to assess current business conditions because of long delays in the arrival of official statistics, says BER, "various indicators point to a bottoming out of the downward trend during the third quarter of 1986."

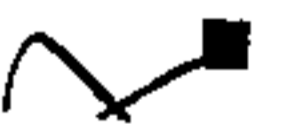
Encouraging developments occurred during the third quarter "which may spell the

beginnings of a revival in the economy." These included improvements in: retail sales, the gold price, the rand, the balance of payments, and sales and production volumes reported by participants in BER's business surveys "which seem to be underscored by Assocom's business confidence index."

In only one respect has the manufacturing sector lost its key position and that is in terms of gross domestic fixed investment. Since its 1980 peak, its share in total fixed investment has slumped. And 1983 was the first year it lost first position, being overtaken by finance and the following year by electricity and gas.

"If this downward trend continues it will lead to a further deterioration of manufacturing's importance as a contributor to GDP and employment creation," says BER.

This rightly excludes housing from the main thrust of economic renewal. However, BER's final prescription may be broader but is no more helpful: "South Africans have to face the facts and start acting to initiate positive economic change."



3/10/86

STAR

SA 'will go Marxist'

49

The Star's Africa News Service

The whole of Southern Africa could fall into communist hands because of the United States's policies towards South Africa, Zambian Minister of Foreign Affairs Mr Luke Mwananshiku has said.

In an interview published by the US magazine *Africa Report*, Mr Mwananshiku said misrule by the colonial power had driven Mozambique and Angola into the hands of Marxists.

"We may well end up with exactly the same situation in South Africa because the American Government is not being helpful to the people who are struggling," he said.

Mr Mwananshiku said that because the nationalist movements in

South Africa had had no help from the West, they were looking for support and assistance from Eastern Europe.

"When you look at the funerals in South Africa, it was the flags of the African National Congress that were prominently displayed. But now people have moved away from that. You now see more of the hammer and sickle at the funerals, which says that the black people are moving to the Left."

The Minister said that if there were no changes in policies towards South Africa, power would eventually have to be handed over to Marxists: "If South Africa becomes a Marxist state, there is no way a country such as Namibia, even after independence, can withstand its power. There is now way Lesotho, Swaziland, Botswana, even Zimbabwe and Zambia, can stand up to South Africa."

"So we may well get the entire Southern Africa region all turned Marxist — not because the people want to go that way but because they haven't been given support by Western countries."

Mr Mwananshiku stressed that South African whites had nothing to fear from majority rule. "The white population of South Africa needs to be saved, too, because at the moment they are taking a headlong dive towards a ditch and they just don't know how to handle the situation."

"We don't want them to leave."

Sanctions not an unmixed curse

By David Braun,
Political Correspondent

South Africa was within two or three votes of seeing the sanctions legislation defeated in the US Senate this week. Now the failure by President Reagan and Pretoria to stave off the Bill may have some spin-offs the sanctions lobby did not foresee.

Most immediate was a new surge in the prices of gold and platinum, the metal foundations of the South African economy.

Gold, high in recent months, rose US\$12 an ounce on the back of the sanctions Bill before settling at a level \$5 up on the previous day's fix.

For every \$10 the gold price rises South Africa earns \$208 million a year, according to a Chamber of Mines calculation done last night. All that would be needed to offset the cost of the latest American sanctions (\$350 million a year is threatened, according to Senator Nancy Kassebaum) would be a rise of \$18 an ounce.

Any increase over \$18, coupled to the accompanying platinum price rise, would mean sanctions actually injected money into the economy.

Another expected consequence of sanctions is Pretoria implementing its threat to ban American grain imports, at considerable cost to US farmers already battling with the international wheat glut.

South Africa's Department of Agriculture received several offers of grain from countries around the world yesterday.

Organised agriculture has asked the Government to block American food imports if South African exports are banned.

American diplomats yester-

Gold hike boost for SA economy is US spin-off

■ From Page 1

day confirmed they expected Pretoria to retaliate.

A third possible consequence — still no more than speculation — is that Pretoria may use the Senate decision as an excuse to call an election. This would give it a fresh mandate to continue present policies.

There was also strong speculation yesterday that the Government would swoop on activist organisations and individuals who were in the vanguard of encouraging the international community to impose sanctions.

Government politicians have meanwhile told how Foreign Minister Mr Pik Botha's last-minute attempt to persuade senators to uphold President Reagan's veto brought the numbers close to the 34 needed for the Bill to be squashed.

Starting with 21 senators against, Mr Reagan persuaded at least nine more to switch their position in a complicated series of political trade-offs.

The deal was that if 13 additional senators could be persuaded to support the veto, giving the President the 34 votes needed for victory, the individual trade-offs would go through.

If, however, the support of all 13 was not assured before the vote the deals would fall away and the senators would be released from their commitment to vote as the President wished.

With less than 24 hours to the vote, a senior congressman asked South African Ambassador Mr Herbert Beukes to get Mr Botha to phone a number of senators representing the American wheatbelt.

CONSEQUENCES

Working through much of Wednesday night, Mr Botha made calls to point out "the consequences" for American and South African agriculture if the Bill goes through.

At least one senator was persuaded that if the Bill was passed American wheat exports to Southern Africa would be blocked. He switched his vote in order to uphold the veto.

Only hours to the final vote in the Senate, both the White House and the South African Government believed it would be a cliffhanger.

The complex deals fell through when only two or three votes were still needed. The Senate voted in favour of sanctions by 78 to 21.

Now National Party sources are claiming to be relieved that President Reagan was not able to patch together the trade-off to uphold his veto.

If he had been successful, they say, he would have paid such a high price that his administration would have had to put enormous pressure on Pretoria to vindicate his position.

Conversely, because President Reagan lost his fight with the Senate, Pretoria may well have won more of a breathing space to improve relations, the sources say.

Mr Reagan will be able to say he is not to blame for the consequences (or lack of them) of the sanctions package.

Pretoria has been quick to exploit what it calls the positive aspects of the legislation.

Mr Pik Botha has pointed out provisions in the US law which, he says, now bring the African National Congress more sharply into world focus.

The law requires the US Government to study the use of violence, including necklacing, by the ANC and the influence of communism on the ANC.

Big business in the dock

Despite recent efforts by sections of big business to distance themselves from the Government and its apartheid policies, organised black workers remain unconvinced of their employers' bona fides in the struggle for a more equitable South Africa.

With the heightening of the conflict between the Government and its unwilling black subjects, big business, especially the liberal component, has increased its public criticism of State policy.

Simultaneously, business has called for the abolition of discriminatory legislation, the unbanning of groups such as the ANC and an end to violence.

It has, in some instances, criticised the authorities for resorting to more force in dealing with black rebellion, suggesting instead that talks should be held with legitimate black leaders — some of whom are in jail or in exile.

Attitudes

Eminent businessmen — including Anglo American chairman Mr Gavin Rely and Premier Group chairman Mr Tony Bloom — have even met the ANC in Lusaka.

However, according to Mr Christo Nel, assistant to the chief executive of the Federated Chamber of Industries and Project Free Enterprise (PFE) chairman, such actions would not have changed workers' attitudes towards big business.

In fact, said Mr Nel, black workers' negative perceptions of big business — spotlighted by PFE research in 1984 — had worsened. This was borne out by, among other things, the fact that South Africa was experiencing labour unrest in the middle of a recession.

(The 1984 survey found that South African workers saw few opportunities for personal gain under a free enterprise system and were ready to accept the concept of socialism.)

"Black workers see apartheid and free enterprise as one and the same thing. Reforms that have taken place have not altered the environment significantly enough to change black workers' perceptions," Mr Nel said.

This interpretation seems to be borne out by demands by the country's emergent unions for the aboli-



Dr Zac de Beer

The relationship that has developed between black workers and employers since 1979 has been held up as a model for the resolution of South Africa's political problems. But while there is agreement between the two camps on the need to banish apartheid, the real debate on a replacement political and economic system is yet to begin, writes MIKE SILUMA.



Mr Cyril Ramaphosa

tion of both the present economic and political systems.

Speaking in Johannesburg recently, the secretary general of the largest black union (the National Union of Mineworkers), Mr Cyril Ramaphosa, declared: "It is too late for free enterprise to save South Africa. Workers are now demanding a socialist system.

"Despite efforts of big business to distance itself from the (apartheid) regime, workers have learnt (that) the root and fruit of profit lay in the exploitation of workers," submitted Mr Ramaphosa.

Because of this, he warned, attempts by business to salvage capitalism were doomed to fail.

This standpoint is shared by Dr Bernie Fanaroff, national organiser of the Metal and Allied Workers' Union (Mawu), perhaps the most militant union in the crucial metal industry.

"We believe that apartheid and capitalism have always been inter-related. Both business and the present political rulers would like to maintain the present system where a small minority is extremely wealthy while the rest of the people are extremely poor," charged Dr Fanaroff.

"A significant fraction of big business," he pointed out, "welcomed the state of emergency as necessary

to create economic stability.

"Our members believe that it would be pointless to remove apartheid without eliminating exploitation."

Dr Fanaroff would not be drawn into the specifics of the envisaged replacement economic system, saying the type of socialist society would have to be decided democratically by the majority of South Africans.

Understood

He also declined to suggest what business should do to be perceived as an ally in the struggle for a more equitable society. But demands made by Mawu on metal industry employers have included that they cease business with the police and the army.

On the other hand, Anglo American director Dr Zac de Beer holds the view that "capitalism, properly understood, demands the rejection of apartheid".

Acknowledging a tendency towards socialism in the black union movement, Dr de Beer attributed this more to "a generalised resentment of a system which has oppressed black people" than to "an objective evaluation of the merits of socialism and free enterprise". South African history, he said,

Calling for a "major redistribution of benefits", he said that "the gap between the haves and the have-nots in South Africa is unacceptably high".

A view held in some employer and labour relations circles is that much of what black union leaders are saying consists of rhetoric. It is pointed out that while publicly making radical demands, on the ground, black unionists are in fact continually involved in negotiations to solve shopfloor differences with employers.

Tied to this is the feeling that once the benefits of the free enterprise system are extended to black workers the workers would intuitively want to preserve the proverbial goose that lays the golden eggs.

However, Dr Duncan Innes, a senior lecturer in industrial sociology at the University of the Witwatersrand, cautions against such complacency.

Differences

He warns that while there is agreement between business and labour on the removal of laws such as influx control and the Group Areas Act, there remained crucial differences on issues such as the political and economic systems to replace the existing ones.

Dr Innes said big business wanted a free enterprise system without less State control. The majority union view, on the other hand, was that only more Government controls on business in a post-apartheid society would bring about equal distribution of wealth — with workers having a greater say in State decisions on matters such as education, health services and housing.

He added that the possibility of co-operation between black workers and business in bringing about fundamental change remained minimal because most business people were relying on the Government "to sort things out" for them.

"All examples of employer behaviour show that about 90 percent of business sides with the Government against the unions. For instance, employers have not paid proper wages to detained workers but they are paying conscripts," said Dr Innes.

JOHN BATTERSBY

LONDON — SA's credit-rating has slumped dramatically, says *Euro-money*, the world's top financing guide. According to its annual risk ratings, SA has plummeted from 31st in the world last year to 60th this year — on a par with Israel.

In last year's ratings — calculated before the foreign debt crisis — SA was bracketed with the Soviet Union, Korea and Taiwan.

In this year's chart which was published in the September issue, SA is bracketed with countries like Mauritius, Romania, Colombia and Panama.

The dramatic fall in the country's credit-worthiness comes after last year's foreign debt crisis which was sparked off when leading US banks refused to roll over short-term loans.

SA now bigger credit risk

The rescheduling agreement reached with major foreign creditors in March has failed to stem a sharp fall in SA's international credit standing.

Countries are rated according to their access to bond markets, the Euroloan and Euronote markets, trade finance, political risk and their payment record.

This year, for the first time, the ratings have been endorsed by political risk insurers and top syndicate managers.

In a separate chart rating overall economic performance between 1986 and 1988, SA fares even worse, featuring 90th out of 118 countries.

7/10/86 TUESDAY
49

Providing... time consuming queues

initially, it was believed that these ...

7/10/86
Hod 86
BUS DAY

SA's creditors optimistic about future, says Barend

LONDON — South Africa's foreign creditors were positive about South Africa's economic potential, Minister of Finance Barend Du Plessis said here yesterday.



Du Plessis is in London after attending the annual meeting of the International Monetary Fund (IMF) and the World Bank in Washington.

He said that while bankers were concerned about the poor performance of the SA economy in the short-term, they were satisfied with the way the debt standstill was being handled.

Du Plessis said, however, it was impossible to speculate about when SA would be able to negotiate new loans on the international capital markets.

He said bankers were generally opposed to political disruptions but he had found them well-informed on economic and political developments in SA.

Reacting to the US Congress vote on sanctions, Du Plessis said SA was "as well-prepared as one could be".

"We have been coping with sanctions

JOHN BATTERSBY

for more than 20 years. We were well aware that there were further measures to come ... we were not caught un-awares," he said.

The extent to which the US sanctions would have a direct impact on the SA economy depended on the extent to which South Africa was unable to fill the trade vacuum left by the US moves.

"If it should happen that our economy is injured then it will have an impact on internal spending patterns including the socio-economic spending directed towards underprivileged communities and areas," he said.

He said SA did not wish to find itself in a siege economy.

However, its commitment to a market economy meant a certain measure of direct controls were necessary.

SA would prefer to be a net importer of capital rather than a net exporter as it was at present.

"We would like to resume normal funding as soon as possible but it is extremely difficult to speculate when this will happen," he said.

New storm brews between Du Plessis and businessmen

A NEW storm is brewing between Finance Minister Barend du Plessis and the business community after he reportedly threatened certain top businessmen because of their anti-apartheid activities.

The *Financial Mail* Washington correspondent reported that Du Plessis said of businessmen who were lobby-

ing for more pressure on SA: "We know who these people are. We hear their voices on the BBC and see their pictures with Oliver Tambo in London and Lusaka."

"And we know what to do with them." He identified the business people as "certain bankers, some of the mines and most of those Johannesburg merchants."

The *Financial Mail* said Du Plessis

MAX DU PREEZ
and ALAN FINE

said he would "make them put their case to their colleagues in a great forum" — a possible reference to the President's proposed meeting between government and business scheduled for next month.

But an angry Du Plessis said from his hotel in Geneva last night: "I have

heard about the report. It is absolute nonsense. I did not give any interview like that to anyone in Washington." He would not comment further.

Anglo American's Gavin Rilly and Barclays' Chris Ball refused to comment yesterday. The two were members of a party of businessmen who made a precedent-setting visit to the ANC in Lusaka last September. Other

members of the party, including Tony Bloom and Zac de Beer, were unavailable.

Bloom and Ball, at least, are known to have met ANC leaders subsequent to their first visit, and both continue to stress their belief that a SA political settlement is impossible without ANC participation. These two, particularly, are believed to be responsible for Du Plessis's ire.

FRIDAY

THURSDAY 9/10/86
49

'No economic growth without political stability'

Grim forecast for 1987

SOARING inflation and a sharp increase in labour unrest is the gloomy scenario forecast for SA's manufacturing sector next year.

And industry leaders say if SA is to attract new capital, have a healthy economic growth rate and a sound balance of payments, it will have to stabilise politically.

A survey of business executives of the top 100 industrial companies in SA shows 75% are expecting an upward swing in the number of strikes in 1987.

More than half (54%) predict sanctions and disinvestment pressures will intensify in 1987; 20% disagree.

The survey, released by Unisa's Bureau of Market Research and published by the Johannesburg Chamber of Commerce, was conducted among corporate executives of the top 100 industrial and manufacturing companies listed on the JSE.

Forecasts on the inflation rate generally indicate a rise ranging be-

MICK COLLINS

tween 17%-23%. The median rate predicted is 17,9%.

Most (89%) predict a higher average real economic growth rate compared with 1985. They foresee a rate ranging between no growth and 6% next year, with a median rate of 2,1%.

They are divided on whether SA will experience less unemployment in the coming year compared with 1985. However, their opinions signify a measure of pessimism, since 45% disagree — as against 36% who agree — there will be less unemployment.

Nearly half (47%) agree that the overall political situation will deteriorate in 1987 compared with 1985.

The executives agree that manufacturers will face shortages — specifically with regard to capital.

A high percentage agree that consumer groups will exert more pressure on manufacturing, industry, gov-

HOW CAPTAINS OF INDUSTRY SEE 1987



ernment and the media to be more responsive to consumer problems.

Many (87%) agree that the social environment in which manufacturers operate will put greater pressure on them to shoulder more social responsibility.

The majority (51%) see an improvement in the rand/dollar exchange rate.

South Africa will survive sanctions — Dr De Kock

SA is back on growth path, says Standard

Financial Staff

FRANKFURT — South Africa would survive sanctions, Reserve Bank governor Dr Gerhard de Kock told a symposium on South Africa in Frankfurt yesterday.

He said that the key to the solution of the present socio-political difficulties in South and Southern Africa lay not in sanctions but in economic co-operation and growth in the sub-Saharan region as a whole.

It was a matter of history — recognised by all informed financial experts — that the South African economy had adjusted well to political pressures in general, and to the withdrawal of capital and credits in particular, Dr de Kock said.

South Africa had achieved this mainly through a combination of domestic monetary and fiscal policies and exchange rate adjustment. These policies entailed sacrifices, including a decline in the real standard of living per head of the population and higher unemployment.

Trade sanctions

But South Africa had eliminated overspending in the economy and transformed the deficit on the current account of the balance of payments into a large surplus, he said.

In 1985 the current account surplus amounted to R5,9 billion equal to about 5 percent of gross domestic product. This was large for any country, particularly a developing economy.

Indications were that the surplus for 1986 would be more than R6 billion, and another large surplus was currently projected for 1987. These developments had, among other things, enabled South Africa to repay about \$3 billion of foreign debt

since the end of 1984 and had greatly increased the country's ability to cope with financial and trade sanctions.

"In these and other ways, monetary and fiscal policies have laid the foundation for more rapid growth in the period ahead," Dr de Kock said.

"Unless something unforeseen happens, therefore, the net capital outflow (including debt repayments) during the second half of 1986 should be substantially less than the expected current account surplus.

"The result is likely to be an increase in both the gross and net gold and foreign exchange reserves and an appreciation of the rand over this half-year period," he said.

Thus far in the second half of 1986 this scenario had proved accurate. The Reserve Bank's gross gold and foreign exchange reserves increased from R3,6 billion at the end of June 1986 to R5,0 billion at the end of September.

And the exchange rate of the commercial rand had moved up to 45 US cents in this period.

Much depended on whether the higher price level would be sustained. But there was no doubt that if the gold price remained above \$400 it would have a most favourable effect on the SA economy.

"To begin with, the current account of the balance of payments will naturally tend to show a larger surplus than it would otherwise have done," Dr de Kock said.

Secondly, a sustained rise in the gold price would add impetus to the current recovery in the domestic economy.

Thirdly, the capital account of the balance of payments should continue to improve.

Fourthly, the rand should con-

solidate its recent appreciation in the foreign exchange market and this, in turn, should help to curb the rate of inflation.

"Most of these favourable effects have, in fact, already become evident during the past three months. Indeed, there can be no question that the rise in the gold price is proving of material assistance in overcoming the harmful effects of the existing sanctions and other external constraints."

Recent developments had once again confirmed that there were many in the US, Europe and elsewhere who believed that sanctions against SA would accelerate the process of political and constitutional reform. Many of these people meant well.

Reducing exposure

"But they are wrong," Dr de Kock said. "Anyone who understands the power relationships and other political realities in South Africa must know that, far from accelerating the reform process, disinvestment and sanctions are bound to retard it. The sanctions campaign will undoubtedly prove to be counter-productive."

South Africa would survive sanctions, he said. Indeed, it had been doing so for some time.

"The restraints placed in recent weeks by the EEC and the US Congress on new bank loans to, and new investments in, South Africa, do little more than change a de facto into a de jure situation," Dr de Kock said.

Foreign banks had for some time reducing exposure in South Africa, and foreign investment in South Africa had for some time now been negative. So it was not as if a significant net inflow of foreign capital was now suddenly to be shut off.

Strong pleas at the recent an-

nual meeting of the IMF and the World Bank group in Washington to develop sub-Saharan Africa pointed to a dilemma; the sub-Saharan region simply could not be developed without SA's full and active participation.

"For confirmation of this, one need only look at the trade and financial flows in the region and at a map indicating the location of the mineral resources, the harbours, the railways, the power stations and the financial and other markets," Dr de Kock said.

"It follows that sub-Saharan economic development cannot be reconciled with sanctions and financial constraints that undermine the economy of South Africa.

"The answer lies in increased economic co-operation and growth in South and Southern Africa, with adequate scope for participation by foreign and domestic private enterprise."

Nothing would serve the cause of black social and political advancement more than rapid economic growth in South Africa.

And nothing would do more to promote economic prosperity in the other countries of sub-Saharan Africa than economic expansion in South Africa itself, with much of the locomotive power coming from private enterprise operating in a market-oriented environment.

"That this is not realised by some of the main players on the stage is a tragedy," Dr de Kock said. "It is clearly going to take time for these truths to sink in. We are in for a long haul.

But in the end there was so much to be gained by so many from economic co-operation and growth in sub-Saharan

Africa that there was a good chance of an economic development "success story" in this region.

"Men and women of goodwill should make this their new cause, to replace the present cause of sanctions and disinvestment. The last vestiges of apartheid will not survive a period of rapid economic growth and prosperity in South Africa — but they might well survive a period of slow growth and relative economic stagnation."

Finance Staff

Economic growth is set to increase substantially, following the rise in GDP in the second quarter of 1986 and the renewed boom in the gold price, according to Standard Bank's latest review.

The Reserve Bank's seasonally adjusted, annualised growth rates for the first two quarters of the year were -2,7 and 1,5 percent respectively and, judging from early indications, Standard Bank expects this growth to be maintained for the remaining quarters.

This growth rate has been given substantial impetus by the recent rise in the gold price.

"In principle a rise in the gold price will benefit the South African economy through enhancing incomes and wealth, and through stimulating capital expenditure in the gold mining industry, which has a multiplier effect, benefiting other sectors," Standard writes.

"If the high gold price can be sustained, mining operations will turn out more profitably than expected, dividends will increase, and workers will have a strong case for higher wage increases."

On an average gold price of \$400 for the year, Standard Bank predicts a GDP growth rate of 3 percent, while an average price of \$450 should push up this growth rate to 3,5 percent.

"This higher income, together with the wealth effect of higher share prices, over a year or two will stimulate higher personal consumption. In fact preliminary indications are that the benefits of the higher gold price will be greater in 1988 than in 1987."

The gold price will also affect the movements of interest rates in the next 15 months, says the review.

"The present relatively liquid situation should lead to a further easing in interest rates, with the prime discount rate reaching 12,5 percent early in 1987.

"Credit demand should begin to strengthen early next year, but it will be mid-year before the slack in the financial sector is taken up. In the \$400 gold price scenario, there will be a modest rise in rates by the end of the year (with prime reaching 14 percent), while a rise to \$450 will see rates moving sideways at 12,5 percent all year."

ECONOMIC OUTLOOK

There is an upswing

A comment in the latest SA Reserve Bank *Quarterly Bulletin* has already drawn detractors and harsh critics. It is to the effect that contradictory developments in the financial markets and real economy are difficult to reconcile.

The real question is simply: has the economy turned, and if so, for the better? In broad terms, financial markets have experienced boom conditions in recent months, more so in recent weeks as the gold price and rand have hardened.

But in the real economy the evidence does not add up. The Reserve Bank's indicators of real activity are all set at an index of 100 in 1980. The latest figures show electricity generated at 151, both wholesale and retail sales at 110, buildings completed at 138, and mining production at 103 (gold is down to 97).

Not holding the 100-grade are building plans passed (62), new motor vehicles sold (71, but up from 62 in March 1985), and Sats' revenue-earning traffic (89).

How can the two sectors have such different characteristics and outlooks? One columnist (a bank economist) suggests a strong gold price turns sentiment bullish, painting over cracks in the wall. This outworn concept does not address the simple distinction between reality and businessmen's "gut feel." Assocom's latest business confidence index, for example, shows sharp optimism.

While a number of top businessmen are gloomy, and many recent annual reports are woeful and laced with self-pity, others note tiny points that traditionally suggest the eco-

nomy has turned up. What nobody will commit himself on is how long the upswing will sustain itself. J H Isaacs' Errol Friedmann, for example, says severe office oversupply started contracting mid-year.

This can partly be explained by the booming business of sanctions-busting. Another factor is expansion by exporters with competent marketing skills and capacity: how they have cashed in on the weak rand is now legend.

Glenn van Heerden, who as Avis MD has a daily view of travelling businessmen, detected an increase in car rental activity three to four months ago. Particularly notable gains came in Cape Town, Port Elizabeth, Kimberley and Pretoria. Van Heerden says Johannesburg's spasms make assessment of its activity difficult; but he has seen more activity in Windhoek than he can remember.

There are more people flying; there are more people staying in hotels; there are plenty of new business starts. But a number of overwhelming problems persist: low real growth; impetuous inflation; ongoing erosion of disposable incomes; and little improvement in productivity.

So by the third quarter of 1986, the Reserve Bank questioned the "relative lack of vigour" in the real as opposed to the financial sphere of the economy. Certain characteristics did not ring true with trends established by earlier, "typical" upswings:

The volume of merchandise imports, which usually responds quickly to turns in economic activity, stayed low in the first

three quarters;

Total import volumes, however, rose significantly in the second quarter, with a repetition likely in July (much of this could be strategic purchases in anticipation of sanctions);

Unemployment turned down in January — but has been distorted by special government programmes;

Bank credit, which usually tightens as activity rises, remains slack.

Bull points are not difficult to find. There is the stimulatory effect of the stronger, but still weak, rand; increasingly relaxed monetary policy; a soft-stomached dollar; pending counter-sanctions; and the on-going threat of strikes underpinning sturdy gold and platinum prices.

The upswing should sustain itself for at least six months. While political reform in the name of economic growth would do the most to boost consumer confidence, good rains this summer could alone keep the economy on an upswing. ■

49

FIN MAIL
10/10/86

After the revolution

10/10/86 FINMAIL

49 (248)

In the justifiable belief that post-revolutionary governments are short on economic reality, the University of York's Centre for Southern African Studies held a conference last weekend on the southern African economy after sanctions. Premature though the initiative may be, the tenor of the papers — some from academics at Wits and UCT — justified the event.

The *FM* is indebted to former Saan staffer Noel Bruyns for a summary of arguments presented. Quoting participants by name was barred by the conference.

More than 150 academics attended the four-day affair. More than half were South African, mostly teachers of sociology and economics.

If what they said bears much relation to what they teach, there will plainly not be an economy worth contemplating in post-apartheid SA.

What they advocated approximates the policies of the Nationalist government before it discovered capitalism a decade or so ago.

The extent of central planning and control under their blueprints would perpetuate the mass solutions of apartheid and absence of personal freedom — only this time in the name of freedom instead of Afrikanerdom.

The economic — let alone other — deprivations of post-colonial African regimes appeared entirely lost on the participants. Nor did they pay much attention to the economic decline of the broader socialist world.

According to delegates:

□ The economic structure would have to be reorganised in a post-apartheid society, as it is now based on racial capitalism, economic privilege and discrimination. Every facet, from land distribution to urban structures, would have to be deracialised;

□ In the minds of black South Africans, capitalism is seen as racial capitalism. In a non-racial SA, the capitalist system would become all but extinct. Democratic socialism — as opposed to the East-bloc brand — was a probable alternative;

□ If democratic socialism is adopted, the government of the day would have to consider seriously the economic price it is willing to pay: hard-core socialism might lead to losing Western friends with capital, including the International Monetary Fund.

"If SA took the hard option of becoming a thoroughbred socialist state, this could raise the ire of Western capitalist countries, and the threat of sanctions could then really raise its head," one delegate warned;

□ Big business run on capitalist lines would probably not give in gracefully, but make life difficult for the economic architects after liberation. Transition could be painful and — economically speaking — bloody;

□ The leaders of a post-apartheid society would have the further headache of what to

do about the independent homelands.

As the rest of the world does not recognise their sovereignty, a South African black majority government would hardly do so either; and

□ South African economic dominance over neighbouring states would remain as great as ever, even with a different political system.

Mining

The mining sector has an essential hold on the economy. Its overwhelming importance is as a source of foreign exchange. The sector has, therefore, as much to do with fiscal and banking policy as with industrial policy.

The dominant six groups, Anglo American, Gencor, Anglovaal, Gold Fields of SA, Barlow Rand and JCI, have diversified into many commercial and industrial areas.

Would these companies be nationalised?

Said one speaker: "The control mechanisms set up by a new government should retain some administrative power at mine and plant level to work within the guideline of government policy, but all marketing should be centralised and training programmes should be centrally directed as should overall development, exploration and market research. . .

"Inevitably there will be great hostility from both within the mining industry and the capitalist world to government control of the sector, especially as a new government may not feel that justice would be done by compensating existing owners with the full value of facilities taken into public ownership."

The most menacing prospect, however, is that the major mining companies may "rape the mines" before the transition.

Labour migration

A post-apartheid government would be faced with major problems, including economic growth, redistribution of income and providing employment.

A relatively quick and easy way to provide employment would be to replace migrants with South Africans. It was probable that this would happen: any new government would be nationalist and migration would soon end.

It seemed inevitable, though, that the right to send migrants to the mines would be used to reward countries that put the least pressure on SA or even assisted possible sanctions-busting.

Land distribution

South African farms are far too large and thus economically inefficient. So there should be redistribution.

The manner of doing so was less clear, even considering the statement on land reform in the Freedom Charter: "The land shall be shared among those who work it. . ."

Said a Wits academic: "From the point of

view of the low waged, un- and under-employed, tenancy on privately owned land may provide the only relief for families now existing in overcrowded reserves or semi-urban settlements."

Trade Unions

The trade union movement is considered a major force that will lead to a new political order. Its political muscle in the past 10 years, especially since the birth of the Congress of South African Trade Unions (Cosatu), has not gone unnoticed.

A UCT academic: "The foundations for a potential future democratic non-racial socialism with industrial democracy are being laid by political, community and trade union movements struggling for liberation.

"The democratic trade union movement is a key force. Trade unions are the only bodies which can conduct the struggle in the workplace for democratic workers' control and so help to establish industrial democracy. . . Their primary task is therefore to organise workers at the point of production while also actively promoting class politics."

However, many questions left unanswered cropped up during corridor conversations. Would trade unions be independent after liberation? Would they be allowed to strike?

African National Congress

Taking into account the popular support for the African National Congress (ANC), especially since its re-emergence after the 1976 Soweto uprising, it would be foolish to disregard the movement.

It thus seemed strange that no papers were delivered by the ANC itself to give more insight into its economic programme than sketched briefly in the Freedom Charter. An ANC delegate explained that the Congress had declined as it suspected the British Foreign Office was behind the gesture — a belief met by scepticism.

The opinion was widely expressed that the academics were indulging in "crystal-ball futurology" without putting their briefs in the context of the political struggle in the townships.

"What is missing is that the concept of transition is not a dogmatic approach," was one comment. "We don't know the regime will fall or when, and what will replace it. Lopsided predictions fail to take account of the character of the struggle and the time of transition."

There is little evidence that the mass liberation movements are yet grappling with these questions in a systematic way. The value of the conference, however, lies in the fact that people have started to look ahead. Its value will also be shown if it leads to further conferences within SA, between academics and community, trade union and political organisations.

Minister denies giving formal Press interview

The Minister of Finance, Mr Barend du Plessis, has issued a statement from Munich, in which he says, inter alia, that:

- It is untrue that the *Financial Mail* (FM) formally interviewed him in Washington and that
- A report on the matter in the latest issue of the FM contained "a series of untruths".

The FM's report, which quoted the Minister as criticising certain South African businessmen for their alleged support of American pressure on Pretoria to change some of its policies, was prominent-

ly featured in the South African Press yesterday.

In Johannesburg, *Business Day* said: "A new storm is brewing between Finance Minister, Barend du Plessis, and the business community after he reportedly threatened certain top businessmen because of their anti-apartheid activities".

he Minister's statement begins: "It is untrue that the *Financial Mail* recently had a formal interview with me in Washington from which they now purport to quote.

"The report also contains a series of other untruths.

"I therefore dissociate myself from the content and the spirit of the report, and reject it."

The October 10 issue of the *Financial Mail* said "special delegations of (South African) businessmen gave American politicians the clear impression that pressures on Pretoria would be welcome in some parts of (our) country".

The FM then quoted Mr du Plessis as having told their Washington correspondent: "We know who these people are".

"And we know what to do with them when the time comes," he was said to have added.

The Minister's rejection of the report also says: "Another untrue statement involves Minister Pik Botha.

"The truth is that Minister Botha informed me fully about the circumstances surrounding the US senators (and) that I, in the light of all the facts, supported his actions." — Sapa.

Barend
brings
back bit
of cheer

By DAVID SOUTHEY

SOUTH AFRICAN businessmen looking for short-term financing for trade are still welcome to borrow from European banks.

This is at least one bit of good news. Finance Minister Barend du Plessis brought back with him from his three-week visit to the International Monetary Fund in Washington, and to a number of European countries.

The bad news is that the US Senate's sanctions Bill could make trade financing more difficult for US banks.

Mr Du Plessis also confirmed that South Africa would definitely not increase its foreign debt repayments to creditor banks.

Reasons

He said SA's reluctance to increase its repayments was based primarily on:

- The need to use our resources to promote economic growth and to create maximum employment opportunities.
- The necessity to replenish foreign exchange reserves, currently about 1-billion dollars lower than in August last year.
- To cater for further repayments of capital next year when the standstill will be reviewed.

'Reveal strategy in advance'

Schwarz reacts to business summit

SPAK

49

15/10/88

By David Braun, Political Correspondent

The Government's long-term economic strategy should be made available for study in advance of next month's government/business summit, Mr Harry Schwarz, Progressive Federal Party spokesman on Finance, said last night.

Mr Schwarz was reacting to a statement released by the Office of the State President which gave broad details of the agenda for the summit.

The conference of business leaders, Cabinet Ministers and government financial officials is to be held on November 7 at the State President's Guest House in Bryntirion, Pretoria, at the invitation of President Botha.

It will be the third such conference since Mr Botha became the country's chief executive in 1978.

The statement released by the Office of the State President yesterday said:

"There are, particularly, two aspects which will be discussed in depth.

"The first is the proposal made by the Economic Advisory Council of the State President on a long-term national economic strategy and the reaction of the Government in this regard.

"The second is the White Paper on the strategy for privatisation with a view to giving further practical implementation against the background of recent and present economic developments and the participation of the State in the economy."

Attendance restricted to 200

The statement added that, with a view to structuring a practical workable conference in which group discussions would form a fundamental part, and because of other limitations, attendance had been restricted to 200.

"In planning the composition of the meeting an attempt was made to distribute representation from the various sectors of the private sector as widely as possible to offer representation to all facets of employers, employees and big and small business sectors," it said.

A spokesman for the Office of the State President added last night that the names of the people invited would be released closer to November 7 because the invitations were personal and the list of those who would be attending had not been finalised.

Mr Schwarz, who has not been invited to the conference even though President Botha agreed to call it in response to his suggestion in Parliament earlier this year, said he welcomed the announcement that there would be group discussions.

But, he said, he would like to see the groups or committees continuing their discussions and work after the conference. Representation at the conference would, obviously, be very important so the list of those involved would be important, he said.

Mr Schwarz said the issue of unemployment and job creation should be the focal point of the economic strategy to be discussed.

This was just one reason why it was important that the proposed long-term economic strategy should be made available for study in advance of the summit.

The issue of privatisation, Mr Schwarz said, should be discussed more widely than merely at the business conference.

Little leeway left for tax relief, warns BER

By Stan Kennedy

15/10/80
Government is expected to aim its economic policy next year towards the uplifting of the Third World sector while leaving most First World-type problems in the hands of the private sector.

The Bureau for Economic Research (BER), University of Stellenbosch, says in its *Economic Prospects* for the last quarter of this year to the end of 1987, it is important that employment opportunities for the expanding labour force be created to sustain growth. The authorities, it says, face a serious dilemma; one set of factors calls for policy restraint while another calls for stimulatory measures.

BER's forecast assumes greater civil stability, a hardening of attitudes of foreign countries on SA, more trade sanctions, moderate growth in the OECD countries, inflationary pressures in the US, a slight rise in the gold price and fiscal and monetary policy remaining cautiously stimulatory. A sharp upturn in the general economy in 1987 is not foreseen.

BER says that increased Government spending, in black townships in particular, together with a cut-off in overseas borrowing and a limited capacity to borrow on the domestic market, will leave little leeway for tax relief. It believes that taxes will remain relatively high and that many Government subsidies will be phased out.

Conditions favour a rise in the gold price and an average \$440 an ounce is projected for 1987. This will follow an average of \$370 this year.

Despite a basic oversupply of most other commodities there will be slight rises in dollar prices. Oil is expected to average \$14 a barrel this year and \$15 a barrel next year.

South Africa will remain a net exporter of capital in 1987. This will mean that the current account will have to be kept in surplus and export earnings will be the prime determinant of the level of domestic spending, growth and employment.

The outflows of capital leave the country no option but to see that the current account remains in surplus, and substantially so. Estimated surplus this year is R6 472 million and the projected figure for 1987 is R6 288 million.

However, South Africa cannot

maintain current account surpluses of this nature without paying a price — the sacrifice of economic growth.

"As pointed out by the Governor of the Reserve Bank, Dr Gerhard de Kock, the maintenance of a large current account surplus over a long period, counterbalanced by debts on the capital account, implies the transfer of real resources to the rest of the world."

This implied that fewer resources will be available in SA for public and private investment and consumption.

An expected 1,3 percent growth in exports will not be enough to accommodate sharp growth in imports, and total domestic demand will not be allowed to expand substantially.

Domestic spending will be manipulated by means of interest rates, especially the short-term rates.

To avoid a recurrence of the havoc caused by sharp rises in interest rates at the end of 1984, greater use will be made of direct measures such as hire purchase regulations.

The money supply will also be largely manipulated by means of interest rates in order to hold it within set targets of 16 to 20 percent growth in M3.

No prolonged sharp improvement in the rand will be allowed in order to protect the position of exporters, and the Reserve Bank will attempt to hold the dollar/rand rate between \$0,40c and \$0,45c to the rand.

Corporate profits outlook is improving and it seems likely that the gold price will rise and investment and consumer demand will pick up.

"This implies a better utilisation of productive capacity which should retard the growth in production costs and lead to higher profits. Building, manufacturing, commerce and agriculture are all expected to experience a livelier tempo of activity and profits should improve."

High interest rates in 1985 resulted in sharp declines in the private sector fixed investment. This spilled over to 1986 and private investment in residential buildings declined by a further 5,1 percent. But BER forecasts a 6,9 percent growth in residential buildings in 1987. On the other hand, investment in non-residential buildings is expected to decline by 6,9 percent this year and by a further 11,7 percent in 1987.

Cape Times 15/10/86

Agenda for PW's summit

49

Own Correspondent

JOHANNESBURG. — State President P W Botha has released details of his Forward with Confidence economic summit to be held next month.

Organized industry and commerce are excited by the inclusion of the long-awaited government White Paper on privatization on the two-item agenda. The other item listed for discussion is the long-term economic strategy recommended by the Economic Advisory Council.

Personal invitations have been sent out to 200 business leaders. The aim, a statement released yesterday said, was "to give representation to all facets of employers, employees, big and small business sectors". It could not be established last night whether trade union leaders have been invited.

Concern has been expressed in some quarters that the summit could be wrecked should delegates be refused the opportunity to raise government's programme for political reform — notably missing from the agenda.

The businessmen will gather at the presidential guest house in Bryntirion, Pretoria, on November 7, to discuss in depth:

- The proposals of the Economic Advisory Council (EAC) on a long-term national economic strategy and government's reactions in this regard; and
- The White Paper on a strategy for privatization with a view to giving it further practical implementation "against the background of recent and present economic developments".

Proposals excite businessmen

Privatisation is high on PW's agenda

PRESIDENT P W Botha has released details of his *Forward with Confidence* economic summit to be held next month.

Organised industry and commerce were excited by the inclusion of the long-awaited government White Paper on privatisation on the two-item agenda which also includes long-term economic strategy recommended by the Economic Advisory Council (EAC).

Personal invitations have been sent out to 200 business leaders from the various segments of the private sector. The aim, a statement released yesterday said, was "to given representation to all facets of employers, employees, big and small business sectors".

A spokesman for the President's office said a list of names of those invited will only be released nearer the time. It could not be established last night whether trade union leaders had been invited.

Concern has been expressed in some quarters that the summit could be wrecked should delegates be refused the opportunity to raise government's programme for political reform - notably missing from the agenda.

A source said: "There is no way of getting the economy going without a stable political environment."

The businessmen will gather at the presidential guest house in Brytirion,

LINDA ENSOR

Pretoria, on November 7 to discuss in depth:

□ EAC proposals on a long term national economic strategy and government reaction.

□ The White Paper on a strategy for privatisation with a view to giving it further practical implementation "against the background of recent and present economic developments". The participation of the State in the economy will also be discussed.

Federated Chamber of Industries (FCI) CE Dr Johan van Zyl, Assocom incoming president Harold Groom and Afrikaanse Handelsinstituut president Christie Kuun were enthusiastic about the release of the privatisation paper, which has been awaited by the private sector for nearly a year.

It is believed that embargoed copies of the paper and EAC's proposals will be available to delegates before the summit takes place.

Van Zyl said "it would, at last, be revealed how important government regarded privatisation" and how and in what areas of State activity it would be implemented.

The recommendations of the high-

● To Page 2 →

Privatisation high on agenda

powered EAC sub-committee deal inter alia with the necessity for labour mobility, government's policy on "inward industrialisation", the need for equal economic opportunity, home ownership for blacks, longer term fiscal policy, broader financial policy and the need to redistribute wealth.

Van Zyl was also positive about the structure of the summit so that groups formed a substantial part of the proceedings in sharp contrast to the previous Good Hope and Carlton conferences.

Kuun felt the limitation of the agenda to two items was "practical and a good basis on which to start". He did not think politics or sanctions should be included though they would probably be raised.

Groom felt the whole aspect of social, political and economic reform should

have been included on the agenda.

Trust Bank MD Chris van Wyk called the summit agenda "stimulating and challenging", but questioned "to what extent it will be a challenging discussion or to what extent it will be a dissemination of information from the public sector to the private sector".

Van Wyk said he doubted whether such a large meeting could lead to practical implementation of solutions to the problems discussed. He said: "The problems of our society have become so complicated that solutions are not within reach of these open conferences. It's more a matter of judging whether the private and public sectors are on the same wavelengths on these issues."

● From Page

15/10/86
Bues DMH

(49)
①

De Beer blames lack of confidence

Capital flight is hurting business

LOSS of foreign confidence resulting in capital flight is hurting the business sector, says Anglo American's Zac de Beer.

He told the Credit Guarantee Corporation in Randburg yesterday withdrawal of foreign capital was coupled with a decline in domestic confidence.

"That is one reason why short-term interest rates have gone as low as they have. Loss of domestic confidence is inhibiting consumer expenditure. It is helping to depress investment. It is slowing growth. The businessman suffers either way."

He said industrial relations had become closely allied to politics.

"It shouldn't be. In an ideal society, politics and trade unions should be kept apart, but that isn't possible among our black people. They haven't got votes, but

Industrial Staff

they have got unions, so they inevitably use the unions for political purposes.

"The longer the award of proper political rights is delayed, the higher the tension will become and the more the unions will become a sort of safety valve."

De Beer was cautious about prospects for free enterprise.

"I don't question the support of our government for the free enterprise system, but the greater the external and internal political pressures become, the harder it will be to maintain the open and flexible procedures essential to it.

"The more freedom we have in the economy without government interference, the better the chances for economic growth and rising standards."

Maputo tightens Swazi border

Big Day 15/10/86

49

THE CENTRAL thesis of supporters of a siege economy is that SA will have to resist all external pressures and be prepared to face a period of economic boycotts if it is to regain political and economic stability.

The siege economy could reveal a number of characteristics. These include, to a varying extent, the following:

- Declining market demand for "non-essential" goods due to boycotts, partial or full disinvestment by foreign companies and varying degrees of trade sanctions (Between January 1985 and July 1986, 55 US companies out of a total of 312 withdrew from SA);
- Higher prices and shortages of certain raw materials, consumer and other goods due to demand reduction and raw material importation difficulties;
- Continued high inflation rates and declining living standards;
- Increasing retrenchments and consequent higher unemployment of all races. A steady efflux from the country of managerial and professional manpower, in spite of the weak rand, will continue;
- Lack of meaningful investment in human resource training and development, due to cost constraints;
- The introduction of "neo-protectionist" economic policies aimed at protection of local industry. This school seems to have acquired increasing influence on government.

According to Reserve Bank Governor Gerhard de Kock, a "siege economy would tend to become a tightly regimented one, subject to a maze of direct bureaucratic controls. This would limit the scope for private enterprise and effective competition to promote economic development and to raise standards of living".

- Heightened attitudinal polarisation at top level and among employees;
- Increased militarisation of society and more frequent and possibly longer military call-ups having adverse effects on business productivity;
- A high degree of political rhetoric by various organisations across the political spectrum, which may also reflect attempts at pre-negotiation power-building;
- Continuing protests and demonstrations, as manifested by work stayaways and consumer boycotts.

The above list is not exhaustive. It suggests that revolutionary human resource strategies are urgently required at the level of government and employer associations.

Numerous demands in the environment which adversely affect the business sector, individual companies and employer organisations will necessitate strategically

Human resource management in a siege economy

Excerpted from the inaugural lecture given by Professor FRANK HORWITZ to the Graduate School of Business, University of Cape Town

developed, rather than reactive ad hoc responses, to specific issues.

The business sector has the knowledge and experience to lead change, both within individual companies and as sponsors or agents of public collective bargaining. Clearly, however, the development of human resources, philosophies, policies and strategies has never been as vital as it will be over the next three to four years.

The acquisition of the industrial franchise by black workers has resulted in a greater democratisation of the workplace. Over 500 recognition agreements between employers and trade unions have been negotiated since the extension of freedom of association was made to black employees by the Industrial Conciliation Amendment Act in 1979.

Membership of trade unions increased from 700 000 in 1979 to 1.9 million at the end of 1983, with over 700 000 black employees belonging to unregistered unions.

Total union membership constitutes about 24% of the economically active population, if sectors excluded from the Labour Relations Act (1981), such as agriculture and fisheries, are considered.

The process of institutionalising conflict through collective bargaining and procedural accommodation has given black and white employees meaningful negotiation experience in industry and commerce. Industrial disputes are more often than not best resolved through negotiated compromise.

However, the siege economy will, *inter alia*, largely have been

a consequence of a failure to enter into a similar process of negotiation resulting in the granting of an acceptable political franchise to the majority of the country's population. Crisis and conflict of expectations among black employees has risen as a result.

Of particular concern in the context of the state of emergency and a siege economy is an undermining of the sound platform for negotiated compromise on industrial relations issues by the detention of trade union leaders.

The crisis of expectations is exacerbated by government's espoused policy of moving towards more free enterprise, less intervention in the economy and negotiated political solutions, which are contradicted by its actions in precipitating a move towards a closed siege economy, introducing a state of emergency, detentions of black leaders, restrictions on Press freedoms and other human rights, and increased societal militarisation.

Over 200 elected union leaders and 1 319 rank and file members were detained during June and July 1986. The resultant demonstration strikes in several sectors, including retail and mining, reflected increased bitterness and resentment and an erosion of what middle ground has been painstakingly built up in labour relations in the early and mid-Eighties.

Similarly, it is argued that sanctions will increase the mobility of professional and skilled manpower, leading to a shrinkage of the middle ground. This uncertainty is damaging to confidence and forward planning.

If the free enterprise system is

associated by employees with mass scale retrenchments and consequent unemployment and poverty, it is not surprising that — as found by Project Free Enterprise (1986) — black people feel they have no stake in a system which is perceived as collaborating with apartheid.

Employers seriously need to re-examine their manning and employment philosophies to seek ways of enhancing job security.

Manpower planning has proved unsuccessful in SA in respect of establishing relatively stable manpower levels across business cycles. A search for the optimum balance between an organisation's economic and financial objectives and that of its social responsibility to the environment in which it operates, and to its employees, is vital.

According to a study, an estimated one-million jobs could be lost as a result of sanctions. If, in addition to current levels of unemployment, a further 600 000 black people were retrenched, 31.9% of all economically active blacks would be out of work.

Even if these figures were an exaggeration and redeployment of substantial numbers of employees was feasible, sanctions would in the short-term have an adverse impact on employment levels.

It is possible, however, that with increasing urbanisation and the removal of some aspects of influx control, growth of the informal economic sector could be stimulated.

The fatalistic approach in recent statements by government spokesmen towards sanctions and their implications, coupled with the ero-

sion of civil liberties by the state of emergency, are cause for serious concern.

They risk creating a siege mentality among white people which will not facilitate an acceptable *modus vivendi* with the black population, due to a deterioration of race relations.

The siege economy is likely to experience high double-digit inflation rates. Official figures reflect a frightening increase in the costs of basic goods and services.

The pressure on trade unions to seek above inflation rate increases in an attempt to halt and reverse declining living standards will continue, in spite of an over-supply of unskilled labour.

This, coupled with the hardened political attitudes associated with the state of emergency and detentions of union leaders, will severely test the viability of the post-Wiehahn labour relations dispensation and the day-to-day relations between management and employees.

Employers will have to be seen to be giving preference to the training and advancement of employees from within the organisation rather than recruiting from outside when suitable internal candidates are available.

Companies will need to develop strategies to reduce racial polarisation of the work force in order to achieve both business objectives and visible fairness in the workplace.

One objective towards this end should be the restructuring of the work force to ensure that a multi-racial mix of employees occurs at all organisational levels.

With increasing urbanisation and possible removal or major changes to the Group Areas Act, innovative housing and accommodation strategies will also have to be developed by employers, employer organisations and the State.

The siege economy and political laager will not dampen the aspirations and demands of those opposed to discrimination and injustice. The crises arising from siege and contradictions inherent in South African society can only intensify the complexity of the business environment.

The expectations and demands of the majority of South Africans will continue to present a crucial challenge and opportunity for the business community to formulate radically new policy directions and innovative human resource strategies which seek to develop common values at all levels of society, an extension of democracy beyond our places of work and sustained economic growth.

SAM 16/10/86 X



Mr Gavin Relly, chairman of Anglo American Corporation (left), receives the Annual Business Statesman of the Year Award from Professor Andy Andrews, president of the Harvard Business School Club of South Africa.

Business ⁽⁴⁹⁾ leaders 'can use summit to force change'

By Colleen Ryan,
Political Reporter

Business leaders can use next month's economic summit with the State President to pressure the Government into making important political concessions, says economist and industrial relations expert Professor Blackie Swart.

The conference has been called by the State President, Mr P W Botha, on November 7 at the State Guest House in Pretoria to discuss the country's long-term economic strategy and its plans for privatisation.

Professor Swart, of the University of Stellenbosch Business School, said trade unions would probably expect the business community to live up to its "liberal image" and insist that the Government make important concessions, such as releasing jailed African National Congress leader Nelson Mandela.

"This conference presents business leaders with the opportunity of living up to their public statements and laying down certain conditions before they will attend, or otherwise they could boycott it," he said.

Professor Swart told *The Star* the mood of the private sector was far less optimistic

than it had been before the Carlton Conference of 1979 and the Good Hope Conference of 1981.

He said the decline in economic growth, high inflation and world sanctions against South Africa had drastically changed perceptions about the economic future of the country.

"The ball is now in the court of business leaders — they have some leverage in that the Government needs to talk to them, and they could use it by pointing the Government in the direction of negotiation with relevant black leaders."

He said it was generally recognised that economic reform and growth were impossible without a political solution.

The incoming president of Asocom, Mr Harold Groom, said it was difficult to say whether business leaders could use the conference to make political demands on the Government.

He was disappointed the agenda would not deal specifically with political problems, but "in discussion of various issues it will be impossible to keep away from the political side of things".

Although the names of the delegates have not yet been released, the State President's office says there will be 200 guests.

SA facing challenges of the century, says Relly

South Africa is going through the greatest socio-economic and political challenges of the 20th century, says Mr Gavin Relly, chairman of Anglo American Corporation.

Speaking in Johannesburg last night where he was awarded the Annual Business Statesman of the Year Award, he said South Africa displayed characteristics of the First and Third Worlds while possessing a high degree of heterogeneity among its population.

This should be an example to other struggling communities who had similar but less extreme difficulties, he said.

He criticised the international community for not assisting in this process.

"The international community, while demanding instant rectitude, may well be defeating a more gradual process towards an imperfect but perhaps workable non-discriminatory society," he said.

While urging the Government towards power-sharing, he questioned whether businessmen made such calls believing that their "own business houses were in order".

"Are we satisfied we have maximised the potential advancement of all our employees?" he asked. The business community could set the pace for change by reviewing ways in which employees were remunerated.

Furniture firm expands

Financial Staff

OFFICE furniture manufacturers Brown and Neethling have bought a prime building in Dacres Avenue, Epping Industria 2, for R456 000 — part of the company's long-term expansion programme.

The building, which is next to their current factory and showroom and will be used as a new showroom and additional office space, will eventually be linked.

MD Eric Neethling says the company has an order book worth several million rand.

Less of the good life in SA

JOHANNESBURG. — South Africans are increasingly unable to afford the good life, because the cycle of increasing production costs remains unchecked.

This emerges from the National Productivity Institute's most recent macro-statistical publication, Productivity Statistics 1986, just released.

Although the GDP per worker increased by an average of 1,5% between 1972 and 1985, the per capita GDP — which the NPI uses as a yardstick for the standard of living of a country — decreased by 0,2% over the same period, because the annual population growth of 2,8% exceeded the economic growth rate of 2,6% between 1973 and 1985.

Referring to the motor manufactur-

ing industry, the NPI says that the average unit labour cost of the industry increased by as much as 45,9% last year.

Deteriorated

In the manufacturing sector as a whole, labour productivity decreased by 2,2% in 1985. Coupled with salary and loan increases of, on average, 11,7%, in the manufacturing sector in 1985, this caused unit labour costs to soar.

Accordingly, SA's international competitiveness deteriorated. Though off-set by the devaluation of the rand, which made buying from SA an attractive option, price increases for SA importers, who were forced to pay with a weak rand, led to higher production costs in other areas. — Sapa

49 (28) 16/10/86

Doubt on govt cost-cutting

ORGANISED commerce is to use next week's Assocom congress to call on the State to apply cost-benefit disciplines to the public sector to control its spending.

It is clear the private sector remains unconvinced the new financial approaches and techniques — such as zero-based budgeting systems government departments are now supposed to employ for evaluating expenditure — will by themselves be effective.

The Cape Town Chamber of Commerce declares in a proposal to be submitted to the congress in Johannesburg that if the special task group appointed earlier this year to monitor government spending is to succeed in its objective, it will need to apply the same cost-benefit disciplines to the public service as are practised in the private sector.

CHRIS CAIRNCROSS

"These must include effective supervision at all levels, the implementation of normal checks and balances, and more effective use of budgetary control procedures," says the Chamber.

It further proposes that a "value-for-money" auditing technique be used to make the necessary cost-benefit evaluations. The technique has apparently been used with considerable success in other countries.

The suggestion is that this auditing function should not be carried out by in-house officers, but by a team of private-sector consultants, "who through their independent approach and knowledge of other organisations, both in the public and private sector, could make a significant contribution".

ANC has 'no other choice'

LONDON — The SA government was offering the ANC no other choice than violence, Liberal Party leader David Steel said here yesterday.

He told the BBC after his return from a 10-day visit to Southern Africa that he had not urged the ANC to renounce violence unconditionally when he met its president Oliver Tambo in Lusaka on Tuesday.

He asked: "What is the point of renouncing the use of violence?"

"It must be for a specific purpose — and the purpose should be to go down the path of peaceful transition towards universal suffrage.

"The only reason the ANC was driven into exile and was using violence was because it was not allowed to operate as a normal political organisation and because the SA government has no plans to engage it in peaceful constitutional change."

Asked whether he was justifying the use of violence, Steel said: "I do not support violence. I am a democratic politician. But the ANC is not operating in a society where they

have an outlet for democratic politics.

"It believes that if the normal constitutional channels are blocked, it has no other option but to use violence."

Steel also said he had been encouraged by the significant shift of opinion among whites and, particularly, the business community.

But while the business community had taken steps forward by opening discussions with the ANC and promoting discussion within the country, the SA government had moved little.

Steel also said there could be no progress within SA until the government agreed to release Nelson Mandela and lift the ban on the ANC.

The ANC wanted to keep up the dialogue it had started with businessmen and academics. Steel said: "I hope that will continue even though there is no direct dialogue with politicians yet."

SA faces 'unfair odds' in market

SANCTIONS and disinvestment no longer had anything to do with politics but had become tools in an international economic struggle, President's Council Chairman Dr Piet Koornhof said yesterday.

He told the Executive Association of SA the country was up against unfair odds in the international marketplace because it was being discriminated against by disinvestment and trade sanctions.

"It is noteworthy that the self-interest of countries proposing sanc-

tions is paramount. Is it not self-evident opportunism that both the European Community and the US, which have maintained steel quota arrangements with SA over many years, have now conveniently banned the importation of our steel outright, while their self-interest dictated no similar curbs on purchases of manganese, platinum and chrome?"

He said government fully realised SA was an integral part of the international trading world and remained a force as a trading nation. — Sapa.

Eschel Rhodie withdraws accusation

Business Day Reporter

AN out-of-court settlement has been reached between Business Day editor Ken Owen and Dr Eschel Rhodie whose department's activities were exposed in the "Information Scandal".

Owen instituted a defamation suit against Rhodie in July 1984 for R30 000 because of statements made by Rhodie in his book "The Real Information Scandal".

In terms of the settlement, Rhodie withdrew any imputation that Owen — while reporting as Washington correspondent for The Star between 1967 and 1977 — had not bothered to check the accuracy of his information with his sources.

Rhodie also withdrew any imputation that Owen was recalled from the US because of his complaint to The Star or that he was recalled.

Rhodie also accepted that Owen's reporting on the department was not motivated by any personal malice as he claimed in his book.

While he had never and still did not dispute Owen's integrity and honesty in giving evidence before the Erasmus Commission, Rhodie contended the evidence — to the effect that 10 days before his murder, Dr Robert Smit had probed a government source about the Information Department — did not establish any real possibility of a link between Smit's death and the department. He denied that any such link exists. Each party is to pay its own costs.

ECONOMIC STRATEGY

(Handwritten scribble)

49

(Handwritten scribble)

FIN MAIL
17/10/86

What November 7 may hold

As the meeting between business and government on November 7 shapes up there is clearly a growing amount of scepticism among the 200 or so businessmen who will be taking part.

No one wishes to be quoted ahead of this "mini conference" which promises to be something of a watershed in the relationship between business and government. So it has become a highly sensitive subject. It could set the scene for renewed business confidence in the political economy or place in jeopardy future investment trends.

Business needs to know how far down the line Pretoria plans to go both in terms of reform and redesign of our political structure and what this will mean for the business environment. For example, businessmen have been hearing about deregulation and privatisation for so long, yet nothing has happened.

And there is still remarkable confusion in government on the workings of the economy, which is probably why there is such dithering over economic strategy; and also why business has been increasingly criticised for "not getting things going."

Government seems to want to encourage the co-operation of businessmen on the formulation of economic policy but views political commentary as a matter of interference. Business takes the view that the two are inextricably linked.

From the remarks of some Cabinet ministers what appears not to be sufficiently understood in Pretoria is that an economy cannot be revived by decree. At the best of time, business confidence is a delicate phenomenon, depending on a number of factors, among them political stability and adequate and sustainable real returns which, in turn, depend on a stable general level of prices.

The free flow of information so that scarce resources are allocated efficiently by the forces of supply and demand is another important component of rising business expectations.

Unfortunately, information flows remain restricted and fears that sanctions will encourage greater official intervention in the allocation of resources do little to ginger up business activity.

The November 7 meeting is intended to provide a forum for business to discuss the State President's "blueprint" for the economy, drawn up by a sub-committee of the Economic Advisory Council.

But what *should* they be talking about at this mini-conference? Will it be fruitful? And will government act speedily to restore consumer and business confidence, not only in the economy, but in its own ability to

manage the economy, too?

Says an economist: "It would be pointless for government to come to the meeting and tell business it must invest more.

"What must be discussed is the business climate. Government must explain how it's going to improve it sufficiently for business to prosper, and must create the impression that it will actually carry out what it says."

For the economy to grow there must be reasonable certainty and stability enough for businessmen to make long-term decisions, he says. "Business must be reassured, not by long speeches, but by action with timetables."

Says an industry representative: "Government has become very critical of the business community, largely because of party political views expressed by some businessmen." Contacts with the African National Congress (ANC) are also a sore point.

He says the sharper political statements from business leaders come at a time when external pressures on politicians have brought them to breaking point. Government is now saying: "Why don't you chaps get on with making money and leave us to run the country?"

But it is impossible to disengage politics and economics. "Indeed, the previous attitude of government was to invite business community involvement in political issues. Besides, it's not employer groups but business leaders in their individual capacities that have made strong politicised statements.

"Unlike them, we don't follow party political lines, yet government has lumped us all together. I believe the mini-conference will exclude political matters and be confined to economic strategy and policy.

"I suspect some businessmen will be wary on this score and may sup with a longer spoon. They won't want to come out of the meeting compromised."

As a leading businessman points out, the long-term picture is still bleak. "When you still have a State of Emergency and unrest in the townships it's difficult to take any long-term view," he says. "The key to the underlying lack of confidence is clearly the political problem. Only when this is tackled will all things fall into place."

Indeed, politics has been a sticking point for many entrepreneurs. For example, there was the August "austerity measures" in 1983 that were introduced to curb inflation and spending. They were sudden and extremely disruptive. In September 1984 Finance Minister Barend du Plessis said he planned to control government spending "vigorously" and "consult the private sector on strategies." Both objectives are in jeopardy.

By March 1985 GST had hit 12%. It was then announced that provincial councils would be scrapped. This was followed in July by the State of Emergency and in August by the Rubicon speech, which further disappointed a business community looking for "meaningful social and political reform."

Low ebb

Then came the debt standstill on September 1 1985. Small wonder confidence reached such a low ebb. To "get things going again" will take more than government injunctions to business.

Blaming businessmen for the situation is a nonsense. One industrialist says governments the world over always look for scapegoats. "We have a first-rate crisis on our hands; its roots are in apartheid. I'm not too confident about the November 7 meeting. But I expect deregulation, privatisation and this thing 'inward industrialisation' will be on the agenda, which are good and constructive ideas. Let's wait and see."

There comes a time when people realise they can't go on wringing their hands indefinitely; the economy seems to have adjusted

Two
Pra
116
117
ing
plie
stan
or a
A
cial
tion
char
also
agai
posit
actua

to many of the shocks described earlier, which is why confidence generally seems to have improved considerably. But this is only short term.
This mood must be sustained and translated into a long-term view, an area still underpinned by political factors. Government must use November 7 to put a long-term strategy in place so that certainty of the future and stability of the present at least can be counted on by those waiting in the wings to create jobs.

include an opinion from the actuary.

The statement on discontinued operations was prompted by SA's downturn in economic activity. One aim is to clarify the accounting determination of the profit or loss, and encourage separate disclosure of results where appropriate.

Compliance with AC 117 will show the impact of a distinct area of activity on overall trading operations. It gives guidelines how and when expenses and income should be treated as extraordinary and not normal trading items.

Holding up for now

Government finances were in a better state for the first five months of the fiscal year — to August — than may have been expected. Revenues were up 13% on a year ago to R12,8 billion, or 38% of the estimated R33,6 billion expected for the year.

On a pro rata basis the first five months should provide 41% of estimates, suggesting that revenues are trailing, exerting pressures on spending or tax rates, or both. But Treasury estimates were made at a time when a distinct economic upswing was forecast, starting in the first calendar quarter.

The upswing has only just materialised, so GST collections for the first five fiscal months grew only 11%, well below the inflation rate. Officials hope that the GST contribution will pick up for the rest of the year, helped by the lead-up to the festive season.

The other big contribution will come from gold mine tax, paid in August and not due again until November. Officials say State coffers will only benefit in November from the running higher gold price.

Other important figures for the first five fiscal months show all income tax up 9,3%; customs duty up 20,5% (reflecting, it is said, higher import values rather than volumes); and excise duties down 6,8% — contrary to Treasury expectations — reflecting depressed consumer spending.

Various stimulatory and concessionary packages announced since the Budget, and details as to how further expenditures are to be financed, confound calculation of the deficit before borrowing.

An all-embracing analysis suggests a deficit of R4,735 billion for the year, against a budgeted R3,9 billion, but Treasury officials are adamant that financing of certain further expenditure "off Budget" will reduce the deficit by around R1,2 billion. This cuts the anticipated deficit to R3,5 billion and is well within limits, while expenditure figures expected this week should show government spending closer to original targets. ■

The economy after apartheid



Matthew Cobbett, a senior researcher at the Development Bank of Southern Africa, attended the recent York University conference on "The southern African economy after apartheid," where he presented a paper on the Land Question in SA. This is a summary of the proceedings.

Will post-apartheid SA be Socialist, Capitalist or have a mixed economy? What role should the Congress of South African Trade Unions (Cosatu) play in ensuring that workers' interests are not subsumed in post-apartheid SA? These were the two main themes debated and contested at York University's Centre for Southern African Studies held at the end of September.

About 120 "leftish" academics converged on York, the majority from SA. Despite persistent rumours that the African National Congress (ANC) would shun the conference in support of the academic boycott, it was present although its representatives were only observers. Striking omissions included the absence of government representatives from the majority-ruled southern African states; and there was no Southern African Development Co-ordinating Conference (SADCC) representation, for clearly the SADCC itself will be greatly affected and transformed after liberation in SA. Equally worrying was the absence of representatives from the South African business community.

The conference focused almost exclusively on SA — almost all papers presented related to this country. Accumulated evidence from the conference suggests that no one knew, or was prepared to state how a post-apartheid society would be structured. While there was general consensus that the objective was a Socialist state, there were conflicting viewpoints as to how this would be achieved. (Those of us who doubted whether Socialism was on the agenda at all were a clear minority.)

The central role and importance of the trade union movement was acknowledged, although heated debates took place between the ANC and Cosatu-supportive academics over the critical issue of whether organised labour had complementary but distinct interests to those of the ANC, or whether they were inseparable.

Clearly, the ANC was concerned that any independent "workerist" position might reduce its control of the liberation struggle and its objective of securing a broad front against apartheid. I came away from the trade union debate with a strong impression that many strategic political questions remained unresolved and that the relationship between the ANC and Cosatu appears to be one of cohabitation.

The stronger organised labour becomes, the more difficult this cohabitation will be. Its uneasiness was clear as the important issue of economic sanctions was left undebated. Clearly, mandatory sanctions are unlikely to be in the economic interests of workers. To what extent are workers prepared to endure economic deprivation so as to secure political objectives? This question was raised, but not fully discussed.

A thought-provoking session on the limits to redistribution of wealth was tempered by the sombre fact that the economy would need to grow by at least 5% a year to finance redistributive growth. (The term reconstruction was favoured by those who emphasised the production component in welfarist economics.) Required growth rates would be extremely difficult to attain under any economic system — particularly one hostile to capitalism.

While some attributed the decline in SA's economic growth to the skills shortage, rapid population growth and the world economic slump, others emphasised the burdensome cost of apartheid and the high military expenditure. Some redistributive growth could be possible, they argued, by redirecting capital away from military and other capital intensive expenditures.

It was also argued that SA's stagnant economy was attributable to the relatively low demand for consumer goods and by our

continued dependence on the export of primary commodities. The latter characteristic distinguished SA from other newly industrialised countries such as South Korea and Brazil. Finally, many speakers identified the monopolisation of the South African economy as itself a factor retarding growth.

The conference debated at length the need for land redistribution in post-apartheid SA. The debate was prompted in part by a paper which suggested that as the homeland population was already highly dependent on migrant and non-agricultural earnings, it could be regarded as functionally urbanised. As a consequence, the majority of homeland people are likely to give preference to strengthening their ties with metropolitan areas, rather than remaining on the land.

The issue of whether the white farming sector should be restructured on a more equitable — and efficient — basis to relieve black unemployment and satisfy political aspirations was less contentious, with clear support for this stance. The mechanics of redistribution were, however, not discussed.

As the conference drew to a close, it became clear that more questions were being raised than were being answered. Given that a "liberated" SA remains years away, the question to be posed is: what actions should be taken in the interim to facilitate the demise of apartheid? In particular, what new institutions will be required and how can the existing ones be restructured? A great deal of research into these and other questions is called for.

Politics should be concerned with the art of the possible and in this regard there was a clear message from the ANC that a mixed economy will prevail in post-apartheid SA in the short term at least. While there will be a continuing struggle for Socialism, it is debatable whether this will materialise, given SA's dependent status within the world Capitalist economy.

At the end, I shared the feeling articulated by other commentators: that the interests of Capitalism and the present mixed economy can be best served by striking a deal with the ANC today. The option may not exist tomorrow.

Economic blueprint for talks with PW

49

A HIGH-POWERED sub-committee of the Economic Advisory Council (EAC) has made far-reaching economic recommendations which will form the blueprint for President P W Botha's discussions with business leaders on November 7.

The sub-committee, chaired by Sasol MD Joe Stegmann, consisted of Barlow's Warren Clewlow, Sanlam's Fred du Plessis, Reserve Bank Governor Gerhard de Kock, Anglo American's Julian Ogilvy-Thompson, Development Bank Chairman Simon Brand and the IDC's Marius de Waal.

Their recommendations are being studied by the EAC before being forwarded to the Cabinet.

The report, which will be made public at the November 7 meeting, covers a wide range of economic matters, including:

The necessity of labour mobility, in-

GERALD PROSALENDIS
Economics Editor

cluding adjustment to or even the possible scrapping of the Group Areas Act;

Government's policy of "inward industrialisation" and acceptance of the inevitability of urbanisation;

The need for equal economic opportunity;

Home ownership for blacks;

Government's policy on labour, including plans for training more skilled workers;

Government's export policy;

Avenues for rural development;

Longer-term fiscal policy and the broader financial policy of government;

The need to redistribute wealth and methods of achieving this aim.

It is understood that a central debate on the document was whether wealth should merely be redistributed, or whether more wealth should be created with equal access guaranteed for all.

SA was poised to pull out of recession, Trade and Industry Minister Dawie de Villiers told the Witbank Chamber of Commerce yesterday.

Despite sanctions, there was a new mood of optimism about the economy, which had not looked in better shape since the debt standstill a year ago.

Leading economic indicators were showing a revival. Positive real growth in three of the four last calendar quarters confirmed that a low point in aggregate real economic activity had been reached in the second quarter of 1985.

An upswing in retail sales since the middle of June had been noted over a wide range of goods.

Overall sales volumes were already up by 30% in the third quarter of the year, compared with the same period last year. In July, manufacturing volumes had reached the highest monthly level for nine months.

Additional revenue from an improved gold price, De Villiers said, would help cover the shortfall resulting from the investment and loan embargo.

The firmer rand had brought relief to

De Villiers sees end to recession

17/10/86
GERALD REILLY

importers, but some dismay to exporters, especially marginal ones. On the JSE, shares had soared to new heights, interest rates kept falling and mortgage rates were set to decline further.

This would put more money into the pockets of individuals. De Villiers said it was false to believe sanctions would help bring solutions to SA'S complicated problems. They would be counter-productive, he said.

SA's trade policy was based on opening doors and strengthening international ties.

De Villiers said restrictions on physical and occupational mobility had been removed, as well as on the bargaining power of labour. "We are also committed to privatisation and deregulation on a growing scale," he said.

customers wanted.

Wolke Argus 8/10/86

Huge debts 80 000 summonses each month

Weekend Argus Correspondent

JOHANNESBURG. — Nearly 80 000 civil summonses for debt are being issued every month in South Africa as people sink deeper into debt.

And debts are becoming disturbingly larger, says Mr Paul Edwards, marketing manager of Dun and Bradstreet, South Africa.

Insolvencies have gone up from an average of 100 a month in 1983 to 354 this year and civil debt judgments for individuals and businesses from a 1982 monthly average of 26 666 to 38 898 now.

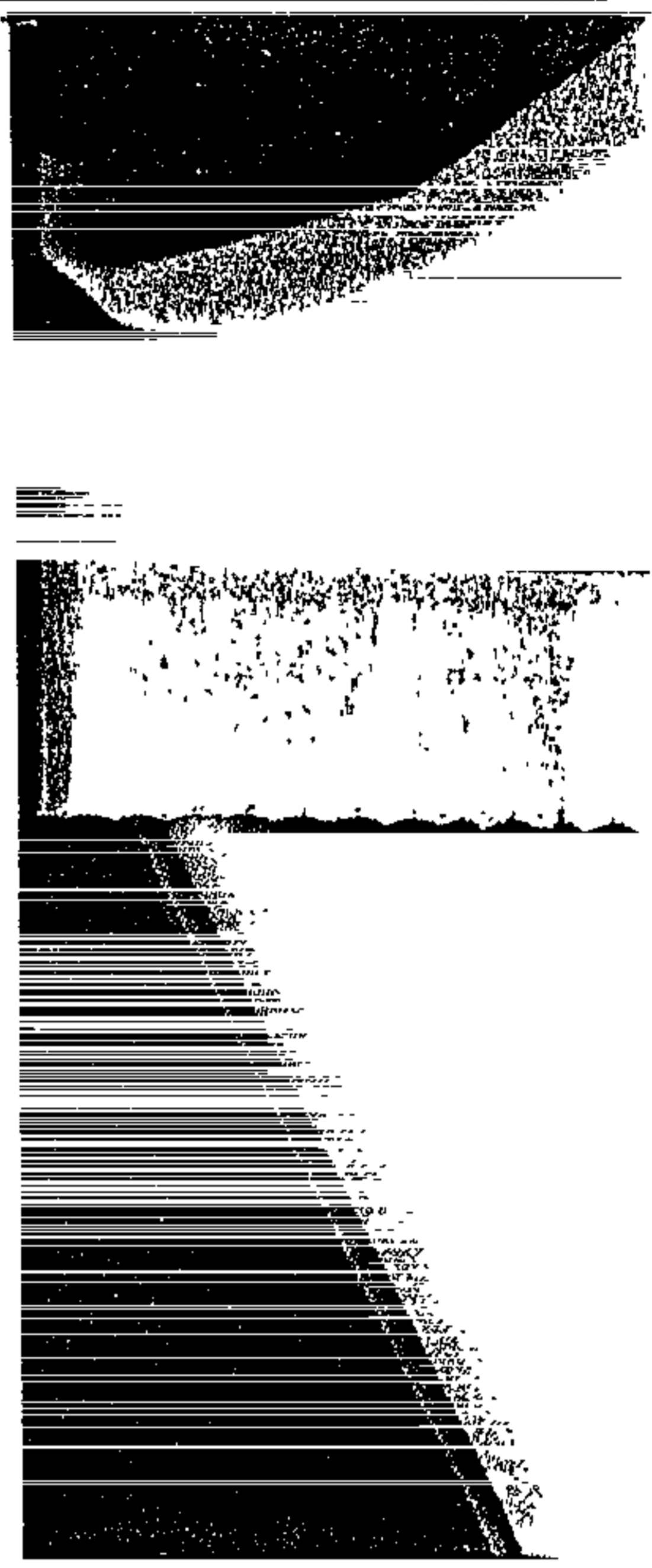
The amount involved has risen from R13,5-million in 1982 to R77,5-million. Civil summonses for debt rose from 59 917 a month in 1982 to 78 976.

Mr Ashraf Gatee, manager of Advanced Credit Bureau, said his company had noted an increase of at least 25 percent in fraudulent cheques.

eg C
eg C
eg C
eg C
for
kets
h)
21,3)
10,3)
eg C
7) %
9) %
3) %
016,2
mm
the
mm)
(8,9)
S (S)
E 6,1
m a
ation



...and teaching in



Bloom will miss PW 'summit'

49

SMK
18/10/85

By Colleen Ryan,
Political Reporter

At least one top businessman will not be attending the November 7 economic summit between the Government and business leaders.

Premier group chairman Mr Tony Bloom, who will be overseas at the time, questioned "whether these mega-summits accomplish anything".

"You don't get the time to express your views adequately with the limited time available," Mr Bloom said.

"If you really want to get through to the State President, it is better to do so in a small group — in a private atmosphere," he added.

Mr Bloom stressed that his overseas trip had been organised well in advance of the announcement by the State President, Mr P W Botha, of next month's meeting to map out the country's economic strategy.

This week industrial relations expert Professor Blackie Swart said trade unions were likely to expect the business community to live up its liberal image and insist on political concessions from the Government before attending the meeting.

Anglo American chief Mr Gavin Relly declined to be interviewed on this issue.

A statement released by his public relations division said: "Anglo American will be represented at the conference and obviously is studying all the aspects very clearly. It would be discourteous and unconstructive to discuss issues in advance."



ZIMBABWE Prime Minister, Mr Robert Mugabe meets US Secretary of State, Chester Crocker, whose policy of constructive engagement is starting to crumble.

THE imposition of sanctions against South Africa comes at a time when the country is faced with the double-trouble of a high inflation rate, as well as a high unemployment level.

Now that the US has taken the sanctions lead it may be that the tide will come even faster with more and more countries joining forces on this issue. The American Anti-apartheid Act of 1986 bans the importation to the US of South African uranium, coal, textiles, iron, steel, arms, ammunition, military vehicles, agricultural products and food. The Act also provides for a permanent ban on the importation of Krugerrands. The stopping of exportation of petroleum prod-

SA's economic prospects FOCUS under siege

By Barclays Bank
economist NK MIAMLA

ucts from the US to South Africa and the termination of South African Airways landing rights are also included in the ban. It is obvious that a substantial part of South African products will still enter the US market. Products or exports that are not provided in this Act include gold, platinum, ferro-alloy and diamonds amongst others. At this stage it is not possible to say how effectively these sanctions will be applied.

Besides sanctions,

though, South Africa's prime economic concerns are a high inflation rate coupled with high unemployment. Failure to participate in foreign

It will be necessary to continue importing certain goods for our manufacturing sector, whatever the price, to keep industries productive.

markets is likely to hamper the economic growth rate of our economy. Such foreign interference is likely to reduce South Africa's export earnings.

However, the relatively high price of gold should cushion the economy from these external shocks. The exclusion of gold, platinum and diamonds, amongst others, from the ban on SA exports, seems to have been intended to achieve just this.

Although it is generally agreed that sanctions are likely to affect the SA economy, it is not easy to speculate on the extent of the impact.

One of the short-term effects, though, is likely to be an increase in our inflation-rate as embargoed imports may have to be channelled through third countries. The reason for this being that many of the goods we produce in this country have a high level of foreign content.

The increased burden of the prices of these imports will, ultimately, have to be borne by the final consumers.

The siege effect that the economy is facing is likely to result in a stimulation of internal demand taking priority relative to attempts to contain inflation. Stimulating demand to sufficient levels would certainly provide the necessary boost to our languishing industries and raise the employment level. Boosting internal demand should not put added pressure on our inflation rate, because the utilisation of industrial capacity is far below its maximum. (Manufacturing sector is operating at present at only 80 percent capacity.)

The problem, however, is that even though the prime overdraft rate is below the inflation rate, people are still reluctant to go and borrow from the financial institutions.

In effect, consumers are apt to save as much as they possibly can, rather than spend. This may well be ascribed to the experiences of the past couple of years, where people and businesses lost out, because of very high interest rates. These experiences, together with perceptions of an unstable political environment, seems to be the core reason for a higher savings rate.

Contrary to what one would normally expect, it is not the interest to be earned that is the main impetus for saving, as the high inflation rate in fact wipes out this benefit. Increased savings are therefore a result of the cautious stance taken by the consumers in the face of uncertainties.

A further strain on the situation is that increases in salaries and wages have thus far trailed below the inflation rate. This means that people can afford less money to spend on non-essential goods.

Faced with this quagmire, sanctions on the one hand and the lack of confidence from consumers on the other, one may well wonder where the driving force for economic growth will come from.

Under such circumstances, our best bet would be to expect growth to originate from within the economy itself rather than from outside. However, this necessitates a change in the perception of consumers in terms of both the political and economic outlook, a situation which is not too easy to change in the very short term.



Political comment in this issue by J Latakgomo and A Klaaste. Sub-editing, headlines and posters by S Matlhaku. All of 61 Com-mando Road, Industria West, Johannesburg.

The reproduction or broadcast without permission of articles published in this newspaper on any current economic, political or religious topic, is forbidden and expressly reserved to The Argus Printing and Publishing Company Ltd under Section 12(7) of the Copyright Act 1978.

• Write to the Editor at PO Box 6663, Johannesburg 2000. Nom-de-plumes can be used, but full names and addresses should be supplied or the letter will not be published.

August expenditure R2,7-bn

Govt overspend close to 10%

GME Title 20/10/86
49

By MICK COLLINS

JOHANNESBURG. — Government spending continues unabated with August levels of overspend surging towards the 10%-mark.

Total expenditure for August amounted to R2,7 billion, which represents an increase against August 1985 of 9,8%.

For the first five months of this financial year (including August), total spending came to R15,8 billion, which represents an increase of 18,3% against the same period last year.

18,7% inflation

Economists expect total spending to be approximately 5% over the projected budget.

Figures released by the SA-German Chamber of Commerce and Industry show the inflation rate amounted to 18,7% on an annual comparison.

August food prices increased by 22,0% against the same period last year.

As far as different income groups are concerned, the lower income group showed an inflation rate of 19,1% for August, middle income group of 19,2% and the high income group of 18,3%.

The country's gold output is expected to rise to 712 tons in 1990. Analysts say that present production levels are

at the 660-ton level, giving an annual growth rate of 1,0%.

Other gold-producing countries showed a much higher growth rate, like the US (17,0%), Australia (21,0%), Chile (12,0%) and Canada (9,0%).

In August SA's gold output was 53 845 kg, compared with July, when 54 505 kg were produced.

At the end of August, SA's gold and foreign exchange reserves amounted to R4,555 billion and represented the highest since January of this year. Foreign currency had a share of R1,059 billion.

Mineral sales

Up to August, SA recorded a favourable trade balance amounting to R8,249 billion. This resulted from exports amounting to R26,6 billion and imports of R18,4 billion.

From January to April, the country's imports rose by 23,0% to R8,9 billion. Exports recorded for the same period came to R12,5 billion, which represents an increase of 14,8% in comparison with the same period last year.

Projected mineral sales for this year amount to R29 billion, which would represent an increase of 13,4% against 1985.

Exports are expected to account for 86,8% of total sales, which represents R25,1 billion.

Afcom seeks

State spending ⁴⁹ well over budget

BUDGET 20/10/86

GOVERNMENT spending continues unabated, with August levels of over-spend surging towards the 10% mark.

Total expenditure for August was R2,7bn, an increase of 9,8%, compared with August 1985.

For the first five months of this financial year (including August), total spending was R15,8bn, representing an increase of 18,3% over the same period last year.

Economists expect total spending to be about 5% more than the projected budget.

Figures released by the SA-German Chamber of Commerce & Industry show the inflation rate was 18,7% on an annual comparison.

August food prices increased by 22%, against the same period last year.

Gold output is expected to rise to 712 tons in 1990. Analysts say current production levels are at the 660-ton level, giving an annual growth rate of 1%.

Other gold-producing countries show growth figures of: US (17%), Australia (21%), Chile (12%) and Canada (9%).

Gold output in August was 53 845kg, compared with July when 54 505kg were produced.

MICK COLLINS

Gold and foreign exchange reserves at the end of August were R4,555bn and represented the highest since January this year.

Foreign currency had a share of R1,059bn.

SA recorded a favourable trade balance up to August, amounting to R8,249bn. This resulted from exports of R26,6bn and imports of R18,4bn.

From January to April, imports rose by 23% to R8,9bn.

Exports recorded for the same period came to R12,5bn, an increase of 14,8%, compared with the same period last year.

Projected mineral sales for this year amount to R29bn, which would represent an increase of 13,4% over those of 1985.

Exports are expected to account for 86,8% (R25,1bn) of total sales.

The value of hire-purchase lease agreements was R15,2bn in the quarter to end-June 1986 — R1bn less than the amount spent in the same period last year.

Warning sounded ^{21/10/86} ⁴⁹ SM about growth outlook

By Sven Lünsche

Growth in economic activity until the end of this year and into 1987 has been forecast by a number of financial institutions.

But they warn that the growth potential could be undermined by the continuing decline in domestic expenditure, increasing unemployment and the high inflation rate.

Unemployment is regarded as the most serious threat and while a Gross Domestic Product of 1,5 percent is expected by the end of the year, it is estimated that a growth of 4,5 percent a year is required to accommodate new job seekers alone.

Sanlam's Economic Survey, one of a cluster of economic reports released this week, says: "It is especially worrying that even in times of a relatively strong economic revival not nearly enough job opportunities could be created to bring about a significant reduction in the growing number of unemployed persons — employment has actually decreased by approximately 45 000 in the past four years."

Most of these economic reports agree that the recent upsurge in the price of precious metals had helped the country's economy out of the recent depression, but they also provide an incisive overview of the contradictions in the country's long-term economic prospects.

Sanlam, in particular, is fairly bullish about the prospects of a long-term recovery.

It says the higher gold price, the quieter conditions in the black townships, the stronger rand and the continued firm trend of share prices on the JSE have undoubtedly contributed to the improvement in business sentiment now being observed.

Liberty Life, however, warns that the recent boom in precious metal prices and the bull run on the JSE cannot hide the disappointing GDP growth of below two percent this year.

"While GDP might reach as much as three percent next year, we still consider this as being far from satisfactory given the very low growth rates attained since 1981 and it is unlikely to impact on the country's massive unemployment problem — particularly against the background of the high pop-

ulation growth," Liberty's Economic Review says.

Yesterday's massive one percentage point increase in the inflation rate to 19,7 percent also cautions against the premature euphoria surrounding the recent boom.

Most institutions predict that the average inflation rate in 1987 will be slightly lower than this year's estimated 18 to 18,5 percent, "but it is nonetheless disturbing that the economy should have to enter the present upswing with inflation running at almost 20 percent," Sanlam writes.

Barclays Bank and Volkskas also sound a warning about the continuing decline in both public and private expenditure.

"Apart from the political factors, the decline in real wages, the low personal savings rate, and the broad unwillingness for individuals and organisations to commit themselves to new financial obligations, have caused a continued decline in Gross Domestic Expenditure (GDE)," says Barclays.

According to Volkskas, the uncertain course of GDE, the sum total of all final expenditure on goods and services in the country, during 1986 could persist, especially in view of the weaker financial position of individuals.

"The remuneration of employees has deteriorated considerably in comparison with the first half of 1985 owing, amongst other things, to rising unemployment, but also to smaller salary adjustments and further rises in direct personal taxation," Volkskas writes.

The bank adds: "These factors have reduced the current income of individuals to such an extent that the first six months of this year saw personal disposable income rising by a mere 8,2 percent, compared to 14,7 percent in 1985."

Barclays, on the other hand, highlights the ongoing decline in real business expenditure as one of the major reasons for the decline in GDE.

"Both fixed investment spending and working capital requirements continue to contract. This is as much a reflection of excessive capacity under utilisation and slow consumer spending as it reflects a wish to reduce exposure to the banking system out of fear of a future interest rate cycle."

Govt spending rises moderately ^{21/10/85} (29)

Economics Reporter

GOVERNMENT spending rose moderately in September, settling into a trend that could bring it within Finance Minister Barend du Plessis' budget target by year-end.

Revenue collections, however, rose just 6,6% in September from a year ago

to R2,86bn. For the first six months, revenue totalled R15,7bn, up 11,2% from the 1985 period.

The continued slow growth in spending could signal that although spending has stabilised, government could be left with a sizeable deficit next March. The deficit

● To Page 2 →

Moderate rise recorded in govt spending

before financing at September 30 was R3,34bn.

Government has already made R5,1bn of new borrowings, from R5,5bn budgeted for the year. But it also holds cash reserves of R1,45bn, which should ease new borrowing requirements for the rest of the year.

Spending issues for September totalled R3,28bn, up 22% from September last year. For the first six months of the fiscal year, issues rose 18,9% to R19,05bn. The revised budget calls for a total spending increase of 15,8% over 1985.

The six-month figure was just under half of the R38,2bn budgeted for the year ending next March 31 — indicating government could meet budget if spending

^{21/10/85} ● From Page 1 (44)

continues at current levels.

Government officials previously said they expected spending for the year to exceed budget by 3%. Independent economists contend the excess will probably be closer to 5%.

In September, the largest year-on-year increase for any department was recorded by the House of Assembly, which was issued R340,2m — from R151,4m a year before. For the year to date, House of Assembly issues totalled R2,54bn, 56% of the annual budget.

Issues to Constitutional Development and Planning sank to R348,9m from R459,4m in September 1985.

Inflation, unemployment could hamper SA economy's growth rate, experts warn

From SVEN LÜNSCHE

JOHANNESBURG. — Growth in economic activity until the end of this year and into 1987 has been forecast by a number of financial institutions.

But they warn that the growth potential could be undermined by the continuing decline in domestic expenditure, increasing unemployment and the high inflation rate.

Unemployment is regarded as the most serious threat and while a Gross Domestic Product of 1,5 percent is expected by the end of the year, it is estimated that a growth of 4,5 percent a year is required to accommodate new job seekers alone.

FAIRLY BULLISH

Sanlam's Economic Survey, one of a cluster of economic reports released this week, says: "It is especially worrying that even in times of a relatively strong economic revival not nearly enough job opportunities could be created to bring about a significant reduction in the growing number of unemployed persons — employment has actually decreased by approximately 45 000 in the past four years."

Most of these economic reports agree that the recent upsurge in the price of precious metals had helped the country's economy out of the recent depression, but they also provide an incisive overview of the contradictions in the country's long-term economic

Sanlam, in particular, is fairly bullish about the prospects of a long-term recovery.

It says the higher gold price, the quieter conditions in the black townships, the stronger rand and the continued firm trend of share prices on the Johannesburg Stock Exchange have undoubtedly contributed to the improvement in business sentiment now being observed.

Liberty Life, however, warns that the recent boom in precious metal prices and the bull run on the JSE cannot hide the disappointing GDP growth of below 2 percent this year.

"While GDP might reach as much as 3 percent next year, we still consider this as being far from satisfactory given the very low growth rates attained since 1981 and it is unlikely to impact on the country's massive unemployment problem — particularly against the background of the high population growth," Liberty's Economic Review says.

Monday's massive one percentage point increase in the inflation rate to 19,7 percent also cautions against the premature euphoria surrounding the recent boom.

Most institutions predict that the average inflation rate in 1987 will be slightly lower than this year's estimated 18 to 18,5 percent, "but it is nonetheless disturbing that the economy should have to enter the present upswing with inflation running at almost 20 percent", Sanlam writes.

Barclays Bank and Volkskas also sound a warning about the continuing decline in both public and private expenditure.

"Apart from the political factors, the decline in real wages, the low personal savings rate,

and the broad unwillingness for individuals and organisations to commit themselves to new financial obligations, have caused a continued decline in Gross Domestic Expenditure (GDE)," says Barclays.

According to Volkskas, the uncertain course of GDE, the sum total of all final expenditure on goods and services in the country, during 1986 could persist, especially in view of the weaker financial position of individuals.

"The remuneration of employees has deteriorated considerably in comparison with the first half of 1985 owing, amongst other things, to rising unemployment, but also to smaller salary adjustments and further rises in direct personal taxation," Volkskas writes.

INTEREST RATES

The bank adds: "These factors have reduced the current income of individuals to such an extent that the first six months of this year saw personal disposable income rising by a mere 8,2 percent, compared to 14,7 percent in 1985."

Barclays, on the other hand, highlights the ongoing decline in real business expenditure as one of the major reasons for the decline in GDE.

"Both fixed investment spending and working capital requirements continue to contract. This is as much a reflection of excessive capacity under utilisation and slow consumer spending as it reflects a wish to reduce exposure to the banking system out of fear of a future interest rate cycle."

Outlook is improving — Du Plessis

Bankcor boss sounds an optimistic note

WITH the economy entering a new consolidation phase from which economic expansion could emerge, the outlook is improving, says Bankcor chairman Fred du Plessis in his annual statement.

Stimulation of the economy is needed, but it can produce positive results only if the package includes supply side measures, such as tax reductions, supported by steps to stabilise the rand exchange rate, and with monetary policy encouraging lower interest rates.

Growth has been inhibited by falling real fixed investment expenditure and "leakages" through the balance of payments.

Economic stimulation through higher government expenditure would aggravate balance of payment "leakages" because rising imports would depress the reserves, affecting

HAROLD FRIDJHON

domestic liquidity and putting pressure on interest rates. This in turn would lead to a depreciating rand exchange value.

Du Plessis advances the view that to reduce the "leakage" effect the most important factor would be exchange-rate stability, backed by "a well-structured and effective" anti-inflation policy.

With escalating trade sanctions, protectionist measures have become inevitable to prevent outflows from current account developing as a result of trade deficits. Sanctions would result in a less open economy.

He urges that interest rates should be encouraged to decline more rapidly, arguing that present levels of rates cannot be measured against those enforced in 1984 and 1985 "which were too high".

High interest rates affected the liquidity position of many companies, particularly those needing loan capital. They also destroyed employment opportunities and did not curtail excessive consumption expenditure.

Lower rates would relieve pressure on company cash flows, helping to maintain productive capacity and employment. They would also help to restore business confidence which had been shattered by the exceptionally high rates of 1984 and 1985.

A lower rates structure would not have an adverse influence on the value of the commercial rand.

Finally, Du Plessis makes a point in Bankcor's self-interest: "Lower rates could be an important positive factor supporting the financial sector in the adjustment process of balance sheet re-structuring to meet new legal capital requirements."



Shadow cast over chances of sustained upswing

CHRIS CAIRNCROSS
and ALAN SENDZUL

DOUBTS over the extent of the economic revival and whether it is sustainable are being voiced by insurance giant Sanlam.

In its latest monthly economic survey, it says its concern stems from the following:

- Prices of goods and services are still rising at an appreciably faster rate than salaries and wages;
- The public is apparently still reluctant to incur additional debt;
- Businesses are extremely careful as regards stockpiling; and
- There are no signs of a revival in private-sector fixed investment.

Against this background, Sanlam expects a moderate and gradual improvement in business conditions only some time during 1987, mainly when the favourable effects of an expected higher gold price become more evident and government's fiscal action begins to exert a more expansionary influence on the economy.

Meanwhile, Volkskas says in its latest *Economic Spotlight* that improved prospects for economic growth are being shadowed by doubts of a sustained upswing.

"Provisional indications for the third quarter this year show that GDP could rise again after falling in the previous quarter. The question is, if domestic demand does increase, how much will it rise by, and will the rise be tentative?" Volkskas says.

"The chances for an increase in real gross domestic fixed investment are not rosy. Under-utilisation of productive capacity in the majority of sectors and cutbacks by general government and public corporations diminish improvements within the next 18 months", the bank adds.

Govt slams report on economy

see post 23/10/88



JOHANNESBURG — The Government today slammed as dangerous and naive a scathing report on the South African economy, purportedly drawn up by the US Commerce Department in the Johannesburg US Consulate.

The Deputy Minister of Finance, Mr Kent Durr, said the report by the US Foreign Commercial Service (Johannesburg) was laced with half-truths and falsehoods.

The document said South Africa was close to becoming just another African state — a chronic debtor, import-starved, riddled with ethnic differences and run by a repressive regime, unable to manage its domestic constituency, whose only leverage was its ability to manipulate foreign governments.

The US Consulate confirmed today that the report had been prepared "as stated in the Press". But it stressed that the document was intended only for internal use and not for public distribution. It said it was now having to produce copies of the report to satisfy the great demand for it from various quarters.

Mr Durr said South Africa had a siege economy because of US Government actions.

The US Government had created this situation by blackmailing its own coun-

try's companies, applying sanctions and helping to exclude South Africa from international forums.

South Africa was not a chronic debtor nation, he commented, but owed its debtor status to the actions being taken against it.

The country was import starved because it was obliged to maintain a positive balance of payments in order to repay debts, the Minister said.

Mr Durr said it was nonsense to claim South Africa could manipulate foreign governments. If that were true South Africa would not have a siege economy.

The Progressive Federal Party spokesman on Finance, Mr Harry Schwartz, expressed surprise that the US consulate put out such a report in such emotional language.

He wondered if it was reported out of context because, he said, information from the consulate was usually reasonably accurate and objective.

In this context, the consulate said today that the first Press reports on their document were "substantially correct and accurate, but clearly selective". Mr Schwartz noted: "This is not a diplomatic report. It is couched in exaggerated language and it is not a correct assessment." — Sapa

**'Made
in SA'
could ^{1100 us} _{23/10/80}
save ~~250~~
R4 000m**

The Argus
Correspondent

JOHANNESBURG. —
Studies by the Industrial
Development Corpora-
tion have shown that at
least R4 000-million
worth of products im-
ported every year from
abroad could be made
by local producers.

Initial results indicate
that local industries
should be able to manu-
facture nearly 25 per-
cent of all current im-
ports by better use of
their own production
and labour resources.

THREATS

Normal IDC studies
into longer-term invest-
ment patterns have been
accelerated by growing
international threats of
sanctions and increasing
need to protect the bal-
ance of payments from
the repercussions of the
weakened rand.

The State-run IDC
now plans to seek the
co-operation of the pri-
vate sector and the
Board of Trade in work-
ing out details of a bold
new import substitution
programme.

Among the industrial
sectors that have been
identified as having the
potential to reduce de-
pendence on imports
and save millions of
rands in foreign ex-
change are:

Machinery and equip-
ment (R800-m), electri-
cal (R570-m), chemicals
(R450-m), office equip-
ment (R450-m), radio
and TV, (R370-m), paper
products (R290-m), tex-
tiles and clothing (R250-
m), automotive vehicles
(R175-m), basic iron and
steel (R170-m), mining
products (R155-m), met-
al products (R140-m),
rubber products (R 90-
m).

BUSINESS

Stals: growth priority

JOHANNESBURG — A faster growth rate for the economy is now "of prime importance" to Pretoria's top policy-makers. This was the key message from Dr Chris Stals, Director General of Finance, to the annual congress of the Associated Chambers of Commerce (Assocom) in Johannesburg.

Dr Stals said that with stable economic conditions in the major industrial countries, with their steady growth rate and with a continued demand for the commodities and minerals produced by South Africa it would be "easier for us to pursue the objective of a higher economic growth rate."

However, as during the past year, developments within the country would have a major influence on the economy.

Dr Stals said that during the past year, the growth objective was

obscured by "domestic developments of a non-economic nature, and by the need for adjustments in the balance of payments to cope with the international debt problem."

The dependence of the developing countries on sustained demand from the industrial countries for their exports was again clearly illustrated, said Dr Stals.

The slowdown in growth in the industrial world led to a sharp decline in the growth of world trade and virtual stagnation in developing countries' exports.

The prices of non-oil primary commodities fell steeply, also reflecting the relative weakness of activity in the industrial countries.

"The economic problem for the developing countries was further exacerbated by an increasing protectionism in many of the markets of the major industrial

countries."

Because of the deterioration in the international environment, said Dr Stals, output growth in the developing countries slackened appreciably in 1985.

"For the group as a whole, aggregate output rose by only 3,25 per cent, down from 4,25 per cent in 1984.

"For the African countries as a whole, output growth remained very sluggish, with real gross domestic product (GDP) increasing by only 2 per cent in 1985.

"This low growth was substantially affected by a decline in output in the two major economies of the continent: Nigeria and South Africa.

"In the sub-Saharan region, excluding South Africa, the concentrated efforts of support by the industrial countries and the international institutions began to show some very modest re-

Assocom congress

sults as the rate of expansion increased from 2,25 per cent in 1984 to 2,50 per cent last year."

The average real rate of growth in the industrial countries slowed significantly last year, although it still remained at a relatively high level.

The overall real GNP for these countries rose by 3 per cent compared to 4,7 per cent in 1984.

"The slowdown was mainly attributable to US growth, where GNP rose by only 2,7 per cent compared to 6,5 per cent the year before.

"In nominal effective terms, the US dollar depreciated by 20 per cent in the year to end-April 1986, while the Japanese yen appreciated by 27

per cent, and the Deutsche mark by 10 per cent.

In terms of the narrow definition (M1) the money supply in the seven major industrialised countries climbed by 10 per cent which was 2,50 per cent faster than in 1984.

The growth of broad money supply also accelerated, from 7,9 per cent to 9,0 per cent on a year-to-year basis.

International interest rates came down to their lowest level in eight years. The decline in short-term rates was "particularly significant" in the US.

"In summary, monetary conditions in the industrial countries eased significantly in 1985 and early in 1986, reflecting a combination of lower inflation, the cyclical slowdown in growth in the US and increasing confidence of market participants that the US federal deficit would be curtailed." — Sapa.

49

24/10/86
On a sticky wicket

Government finances for the first six months of the fiscal year, to the end of September, show hiccups and a number of worrying features. Revenues, after rising 13% on a year ago for the first five months, rose only 11,23% in the first six months, and only 6,6% on a September-to-September basis.

Expenditure, on the other hand, increased 19% for the six months, but by 22% for September.

The *Government Gazette* reflects the latest Budget estimate for expenditure (distorted by a number of extra-budgetary events) at R38,2 billion. Against expected revenues of R33,6 billion this suggests a deficit before financing of R4,4 billion. But, influenced by a number of "off-balance sheet" revenue items (*FM* October 17), the deficit should reduce to R3,5 billion for the year, in line

with estimates.

Inland Revenue's take increased only 8,3% for the first six months of the year against a year ago. But Customs & Excise rose a remarkable 60%.

In a perfect situation each classification of expenditure should draw 50% of its estimates in the first six months of the fiscal year. Of the larger budget headings, constitutional development and planning has drawn 53% of its annual estimate; police 59%; defence 53%; administration house of assembly 56%; finance 51%; commission for the administration 103%, and improvement of conditions of service, zero.

The spending increase of 19% for the first six months exceeds the revised, annual spending estimate by exactly 3,15%. Will the eventual outcome for this fiscal year match the record budget overruns of the past two years?

In 1985-1986 spending turned out at 21,2% over budget against an estimated 14%; in 1984-1985 spending was 21,8% against an estimated 11,4%. On the other hand, Pretoria has succeeded in reducing spending as a percentage of GNP — albeit from a high base.

Spending was posted at 25% of GNP in 1980 and 30% in 1985, and is set at 28% of GNP for 1986. With GNP in real terms largely static in recent years, even this decrease in spending measured against GNP has been accompanied by increased tax rates, propped by unacceptable inflation rates. And finance is now the largest single item on the government expenditure list: R6 billion this fiscal year, although this is a little misleading as it includes large sums actually spent in other areas. ■

Amcoal MD Dave Rankin says the mine was coming to the end of its economic life — production in the 1986 financial year fell by 33,1% from 1,23 Mt to 822 000 t. But most of the 642 employees should be relocated, as part of group policy.

Similarly, output at the Cornelia colliery has dropped by 32%, from 2,8 Mt to 1,9 Mt last year, after the closure of the Klip power station. Cornelia also has a limited working life.

On the other hand, Coalbrook colliery still

has considerable reserves, according to a Gold Fields spokesman, and new markets for the coal are being sought.

At this stage, he says, the company has ruled out retrenchment of the 800-strong labour force

VIV BARTLETT

Pointers to growth

FIN MAIL 24/10/86 (49)

IN MY
OPINION



Viv Bartlett, is MD of Barclays National Industrial Bank Limited (Barnib). He sees positive signs for the South African economy, but the innovative marketer is likely to lead the way.

The level of confidence in the South African economy has perked up markedly in recent months.

One sure barometer of general business confidence is the level of activity in the corporate instalment credit industry. Increasing requests for industrial finance imply optimism for the medium-term business outlook, as this market has traditionally serviced the bulk of corporate financing needs for plant, machinery, office equipment and fleet vehicles.

For the first time in two years we are seeing a notable surge in demand for instalment credit for capital assets. Barnib's leasing division has experienced a significant increase in activity since June and new business volumes in September set a record, well exceeding levels in both 1984 and 1985.

However, industry figures are not yet available and it is too soon to say whether the trends we are experiencing are representative of the industry as a whole.

Demand is especially strong for finance for computer hardware and systems and related hi-tech office products, vehicles, irrigation units and aircraft.

Sanctions moves appear to be playing a decisive role in demand for computers, but technological trends generally, and the propensity to displace labour wherever possible, are also probable major incentives.

The fringe benefits tax and uncertainty in the car fleet industry caused operators to keep vehicles longer. The fact that cars now have to be replaced for operating economy and the recent pegging of the phase-in of fringe benefits tax has precipitated a surge in demand for vehicle finance.

The devastating effects of the drought have caused the surge in sales of centre-pivot and wheel-move irrigation units, especially in south-western Free State, western Transvaal and parts of the northern Transvaal.

The demand for finance for manufacturing plant and machinery is, however, not demonstrating favourable trends. There are several reasons for this, but before identify-

ing them I would like to return to the question of business confidence.

The increase has been primarily in evidence in consumer-related fields of activity — retailers, manufacturers and consumer non-durables, packaging, printing and related areas. Some rebound was probably inevitable because stock levels had become uncomfortably low. However, the most important reasons for the general easing of anxiety are probably the significant increase in the gold price to above \$400 and the perceived reduction in levels of unrest.

There's an attitude which seems determined to "talk up" the economy, while choosing not to analyse too carefully the downside potential of unresolved political issues and the imposition of sanctions.

Be that as it may, the actual level of commitment in the economy remains low and business spending on fixed investment and stocks continues to decline in real terms, while the consumer is taking time to decide whether to replace ageing durable goods.

There are good reasons for this. Capacity utilisation in general is relatively low, with certain sectors operating at below 50%, and the consumer accumulated so many durable goods during the 1979-1984 boom he does not yet feel a pressing need to replace.

The implication is that in many instances there is little need for major capital expenditure for the next three to four years. Major industries such as steel, cement, motor manufacturing, sugar and timber, in which there has been considerable growth in the past, have all made their required capex in new plant and are unlikely to be investing further in the near future.

Indeed, the withdrawal of the section 12 incentive taxation allowances, which were so vital to many corporate expansion projects, was foreseen a few years ago. This precipitated a surge of fixed investment which advanced capacity well ahead of expected normal demand, never mind the depressed activity of the past two years.

On balance, therefore, we're experiencing sectors of genuine activity and growth in the demand for certain assets. This is by no means apparent across the board. However, it indicates that there need not be undue pessimism and negativity in the business sector, nor should there be unsubstantiated euphoria precipitated by the "we stand alone" syndrome.

The challenge for the business community is to seek those areas of sustainable activity

and growth, and apply their inherently positive attitudes to opportunities capable of contributing to sound economic growth in this country.

Client relationships indicate that the recent experience of very high interest rates and the resultant need for much tighter financial discipline, coupled with the need for more careful segmentation of products and markets has caused a leaner, more competitive breed to emerge within certain companies.

This augurs well for the continued development of the much-debated "free market system" which, I am convinced, holds the key to the long-term prosperity of SA.

In a way, the present time provides the classic opportunity for the imaginative and innovative marketer. If he can come up with an appealing message, he may succeed in enticing consumers to buy his product. Product appeal, packaging and pricing, will, therefore, be decisive.

The same principles will apply to the suppliers of goods to the corporate sector. An example of the successful application of taking a fully-packaged corporate product direct to the appropriate market segment is the concept of joint finance companies (or vendor leasing, as it is known overseas).

Barnib has relationships with suppliers serving a wide range of industries from earthmoving equipment to computers and we have seen rapid growth recently with record new business volumes in September.

The capability of our industrial partners to offer finance facilities simultaneously with sales presentations offers a competitive edge which can often tip the balance in their favour. The capability of the industrial supplier to call upon the expertise of his banker partner means competitive deals can be structured with a minimum of delay to the benefit of both the supplier and purchaser.

In conclusion, I speak personally when I say I see many encouraging signs of substantive optimism in the present climate. The sustainability of this optimism is in delicate balance and will depend on many factors beyond the immediate control of the business community.

However, a positive attitude towards the innovation required of all businesses to meet the challenge of tomorrow is the starting point, and, if what I am perceiving in our business activity reflects a new positivism in business generally, then the business community is at least on the right track.

FINAL
Business impatient

This week's annual Associated Chambers of Commerce (Assocom) congress promised to be an important curtain-raiser ahead of the meeting between the State President and businessmen on November 7.

Key speakers at the congress were Denis Worrall, South African Ambassador to the UK, who gave the opening address; Chris Stals, Director General Finance, on the world economy and SA; Chris van Wyk, MD of Trust Bank, on the economic outlook for SA; and J N Reddy, Minister of Budgetary and Auxiliary Services, House of Delegates, on reform and the business community.

Probably the major message to emerge from the congress will be of the impatience

on the part of the business community over the slow pace of reform.

Says Rocky Ridgway, president of Assocom: "The private sector has a valuable role in promoting a climate of opinion within which real positive negotiation between black and white political leadership becomes possible at the national level."

But he warns that the opportunity to build a new SA is now, not later: "The growth and prosperity of that future SA will depend on the survival of free enterprise that is the surest vehicle to provide prosperity."

Ridgway adds: "If the November 7 meeting results in a firm commitment to meet intensified sanctions with a flexible response; a further commitment to the existing process of deregulation and privatisation; and, most importantly, a statement on political reform, not only restating the commitment but clearly indicating the nature and the timing — if all this is achieved then it will deserve the title: Forward with Confidence." ■

In the year to March, new investment totalled R53,9 m, and more important, private investment exceeded public investment for the first time. Ciskei is still heavily reliant on SA for most of its public budget, estimated at R535 m for the 1986-1987 fiscal year.

Of expected revenues of R493 m, a total of R160 m is derived from the SA Customs Union Agreement; some R188 m is sourced to "budgetary assistance," payable by the South African fiscus for services previously run by SA — such as schools and hospitals; R118 m is sourced to Ciskei's own income; and R4 m is paid by SA in what amounts to an inflation adjustment, based on the amount of rands circulating in Ciskei.

Much of the budget finds its way to subsidising, in one way or another, the industrial explosion, and helps compensate for the

probable loss of taxes from the new tax system.

Despite recent rhetoric at high level between the Ciskei and Transkei governments, civil disobedience and unrest is minimal compared with, say, the eastern Cape. The economy thrives: during the most recent financial year, 40 new companies were registered.

According to official estimates, some 3 073 new jobs were created; a further 19 factories expanded operations, representing 2 671 new jobs. Of interest is that foreign investment has been made by companies in France, Italy, the US, Israel, Hong Kong, Taiwan and Argentina.

The main thrust of development has been the Ciskei Peoples' Development Bank (CPDB), which has invested R120 m in 141 projects. Industrial investment itself, howev-

er, has been dominated by non-Ciskei interests.

The CPDB has come some way from its launch in 1976, with four factories in Ciskei providing 1 100 jobs, to today's 141 factories and 26 537 jobs. Much of the population depends on agriculture, and the economy suffers from skills shortages at most levels.

Progress has not escaped the notice of Pretoria officials, who moved this year to tax earnings of South African residents from Ciskei institutions. The sum involved was minuscule for SA; the move was more a show of power.

But what really counts is that Ciskei be patient with its economic reform and stick to it. Any change in its radical tax system within the next six years could be an irreversible disaster.

□ See *Current Affairs*

IN MY
OPINION

DAVID REES

Illusions of the Budget deficit



David Rees is economic consultant to Mathison & Holidge.

49

Public discussion of fiscal policy is a distinctly seasonal phenomenon. It rises to a crescendo in March at the time of the Budget, then dies away.

So September and October provide time for quiet reflection.

Essentially, two issues are at stake. The first is the appropriate size of government expenditure, which most people think too high. I agree. Now for the second problem: how is government expenditure to be financed?

There are two sources of revenue: taxation and borrowing. The past two Budgets were structured around the objective of a very low borrowing requirement. The proclaimed target is a borrowing requirement of no more than 3% of GDP. The balance is made up by taxation. The Minister of Finance is generally applauded for this conservative policy; the 3% rule is believed to be anti-inflationary and does not put undue pressure on interest rates. Usually the minister is fairly successful in meeting his target.

In fact this policy is not conservative, as is commonly believed. In present economic circumstances it is *ultra-conservative*. And the 3% borrowing rule has peculiar consequences.

The budget deficit is the net addition to government debt. Consider a country (not unlike SA) with a GDP of R100 billion and government debt of R30 billion. Suppose the following year GDP grows 20% to R120

billion (this is *nominal* GDP, remember), and the Minister of Finance implements a 3% borrowing rule: $3\% \times 120 = R3,6$ billion. Then we have, in nominal terms, a total debt now of R33,6 billion.

But hold on. We don't know what proportion of this 20% was real growth and what proportion was inflation.

Suppose, for argument's sake, prices rose over this period by 18% (again, rather like SA). Then in *real* terms we have: $120 \times (100/118) = R101,7$ billion for real GDP, and $33,6 \times (100/118) = R28,5$ billion for debt. In real terms, then, debt has not increased at all. In fact it has fallen by $(30 - 28,5)$ or R1,5 billion. A *nominal* deficit has been miraculously transformed into a *real* surplus.

This is exactly what is happening in SA. Government domestic debt, both in real terms and as a proportion of GDP, is declining steadily. As long as we run a fairly high inflation rate and follow the 3% rule we shall be generating, in real terms, continuous surpluses. The Minister of Finance believes he is producing a small deficit each year. In fact, once the illusion of inflation is stripped away, he is producing a surplus and will continue to do so unless there is a dramatic fall in the inflation rate.

There is of course a little more to it than this. For one thing, one has to confront the problem of the interest burden of the debt. Increased borrowing would add to the interest burden which is already a large and growing item of expenditure. This interest burden is a legitimate matter for concern. It is, however, a temporary problem. As our budget surpluses eat away at debt they will also, over time, reduce the interest burden to insignificance. It is *real* not *nominal* interest rates that matter.

Another issue to bear in mind is that a good deal of government borrowing is funded

by government itself. The Public Investment Commissioners (PIC) are a major source of finance. It is arguable whether borrowing from the PIC should count as borrowing at all. It is more like an interdepartmental transfer, not relevant to the consolidated balance sheet.

Taking account of this, the borrowing requirement is less than 3% and the Budget surplus becomes even more obvious. All these issues complicate the problem but do not alter the essential point.

The practical consequences of this ultra-conservative budgetary policy are serious. Given the tiny borrowing requirement the balance of revenue has to be made up from very high taxation. It could with some truth be argued that present-day South Africans are being asked simultaneously to repay past borrowing, finance current expenditure and provide capital investment for the benefit of the next generation. That's a tough assignment, especially during a recession.

Nobody is suggesting that in some crazily irresponsible way we resort to massively increased borrowing as an alternative to taxation. What is needed however is a more sophisticated approach to budgetary policy. Keynesians might argue for a contracyclical budgetary policy. Monetarists might argue for a "neutral" fiscal policy. Our 3% rule achieves neither. In present circumstances it's strongly procyclical. There is a lot to be said for fiscal rules (preferably embedded in the constitution) as a basis for financial policy. Unfortunately we have chosen the wrong rule.

It is sometimes claimed that the recent recession has been the worst since the Thirties. It is at least worth pondering whether it is appropriate to run a Budget surplus in these difficult circumstances. It might even be suggested that this harsh fiscal regime has made its own contribution to the recession.

Economy picking up in spite of sanctions

W/KARBUS 25/10/86

49

By TOM HOOD, Financial Staff

THE economy, the rand and the country's reserves are all picking up in spite of sanctions, says the Governor of the Reserve Bank, Dr Gerhard de Kock.

"The evidence suggests that we are now in an upswing and that it appears to be gaining momentum," he told the President 100 Club in Cape Town yesterday.

However, the combination of sanctions and capital outflow would prevent the upswing gaining as much momentum as it otherwise would have done and would retard economic growth in the longer term.

"It would be a mistake to underestimate the adverse impact of sanctions and disinvestment on the economy," he said.

"South Africa will survive sanctions. Indeed, it has been doing so for some time."

It was ironic that the third quarter of 1986 — when both the European Community and the United States imposed sanctions — had turned out to be the best quarter for South Africa's domestic economy and balance of payments for some time.

"Windfall"

The windfall of a higher gold price could not have come at a better time," Dr de Kock added.

The country's domestic expenditure increased at an annual rate of about 20 percent in the third quarter after falling by 3,2 percent in the second quarter.

This big rise reflected a huge restocking by companies after a drawing-down of inventories in earlier quarters and a mild recovery in consumer spending.

More encouraging news, he said, was that the worst of the capital outflow appeared to be over and the Reserve Bank's gold and foreign exchange reserve increased from R3,6-billion at the end of June to R5-billion at the end of September.

The reserves continued to rise this month.

In spite of sanctions and disinvestment, South Africa has scope for a more vigorous economic upswing in the short-term.

De Kock: economic upswing underway

49
DD
25/10/86

JOHANNESBURG — An economic upswing was underway and would not be stopped by sanctions and disinvestment, although these could slow the acceleration in growth, the Governor of the Reserve Bank, Dr. Gerhard de Kock, said yesterday.

"There is no doubt that, despite sanctions and disinvestment, there is now scope for a more vigorous cyclical upswing in the short term and a higher average rate of growth in the medium and long term," he told members of the President 100 Club in Cape Town.



DR DE KOCK

"To ensure that this scope is fully exploited the authorities will not only continue applying an appropriate short-term monetary and fiscal strategy.

"They will also implement a long-term economic strategy dealing with such matters as inward industrialisation, export promotion, import substitution, manpower issues, rural development and the role of government in a market system in which private initiative and effective competition have an important role to play."

Dr De Kock said the country was now in the relatively early stages of a recovery.

It would not produce a national growth rate of more than about one per cent this year but would probably bring a growth rate of three per cent or more in 1987. Sapa

Friendly City needs casinos, duty-free port, says councillor

The Argus Bureau

PORT ELIZABETH. — A city councillor has come up with a novel way of getting the Friendly City back on its wobbly economic legs — by making it a duty-free port and establishing casinos.

Deputy mayor Mr Solly Rubin said a new type of thinking was needed if the stagnant Port Elizabeth economy was to be revitalised.

"I would like to see Port Elizabeth become a second Durban," he said.

"If the establishment of casinos will bring the type of hotel development we see in Sun City and Bisho, I don't see why we should not have them.

"After all, what is the difference between the one-arm bandits and the horse-racing industry which is gambling, purely and simply."

"ECONOMIC MIRACLES"

Mr Rubin also proposed that Port Elizabeth become a free-trade zone or duty-free port, similar to Eilat in Israel and to Hong Kong.

"Those two cities have become booming economic miracles because of their free-trade status. There are 444 such areas in the world. Why not Port Elizabeth?" he asked.

Mr Rubin said he had made this proposal to the Minister of Finance, Mr Barend du Plessis, at a recent meeting but had not yet had a reply.

The virtual demise of Port Elizabeth as a major manufacturing centre made the need for a new outlook particularly urgent.

However, Mr Rubin remained optimistic about the city's long-term prospects.

"We will survive, but we must realise our salvation is in our own hands and does not lie in crying to the Government for help."

SUN RHEE
26/10/80 (49)

Stals outlines State attack on spenders

EXCESSIVE Government spending and the State's growing share of the economic cake were again the focus of attack by many delegates at this week's Assocom conference in Johannesburg.

While indicating support in principle for motions condemning the Government's spending excesses, Director-General of Finance Chris Stals pointed out the need for a "flexible approach" to the issue.

He said that in spite of the Government's exceeding budgeted spending in the first few months of the fiscal year, many businessmen and the press had harangued the Treasury and Reserve Bank over delays in introducing stimulatory packages.

Education

Dr Stals said his chief concern was over unplanned or "unintended" expenditure overruns.

He said it was sometimes difficult to distinguish between so-called capital and current expenditure. For instance, spending on education and training,

By David Southey

although "current", could also be considered of a capital nature because it constituted an investment in human capital. South Africa needed to spend large amounts in this field.

Dr Stals drew attention to numerous committees and task forces set up to monitor current and capital expenditure of Government departments.

● The Crafford Task Force was monitoring current spending of various Government departments and would soon submit a report to Dr Stals. Its objective was to study and report on a third of Government departments every year, thus covering each department every three years.

● The Capital Projects Priority Committee, which assesses all capital spending on projects costing R20-million or more. It has not been particularly effective in the past, but is being restructured to give it more teeth. It will be in the State President's office.

● The above committee will be combined with the Capital Issues Committee and will approve projects on a cost-benefit basis.

● The Committee for Administration, which projects manpower needs and employment prospects.

● The Department of Finance is engaged in a three-year rationalisation programme, which includes restructuring the department and integrating such offices as Inland Revenue, Customs and Excise, the SA Mint and others. It is also working on a new strategic Budget procedure whereby Government departments will be told what expenditure is affordable and then be asked to fall in line.

Concern

The Auditor-General, Dr Joop de Loo, would conduct value-for-money auditing to determine ex post whether spending by Government departments could be justified.

Dr Stals said that if these committees were successful in reducing Government spending and its overall share of the economy the private sector would be responsible for taking up the slack.

Because of low confidence, however, he expressed concern over whether it would in fact be able to fill the gap left by the State.

Economic signals point to slump in SA growth

26/10/86 SUN TIMES

49

RESERVE Bank Governor Gerhard de Kock reports strong economic growth in recent months — but the outlook has suddenly turned gloomier.

After the generally more optimistic mood a month or so ago, many economists are jumping around like prawns on a hotplate, trying to unravel confusing economic signals.

Volkskas economist Adam Jacobs, for instance, has revised his growth forecast for 1987 to only 2%. Without a significant improvement in the external factors affecting the economy — gold price, balance of payments, foreign-debt repayment, sanctions and so on — he thinks the current consumer revival may fizzle out.

Enormous

Similar fears were expressed by Trust Bank managing director Chris Stals at this week's Assocom conference in Johannesburg.

Johannesburg Consolidated Investment economist Ronnie Bethlehem told Business Times: "The uncertainties affecting the economy are so enormous as to render growth forecasts a hazardous task."

"There is a danger of trying to push the economy

By David Southey

faster than it wants to recover. Confidence is still at a very low level which is borne out by the sharp falls this year in the rate of growth of commercial banks' lending."

He says banks' advances and discounts, measured year on year, have plummeted from a growth of 15% at the beginning of the year to barely 4% of late.

Dr Bethlehem says that if the economy is pushed any harder, it will aggravate inflation and could encourage an even faster capital flight.

In Volkskas's latest Economic Spotlight, Mr Jacobs draws attention to the plight of consumers. Average disposable income per capita of whites plunged by 22,5% between 1980 and 1986 and by 5,2% for blacks. The big drop for whites is partly accounted for by sharp increases in direct personal tax.

Commenting on the reported boom in retail sales, Mr Jacobs says: "Given the weaker financial position of individuals and the higher inflation rate, one can rightly ask where this purchasing power comes from. Unless there is an improvement in the real personal disposable income of individuals, the apparently improved turnover volumes will not be maintained for very long."

Mr Jacobs worries that stimulation of domestic demand will send the import bill soaring. As things stand, the surplus on the current account of the balance of payments is virtually eliminated by the outflow of capital.

Job race

A more upbeat economic note, though, is sounded by Southern Life economist Mike Daly. He expects real economic growth of 2% this year and 3% — 4% next year. He says: "Wage and salary increases in the mining sector will again be in excess of 20% (and there will be) pressure exerted on the Government to raise public sector remuneration sharply."

He warns, however, that 1986 "will be another year in which South Africa falls behind in the race to provide enough jobs for the annual swelling in its labour force ... the warranted growth rate of 5% per annum is fast fading from the realm of possibility in the 1980s".

The Liberty group's Economic Review for September says: "Growth in 1987 will surpass that of 1986 and may reach as much as 3%. We still consider this as being far from satisfactory given the very low growth rates attained since 1981 and it is unlikely to impact on unemployment."

State overspending puts brakes on SA's growth

SOUTH Africa's economic policymakers are slipping into an ever-deepening dilemma.

Although there appears little hope of a breakthrough on the political level — which would do wonders for confidence — Church Square's boffins realise they must do everything in their power to sustain the fledgling recovery.

Already economists are warning that if the sanctions net widens, it could seriously erode foreign-currency earnings and impede efforts to stimulate the economy.

The problem, says economist Leon Steenkamp of stockbrokers Senekal, Mouton and Kitshoff, is that by turning a blind eye to the Government's spending excesses in the short term, SA is squandering future economic growth.

Consumer

"Unbridled consumption by the Government is eroding the country's underlying savings situation. SA has become a net consumer rather than producer of goods.

"We badly need supply side stimulation, which means meaningful cor-

By David Southey

porate tax cuts. But there is virtually no chance of this happening while State spending continues at this pace."

Mr Steenkamp, along with many of his colleagues, is adamant that demand stimulation by way of burgeoning Government spending will not sustain economic growth in the medium to longer term.

"It is absolute folly to think you can spend your way of recession without correcting fundamental political and economic wrongs. It is also unrealistic for the Government to blame the private sector for not performing under the circumstances. Businessmen are rational human beings who make investment decisions based on expected returns."

Mr Steenkamp has some bearish prognostications on the short-term business environment. He expects:

- Vulnerability in the gold price in the next two months based on seasonal trends before an improvement in December.

- The dollar could be in for some strengthening on more bullish American economic growth pros-

pects.

- This should reintroduce capital inflows to the US which will in turn bolster Wall Street's prices and reduce gold's relative attraction.

- A lower gold price and continued high inflation rate in SA will probably result in a firmer long-term interest-rate trend taking hold over the next couple of months.

However, he is more bullish about the prospect for easier long-term rates early next year. Combined with what he foresees as a "technical" decline in inflation early next year plus the strong likelihood of a bank-rate cut before then, long rates should soften ahead of the 1987 March Budget.

Bearish

But short-term rates should continue to remain low under the impact of slack credit demand, low economic growth and high unemployment.

Mr Steenkamp thinks the benchmark bankers' acceptance rate, for instance, could fall to about 8% early next year.

Also bearish for gold in the longer-term is the forecast of continued softness in world oil prices through the northern hemisphere winter.

Old Mutual's Adre Smit says investor worries over inflation are the primary factor militating against significant easing of long-term rates. On the other hand, slack credit demand is holding down short-term rates, which in turn should help to anchor long rates for the next three to six months.

Nervous

He says: "Investors are nervous of long-dated stocks and seem to prefer to structure their portfolios towards the shorter end. They are willing to accept lower yields for the time being because they see the risk as being too high at the longer end."

Economists are not confident on the inflation front. Food shortages, notably of beef, lamb, mutton and chicken, loom. This means the food index in the consumer-price index is set to soar in the next few months.

Thus, although another 1% or more cut seems probable in prime overdraft rates and other short-term market rates in the near term, long rates look like holding their current level for at least another two months.

SUN MCG 49

Searing report 'not official view on S A'

PRETORIA—The highly critical report on the South African economy produced by the United States Consulate in Johannesburg was not 'official analysis' or 'a statement of U S foreign policy', the American Embassy said yesterday.

The embassy said in a statement the report was 'a planning document for the internal use of the Department of Commerce and its office in Johannesburg.

'It was not intended for general circulation within the United States Government, and certainly not for public release. Its purpose was to identify opportunities for the Department of Commerce's trade promotion

programmes and to provide a context for those activities.'

The statement said the official U S line on South Africa was contained in the major policy speech President Reagan had made in July, in Secretary of State George Shultz's testimony to the Senate Foreign Relations Committee and in Congress's Anti-Apartheid Act.

The embassy regretted any 'inaccurate portrayal of U S attitudes or assessments related to South Africa' that might have been inferred from the speech.

The report, which described South Africa as having an 'oppressive regime' and an import-starved economy, resulted in U S Charge d'Affaires Richard Barkley's being called in to the Department of Foreign Affairs last week.

The Foreign Minister, Mr Pik Botha, said in a statement last Thursday that the Government wanted clarity on whether the report reflected official United States policy. — (Sapa)

October 29 1986

BUDAY

49
[Handwritten scribbles]

What pay rise should 875 000 public servants get?

Government's Big Three face R1bn-plus dilemma

THE country's three key budgets — the main Budget, Posts and Telecommunications and Sats — are being prepared and the dilemma facing government is what to allocate for public sector salary and wage hikes.

The Public Servants Association had pay discussions with the Commission for Administration on Monday, but was given no indication what to expect.

The discussions, it was learnt, were "not entirely satisfactory".

Senior public servants claim the economic uncertainties thrown up by sanctions, and rampant, nearly-20% inflation, are issues which could mean scaled-down increases of 10% or less.

PSA president Colin Cameron will meet his management committee tonight to report back on the pay discus-

GERALD REILLY

sions.

Even a 10% increase for all public sector workers would add about R1bn to the pay bills of central government, Post Office and Sats.

This financial year, Posts and Telecommunications Minister Lapa Munnik budgeted R884m for salaries and wages.

That did not include provision for overtime, housing benefits and medical contributions.

Transport Minister Hendrik Schoeman is expected to pay out about R3bn this year, and the central government, including police, prisons and SADF, about R4,5bn.

It is emphasised that the R3bn and R4,5bn are provision for actual pay and do not, as in the Post Office, provide for other staff benefits.

Economists pointed out that whatever the extent of the pay hikes in Sats and the PO, they would be passed on to consumers in higher tariffs.

In the House of Assembly earlier this year, Administration and Economic Advisory Services Minister Eli Louw gave figures to indicate the alarming people-inflation in the public sector.

He said last year nearly 875 000 worked in the sector — 20% more than 10 years ago — 375 000 blacks, 343 000 whites, 126 000 coloureds and 28 000 Indians.

The number of whites in central government jobs has increased by more than 40% in the past decade — from 106 000 in 1975 to 150 666 at the end of last year.

Later figures indicate that the public sector has continued to grow.

...local demand... capacity of the industry...

3/10/86

Meeting crucial to SA's image abroad

BUSDAY

49

~~3/10/86~~

BATTERSBY: What do you think will come out of the meeting?

WILLERS: Not very much on the political front — although individual businessmen may raise political issues they feel impinge on the trading environment.

Government, on the other hand, will probably seek to reassure the business community that it hasn't forgotten the word "reform" and that within the context of "group identity" local option changes to residential segregation are likely to follow the report of the constitutional committee of the President's Council.

There will doubtless be some agreement on the steps to be taken to increase the process of privatisation and deregulation. On the external front it would be surprising if there was not agreement on measures to avoid sanctions.

BATTERSBY: But won't this merely be a repeat of the Carlton and Good Hope exercises? Exactly how importantly will this meeting be perceived abroad?

WILLERS: Very importantly indeed. It is a crucial event, a watershed affair that will demonstrate one way or another which side of the fence the broad business community is going to jump.

Scrutinised

Clearly, whatever business does or says at this meeting will be closely scrutinised abroad and at home. After the recent and well-publicised assertions by a senior South African executive that the captains of industry had been "set up" at the Carlton and Good Hope conferences, there can be little excuse for businessmen to plead that they have been misled again.

Obviously if businessmen allow their presence at the November 7 forum to lend credibility to government policies — in other words, if they do not speak up against the aspects of those policies which have invited sanctions which are so damaging to us all — then the world will conclude that they have knowingly and deliberately thrown in their lot with government.

It may not be viewed that way among businessmen from a Johannesburg vantage point, but it will,

Next week's encounter between the SA business community and government has created considerable interest in London. JOHN BATTERSBY spoke to the South Africa Foundation's London director DAVID WILLERS about overseas perceptions of the meeting



□ WILLERS ... watershed event

regrettably, be perceived that way abroad by a world that tends to take a rather simplistic view of South African affairs.

For this reason one would not be surprised if some businessmen who have been invited prefer to decline their invitations rather than be put in such a position.

BATTERSBY: What about the African National Congress (ANC) and the channels it has established with the SA business community?

WILLERS: I am told that they, too, will be closely scrutinising the meeting. The ANC is apparently thinking of reviewing its links with SA business and may even limit these links.

BATTERSBY: What effect would this have on perceptions abroad?

WILLERS: If this is indeed the case — that the ANC reacted in this way — the effect on international perceptions of SA business would be generally negative and unhelpful.

It would invalidate the role of the business community generally as honest and neutralise its capacity to promote genuine dialogue and negotiation between black and white leaders.

It would be seen as a severe blow to business attempts to create a climate of confidence and build bridges.

It would also be seen as a blow to

the business drive to promote the benefits of the free enterprise system among blacks, and at the same time distance itself from apartheid.

It would have obvious implications for relations with the trades unions, and for the wider corporate strategic dimension of co-operation with foreign companies active in SA. One would have to see such a development, as well, against the backdrop of the Lusaka meeting, which had a much greater impact abroad than is generally realised.

BATTERSBY: Will the business community maintain the unity it has achieved under these new circumstances?

WILLERS: I simply don't know, but I think it will do so through the various business organisations.

Challenged

The problem is that business is being challenged to deliver on the expectations it has built up among people — that is in many ways what this meeting is all about. Government feels confident that it can co-opt the business community and isolate the "dissidents" within the community.

They may well be right. In the new "post-sanctions" climate organised business is, I think, increasingly coming to realise that it has little leverage to achieve the "conventional litany" of objectives it may still support, such as the release of Nelson Mandela and the legalisation of political organisations.

There may be a certain amount of fragmentation, however, and stronger expressions of opinion and disagreement among some individual businessmen about where to go.

One doesn't know, but I think it is stretching it a bit to compare the SA business community at present to the old United Party, as someone recently suggested. It's not a political party.

'Deregulation must be tackled with discipline'

Business community stifled, says Jacobsz

DAVID FURLONGER

DEREGULATION of the economy must proceed "systematically", says the chairman of the President's Council Committee for Economic Affairs Francois Jacobsz.

He said yesterday that government must approach the problem in a systematic and organised way.

"Without such a system, deregulation stands in danger of resorting to *ad hoc* investigations to resolve crisis situations and, as such, loses the impact of the discipline and overall strategy designed to reduce the compliance costs or correct regulation in

general."

Addressing the final day of the Building Industries Federation (Bifsa) congress in Pretoria, Jacobsz said the business community — particularly small business — was stifled by a mass of unnecessary restrictions.

"But the right balance must be sought between liberty and licence," he said.

"Effective deregulation requires that all regulations which have an impact on business must be identified and systematically reviewed in accordance with a

predetermined time-scale to establish both their desirability and the costs of compliance."

Jacobsz said deregulation was taking place in two stages. The first was through immediate repeal or amendment of legislative measures; the second required creation and implementation of a new set of rules and framework.

He described as discriminatory and restrictive the large number of business obstacles which applied only to black, coloured and Asian businessmen, and said his committee had recommended all such legislative obstacles be abolished.

Parliament had since repealed or amended some of these measures.

He appealed to the private sector to identify areas where over-regulation continued to stifle activity, and to make proposals on how to change the system.

"Private-sector input must be obtained to identify burdensome regulations and to respond to government reviews of existing regulations," he said.

World watches business forum

49
SUNDAY
3/11/86

JOHN BATTERSBY

LONDON — The world would conclude that SA's business community had thrown in its lot with government unless businessmen spoke their minds at next week's "watershed" meeting between President P W Botha and the private sector.

This warning was sounded yesterday by David Willers, London director of the SA Foundation.

"If businessmen allow their presence at the November 7 forum to lend credibility to government policies, the world will conclude that they have knowingly and deliberately thrown in their lot with the government," Willers said in an interview.

He said this would be the overriding impression abroad — by a world that tended to take a simplistic view of SA affairs — if businessmen failed "to speak up against the aspects of those policies which have invited the sanctions which are so damaging to us all".

For this reason it would not be surprising if some businessmen who had been invited declined.

Willers also warned that the ANC was closely monitoring the meeting. Any move by the ANC to limit the channels it had established with business would have a negative impact on the international perception of SA business as an agent for change. "It would be seen as a severe blow to business attempts to create a climate of confidence and build bridges."

Willers conceded government might succeed in "co-opting" business and isolating the "dissidents" within the business community.

● See Page 7

(49) F/W MML

31/10/86
F#1

An impatient mood

If the State President thinks he can (once again) easily seduce the business community at the November 7 business indaba, he could be in for an unpleasant surprise — that's if last week's Assocom Congress is anything to go by. There were few signs at the congress that the mounting pressures of sanctions and disinvestment will induce business to rally behind the government in preparation for a siege economy, or halt its demands for real change.

All the resolutions — with the minor exception of one involving daylight saving — were carried unanimously, including one urging government to abolish all remaining discriminatory measures, especially the Group Areas Act. This resolution was supported on the floor by Witbank, hardly the centre of South African liberalism.

Indeed, if there was one characteristic of the mood of the congress it was impatience — whether at the slow implementation of transport deregulation, or at the feebleness of attempts to rein in government spending.

Indeed, the only man to get a rough reception in the generally courteous congress was President's Council member Japie Basson, who suggested that President P W Botha had to move slowly because he was constrained by "democratic" considerations. Delegates felt rather that government had for too long been constrained by narrow, sectional interests.

The spectre of a siege economy hung over the congress. Delegates privately expressed disquiet at the influence of Sanlam's Fred du Plessis' corporatist — some even said socialist — ideas, and at tightening up of government control in the political and economic fields.

The opening speaker, Denis Worrall, sug-



Assocom's Groom . . . keeping up the pressure

gested that further reform was impossible until order and stability had been achieved; but in the main session of the congress delegate after delegate suggested this meant putting the cart before the horse. Economic reforms like privatisation, and genuine political reform, are prerequisites for restoration of order, it was felt. Some even discerned a mood of self-congratulation at business's contribution to the erosion of apartheid.

To coincide with the congress, correspondence dating back to 1960 — between then Prime Minister Hendrik Verwoerd and As-

socom president Denis Mosenthal — was released to the press. Assocom's recommendations of the time — labour mobility, an end to job reservation, and the legalisation of black trade unions — are now all government policy; business must take a lot of the credit for this.

But while there has been progress at the legislative level, it has been much slower at grassroots. As Indian Budget Minister J N Reddy pointed out, the lack of black, coloured and Indian faces in the corporate boardrooms of SA shows how much more progress must be made.

New Assocom president Harold Groom has promised to try to rectify this, and the promotion of black staff — doubly important during the current brain drain — will be given top priority by many members.

Groom hopes that business will be a vital agent for peaceful, and not piecemeal change; but if the National Party has decided that reform has gone far enough there is little business can do but keep up the pressure. "Business does not govern the country," says Assocom CE Raymond Parsons, "but it has an unusual role in South African circumstances to keep the country governable."

The new assertive, united business approach will be seeking concrete results — with the scrapping of group areas in those municipalities that want it the minimum requirement.

At the time of the Verwoerd-Mosenthal dispute it was argued that government was talking politics and business talking sense. Now business is arguing for the removal of any legislation, whether social or economic, which restrains the economy — and it's difficult to argue with that.

Business Confidence (49) Still at two-year high

Economics Reporter

BUSINESS confidence remained levelled off in October, according to the Business Confidence Index (BCI) released yesterday by Assoccom.

Assoccom said the index for October was 89.9 — the same as September's figure and the highest level in the BCI's two years of existence.

Chief executive Raymond Parsons said the plateau indicated that "SA cannot yet take the economic recovery for granted".

The November 7 meeting be-

tween business and government leaders, he said, "assumes special significance in the light of its possible impact on certain key factors relevant to business confidence".

Parsons said the rate of decrease in real private fixed investment — which the BCI does not reflect — had slowed, but he added that "no recovery in private investment can be expected until economic and political circumstances are more

favourable from a long-term point of view".

The BCI, composed of 13 economic indicators, was lifted in October by slight improvements in the rand-dollar exchange rate, the gold price, unemployment and share prices. These were offset, however, by a higher number of insolvencies, lower retail sales and higher inflation.

Parsons warned that continued high inflation, now at 19.7%, could cause the current economic upswing to peter out.

NOVEMBER 7

FINAL 31/10/86.

49

Don't dance to Pretoria's music



There was a saying during the Anglo-Boer war: "He who supps with me needs a devil of a long spoon." It was a warning to the British of the range of Boer capital guns called Long

Toms. President Botha would not want it so, but it could apply to him in the minds of the businessmen among the 200 invited to attend the third summit with him in Pretoria next Friday.

The relationship between government and business — never an easy one — reached what was probably its peak of felicity just before Botha's address to the Natal National Party congress in August last year. Since then it has slid into disillusionment on both sides.

Some businessmen believe government has failed to keep the reform initiative moving, and has reneged on the extent of what promised to be some of its most telling reforms. As business felt its influence on government waning and as trade sanction threats became reality, it became increasingly critical of Pretoria.

This, in turn, stung an increasingly resentful president, who felt that business was not reacting sufficiently to his reforms and to the slightly more encouraging economic outlook. His combative state of mind was very clear even to outsiders such as Harvard's Professor Sam Huntington (*FM* October 24). But the fact is that, however irksome it may be, the Botha government knows how important economic growth is — and how much more important it will become as sanctions make trade more difficult.

So next Friday will see the unctuous expression of government's greater need of business, at least in the short term, rather than the other way around. It is an unusual situation in this country, especially as these overtures — appropriately couched as pleas for co-operation — are being met in Johannesburg with a scepticism startling in its ferocity.

A group of about 25 of the more progressive business minds has been formed to provide a sheet anchor against the co-option and manipulation that took place last time round.

There is also heightened awareness

Businessmen are about to attend their third summit with President Botha. They should have learnt by now that they must not come away empty-handed.

of how crucial are the policy issues facing the country. If those with a laager mentality gain the upper ground, the impact of sanctions will be heightened rather than ameliorated.

According to Pick 'n Pay's Raymond Ackerman, who is not a member of this cabal, "there is much more private sector co-ordination than at the last two meetings."

We hope this is so. For businessmen, lacking the polemical disposition of politicians, will not easily risk a public admonition from as irascible a man as the State President. Moreover, they tend to be in awe of his position, if not of the man personally.

More significant than those who will be there are those who won't, for whichever of a spectrum of reasons. At least two of the men who felt that they were the butt of Finance Minister Barend du Plessis' outburst to the *FM* in Washington will not be there. The minister, of course, denies that he was critical of them and says his remarks were misconstrued.

Barclays' Chris Ball was not invited. Premier's Tony Bloom was invited but had a long-standing arrangement to attend a Stanford reunion in the US. Anglo American chairman Gavin Relly and Barlow Rand's Mike Rosholt will be abroad. Toyota's Colin Adcock was invited to chair one of the working groups, but will be abroad. We do not intend to suggest that his absence was deliberate.

Tradegro's Mervyn King, the SA Perm's Bob Tucker and JCI's Gordon Waddell were not invited. Nafcoc's Sam Motsuenyane is

boycotting the meeting (as are all Nafcoc members). Motsuenyane points out that he spoke at the Carlton conference "and little has changed in fundamental reform" since then.

Barend du Plessis claims he made the point to the *FM* in Washington that the November 7 meeting was the forum he had in mind for businessmen who were distancing themselves from government's political policies to put their case — or, if our correspondent Jim Srodes is to be believed, to face the consequences of their criticisms abroad. Srodes had lunched in Washington during the IMF meetings with a Barlow Rand team that claimed to be openly disassociating its company from government's policies.

Unhappily, there is no direct political item on the agenda. The president's office says "the agenda is substantial enough to last many days. It would be wrong to move into politics at a business conference." But this is not to suggest that political discussion will not arise spontaneously.

Trust Bank's Chris van Wyk observes: "It isn't practical to expect government to place politics on the formal agenda, as it's not in the nature of such forums. But politics will naturally crop up and government realises that politics and economics cannot be separated."

Wits political scientist Michael Mann points out that at the previous two meetings business was told that it had no jurisdiction in constitutional development and other political areas, but would be accepted as a non-political partner in such matters as housing and education.

"There was a trade-off between support for industrial decentralisation and constitutional reform, and a government promise to privatise, deregulate and interfere less with the market," he says.

Up for discussion this time will be government's proposals on privatisation and deregulation (about which so much has been said and nothing done) and the Economic Advisory Council's (EAC) proposal of a long-term economic strategy dealing with matters like inward industrialisation, export promotion, import substitution, manpower, rural government and the role of government in a free enterprise system.

The EAC paper was the brainchild of a sub-committee made



Human



Du Plessis



Clewlow



Kahn



De Waal



Venter



Brand



Maree



Stegmann



Plumbridge

up of Sasol's Joe Stegmann (chairman), De Beers Julian Ogilvie Thompson, the IDC's Marius De Waal, Barlow Rand's Warren Clewlow, Sanlam's Fred du Plessis, the Development Bank's Simon Brand and Reserve Bank Governor Gerhard de Kock.

Except for Ogilvie Thompson, they will be among those who chair the working groups that will convene after the presidential address. Other chairmen are Altech's Bill Venter, SA Breweries' Meyer Kahn, Gold Fields' Robin Plumbridge and Escom's John Maree. Cabinet members will rotate among the groups but the president will not participate.

There is a great fear in business circles that the outcome will be the eclipse of monetarism and the ushering-in of grand co-operation between government and business — a corporate state — in which direct controls and growing protection for key industries will play an important part. Coercion will eventually take the place of market allocation of resources.

Or the outcome could be paradoxical, with government conceding micro deregulation to encourage small business, while simultaneously agreeing to more macro regulation to entrench an explicit partnership with established large business groupings.

This approach is based on the erroneous view among some politicians and businessmen that rapid economic growth in Japan was the result of considerable protection of its industries and the succour given by the Ministry of International Trade and Industry (MITI), especially so far as technology transfer was concerned. The new long-range plan could, we fear, envisage the CSIR in a similar light.

There is no doubt that the Japanese situation is a complex one. Those who choose to present it as an example of laissez faire have as difficult a time as those who claim its growth was all protectionism and central management. But there is sufficient evidence



Rolly



Adcock



Waddell



Motsuenyane



Tucker



King



Ball



Bloom

□ The radical black — and erroneous — view that capitalism supports apartheid will appear to have been proven. This will persuade blacks increasingly to seek collectivist expression to their political frustrations.

□ A siege economy will be increasingly cut off from hi-tech and will slide into Third World decay as its ability to compete in First World markets diminishes; and

□ The role of government will expand in the economy, with the public service swelling and economic growth faltering, which will encourage the imposition of even more authoritarian social policies.

to suggest that the Japanese economic resurgence was not so much a triumph of central management over the marketplace as of entrepreneurship (such as Honda's) over the large corporations fostered by MITI.

After the war, Japan administered large doses of supply-side economics: lower taxes, inducements to savings and encouragement of industrial investment over housing. It became more advantageous for the Japanese to own their own businesses than their own homes. That is what sparked the country's remarkable growth.

The important point that the Japanese have illustrated is that creative business instincts do not come out of large institutions. The assumption that they do is something against which we have to be on constant guard here. For a grand strategy envisaging more controls and protection will foster concentration of ownership and erode competition.

But there will be other unfortunate consequences:

□ The trade unions and anti-apartheid groups abroad will be convinced of a conspiracy between government and business. The latter will be pressed to foster social change far beyond its ability to do so. And if business is forced as a result of that perception into affirmative action, the economy will become less efficient and still more jobs will be lost;

In almost every socialist country in the world, a grand strategy has been devised and attempts made to implement it with increasing coercion. In none has there been economic growth anywhere near that of the Western democracies with their greater emphasis on free enterprise, reducing government, and open economies.

For once, business has the upper hand. Government needs it to make the grand plan work. Business must demonstrate both to its customers abroad and to its black workers at home that it has the stomach to wield the influence it claims to have and to a degree does have.

Hands-off policy

The businessmen among those in Pretoria next Friday must withhold all co-operation unless government is prepared to agree within a specified time to repeal the Group Areas and Land Acts, resolve the citizenship issue, halt all forced removals, lower taxes, reform regional government structures on a wider franchise and reduce its own role in the economy.

In short, if P W Botha wants to tango, he must cough up or push off. Nothing could be worse for business now than being seen to be playing footsy with the perfidious performers in Pretoria.

□ See *Business*

US SANCTIONS

Call off the dogs

When the two biggest non-oil companies in the world book one-way tickets out of SA within days of each other, you must know the country is in some kind of trouble.

But how much trouble? After all, General Motors (GM) products will continue to be offered on showroom floors — the launch of the new Opel Monza is only days away — and IBM computers will be competing as strongly as ever for local customers.

It is thus not surprising that public reac-

It suits many US companies to divest from SA — not all for political reasons. Many links could be cut.

tion to the latest, and most spectacular, disinvestment moves has been subliminal indifference.

Indeed, in GM's case the popular view persists that it may have been better for the company to quit entirely in view of the over-traded state of the vehicle market.

There's perverse merit in the argument. Truth is, SA can exist quite happily without GM motor cars. To a less extent it can also get along without direct access to IBM computers. But it can't get along without the rest of the world.

In the case of both GM and IBM (and



FIN MAIL
31/10/86

ECONOMIC and industrial data released this month gives firmer evidence that SA has lifted itself out of the bottom of the recession.

But economists are still wary of calling the current pick-up a full-fledged economic recovery.

By many measures, business conditions are still depressed, with only limited prospects for substantial expansion — and other data are ambiguous, remaining open to widely varying interpretations.

Standard Bank chief economist Andre Hamersma says: "What we are seeing is a cyclical upturn, but I don't think one must anticipate that this will lead to a very sharp recovery."

"There are indications of some improvement, but you won't find conclusive evidence."

The most impressive argument for recovery was last week's statement by Reserve Bank Governor Gerhard de Kock that the real gross domestic ex-

BW DNY.
49 3/11/76.
**Recovery is
under way**

Economica Reporter

penditure (GDE) increased at an annual rate of 20% in the third quarter.

The GDE increase reflects higher consumer spending, especially in durable goods, and was backed by reports of turnover gains at several major retail chains. But the quarterly figure is extremely volatile, and economists doubt the 20% growth rate can be sustained in the fourth quarter.

In addition, the expenditure data have to be confirmed by official retail trade figures, which have shown year-on-year declines, in real terms, in the last two months.

In 1980 prices, monthly sales in October were expected to be 15% lower than those in the June 1984 peak.

And demand for new credit continues to be sluggish — a perplexing sign at a time when rates are so far below inflation. In a period of sustained negative interest rates, consumers should move

● To Page 2 →

3/11/76
Economists wary about upturn

to higher levels of borrowing and spending.

Simultaneously, consumer price inflation is approaching 20% and continues to worry economists who believe quickly rising prices may dampen real consumer spending.

Still, says Old Mutual economist Rob Lee, "We definitely know the spending recovery is there, because you can see it in corporate earnings."

Profits reports in the last month have been strong, with especially good results from manufacturers of consumer goods.

Lee adds that import volumes were very strong in the third quarter, indicat-

← ● From Page 1
ing that wholesalers and retailers are restocking.

The Reserve Bank *Quarterly Bulletin* provided mixed signals. Its index of building completions stood at 138, on a 1980 base of 100. Wholesale and retail sales were at 110, and mining production at 103. But new motor vehicle sales still were weak at 71, and building plans, anaemic at 62.

Business liquidations have not declined, but the continued weakness has been accompanied by a boom in registrations of new closed corporations.

W Cape campaign to create 700 000 jobs

By DICK USHER,
Labour Reporter

PLANS for a campaign to create 700 000 jobs in the Western Cape in the next 15 years have been unveiled at a meeting of Cape business and civic leaders.

The campaign aims to deal with the problem of a population expected to grow from 2,3-million to 3,3-million in 15 years, requiring the creation of about 35 000 jobs a year.

Unemployment levels were already estimated at 175 000, said Dr Richard van der Ross, joint president of the campaign.

Mr D T Fletcher, the other joint president, said the loss of business and jobs in the Western Cape had reached proportions that were becoming alarming.

"With a current family formation of something in excess of 5 000 new families a year, this problem is escalating at a rate that threatens to become unmanageable," he said.

Known as Wesplan, the scheme has been initiated by Wesgro, an association for the promotion of economic growth in the Western Cape whose members are drawn from business, industry and the public sector.

The launch was announced last night by Mr Beau Pryce, chairman of Wesgro and Wesplan and former chairman of Murray and Roberts (Cape).

Vital first step

He said that identification of key problems was a vital first step that would need the involvement of as many people in the community as possible.

Wesplan has a 19-member executive committee of leading businessmen, academics, councillors, council officials and members of public bodies who have been meeting regularly for the past two months.

It will set up task forces to build on the strengths of the region such as its unique natural beauty and mild climate, well-developed commercial and industrial infrastructure, relatively skilled labour force and extensive academic, research and training facilities.

Mr Pryce said that initiating the campaign would require about R150 000 over the next 12 months for the process of identifying job-creation possibilities.

"As the action plans are formed we will establish relationships with the private sector to see who will lend us executives to fit in with the teams which will be formed and for leaders for each of the action teams," he said.

Government departments would be kept informed of the developments.

cont. Trans: 4/11/86 49

Wesgro sets time table to save W Cape economy

By AUDREY D'ANGELO
Assistant Financial Editor

THE NEXT four months will decide whether a high-powered campaign to create more jobs in greater Cape Town will succeed.

That is the time-limit set by Wesgro chairman Beau Price to secure firm pledges of R100 000 from businesses, individuals and local government.

Price stressed that every section of the community would be involved in a determined effort to stimulate the local economy and provide 35 000 new jobs every year.

He said yesterday: "The money we need must be pledged within the next three or four months or the whole thing will have to be aborted.

'Unthinkable'

"And that is unthinkable — it must not be allowed to happen."

Price, a former chairman of Murray & Roberts, said he was determined that representatives of "local Third World communities" would be involved.

He was speaking after a meeting attended by representatives of large firms and local municipalities including the mayors of Cape Town, Bellville and Goodwood, to launch Wesplan, a strategic plan initiated by Wesgro to create jobs in the Western Cape.

The executive chairman of Caltex SA, Denis Fletcher, and the former principal of the University of the Western Cape, Richard van der Ross, who are co-presidents of Wesplan, stressed that the initiative must not peter out in talk without action.

The campaign will focus initially on the Peninsula, the Cape Flats, the northern suburbs, Atlantis, Wellington, Paarl, Stellenbosch, Somerset West and Gordons Bay.

Questionnaires will be sent to organizations and individuals to find the strengths, weaknesses and main problems of the area so that priorities and possible solutions can be determined.

"An attempt will also be made to



Beau Price

assess the extent to which specific actions will affect specific groups," a Wesplan statement explained.

"If necessary a more detailed study will be carried out prior to incorporating the proposals into a strategy."

Price said he expected the results of the survey to be available by the end of March. He expected planning to be completed and concrete action to begin in 12 months.

US consultant Jim Hudak, who was involved in creating a successful strategic plan for San Francisco, said business and local government should lend the services of staff to help raise money and later to prepare the strategic plan and carry it out.

The plan must be simple, concentrating on a few main issues rather than dissipating time and resources on trying to do too much at once, Hudak said.

Copper price

JOHANNESBURG. — SA's internal copper price for electrolytic wirebars was fixed lower at R2 953,94 a ton for November against R3 124,04 a ton for October, Palabora Mining Co Ltd announced yesterday. — Reuter

STA

G & S

17 H

SPK
9/11/86
49

We blundered — De Kock

Reserve Bank governor Dr Gerhard de Kock last night admitted the Government squandered the benefits of the economic windfall in the early 1980s after the gold price hit an unprecedented \$800 an ounce.

He told a seminar in Johannesburg that authorities pursued unjustified expansionary policies, including excessive pay rises in the public sector, and a lack of strict financial controls.

157
He said if the situation had been handled differently there would have been no need for the package of drastic austerity measures which were introduced late in 1984.

● See Page 15

Muslims *Call to meet still to* call not to *4p* meet NGK

THE Muslim Judicial Council yesterday called on Muslims not to meet the NG Kerk over the church's resolution that Islam was a "false religion".

Sheikh Nazeem Mohamed, president of the MJC, said it wanted to "state very strongly that no negotiations or dialogue must take place between Muslim organizations and the NG Kerk after this vicious and un-called-for attack on Islam".

He was reacting to a statement on Monday by Professor Johan Heyns, moderator of the Synod of the NGK, that synod members would meet a Muslim delegation this week.

The Call of Islam has criticized planned talks between the Islamic Council of South Africa and the NGK.

● Meanwhile, our Durban correspondent has reported that the meeting will be held in Pretoria tomorrow.

5/11/86 BLS 0/11 49

Durr: Economy improving

GERALD REILLY

INDICATIONS were strong that the economy was on the upswing and that confidence had strengthened, Finance and Trade and Industries Deputy Minister Kent Durr said yesterday.

Opening of Auto Bavaria's premises in Rosebank, Durr said government was fostering a market-orientated economy aimed at increasing the nations wealth and the standard of living of all.

He said this must mean as limited a role as possible for government in the supply and demand for goods and services.

The last two years had been the most difficult in the history of the SA motor industry. Government had, however, been sympathetic

and made concessions.

The motor industry was a vital economic locomotive. Investment in the industry by manufacturers exceeded R3,7bn. The components industry investment in plant and equipment was put at R2,5bn.

Durr gave an assurance that government was serious about genuine reform, about power sharing and expansion of democracy and the universal values of free men.

Efforts were being made to harness the forces of urbanisation through a recognition of the informal sector the promotion of small business and economic policies of inclusion rather than exclusion.

'Higher wages pricing SA out of export market'

cap trials 6/11/86

Unions 'must take part in Wesplan'

6/30
85
1986

By AUDREY D'ANGELO
Assistant Financial Editor

THE trade unions must be involved in Wesplan — the campaign to create more jobs in the greater Cape Town area which was launched this week — if it is to have any hope of success, Plessey (SA) MD John Temple said yesterday.

Warning that the unions' cooperation was vital, Temple said that export orders and therefore jobs were already being lost because wage rises were pricing SA out of the market.

'Special export projects'

He suggested that, purely to provide jobs, there should be special export projects making little or no profit, with union representatives on teams going overseas to secure orders and helping in the costing to keep prices competitive.

These should be quite separate from the normal profitable business of the company, for which higher wages and salaries would be paid.

Temple emphasized, in an interview, that he was in favour of higher wages and living stan-

dards for SA workers and sought no confrontation with the unions in their efforts to secure this.

"I take the view of Henry Ford, who said he wanted the workers to earn enough to be able to afford to buy Ford cars.

"SA must pay people more so that they can spend more and pull the economy up by its bootlaces — but only if they are giving value for money on the export markets."

Temple said pressures in this country were pushing up labour costs, and it was not always possible to pass these on to the customer.

"We used to do a lot of exporting but next year we have budgeted to do none. We have been priced out of the export market.

"If a firm makes no profit on a product it drops it and if a product is dropped, job opportunities are lost."

Temple said it was cheaper to import a PABX switchboard than to make it in this country.

This was not necessarily due to SA levels of productivity.

"At Plessey, SA, people are as productive as at Plessey anywhere in the world, as far as out-

put per person goes, for the level of automation we have.

"But we cannot compete with the British level of automation so we cannot produce as cheaply."

This situation would change, he said, if export markets were sufficiently large to make more automation worth while.

To achieve this, unions and manufacturers must get together round a table and achieve a balance.

'More jobs'

There should be a two-tier structure. There should be a normal programme of giving people good wages for products which could be sold profitably when these were costed in, and there should be special projects when there was an opportunity to get a large export order providing work for less skilled people who would otherwise be without it.

"We can get large export orders for work that can be done by less skilled people, such as making cords. And if we can sit with the unions and agree to do it as a special project, telling them the price the market can stand, more jobs can be provided."



Startling forecast from JSE's Norton

By Michael Chester

More than 150 members of the business elite of South Africa were startled at the outset of a debate on sanctions in Johannesburg yesterday.

The main speaker took the rostrum and gave blunt warning: "In five years' time, some of the companies represented here will no longer exist."

The warning came from Mr Tony Norton, executive president of the Johannesburg Stock Exchange, at the annual national convention of the Federated Chamber of Industries.

However, Mr Norton added: "The survivors will be stronger than ever if they take action now to scrap traditional notions of management and lay out brand new strategies."

"For them, the stars will

shine. There will be tremendous opportunities for companies that face new facts and concentrate on short and longer term solutions."

Mr Norton forecast a widening range of trade sanctions — but riddled with leakages. The impact on South African companies would span from slight, in the case of certain minerals, to losses of up to 60 percent in exports of products such as textiles, various metals and many agricultural products.

There would be far tougher problems confronting companies. The survivors would be the ones run by managements that tackled new issues like commando units — "professional, flexible, mobile, striking out into new markets, with officer cadres close to the troopers", Mr Norton said.

SOUTH Africa's structural imbalances are the foundation of our country's present economic torment. Unless these imbalances are corrected the economy will always have an ailment of some sort.

The Department of Statistics recently released the inflation rate figure for September. As may well be expected, this figure went up by a percentage point to 19,7 percent, compared to the August figure.

In economic affairs, as in any other discipline, problems arise that often correct themselves.

However when economic events threaten an irreversible breakdown, with unwanted social and political outcomes, policymakers should rightly choose to intervene or at least provide some guidelines to be adopted by the private sector to prevent the realisation of this event.

The nature of our inflation is of the cost-push type. One of the characteristics of developing countries is to have relatively high cost structures, because the industrial sectors in these economies are on the lower level of the learning curve.

In our case, the high cost structure is further aggravated by the notion of granting wage and salary increases mostly on the basis of social and political factors.

Productivity plays a minor role, if any, in the granting of these increases. Social factors tend to be the overall focus when wages and salary increases are granted, particularly to blacks.

The reason may well be that companies (through events), have lately come to realise the economic and social plight of this particular segment of their work force.

To redress this imbalance against blacks, increases far in excess of productivity levels became the notion of the time.

On the other hand, the Government being the single largest employer, is more willing to grant wage and salary increases in excess of productivity levels purely for political reasons.

Notwithstanding the economic ramification of such a move, the Government will accede to salary and wage demands of its white employees if it feels there are political gains to be derived.

If what is being said about the general election next year is true, then at least some of the wage and salary demands made by white trade unions representing the public sector are likely to be realised.

Problem

If we add the general dimension of trade unionism to this scenario, the pressure of costs becomes even stronger. This is the situation that characterises our economy's inflation problem.

Unfortunately such a situation of constantly rising prices can no

What's behind South Africa's ailing economy

Sowetan 6/11/86 (19)

longer be down-played. If the rate of inflation was 19 percent in September, it boggles the mind as to what it will be in say January next year if this trend continues.

We cannot afford to host the argument that the market mechanism will correct or at least contain this deviation.

If we add the international dimension, i.e. the sanctions issue, to this scenario, which on its own is bound to add fuel to the general price

FOCUS
By NCEDO MLAMLA, an economist with Barclays Bank.

level, it becomes apparent that the authorities' belief that the market mechanism will correct this feature, is certainly asking too much from this mechanism.

The South African economic scenario has drastically changed, and new approaches are needed to cure its ills

The freemarket approach which our monetary authorities so tenaciously adhere to, is not adequately geared to deal with this kind of dilemma.

Irony

Our inflation track record bears this out. To cement this record South African Transport Services has decided to link its rail tariff for coal export traffic to the producer price index

This virtually means that the part of our inflation that is contributed

by SATS will never go down.

The irony of our inflation dilemma is that the Government has the means to control it. The Government exercises considerable direct control over wages and salaries (the government is the single largest employer) and also over the prices of major goods and services

This control provides the authorities with a powerful and direct tool to curb inflation.

If they (the Government) were to put a ceiling on the increase in prices and wages that fall under its control,

that would contain our inflation rate to a considerable extent.

The private sector would be likely to follow this example by holding down their increases to the same extent.

Freeze

A general wage-price freeze as used in other countries with similar problems would not be acceptable in the South African context. A general wage-price freeze would be perceived by black-oriented trade unions as keeping or holding down the standard of living of their members.

In any event, in the case of a wage-price freeze wage negotiations are done away with.

In South Africa's particular case wage negotiation serves also as a political value, in that a lot of political steam is let go of at these negotiations

The situation has now become critical that the Government has to take positive action to curb the rate of inflation, because of known unpleasant effects, and before the SA population gets to accept high inflation rates as part of their lives.

A situation which, once it is psychologically cemented, is hard to reverse.

The Media Council

THE South African Media Council is an independent body established to deal with various matters affecting media reporting and comment.

One of the council's functions is to receive and act upon complaints from members of the public who have not been able to get satisfaction by approaching a newspaper or other news media directly. Com-



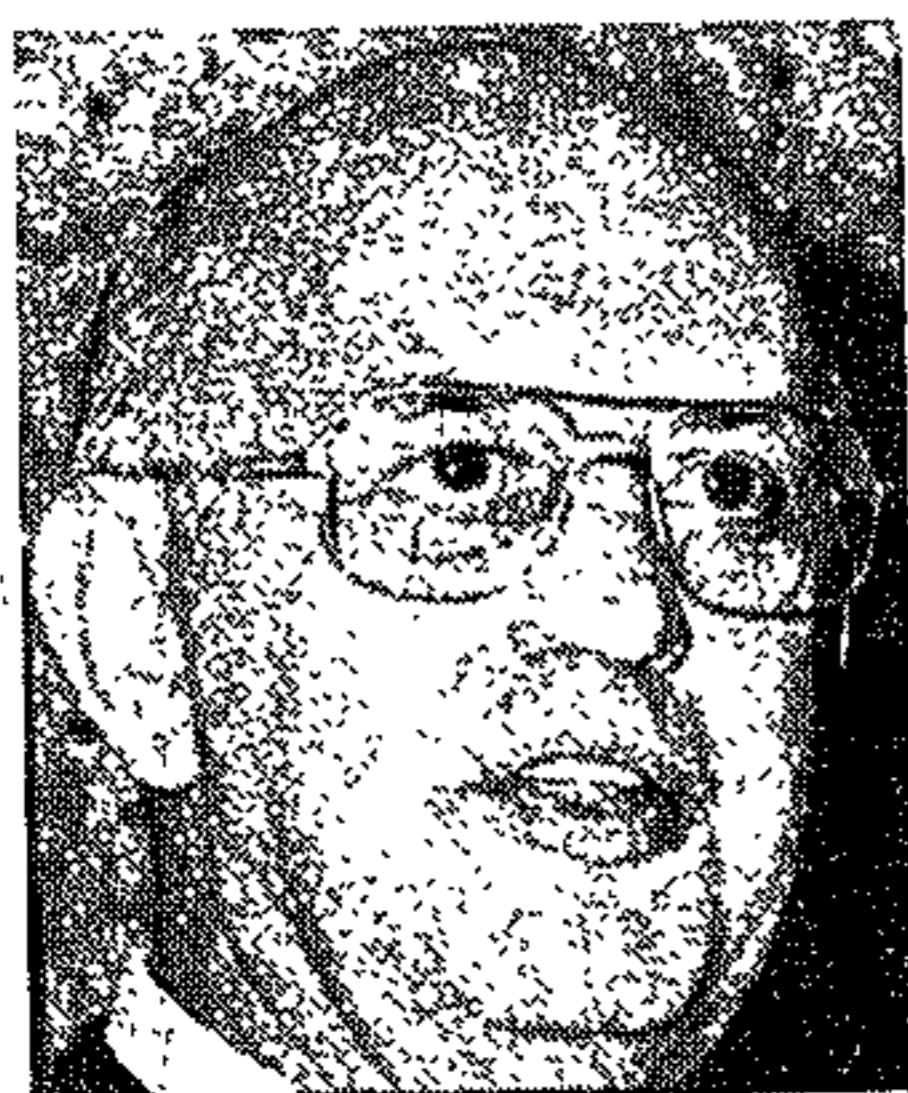
Mr BAREND du Plessis, the Minister of Finance, must take steps to curb inflation.



Controversial summit gets under way

PW says no to political demands

SPAR
7/11/86
(49)



Mr P W Botha ... "change will take place in an orderly and well-considered way".

By Bruce Cameron, Political Staff

President Botha firmly told business leaders attending his economic summit in Pretoria today that he would not accept political demands.

But he said in his opening speech that the Government was not holding the summit for "its own purposes to stage a monologue".

This follows controversy over the summit. Some business leaders are boycotting the event, while others have said they will use it to make political demands.

President Botha emphasised that he expected the private sector to play a greater part in developing a sound economy and creating confidence.

He told the 200 people attending the conference that it was not a party political congress.

"On several occasions this year I have set out the policy of the Government, and obtained the support of my party for that policy."

He said the conference was being held to engender confidence, seek solutions for the future, and increase co-operation between the public and private sector.

Dealing with the two main topics on the agenda — privatisation and a new economic strategy — Mr Botha gave only brief and broad outlines.

Privatisation would be considered only if, in the long run, it was to the advantage of the consumer of the service, the taxpayer, or the community generally.

The new economic strategy was aimed "at further extending our modern economic sector against the background of continued constitutional and socio-economic reform".

He emphasised that the conference would not deal with sanctions. Combating sanctions would be handled in other ways.

"I maintain my viewpoint that public discussion concerning sanctions could only be to the disadvantage of our country."

Criticisms

Despite his attitude to political criticisms, Mr Botha dealt extensively with reform and negotiation.

He said there were no instant solutions, although the Government was "keenly interested in representations and proposals for reform".

But he warned: "The state authority will in no circumstances be compromised."

"The reforms which we introduce, the changes we make, and the negotiations we have will be effected in an orderly and well-considered way by the Government."

He pointed out that reform involved the economic, social, scientific and educational fields — all of which cost money.

He said delegates would have to accept that both the Government and the private sector would have to meet this cost.

Orderly government and reform were important to the private sector. In the same way an active, positive and constructive private sector was important to the country and Government.

Mr Botha said sanctions were being adopted ostensibly to speed reform. "When we do reform, for whatever reasons, the foreigners say: 'Sanctions are working, impose some more.'"

See Page 13.

Government aims for maximum growth

Barend spells out new role for private sector

By Bruce Cameron

The private sector is to be given greater involvement in government budgeting and the setting of priorities, Finance Minister Mr Barend du Plessis said at the Pretoria summit today.

He said that in future greater attention and government spending would have to be focused on the undeveloped sector of the economy.

Government economic strategy would stand on two legs: the first was to achieve maximum possible growth rate and the second to improve socio-economic conditions of largest section of the population.

Despite differences in approach, substantial agreement had now been reached on an economic strategy. But Mr du Plessis warned that many of the needs of the people of South Africa would have to be restricted because of the scarcity of capital.

It appeared, he said, that current physical infrastructure was sufficient to meet the requirements of the developed sectors

of the economy, but there were urgent capital requirements for the underdeveloped sectors.

Dealing with privatisation, Mr du Plessis said profit motive, private initiative and private ownership would in the long term make the best use of scarce resources.

Government participation should be limited to areas where the private sector could achieve the best results or government was unable to get results.

Essential role

The main obstacle was the dual structure of the economy where a relatively developed but small, modern sector stood alongside an undeveloped sector with a section of the population in a transitional stage.

Added to this were the high population growth rate and the large number of unskilled or semi-skilled workers as well as the large number unsophisticated and uninformed consumers.

As a result the Government had an obligation to play an es-

711110
SME
400
sential role in correcting shortcomings by providing products and services.

The Government also had an important balancing role in which it and the private sector were inseparably bound together as partners.

Dealing with the first leg of the economic strategy, Mr du Plessis said a high growth rate was needed to create employment as well as maintain stable prices and a favourable balance of payments.

To achieve this the Government had taken or was taking numerous steps. These included: setting long-term priorities, a five-year urbanisation plan to be launched with the next budget, reformulation of the tasks of the Government's Capital Priorities Committee to make projects cost-effective, revision of requirements of state loan guarantees, a private sector-oriented working committee to help government departments with budgeting and priorities, and the introduction of a "value-for-money" auditing system.

Experts fear firmer govt hand in economy

RECENT figures on government consumption spending have led to fears about the extent of government involvement in the economy and the commitment to privatisation and deregulation.

Government consumption spending grew, in real terms, by 5% in the year to June and, according to Reserve Bank economic adviser Roger Gidlow, has been the main stimulus behind the upswing in the economy.

Many economists believe these figures confirm a trend of increasing government involvement in the economy in the 80s. Public sector spending — as a percentage of gross domestic product —

STEPHEN ROGERS

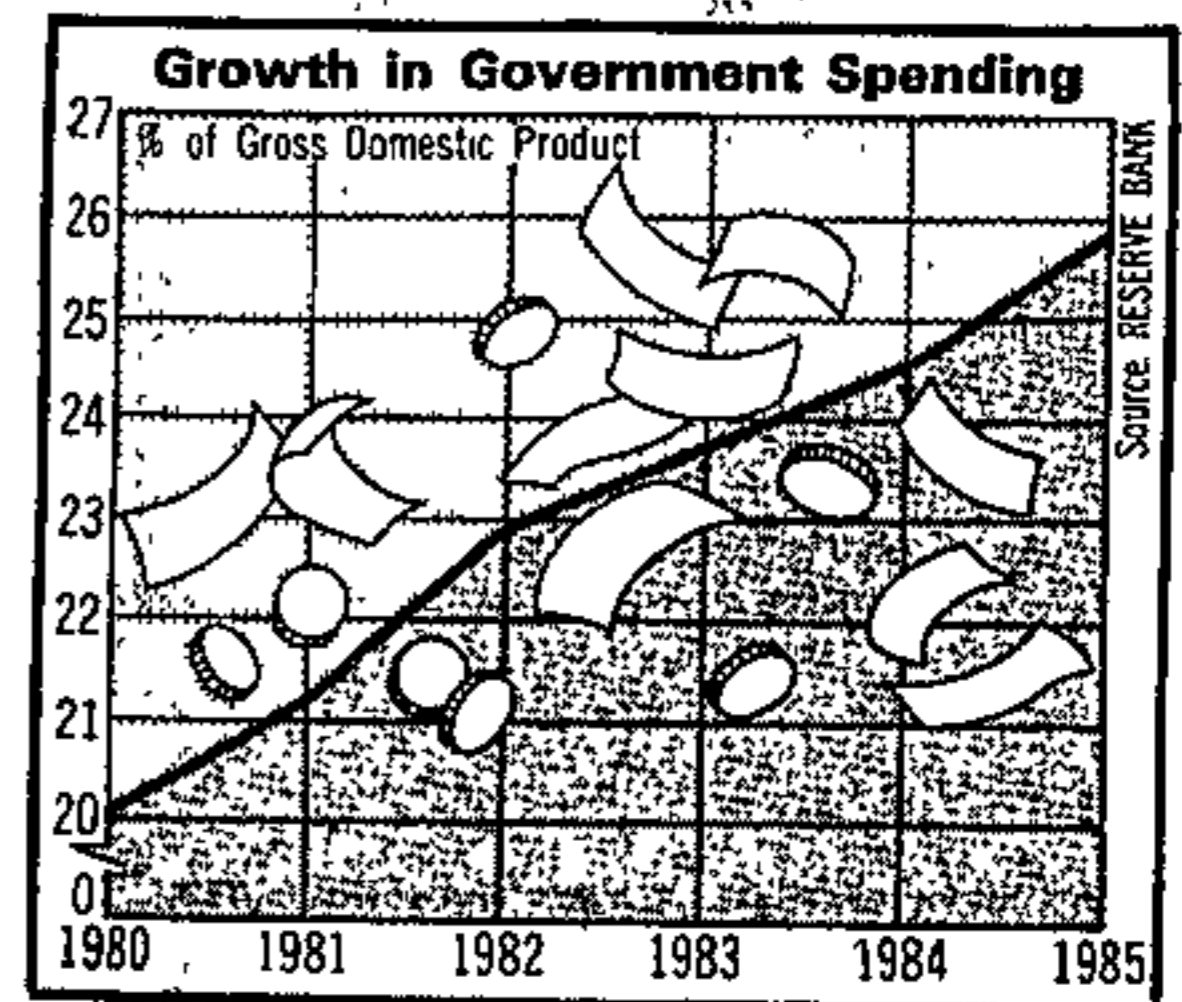
rose to 26% last year, from 22.1% at the beginning of the decade.

"This was in a period of economic difficulty and perhaps was inevitable as the public sector took up the slack in the private sector," says an economist.

Higher public spending has been advocated by many as a short-term policy for an economy in recession.

"This Keynesian policy may actually be desirable if it stimulates the economy in the absence of any improvement in the private sector," says Reserve Bank Governor Gerhard de Kock.

Hopefully, today's conference be-



tween government and business will allow the private sector to persuade government to reaffirm its commitment to privatisation and deregulation.

"Government must initiate a transfer of resources to the private sector which is productive in the utilisation of resources," says JCI economist Ronnie Bethlehem.

FINANCIAL 7/11/76 (2/11/76) X
NOVEMBER 7 MEETING (A9)

A confident future?

The theme might be "Forward with Confidence," but the aim of restoring business confidence and government dominance will be far from satisfied by Friday's meeting between business and State President P W Botha and his Cabinet.

The meeting, at the presidential guest house Bryntirion in Pretoria, will open with an address by the president and then break up into 10 working groups for three hours

before reporting back.

There are fewer participants than in the 1979 Carlton (250) and 1981 Good Hope (500) conferences.

Some 200 invitations have been extended (80% to the private sector), including the entire EAC (42 members), a representative from each major employer body, director generals of relevant departments (notably, including both foreign affairs and co-operation and development), the chairmen of the nine Regional Development Committees, organised labour, and associations dealing with the interests of small business (such as the Small Business Development Corporation). The full Cabinet will attend.

The economic division of the president's office drew up the guest list — inviting the CEOs of the ultimate shareholders of SA's largest companies, drawn from the *FM's Top 100* survey — if they are not already on the EAC. The list was submitted to Cabinet.

"There was a carefully worked out formula. The aim is for a cross-section of interests," says the president's office. Yet no economists (as such), or union groupings like Cosatu and Cusa, have been invited.

Many who attended the earlier conferences feel they became involved in an exercise of co-option with government. Coming against the breakdown of the Carlton and Good Hope euphoria and against a background of (arguably) SA's severest recession and unprecedented political crisis, this is clearly an attempt by government to regain the initiative.

With the steady deterioration of the business environment, business support for government has waned, although "government will try to coerce those not in line, back into line," anticipates Cusa's Piroshaw Camay.

Government is also frustrated and bitterly complains about the lack of private sector

investment and commitment. It also gripes about business talking loudly in public, but being reluctant to come forward and talk directly with government.

A significant feature of the latest conference is the stamp of the EAC, controversially restructured in July 1985 to exclude organised business and economists. ■

49 FINANCIAL 7/11/86

BUSINESS INDICATORS

Mere coincidence?

Economists are persistent fellows, forever trying to make sense of their "science." One way is to cram as much data together into one graph as possible, hoping the evidence will show something intelligible.

The leading and coinciding indicators are just two such graphs. Accompanying is a recent update of the Bureau for Economic Research at Stellenbosch University (BER) coinciding indicator. The dark patches indicate recessionary phases; the lighter, periods of upswing.

This coinciding indicator seeks to combine imports, registered unemployed, physical volume of manufacturing production and wholesale and retail sales to show where we are in the business cycle. Statisticians then look for patterns to try to discover trends for the future.

On this basis, Mike Daly, economist at Southern Life, believes the recovery phase we are embarking on will reflect much the same pattern as the upswing that started at the beginning of 1978 and peaked towards the end of 1981 — what we'll term the "long upswing." It was characterised by a slow, steady start of almost two years before the economy gained strong momentum, and lasted some four years.

In contrast, the later recovery, the "short upswing," ran for barely a year from March 1983 to mid-1984.

Is there any valid similarity between then and now? Do those similarities give a sensible prognosis of what will happen next?

Again, Daly believes so. "The long upswing started when the authorities eased monetary and fiscal policies. Bank credit ceilings were raised, for example."

He adds that manufacturing production was depressed; the BA rate was 9% at the

beginning of 1978 as against an inflation rate of 11%; there was net emigration; and real declines in retail sales. A little later rates were pushed down even further into real negative returns by a strong gold price. Two years before, of course, had been the Soweto riots.

He says both recoveries, beginning in 1972 and 1978, started slowly and gained momentum in the wake of stronger gold performance.

Today, in some ways, the picture is similar. "Township unrest" has also been a significant feature of this latest recession. Again, monetary policy has been eased. The fiscal policy in the 1986 Budget was "sold as stimulatory," since government gambled on higher private consumption spending. Statistically, this has yet to develop on a broad front, although some furniture and stores groups have reported healthy gains in sales.

The BA rate is 9,5% against inflation of 20% — again negative in real terms, though much more so; manufacturing production levels and retail sales are similar to the 1978 start; and gold has recovered somewhat.

However, the differences are disconcerting. Says one economist: "These include sanctions, obligatory capital outflows, the remarkable negative rates of interest and, of course, the depressed rand."

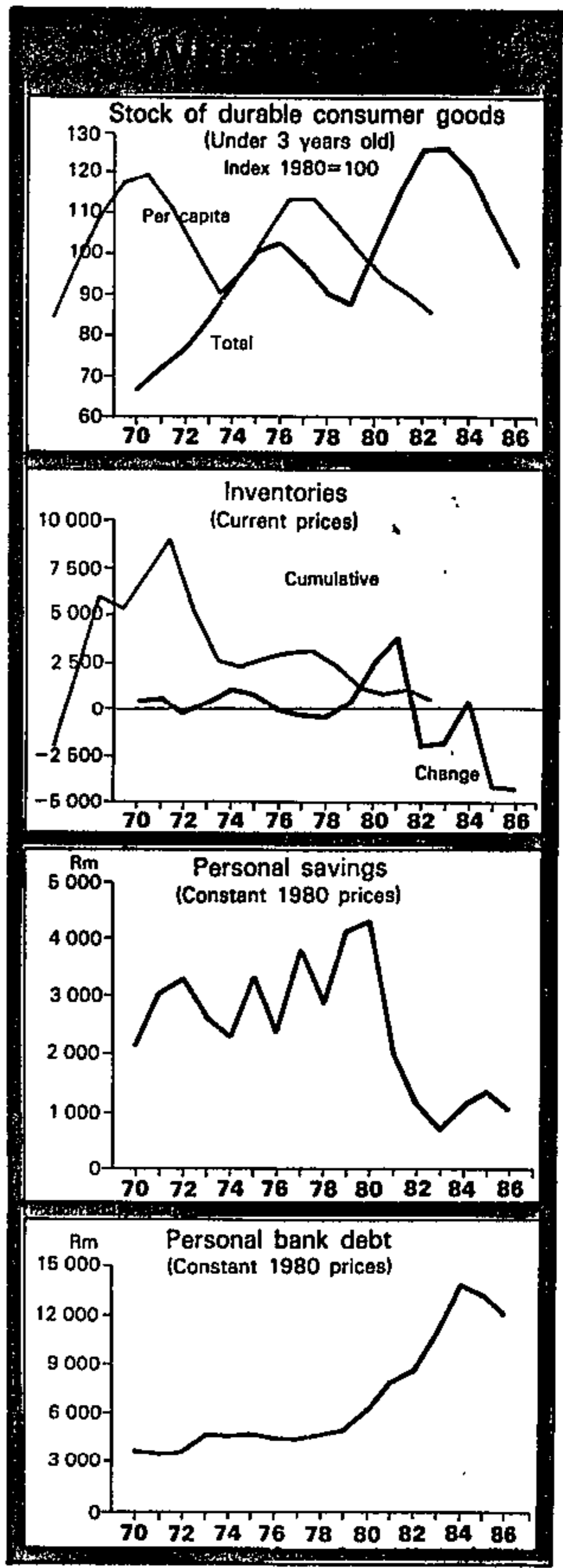
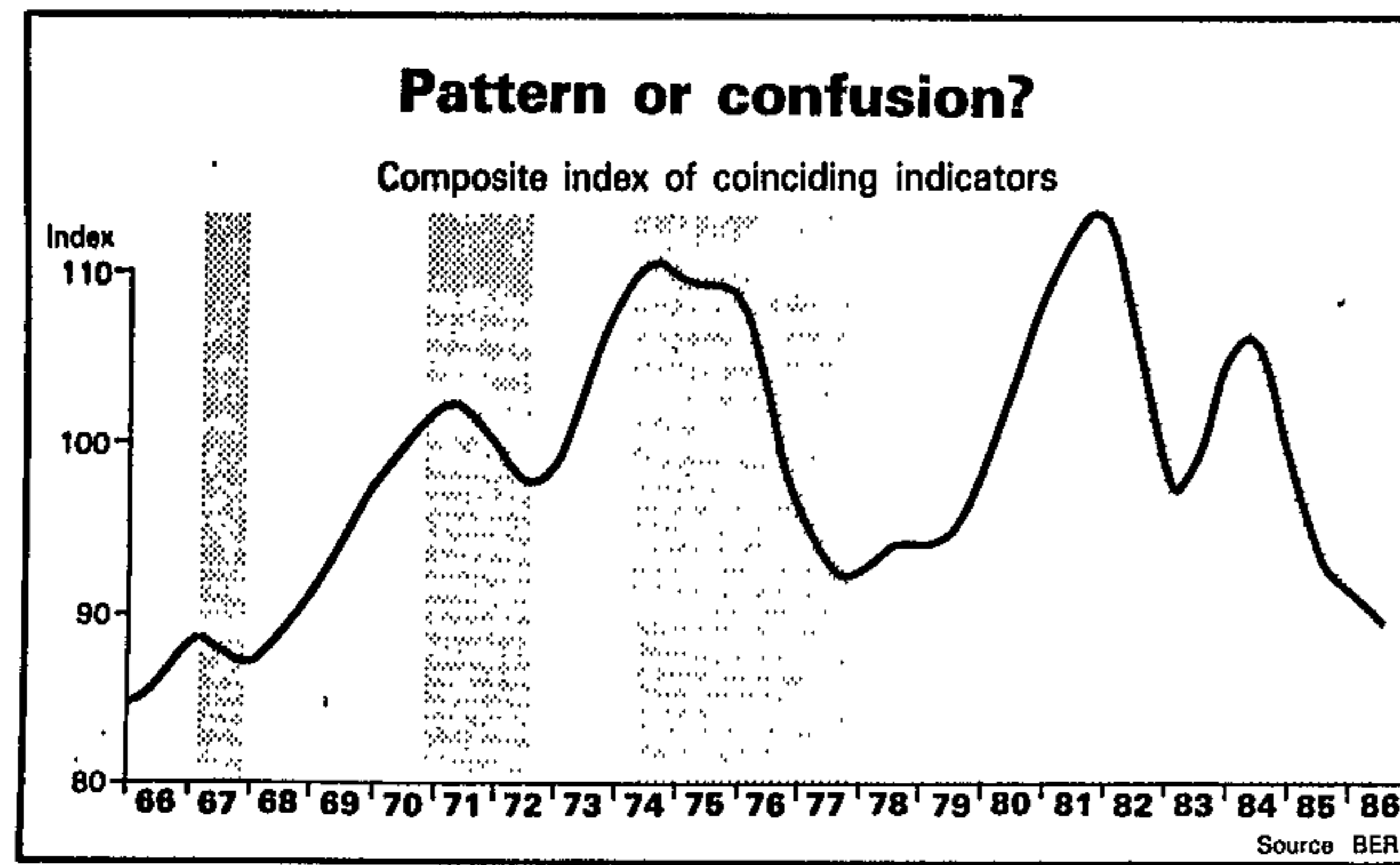
"But then there are distinct similarities, notably negative sentiment — politically based — as well as the confidence-rehabilitating effects of a possible further improvement in gold price."

And as Barclays noted a few months ago: "We seem to be in a situation more akin to the 1976-1978 period than 1983. In the mid-Seventies both domestic and international confidence reached a particularly low ebb; it

took a relatively long time to turn sentiment and the economy around." (See "Economy in a nutshell" *FM* May 30).

Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff, says there is more scope for recovery this time round than in 1978. "The consolidation we've been through has been far more severe than the 1975-1977 recession. This leaves more scope for recovery, even though the consumer's financial position is now a lot worse."

Graphs one and two reveal just how sharp the consolidation has been. Per capita pri-



Fidelity assets top R1-bn

Assistant Financial Editor

THE Cape Town-based Fidelity group, including the Board of Executors, now has assets of R1,1-billion under administration.

Announcing this with the results of the 18 months to September, chairman Stanley Lewis says it "not only reflects the drive for new business but also the growing acceptance of the broad range of services offered by the group".

The group, which has changed its financial year, achieved a net operating income of R6,8m for the 18 months to September.

On an annualized basis this is R4,5m compared with R4,2m for the 12 months of 1985. The final dividend is 45c a share.

Group income after an increased tax bill of R2,8m (R1,9m) rose to R3,9m compared with R2,1m in 1985, and R2,6m on an annualized basis, and dividends rose to R1,7m (R1,1m).

Earnings rose by 14% to 281c compared with 164c in 1985 and 187c on an annualized basis and the dividend by 13% to 127c (75c) a share.

Lewis reports that "both the Board of Executors and Fidelity Bank performed well, with assets under administration increasing from R700m to R1,1 billion".

He says it is "pleasing to report a 19% growth in after-tax profits.

"This result was achieved against a backdrop of heightened political uncertainty, volatile financial markets and after making prudent increases in provisions."

Hostile reaction to export drive plan

one tries 7/11/86

Assistant Financial Editor

GETTING trade unions to help secure export orders for goods produced at competitive prices, in order to provide more jobs, is theoretically possible, says Cape Chamber of Industries industrial relations adviser Ian Newall.

But he warned that in practice it might be possible only after a lengthy period to build up trust between the unions and management.

'Information'

"It is not something that will happen tomorrow."

And any chance that unions might agree to a special export project with workers temporarily accepting less than the normal rate of pay would depend on how much information they were given about a firm's profits and how much they trusted this.

Newall was commenting on a suggestion by the MD of Plessey (SA), John Temple, that the unions could help SA firms to avoid being priced out of the export market through wage rises.

Temple suggested that there should

be a two-tier system. Firms should pay normal rates for work done for the domestic market.

But, in order to secure export orders to provide work for the unemployed, there should be special projects with lower rates of pay in which union representatives should be told "how much the market will stand" and help with the costing.

● Reaction from at least one union — Cosatu — is already hostile. Regional general secretary Nic Henwood has warned that the unions are unlikely to participate in Wesplan — the campaign to create more jobs in greater Cape Town — if it undermines their attempts to secure a living wage for their members.

'Cheap labour'

Labour Reporter Hilary Venables writes that Henwood said unions were "not going to help provide cheap labour for bosses who were worried about their export markets".

"Jobs are not lost because of higher wages. They are lost because the bosses want to maintain their high profits", he said.

State and big business join hands

Bold link-up to revitalize SA's economy

By Colleen Ryan, Political Reporter

The Government and business leaders yesterday committed themselves to a bold new economic policy of financial growth and job creation — with a reduction of dependence on foreign capital and exports.

Delegates to State President P W Botha's "Forward with Confidence" conference were in optimistic mood after day-long talks with the Government.

Speculation that some businessmen would use the conference to call for a radical change proved unfounded. Delegates said politics did not dominate the talks, but views on important political issues were aired.

Addressing the third summit with businessmen since 1979, President Botha emphasised the importance of solving the country's economic problems and of improving cooperation between the private and public sectors.

The summit centred on a report by the Economic Advisory Council on an economic policy for South Africa for the next five to 10 years. Proposals for

the privatisation of certain Government-controlled industries were also discussed.

Mr Botha, addressing a Press conference after the summit at the Presidential Guest House in Pretoria, said it was a conference of "good will", where the country's problems were discussed in a "civilised manner".

Minister of Finance Mr Barend du Plessis said discussions and recommendations made by the 10 working groups at the conference would be documented and considered by the Government as soon as possible.

"What is of significance is that those who occupy themselves with the economy of the country got together because they are concerned about the rate of economic development in South Africa, and are worried about employment opportunities," he said.

Mr du Plessis, referring to the question of whether politics should have been discussed, said the State President made it clear the summit "was not a party political conference". However, "political statements that were made were taken cognisance of and received with understanding".

He said private sector and Government delegates reached consensus on many important economic issues.

At the Press conference, Barlow Rand chief executive Mr Warren Clewlow said the economic plan was based on a long-term strategy of improving the quality of life of all South Africans by promoting the principle of economic equality.

Proud

South African Brewers chief executive Mr Meyer Kahn said he was proud to be part of the new initiative. He placed emphasis on the need to increase economic growth, provide more jobs and build more homes.

Commenting on the summit, Federated Chamber of Industries (FCCI) president Dr Higo



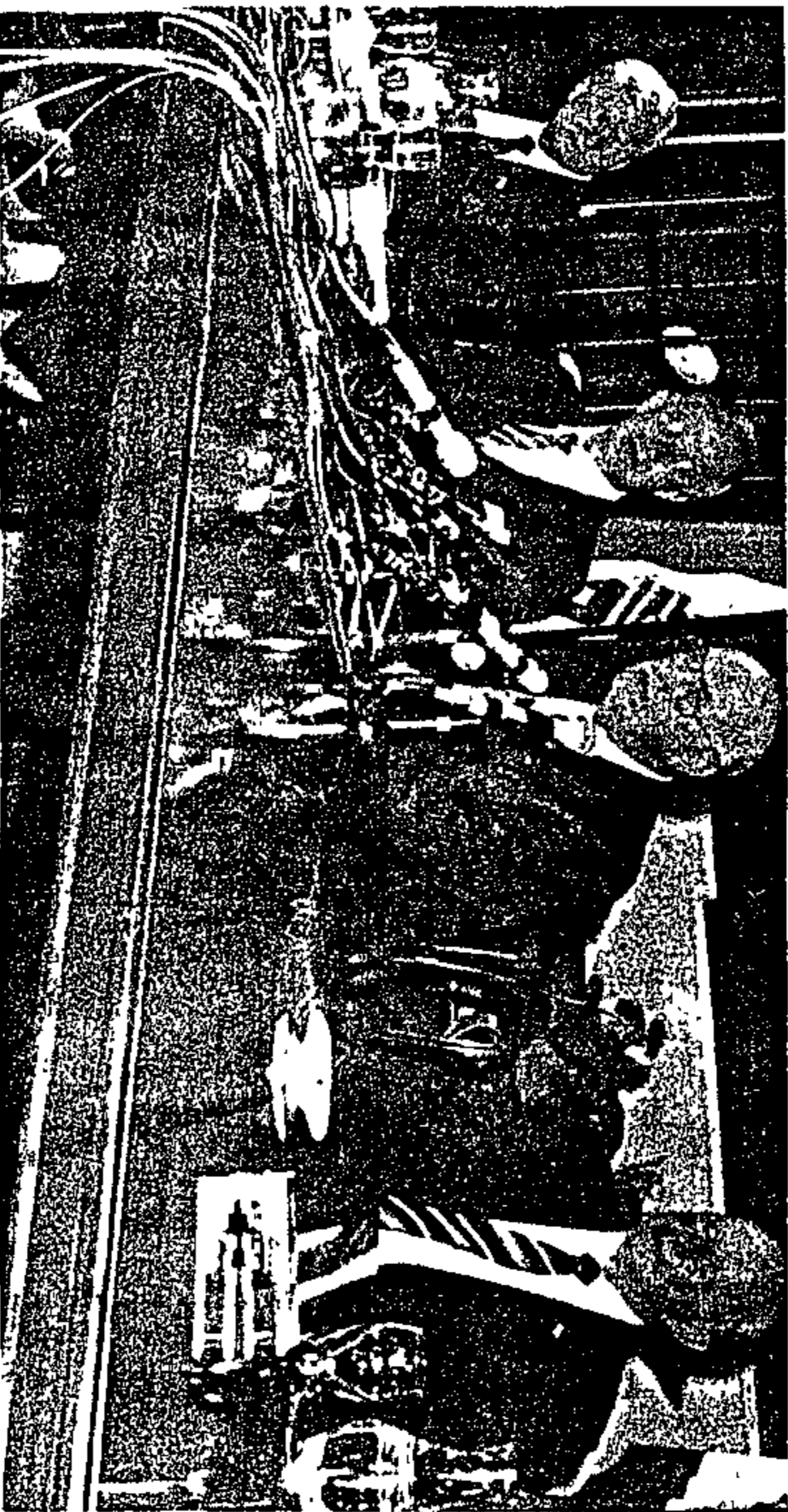
Mr Clewlow economic equality.



Mr Motswagole boycott.



Mr Kahn proud.



President Botha faced a phalanx of microphones yesterday after his business summit. With him are the Minister of Transport, Mr Eli Louw (left); Minister of Finance Mr Barend du Plessis and conference chairman Dr Cornelis Human (right). Photograph: Etienne Rothberg.

GM workers to get back on the lines on Monday

By Glenda Spiro and Janine Simon

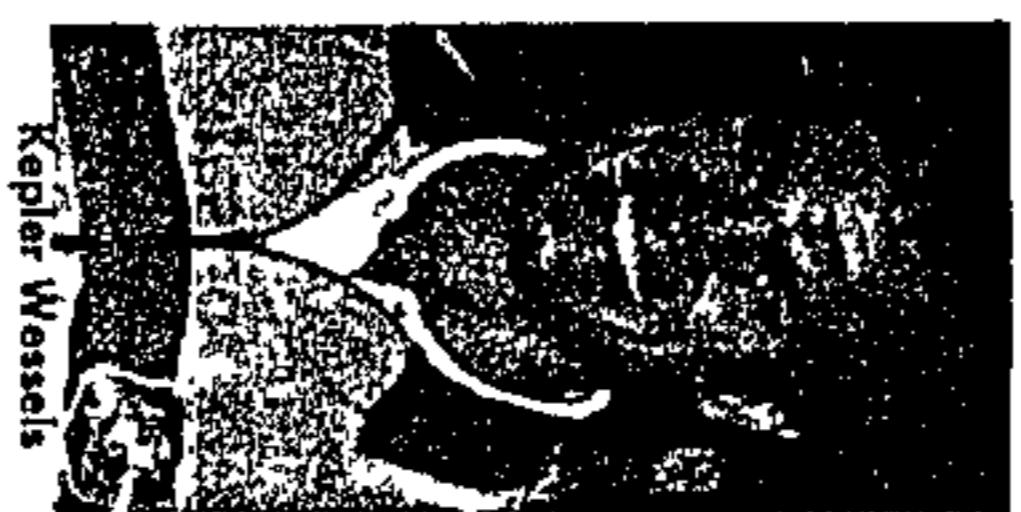
More than 2 000 General Motors workers, including 567 who were sacked, have decided to return to work on Monday. Workers' demands for severance pay and repayment of pension contributions have gone to arbitration.

The GM action was one of five disputes this week. ● General: About 5 500 mineworkers stopped work at Gencor's Kiroos gold mine near Evander. They want a union representative (dismissed for disrupting a management-organised memorial service for the Kiroos mine disaster victims) and three union leaders dismissed after underground work stoppages over bonuses two weeks ago, reinstated. ● CNA: About 1 000 CNA employees staged sit-in strikes at de'Konstrakom stores and warehouses.

Who will get top Wits job?

By Susan Fleming

Speculation has already started at Wits over who will take over from vice-chancellor and principal Professor Karl Tober when he retires on his 60th birthday in 1988. Ex-PFP leader Dr van Zyl Slabbert has been mentioned but could not be contacted for comment last night. Others said to be in the running are deputy vice-chancellor Professor Robert Charlton, Friedel



Kepler Wessels

Kepler out to no ball?

By Michael Owen-Smith

Kepler Wessels, in an international tug-of-war for his services, could spend the South African summer on the cricket sidelines.

The left-hander is qualified by birth for the Springboks and by nationality for Kim Hughes' Australians.

There is little doubt he would strengthen either side: a career average of almost 50, a highest score of 254 for Sussex and a Test debut of 162 for Australia against England — five short of the opening record.

One of the first jobs facing Hughes's team (due at Jan Smuts Airport today) will be to decide on the Wessels issue. Another will be to ap-

Lawyers for the accused pull out

CAPE TOWN — Two attorneys who had appeared for two of the six people charged with murdering the father of South Africa's first test-tube quadruplets, Mr Stanley Hinrichsen, yesterday informed a Wynberg magistrate's court of their withdrawal from the case.

The prosecutor Miss H van der Merwe informed the court that Mr N Smitker for Mr Goodman Tembala and Mrs G Koelma for Mr Gilbert Jamani, would no longer be representing their former clients. At a previous hearing, Mr Richard Mabuto, 27, Mr Tembala, 38, Miss Virginia Thomas, 27, all of New Crossroads, Nyanga, and Miss Victoria Greve, 34, of Mbekweni, had all pleaded not guilty to murder, alternatively culpable homicide, attempted murder, housebreaking with intent to rob, possessing an unlicensed firearm and four rounds of ammunition.

Amos Bharu, 34, Jamani, 28, had pleaded guilty to culpable homicide and housebreaking with intent to rob, but the magistrate had changed the plea of guilty to culpable homicide to not guilty. Mr Hinrichsen, 52, had been killed at his Constantia home on August 25 and his wife Renate, 33, had been

GLIAN SAVIN
ON OUR EXCLUSIVE

91 cm single
Prices per piece

R119

91 cm single
Prices per piece

R149

SEALY LUXURY COMFORT

107 cm
137 cm
169

SEALY PREMIER

107 cm
137 cm
169

ALL PRICES IN Rands

to revitalise

By Colleen Ryan,
Political Reporter

The Government and business leaders yesterday committed themselves to a bold new economic policy of financial growth and job creation — with a reduction of dependence on foreign capital and exports.

Delegates to State President P W Botha's "Forward with Confidence" conference were in optimistic mood after day-long talks with the Government.

Speculation that some businessmen would use the conference to call for urgent political change proved unfounded. Delegates said politics did not dominate the talks, but views on important political issues were aired.

Addressing the third summit with businessmen since 1979, President Botha emphasised the importance of solving the country's economic problems and of improving cooperation between the private and public sectors.

The summit centred on a report by the Economic Advisory Council on an economic policy for South Africa for the next five to 10 years. Proposals for

the privatisation of certain Government-controlled industries were also discussed.

Mr Botha, addressing a Press conference after the summit at the Presidential Guest House in Pretoria, said it was a conference of "good will", where the country's problems were discussed in a "civilised manner".

Minister of Finance Mr Barend du Plessis said discussions and recommendations made by the 10 working groups at the conference would be documented and considered by the Government as soon as possible.

"What is of significance is that those who occupy themselves with the economy of the country got together because they are concerned about the rate of economic development in South Africa, and are worried about employment opportunities," he said.

Mr du Plessis, referring to the question of whether politics should have been discussed, said the State President made it clear the summit "was not a party political conference".

However, "political statements that were made were taken cognisance of and received with understanding".

He said private sector and Government delegates reached consensus on many important economic issues.

At the Press conference, Barlow Rand chief executive Mr Warren Clewlow said the economic plan was based on a long-term strategy of improving the quality of life of all South Africans by promoting the principle of economic equality.

Proud

South African Breweries chief executive Mr Meyer Kahn said he was proud to be part of the new initiative. He placed emphasis on the need to increase economic growth, provide more jobs and build more houses.

Commenting on the summit, Federated Chamber of Industries (FCI) president Dr Hugo Snyckers and the president of the Associated Chambers of Commerce, Mr Harold Groom, said:

"Assocom and the FCI believe that the discussions were necessary and will help to promote business confidence in South Africa — provided the positive recommendations on the economic as well as the political front are actively pursued."

Lawyers for the accused pull out

CAPE TOWN — Two attorneys who had appeared for two of the six people charged with murdering the father of South Africa's first test-tube quadruplets, Mr Stanley Hinrichsen, yesterday informed a Wynberg magistrate's court of their withdrawal from the case.

The prosecutor Miss H van der Merwe informed the court that Mr N Snitcher for Mr Goodman Tembala and Mrs G Koelma for Mr Gilbert Jamani, would no longer be representing their former clients.

At a previous hearing, Mr Richard Mabuto, 27, Mr Tembala, 38, Miss Virginia Thomas, 27, all of New Crossroads, Nyanga, and Miss Victoria Gwe, 34, of Mbekweni, had all pleaded not guilty to murder, alternatively culpable homicide, attempted murder, housebreaking with intent to rob, possessing an unlicensed firearm and four rounds of ammunition.

Amos Bhara, 34, Jamani, 28, had pleaded guilty to culpable homicide and housebreaking with intent to rob, but the magistrate had changed the plea of guilty to culpable homicide to not guilty.

Mr Hinrichsen, 52, had been killed at his Constantia home on August 25 and his wife Renate, 33, had been stabbed and injured in the attack.

The case was adjourned to a date to be fixed.

Harare denies Malawi plot

HARARE — Zimbabwe last night denied South African charges that it plotted with Mozambique to topple Malawi's Government.

The State Radio quoted the Information Ministry as saying the allegations were "lies aimed at concealing that Pretoria assassinated President Machel."

Earlier, Mozambique rejected an SA claim that the accusations were based on a document found in the wreckage of Machel's plane. — Reuter.



Vessels

er
o
ll?

el
lth

In an In-
war for
d spend
in sum-
et side-

s qual-
or the
by na-
ughes'

ubt he
either
ge of
score
nd a
Aus-
d —
ning

obs
am
ir-
de-
ue.
p-
te-
al-
a-
re

it
r

erati
ughw
rov
top
nce
ern
ate
and
in
uth
by
P
c-
er-
P
g
li
Mo
567
on
rep
bit
at
jur
wa
a
Kir
ers
bor
C
str
cou
Ma
fer
P
in
cell
col
S
Mo
mit
S
in
end
will

Doubt on Mossel Bay gas scheme

49

W.K. Mous... Political Staff

PRETORIA. — The Minister of Finance, Mr. Barend du Plessis, has left a question mark hanging over the proposed multi-million rand gas conversion project for Mossel Bay.

At a Press conference after yesterday's business summit, Mr du Plessis said the Government's spending policy had shifted from large-scale infrastructure development to socio-economic development.

This included such programmes as the building of schools. These trends had already started, as could be seen in the seven-fold increase in spending on black education.

He said it was a dramatic shift which held hope for the underprivileged.

Asked whether the Mossel Bay project would be affected, Mr du Plessis said such decisions — and those concerning any other large-scale project —



Mr. du Plessis

would be subjected to "priority requirements" when the time came for final decisions.

Meanwhile, business representatives at President P W Botha's economic summit yesterday have agreed to go along with the Government's economic development strategy.

"Big business" leaders emerged from the all-day conference confident that the partnership first forged at the Carlton conference

had been renewed in spite of growing dissatisfaction with the pace of reform.

Mr Botha said the conference had succeeded in achieving its purpose.

Business leaders said the demands for faster reform had been put politely and firmly, but no Government reply had been received.

Mr du Plessis had said the Government would bear in mind the statements on reform when it came to making policy decisions.

The demands included a call for the scrapping of the Group Areas Act.

Long-term strategy

Issues such as the release of ANC leader Mr Nelson Mandela and the unbanning of the African National Congress were not raised.

The businessmen gave their approval to the long-term strategy devised by the Government's Economic Advisory Council, with the rider that it should be implemented as soon as possible.

The new policy aims primarily at stimulating the economy by switching the emphasis of Government spending from huge infrastructural projects to socio-economic schemes to overcome unemployment and improve the lot of the underprivileged.

The Government wants the private sector to play a far greater role in improving the socio-economic conditions of blacks.

Mr Meyer Kahn, of South African Breweries, and Mr Warren Clulow, of Barlow Rand, made it clear that they had agreed to go along with the Government's economic plans and to ultimately convert them to the free enterprise system.

H
P
T

Many get richer on SA's booming stock exchange

w/c ARROWS 8/11/86
49

By DEREK TOMMEY
Finance Editor

SOUTH AFRICA'S booming stock exchange has made many South Africans richer this year.

Overall prices of shares on the exchange have risen almost 50 percent since December, and investors have seen the value of their holdings rise almost R80-billion to just under R240-billion.

However, not all the benefits of the boom will go to the rich. Anyone who belongs to a pension fund or possesses a life insurance policy or endowment policy with profits also stands to gain from the boom in the share market.

These days a large proportion of the shares listed on the Johannesburg Stock Exchange are owned by the life insurance companies, pension funds and unit trusts, and a booming share market helps them to improve the benefits they can give to their members and clients.

Fared better

An analysis of share price movements shows that some investors fared better than others, depending on their choice of shares.

Gold shares, helped by a spurt in the gold price, have risen in aggregate by about 60 percent.

But, reflecting the slow recovery in the business activity, industrial shares have risen only 33 percent.

Investors who had the foresight to put their money into

Amic options have seen it appreciate more than tenfold.

Altogether, 10 shares have appreciated by 200 percent or more this year.

On the other hand, investors in Burad have lost 82 percent of their capital.

Even though boom conditions have prevailed on the stock exchange, shares of companies in difficulties have fallen, and the prices of 10 shares have at least halved.

Small investors

Many small investors who, in trying to protect their capital against inflation and have in desperation put their money into unit trusts, have reason to be pleased with their choice.

The value of the units of one trust, Standard Gold, have risen 55 percent so far this year. Old Mutual's units have risen 41,3 percent, NGF units 39,5 percent, Trust units 39,4 percent and Guardbank units 38,6 percent.

Much of the increase in industrial and financial share prices has been due to buying on the expected recovery in the economy and not on improved profits and dividends.

The result is that industrial shares are now giving a smaller return than a year ago.

This has led some investors to claim that industrial shares have outrun fundamentals and to express doubts about whether industrial shares can achieve further strong gains.

One analyst who does not agree with this view is the head of investment strategy at a Cape Town stockbroking firm.

In spite of the recent strong rise in industrial shares he is optimistic that the bull market will continue into 1987.

State has meticulously planned restructure of SA society, Durr says

W/G PRS 8/11/86 49 3000

JOHANNESBURG. — The Government was set on a meticulously planned course to re-structure South Africa's society — and was not directionless — said Mr Kent Durr Deputy Minister of Finance, at the annual convention of the federated Chambers of Industry here.

Addressing the conference on "Economic Prospects in a Sanctions Environment", this week Mr Durr said there was a sea-change in the Government's attitude to the private sector which was not sufficiently recognised.

"One has only to look to the following to see what striking progress has already been made," he said.

- "Firstly, the Economic Advisory Council of the State President has designed an overall economic strategy which will provide a global perspective on economic policy measures. The council is also working on a strategy for the reconstruction of the agricultural sector.

- "Secondly, the Margo Commission has almost completed its comprehensive review of the tax system. The commission's recommendations have a vital bearing not only on tax reform in South Africa but also on our ability to maintain or improve our international competitiveness.

- "Thirdly, the implementation of the strategy for the development of small business and for deregulation is well under way. Areas affected thus far include: the establishment of a new form of business enterprise in the shape of the close corporation; the introduction of new standard national building regulations; the deregulation of business hours and of certain aspects of liquor affairs; the opening up of central business districts to all population groups; the abolition of influx control; the acceptance of the informal sector; the acceptance of the principle of non-discrimination between businessmen of all groups; legislation giving the State President wide powers to cut through red tape and unnecessary regulations; and the successes achieved in helping small businessmen via institutions such as the Small Business Development Corporation.

"I think it is important that we recognise that progress is being made along a planned route where the route, the planning and the implementation are subscribed to and have the full participation and input of the very best leadership in the private sector.

- "The fourth dimension of this intricate web of inter-relationships is the progress made towards privatisation.

"Key areas ripe for privatisation have now been identified. Those that offer the private sector a change of early and fruitful participation, and simultaneously the Government the opportunity to withdraw, will soon give from to our stated policy of minimising the participation of the State in the economy.

- "Fifthly, in the field of industry and commerce the White Paper on industrial development strategy targets the goals and provides a comprehensive

picture of the direction for the future.

"Private sector input is substantial, since an overall 58 percent of representatives of these institutions are businessmen contributing to decision-making at the highest level.

- "In the sixth place, our industrial strategy has led to the establishment of the Kleu Committee to investigate the possibility of implementing comprehensive structural adjustments to the economy. As a first step a review of export incentives is currently under the spotlight, to make them more cost effective and to conform with GATT requirements.

- "In the seventh place, another consequence of joint action between the private and public sectors is seen in the recent restructuring of the Board of Trade and Industry.

- "In the eighth place, mention should be made of the role of technology as the lifeblood of future industrial development. The Department of Trade and Industry, with the CSIR, has already launched a programme to facilitate technology transfer.

"Here it should also be mentioned that the Board of Trade and Industry has recently finalised the investigation into the electronics industry. The development of this strategic industry is in line with the Government's belief that technology, and not numbers, is one of the main determinants of a country's economic and military strength.

- "In the ninth place, the Board for the Decentralisation of Industry is progressing well.

"To date, from its inception in 1982, 300 000 direct employment opportunities created tell only a small part of the whole story."

Mr Durr concluded by listing some of the more specific business opportunities he felt were on offer.

- There is surplus capacity of men and machines in many industries to cope with substantial growth without much capital outlay.

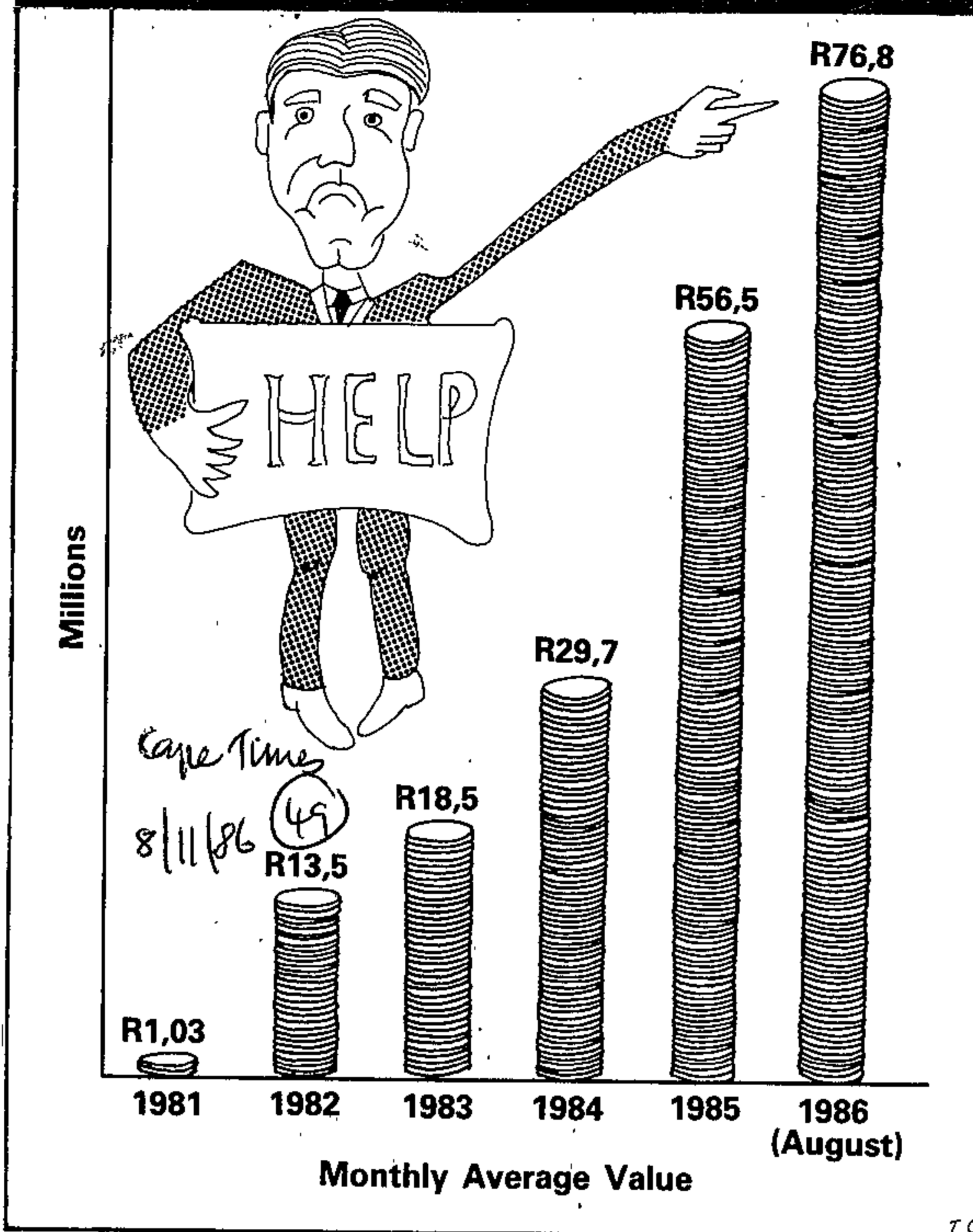
- Recent government and private sector efforts to promote training have created a pool of people with lower-level skills, awaiting mobilisation in less sophisticated industries.

- The sale of foreign controlled companies will, in many cases, free local management to seek exports in areas from which they were previously excluded by licencing or parent company arrangements.

"There are many products that can be manufactured locally but which are currently imported because that has been easier. As labour costs rise under the influence of rapid economic growth on the part of several of our competitors, the combination of rapid population growth and improved skills training in South Africa should enable us to enjoy labour costs per unit of output in certain industries lower than is the case in many competing countries.

"This, in turn, will create further export opportunities. — Sapa.

Civil judgments for debt



This graph shows how the average amount of money involved in all civil court judgments in South Africa in a month has risen over the years, from just over R1 million a month in 1981 to nearly R77 million monthly this year.

Dramatic rise in debt in SA

By ROGER WILLIAMS
Chief Reporter

CIVIL court judgments for business and private debt in South Africa have, in terms of the money involved, risen astronomically from a monthly average of just over R1 million in 1981 to nearly R77 million in the first eight months of 1986.

And this year's monthly average is so far R20 million up on 1985.

While latest official figures indicate a levelling-out in the number of company liquidations, they also show that the number of civil judgments for business and private debt has risen by nearly 12 000 in the past five years.

Dun and Bradstreet, the country's leading credit-monitoring and debt collecting agency, said yesterday the steep rise in the volume of monies involved in civil debt cases reflected the high inflation rate and the fact that often the liquidation of a company weakened and dragged other firms down with it.

Also of significance, the spokesman said, was the fact that there had been a sharp decline in the number of new companies registered in SA. Where a monthly average of more than 1 000 new companies were registered in 1981, the number dropped to 486 last year and to 434 up to September this year.

"Offsetting this though is the fact that there has been positive growth in the number of closed corporations that have come into being — a monthly average of 1 326 in 1985 and 1 970 up to September this year."

Also on the positive side, official figures showed a levelling-out in the number of liquidations this year, to a latest monthly average of 234 companies, compared with an average 255 last year.

Compared with last year, the overall figures reflected "a definite improvement in the trend" where liquidations were concerned.

20/1/77 8/11/78

Big business backs plans for economy

S
P
C
A
W
S
P

PRETORIA—The Economic Advisory Council's long-term economic strategy and the Government's initial response to it was 'endorsed' yesterday when 200 of South Africa's leading businessmen met Government for the 'Carlton III' discussions in Pretoria.

It also emerged at a Press conference after the day-long discussions that more meetings between Government and the private sector will be held as soon as possible.

President Botha, who addressed the Press conference briefly, said the meeting had been 'a success and its purpose was fulfilled'.

He said he hoped the Economic Advisory Council would in future apply itself to finding a way in which the Government could meet the private sector to facilitate an exchange of views.

Dr Kerneels Human, chairman of the Economic Advisory Council, and of yesterday's discussions, emphasised that the meeting had been 'positive'.

'The strategic (economic) document was accepted by the conference,' he said.

The Minister of Finance, Mr Barend du Plessis said serious attention would be given to the Economic Development Programme envisaged in the strategy, and that although there was no specific time scale, the matter was regarded as urgent.

Mr Warren Clewlow, of the South African Foreign Trade Organisation, who represented the private sector with Mr Meyer Khan of S A Breweries, at the Press conference, emphasised the fullest support of the businessmen for the economic strategy.

Group Areas

If it succeeded it would definitely clear the way for a better South Africa for all and the degree of support it received would determine its success, he said.

Mr Clewlow and Mr Khan conceded that political issues had featured strongly in the discussions, particularly calls for the abolition of the Group Areas Act, but emphasised that 'specifics' had not been dealt with.

Generally, the need for Government to speed up

its reform process had been emphasised and the Government response had been 'sympathetic'.

'We made it clear we want a free and open society for all,' Mr Khan said.

The African National Congress and its jailed leader Nelson Mandela had not been raised.

In Johannesburg, the Association of Chambers of Commerce and the S A Federated Chamber of Industries said business confidence would only be boosted when both political and economic problems were addressed.

In a joint statement the leaders of the two organisations — FCI president Dr Hugo Snyckers and Assocom president Mr Harold Groom — said 'economic performance and political reform are totally interdependent in South Africa, and both the Government and the private sector will urgently have to promote policy steps that recognise this reality'.

The organisations also emphasised the need for 'the complete elimination of racial discrimination at all levels of South African society'. — (Sapa)

De Kock drops a bombshell

SA domestic spending grows 26%

49

GERALD PROSALENDIS
Economics Editor

GOVERNOR of the Reserve Bank Gerhard de Kock yesterday stunned the *Financial Mail* Investment Conference by revising the official estimate for third-quarter growth in real gross domestic expenditure (GDE) upwards to an astonishing 26% seasonally adjusted annual rate.

De Kock's initial GDE figure of 20%, released late last month, surprised economists who warned at the time that even this figure appeared too high, possibly because of statistical distortions. The revised figure will no doubt be the subject of intense debate.

De Kock also said yesterday that official estimates showed real gross domes-

● See Page 4
Comment Page 6

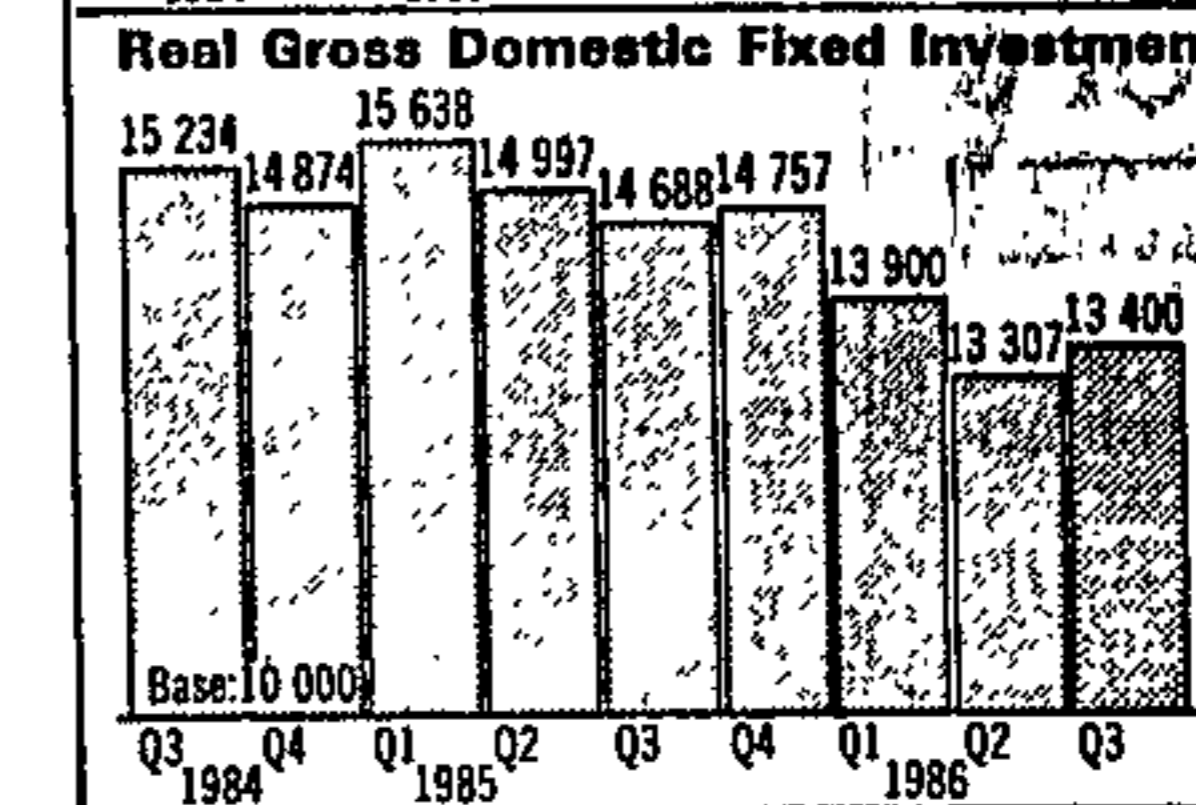
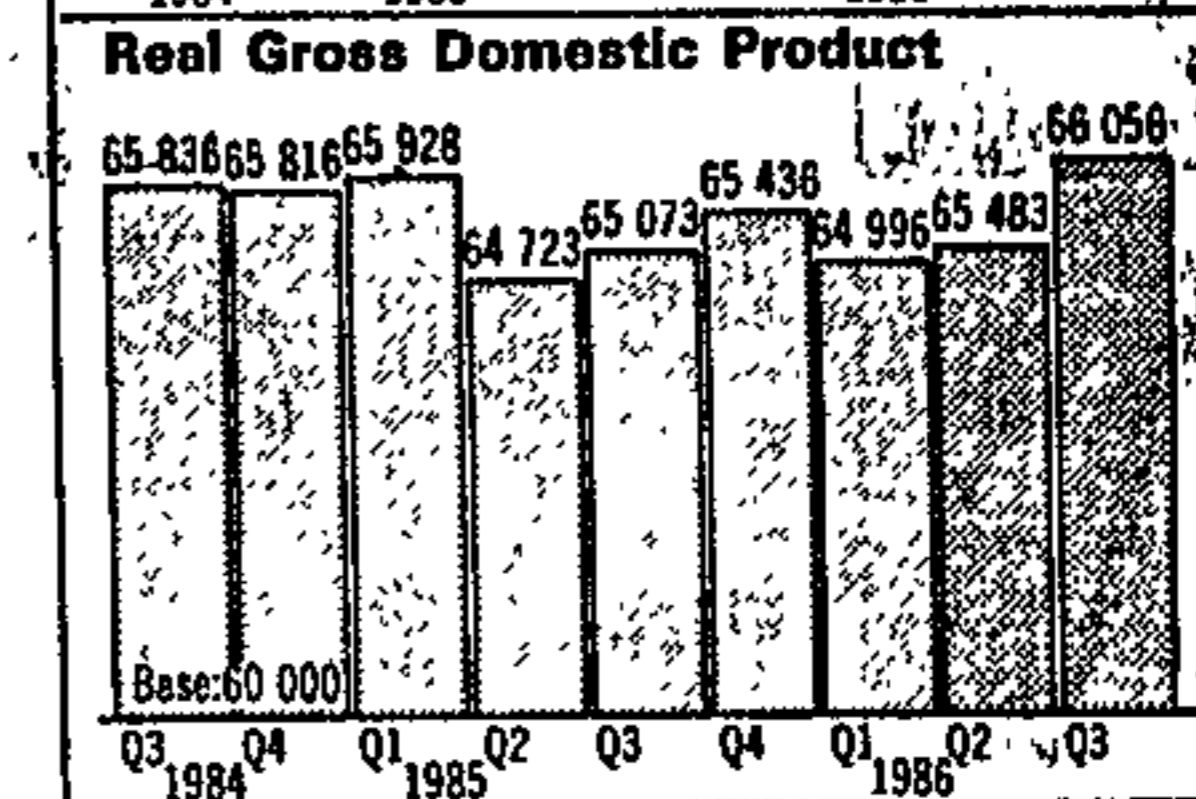
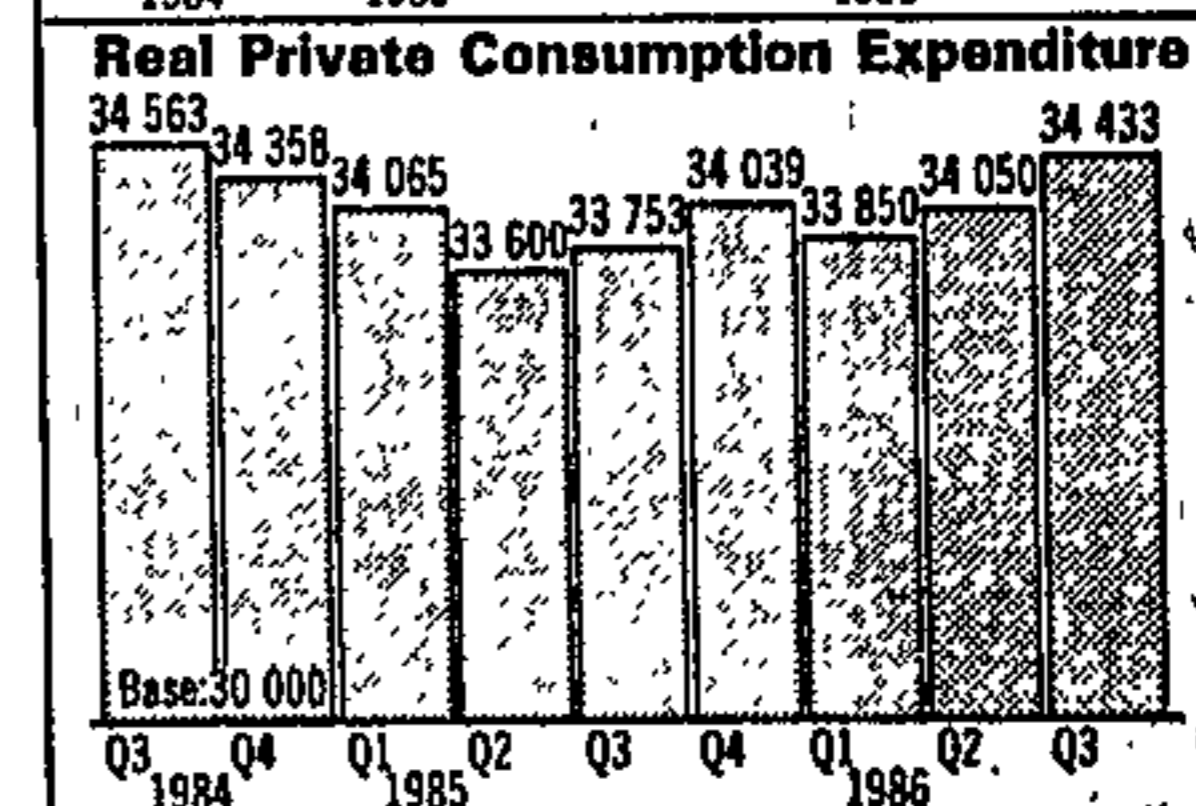
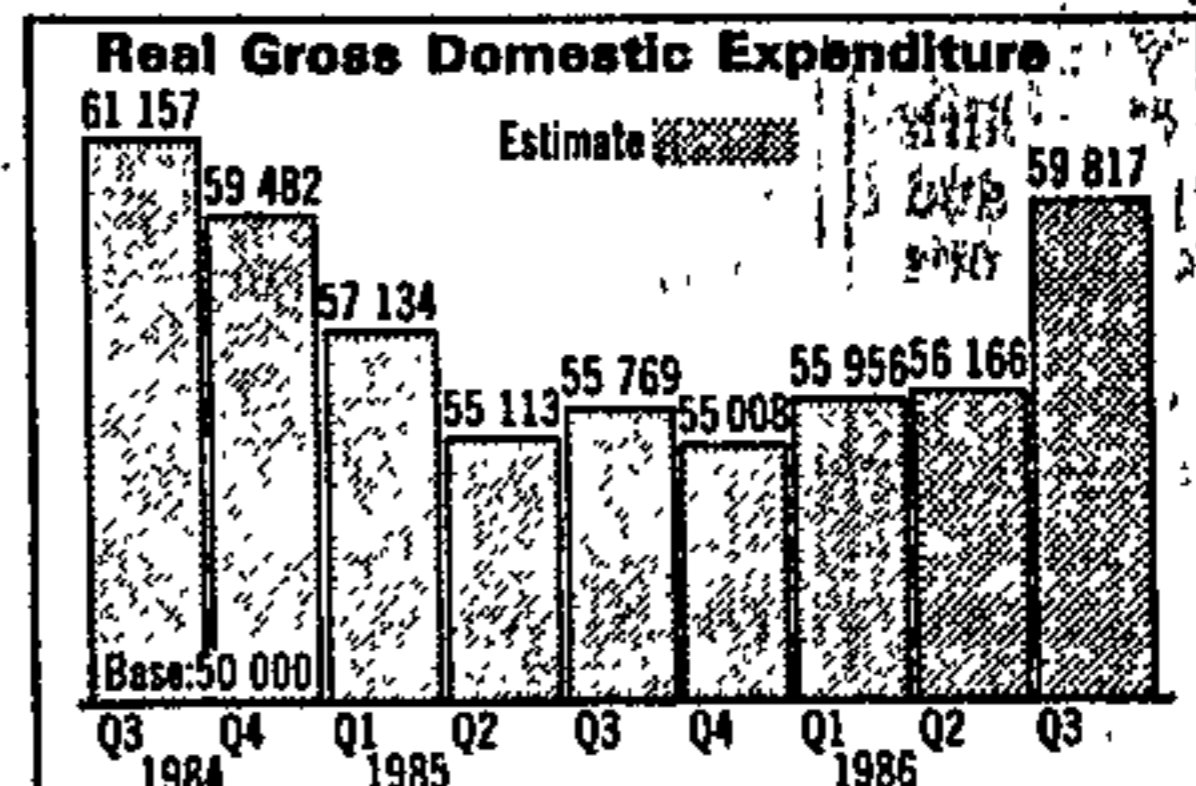
tic fixed investment increased marginally in the third quarter.

"If this marks the end of the persistent downward tendency in this strategically important component of total spending since early 1982, it is a most significant and welcome development," he said.

The startling rise in GDE, a key indicator of domestic demand, together with the reversal in the decline in fixed investment and an upward revision in estimates of gross domestic product — to 3.5% in the third quarter from 2.5% — present strong evidence that the SA economy has entered a medium-term growth phase.

De Kock said, however, that growth this year was unlikely to exceed 1% by a significant margin.

"The main improvement will be reflected in the 1987 growth rate, which at



Seasonally adjusted R m's at constant 1980 prices

● To Page 2 → P.T.O.

Most Economic Advisory Council points are accepted. Govt reaffirms belief in reform

The Government has agreed with most of the recommendations in the report of its Economic Advisory Council, adding that many of them were already policy.

At the same time it has made a fresh commitment to the resumption of international economic relations, improved trade links and boosted internal economic growth.

In its initial response to the report, drawn up by a sub-committee of the EAC, the Government reaffirmed its belief in reform aimed at ending discrimination, providing equal opportunities and political rights for all.

Evolutionary process

However, it said, reform was an evolutionary process "in which perceptions must be changed, people at different levels must be exposed to complex institutions and processes, common values and leadership must be developed".

"It cannot, therefore, take place overnight." The Government agreed with the council that its economic strategy had an important role in the process of political reform and in the normalisation of the country's foreign economic relations.

It recognised the importance of resuming international economic relations and would continue its efforts to normalise these.

"Fundamental socio-economic development will make an important contribution in this regard, and this is receiving thorough consideration."

The Government was willing to come to an agreement with the country's creditors and to repay South Africa's International Monetary Fund loans scrupulously.

On the subject of trade, the Government agreed with the council that new approaches had to be found in the face of sanctions.

"Exports to South Africa's non-traditional markets and countries which previously could not import from South Africa as a result of a shortage

Strategy hopes to reduce SA's dependence on foreign capital

By Colleen Ryan
Political Reporter

A new economic strategy to reduce South Africa's dependence on foreign capital and exports has been proposed by a sub-committee of the Economic Advisory Council.

Under the strategy, economic growth will be boosted and attention given to job creation and social and political reform.

The report was made public at the State President's economic summit in Pretoria on Friday.

It said the South African economy had performed poorly in terms of economic growth, job creation, price stability, and the value of the rand over the past few years.

Urbanisation and black advancement would result in larger domestic demand, with producers becoming more dependent on the growing local market and less on

imports and exports.

The report warned that South Africa could not expect access to foreign capital as freely as in the past. It would have to meet certain debt commitments and become less dependent on exports.

Although a correct economic strategy was important, "it cannot in the long term compensate for political factors and the current unrest situation".

"There is a general need for a clearer indication of the direction which is to be followed with political reform and the maintenance of law and order."

It would have to have sufficient credibility "to counteract effectively the unfavourable influence of existing political and security action on domestic and foreign economic perceptions".

There was a real danger that if

these perceptions were not changed, the country would not succeed in normalising its international financial relations.

If this was not achieved, it would "impose a further limit on the country's ability to apply its domestic savings for economic growth".

It warned that if access to the international banking payment mechanism was further limited, "this would have a far more unfavourable effect on the South African economy than the sanctions proposals currently under consideration".

Drought and cyclical factors were not the only cause of the economic problems. The debt standstill and unrest had strong political overtones which were nurtured by the depressed economy.

The report said the Government's urbanisation policy and industrial

Government responsibilities allowed.

The Government said it had accepted the recommendation that it limit its budget deficits, before borrowing, to three per cent of the gross domestic product, "but this is being applied with the required flexibility".

Exchange rates should follow a more stable course and the dual exchange rate should be maintained for the time being.

On productivity, the Government said the Commission for Administration was looking at increasing public service efficiency.

Privatisation and de-regulation measures were also being studied and there was a commitment to removing stumbling blocks.

One area where the private sector could play a vital role

was in the provision of low-cost housing.

This sector could also become involved in vital artisan training and a White Paper would soon be issued in which the responsibility of the private sector would be discussed.

The private sector could also undertake new capital projects on a risk basis.

The Government said it was committed to equal standards in social services and education.

On the subject of manpower development, the Government said it had for some time been giving priority to the creation of jobs and the promotion of equal opportunities. It pointed to the R385 million it had spent on job creation and training schemes in 1985/86.

The Government added that it was committed to equal educa-

tion standards and opportunities for all and was finalising subsidiary formulas to make this possible.

It believed in one education system for all with defined sub-structures and one general education policy.

It agreed that blacks should be increasingly exposed to management and senior posts, including such positions in the public service. This should be determined on merit and not "in a cosmetic way".

There was scope for upward mobility in the public service and this would improve.

No distinction was made on the basis of colour, but appointments were related to the distinctions between general and own affairs and the constitutional structures in the different population groups.

SUE LEEMAN and COL. LEEN RYAN report on the Pretoria economic summit.

of foreign currency are being actively promoted by means of non-conventional methods."

Attention was being given to strengthening existing trade links, particularly within the Southern African Customs Union.

The country was also looking to its technological resources, particularly the transfer of technology from one sector to another.

Internally, the Government said, possibilities offered by inward industrialisation and urbanisation were being studied by the Board of Trade and Industries.

Pretoria was committed to helping the small business sector, in particular.

It also accepted the council's recommendations that it continue to follow a market-oriented approach, saying it had a constitutional commitment to the promotion of private initiative and effective competition.

In response to the council's recommendation that financial policy must ensure the most effective use of scarce production resources, the Government said it intended to continue with market-related policy approaches on interest rates, wages and salaries, prices and the exchange rate.

Fiscal discipline, it agreed, was vital in fighting inflation. What was needed was an appropriate fiscal policy which tried to cut public spending as far as

Government responsibilities allowed.

The Government said it had accepted the recommendation that it limit its budget deficits, before borrowing, to three per cent of the gross domestic product, "but this is being applied with the required flexibility".

Exchange rates should follow a more stable course and the dual exchange rate should be maintained for the time being.

On productivity, the Government said the Commission for Administration was looking at increasing public service efficiency.

Privatisation and de-regulation measures were also being studied and there was a commitment to removing stumbling blocks.

One area where the private sector could play a vital role

was in the provision of low-cost housing.

This sector could also become involved in vital artisan training and a White Paper would soon be issued in which the responsibility of the private sector would be discussed.

The private sector could also undertake new capital projects on a risk basis.

The Government said it was committed to equal standards in social services and education.

On the subject of manpower development, the Government said it had for some time been giving priority to the creation of jobs and the promotion of equal opportunities. It pointed to the R385 million it had spent on job creation and training schemes in 1985/86.

The Government added that it was committed to equal educa-

tion standards and opportunities for all and was finalising subsidiary formulas to make this possible.

It believed in one education system for all with defined sub-structures and one general education policy.

It agreed that blacks should be increasingly exposed to management and senior posts, including such positions in the public service. This should be determined on merit and not "in a cosmetic way".

There was scope for upward mobility in the public service and this would improve.

No distinction was made on the basis of colour, but appointments were related to the distinctions between general and own affairs and the constitutional structures in the different population groups.

THE RECOMMENDATIONS of the Economic Advisory Council (EAC), presented to government before Friday's economic summit, include the need for positive interest rates, flexible exchange rates, privatisation of state functions and tax reductions.

The document was prepared for the EAC by a seven-member subcommittee, chaired by Sasol's Joe Stegmann, and included among others Barlow's Warren Clewlow, Sanlam's Fred du Plessis and Reserve Bank Governor Gerhard de Kock.

Economic principles

The EAC document, and government's response, formed the framework for last week's meeting and, in broad terms, set out government's economic principles.

The EAC recommended that priority be given by government to job-creating growth to bring about equal opportunity for all.

Government, in response, said it had already taken steps to ensure a better use of manpower, to abolish the statutory restrictions on employment, to stimulate the economic growth and to combat unemployment.

"The pursuit of these objectives also imposes a certain responsibility on the private sector — to accept the realities of the circumstances in which the country finds itself and to act accordingly."



DE KOCK

EAC report set the scene for conference



CLEWLOW



STEGMANN

The EAC recommended that government's financial policy should ensure that tax, price and interest rate distortions are reduced. Interest rates should be positive in real terms over the long term.

Government said:

Eliminating distortions had been the subject of several White Papers as well as the De Kock Commission.

Also, the Margo Commission was working towards ensuring that taxes were neutral.

Tax on fringe benefits represented a step in the direction of the elimination of distortions with regard to labour compensation.

Over the past 10 years government had eliminated price control on almost all products where competition made effective price determination possible.

The powers of the Competition Board had been extended, and government's monetary policy had been characterised by a more market-related approach to interest rates.

The EAC also recommended that the share of government consumption

expenditure in gross domestic expenditure and the public sector's claim on scarce capital and manpower be reduced by greater efficiency, a re-arrangement of spending priorities, compiling and revising long-term spending guidelines, and budgeting by objectives.

Government has already taken the initiative in this regard and is still seriously endeavouring to cut public expenditure so far as its responsibilities permit."

Use of resources

Government's plans to implement this recommendation included:

Performance auditing was being introduced to enable the efficient use of resources in the government sector.

Ensuring that government departments provided only services and functions in proportion to the need for them.

Placing restrictions on the creation of new posts.

Emphasising spending on socio-economic development, and,

Introducing spending objectives and guidelines for government departments to form part of a five-year spending plan.

The EAC recommended the re-arrangement and curtailment of government responsibilities by concentrating on the needy in providing social services, providing equal services for all, shifting the development role of government from the economic to the socio-economic, and removing factors that hindered the process of privatisation and deregulation.

It also said government spending had to be scheduled to avoid fluctuations, that a budget deficit before borrowing of at most 3% of gross domestic product had to be set as a target.

Government had committed itself to monetary targeting and flexible interest rates, "but considers it extremely important that short-term adjustments in these rates should not be of such a nature that they have an adverse influence on business confidence."

It says it is important that exchange rates should follow a more stable course to reduce the negative effects of sharp fluctuations on business.

However, it affirms its commitment that exchange rate policy cannot be determined independently of monetary and fiscal policy.

Government also committed itself to the "development and conservation" of the workforce.

Measures to achieve this included:

Job-creating programmes.

Improvement of apprentice training, and.

Opening training facilities under the Department of Manpower to all races.

To ensure the availability of capital, the EAC recommended that government restrict consumption spending and capital expenditure to a minimum, move away from cross-subsidisation and eliminate the distortion of relative prices. These goals were already being pursued, said government. Government also recognised that inflation and taxes had to be lowered

and that there had to be an adequate return on high-risk capital.

Furthermore, the EAC recommended government should concentrate on the creation of incentives and elimination of obstacles to ensure that private savings are directed to opportunities in the less-developed sections of the economy. Also, it should privatise state functions where this would lead to more productive use of capital, and allow new capital projects, such as road-building, to be undertaken by the private sector without state interference.

The EAC said balanced industrial development required the distortion of relative prices and cross-subsidisation to be eliminated.

Export incentives

Government, to promote exports, said export incentives that did not conflict with the GATT subsidy code would be retained, and new incentives explored. Also, the possibility of exporting to SA's non-traditional markets would be explored, and trade with existing partners strengthened.

To protect industry, the EAC recommended the use of indirect tariff protection rather than import controls. Other recommendations by the EAC include:

Not burdening the SA economy with excessive regulations.

That greater emphasis be placed by employers on profit sharing.

The opening of business districts to all, and.

Providing housing for all.

Govt to push ahead

ARONS 11/11/86

1986/49

Inflation outlook grim, leading economist says

The Argus Correspondent

DURBAN. — Prospects on the inflation front look grim — at least until the economy really starts to pick up.

Speaking at a Mercabank seminar here South African Reserve Bank adviser Dr D W Goedhuys said monetary policy makers faced an "awful dilemma" — they were conscious of the dangers of hyperinflation, but the priority was to maintain business activity.

"Our hand is forced by the circumstances of the economy," he said. "We have to give the growth impetus full play."

UNUSUAL PRESSURES

Once the economy turned, however, policy emphasis could be shifted to inflation.

Dr Goedhuys said current inflation was due to unusual pressures. South Africa was experiencing "import price push inflation" — which stemmed from depreciation of the exchange rate following capital

withdrawals for political reasons.

Policy was to accommodate this by making credit cheaper. "We are acquiescing to inflation to safeguard business."

University of Durban/Westville economist Professor A J Arkin told delegates that the economy needed a systematic reduction of Government controls.

He warned that excessive control in a siege economy would exacerbate bottlenecks of labour and materials — and would reinforce the effect of sanctions.

Professor Arkin said accelerated deregulation and privatisation were necessary to counteract the sanctions drive.

The seminar marked publication of an analysis of direct and indirect economic controls, sponsored by Mercabank and produced by University of Pretoria economists.

Presenting the report senior lecturer Mr J P van den He-

ever said direct controls were good in the short term but tended to politicise issues in the long term.

Indirect controls tended to have an unfavourable reception — but they proved themselves with time.

● South Africa is the victim of creeping economic socialism by the big private sector conglomerates, with serious implications for future job creation and the distribution of wealth in the country, says Mr Jan Erasmus, executive chairman of Prestasi Brokers.

Addressing a gathering of businessmen in Johannesburg, Mr Erasmus said that the concentration of economic power should be broken; that new entrepreneurs should be encouraged and that any planned privatisation of Government functions should be effected by means of creating trusts in which South Africans of all races could become shareholders.

Mr Erasmus warned that South Africa should not exchange Government monopolies for economic monopolies controlled by a few large private sector conglomerates.

The voter can, to a certain extent, exercise an influence on Government monopolies, but cannot obtain any say in conglomerate monopolies.

Economic power in South Africa was concentrated in the hands of four or five large companies, including a mining group, two Mutual Life insurance companies and two banking groups.

"Some conglomerates are even overtaking Government departments in size, thus creating private sector bureaucracies with little difference from the traditional public bureaucracies except that voters have no say over them.

"This is one of the most serious limitations on the development of entrepreneurs."

Now privatisation is on the way...

MRBS
12/11/86
49

A THREE year programme for privatisation is soon to be launched by the Government in terms of proposals agreed at President PW Botha's business conference in Pretoria.

Proposals on which central and provincial functions could be privatised are to be drawn up by the Cabinet Committee on Privatisation and submitted to the Cabinet for approval.

The Government hopes that by pushing ahead with privatisation, numerous benefits can be achieved. These include lower taxation and greater private sector investment with the creation of more jobs.

The guidelines for privatisation were spelt out in detail in the proposals put to the "Carlton III" conference last Friday. The proposals are now due to be translated into a Government White Paper.

The Government is hoping that privatisation will help stimulate small business and provide opportunities for all race groups.

The primary objective was to "improve the performance of the economy by the effective utilisation of the production factors, and by allowing market forces to function optimally, to increase the per-

by BRUCE CAMERON, Political staff

THE Government hopes that by pushing ahead with privatisation, numerous benefits can be achieved. These include lower taxation and greater private sector investment with the creation of more jobs.

centage of fixed investment by the private sector, and to channel a large percentage of this to employment creating production sectors, such as mining, agriculture and manufacturing as well as the underdeveloped sectors of the economy."

GENERAL guidelines proposed for privatisation include:

- **THERE** should be no privatisation in cases where public interest could be affected, although some parts of those functions could be privatised,

- **PRIVATISATION** should not involve risk to national security or internal order,

- **IT** should not defeat political, social or ecological objectives,

- **IT** should be reconciliable with the competition policy. The Government saw "lit-

tle benefit in substituting a private monopoly for a public one, which in its turn would have to be regulated in the public interest."

However, in such cases the public and private sector could form a partnership in controlling monopolies,

- **ALTHOUGH** the proposals recommend a move away from subsidised services it says that the Government should continue to subsidise privatised functions if it was in the public interest,

- **THE** possibility that a service may cost more should not stop privatisation of a function, and

- **IN** socio-economic services the state had to remain responsible for the "really needy" but certain areas, such as the provision of low cost housing, could be privatised.

The Government told the businessmen that it was concerned that the state's share in the economy had been increasing over the years with a resulting decrease in the private sector share.

The tax base was shrinking making higher taxation necessary.

Because of this the state had not been able to cover expenditure and consequently had not contributed to net domestic saving since 1981.

"The current high levels of taxation and the high rate of inflation have an exceedingly negative effect on the private sector and restrict entrepreneurship especially in the small business sector."

Privatisation would include the sale of assets, the sale of government undertakings and the transfer of functions.

THIS could be done by:

- **THE** gradual acquisition of shares by the private sector in existing undertakings,

- **A PARTNERSHIP** between the Government and the private sector, especially where monopolies were involved,

- **A PHASING** out of the Government shareholding when the Government has fulfilled its development responsibilities,

- **THE** leasing of businesses or the granting of concessions where the transfer of ownership was not appropriate. Examples were roads, water supply and the provision of buildings, and

- **THE** halting of some Government activities where the demand could be met by the private sector.

Hand in hand with privatisation were stipulations that the Government should also limit its spending as far as possible.

It should place greater emphasis on socio-economic expenditure while curbing consumption expenditure, particularly on salaries and wages, by further rationalisation.

And to relieve the burden on the taxpayers, services provided by the Government should be undertaken on a non-loss basis.



Botha

POLITICAL and economic co-operation by SA and its neighbours could result in a

reasonably positive economic scenario for the whole of Southern Africa over the next five years, Development Bank of Southern Africa CE Simon Brand said yesterday.

Addressing the Unisa School of Business Leadership in Johannesburg, Brand said SA should resist lobbying pressures to move into a siege economy, despite new financial and economic pressures from the international community.

He said government should instead retain its commitment to the approach, set out by the Economic Advisory Council, emphasising the improvement of productivity, encouragement of domestic savings, training, removal of restrictions to individual incentive and correct allocation of resources.

SA 'needs neighbours'

Economics Reporter

This package required a "programme of monetary and fiscal restraint", as well as "a minimum of direct government intervention in the economy" and a redirection of government spending towards emphasis on the needs of the less advantaged, Brand said.

He said if SA maintained this course it could concentrate on maximising the possibilities for mutually beneficial, intra-regional trade, and co-operating on the planning and provision of infrastructural networks.

In addition, SA could exchange technology and management skills with neighbouring countries, and act as a "clearing house" to mobilise financial resources from abroad for

BUSDAY 27/11/86 (49)
the region. 13/11/86
Finance Director-General Chris Stals said budget policy for the next five years assumed that government loan funds should be used only to finance capital projects, and that the deficit before borrowing should be funded in a non-inflationary way.

Stals said current government expenditure should be covered by current revenue. In addition, he said, government should not borrow from the banking sector.

Stals reaffirmed government's intention to "restrict" the increase in total government expenditure, accounting for inflation and the state of the economy, and to limit the deficit before borrowing to no more than 3% of gross domestic product.

FINANCIAL MAIL INVESTMENT CONFERENCE

GM chief focuses on social problems

Business urged to assume role of 'peacemaker'



● WHITE

GOVERNMENT must open the door for business to participate in the formulation of new strategies for resolving SA's economic and political problems, General Motors MD

Robert White said yesterday. Speaking on "Business and its Place in Society", White told the *Financial Mail* Conference: "The future course of this country will, in large measure, be influenced by how the business community collectively defines and executes its role in society."

White, who will leave SA early next year when GM's disinvestment is complete, said business must improve the definition of its "broader mission" and eliminate the "counter-productive in-fighting" between industry groups and associations in addressing social responsibility programmes.

Government, meanwhile, "can no longer consider business to be part of the problem, rather than part of the solution", he said. A change in the relationship between government and business must come in order to "access the brainpower of the busi-

Economics Reporter

ness community in developing goals and strategies for a new SA — to build on the 'honest broker' reputation of business to communicate and expand the coalition to other institutions and constituencies in the society".

He said social responsibility was increasingly becoming an important board room issue, both for local and multinational companies.

Companies operating in SA were thus posed with a dilemma, he said. The weak economy forced businesses to adopt defensive strategies, and to protect the interests of their shareholders, customers and employees. At the same time, pressure had grown from disenfranchised peoples for business to "become more pro-active in achieving a more rapid reform of the political system".

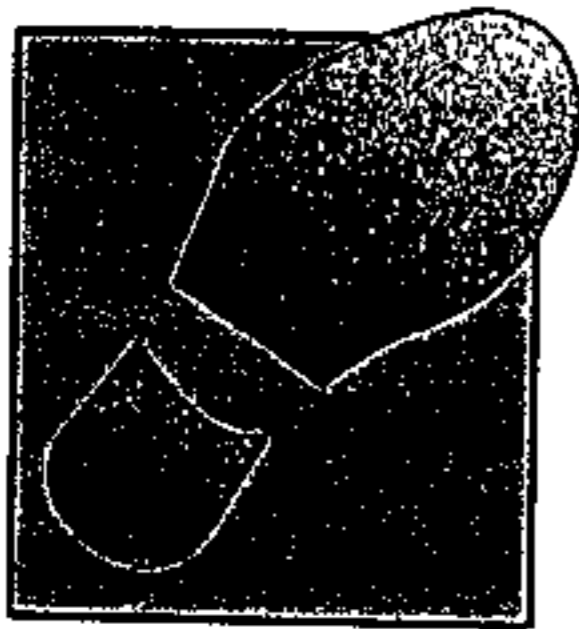
"Failure to do so, in a risk assessment sense, might eventually lead to a different type of economy, other than free market, in which business, as we know it today, would suffer economically and fail," White said.

Business must be encouraged, and be willing to accept, the "peacemaker" role. He said. "It is the one institution in SA that has access to, and generally good relations with, all of the other institutions in SA."

FIN M...
14/11/86

(2/11/86) (49)

Now let's have some action



They came, they saw, they listened. The Wa-Benzis were out in force in Pretoria on Friday — at least, those that weren't delayed by a major traffic snarl-up on the Ben Schoeman highway.

And given that expectations were more modest — or, maybe, more realistic — than at either the Carlton or Tuynhuis summits, most went away reasonably happy.

The mood was summed up by JSE president Tony Norton, who said afterwards:

"Five years ago, this type of meeting would have been inconceivable." A joint Asocom-FCI statement also welcomed the tenor of the discussions, stressing the need for continuing consultation with the private sector.

Indeed, it would be difficult to cavil at the sentiments expressed in either of the main documents on long-term economic strategy and privatisation — see box — or even government's at times almost querulous self-justifying "initial response" to the former.

By and large, the long-term strategy proposals (largely formulated before the recon-

Fine words butter no parsnips. After Friday's summit, the ball is now back in government's court to convert words into deeds.

stitution of the Economic Advisory Council) accept the primacy of the market mechanism, rather than the dirigiste school. But there are enough caveats about the possible need for extraordinary controls to meet extraordinary circumstances to keep even the interventionists happy.

After all, there is a call for the strategy (as embodied in a new Economic Development Programme) to be monitored and adjusted where necessary; much will depend on the identities and philosophies of the monitors.

The meeting, too, was structured more successfully than its predecessors. The split into 10 groups of 20 gave the 200 delegates far more opportunity to express their views — and they took full advantage. Moreover, as the document on long-term strategy itself stressed the links between economics and politics, the attempt to stifle political discussion was quietly abandoned.

Many delegates made no bones that con-

tinuing political reform is vital to revived prosperity. The Group Areas Act and other discriminatory restrictions on free enterprise came in for wide criticism. So did the suggestion that a further three-year investigation might be necessary before implementing major privatisation, and it would not be surprising to see this accelerated.

Concern, understandably, was also expressed that continuing high inflation could undermine both political and economic strategy.

Yet all was not sweetness and light. Veterans of the earlier summits were perhaps less impressed than the new boys. To some extent they have heard it all before, and while indications that government is at last prepared to listen to — not just harangue — the private sector are welcome, it remains to be seen whether apparent good intentions will be translated into action.

As yet, government has conceded nothing. Indeed, an acid annexure to the government's response to the strategy document castigates the private sector for backtracking on its support for the Regional Services Councils (RSCs) when it became clear that "the funding would have to come mainly from the white taxpayer." It sternly admon-

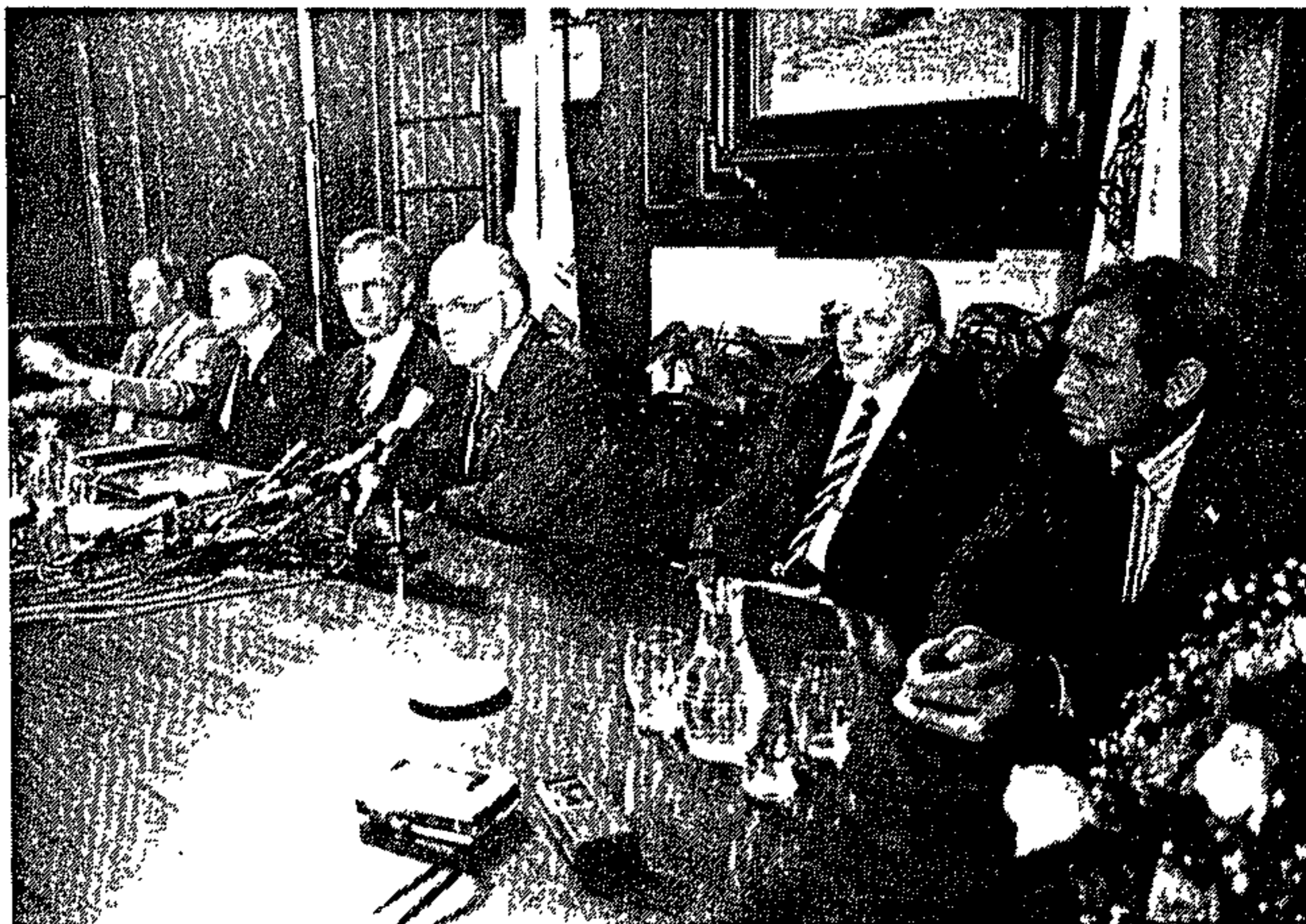
ishes: "It appears that certain sectors subordinate the goal of the urgent upliftment of poorer communities to their own interests. Political reform cannot succeed like this."

To this the private sector would no doubt reply that it was never consulted on the financing of RSCs in the first place, which should have awaited the recommendations of the Margo Commission.

And there is still a credibility problem. The composition of the delegates was unquestionably arbitrary. There was a sad lack of black faces. Nafcoc, indeed, boycotted the meeting, and is to hold its own "summit" conference for blacks later this month (see *Current affairs*).

Neither blacks nor, at the other end of the spectrum, anti-Hoggenheimer conservatives found the spectacle of SAB's Meyer Kahn and Barlow Rand's Warren Clewlow expounding the merits of privatisation particularly reassuring. It cannot be stressed too often — as, indeed, official policy accepts — that privatisation is vital to reconciling blacks and the informal sector to the free enterprise system.

So the real test is still to come. Only if the



PW (centre) at the summit... third time lucky?

fine words are followed by deeds — and speedily — will the Pretoria summit turn out any less irrelevant than its predecessors. If not, we may not have another chance.

The satisfaction that some businessmen may have had at being able to put their views directly to members of the Cabinet is hardly likely to be sustained when they are faced

with investment decisions in the harsh light of day.

And therein lies a worrying aspect. Government made very clear its intention to force growth into the economy. It has appealed to businessmen to help. If they do not,

is there an implicit threat that government itself will go ahead anyway? If there is — and we think there might well be — then we are most likely in for more interference and fewer resources available to the private sector.

Moreover, such spending is unlikely then to be in the most productive areas. Chances are it will be consumption rather than investment orientated, not subject to sensible economic criteria and could quickly be inflationary.

ARGUS 14/11/86

ECONOMY

4.9

Spending jumps 26 pc

By DEREK TOMMEY
Finance Editor

SOUTH African businessmen, after a lapse of several years, have gathered up their courage and are starting to spend for the future again.

The Governor of the Reserve Bank, Dr Gerhard de Kock, told an investment conference in Johannesburg yesterday that real gross domestic expenditure — which covers spending by all sectors of the economy — had risen dramatically in the September quarter.

In cash terms it had been equal to an annual rate of increase of 26 percent, and in real terms, to an annual rate of 4.5 percent.

REBUILD STOCKS

Dr de Kock attributed the higher rate of spending to commerce and industry starting to rebuild stocks in anticipation of a rise in consumer spending, after having kept them low for several years.

On the other hand, while private consumption had risen, Government consumption had showed a marked decline in the

third quarter, said Dr de Kock, but this was probably temporary, he hastened to add.

Dr de Kock did not say it, but should Government spending pick up, as it does towards the end of its financial year, and should private consumption expenditure remain strong, business conditions ought to improve fairly rapidly.

Dr de Kock said the economic growth rate had been accelerating throughout the year, and was now running at an annual rate of around 3.5 percent. He expected the economy to maintain this rate of growth next year.

But the poor growth rate in the first quarter meant that growth for 1986 would not greatly exceed 1 percent.

The higher gold price had been one reason for the upturn. But another was that the economy, aided by flexible interest and exchange rates, had already adjusted to the capital outflow of the past two years.

Dr de Kock said the combi-

nation of the capital outflow and trade sanctions had prevented and would continue to prevent the upswing rising as fast as it might have done. But South Africa had shown that there was life after sanctions and disinvestment.

Meanwhile figures issued by Central Statistical Services confirm that the restocking process referred to by Dr de Kock is well under way.

At the end of July the value of unfilled orders on hand in three major manufacturing sectors was double the year ago figure, and was between 35 percent and 75 percent higher in another eight sectors.

NEW CAPACITY

These figures suggest that the manufacturing sector will soon be forced to start investing in new capacity, if it has not already done so, and set in train the increase in domestic fixed investment this country needs for a sustained upturn.

The following table shows the value of unfilled orders in

various sectors of manufacturing in July and the percentage change from a year ago.

Percentage increase	Value of orders outstanding R-million
-16.5	Radio, TV equip. 320,7
-15.5	Automotive textiles 4,3
-10.9	Motor vehicles 118,6
-9.8	Dry and wet batteries 4,8
-8.9	Struct. metal prod. 656,2
-7.9	Sawmilling 8,7
-2.1	Paints, varnishes 5,3
3.9	Motor parts 88,5
5.8	Nuts, bolts 11,9
6.4	Particle board etc. 12,5
11.1	Clothing 298,5
18.5	Bags and sacks 8,2
19.5	Tinware 23,2
21.2	Electrical equipment 378,5
21.9	Basic iron, steel 1073,1
23.7	Soft furnishings 17,5
25.9	Steel pipe, tube 97,7
26.4	Pulp, paper etc. 55,8
27.3	Cables, wires, springs 95,6
29.3	Insulated wire 74,5
31.4	Packaging 68,2
32.3	Textiles 347,1
32.5	Furniture 51,3
36.9	'Other' elec goods 24,9
43.2	Non-ferrous 207,0
47.0	Hardwr, tools cutlery 11,9
72.9	Carpentry & joinery 8,4
75.0	'Other metal prod' 188,6
96.4	Elec. appliances 14,1
104.3	Metal furniture 21,4
123.7	Knitting mills 134,9

COMMODITIES

FIN MAIL
14/11/86

(200A) (49)

Now let's have some action



They came, they saw, they listened. The Wa-Benzis were out in force in Pretoria on Friday — at least, those that weren't delayed by a major traffic snarl-up on the Ben Schoeman highway.

And given that expectations were more modest — or, maybe, more realistic — than at either the Carlton or Tuynhuis summits, most went away reasonably happy.

The mood was summed up by JSE president Tony Norton, who said afterwards:

"Five years ago, this type of meeting would have been inconceivable." A joint Asocom-FCI statement also welcomed the tenor of the discussions, stressing the need for continuing consultation with the private sector.

Indeed, it would be difficult to cavil at the sentiments expressed in either of the main documents on long-term economic strategy and privatisation — see box — or even government's at times almost querulous self-justifying "initial response" to the former.

By and large, the long-term strategy proposals (largely formulated before the recon-

Fine words butter no parsnips. After Friday's summit, the ball is now back in government's court to convert words into deeds.

stitution of the Economic Advisory Council) accept the primacy of the market mechanism, rather than the dirigiste school. But there are enough caveats about the possible need for extraordinary controls to meet extraordinary circumstances to keep even the interventionists happy.

After all, there is a call for the strategy (as embodied in a new Economic Development Programme) to be monitored and adjusted where necessary; much will depend on the identities and philosophies of the monitors.

The meeting, too, was structured more successfully than its predecessors. The split into 10 groups of 20 gave the 200 delegates far more opportunity to express their views — and they took full advantage. Moreover, as the document on long-term strategy itself stressed the links between economics and politics, the attempt to stifle political discussion was quietly abandoned.

Many delegates made no bones that con-

tinuing political reform is vital to revived prosperity. The Group Areas Act and other discriminatory restrictions on free enterprise came in for wide criticism. So did the suggestion that a further three-year investigation might be necessary before implementing major privatisation, and it would not be surprising to see this accelerated.

Concern, understandably, was also expressed that continuing high inflation could undermine both political and economic strategy.

Yet all was not sweetness and light. Veterans of the earlier summits were perhaps less impressed than the new boys. To some extent they have heard it all before, and while indications that government is at last prepared to listen to — not just harangue — the private sector are welcome, it remains to be seen whether apparent good intentions will be translated into action.

As yet, government has conceded nothing. Indeed, an acid annexure to the government's response to the strategy document castigates the private sector for backtracking on its support for the Regional Services Councils (RSCs) when it became clear that "the funding would have to come mainly from the white taxpayer." It sternly admon-

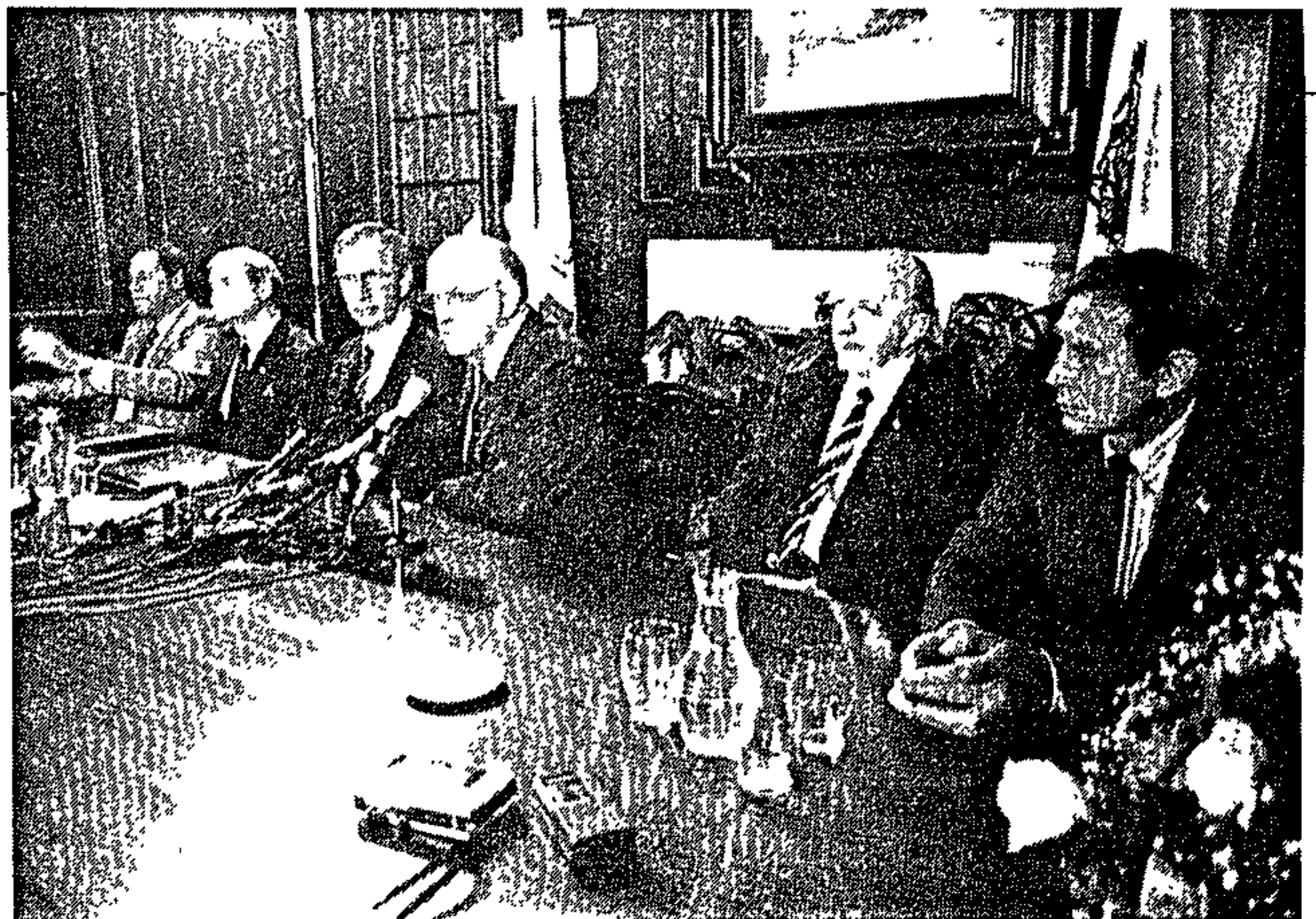
ishes: "It appears that certain sectors subordinate the goal of the urgent upliftment of poorer communities to their own interests. Political reform cannot succeed like this."

To this the private sector would no doubt reply that it was never consulted on the financing of RSCs in the first place, which should have awaited the recommendations of the Margo Commission.

And there is still a credibility problem. The composition of the delegates was unquestionably arbitrary. There was a sad lack of black faces. Nafcoc, indeed, boycotted the meeting, and is to hold its own "summit" conference for blacks later this month (see *Current affairs*).

Neither blacks nor, at the other end of the spectrum, anti-Hoggenheimer conservatives found the spectacle of SAB's Meyer Kahn and Barlow Rand's Warren Clewlow expounding the merits of privatisation particularly reassuring. It cannot be stressed too often — as, indeed, official policy accepts — that privatisation is vital to reconciling blacks and the informal sector to the free enterprise system.

So the real test is still to come. Only if the



PW (centre) at the summit... third time lucky?

fine words are followed by deeds — and speedily — will the Pretoria summit turn out any less irrelevant than its predecessors. If not, we may not have another chance.

The satisfaction that some businessmen may have had at being able to put their views directly to members of the Cabinet is hardly likely to be sustained when they are faced

49

FINANCIAL MAIL INVESTMENT CONFERENCE

Investment staff

THE BOOMING stock market is saying that whatever steps are taken against SA — whether fund managers agree with government policy or not — investors have confidence that businesses will not only survive, but will flourish. And although New Bernica MD Arnold Witkin expects some big swings in share prices in 1987, he forecasts that, by the end of next year, the JSE Actuaries All Share Index will be well above this year's level — at least by the inflation rate.

He gave these views on the equity market in 1987 when he spoke at the *Financial Mail* Investment Conference. "I believe the gold price is in a bull trend, and that gold and

SA business will flourish

related investments will prove to be attractive. Not necessarily as a 'rand hedge' but as a 'gold play,'" he said. In the short-term the shares might well continue to consolidate, but a spurt in the gold price would reverse that situation rapidly. If the gold price did fall, it would bring the rand down with it — thus protecting the rand price of gold and

mining profits. But sentiment would be adversely affected and cause a sluggish performance of the market as a whole.

In the industrial market, Witkin felt that there was quite a large speculative element developing in certain, but by no means all, areas. The excellent company results — albeit from a low base — and a probable spate of takeover activity should be positive.

With so much change occurring, some outstanding winners would emerge from the myriad of opportunities that abound. At the same time, a deterioration in the country's ability to trade internationally would take its toll on weaker companies.

Power can be shared

AS THE old feudal order crumbles and a new society emerges, difficult and highly responsible roles are being defined for employers and trade unions, Anglo American industrial relations adviser Bobby Godsell told the *Financial Mail* Investment Conference last Friday.

And the evidence of the "experiment in non-racial democracy" occurring in the workplace says that power can be shared and responsible decision-making can result. Godsell analysed the nature of union power and how it has and can be used. Union power, he pointed out, derives from the ability to disrupt production and so diminish profits.

Two-edged sword

But the strike is a two-edged sword. It also results in the loss of pay and the risk of dismissal, so must be wielded with discretion and caution. This, said Godsell, demonstrates the interdependence of labour and capital. While each has the power to hurt the other, the relationship creates the need for co-

ALAN FINE

operation if it is to continue over time.

Hence, while the frequency of strikes has increased, so has the frequency of co-operative contact between management and labour — both in the negotiating chamber and on the factory floor.

Community issues

In addition, Godsell observed, employers and unions are beginning to address community issues such as housing, rents, influx control and bus fares and, tentatively, a debate is beginning about a process of political change as evidenced by the joint statement issued earlier this year by the Council of Unions of SA, the FCI and Assocom calling for the state of emergency to be lifted.

Godsell says: "Much depends on whether this area of activity can be successfully extended. These two actors can demonstrate to the politicians that the politics of negotiation can render mutually acceptable results."

STEPHEN ROGERS
SHORT-term interest rates should decline further in the new year, with the prime lending rate falling to a low of 12,5%, said Volkskas MD Danie Cronje in his address to the *Financial Mail* conference last Friday.

Cronje said that the main cause of the decline in interest rates during the past 20 months had been the low level of domestic spending, which was reflected in the sluggish demand for bank credit and low rate of increase in the money supply. The current situation of low demand for bank credit and high domestic liquidity was conducive to lower short-term interest rates, with the prime lending rate likely to be reduced further by one percentage point. Gross domestic spending is expected to rise gradually — fuelled by consumption spending supported by increased investment in inventories. However, with a relatively high excess capacity in most sectors, fixed investment is likely to remain sluggish next year.

Cronje said that this kind of scenario precluded a spectacular rise in the demand for bank credit and that, in the circumstances, short-term rates were likely to move sideways for most of 1987.

But as the economy picks up steam and the demand for credit rises, a moderate rise in interest rates could be expected, with prime rising three percentage points to 15,5%, from its a low of 12,5%, by the end of the year.

Cronje said that he expected the new money supply targets — being decided by the Reserve Bank — to be similar to the existing one, with a range of 16% to 20%.

12,5% prime?

Freeing people 'the key to security'

ONE of SA's problems was the lack of confidence that enfranchising the people would allow capitalism to continue to function, *Sunday Telegraph* editor Peregrine Worsthorne told the *Financial Mail's* Investment Conference last week.

"There is the feeling that enfranchising the people might bring in, at best, a socialist, and at worst, a communist government. A communist government would be brought

in through the intervention, the arms, the money of a foreign power, a foreign super-power. That's the fear."

Worsthorne said it was "a travesty of the truth" to believe democracy endangered property, privilege, and meant the hand-over of the country's affairs to the deprived, angry and the rebellious.

He said enfranchising the people in a capitalist system was "the safest, surest way of letting people

have a secure, stable life.

"Far from democracy being a threat to stable, secure life, it has become the guarantee. Democracy is no longer a subversive, a rebellious doctrine that people should be frightened of. It has become the opposite."

Worsthorne believed SA would in future lose its role as the "dominant, fascinating star of international discussion" in the West.



State spending meeting budget levels

IN SPITE of expectations that government expenditure would rise sharply during October, official figures indicate that budget levels are being scrupulously maintained.

Total exchequer outlays for last month amounted to R3,1bn, compared with R3,3bn in September. Government spending does not accrue evenly each

HAROLD FRIDJHON

month, but averaging over seven months the Budget's R38,9bn for the year, actual outlays are running at a marginally lower rate than the average.

Compared with last year when R2,7bn was spent in October, this year's expenditure is 14,8% higher.

Revenue at R18,5bn for the seven

months is not increasing at the same rate and appears to be lagging behind the estimates. But this is no cause for concern because income from tax soars in December from GST collections, and in February when Receivers of Revenue usually produce an impressive harvest.

With expenditure at R22,5bn and revenue of R18,5bn, the deficit before borrowing is R4,1bn.

.....

Govt expansionary policy set to continue

19/11/86
S.M.K. 49

'87 fiscal deficit may hit R7-bn, says UBS

By Frank Jeans

The 1987-88 fiscal deficit could widen to R7 billion, says the United Building Society in its latest *Economic Monitor*.

This would be due to a continuation of the Government's "expansionistic approach" along with expected rises in military spending and social infrastructure commitments.

The Government wage bill, the UBS says, rose by 27 percent during the April-June period of this year and a 5 percent increase in staff in the sector pushed the complement to 400 000.

The United estimates that the black unemployment figure now stands at 2 million, or 30 percent of the black labour force of the country and compares with 81 000 whites, coloured people and Asians out of work.

"While this situation is fuelling the present socio-political prob-

lems," says the UBS, "the employment situation is aggravated by the alarming brain drain as reflected by the emigration of 1 422 professional and technical workers during the first seven months of this year, compared to an outflow of 1 659 for the whole of 1985."

The United foresees average wage rises to be below the predicted inflation rate during 1987, thus leading to a further decline in personal savings.

"Although the current negative real interest rate policy of the monetary authorities has done little to restore an acceptable level of economic activity, they are expected to continue with this policy stance until at least the middle of next year," says the UBS.

"The uncertainty about the possible impact of sanctions, speculation of a 1987 general election and the weak demand for credit are all in support of the continuation of

an expansionary monetary policy."

The United believes credit demand will improve later this year but it will probably be mid-1987 before there is an increase in real credit demand.

It also sees the possibility of a further 0.5 percent point drop in the Bank Rate before the end of the year.

Inflation prospects, too, remain far from rosy and despite the absence of demand-pull inflation — credit demand is still well below the growth target set for money supply — cost push factors seem to be stronger than ever.

"This sustained high inflation rate, expected to be some 17 percent next year, creates a poor environment for economic recovery owing to the lack of business confidence, its adverse effect on investment and the distortion in production factor allocation."

New top men for Finance

20/11/76
WEDNESDAY
29

DOMINIQUE GILBERT

GERHARD CROESER, Deputy Director-General of Finance has been appointed CE policy of the department, Finance Minister Barend du Plessis confirmed yesterday.

Treasury Secretary Ronald Peter Wronsley is now CE taxation.

A statement from the Minister's office said that by virtue of these appointments Croeser resumes responsibility for the division of public finance, treasury and financial institutions, and Wronsley for inland revenue and customs and excise.

Dr Arnold Pretorius, Chief Director of Public Finance, succeeds Croeser as Deputy Director-General. Dr R Burton, at present Registrar of Financial Institutions, becomes Treasury Secretary.

The appointment of Dr Burton's successor is still being considered.

provincial and municipal testing for

21/11/1985 DAY (23)

Spree puzzles economists (41)

ECONOMISTS do not seem to know where the funds for the consumer spending surge come from.

What confuses economists are differences between Reserve Bank statistics and shop-floor reports of retailers, and what is happening in the banking halls.

Reserve Bank Governor Gerhard de Kock said last week official estimates of third-quarter growth in SA's real gross domestic expendi-

ture were at a surprising seasonally-adjusted annual high of 26%.

This statistical view is reinforced by the retailing sector, with firms reporting substantial increases in consumer spending.

But there is no sustained increase in demand for credit from the banks, and no increased inflows as consumer debt is being repaid. And there appears to have been very little decline in savings.

Little progress seen since August

R400m housing scheme seems to be hitting snags

CHRIS CAIRNCROSS

LITTLE progress has been made in getting the R400m housing trust fund up and operating since the idea was first announced by Finance Minister Barend du Plessis in August.

The scheme was proposed by government as a private sector vehicle for promoting/financing self-build schemes.

It has apparently hit a number of snags, not least of which is in deciding whether the vehicle to handle the fund should be in the form of a trust or a company.

The lengthy delay is being viewed with some wry amusement by Department of Finance officials, who are so often the butt of private sector criticism for dragging their heels.

Four months ago Du Plessis announced the appointment of a steering

committee of three — Fred du Plessis of Sanlam, Meyer Kahn of SA Breweries and Derek Cooper of Barlows — to devise the fund's structure and functions in liaison with government.

He indicated that R400m would be made available to get the fund started. This amount would be supplemented by the issue of special housing bonds carrying a market-related interest rate, which would probably qualify as prescribed investments.

The chief purpose of the trust is to promote work-creation by enabling the unemployed not owning a house to build one under a self-build scheme.

The idea was that the trust would work in conjunction with relevant public sector bodies and existing organisations within the private sector.

At the time of his August announcement Du Plessis stressed the urgency of getting the scheme off the ground, and declared that the fund's trustees, to be nominated by President P W Botha, would be announcing details of their objectives and *modus operandi* as soon as possible.

This has yet to happen, and cannot be expected to happen for some time, according to Joe Taylor, head of the Economic Advisory Service in the Office of the State President.

Matters were still very much at the discussion stage, said Taylor, who is likely to be nominated MD of the housing trust.

Finality still has to be reached with government on the structures, functions and people who will become involved.

What has become clear so far is that the trust will not be set up to duplicate the funding services already provided by building societies and other institutions.

It is more likely to be a wholesaling operation, with the target market for revenue being the big financial institutions.

New top men for Finance

DOMINIQUE GILBERT

GERHARD CROESER, Deputy Director-General of Finance has been appointed CE policy of the department, Finance Minister Barend du Plessis confirmed yesterday.

Treasury Secretary Ronald Peter Wronsley is now CE taxation.

A statement from the Minister's office said that by virtue of these appointments Croeser resumes responsibility for the division of public finance, treasury and financial institutions, and Wronsley for inland revenue and customs and excise.

Dr Arnold Pretorius, Chief Director of Public Finance, succeeds Croeser as Deputy Director-General. Dr R Burton, at present Registrar of Financial Institutions, becomes Treasury Secretary.

The appointment of Dr Burton's successor is still being considered.

Healthy year-end now in sight

Trading starts to gather steam

21/11/86

BUDAH

49

WITH three of the main economic sectors — manufacture, retail and wholesale — all hoisting resurgence signals, indications for healthy year-end trading are strong.

There are now definite signs of an increase in economic activity in the manufacturing sector, after a poor performance earlier in the year.

The physical volume of manufacturing production, for the most recent three months up to September 1986, reflects a seasonally adjusted increase of 2,5% compared with the previous three months.

This reflects an increase of 1,5% compared with the period July to September 1985.

Central Statistical Service figures (calculated on the basis of 1980 equaling 100) show food (3,7), beverages (3,4), tobacco (9,9) and textiles (3,1), all moving upwards.

The strongest performances came from leather and leather products (20,1), paper and paper products (20,7) and transport equipment, excluding motor vehicles, parts and accessories (23,3).

The expected retail trade sales of R3 212,5m for November 1986 show an increase of 15,3% compared with November 1985.

The upward trend in real retail trade sales (at constant 1980 prices)

MICK COLLINS

which started in May 1986, still continues.

Before this upward move, real retail trade sales were on the lowest level since the start of 1982.

Real retail trade sales for the most recent three months up to November 1986 show a seasonally adjusted increase of 2% compared with the previous three months.

Total wholesale trade sales, excluding diamonds, for August 1986 show an increase of 9,1% compared with August 1985.

Although real wholesale trade figures, excluding diamonds (at constant 1980 prices), for August 1986 were 6% lower than those for August 1985, real sales for the three months up to August 1986 show a seasonally adjusted increase of 1,4% compared with the previous three months.

One of the strongest sectors was machinery and equipment (mining industrial and agricultural) which rose to R1 031m compared with R884,9m for August 1985.

Other sectors exhibiting strong upward movement were foodstuffs, beverages and tobacco R899,2m (R756,1m), furniture and household requisites R188,3m (R155,5m), pharmaceutical and chemical products R468,1m (R367,7m) and construction and building materials R561,4m (R484,4m).

49 21/11/86

RESERVE Bank governor Gerhard de Kock's statements that an economic recovery was "gaining momentum" were not supported by facts, the CP's finance spokesman, JJB van Zyl, said yesterday.

He said the demand for money experienced by SA banks was in fact declining.

Van Zyl said: "While in rand terms our exports are increasing, the actual volume of exports is decreasing.

"De Kock's financial rand is supposed to encourage overseas investment for the creation of jobs and rebuild employment infrastructure.

"Instead, however, it has resulted in large-scale purchases of stock exchange shares, properties, farms and

De Kock 'not telling truth about economy'

capital equipment by foreigners, none of which produces employment.

"De Kock talks of an upswing, yet bankruptcies have doubled since the start of the year.

"Decreasing interest rates only benefit big business which has already throttled the country through its cartels."

De Kock should realise that his continual propaganda indicating an im-

provement in economic circumstances when they do not exist was designed to encourage the consumer to spend more freely so that traders could have a good Christmas period, Van Zyl said.

"We in the Conservative Party will only agree that an economic recovery is taking place when there is a real drop in personal insolvencies as well as a substantial increase in employment opportunities" — Sapa.

HENRY KENNEY

2/11/86 (49) FINMAIL

IN MY
OPINION

Public choice vs governments



Henry Kenney, an economist, discusses public choice — the economic theory of politics and government failure — and its meaning for SA.

Winners of Nobel prizes have not always been inspired choices. But few can complain about the Nobel prize for Economic Science this year going to James Buchanan of George Mason University in the US.

Buchanan is primarily known for his work on the theory of public choice, which he pioneered with his colleague at the university, Gordon Tullock. Public choice is also known as the economic theory of politics; it is about non-market decision-making, that is, about why politicians and bureaucrats behave the way they do.

Buchanan's central argument is that in the allocation of resources it is governments which fail, not markets. Public choice is a theory of "government failure." Governments fail for the same reason that markets work, viz that individuals can normally be expected to pursue their own material interests and not those of others.

Those who distrust markets usually assume that if they are not kept in their place, pretty awful things will happen to many people. For one, they will suffer because the unchecked operation of markets will supposedly cause economic fluctuations which involve a massive waste of resources and are reflected in widespread poverty and unemployment. The State, the argument goes, must then stabilise the level of demand.

There is another way in which markets supposedly do not work as efficiently as their upholders claim. Buyers and sellers who exchange goods and services often impose costs and benefits ("externalities") on those not party to the original contract, such as excessive levels of pollution. The State is then expected to correct such divergences between social and private costs, for example, by taxing activities which are socially harmful and subsidising those which benefit society.

If this argument is accepted the way is

clear for a plethora of government interventions, from seat-belt legislation to the sponsoring of peace songs. The rationale is always that certain things are "good" for society, but that the market cannot provide them in sufficient amounts as it does not provide an incentive in the form of high enough profits. Hence, politicians who do know what is good for us should oblige and fill the gap.

This, of course, is the basic fallacy of the interventionist approach. It assumes that benevolent states or governments can be relied on to correct the alleged faults of the market. The fallacy consists in drawing a spurious distinction between governments and the individuals of which they consist.

The public choice argument is that politicians and bureaucrats are pretty much like businessmen (or clergymen or university lecturers for that matter.) They are ordinary grubby self-seeking human beings inordinately more concerned with their own well-being than with that of others. As public officials, they merely pursue their own interests under a set of constraints which differs from that facing businessmen.

There is, of course, little that is altruistic about capitalists. Plenty conform to the fashionable radical stereotype of them as materialistic and boorish chasers after the fast buck. True, but irrelevant. The point is that their own success depends ultimately on their ability to perform, that is to satisfy consumers. Survival in the market place is the bottom line in the world of the capitalist. Being driven to the wall is a common experience; the pursuit of profit is not just cakes and ale.

Politicians and civil servants face an entirely different set of constraints. Politicians who want to be re-elected will do all they can to catch votes. The deep concern of the National Party in SA for the well-being of white farmers is probably not entirely due to a disinterested concern for the national welfare. But elections only come once in a while and operators in the political market place face far less rigorous constraints than businessmen, who are liable to see their markets disappear overnight if they do not deliver.

Bureaucrats are even less subject to control. In principle, they are the servants of the public and accountable to its elected representatives. In practice, their scope for doing

what they can to further their own interests is very wide. Genuine control over bureaucrats is virtually impossible, for their theoretical superiors need information about their activities which the civil servants generally supply themselves.

Bureaucrats will only further the public interest if it coincides with their own, which is by no means inevitable. They can be expected to maximise their own incomes, power and prestige. They have a vested interest in a bureaucracy which grows. It is, therefore, hardly surprising that in most Western countries bureaucracies have tended to do just that. It has also become an abiding feature of SA's way of life.

That the public interest has suffered is obvious in many ways. Most spectacular has been the Info scandal, in which politicians and bureaucrats threw away taxpayers' money as if tomorrow would never come. More seriously, we see it in the mass of regulations and restrictions facing black would-be entrepreneurs in the urban areas, upheld and inflicted by bureaucrats who have a vested interest in controls because their jobs and advancement depend on them.

The message of the theory of public choice for SA is straightforward. Decisions made through the market are usually less costly for society than those made via the political process. The important question is not whether market-determined outcomes are ideal, but whether the alternative of government intervention would be less imperfect.

There are, indeed, certain goods which can best be provided by the State, of which the most plausible is national defence, but the theoretical case for sweeping interventionist policies remains poor. This is so because, as I have argued, governments are not benevolent but consist of perfectly ordinary self-seeking individuals. Any identity between their own interest and the social interest must be seen as a happy chance.

Our greatest challenge today is to devise a genuinely new constitution which cannot merely accommodate black demands for "majority rule," but can impose effective institutional constraints on the ability of politicians and bureaucrats, of whatever colour, to control our lives. If this can be done, then the pigmentation of our rulers will be of only peripheral interest.

Deficit fattens up

Latest figures confirm that the fiscal year's budget deficit will run to substantially more than the target R3,9 billion. Spending for the first seven months, to end-October, increased 18,5%; revenues only 14,3%.

But spending has slowed from a 20% rise in the first half of 1986-1987 (against a budgeted 13,9%), and revenues have increased from the first six months' 12% (budgeted: 13,3%).

The deficit rose from R3,7 billion at the end of the first six months (just R236m less than budgeted for the full year) to R4,1 billion. Substantial seasonal influences saw October revenues increase 36% on a year ago.

A Senbank analysis of the past six years shows that first-half revenue has averaged 46,1% of the total; and 48,3% for expenditure. Extrapolating this for 1986-1987, total revenue could be R34,3 billion, and expenditure R40,5 billion. This gives a R6,2 billion deficit, R2,25 billion above budget.

George Huysamer's economist Louis Geldenhuys projects a deficit of at least R5,7 billion; Old Mutual's Rob Lee figures at least R6 billion (*FM* November 14). However, as Senbank notes, whatever the final deficit, R700m can be sourced to the stimulatory package announced in June.

"The intention was that this would be financed by transfer to the exchequer of certain revenue, and proceeds from the sale of certain assets, from the Central Energy Fund and IDC. Additional new funds for financing the extra deficit may therefore total approximately R1,5 billion."

So the final deficit may end up anywhere between (say) R5 billion and R6,5 billion. Already Finance CE (Policy) Gerhard Croeser is talking of a deficit of 4% of GDP, against 2,75% on the budgeted R3,9 billion. This would give a R5,7 billion deficit, about the mid-point of other estimates.

How will this influence capital markets? Trends this year confirm that old vices have become habits: spending for the fiscal year will again exceed budget by a substantial margin; revenues will be close to budget; the deficit before borrowing may exceed budget by a material margin.

Senbank notes that additional funds to finance the deficit have already been largely obtained. There are also considerable surplus funds in the exchequer. Coupled with high liquidity in financial markets, says Senbank: "These trends may give rise to further declines in, especially, short-term interest rates." ■

ECONOMIC PROSPECTS

Not so rosy?

49 FIN MAIL
21/11/86

Releasing figures on third-quarter performance at the *FM* Investment Conference last week, Reserve Bank Governor Gerhard de Kock provided further evidence that the economy is picking up and should continue doing so well into 1987:

- Real GDP increased at an annual seasonally adjusted rate of 3,5%;
- Real GDE increased by a massive 26% after declining by 1,5% during the second quarter;
- Real private consumption expenditure (PCE) was up 4,5%;
- Real gross domestic fixed investment (GDFI) increased marginally, the first time since early 1982; while
- The annualised current account surplus dropped marginally to R5,8 billion from R6 billion in the second quarter.

De Kock explained that the increase in GDE "was partly a reversal of the earlier process of drawing down inventories."

Volkscas's Adam Jacobs says this is due to stockpiling imports ahead of sanctions: "The sudden upsurge in GDE is thus overstated." The import bill, he notes, rose 32% in the third quarter.

Quarterly figures can and do jump wildly. "They should be read with caution in determining trends," says Anglo's Aubrey Dickman.

Nevertheless the economy is improving, most agree; and most accept that a 3%-4% growth rate for 1987 is realistic. But what does this mean and, more important, can it be sustained to improve the lot of South Africans?

Such growth is based on an anticipated increase in government and consumption expenditure. Old Mutual's economist, Rob Lee, expects PCE — which comprises half total expenditure — to rise by 3%. He also talks of restocking, a slowdown in the decline of investment, a better agricultural performance and a higher gold price.

Real GDP, however, is but one vital indicator. Economists agree that next year's growth does not mean significantly less unemployment. The economy needs to grow 4%-5% merely to absorb those coming on to the labour market. With unemployment estimates running as high as 6m and living standards of those with jobs eroded, 3% real GDP growth off a low base will be inadequate.

On the extent to which the recovery can be sustained, there is agreement that SA has severe inflation and BoP constraints, not to mention the increasing pressure local companies face in international markets.

"The combination of capital outflow and trade sanctions has prevented, and will con-



Governor De Kock ... pleased but cautious

tinue to prevent, the upswing from gaining as much momentum as it might otherwise," says De Kock. He also makes it clear that "the national economic agenda is at least in part a political agenda."

SA has a considerable backlog to catch up in economic development, having lost a lot of ground in terms of gloomy economic performance over the past few years, and disrupted capital expenditure plans.

Says Sankorp's Peet Strydom: "Major growth factors, such as GDFI, have hardly recovered." SA, he adds, still suffers from a so-called "paradox of thrift" — despite low interest rates, savings are increasing while badly needed investment is hardly taking place. He cites government consumption expenditure as having risen 7,2% in the second quarter (year-on-year) while private sector consumption rose a mere 1%.

Finally, a question mark hangs over consumer spending which, as Standard Bank says, is "the pivotal force in recovery." Standard concludes that this depends on disposable income growing to a level approximating the inflation rate, and on households being sufficiently confident to borrow to finance expenditure.

Credit demand, notably, is still flat.

Barclays, analysing BA9 returns for the third quarter, finds that total funds committed to hire purchase were nearly 5% down from a year ago, and total deposits more than 6% up.

So there is no shortage of problems ahead before one can talk about long-term economic revival, as De Kock himself acknowledges. As he says: "The economy has moved into the early stages of a cyclical upswing. That in itself does not mean that economic activity is high — it is not — or that we are rapidly approaching a 'boom' — we are not. But activity is rising. We are in a phase of recovery."

DEPOSIT RATES

Backing up

Competition for funds between banks and building societies seems to be disrupting the view that interest rates are still on their way down. At least one major player has pushed up long-term deposit rates, despite unprecedented surplus liquidity.

Says Standard Bank deputy GM John Lloyd: "It's difficult to predict anything more than three months ahead but our longer-term view is that interest rates will start rising again before the end of next year." The bank upped its longer-term fixed deposit rates recently, when it seemed clear its earlier lead of reducing rates would not be followed by the building societies.

Interest paid on 18-23-month deposits was increased from 11% to 11,5%; on 24-month, from 11,5% to 12,25%; on 25-35-month, from 11,75% to 12,75%; on 36-60-month, 12% to 13%.

Interest rate expectations, however, were not the only reason for the rise. "We need funds to match against particular long-term operations within the group," says Bill Mansfield, deputy GM personal services.

At the same time, Standard is keen to protect market share. "We have to consider customer and investor relationships," says Lloyd.

Legislation has freed building societies to compete more directly with banks, and they are expected to present a major challenge when they diversify and extend operations. Significantly, the new deposit rates bring Standard into line with societies, though ahead of other major banks.

Says Lloyd: "We have never felt comfortable being out of line with the building societies for any length of time. We expected them to fall into line but as they haven't we decided to move up."

Will the higher interest rates paid depositors impair Standard's ability to reduce rates to borrowers?

"That's difficult to say," says Lloyd. "The rates apply to new fixed deposits so won't

FINMAIL
21/11/86
49

The missing factor

The barometer is set fair for economic upswing. That emerged quickly and positively at last week's annual international investment conference. But, as two days of speeches drew to a close, delegates were increasingly forced to ask themselves: when will it happen?

The vital factor still missing is confidence on the part of the business community, at home and abroad. And that, it appears, can best be engendered by positive signs that government is coming to grips with the political and racial problems that still beset the country, now under sanctions siege by some of its main trading partners.

The bullish factors with bearing on the economy and its key constituents are impressive: there's general confidence that the price of gold, so often the saviour of SA, will remain above \$400 (ironically, last weekend it dipped down through that barrier); the current account of the balance of payments is still running at a large surplus, with Reserve Bank Governor Gerhard de Kock predicting a 1986 surplus of R5 billion-R6 billion and another R5 billion for 1987 if gold remains above R400; total gold and other foreign reserves now amount to some R6,3 billion, equivalent to more than 2,5 months' imports; and, De Kock says, the worst of the capital outflow now appears to be behind us.

As he puts it: "Judged by purely economic criteria, conditions during the past 18 months have been conducive to a cyclical upswing in the short term and a higher average rate of real economic growth in the long term."

He hopes that the upswing has gained considerable momentum since about mid-1986. Latest revised estimates show that real GDP increased at seasonally adjusted annual rates of nearly 3% in the second quarter and about 3,5% in the third quarter. And — the biggest surprise at the conference — he says real gross domestic expenditure, after falling at an annual rate of just 1,5% in the second quarter, increased at an annual rate of 26% in the third.

The dramatic surge was partly the result of increased inventories, but also reflects an annualised increase in real private consumption of about 4,5%.

But De Kock admits that inflation — with the CPI increasing by 19,7% in the year to September — is still disturbingly high. And he doesn't deny that sanctions and disinvestment are having an adverse effect: "Clearly the combination of capital outflow and trade sanctions has prevented, and will continue to prevent, the upswing from gaining as much momentum as it might otherwise have done. These external constraints are also bound to retard economic growth in the longer

Whatever else it may have done, the FM's Investment in 1987 conference in Johannesburg last week destroyed any lingering doubts about the extent of the drag of political uncertainty on economic revival.

term. "But I believe we have now demonstrated to ourselves and to the outside world that in SA there is, indeed, life after sanctions and disinvestment."

The broad answer, De Kock says, lies in finding a formula for restoring business and consumer confidence. The short-term expansionary monetary and fiscal strategy and long-term strategy outlined at the November 7 summit are part of the answer but will not, by themselves, be up to the task.

"They need to be implemented against the background of a continuation of the government's programmes for maintaining law and order and for comprehensive further political and constitutional reform. Only in this way shall we be able to create a positive vision of economic expansion in the medium and long term."

Away from economics, GM MD Bob White focused on the increasing pressure on businessmen from blacks' expectations that business will help them achieve a new political dispensation. "And, like it or not, the

pressure is being applied with increasing force," says White.

Many view with alarm this new and expanding role for business in the forefront of solving society's social and economic problems. "Nevertheless," he says, "there is a growing awareness and realisation that an organisation's business activities must make social sense, just as its social activities must make business sense."

The new responsibility for business comes with a price tag in the direct costs of contributing to social betterment programmes such as education and housing. But, says White: "If the image is positive, then today's cost may in fact turn out tomorrow's profit because of the goodwill generated."

He points out that only a successful business can fulfil its community and social obligations or responsibilities: "To be able to do good, it must first do well. Therein lies the dilemma. On the one hand, a faltering economy, being put further on the defensive through external sanctions, is requiring business to adopt defensive or survival strategies — to draw inward to protect its asset base and the interests of its principal constituents.

On the other hand, there is "increased pressure from the disenfranchised for business to become more pro-active in achieving a more rapid reform of the political system. Failure to do so, in a risk-assessment sense, might eventually lead to a different type of economy, other than free market, in which business as we know it today would suffer economically and fail."

KaNgwane Chief Minister Enos Mabuza also called on business to take the lead in reform: "Political reform should go hand-in-hand with socio-economic reform. A common identity book is meaningless to the jobless breadwinner; common citizenship is meaningless to the family without a house."

He says business should improve options for a peaceful future by plausible social responsibility programmes and by creating jobs. "Business has a vested interest in the future and has no option but to become more deeply involved politically — by pushing government toward fundamental change."

Surprisingly, in the labour arena, where whites are inclined to view more militant unions with increasing distrust, it's not all gloom.

Anglo American industrial relations consultant Bobby Godsell says that in the workplace employers and unions are engaged in a vital experiment in nonracial democracy. "Can power be shared and responsible decision-making result? All the evidence to date says yes."

Within the community, more and more employers and unions are jointly



De Kock



Mabuza

Godsell

addressing issues such as housing, rents, consumer boycotts, influx control and bus fares. A track record of successful negotiation is being created.

Godsell says: "In society, though ever so tentatively, a debate is beginning about the process of political change. In the areas of civil liberties, education, law and order, employers and unions are at least debating their respective concerns.

"Much depends on whether this area of activity can be successfully extended. These

two actors can demonstrate to the politicians that the politics of negotiation can render mutually acceptable results."

Essentially, the issues raised at the conference by the 400 delegates, most of whom paid to attend, were the same as the concerns expressed by the chosen 200 businessmen invited to Pretoria on November 7. The difference, of course, is that the *FM* conference was the spontaneous expression of the marketplace.

President Botha's gathering, while it en-

abled some businessmen to put across their point of view, was intrinsically limited by the fact that those present were there by official choice, which must — at least partly — have reflected government's choice of what it wanted to hear.

Botha would have been better off had he accepted the *FM*'s invitation to be present on November 13 and 14.

□ Texts of all speeches at last week's conference will be included in a special report which will appear with the *FM* next week. ■

Few blame Govt for economic woes

N/M 25/11/86

(49)

JOHANNESBURG—Only one in three white South Africans blames the Government for the state of the economy, according to a poll.

It showed that 18% put the blame on the international community and 12% blamed the ANC.

The Markinor Gallup Poll, carried out among 1 000 white adults, showed that 3% of respondents blamed trade unions for the state of the economy and that 2% blamed big business.

A further 24% said 'others' were responsible, 17% believed no one was to blame and 4% did not know.

More than twice as many English speakers (48%) than Afrikaans speakers (22%) blamed the Government.

Afrikaans speakers tended to be more critical of the international community, with 22% blaming foreign

countries for the state of the economy and 16% blaming the ANC.

Rejection of the Government's economic policies was strongest among the better educated and the more affluent, at 25% of those with Std 8 and 44% of those with a post-matric qualification, and 28% of those with a monthly household income of less than R1 250 and 41% of those earning more than R3 500.

Respondents in the Durban, Cape Town and Witwatersrand areas recorded the highest percentage of those believing the Government was to blame for the state of the economy, at 43,5%, 42,4% and 34,3% respectively.

In Pretoria, 23% of respondents believed the Government was to blame. In the Port Elizabeth/East London region the figure was only 17,5%.

Respondents were allowed to give more than one answer. — (Sapa)

Recovery is fragile

— Morkels chief

JOHANNESBURG — Furniture turnover growth for the six months to September 1986 represented a 96 per cent increase in volume over the same period in 1983, the managing director of the Morkels group, Mr Carl Jansen, said in his quarterly report.

This cast "a proper and balanced perspective on an unbroken cycle of progress in the face of adversity and broadly-based economic hardship which had beset the furniture industry in particular," he said.

Trading activity, in an economy characterised by deep-seated fundamental structural change, continued to reflect the impact of lower growth rates, declining fixed investments, rising unemployment, pernicious inflation and depressing contractions of living standards, he said.

The effect of low-level consumer confidence on sales had been aggravated by a worrying lack of continuity in the supply of merchandise which had retarded sales impetus.

The surge in growth enjoyed in the April-June quarter had continued into the second quarter but midway through September there was a disturbing slump in sales industry-wide: Morkels itself saw the monthly growth rate decline from 96,9 per

cent in July, to 67,8 per cent in August and 19,8 per cent in September as the chain fought to achieve growth on the "phenomenal increases" recorded from September in the previous year.

"This decline, compounded by a disappointing October, ran counter to the earlier welcome signs of a mild resurgence in consumer spending, and underlined the fragility of the recovery, which could easily be reversed by adverse economic or political events.

"In the light of these circumstances, the impressive gains in sales and profits contained in recent corporate announcements do not necessarily herald a new continuum of prosperity," Mr Jansen said.

In the furniture sector, the sales revival in recent months had heightened expectations and encouraged most retailers to lay in stocks. If sales expectations were not realised over the approaching peak trading period, the resultant stock overhang would have to be moved at any price, thus decimating margins in an already fiercely competitive market.

Mr Jansen said it was disconcerting to observe a drift towards a tightly regimented economic policy, subject to a maze of bureaucratic control which, in es-

sence would dampen competitive forces and limit the scope for free enterprise.

Nevertheless, taking an expected slower growth in the latter half of the financial year to March 1987 into account, the company expected to achieve sales of not less than R110 million (an increase of 31 per cent over last year's R84 million) which would result in profits before interest and tax of not less than R8 million, an advance of 57 per cent over the previous year's R5 million.

Looking ahead, he challenged the view that the economy had entered an expansionary phase.

"For as long as inflation rates continue to erode the growth in disposable income and savings remain negligible, it must be recognised that the consumer's propensity to spend is limited. With unemployment levels on the rise and job security on the wane, the average wage earner will be reluctant or unable to take advantage of the current credit availability." — Sapa

45

45

00-25/11/86

'Rapid economic growth is way to close wealth gap'

STAR

26/11/80

49

The Star Bureau

LONDON — Rapid economic growth is the best way out of the dilemma posed by the disparities in income and wealth between whites and blacks, Mr Kent Durr, South Africa's Deputy Minister of Finance and of Trade and Industry, has told an influential investors' conference here.

He said the Government was fully aware of the "pressing need" to close these disparities. But he vigorously dismissed the idea that this could be achieved by compressing the wealth-creating ability of private enterprise through punitive taxation, and by favouring the less privileged public goods and services sector at the cost of the more privileged public sector.

"Here we shall have to tread boldly but carefully," he told the annual European Institutional Investor Conference last night, "for in the final analysis, the future of our country will depend on the system of private enterprise to deliver in terms of people's basic needs."

"To put it another way, we must give less — very much less — rein to the pernicious 'demonstration effect' inherent in glaring inequalities of living standards, while simultaneously lifting people to more acceptable levels of material provision."

POVERTY SPIRAL

Mr Durr said his government accepted that this was a difficult task, and one unlikely to be accomplished by the redistribution of present income.

"Re-slicing the present cake would, apart from its manifest political implications, simply mean an equalisation in a descending spiral of poverty, while no redistribution is a recipe for even swifter disaster."

The Government's solution was to redistribute "growth itself", he said, "that is, by a pattern of growth aimed at the selective stimulation of the most needy segments of our society."

"At the end of the day we know that our major priority must remain a new democratic constitutional order based upon the broad consent of the governed," he said. "However, the economic welfare of our country remains vital in achieving this goal and of sustaining any such agreed new constitution over time."

Capital needs highlighted

LONDON — South Africa needs an inflow of as much as R100 billion in development capital before the turn of the century.

This was the implication of a speech by the Trust Bank's managing director, Dr Chris van Wyk, when he addressed a distinguished audience at the European Institutional Investor Conference in London yesterday.

Arguing the case against disinvestment, Dr Van Wyk pointed out that, to meet the country's needs, South Africa would require an economic growth rate of some 5 percent a year.

However, a growth rate of only 3 percent was possible relying only on internally-generated capital. To bridge the gap, the country would need large amounts of foreign capital. If this was denied, the country would deteriorate in every sense, including politically, he implied.

Dr Van Wyk: "To put the challenge in context, I would like to



Chris van Wyk

refer to just one aspect of the country's socio-economic needs, namely housing.

"Dealing only with conventional urban housing, South Africa's current stock amounts to some 2,2 million units.

"It is estimated that the current shortage amounts to some 600 000 units, requiring a short-term increase of 27 percent in the national housing stock.

"By the turn of the century, as a result of population growth, urbanisation and a modest upliftment of living standards, the

country will need a conventional urban housing stock of some 5,5 million units.

"At current prices, for the most basic socially acceptable housing unit, this represents an investment of some R65 billion, or R4,3 billion a year.

"To put this in perspective, South Africa's building societies have a current asset base of some R25 billion.

"It is clear to me and to most South Africans that our country will survive ... without access to international capital markets. But to achieve growth rates (that will allow) social development, the country requires foreign capital."

And illustration of South Africa's propensity for generating internal funds was the current capitalisation of the Johannesburg Stock Exchange — R200 billion — and the country's private sector institutionalised savings industry, which manages assets worth some R170 billion. — Sapa.

hood by Queen Elizabeth after he spearheaded last year's...



sluggish. As a result, the dollar economy remained DM2,000n...

76/11/86

BUSINESS DAY, Wednesday, November 26 1986

Challenges outlined

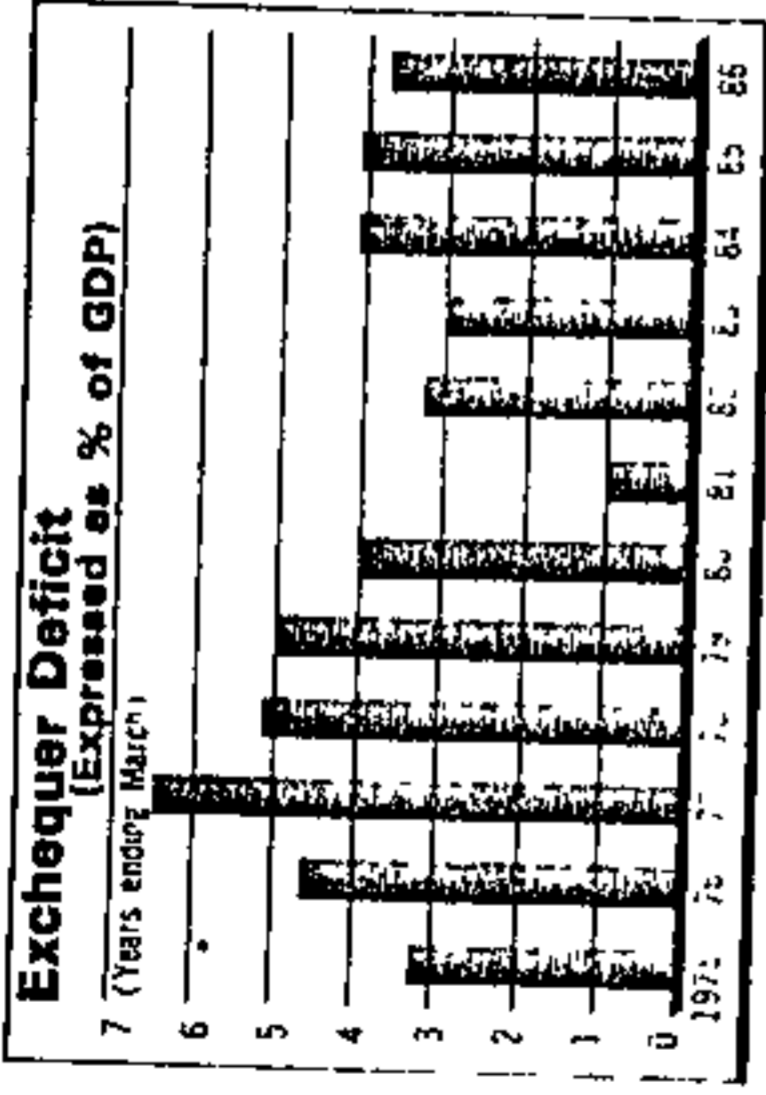
Economics Staff
TRUST BANK MD Chris van Wyk says SA's financial sector is strong enough for its free-market system to be used for the development of the country's Third World component.

Speaking at the *European Institutional Investor* conference in London, Van Wyk said SA continued to invest in its future and offered attractive opportunities for foreign investment.

He believed that demographic long-term challenges to be tackled included:

- Population growth increasing at 2.2% annually, which implies a doubling in 30 years of the present 32-million;
- The large part of the population surviving on subsistence farming with little economic contribution;
- The move towards urbanisation from the rural areas; and
- SA's financing commitment to the upliftment of living standards in a newly urbanised society.

"The economic challenges of these trends are clear. They highlight the need for development of urban social infrastructure and productive job creation — which needs large capital investment," he said.



INCREASING trade sanctions would not steer SA towards a siege economy, Louis Geldenhuys, economist of George Huy-samer & Partners, said yesterday.

He told the annual European Institutional Investor Conference in London that international pressures would rather act as a stimulus for better mutual co-operation and consultation between the private sector and government.

This should create a more favourable climate for economic development than in the past, Geldenhuys said.

Economist looks at bans and says ...

SA won't be steered to siege

STEPHEN ROGERS

Another encouraging factor of the present economic climate was that, unlike many other troubled economies, government had avoided resorting to rapidly-expanding fiscal deficits.

Although the deficit in the present fiscal year would exceed that of the last, this only represented between 4.5% and 5% of gross domestic product and was not serious from a cyclical point of view.

Geldenhuys said in spite of the pessimistic outlook for the SA economy, people should not underestimate the ability of SA to adjust to changing circumstances.

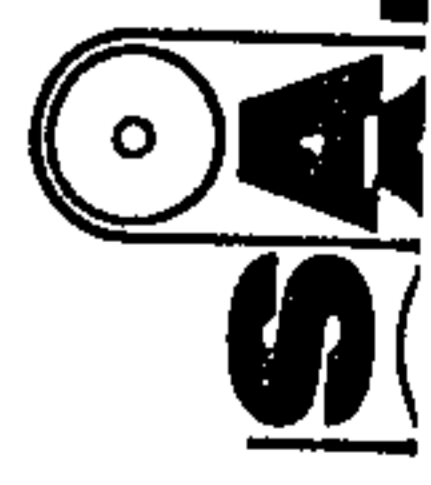
The country had already started to react to the shock of sanctions and the recession and there were signs that an economic revival was on the way. These signs included:

- Higher motor-vehicle sales. In the three-month period to October the number of new vehicles sold was 15% up on the figure for the previous year;
- Wholesale prices in September were 10.5% higher than in May this year; and
- Improved economic conditions and lower interest rates which had resulted in substantial corporate profit improvements.

However, Geldenhuys said there would not be major economic progress in the short term. He projected a real economic growth rate of only 2.5% in 1987.

But he believed that the outlook for the SA economy in the long term was more favourable than many critics would suggest.

BUNCE
 26/11/86
 49



**SOUTH AFRICAN ASSOCIATED
 NEWSPAPERS LIMITED**

Chris
 ic

M SA cr at m th pl sl 7 T I t t c i i

Basic nature of SA capitalism 'must change now'

Give blacks fair stake in future 49 *STAR* 26/11/85 economist

By Bruce Cameron,
Political Staff

The South African economy will have to be "bent" now to give blacks a proper stake and to ensure a free enterprise system would be more acceptable in a post-apartheid society, says an economist from the University of Natal, Professor Jill Nattrass.

Professor Nattrass made the suggestion in a paper on "Politics and Liberal Economics in the South African context", delivered at the recent Progressive Federal Party federal congress in Johannesburg.

She warned a start should be made now on a more equitable distribution of wealth to close the enormous gap between blacks and whites.

And to help "bend" the econ-

omy, she suggests it should be "democraticised".

"In practical terms this means the basic nature of South African capitalism will have to change from one of exclusion and exploitation to one based on participation and concern."

Any new group seeking to change the economic order in South Africa would have to start from the present-day economic structure.

Reform measures would have to address the unequal access and excessive concentration in the economy.

One of the major reasons for continued black poverty was the lack of access of most blacks to a growing modern economy. These areas included:

- The distance that lay between the concentration of people and the economic plant.

This was partially caused by apartheid.

- A highly concentrated control of capital, which led to monopolistic power and a further limiting of access.

- Financial institutions such as insurance companies and pension funds were also a limiting factor because they were taking a growing share of South Africa's limited investment funding.

This cut the amount of capital available for the small entrepreneur in a higher risk economic sector or region of the country.

- The lack of access to land with only 14 percent in black hands. Any black government, no matter what its economic persuasion, would press for significant changes in land ownership.

This was not only in rural regions, where white ownership was increasing in concentration, but also in urban areas.

- One of the greatest areas of economic concentration was the public service which controlled about half the capital invested in the economy and produced up to 33 percent of the local output and services.

Professor Nattrass labels her solution as "participating or concerned capitalism" which would have the target of increasing black participation in all three economic areas — the individual, the community and government.

For participatory capitalism to be successful, the relationship had to run in two directions — from capitalism to the community and in reverse and the current economy should be "bent" in both instances.

Examples of where capitalism could improve access to the community were:

- The provision of venture capital, by private enterprise for private enterprise, in a manner that would ensure the capital is actually made available to would-be venture capitalists on an open access basis.

- Sub-contracting by large firms of a proportion of services and inputs they require to small firms.

- The exercise of real control by the State to prevent monopolies.

- The introduction of community (as opposed to worker) input into management enterprises.

- The development of effective buyer/consumer organisations to counter the power of large suppliers.

- The development of selling organisations to assist in marketing output of small firms and handicrafts.

- Repealing the Land Act.

- The purchase or appropriation of white land for re-settlement of smallholder farmers and for the creation of communal farming settlements.

Professor Nattrass has no doubts that with economic restructuring must come political reform. Political reform would help improve access of blacks to the economy, redistributing wealth and increasing the size of the domestic market.

It would also stop sanctions and boycotts creating a healthy and stable export market.

Change has to come quickly — or whole region will suffer

By Garner Thomson, The Star Bureau

LONDON — Political change will have to come quickly in South Africa if catastrophic damage to the whole Southern African region is to be avoided, a leading economist has warned.

Dr Norman Reynolds, who heads the Zimbabwe Promotion Council, told the BBC's Michael Robinson, that if "the whole Southern African drama gets dragged out, re-building of the area could be a major international problem, and South Africa itself could be headed towards becoming a Third World economy.

"That would be tragic for Africa. The cost to Africa would be very high. Now Mr Mugabe and others who have been talking sanctions know that. Their argument is that they sense the moment has come."

But, said Michael Robinson in the programme, while the moment might have come, the objective — majority rule in South Africa — could take years.

1 Figure refers to
SOURCE : The SPP Re

CATEGORY OF REMEDIATION	
FARMS	
BLACK SPOTS	
CONSOLIDATION	
URBAN RELOCATION	
SUB - TOTAL	
INFORMAL SETTLEMENTS	
INFILTRATION CONTROL	
GROUP AREAS	
INFRA-STRUCTURAL	
STRATEGIC	
POLITICAL	
OTHER	
TOTAL	

CATASTROPHIC DAMAGE TO ECONOMIES

Links between Pretoria and its black neighbours are so intricate, that severing them now could cause catastrophic damage to their economies, particularly if South Africa carries out its threat to cut off its neighbours' trade links with the outside world.

And, if during that time, South Africa ended up closing its borders, even a revamped Beira route and port — at present black Southern Africa's only "escape plan" — would not be able to handle the region's goods. Despite this danger, Robinson reported that, in Harare, at least, there is a growing determination to push the sanctions issue to its limit.

"Zimbabwe has no intention of sitting on its hands, waiting for that crisis," he said. Government officials told him the railway lines closed by the MNR will have to be reopened, and the area secured. The Zimbabweans were prepared to suffer a substantial drop in their living standards, the Government maintained.

Zimbabwe officials claimed the area could resist an MNR takeover and, if necessary, it would call on forces from other OAU countries, and even from Western Europe and Asia.

Interviewed on the programme, Mr Carlos Cardoso, head of Mozambique's official news agency, agreed. He said Mozambique might be forced to call on outsiders for assistance and "a new balance of alliances will come through after this ordeal".

● Active participation in community affairs by management.

● The open provision of funds for community projects.

● Open finance of black housing by pension funds and insurance companies, which would also help defuse social tensions.

● Taking a community view in the provision of services.

On the other side, the community's access to the capitalist system could be improved by:

● Introducing worker ownership schemes.

● The introduction of management/worker schemes through factory floor committees which would give the workforce a clearer idea of managements, their aspirations and problems while providing a vehicle for conflict control.

REPAIRS BY CATEGORY AND PROVINCE : 1960 - 1982

REPAIRS	N. CAPE	O.F.S.	NATAL	TVL
PE	40 000	250 000	300 000	400 000
FARMS	40 000	40 000	105 000	280 000
BLACK SPOTS	-	-	10 000	120 000
CONSOLIDATION	20 000	160 000	17 000	350 000
URBAN RELOCATION	100 000	450 000	432 000	1 150 000
SUB - TOTAL	50 000	50 000	-	-
INFORMAL SETTLEMENTS	-	-	-	-
INFILTRATION CONTROL	-	-	-	-
GROUP AREAS	-	-	295 000	140 400
INFRA-STRUCTURAL	-	14 000	15 000	5 000
STRATEGIC	-	-	3 500	-
POLITICAL	-	-	-	-
OTHER	-	-	-	-
TOTAL	150 000	514 000	745 500	1 295 400

AKGWS 27/11/86 (49)

'Reform to change competition'

5. I

From ROY COKAYNE

PRETORIA. — The present political and economic reform process can be expected to change the whole structure of competition in the South African economy, says Minister of Trade and Industry Dr Dawie de Villiers.

6. S

Speaking at the first meeting and introduction of the members of the Council for Small Business in Pretoria on Tuesday, Dr de Villiers said employees and enterprises would be exposed to stiffer competition, but more opportunities would be created for individual small businessmen.

He added that the Government agreed with the statement by Dr Anton Rupert of Rembrandt that the entrepreneur was the missing link in the fight against unemployment.

Dr de Villiers said the terms of reference of the new council, under the chairmanship of Professor Nic Swart — the first director of the Small Business Advice Bureau — would be to:

- Advise the Government on all policy measures concerning small business development.
- Co-ordinate the implementation of these policy measures.
- Accept responsibility for the the allocation of public funds voted for training, consultation, advisory, after-care and research services, as well as for control over the efficient use of these funds.
- Create and maintain an empirical data base on small business activities which could be used for evaluating small business development.

- Evaluate existing and proposed legislation with the object of identifying inhibiting implications for small enterprises and to then advise the Government or Competitions Board.

- Consider any other matter relating to the promotion of small business undertakings.

The Council for Small Business replaces the Council for the Promotion of Small Business, which was abolished in terms of the recommendations of the President's Council.

Dr de Villiers said the members would all serve in their private capacities.

Director General of Trade and Industry Mr Sarel du Plessis was not prepared to say what salary council members would be paid.

The council members are: Mr Ronald Ambrosin, a building contractor and businessman from Springbok; Mr Rajendra Desai, a director of small businesses in Tongaat; Mr Solly Herselman, a property developer and building contractor from Beaufort West; Mr Colin Hickling, managing director of the Bloemfontein Executors Chamber, a director of various companies, city councillor and former mayor; Mr Hendrik Marais, Johannesburg businessman and vice chairman of the Johannesburg Afrikaanse Sakekamer; Mr Senzele Mhlungu, KwaZulu Legislative Assembly member and a director of companies in Umlazi; Mr Louis Rontgen, a pharmacist in Citrusdal and president of the Pharmaceutical Society of South Africa; Mr Don Searle, a small business proprietor in Johannesburg; Mr Habakuk Shikwane, a cane furniture manufacturer in Lebowa; Mr Chris van Eeden, owner of a printing works and city councillor in Klerksdorp; and Mr Johan Lambrechts, a business economist and the Government's representative on the council.

T
L
st
in
sa
Af

New outlook urged

to boost economy

THE POLITICS and economics of South Africa have become inseparable, and the country's economic circumstances are directly attributable to an economic outlook that has long been unrelated to South African realities, according to Mr Mike Getz, president of the National Clothing Federation.

'It remains my view,' he said at the annual meeting in Cape Town yesterday, 'that the material welfare of a society should be the essential focus of sound economic policy.'

Both the public and private sectors in South Africa had failed to channel their activities along these lines and this was a pattern that must be broken. Continued failure in this area could make South Africa a candidate for the more comprehensive failures of the continent.

'Last year and this year have been the low points of a steady decline for our industry that began in 1980,' Mr Getz said. 'The eighties have been characterised by a steady fall in employment.'

'Thus in 1986 we are employing almost 16% fewer people than in 1984. It is against this background and experience that we must examine and comment on the prospects for job-creation in South Africa. Our industry is well placed to do so.'

'The run-up to 1986 began

with a period late last year characterised by unrest, boycotts and the considerable uncertainties generated by international pressures. Consumer confidence was at a low ebb and inventory levels throughout the pipeline were declining. There was a sharp, but short, burst of activity immediately before the festive season. Even in these circumstances a number of retailers were under-stocked.

'The pattern of trade did not augur well for reopening in 1986. This year began in highly uncertain conditions; the severity of problems was almost without precedent. Order-books had never appeared more fragile, with the status of retailers' commitments changing from day to day.'

Sharp deterioration

'Additionally, there was a sharp deterioration in the delivery of domestic textiles. Thus manufacturers had the double problem of holding on to their orders but, having done so, faced threats of cancellations because of non-delivery, or late delivery, of fabrics. Clearly retailers were wrestling with the question of what stock they should have and in what quantity.'

'These decisions, save that they satisfied stringent financial criteria, were often sadly unrelated to what the consumer needed or wanted, leading to even poorer sales.'

'The supply situation we faced was more serious, we simply cannot manage as an industry without a predictable and orderly supply of fabrics. Nor will it be possible to do so in the future.'

'Generally speaking retailers had been under-stocked during winter although they enjoyed excellent clearances and good margins. Earlier decisions to keep orders tight meant that some opportunities were missed. Towards the end of the second quarter of this year stocks had fallen to very low levels indeed.'

Under these conditions, said Mr Getz, some sharp assessments needed to be made on the future of the clothing industry, which led to certain conclusions.

'The recession apart,' he said, 'South Africa is not, and has not been for some time, a hospitable environment for labour-intensive activity. It is therefore an unlikely host for job-creation. Jobs have been punished and decimated in every conceivable way.'

'The activities on which jobs depend have been overtaxed, subjected to extraordinarily high costs from suppliers of inputs and services, including governmental agencies, in an environment characterised by no growth at all.'

'This remarkable and, it must be said, tragic state of affairs has continued for years. The present recession is its logical outcome.'

'In defiance of the most elementary logic we have

persistently pitched the price of domestic raw materials and inputs to manufacturing at a level that would make it impossible for finished goods in South Africa to attract more consumers or higher consumption. These very same raw materials are readily sold in world markets, often

ually for that purpose. This factor must surely become central to political realities in South Africa.

'In the field of exports the US market has now been closed to South African suppliers. To the best of my knowledge it was not possible to sustain all the

Rodney Hayter
Finance Reporter

against fierce Third World competition.

'In place are a set of mechanisms and policies that enable some industries in South Africa to receive and retain protection, irrespective of their performance as suppliers. What is at issue here is not the principle of protection but that the obligation to supply the domestic market effectively does not specify acceptable and demonstrable standards of reliability, quality and service.'

'Secondly, there is the well-established practice of linking domestic commodity prices to the dollar

jobs affected.

'It is difficult to assess the full impact of hostility to South African products in the US and other markets. Generally speaking, business lost for such reason is not easily replaced, either domestically or internationally.'

'This is destabilising for any industry. In a labour-intensive activity such as ours the cost in human suffering is acute.'

'It is for this reason that the correct strategies to develop domestic markets are so important. Even allowing for the current and future needs of the textile sector, our combined import requirements could be reasonably modest with some restructuring.'

'Present per capita consumption of textiles and clothing is low and the opportunity for growth is apparent. We need an approach that will make our products affordable to a larger market in South Africa.'

'In the US, Europe, and increasingly in the Far East components of our industry are moving tentatively, but with increasing confidence, toward rationalising and co-ordinating the activities of their mutual pipeline. A key element of this approach is the focus on lead times and inventory levels.'

'Some of the features of our present pipeline are

- Up to 80 weeks of inventory in supply lines stretching from fibre to point-of-sale. The assets involved can and do depreciate by as much as 20%.
- Accelerated rates of

Inflation kills jobs

The host of devices and resources to create jobs in South Africa would fail if raw material continued to be so 'horrendously and inappropriately' priced, said Mr Getz.

Certain things needed to happen if the garment industry was to develop its potential and break through the spiral of political unrest spurred by economic decline.

'The private sector's sense of social responsibility,' said Mr Getz, 'needs to be reinforced by an awareness that channelling price increases without intervention or challenge, is fatal to growth. Jobs die with every notch of inflation.'

'Government will not be doing its job if it does not take up some of the political challenges at the root of our inflation.'

'As manufacturers we note with distress and concern the eroding effect food prices have on the disposable income of our market and on disposable income generally.'

'The successful societies today have successful economies guided and managed by government elected to office substan-

change in the market place exact this price of a sluggish supply line.

- Sales and profits are lost by the inability to respond to the changing patterns of consumer off-take.

- Excessive work-in-progress and high inventories must be carried because of the uncertainties that characterise an unco-ordinated pipeline.

- Components of the pipeline make decisions in isolation and without sensitivity to the ultimate effect on consumer off-take.

- The costs and risks of financing stock levels in the pipeline are massive.'

The garment industry's total activity was now significantly dependent on the development of the domestic market, said Mr Getz, and this meant that the pattern of future investment must be directed towards developing consumption and consumers in this country within the market parameters of taste levels, quality standards and disposable income.

'A flexible pipeline, lightly stocked and responsive is what the industry urgently needs,' he added.

at-
ded
rom
rino
host
Ped-
I. S.
ner
payi
ide,
and
East,
Vic-
aula
pull:
ome
ane,
rom
Z.
best
ses:



The Minister of Economic and Advisory Services (and incoming Minister of Transport), Mr Eli Louw, second from right, who was the guest speaker at the Afrikaanse Sakekamer dinner in East London last night, with, from left, Mrs Roline Meisenholl, the sakekamer chairman, Mr Frans Meisenholl, the mayor, Mrs Elsabe Kemp, and Mrs Gezina Louw.

Louw: SA ahead in deregulation

DD 28/11/76 (49)

Business Editor

EAST LONDON — Recent legislation giving the State President the power to de-regulate economic activities by proclamation was proof of the government's commitment to deregulation and also placed South Africa ahead of many other free world countries in this field, the Minister of Economic and Advisory Services, Mr Eli Louw, said here last night.

Mr Louw, who has been named to succeed Mr Hendrik Schoeman as Minister of Transport, said in an address to the Afrikaanse Sakekamer that the biggest economic problem facing developing countries was a shortage of development capital. Privatisation and de-regulation were part of the strategy for coping with this problem.

Economic strategy aimed at a reconciliation of the first and third world economies. "We want to utilise the

cardinal aspects of the economy — capital, entrepreneurship, labour and natural resources — to the highest degree," Mr Louw said.

Market and price mechanisms should, as far as possible, regulate supply and demand and the economic base should be expanded to reach the "lower levels of taxation".

"There must be room for the third world but also for tax rates to be reduced."

Mr Louw said South Africa had very few state-run business enterprises. Some of these were monopolies and could not be totally privatised.

Privatisation, he said, could not achieve miracles but it could play a significant role. De-regulation was an important component of privatisation.

The question could be asked whether, in the

light of South Africa's status as a developing country, the time was right for privatisation. The answer was yes for the following reasons:

● A too-high proportion of 60 per cent of public sector investment went towards the creation of infrastructure.

● South Africa had under-utilised infrastructural capacity in fields like electricity, roads, rail services, harbours, airports, water for irrigation purposes and hospitals.

● The ratio between capital and production had weakened over the past few years, indicating a low level of investment productivity.

● Investment and creation of job opportunities was most urgently needed in key areas of the private sector like agriculture, mining, and manufacturing — areas where the government should not become involved.

● Investment was also urgently required in small business undertakings as these were the most cost-effective creators of job opportunities.

Latest developments in privatisation and de-regulation concerned inter-city passenger transport, taxi services, toll roads, "drastic" reduction of Escom's involvement in capital markets and certain CSIR activities, Mr Louw said.

Success depended on close co-operation between the private and public sectors. "As public sector investment decreases, so private sector investment will have to increase," he said.

"If this does not happen South Africa will show a net loss of job opportunities."

"The government accepts that profit is the most important criterion for participation by the private sector. We grant that, provided it is reasonable."

th
h
a
o
o
th
de
th
wt
sp
ce
pa
1
tin
as
To

SA whites set for increased spending

The Argus Correspondent

JOHANNESBURG. — There are signs that South African urban whites may be relaxing the grip on their purse strings which they were forced to tighten in the worst of their struggle with recession and inflation.

Most are still locked in economy drives to hold down spending, but not as severely as in the thickest of the gloom, according to the results of surveys by Omnichek researchers.

"Our latest surveys show that most urban white families are still cutting back savagely on entertainment and recreation to try to beat the rising cost of living," said Mr Butch Rich, managing director of the research unit.

Improvement

"But there is a marked improvement compared with the extent of curtailment in personal expenditure we noted 18 months ago.

"However, there's still little good news for holiday resorts, restaurants, clothing retailers or bottle stores.

"Our new poll confirms what their cash books are telling them: Urban whites still don't have the spare cash they once did."

Even so, at least there had been a modest shrinkage in the number of families cutting their spending to the bone:

Holidays

- Families still slashing spending on holidays had dropped from 65 to 57 percent compared with counts made in June last year.

- Those cutting back on buying new clothing items had fallen from 63 to 56 percent.

- While 64 percent had cut their visits to the cinema 18 months ago, only 44 percent now gave trimmed back on the cost of tickets.

- The number of white families cutting back on spending on liquor had dropped from 38 to 25 percent and on hiring home movies from 39 to 30 percent.

Sad commentary

"It's still a sad commentary on the state of the economy", said Mr Rich. "It's obvious there has been a considerable lowering of the quality of life in South Africa.

"If the whites are hard hit, the penalties endured by the black communities must be dramatic."

disease probe

49
 FCN MAIL
 28/11/86

GOVERNMENT POLICY

Time for action?

Recent changes in ministries governing fiscal and economic matters could be a significant step in putting into action words concerning privatisation and deregulation. The Department of Finance, and the new Department of Economics and Technology, are preparing for policy changes that could, at last, change SA's face for permanent benefit.

High-level discussions on promoting economic efficiency were held in Pretoria this month. The problems are well known: economic recovery too much a patchwork; static unemployment; a tax burden continuing to discourage endeavour, and the freezing of foreign capital inflows.

Major points for discussion have been identified: can certain government services be abolished, others be privatised? Where can the numbers of civil servants be reduced? And what can be deregulated?

The basic answers could come from the Departments of Economics and Technology, and of Finance. Danie Steyn, Economic and Technology Minister from December 1, is well aware of his new-found powers.

Steyn's department combines the previous Mineral and Energy Affairs with Trade and Industry. It will initially have two directors general, although Steyn expects their tasks to be merged within a year. He tells the *FM* that his new department was not created to counter sanctions.

"The combination of the departments is a step to develop technology — in its totality — to foster ongoing wealth. Government has approved, in principle, the establishment of a framework for small business. We are now preparing the framework for a more efficient policy on deregulation to counteract regulations and legislation that hamper development."

In Du Plessis' ministry, the changes have been internal. Eleven officials, including Du Plessis (see diagram), now function in a circle of management akin to that seen in effective private-sector bodies. Du Plessis and Pretoria can only be commended for this change.

It gives Du Plessis, and his Deputy Ministers Kent Durr and Org Marais, time to formulate policy, rather than sinking into the quagmire of day-to-day management detail. Gerhard Croeser and Peter Wronsley have been given "think-tank" jobs. Precisely how the five "divisional" heads in finance will

operate has not been finalised. Discussions are being held, for example, on the division of work between Durr and Marais.

The overlaps between the departments of Steyn and Du Plessis are a vital key as to how the two will function. Durr was previously also a deputy minister of Trade and Indus-

economy. Under him also fall some prime targets for privatisation: Escom, the IDC, Iscor, CSIR, SABS, Soekor, Foskor, SBDC, meteorology, Mintek, even the Central Energy Fund and Atomic Energy Corporation.

Privatisation and deregulation (certainly for "small" business) are official policy.

There is widespread perception in Steyn's and Du Plessis' departments that the time has arrived to recognise SA's hybrid First/Third World economy. That means: get laws out of the way.

Technically, the question of privatisation is with the Commission for Administration — the personnel office of central government. It is reviewing all State functions; Steyn will then review all functions referred to in his portfolio. But no time scale is attached.

Tax cuts are a function of shrinking the bureaucracy, but also of privatisation and deregulation. Hopes of tax cuts cannot be placed on the delayed work of the Margo Commission; it is concerned with technical matters, not the stimulation of political will.

The private sector must not underestimate the importance of Steyn and Du Plessis in the current political atmosphere. The *FM* perceives a newfound will to listen to the private sector. Recognition that financial and economic policy are pivotal to a political settlement has come of age.

The main obstacle in the way of positive development may, ironically, be vested interests in the private sector. They have built very solid temples held together by regulations and restrictive laws.

FCN MAIL
 INFLATION 28/11/86

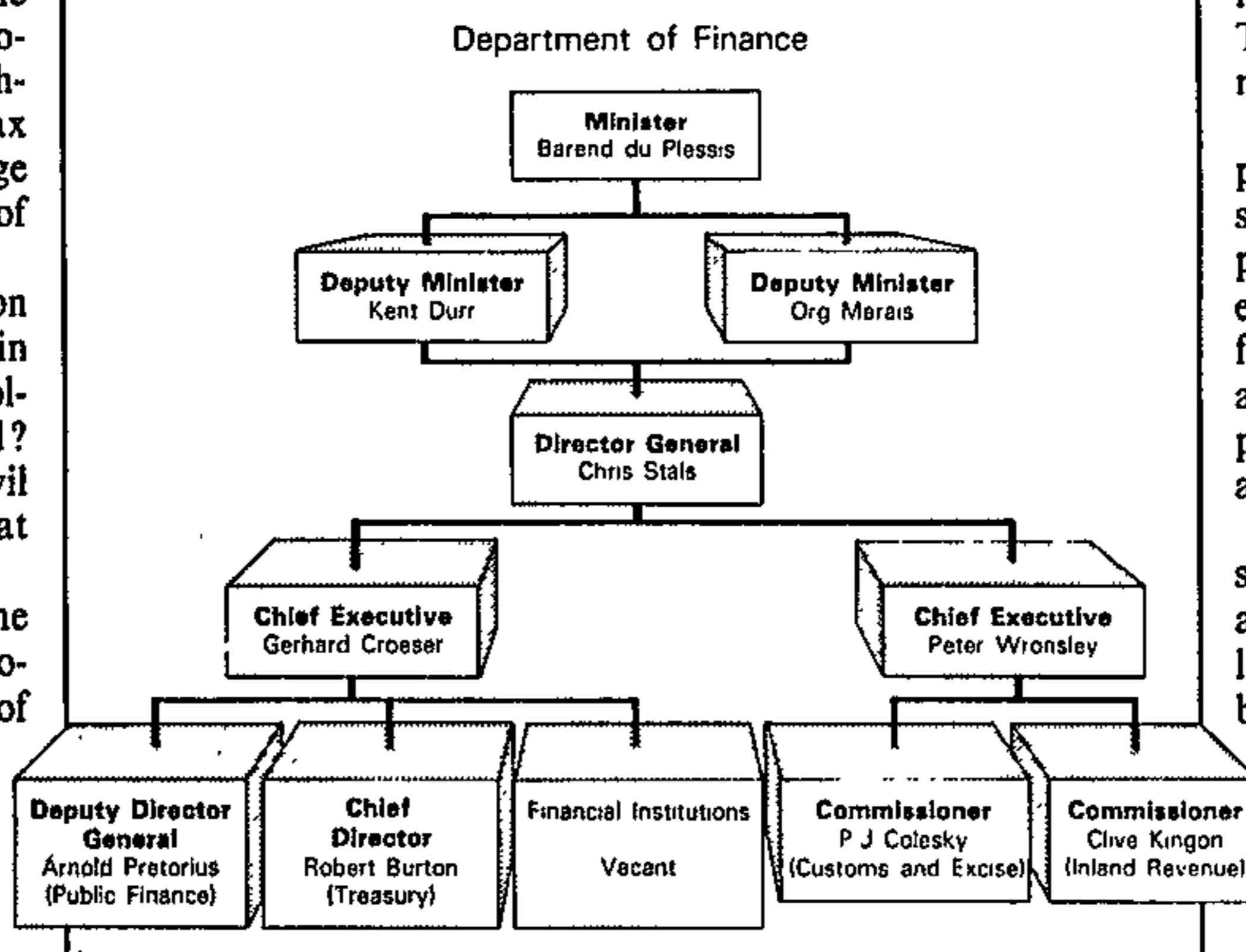
Stomach ache

Food, comprising a quarter of the consumer price index (CPI), continues to eat into consumers' pockets. In October, food prices increased by 2,8%, bringing the year-on-year increase to 23,2%.

This compares to the overall year-on-year October CPI increase of 19,2%, down from from September's 19,7%. The index increased by 1,1% to 239,3.

Central Statistical Services says that food prices have not risen at such a rate since early 1981. The difference, of course, was

Management for the 90's



try; and Steyn was a deputy minister under previous finance minister Owen Horwood.

Steyn, essentially a scientist, has become an outgoing politician who "welcomes criticism," and will be receptive to "quality input." Du Plessis has become a politician who no longer says the first thing that comes to mind, and is patently determined to leave his mark on SA's most traumatic times.

Steyn and Du Plessis, interactively, may serve up the "master plan" for SA's engine room: the private sector. To what extent is each responsible for Pretoria's four central economic policies: deregulation, privatisation, tax cuts and shrinking the size of bureaucracy?

Du Plessis is essentially a fiscal animal, the minister of the Budget: Inland Revenue and Customs and Excise collect cash; Public Finance decides technical policy; the Treasury dispenses cash; and the Registrar of Financial Institutions is a regulator.

But the real meat of SA's new economic thrust falls under Steyn — including trade inspectors, patents and trademarks, competition law, companies, import and export control, the Board of Trade and Industry, foreign trade relations and liquor laws. In short, most things in the way of a more free

(29) (29) (29) FIN MAIL 28/11/86

Real hope or false dawn?

For corporate SA, the spring months of 1986 have brought relief to a bleak and parched landscape. Over more than three years, while inflation rocketed ahead, the profits of most industrial companies stagnated or fell. Many firms did not survive. But in a notable reversal of this trend, for week after week now, starting in early August, companies have been reporting rising earnings and, often, higher dividends.

There have been false dawns before — the mini-boom in 1984, which proved illusory, comes to mind. Yet, on the whole we may be seeing the end of a dark period of more than 40 months, throughout which profits were squashed by those now familiar maladies: recession, a weak bullion price, excessive debt, record interest rates, foreign exchange losses, political unrest, international isolation, and wilting business and consumer confidence.

Our profits table published a year ago, covering the comparable reporting period, showed that some 80 of the 130-odd companies on the list had published falls in earnings; of these, about 30 had cut their dividends. This week, the table tells a different story. Of some 160 companies listed, around 75 produced higher earnings and more than 50 have increased their dividends. A number of the large groups — the best-known cases include Barlow Rand and AECI — have at last climbed off protracted dividend plateaus.

Some analysts decided in the first half of the year that the tide could turn during 1986. Rosier prospects were heralded in the JSE Actuarial Industrial index's climb over the first eight months of the year (see graph). Initially, the more positive and often tentative forecasts were based largely on a few key economic fundamentals, particularly the surplus on the current account and the declining trend in interest rates that started in April 1985.

These circumstances usually favourably influence equity prices. A positive current account can be expected to presage economic growth. And any softening of interest rates

For many sectoral shares, the bottom line is looking far healthier than it did a year ago. But that is measuring current profitability against a very bleak year-ago situation. Analysts remain cautious while inflation stays untamed and the gold price continues to be sluggish.

from the dizzy levels of 1984-1985 was bound to benefit companies' bottom-line earnings. Prime now stands at 13,5% against the peak of 25%.

There were, of course, many reasons for profit improvements across such a diverse range of companies. But two other events at mid-year provided unexpected and powerful fillips to profitability. One, curiously, was the reimposition of the State of Emergency. The other was the pick-up in the gold price, which had been almost dormant since dropping below \$400/oz in late 1983.

Whether or not such perceptions prove sustainable, there is little doubt that the renewed emergency helped quell visibly worsening civil disorder — and to reduce overall awareness of the problem. The resulting stimulus to business and consumer confidence was a pivotal ingredient needed to nudge the economy forward again.

Certain companies, particularly those

which sell consumer products like furniture and semi-durables, noted an immediate improvement in sales to black areas after July. Not only were customers again able to make their purchases, but payments could again be collected.

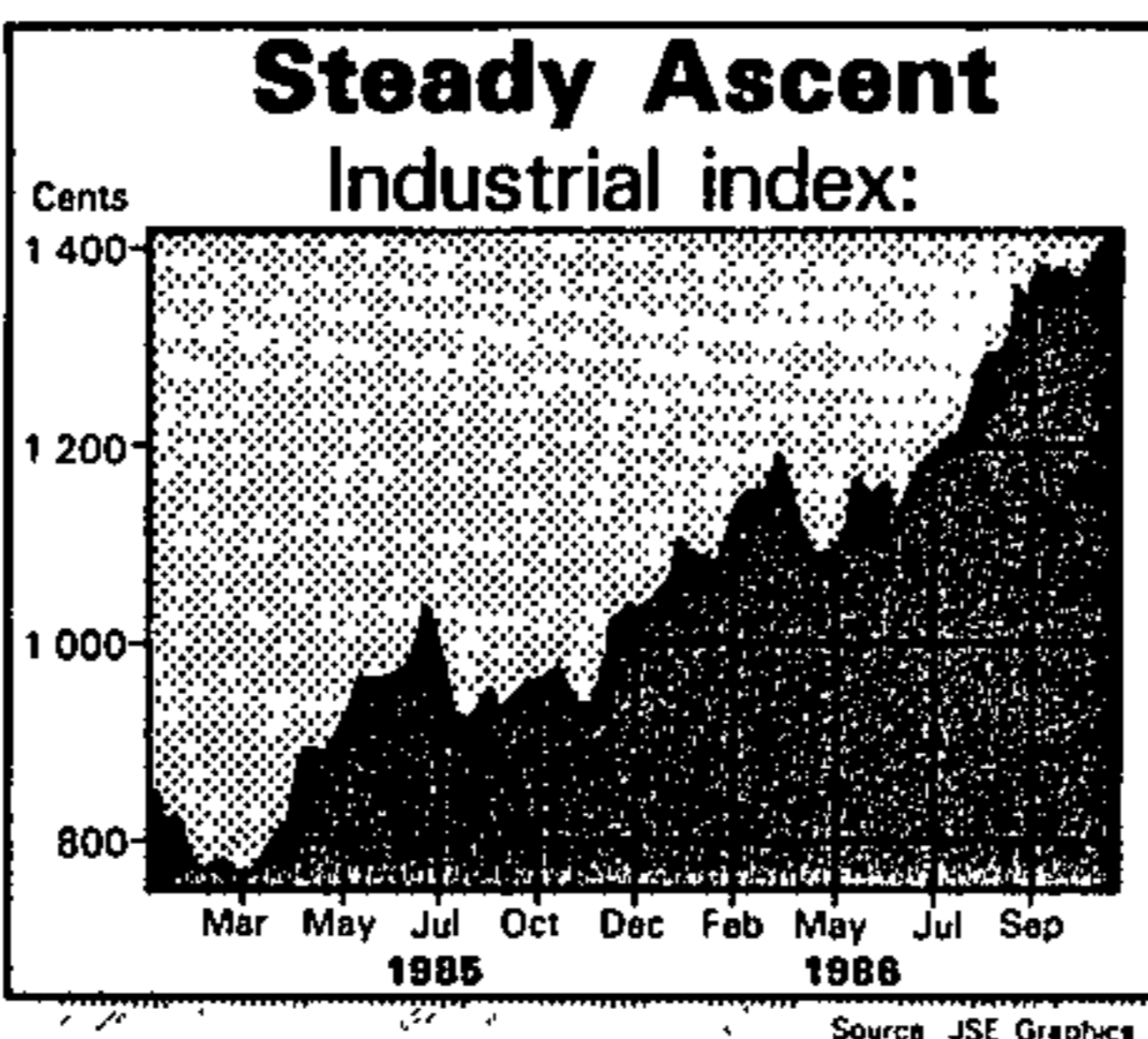
In the ensuing months, confidence was further boosted by the leap of the gold price from around \$340/oz to well above \$400/oz. It has since dropped below \$380/oz but, for many South Africans, faith in the yellow metal has been restored (at least for now). For the economy, the price rise already seen will help to compensate for capital repayments to overseas creditors. All of which brightens sentiment.

But internal factors, such as rationalisations, recapitalisations and, simply, better management, have also been important — in many cases these were the real causes of turnarounds. Rationalisations have involved takeovers and subsequent paring down of operations — or, more frequently, sales, closures or other drastic actions to deal with under-performing assets.

Among groups which have been enjoying the benefits of such clean-ups are Dorbyl, Malbak, Safren, Saan, HLH, Tongaat, Abercom, Murray & Roberts, Reunert, and Darling & Hodgson. These are only the more visible cases. Throughout South African industry, managements have been forced to scrutinise their own efficiencies. In more than a few cases, formerly respected executives (and some less respected ones) have shuffled off the stage; and not only because of retirement.

This is, of course, one compensation for such a long and deep recession. Survival demands that a new level of fitness is infused into industrial corporations. Cost structures have been reshaped and breakeven points widely reduced with, unhappily, considerable human cost — unemployment has ballooned. But the potential for recovery and growth when an economic upturn does arrive is large. Much of the preparatory work was done by the first half of this year.

Balance sheets had also been strengthened



— 1985 will be remembered for the flood of rights issues, which collectively pumped more than R2 billion of new equity capital into listed companies. These funds often went towards the repayment of interest-bearing debt.

Some groups, such as Tedalex and Kanhym, had to be recapitalised through rights issues after the foreign exchange losses suffered in 1984 and 1985. For dozens of companies, simply the non-recurrence or the reduction of previous forex losses put an extra kick behind their latest profit figures. These included Premier, Federale Volksbeleggings, Kohler, Sentrachem and Toyota.

The more heartening 1986 profit figures must be seen in perspective. They are being compared with the generally horrendous figures in the latter half of 1985. Thus, thanks partly to the return of consumer spending at mid-year, the SA Breweries (SAB) group companies interim earnings growth figures looked good this time: Amrel swung from a loss to earnings of 34c; Edgars raised earnings a share by 128%; Afcol by 107%; OK Bazaars by 17%; and SA Brews by 56%. But, in the year-ago period, Amrel was down by 169%; Southern Sun by 93%; Afcol by 66%; OK by 46%; and Edgars by 39%.

On the whole, Barlow Rand industrial companies did not show earnings growth as strong as those under SAB's wing. But a number of the Barlow companies showed resilience in the previous year; and, of course, SAB's directly consumer-orientated businesses are normally the first to benefit from an upturn in demand.

The continuation of more active spending should lead to restocking of inventories. This means further profitability improvements could be in the pipeline for manufacturing and distribution companies — including

those in the Barlow group; clothing, textile and furniture manufacturers; packaging suppliers; wholesalers and certain engineering and chemical companies, particularly AECL.

Does all this indicate corporate profits are securely back on an uptrend? Analysts are hopeful. They are also well aware that key determinants like private consumption expenditure — up by an annualised 4,5% in the third quarter — have often proved brittle. For the present, though, conditions are propitious for a buoyant festive season. Consumer confidence is much brighter compared to the depths of the second quarter, although more improvement is needed.

Even with better activity, some sectors remain overshadowed by intense competitiveness. In the retail sector, the "store wars" led to some less than impressive figures from the large chains, Pick 'n Pay, Checkers and OK Bazaars. Competition in this market is expected to remain a drag on profits.

This also applies in the food sector, where margins have remained thin. A return of growth in fixed investment could be crucial for many companies whose fortunes are linked to this indicator. Among these are construction and civil engineering-orientated groups like LTA, Murray & Roberts, and Group Five. These, as well as firms like Dorbyl, Grinaker and E L Batemen, are still waiting for more substantive developments at Mossel Bay, on which major announcements were being hotly speculated a year ago.

Reserve Bank Governor Gerhard de Kock noted at the recent FM Investment Conference that real gross domestic fixed investment was estimated to have shown a marginal increase during the third quarter of 1986.

"If this marks the end of the persistent downward tendency in this strategically important component of total spending since early 1982," he said, "it is a most significant and welcome development." But will it be? Cynics would argue that capital will remain scarce, confidence is fickle, and the gold price has retreated.

There is some point in holding reservations. Both company profits and the economy need to do a lot of catching up after the past few years of stagnation. Returns on assets remain low, interest cover is often still thin, and it is questionable whether borrowings have yet been wound down far enough. Almost all JSE companies have reverted to the fifo method of stock valuation; inflation continues to undermine real growth.

Yet, one of the most positive trends running through these profits is that pre-interest profit margins have begun to improve again. Apart from enjoying stronger sales, as Winston Floquet, research director at stockbroker Martin & Company notes, many companies have not been scared to raise prices once conditions eased.

Floquet's view is that profits will show even greater improvement in the current six months. He believes that prices of industrial shares already largely reflect the reported earnings and dividend growth, but the growth still to come should trigger further price increases — although at a lower rate than the expected dividend increases.

"Present indications are that the rate of profit growth is going to increase for the next six months and then level out and begin to deteriorate, unless we're saved by the gold price," he adds. But with gold fixed at \$380/oz on Monday afternoon, analysts are talking rather cautiously about bullion again.

Andrew McNulty

CORPORATE PROFITS: RELIEF AT LAST

Company	Reporting Period	—Turnover %		—Operating Profit %		—Finance Charges %		—EPS %		—DPS %	
		Rm	change on previous period	Rm	change on previous period	Rm	change on previous period	c	change on previous period	c	change on previous period
INDUSTRIAL HOLDING											
Amic	I Jun 30	1 466	32	190,7	65	50,4	5	193,0	50	55	—
AVI	P Jun 30	2 401	19	191,6	11	35,7	4	242,0	15	50	9
Barlows	P Sep 30	14 623	19	1 216,5	16	300,5	-11	212,3	29	80	14
BTR Dunlop	I Jun 30	176	57	17,4	18	2,0	—	38,0	-25	29	—
CG Smith	P Sep 30	7 237	17	478,2	13	105,7	-18	287,5	7	130	4
Cullinan	P Jun 30	175	23	13,3	-4	2,9	-42	76,1	21	35	17
Curfin	P Jun 30	—	—	17,9	-11	—	—	48,3	-16	35	—
Eureka	I Aug 31	6	84	0,8	83	0,5	474	34,7	396	17	278
F-S Ind	P Jun 30	165	67	18,7	38	10,2	-5	24,0	229	6	200
HLH	I Sep 30	125	19	21,7	22	1,0	-48	18,0	27	6,5	27
IICO	P Jun 30	140	21	7,6	62	2,4	9	71,3	250	19,5	18
Ind & Com	P Jun 30	97	24	5,9	16	1,3	8	218,0	35	85	—
Lucem	I Sep 30	38	15	4,4	37	0,03	-99	5,7	307	1	—
Malbak	P Aug 31	997	21	35,0	100	4,9	9	43,7	68	15	20
McPhail	I Jun 30	29	23	0,6	—	—	—	0,8	-11	—	—
Messina	I Jun 30	93	-10	4,5	73	5,4	-34	4,7	—	—	—
Micor	P Jun 30	—	—	3,3	-13	—	—	10	-88	10	-62
Nictus	P Jun 30	—	—	1,1	175	0,5	-44	6,06	-77	2,5	—
SA Bias	I Jun 30	—	—	2,6	6	—	—	9,7	33	2,4	33

P = Preliminary I = Interim ● = Includes foreign exchange losses

Continued on page 40

Continued from page 39

Company	Reporting Period	Turnover %		Operating Profit %		Finance Charges %		EPS %		DPS %	
		Rm	change on previous period	Rm	change on previous period	Rm	change on previous period	c	change on previous period	c	change on previous period
Safren	P Jun 30	1 914	10	334,4	5	51,3	-34	177,0	35	88	16
Sinclair	P Jun 30	21	50	2,6	18	0,6	—	30,8	25	10	25
T & N	I Jun 30	59	23	5,8	9	1,3	-13	12,23	14	—	—
W & A	I Jun 30	—	—	23,2	—	9,5	-49	88	—	25	—
BEVERAGES											
Kersaf	P Jun 30	541	36	115,3	28	9,2	2	62,6	17	40	18
SA Brew	I Sep 30	3 220	23	205,5	48	64,9	-2	30,3	56	12,5	25
Sunbop	P Jun 30	168	17	36,4	22	7,6	30	28,9	8	20	5
Suncrush	P Jun 30	136	14	19,3	10	1,2	-40	353,0	12	116	17
Suthsun	I Sep 30	116	12	-1,3	—	5,0	-47	-8,5	—	—	—
BUILDING AND CONSTRUCTION											
A Alpha	I Jun 30	161	4	37,5	2	17,1	37	28,3	-34	22	—
Blue Circle	I Jun 30	146	-3	28,1	-7	12,7	-4	12,3	-41	—	—
Boumat	I Sep 30	255	20	11,4	61	3,6	-40	20,0	700	14	-18
Concor	P Jun 30	—	—	-9,3	—	—	—	-47,6	—	—	—
Everite	P Jun 30	230	—	14,0	-58	2,5	67	24,8	-73	18	-70
Goldstein	P Jun 30	260	-11	1,9	2 011	2,1	-38	2,1	—	—	—
Grinaker	P Jun 30	457	9	15,9	-35	5,2	44	22,3	-42	9	-50
Group 5	I Jun 30	202	-19	-9,7	—	1,3	-67	-71,8	—	—	—
Gypsum	P Jun 30	—	—	9,9	-15	—	—	59,0	-17	22,5	—
PPC	P Sep 30	408	25	91,1	1	4,8	529	116,1	-25	47	9
CHEMICALS											
AECI	I Jun 30	1 308	21	141,0	33	37,0	-8	45,0	36	25	4
Chemsve	I Jun 30	75	34	7,8	29	1,7	19	68,4	51	25	25
Farm-Ag	I Aug 31	34	39	2,6	29	—	—	34,0	31	12	20
Plevans	P Sep 30	352	34	29,6	40	4,2	20	53,5	42	25	67
Sasol	P Jun 28	3 746	10	1 326,6	28	164,0	-26	102,3	15	45	15
Trek	I Jun 30	338	7	7,2	-62	0,6	—	67,1	-12	25	67
CLOTHING											
Af & Over	P Jun 30	—	—	9,6	-27	2,3	-55	140,6	—	25,5	—
Ensign	I Jun 30	—	—	0,4	83	0,08	-12	20,0	43	5	—
Gubings	P Jun 30	275	12	13,8	9	10,0	-6	148,5	36	35	17
Mooi River	I Jun 30	17	15	2,1	10	—	—	21,7	-15	10	—
Ninan	I Jun 30	—	—	1,3	32	0,3	-74	-5,0	—	—	—
Progress	I Jun 30	15	40	1,4	234	0,3	-24	19,2	1 100	7	—
Rex True	P Jun 30	—	—	9,2	-24	2,3	-54	140,6	-37	55	—
Romatex	P Sep 30	490	13	34,2	56	7,0	-33	64,7	66	26	73
Seardel	P Jun 30	374	6	19,4	-11	9,9	-29	84,1	24	16	33
Svenmill	P Jun 30	27	19	2,1	13	1,2	-27	4,9	104	—	—
ELECTRONICS											
Aberdare	I Jun 30	122	45	6,2	110	—	—	26,8	80	12,5	67
Af Cable	P Jul 31	91	14	8,6	—	0,07	-95	19,93	—	12	—
Altech	I Aug 31	300	39	51,7	22	2,4	-15	276,5	26	—	—
Altron	I Aug 31	624	32	70,1	16	5,3	18	112,4	20	—	—
Asea	I Aug 31	227	32	9,1	25	1,5	-31	16,9	-14	—	—
Computermatic	I Aug 31	26	-12	3,1	34	0,4	29	12,9	30	5	—
Delta	I Jun 30	—	—	4,3	63	—	—	28,9	38	9	50
Elcentre	I Aug 31	37	-3	3,1	12	0,8	-42	6,9	44	4	—
HJ Cable	P Jun 30	—	—	0,7	-10	—	—	9,3	3	4,5	—
Powtech	I Aug 31	325	26	16,0	3	3,5	-27	4,3	—	—	—
Reunert	P Sep 30	922	12	23,7	-53	20,2	-34	—	—	—	—
SPL	I Aug 31	13	38	2,2	38	0,1	—	6,9	—	2,8	—
ENGINEERING											
Abercom	P Jun 30	279	36	16,4	23	3,1	182	58	9	15	25
Berzack	P Jun 30	—	—	13,4	51	5,5	-7	340,3	41	50	47
Cemenco	P Sep 30	241	59	13,4	74	6,3	232	44,6	-23	22	-12
Claude Neon	P Jun 30	—	—	5,6	-2	0,4	33	46,2	-3	22,5	—
Davgra	I Aug 31	—	—	0,9	80	—	—	8,9	141	—	—
Dorbyl	I Sep 30	1 544	9	87,1	26	22,9	-33	161,2	162	55	38
GIC	I Sep 30	21	22	1,9	850	0,2	-67	42	—	20	—
Globe	P Jun 30	—	—	1,4	100	0,7	-30	93	-7	55	—
Haggie	I Jun 30	335	18	47,3	15	0,7	600	110	9	25	—
Natl Bolts	P Jun 30	113	69	13,8	44	7,1	-13	95,1	2403	—	—
Natl Trad	I Jun 30	103	12	4,4	529	1,0	-57	40,7	—	10	—
NEI	I Jun 30	141	6	16,3	18	3,3	—	136,6	8	41	413
Steelmatal	P Jun 30	55	6	5,1	9	2,1	31	46	-22	15	-25
Std Brass	I Jun 30	—	—	0,4	100	—	—	1,1,1	71	—	—
FISHING											
Wilbarz	P Jun 30	5	74	2,1	-5	0,1	—	20	—	7	—

P = Preliminary I = Interim ● = Includes foreign exchange losses

Continued on page 44

Continued from page 40

Company	Reporting Period	Turnover %		Operating Profit %		Finance Charges %		EPS %		DPS %	
		Rm	change on previous period	Rm	change on previous period	Rm	change on previous period	c	change on previous period	c	change on previous period
FOOD											
Becketts	P Jun 30	167	21	20,5	27	0,2	100	152	52	60	50
Cadswep	I Jun 30	59	8	3,4	-31	1,6	-24	48,2	12	15	—
CGS Food	P Sep 30	4 951	23	263,6	12	65,5	-9	97,5	10	40	8
Fedfood	P Sep 30	511	14	29,3	-1	13,3	-6	34	-3	10	-17
ICS	P Sep 30	1 367	8	19,1	-33	12,7	-3	30,2	-41	15	-25
I & J	P Jun 30	612	18	37,2	11	3,6	24	72	7	26	4
Jabula	I Sep 30	17	13	0,2	900	—	—	15,1	788	—	—
Kanhym	P Jun 30	238	7	6,0	-42	5,6	-71	0,1	—	—	—
Premier Group	I Sep 30	1 329	16	71,7	15	33,0	-24	70,3	69	36,0	13
Tig Oats	P Sep 30	3 513	26	188,7	20	15,0	-13	775	12	270	17
FURNITURE AND HOUSEHOLD											
Afcol	I Sep 30	192	32	10,2	52	3,6	-12	38,2	107	19,5	105
Amref	I Sep 30	294	27	5,9	—	—	—	34	—	11	—
Bradlows	P Jun 30	—	—	0,5	—	0,9	-53	-13	—	—	—
Ellerine	I Jun 30	119	30	11,0	75	2,1	-5	79,0	104	19	111
Tedalex	I Jun 30	241	32	17,1	138	10,5	-66	0,47	—	—	—
World	I Jun 30	—	—	2,3	2 200	0,9	-72	10,1	—	—	—
MOTOR											
Curries	P Jun 30	—	—	5,1	—	—	—	106	-12	75	—
Gentyre	I Jun 30	144	18	10,3	-7	2,7	-25	35	3	7	40
McCarthy	P Jun 30	1 019	18	24,3	-11	7,2	-3	60,7	0,2	25	—
Metair	I Jun 30	—	—	3,1	-60	—	—	41	109	—	—
Porter	P Jun 30	—	—	3,3	230	—	—	39,2	-36	13	17
Saficon	I Sep 30	256	30	10,4	259	—	—	64,3	—	12	—
Toyota	I Jun 30	—	—	24,3	3	17,1	2	186,8	—	—	—
PAPER AND PACKAGING											
Carlcor	I Jun 30	92	9	6,5	-36	2,1	-5	15,2	-46	8	-43
Coates	I Jun 30	24	-20	—	—	0,3	50	26,6	-11	—	—
Consol	P Jun 30	403	34	49,2	11	8,9	44	404	-6	150	—
Haddons	I Jun 30	—	—	8,2	39	1,8	13	96,7	28	30	11
Kohler	I Jun 30	217	23	13,5	265	5,7	-51	47,1	—	10	—
Metalco	I Jun 30	31	19	3,8	15	0,5	25	83,8	0,2	2,3	-15
Nampak	P Sep 30	1 734	21	181,7	28	30,7	-22	174	22	79	13
Sappi	I Jun 30	461	24	65,1	16	36,4	-45	26,2	—	—	—
PHARMACEUTICALS											
General Optical	P Jun 30	—	—	1,7	89	—	—	78	90	24	33
STEEL AND ALLIED											
Hiveld	I Jun 30	378	24	40,1	112	—	—	42,4	57	10	25
Union Steel	P Sep 30	—	—	16,5	931	—	—	-28,6	—	—	—
Verref	I Sep 30	86	18	8,1	25	0,5	525	76,7	15	21	5
RETAILERS & WHOLESALEERS											
Boymans	I Jun 30	22	7	0,9	29	0,4	33	5,4	23	—	—
Cashbuild	P Jun 28	88	47	3,9	39	—	—	8,3	30	—	—
Clicks	P Jun 30	188	18	13,5	11	—	—	34,7	12	15,85	11
CNA Gallo	I Sep 30	148	11	4,8	26	1,3	-46	9,8	250	4	—
Edgars	I Sep 27	423	24	41,3	67	6,3	-36	853	128	215	72
Fablibe	P Jun 30	20	8	1,8	29	0,3	-25	6,9	—	—	—
Foschini	I Jun 30	—	—	8,8	26	—	—	—	—	175	4
Garlicks	P Jun 30	87	11	5,1	-20	0,5	—	75	-31	44	—
Housewares	I Jun 30	—	—	1,7	113	0,1	11	3,6	112	—	—
Metro	P Jun 28	1 283	26	—	—	—	—	26,3	33	—	—
OK	I Sep 30	1 104	15	9,3	6	—	—	35	17	21	17
Pick 'n Pay	I Aug 31	1 132	11	26,8	14	—	—	77,3	13	24	12
Spitz	P May 31	28,1	—	-0,09	—	—	—	-7	—	—	—
Tradegro	P Jun 30	3 709	26	6,7	-88	49,6	-29	-37,4	—	—	—
TOBACCO											
Utico	I Jun 30	98	14	8,1	72	1,9	-34	51,9	136	12	71
TRANSPORT											
Mobile	P Jun 30	—	—	2,7	29	—	—	67,5	23	60	20
Tollgate	P Jun 30	127	18	18,2	27	—	—	28,6	59	20	33
Trencor	P Jun 30	277	21	23,4	46	—	—	1 100	45	210	20
SUGAR											
Tongaat	P Sep 30	1 038	10	85,5	35	38,4	-40	34,8	610	10	233
DEV CAPITAL											
Commercial Finance	I Jun 30	—	—	0,7	—	—	—	11,7	95	—	—

P = Preliminary I = Interim ● = Includes foreign exchange losses

CONTEMPORARY South Africa is facing several challenges — or "crises".

Whilst the sanction threats seem to overshadow most of the other issues in the short run, the well-known economic problems of structural inflation, escalating unemployment, rural impoverishment, rising worker militancy, large budget deficits and waning international competitiveness are as real today as they have been over the past few years.

Similarly the dramatic diplomatic showdowns preceding the sanctions decisions have so far done relatively little to accelerate reform in the political sphere, where fears about right-wing backlashes may have hardened during recent months.

Viewed over a longer time dimension the political and economic issues and challenges facing South Africa — in essence the question of how legitimate and rapidly rising demands from the dominant black segment of South Africa's population can be "met" with the limited resources of a semi-developed hitherto white controlled African economy — centre around the fundamental question of an appropriate socio-economic and politico-economic system.

In the contemporary debate inside as well as outside South Africa, this question has become articulated as the search for a suitable "post-apartheid economic system".

The debate is not new. In fact, it's broadening over the past year or two has resulted in a virtual crescendo, with different schools trying to outdo each other.

The latest of this debating phases has been the York conference of September 1986 where no less than 50 papers focussed on an economic order for post-apartheid South Africa.

Inside South Africa the debate reveals many different dimensions. In the black political arena we find discussions about the UDF and the National Forum's perceptions of a "socialist" South Africa; this debate is also reflected within trade union circles, where the interaction with business — both conservative and more progressive — adds further complexities.

Among Afrikaner orientated and liberal English academics the debate centres around the validity of the "free enterprise" concept, whereas moderate left academics focus on the social "democracy" model and it's possible implementation in South Africa.

Overshadowing much of these debates is the fear among many that the prolonged postponement of essential socio-political reforms and the continuation of the state of emergency and simmering unrests in the townships give rise to various types of anarchy at the grassroots level of black — and white — society, which could hamper the implementation of any type of orderly socio-economic system in a post-revolutionary Azania.

Once we become aware of the full complexity and political sensitivity of this state of affairs, the logical question is whether any sensible debate about the future institutional socio-political structuring of South Africa is at all possible, in particular between those currently close to the levers of political and economic power and those representing the poor, oppressed and disenfranchised.

The contributions brought together in this issue of South Africa International signify a modest attempt to answer that crucial question in the affirmative and to represent part of the wide spectrum of views inside South Africa. As a closer scrutiny of the papers will reveal, the task has not been easy. The seven contributors do not include "authentic spokespersons" of the black left, nor have the more dogmatic "free enterprise" protagonists been included. Attempts to get some active trade union leaders from Cosatu camp to outline their views about a post-apartheid political economy were as futile (for reasons quite understandable to the editor) as were efforts to get to get UDF-orientated black religious leaders to reflect on the moral dimensions of a future economic system. The fact that South Africa International's primary audience — big business inside and outside South Africa — creates suspicion and fear of credibility erosion among potential contributors can also not be ignored — and should certainly be accepted with sympathy.

CITY PRESS 20/11/86

A look at the options in a post-apartheid economy

before black political aspirations can be articulated more effectively, ie, before authentic black leaders can ply their role in an unhampered way and genuine "compromises" are at stake.

Having outlined some of the hassles surrounding any attempt to debate a post-apartheid economic system for South Africa we can briefly comment on the papers included in this section. Three of them come from well-known personalities within the private sector establishment whilst a further three present views from both sides. Seen in their totality these seven papers constitute only a very limited cross-section of the range of opinions held with respect to a post-apartheid economic system. At best we can regard them as examples of the types — and diversity — of approaches currently pursued in this debate. As such, no pretence can be made that the collection gives a complete or unbiased overview of the current state of debate.

The first three "establishment orientated" papers present distinctly different, though not unrelated perspectives on the dilemma facing South Africa in its transition to a post-apartheid society. All three authors assume a gradualist transition (though not necessarily one without conflict) and all three assume that such a future South Africa will and should still pursue a market orientated, basically "capitalist" economic system. Dr Simon Brand, head of the Influential Development Bank of Southern Africa, and as such well aware of the resource limitations in the different regions of Southern Africa — and the rest of Africa — stressed the resource gap and the need, amongst whites and blacks alike, to dampen expectations about future living standards. In a way Brand echoes the lessons drawn in other parts of Africa (in the so-called Berg Report) and in the Third World at large (in the different World Development Reports of the UN) about the limits of redistribution and the need for market related development strategies.

Brand's view is further elaborated by Aubrey Dickman, doyen amongst the professional economists of the business conglomerates. He places particular emphasis on the need to maintain an open economy, whatever political transformations might occur in the country. His reference base is the highly competitive economies of the Far East, with some of the Latin American giants currently following somewhat similar paths. For obvious reasons Dickman would probably regard socialist strategies as highly dangerous for the future growth path of South Africa. Johan van Zyl's paper is focused much narrower, in line with his position as Director of the Federated Chamber of Industries. Similar to Dickman, he regards as essential the maintenance of an "open economy", although he accepts the new strategy of "inward industrialisation" as both inevitable in the light of the sanctions threat and potentially advantageous as long as it not taken too far. Whilst he does not consider it, the interesting question arises whether progressive socialist-orientated black leaders might not also pursue a strategy of inward industrialisation, with possibly greater local support from the black community, yet lesser over support from the broader business community.

choice of appropriate medical care and pension systems by workers. Maree focuses on the process of leadership democratisation in the independent trade union movement.

Motswenyane's paper, which includes excerpts from his 1986 presidential address to NAFCCOC and a summary of his own ideas about the direction of reform in South Africa, constitutes a good example of the stresses under which black business leaders are suffering at present. As is evident from the paper — and even more so from events in the black townships, where many black businesses have been destroyed during recent months — organised black business is currently at the crossroads. If they choose free enterprise capitalism under white control and with only moderate ("cosmetic") political reforms, their personal safety and their whole business future is at stake in the townships. This pressure, combined with the challenges expressed by a new generation of politically active businessmen, has forced NAFCCOC to play a more overt role in the dialogue between progressive black groups, including the ANC. In this process NAFCCOC has accepted non-negotiable black political demands and has modified its stand on key issues like sanctions and a future economic system. At the same time it is clear that Motswenyane's underlying pragmatism and willingness to compromise still prevails — at least on his part.

This dilemma on NAFCCOC possibly constitutes the greatest challenge emanating from these papers: will the white-centred business community of South Africa respond positively enough — and soon enough — to these demands before circumstances have forced even them towards a more radical and uncompromising stance?

Reference to the last of the seven contributions — Thomas' search for a compromise "model" which includes legitimate "socialist" demands as well as respect for the market system as the central instrument for an efficiently functioning economy — can help us to conclude this introduction. Even a cursory view of the current debate suggests that consensus about such a compromise is not yet in sight, however, "reasonable" Thomas' argument dialogue between progressive black groups, including the ANC. In this process NAFCCOC has accepted non-negotiable black political demands and has modified its stand on key issues like sanctions and a future economic system. At the same time it is clear that Motswenyane's underlying pragmatism and willingness to compromise still prevails — at least on his part.

At the same time this obstacles raise a more serious question: are all participants — or international non-participants — in this debate fully aware of the seriousness of the debate and it's outcome, or are we still playing games?

"Games" about what question to regard as legitimate, what evidence (from elsewhere in Africa or the Third World) to regard as "relevant" or "permissible", what side effects of reform to take into account and what economic principles to respect or ignore.

Isn't our concern often more with our respective standing within the interest group — political party, trade union federation, academic school or business peer group — than with the actual conflicts facing South Africa and the inevitability of compromises within an eventual "solution" package? If that is the case, and, unfortunately, much of the contemporary debate about South Africa's future economic system seems to support this view, the real "debate" has not yet started. On the other hand, it could easily be argued that this debate cannot really start

IN the October issue of South Africa International which is edited by Professor Wolfgang Thomas of the Department of Economics at the University of the Western Cape, the question of a possible economic dispensation in a post-apartheid society is discussed by seven leading personalities from various sectors of society. In the following article Prof. Thomas provides a summary of the articles that appeared

ments may sound to moderates on both sides of the struggle for a new order. Even the deep conviction that the lessons of other Third World countries — including many on the African continent — about the eventual inevitability of such a compromise between private sector social responsibility, public sector interventionism and market domination in production and distribution, will eventually be learned in South Africa, is likely to swing the pattern of debate at this stage.

Accepting this "hard reality" is not tantamount to giving in to the emotionalism of extremist debate, but rather to some deeper understanding of the different parties and their approach to the present debate and to the urgent need to make progress on the political level of the debate.

Only if blacks can be convinced about white South Africa's political honesty in meeting their demands can we expect the type of economic pragmatism that a feasible post-apartheid economic system requires in order to "deliver the goods."

Johann Maree and Tarry Adler in their contributions raise four important dimensions of the debate about the future shaping of South Africa's economy. In his summary of Stephen Gelb and Duncan Innes' blueprint for a "democratic economy", Maree captures the essence of the economic model (usually deduced from the Freedom Charter) which reflects much of the current thinking of UDF supporters. Economic planning, nationalisation, land reform, co-operatives, worker control and income as well as wealth redistribution are key concepts in this model, which establishment critics of the UDF regard as highly dangerous if not outright utopian.

In his short paper Adler focuses particularly on redistribution towards greater social welfare, an aspect all too conveniently ignored, if not outright rejected, by free market proponents of economic policy. In addition to these issues, both writers address the very important aspect of democratisation of the economy, an aspect often felt to be of greater significance to the welfare of a society than the sheer "delivery of goods."

Whilst Adler illustrates this with reference to the

Growth prospects 'uncertain' for SA

By Stan Kennedy

Despite welcome signs of economic recovery, prospects for sustained growth are uncertain because of the poor financial position of the average consumer, says Bankorp Trust's *Market Opinion*.

As a result of high inflation and previous higher lending rates, real savings have not increased enough to sustain consumption demand, it contends.

Personal loans, even in real terms, are still high, and the average consumer has not been able to consolidate his position. Prices of durable and semi-durable goods have increased so much that the consumer's ability to replace them is limited.

Expectations of higher interest rates next year are not conducive to consumption spending and investment sentiment.

"While we believe that short-term rates could still decline by one to 1.5 percent, we feel these rates are probably at their lower turning-point.

"Future renewed demand inflation will, in an environment of increased credit extensions, resurgent economic growth and rising imports, lead to an increase in interest rates."

Excessive stimulation of the economy can be ruled out because of the balance of payments situation. A big surplus is expected, but much will be lost in capital outflows. Exports will have to be increased and imports

contained.
"Our current high inflation is disturbing. Purely in terms of economic activity and growth in the money supply, the inflation rate should be in the region of 10 percent a year.

"The extent to which imported inflation, via the decline in the value of the rand, has contributed to inflation is obvious."

Bankorp says low demand, depletion of stocks and postponement of replacing stocks probably contributed to the rand's decline still working its way through the system.

Excessive demand should place further pressure on prices.

Overall, the economy will start growing from its low base, and the initial recovery will be "very good". Thereafter, it can be expected that only moderate growth will take place.

Bankorp recommends buying gold shares in times of relative weakness, and says longer-term fundamentals favour a higher gold price.

Tight management apparent

Reserve Bank grip holds rand steady

4a

HAROLD FRIDJHON

THE Reserve Bank's tight management of the rand was apparent last week when the dollar depreciated by 2,7% against the German mark, while the rand appreciated by only 1,1% against the dollar in spite of the improved gold price.

More significantly, as the Standard Bank points out in *International Comment*, the rand has held steady against the weighted basket of currencies.

This suggests that Pretoria is more concerned about maintaining a balanced rand than a close dollar/gold price link. Reserve Bank policy is not to allow the rand to oscillate too vigorously. Its movements are tightly held within a narrow band.

If the dollar remains weak with the gold price reasonably strong, the ceiling of this week's trading band for the rand could be higher than it has been for some weeks past. Both Standard and Nedbank see the upper limit around \$0,46, with Barclays forecasting a \$0,4550 ceiling. All three banks pitch the floor price

for this week around \$0,44. This does not mean that traders should take a chance and not cover forward, although Standard feels that importers could stay out of the forward market in the short term. Exporters should take forward cover.

Barclays suggests that for the near term some cover is advisable for importers, but looking further ahead Barclays feels that the rand could lose some ground and weaken against the dollar and perhaps the major currencies.

Forward margins are making off-shore financing more attractive than they were six weeks ago, and Standard Bank says that lower fully-covered costs reduce the likelihood of local borrowers or importers switching to SA financing. One month Eurodollar all-in financing costs 9,56% against 10,39% for rand BAS. At six months off-shore finance will cost 9,37% against 9,91% locally. At 12 months, however, SA finance would be cheaper.

BUSDAY
4/12/86 (49)

Better economic news on SA is noted abroad

BATTERSBY: How have perceptions of the short-term economic outlook for SA changed since your last trip abroad?

PARSONS: Perceptions have undoubtedly improved. Overseas bankers and businessmen who monitor closely the economic situation in SA point to a flow of better economic news. They see signs of an economic recovery — especially in consumer spending. They have experienced reports of improved business profits, the massive surplus in the balance-of-payments on the current account has been referred to and evidence that the capital outflow is slowing down.

Some expected growth of about 3% next year if current trends continue and, finally, there was the assessment that the SA economy has now adjusted to the political and economic shocks of the past two years.

HOW ARE bankers likely to respond to these improvements?

I THINK these perceptions are confirmed by their intention to seek more favourable terms when the debt agreement comes up for renegotiation in mid-1987. Several bankers believe SA will be in a position to do more than it has been able to do up until now.

But I have warned them that it will still be a tough negotiation, because SA will have to find a balance between the needs of domestic economic growth and the desire to normalise external financial relations.

DO THESE improved perceptions of SA's short-term economic future mean foreign investors might return?

NO. A resumption of foreign investment would be premature at this stage. What we are wanting in the long-term is a much clearer vision of the political road ahead if their confidence is to be regained.

WHAT DO businessmen and bankers you spoke to think of the economic strategy agreed on by government and business at the November 7 meeting?

THEY THINK it was necessary, desirable and positive. But they are saying that an economic strategy needs to be supplemented by a clear political strategy. If a new economic strategy is to be truly successful it must be implemented



Assocom President RAYMOND PARSONS has spent the past two weeks talking to politicians, bankers and businessmen in Washington and London. Here he talks to **JOHN BATTERSBY** in London about changing foreign perceptions of the SA economy

against a background of stability and real reform.

WHAT DID businessmen think about government's decision to shelve the President's Council report on the Group Areas Act and reject the recommendation of the Natal Indaba for a power-sharing arrangement in Natal?

THERE IS acute disappointment, but understanding, of these decisions. They ascribe these decisions partly to the counter-productive impact of intensified sanctions and partly to their expectation of a white general election in SA within the next few months.

WHAT feedback did you get on the way the private sector in SA is responding to sanctions and disinvestment?

THE OVERSEAS business perception is that the private sector in SA is handling the sanctions and disinvestment situation well and is even turning it to its own advantage. There is life after sanctions and disinvestment, but the combination of capital outflow and trade sanctions will place a ceiling on SA's economic growth in the long-term.

WHAT VIEW have you formed on the withdrawal of Barclays Bank from SA?

I FOUND there were mixed opinions on Barclays, but the majority perceived it as a special case. They drew a distinction between financial institutions and manufacturing companies which were less vulnerable to pressure. I believe that British and European companies are very much more likely to resist the pressure to withdraw.

A private survey I was shown indicated that many British companies in SA were already doing quite well in the economic upturn.

URBAN Foundation director Jan Steyn has identified reform targets, which he has linked to a "realistic" timetable for reform. Do you think this could be helpful?

I DON'T think government is in any mood for timetables. I think business has an unusual role to play. I think foreign business has a very

special task in terms of black advancement in SA.

But business in SA — like elsewhere — does not govern the country. But it can exercise influence and persuasion up to the limits of its power. And that is what we are doing.

YOU HAVE spoken of an economic upswing in SA. Do you think blacks will benefit from this upswing — or is it another white upswing?

BLACKS have been one of the reasons why the upswing has occurred, because after June 12 they felt it was safe to go about their daily business. What you had was pent-up consumer demand.

Where some forecasters went wrong was that they forgot how important black spending is in the SA market. It is half. Sanctions actually hit the two areas where blacks have gained most in the past decade — their spending power and in their collective bargaining.

ARE YOU saying then that the state of emergency was just what was needed?

THE STATE of emergency has stabilised the situation — it hasn't normalised it. This has meant that both black and white consumers have felt more secure and have resumed their normal spending pattern.

DO YOU think that business preoccupation with countering sanctions has limited its capacity to pursue its role as an agent for political change?

WHILE business remains committed to change the immediate priority is survival. In the boardrooms of SA they are saying that in order to finance our commitment to change and affirmative action we need to neutralise sanctions.

SO THAT is the priority?

AT THE moment, sanctions-busting is the highest priority so that we can afford reform and change. Business wants to see apartheid dismantled and not the economy so that it will resist sanctions wherever possible.

ASSOCOM president Raymond Parsons has spent the past two weeks talking to politicians, bankers and businessmen in Washington and London. In Washington he had talks with U S Assistant Secretary of State Chester Crocker and in London with Minister of State in the British Foreign Office Lynda Chalker. Here he talks to JOHN BATTERSBY about changing foreign perceptions of the South African economy.

Battersby: How have perceptions of the short-term economic outlook for South Africa changed since your last trip abroad?

Parsons: Perceptions have undoubtedly improved. Overseas bankers and businessmen who monitor closely the economic situation in South Africa point to a flow of better economic news. They see signs of an economic recovery — especially in consumer spending. They have experienced reports of improved business profits. Thirdly, the massive surplus in the balance-of-payments on the current account has been referred to. Fourthly, there is evidence that the capital outflow is slowing down. Fifthly, some expected growth of about 3% next year if current trends continue and, finally, there was the assessment that the SA economy has now adjusted to the political and economic shocks of the past two years.

Bankers' view

How are bankers likely to respond to these improved perceptions of the short-term economic performance?

I think these perceptions are confirmed by their intention to seek more favourable terms when the debt agreement comes up for re-negotiation in mid-1987. Several bankers believe South Africa will be in a position to do more than it has been able to do up until now. But I have warned them that it will still be a tough negotiation because South Africa will have to find a balance between

the needs of domestic economic growth, on the one hand, and the desire to normalise external financial relations on the other.

Do these improved perceptions of SA's short-term economic future mean that foreign investors might return?

No, a resumption of foreign investment would be premature at this stage. What we are wanting in the long term is a much clearer vision of the political road ahead if their confidence is to be regained.

What do the businessmen and bankers you spoke to think of the economic strategy agreed on by government and business at the November 7 meeting?

They think it was necessary, desirable and positive. But they are saying that an economic strategy needs to be supplemented by a clear political strategy. If a new economic strategy is to be truly successful it must be implemented against a background of stability and real reform.

Have government and business established a relationship in which there could be this kind of progress?

The Government and the private sector over the past few years have created the moral framework for change. The challenge now is whether we can put the substance and flesh on that framework as soon as possible.

What did the businessmen you spoke to think about the government decision to shelve the

Brighter outlook overseas for S A economy

LONDON BUREAU

President's Council report on the Group Areas Act and reject the recommendation of the Natal Indaba for a power-sharing arrangement in Natal?

There is acute disappointment, but understanding, of these decisions. They ascribe these decisions partly to the counter-productive impact of intensified sanctions and partly to their expectation of a white general election in South Africa within the next few months.

Did anyone offer a formula for a way out of the political stalemate in South Africa?

The basic consensus of the people I spoke to was that only real reform and a sustained economic recovery will ensure a resumption of foreign investment in South Africa.

What feedback did you get on the way the private sector in SA is responding to sanctions and disinvestment?

The overseas business perception is that the private sector in SA is handling the sanctions and disinvestment situation well and is even turning it to its own advantage. There is life after sanctions and disinvestment but the combination of a capital outflow and trade sanctions will place a ceiling on SA's economic growth rate in the long term.

What view have you formed on the withdrawal of Barclays Bank from South Africa?

I found there were mixed opinions on Barclays but the majority perceived it as a special case. They drew a distinction between financial institutions and manufacturing companies that were less vulnerable to pressure. I believe that British and European companies are very much more likely to resist the pressure to withdraw. A private survey I was shown indicated that many British companies in SA were already doing quite well in the economic upturn. But I have no doubt that the anti-apartheid lobby will exploit the Barclays decision to generate more pressure. But I think a lot will depend on what happens inside South Africa.

Urban Foundation director Jan Steyn has identified reform targets which he has linked to a 'realistic' timetable for reform. Do you think this could be helpful?

I don't think the Government is in any mood for timetables. I think business has an unusual role to play. I think foreign business has a very special task in terms of black advancement in South Africa. But business in South Africa — like elsewhere — does not govern the country. It can only help to make the

country vulnerable. Just as U S business was unable to prevent sanctions, so SA business cannot force the Government to do things it doesn't want to do. But it can exercise influence and persuasion up to the limits of its power. And that is what we are doing.

You have spoken of an economic upswing in South Africa. Do you think blacks will benefit from this upswing — or is it another white upswing?

Blacks have been one of the reasons why the upswing has occurred because after June 12 they felt it was safe to go about their daily business. What you had was pent-up consumer demand. Where some forecasters went wrong was that they forgot how important black spending is in the SA market. It is half. Sanctions actually hit the two areas where blacks have gained most in the past decade — their spending power and in their collective bargaining. That is what has dawned on the workers of GM.

Are you saying, then, that the state of emergency was just what was needed?

The state of emergency has stabilised the situation — it hasn't normalised it. This has meant that both black and white consumers have felt more secure and have resumed their normal spending pattern. Add this to the gold price, the lower interest rates, and the stimulatory budget and you have all the ingredients for a modest economic recovery.

Restricted?

Do you think that business preoccupation with countering sanctions has limited its capacity to pursue its role as an agent for political change?

While business remains committed to change the immediate priority is survival. In the boardrooms of South Africa they are saying that in order to finance our commitment to change and affirmative action we need to neutralise sanctions.

So that is the priority?

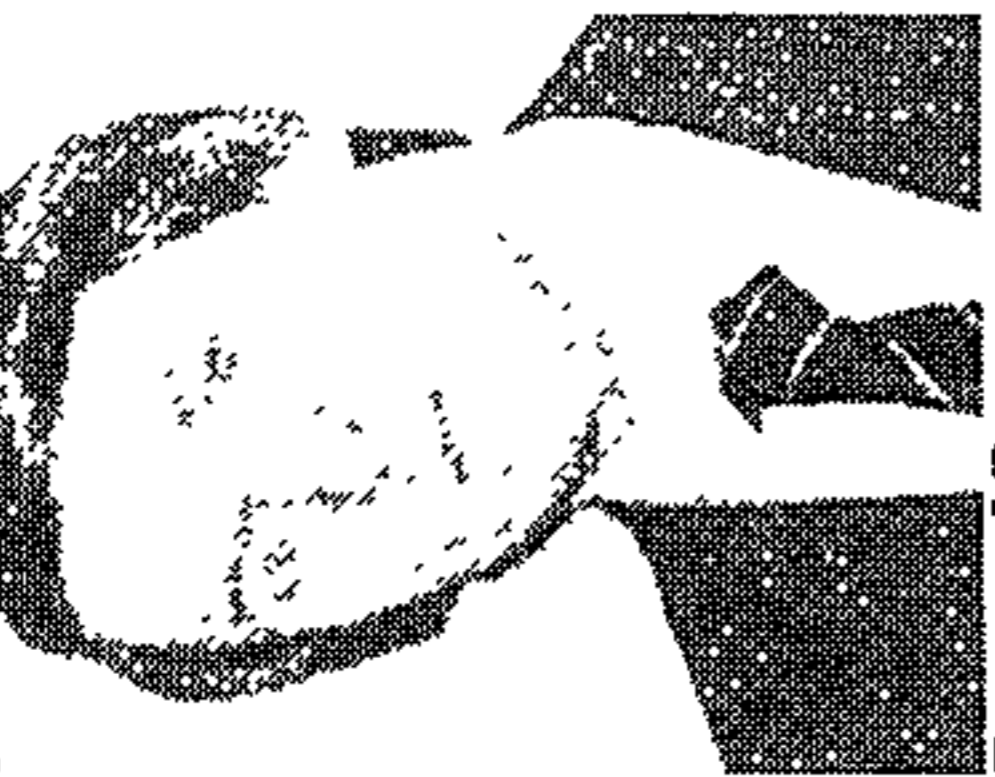
At the moment sanctions-busting is the highest priority so that we can afford reform and change. Business wants to see apartheid dismantled and not the economy, so that it will resist sanctions wherever possible.

Better view of SA

ers of GM.

The president of the Association of Chambers of Commerce, Raymond Parsons, has spent two weeks talking to politicians, bankers and businessmen in Washington and London. In Washington he had talks with the U. S. Assistant Secretary of State, Chester Crocker, and in London with the Minister of State in the Foreign Office, Lynda Chalker. He talks to John Battersby about changing foreign perceptions of the South African economy.

DD 12/86



Raymond Parsons... sanctions-busting priority.

BATTERSBY: How have perceptions of the short-term economic outlook for South African changed since your last trip abroad?

PARSONS: Perceptions have improved. Overseas bankers and businessmen who monitor closely the economic situation point to a flow of better economic news. They see signs of an economic recovery — especially in consumer spending. They have had reports of improved business profits.

The massive surplus in the balance-of-payments on the current account has been referred to. There is evidence that the capital outflow is slowing. Some expected growth of about 3% next year if current trends continue and financially there was the assessment that the SA economy has now adjusted to the political and economic shocks of the past two years.

BATTERSBY: How are bankers likely to respond to these improved perceptions?

PARSONS: These perceptions are confirmed by their intention to seek more favourable terms when the debt agreement comes up for re-negotiation in mid-

clear political strategy. If a new economic strategy is to be truly successful it must be implemented against a background of stability and real reform.

BATTERSBY: Have government and business established a relationship in which there could be this kind of progress?

PARSONS: The government and the private sector have created the moral framework for change. The challenge now is whether we can put the substance and flesh on that framework as soon as possible.

BATTERSBY: What did businessmen think about the government decision to shelve the President's Council report on the Group Areas Act and reject the recommendation of the Natal Indaba for a power-sharing arrangement in Natal?

PARSONS: There is acute disappointment, but understanding, of these decisions. They ascribe these decisions partly to the counterproductive impact of intensified sanctions and partly to their expectation of a white general election in South Africa within the next few months.

BATTERSBY: Are you saying then that the state of emergency was just what was needed?

PARSONS: The state of emergency has stabilised the situation — it hasn't normalised it. This has meant that both black and white consumers have felt more secure and have resumed their normal spending pattern. Add this to the gold price, the lower interest rates, and the stimulatory budget and you have all the ingredients for a modest economic recovery.

BATTERSBY: Do you think that business pre-occupation with countering sanctions has limited its capacity to pursue its role as an agent for political change?

PARSONS: While business remains committed to change the immediate priority is survival. In the boardrooms of South Africa they are saying that in order to finance our commitment to change and affirmative action we need to neutralise sanctions.

BATTERSBY: So that is the priority?

PARSONS: At the moment sanctions-busting is the highest priority so that we can afford reform and change. Business wants to see a partitioned economy and not one which will resist sanctions wherever possible.

PARSONS: I don't think the government is in any mood for timetables. Business has a usual role to play. Foreign business has a special task in terms of black advancement in South Africa. But busi-

1987. Several bankers believe SA will be in a position to do more than it has been able to do up until now. But I have warned them that it will still be a tough negotiation because South Africa will have to find a balance between the needs of domestic economic growth on the one hand and the desire to normalise external financial relations on the other.

BATTERSBY: Do these improved perceptions of mean that foreign investors might return?

PARSONS: No, a re-vestment of foreign investment would be premature at this stage. What we want in the long-term is a much clearer vision of the political road ahead if their confidence is to be regained.

BATTERSBY: What do businessmen and bankers think of the economic strategy agreed on by government and business at the November 7 meeting?

PARSONS: They think it was necessary, desirable and positive. But they are saying that an economic strategy needs to be supplemented by a

BATTERSBY: Did anyone offer a formula for a way out of the political stalemate in South Africa?

PARSONS: The basic consensus was that only real reform and a sustained economic recovery will ensure a resumption of foreign investment in South Africa.

BATTERSBY: What feedback did you get on the way the private sector in SA is responding to sanctions and disinvestment?

PARSONS: The overseas business perception is that the private sector in SA is handling the sanctions and disinvestment situation well and is even turning it to its own advantage. There is life after sanctions and disinvestment but the combination of a capital outflow and trade sanctions will place a ceiling on SA's economic growth rate in the long-term.

BATTERSBY: What view have you formed on the withdrawal of Barclays Bank from South Africa?

PARSONS: There were mixed opinions on Barclays but the majority perceived it as a

ness in South Africa — like elsewhere — does not govern the country. It can only help to make the country vulnerable. Just as US business was unable to prevent sanctions so SA business cannot force the government to do things it doesn't want to do. But it can exercise influence and persuasion up to the limits of its power. And that is what we are doing.

BATTERSBY: You have spoken of an economic upswing in South Africa. Do you think blacks will benefit from this upswing — or is it another white upswing?

PARSONS: Blacks have been one of the reasons why the upswing has occurred because after June 12 they felt it was safe to go about their daily business. What you had was pent-up consumer demand. Where some fore-casters went wrong was that they forgot how important black spending is in the SA market. It is half. Sanctions actually hit the two areas where blacks have gained most in the past decade — their spending power and in their collective bargaining. That is what has dawned on the work-

BATTERSBY: What view have you formed on the withdrawal of Barclays Bank from South Africa?

PARSONS: There were mixed opinions on Barclays but the majority perceived it as a

Modest recovery is under way, says SA Reserve Bank

By Reg Rumney

That a modest recovery is under way was confirmed in the third quarter of this year, says the SA Reserve Bank.

Real gross domestic expenditure "rebounded remarkably vigorously" in the third quarter of 1986, says the Reserve Bank in its latest quarterly *Bulletin*.

Also, gross domestic product surged, R43 million of capital flowed into South Africa and merchandise exports advanced in volume and value.

Domestic expenditure rose at a seasonally adjusted annual rate of 26 percent in the third quarter, after dropping to an annual rate of three-and-a-half percent in the second quarter.

Real gross domestic product rose at annual rate of around 4 percent, after rising around 2 percent in the second quarter. But growth in real gross domestic product during 1986 as a whole is not likely to be more than 1 percent.

The "unusually strong recovery" in domestic expenditure in the third quarter, reminiscent of the cyclical upswing in the second half of 1983, was caused primarily by the rebuilding of in-

ventories drawn down uninterruptedly from the first quarter of 1985, says the bank.

Adding to the increase in domestic demand was a "further improvement in real private consumption expenditure, notably on durable and semi-durable goods".

This meant, however, since real personal disposable income declined, that the personal savings ratio dropped to 1,5 percent.

There was a small net inflow of capital not related to reserves of R43 million in the third quarter, says the bank, after net outflows in the first and second quarters.

This turnaround was due mainly to a reversal of unfavourable leads and lags in foreign payments and receipts.

But the inflow was also helped by public corporations raising R21 million in long-term capital.

Net sales by non-residents of listed securities amounted to R278 million in the third quarter. There was a net inflow of short-term capital in the third quarter, but this was limited to July and August, with an outflow of short-term capital in

September.

The bank says a surplus on the current account of the balance of payments was recorded for the seventh consecutive quarter in the third quarter of 1986.

The third-quarter current account surplus of an annualised R5,8 billion, slightly less than the second quarter's R6,0 billion, brought the cumulative surplus for the first three quarters of this year to R5,4 billion. So a surplus for the whole year of more than R5 billion is likely.

Merchandise exports advanced strongly, says the bank, after levelling off from the third quarter of 1985 to the second quarter of this year. The value of merchandise exports rose to R26 540 000 from R24 020 000 in the second quarter.

Net gold exports rose in value by 16,5 percent.

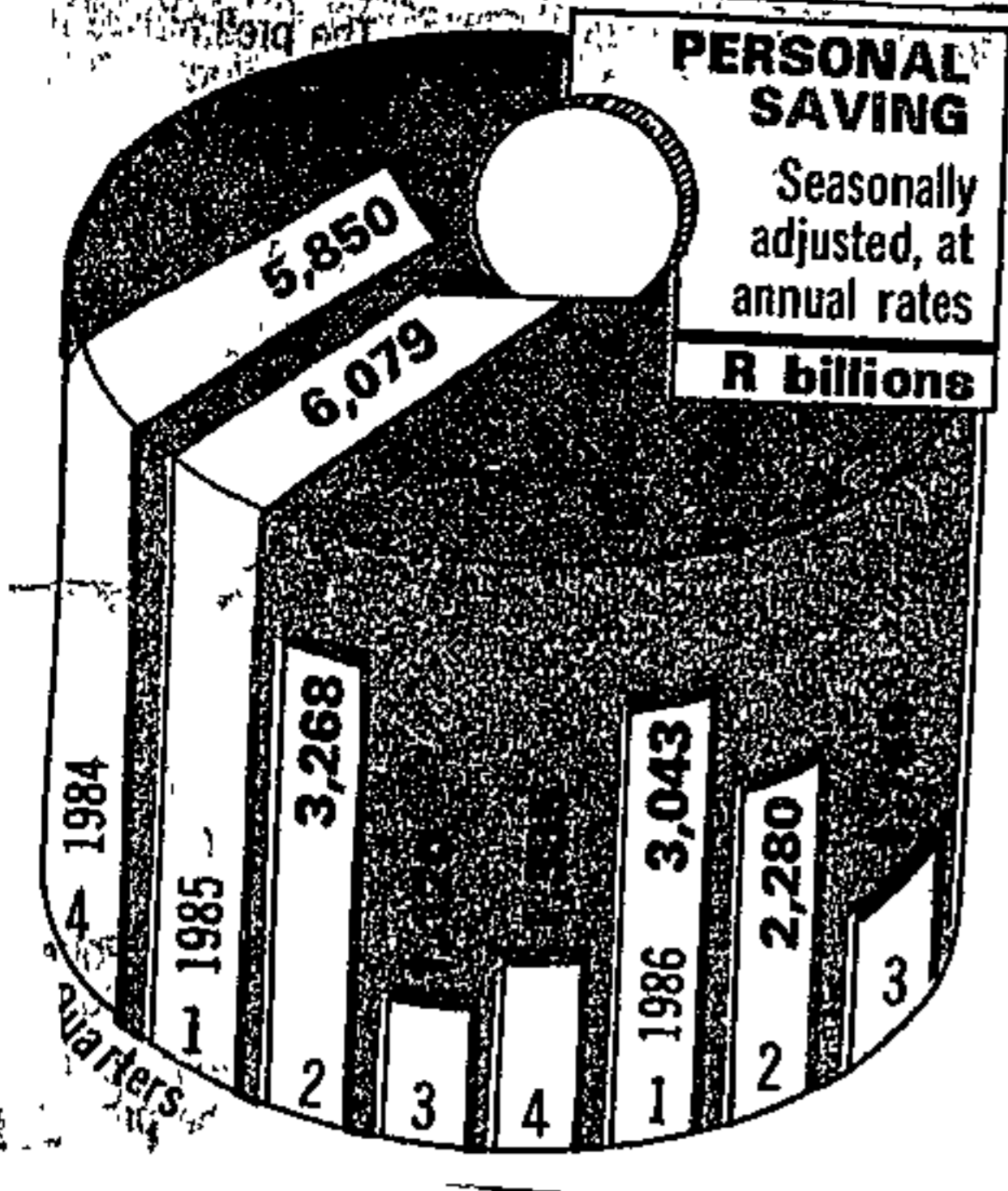
However, the bank points out the value of imports surged.

"The rise in the value of merchandise imports in the third quarter of 1986 actually somewhat exceeded the combined rise in the value of merchandise exports and net gold exports, amounting to as much as R6,1 billion, or 25 percent."

49

SMK

8/12/86



8/12/86 BUSDAY

Increase of 4% in GDP 49

SA'S gross domestic product (GDP) grew at an annual real rate of 4% in the third quarter of this year, says the latest *Reserve Bank Bulletin*.

It confirms that gross domestic expenditure grew at a seasonally-adjusted annual rate of 26% in the third quarter.

The *Bulletin* says: "This unusually strong recovery, which calls to mind the broadly similar rates of increase in total real domestic spending in the cyclical upswing in the second half of 1983, was explained primarily by a substantial reversal of the drawing-down of inventories that had been in evidence from the first quarter of 1985."

Positive inventory investment as a

GERALD PROSALENDIS

component of the aggregate increase in total domestic demand was supported by a further significant improvement in real private consumption expenditure, notably in durable and semi-durable goods.

Since total real personal disposable income declined in the third quarter, the continued revival in real consumer demand also caused the personal savings ratio to decline further to about 1.5% from its recent high point of 9% in the recessionary conditions of the fourth quarter of 1984.

Further cuts, confidence needed

Interest rate cut 'not enough'

49
CME Trans
11/12/86

By AUDREY D'ANGELO
Deputy Financial Editor

A FURTHER cut in the bank rate, followed by tax cuts, and more confidence in the future may be needed to trigger off the spending spree, which the Reserve Bank hopes will give momentum to the upturn.

Senior executives of banks, financial institutions, a car firm and a property developer said yesterday that although the interest rate cuts might do some good, they thought it insufficient to stimulate demand for credit.

They thought consumers were reluctant to commit themselves in case interest rates rose steeply next year.

Although banks have reduced their new home loan rates with immediate effect, most are waiting until January 1, to reduce their prime lending rate.

This delay, however, means that rates paid to investors may also not drop until the new year.

'Bit of leeway'

A spokesman for Trust Bank said: "A great many senior executives have already left on vacation and decisions about new interest rates on deposits, and when they come into force, will not be made immediately.

"Since most institutions are not reducing lending rates until January there is a fair bit of leeway."

But, he warned, people wishing to put money into fixed deposits before interest rates drop might find a reluctance to accept them.

He said the Trust Bank was lowering its prime lending rate to 12%, in line with most other commercial banks, from December 30 and the bond rate on new housing loans to 12.5%.

"These cuts in interest rates are not enough to trigger off any sizeable increase in consumer spending.

"The expectation seems to be that interest rates may be coming down

now but may go up again next year."

A spokesman for Boland Bank, whose commercial arm, District Bank, will reduce prime rate to 12% from January 1, said: "Several people have told me 'the Standard Bank guarantees it will not raise its interest rate on home loans for a year — but what happens after that?'"

"It came as a shock to most people when interest rates rose to the undreamed-of height of 25% and they have not forgotten it.

"It is not political uncertainty that is undermining confidence — we are used to that now — but people are scared of committing themselves when interest rates may rise."

Home loans

The general manager of Syfrets Bank, Brian Button, said that as its home loans interest rates were linked to Nedbank's prime rate they would come down to 13% on January 1.

"But although we shall be half a percentage point over the home loan rates charged by commercial banks, people might be wiser to stay with us.

"We are always near prime rate but the commercial banks may raise their rates well above that next year."

Button did not believe the drop in rates were sufficient to trigger off a spending spree.

The financial director of Aska Homes, Gordon Kleinman, said he saw the drop as a very positive move.

"We hope the building societies will follow the example of the banks as soon as possible."

But he agreed that interest rates might rise again in the new year.

The chairman of Brian Porter Holdings, Brian Porter, said that although the lower interest rates might help they would not be sufficient to stimulate the economy, and rising prices might cancel out any advantage.

49

12/12/86

Cape Times, Friday, Decer

STELLENBOSCH. — Unemployment had made a considerable contribution to the internal unrest which the country is experiencing, State President P. W. Botha said yesterday.

Botha: Financial growth cure for unrest

Speaking at a graduation ceremony at the University of Stellenbosch, he said historically South Africa had an unequal distribution of wealth, and to correct this balance it was necessary to allow the lower income groups to improve themselves by economic development.

But it would be economic suicide to adopt a socialist approach as this would stifle initiative and productivity to the detriment of all, he added. The upliftment of less privileged people would have to be financed from the proceeds of economic growth.

"We have pressing problems which can be countered only by financial growth. One of these is high population growth which has reached a rate of about 2,7 percent a year. This causes considerably greater problems when it is linked to high unemployment, as further jobs have to be created to accommodate the rise in population."

Mr Botha said that according to experts, it would be reasonable to expect an economic growth rate of three percent for South Africa's economic potential for the next few years. To reach this rate would require an increase in productivity, specially in the wake of sanctions and disinvestment campaigns.

"Higher productivity will not only have a wholesome effect on economic growth, but the reduction in production costs per unit will help to reduce inflation," he said. — Sapa

FINANCIAL MAIL 12/12/86
SOUTHERN AFRICA 49

De-industrialising

The southern African region is undergoing a process of relative and absolute de-industrialisation. SA's neighbours no longer compete with the homeland decentralisation zones for industries, nor, as was the case 18 months ago, are they losing industries to them. However, with a few exceptions they are not succeeding in attracting new industries.

These were a few of the sobering observations that emerged from a workshop on industrialisation in southern Africa held in Swaziland during the first week of November, writes Alan Whiteside of Natal University's Economic Research Unit (ERU).

The workshop was organised by the ERU and jointly hosted by it and the Friedrich Ebert Stiftung of West Germany. It was the culmination of a year's study on investment incentives and industrial policies throughout the region. The workshop was attended by delegates from most of the countries and it provided an opportunity for a frank exchange of views.

FINANCIAL MAIL DECEMBER 12 1986

<p>The main point to emerge was that southern Africa is de-industrialising. There has been a net decrease in the level of industrial activity in SA and Mozambique. The industrial sectors of Zimbabwe, Zambia and Malawi are relatively stagnant; Lesotho and Botswana are growing slowly, and Swaziland is the only country experiencing rapid growth in this sector. Not only is the region lagging behind the rest of the developing</p>	<p>world in attracting foreign investment, but the consequence may be industrial backwardness for the foreseeable future.</p> <p>All the Southern African Development Co-ordination Council (SADCC) countries want to attract industry and it will be news to South African businessmen to learn that virtually all have no prejudice against South African capital. It is evident that as long as businessmen are prepared to obey local laws</p>	<p>and accept local aspirations they will be as welcome as any foreign investor. Most of the southern African countries also have attractive incentive packages and are actively trying to improve the business climate. It may also come as a surprise to discover that in Botswana, Lesotho, Swaziland and Mozambique the business environment is considerably less restricted than it is in over-regulated SA, and there are not the political and</p>
--	--	---

<p>other problems.</p> <p>The question of sanctions busting was also discussed. The Frontline states are not going to allow labelling, transiting or other activities that would not comply with international regulations. The recent decision by Finnish dockworkers not to handle Swazi goods was cited as an example of how easily reputations may be tarnished. Nonetheless, it was clear that there is considerable potential for inves-</p>	<p>tors. In most cases a 25% value added in the country of origin, in this case a Frontline state, will mean that the company can legitimately retain access to old export markets, and in addition will have access to many new markets.</p> <p>It was concluded that Pretoria's intransigence and destabilisation in the region has resulted in the loss of potential development, and this will continue until there is an ac-</p>	<p>ceptable political settlement in SA. Nonetheless, it should be recognised that times of change are also times of opportunity. The South African businessman, with his knowledge of the African markets and business environment, would do well to look beyond the borders of SA for investment opportunities. This is especially true if he is committed to the development of the region and has the foresight to look beyond apartheid.</p>
--	---	--

PAGE 10

49 F (W) MAIL 12/12/86

SUSTAINING GROWTH

Structural struggle

Despite the large upturn in some indicators in the third quarter, SA is merely clawing its way out of severe recession. Reading between the figures and lines of the Reserve Bank *Quarterly Bulletin* reinforces a sorry impression of an economy that remains structurally weak.

Evidence from business, economists and banks already suggests that the third-quarter

more than offset by the boost in corporate and public savings. So the ratio of gross domestic savings to GDP rose from 24,5% in the second quarter to 28,5% in the third quarter, exceeding its recessionary peak.

The *Bulletin* does not seem unduly perturbed, saying the "modest recovery" in the second half of 1985 that "faltered" in the first quarter of 1986 was "confirmed persuasively" in the second quarter and "more firmly" in the third.

The *Bulletin* calculates that in the third quarter, real GDP was some 1,5% up on 1985's same quarter and about 2% above the low set in the second quarter of 1985. It notes "significant advances" in output of clothing, chemicals, machinery and transport equipment; electricity generation; and the wholesale, retail and motor trade.

Output fell in mining and the basic metal industries. Gold production responded "in the usual inverse fashion" to the higher rand gold price. It blandly adds: "Coal mining and basic metals production could have been affected by the potentially adverse impact of actual or threatened trade sanctions."

Despite the (annual, seasonally adjusted) 26,5% rise in real GDE, at R59 billion it is well below its 1981 high of R63 billion (GDE has declined every year since, except 1984).

The substantially higher rate of increase in GDE than GDP (implying that fewer goods and services were produced than consumed) is explained by the 28% drop in the so-called foreign balance — the excess of export volume over import volume.

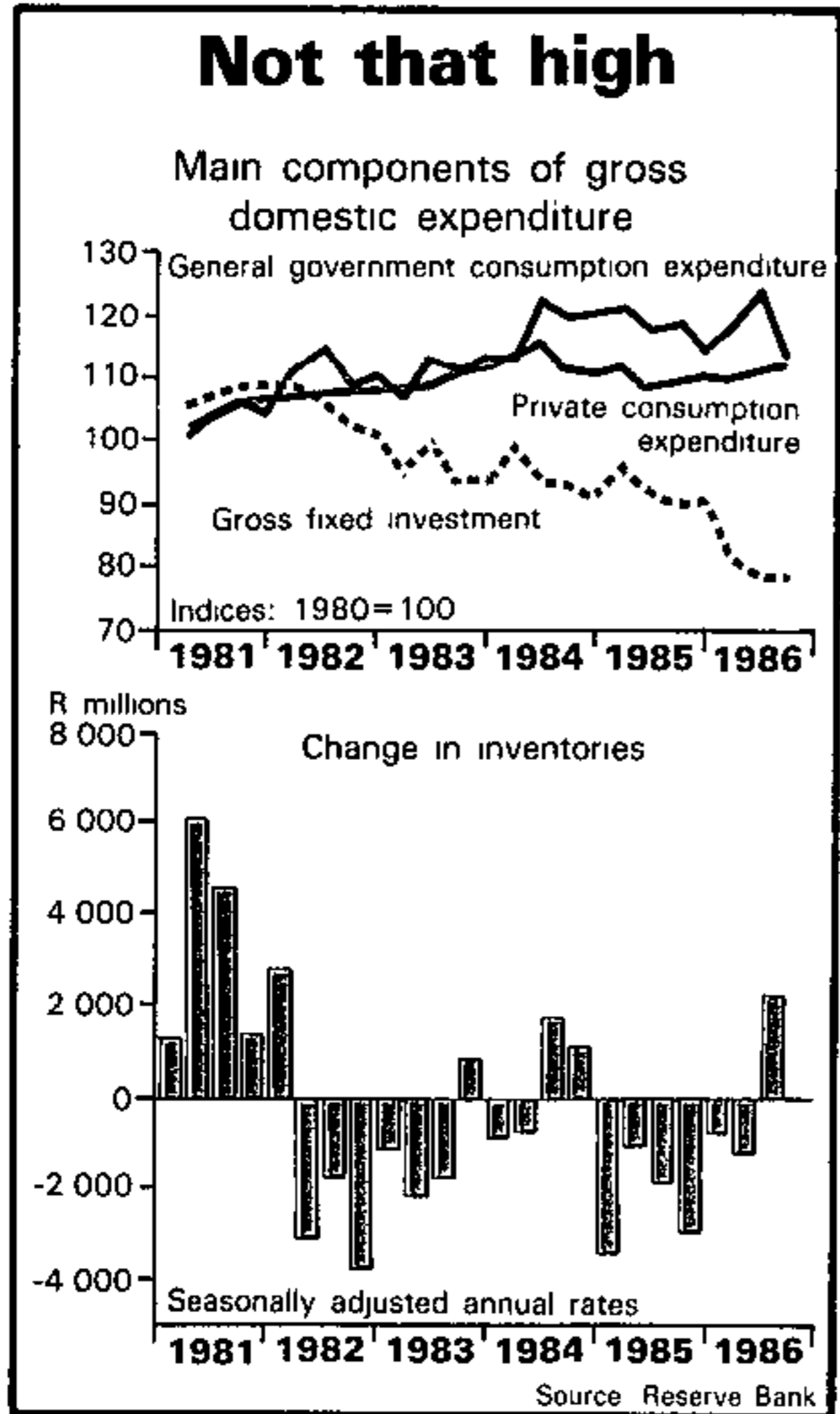
On an annual seasonally adjusted basis real private consumption expenditure (PCE) is only 2,4% higher than in 1982 (still below its 1984 level). In the third quarter, all categories increased. The *Bulletin* cites replacement demand, the fading of consumer boycotts in some areas, and an improvement in consumer sentiment.

Restocking is the major factor behind GDE growth. It last occurred in the final quarter of 1984 (inventories rose R2,2 billion in the third quarter compared with a R1,4 billion decline in the second quarter). This turnaround is equivalent to 5,5% of GDP and caused the inventory:GDP ratio to rise to 34%. It may partly "have been attributable to a fear of international trade sanctions."

The other parts of its explanation are a "perceived need" for a replenishment of inventories from "uncommonly low levels of preceding quarters;" some improvement in the ratio of unfilled orders to sales in manufacturing (especially non-durable goods); an anticipated improvement in sales; reduced interest costs of carrying inventories; and increases in agricultural stocks-in-trade.

Real gross domestic fixed investment (GDFI), down every year since 1981, when it was R17,6 billion, is now R12,8 billion, barely up from the second-quarter low of R12,7 billion. Significantly, private-sector GDFI continues to decline (though at a slower rate). It is thanks to public authorities that GDFI grew, reflecting, the *Bulletin* says, a sharp rise in outlays by the Post Office and stabilisation, at fairly low levels, by Sats after severe cutbacks in the first half of 1986.

Real government consumption expenditure (GCE) dropped by an "unprecedented" 30% (to R9,5 billion) from its all-time high of R10,4 billion in the second quarter. This is not because of any curtailment of salary rises (up a real 2%) but rather because of a decline



ter surge has not been sustained. While the economy continues to expand, the rate has slowed. A cooling in consumption and inventory stocking is detected. While this is partly to be expected after large rises, the recovery has hardly got going.

The personal saving:personal disposable income ratio fell to 1,5% — its lowest since the second quarter of 1984 — from the recessionary high of 9% in the fourth quarter of 1984. As Rand Merchant Bank's Rudolf Gouws says: "This does not bode well for a consumer spending recovery."

Average real wages in the second quarter were 2,5% and 6% lower than the same times in 1985 and 1984 respectively. Given the increase in consumption, low interest rates and a further 1% fall in personal disposable income (after dropping 4,7% in the second quarter) the drop in the savings ratio is hardly surprising.

This decline was, according to the Bank,

TWIN HONOURS

FM Senior Editor Nigel Vardy has just taken double honours. He was runner-up in the section for weekly journalists in the Sanlam Financial Journalist of the Year Award, and also won Standard Bank's



annual competition for predicting (a year ago) the London afternoon gold fix on October 24. Vardy's US\$397 was closest to the actual \$410,05.

Standard Bank has now extended its contest to all financial journalists in SA. As well as the gold price, predictions are invited for Standard Bank's prime rate and the value of the commercial rand (in USc) a year hence.

in outlays on goods and services. Real GCE is 1% lower in the first nine months of 1986 on the same period of 1985.

Non-agricultural private-sector employment declined 0,5% in the second quarter after falling 0,1% in the first. Total non-agricultural employment declined at an accelerating rate in the first half of the year (an annualised 1,2% in the second quarter). The *Bulletin* indicates that employment in major sectors declined further in the third quarter. For many there are no signs of recovery.

BALANCE OF PAYMENTS

Bopping along

The Reserve Bank's *Quarterly Bulletin* confirms a surplus on both the capital account (for the first time since the second quarter of 1984) and current account (for the seventh consecutive quarter) of the BoP in the third quarter.

But long-term capital continues to leave SA on a net basis and the net short-term capital inflow has not lasted. The Bank says the third quarter inflow was mostly in July and August; "a renewed substantial outflow of short-term capital appeared to have occurred during September." This, it says, was related to the high cost of forward cover, which favoured domestic rather than foreign financing of foreign trade transactions.

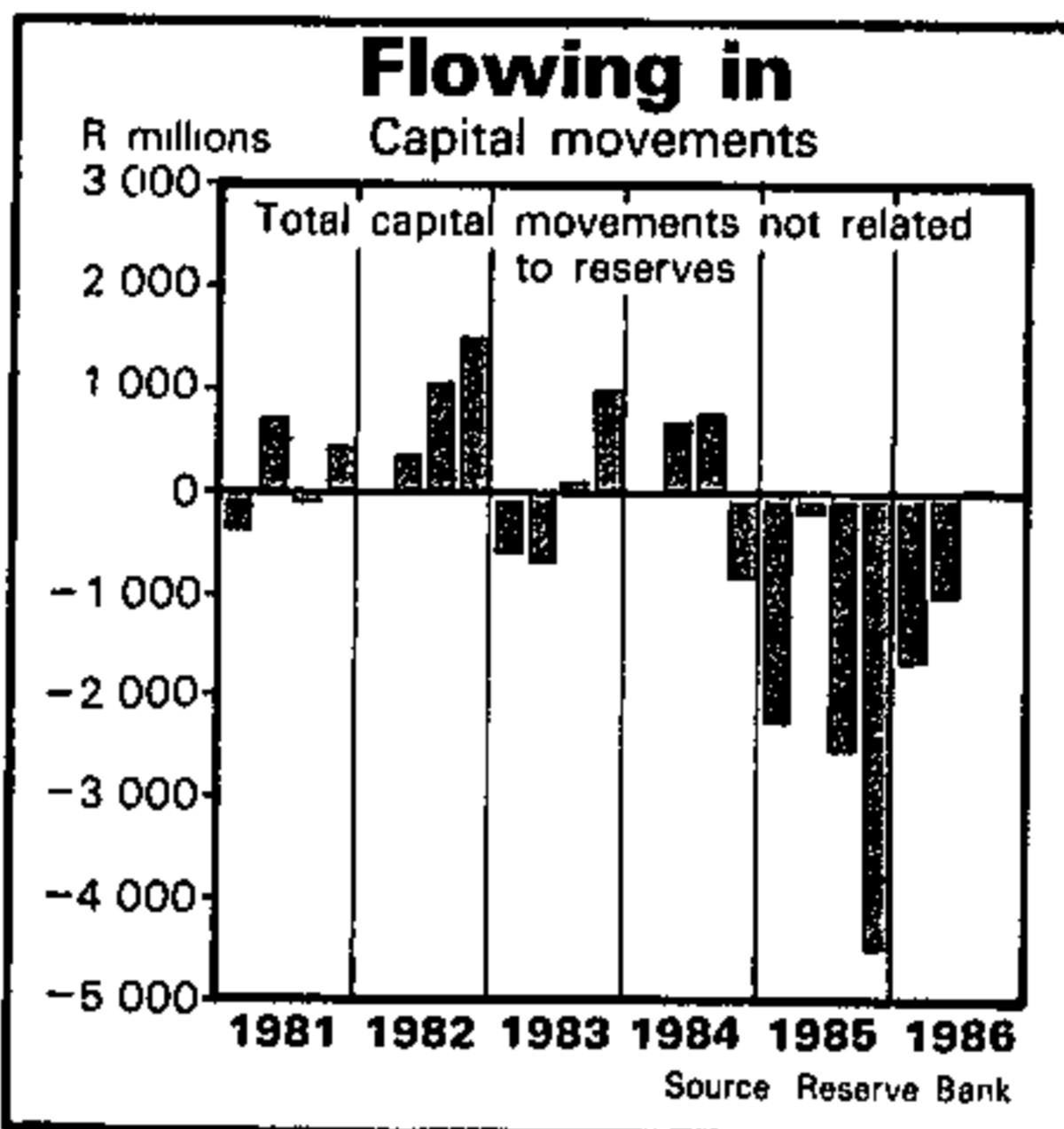
The current account surplus, R1,1 billion, is down from R1,4 billion in both the first and second quarters, because of increased merchandise imports and service payments.

The surplus, the Bank repeats, is based primarily on the continued rise in the value

of merchandise exports from late 1983 — above-average rates of increase were recorded in agricultural exports and prepared foodstuffs and mineral products.

The seasonally adjusted annual current account surplus slowed to R5,8 billion from R6 billion in the second quarter (R4,3 billion in the first). The cumulative seasonally adjusted annual surplus for the first three quarters is R5,4 billion.

On the capital account there was a marginal net inflow of R43m following declines of R1,6 billion in the first quarter and R972m in the second. The Bank attributes this turnaround "primarily to a reversal of unfavourable leads and lags." Some public corporations raised long-term foreign credits in the form of project financing.



But, significantly, this small inflow is not due to long-term flows which, for the sixth consecutive quarter, show a (slower) net outflow of R331m, against R614m in the first quarter and R476m in the second. More ominously for growth prospects, this slowdown is not apparent in the private sector where (non-bank) outflows are up from the second quarter (R366m against R263m).

In addition, non-residents remained net sellers on the JSE — to the tune of R278m. There were net inflows to public authorities.

So the net inflow on the capital account is a result of R374m short-term flows (not related to reserves) — positive for the first time since 1983's fourth quarter.

Short-term outflows in 1985 totalled R8,8 billion, followed by a further R1,5 billion in the first half of 1986. The turnaround mainly reflects a switch in private sector (non-bank) flows from minus R405m to a R406m inflow (again probably due to leads and lags).

The current account surplus and small net inflow of capital (not related to reserves) pushed up net gold and other foreign reserves in the third quarter by R1,2 billion. Gross gold and other foreign reserves rose by R2 billion to R6,4 billion.

But figures for November, via the Bank's assets and liabilities statement, show that total gold and forex reserves fell for the first time since April — from October's R5,6 billion to R5,1 billion — largely because of

the lower value of gold holdings (from R3,8 billion to R3,7 billion valued at R835,51/oz and R768,51/oz respectively). Actual gold holdings rose from 4,5m oz to 4,8m oz, the highest since February.

Bank forex holdings also dropped from R1,8 billion to R1,4 billion, partly due to an IMF loan repayment of R259m.

BANKING

Niche or not?

Allied Bank, the latest arrival on SA's crowded banking scene, is to aim at a corporate market somewhere between small and big business. Says MD Kevin de Villiers: "We are looking at the customer who wants to borrow between R100 000-R2m."

The strategy is based on his theory about the way in which big banks handle smaller corporate accounts. "Large institutions often operate on the 80-20 principle, giving 80% of resources to the top 20% of the market."

Success in the corporate sphere may depend on whether he is correct on this score. Certainly established rivals are unlikely to admit an unexplored niche in the market. And, just in case there is, De Villiers' former employer, Barclays, is determined to fill it.

Says Peter Springett, group senior GM, corporate banking: "Initially, seven branches are to cater exclusively for large corporate business. Other branches will be able to spend more time servicing the small to medium-sized customer."

This scheme, immediately operational, anticipates Allied. But Springett insists the move is in no way a response to Allied's plan. "We are just extending something that has been in place for about 15 months."

De Villiers' decision to go for smaller companies will have risks.

Unlike big corporations, they have few reserves to fall back on in bad times. He believes the risks can be countered by good credit vetting and working with clients in the planning stages of undertakings.

These banking skills, of course, are not easily come by and will be badly needed by any building society which ventures into broader banking operations. They are unlikely to find them within their own organisations, so we may see a series of head-hunting expeditions setting out in the new year.

But buying talent in a specialised field is expensive; and buying people will mean that the traditionally low cost ratios of building societies will rise steeply.

De Villiers is making a three-pronged attack on the market, with consumer, corporate and treasury divisions. "A huge effort has to be made on the retail side before money flows out the other end. We expect, eventually, it will be the fastest-growing division but to start with will only contribute a small proportion of income."

Transmission accounts will be handled by the building society, while the bank concentrates on consumer financing, "providing

BANK RATE CUT

The Reserve Bank has finally come through with a 50-point cut in Bank rate and other rediscount rates (see *Leaders and Markets*).

The drop in Bank rate to 9,5% (its lowest since early 1981) follows weekend excitement over Standard Bank's decision to lower mortgage bond rates to well below prevailing market rates — and separate Reserve Bank meetings with building societies and banks.

Banks took the cuts further. French Bank promptly announced a full percentage point cut in its prime lending rate to 12,5% and was soon followed by Standard and Nedbank with similar cuts. This is a long way from the crippling prime rates of 25% of late 1984-early 1985.

As the *FM* went to press, other banks were locked in meetings. Banks have for weeks been claiming the Bank's reluctance as a major reason for their own hesitation over lowering prime.

It is strange they were not prepared when the Bank finally moved.

Recovery under way — slowly

49

W/E Post 13/12/86

ECONOMISTS have a positive but cautious Christmas message for businessmen and Government: the recovery is under way but it still has a long way to go.

They voice disappointment that big business is still not spending money on major projects, and believe that, in the short term at least, it will have to be the Government and the private consumer who spur on the revival.

They concede this will not be easy: Government will have to walk along a careful path of spending on projects while not going overboard or increasing already-heavy taxation, while the individual still faces major problems in balancing the family budget.

Standard Bank's latest review cautions that economic recovery is currently at its most critical stage.

It warns that there is "danger that it may falter because consumer spending may not be sustained as a consequence of limited or no employment growth, high taxes and a high level



By Bob
Kernohan
Business Editor

of consumer debt".

As a key to continuing the momentum and maintaining the required 15% nominal gross domestic product achieved in recent years, it urges that Government finances be managed conservatively.

"Moreover, it is most desirable that a small deficit be achieved not through higher taxes, but rather through tight control over expenditure," says the review.

Benefits from such ac-

tion would be a re-emergence of business confidence and "even the possibility of tax cuts".

Barclays' Business Brief also identifies the need for tax relief as being crucial to the recovery.

It says there is "some hope" for such relief in next year's budget, but warns:

"On past performance, though, possible tax-bracket adjustments may look initially attractive, while still implying a rising tax burden..."

The bank believes that confidence may be rising — "but nowhere is this leading to a new investment cycle".

It says the private sector has much unused capacity to absorb, while the public sector is actively reducing its capital expenditure commitments.

"The burden is therefore on the household and government sector to create demand.

"The government sector is ever so busy increasing its deficit before borrowing, but this stimulus cannot apparently fully compensate for the unwillingness of the corporate sector

to initiate a spending drive."

Barclays believes a "stronger [stimulatory] locomotive is required" — but that this is unlikely to arrive magically.

"When one has rushed down a mountain, it can take an incredible amount of energy and time to regain the heights which were so thoughtlessly given up during the descent," says Barclays.

It does not see household income capacity expanding "miraculously"; does not believe employment pros-

pects will increase significantly, nor wage increases do anything but creep up.

"Galloping wage increases would require the presence of incredible optimism reminiscent of 1980 and an overwrought labour market. Neither condition is imminent."

But, despite these and other negative factors — including "unmitigated disasters" like the drought — Barclays voices hope that recovery is underway, although cautioning that this is likely to be "only gradual".

ONE ECONOMY FOR ALL

(49) CITY PRESS 14/12/86

A POWERFUL plea for white corporate business to recognise black aspirations and demands and to recognise that serving black interests also serves white medium and long term interests has been made by businessman Mandela David Msomi.

Msomi - who owns the travel agency Africa Travel Services (Pty) Ltd, which grew from his personal enterprise, the help of business partners and co-operation with a white travel agency - spoke out against sanctions and disinvestment as being "shortsighted in the extreme".

He was addressing a special meeting of the SA German Chamber of Commerce and Industry in Johannesburg.

Msomi said South Africa's economy would be meaningless unless it led to equality of opportunities becoming meaningful to the people in terms of their standards of living and their aspirations.

The economy has been the dynamic force that compelled the government to scrap the hated dompas and it was now shaking the foundations of the Group Areas Act, he said.

The economy was the key which would open the door to a better future - but once that door had been opened, the real task which confronts SA would start.

"The law in South Africa undermines the will of the people to work together as one nation in one country with one economic destiny," Msomi said.

"There can never be a separate economy for blacks and a separate economy for whites."

The law inhibits a national effort to deal with bread and butter issues. It compartmentalises people and companies

into race categories and creates a situation of haves and have-nots, white companies and black companies - thus forcing a company to assure the element of race, Msomi said.

"South Africa has an industrial base which the whole of the sub-continent needs," Msomi said. "To destroy that base for immediate political needs is short-sighted in the extreme."

"South Africa's black population is growing at the rate of 3% per year and the vast unemployment and underemployment now existing will soon become far more problematic than it has ever been before."

"Unless this country's economic development is hastened dramatically, and unless we have sustained rates of economic growth, the victory we struggle for will lead only to demands on future governments which will be impossible to satisfy," Msomi said.

"Many millions of black South Africans are already dependent on their cash income. Millions would starve within days - or weeks at the most - if work opportunities dried up. The production of jobs in South Africa is vital."

"Ordinary black South Africans seek to share in the country's wealth, and not to destroy it. There is still a vast amount of goodwill not yet destroyed. There is a vast amount of hope not yet disillusioned, and there is disillusioned hope which could be revived."

"The challenge we face is the foundation of a partnership between black South Africa and industrial and commercial interests, and to work on the basis of building on the

inevitable black-white future.

"I do not expect you to understand fully the political courage and business stamina that it takes to remain both moral and pragmatic within this economic Babel."

"When you stop to realise the anger that exists in black minds and hearts, it takes courage for a black man to talk in simple terms about the current situation as requiring a partnership between black South Africans and white corporate business."

"This should also bring home the point that however much white South Africans may want to give content and form to the idea of a South African economic thrust, they cannot do it without black people attempting to enter what has been an exclusively white industry."

"The international community will always be constrained in its embrace of South Africa, however justified it is, if there is no black involvement," Msomi said.

"It is absolutely imperative in the interest of peaceful change that we do have rapid economic growth among the black people of South Africa."

"This will not be achieved simply by saying that CBD areas have now been opened to black businessmen. White business must participate actively in developing black business and provide expertise and business acumen as guarantees for the success not only of black business, but the economy as a whole."

"I believe that the most effective method of redistributing wealth in South Africa is through the free enterprise system."

"The redistribution of wealth in South Africa certainly does imply a greater participation in the central economy by more black people over a broader spectrum and the granting of equal opportunities to black people."

"We need more wealth in this country - but only if that new wealth is part of a new order in which new people benefit. The preferential right which whites have to land resources, expertise, technical know-how and business acumen must and I hope will be eradicated."

"The acquisition of skills by black people will increase South Africa's productivity manifold. Internal markets will expand as the benefits of this increased productivity is shared by blacks."

"Free enterprise in this country has too often and for too long been the willing handmaiden to white sectioned economic interests. White corporate business must take cognizance of black aspiration and demands," Msomi said.

"The free enterprise system has to survive among the people, for the people, and the transition from restrictive legislation to incentives of opportunity has to be made."

"I think it is time to realise that serving black interests is synonymous with serving white medium and long term interests."

"I ask you unashamedly and simply to put your full weight behind black initiated projects. You must recognise that if there are problems with mixing blacks and whites in industrial and commercial situations, the problems come from the inadequacies of the free enterprise system," Msomi said.

Tight budget control call

TIGHT control over government budgets was needed to relieve the private sector of a crippling taxation burden, the Transvaal Chamber of Industries (TCI) said.

Comparing SA's "frightening" inflation rate of 20% for 1986 with the 2% of most major Western trading nations, the TCI said it doubted whether producers or consumers were happy with the erratic performance of the various control boards.

It said: "Industrialists, who are frequently asked to tighten their belts and accept lower profit margins, look ruefully at the spiralling prices of commodities which fall under the jurisdiction of the control boards."

"There is not much sign of profit trimming there."

Costs, prices, depreciated currency and an apparent lack of direction were combining in a relentless drive to erode the living standards of the man in the street and ultimately undermine SA's economy.

The TCI said: "The massive reductions in the rates of inflation overseas have only been achieved by the application of stringent disciplines and we must be prepared to face up to these."

● To Page 2



Tight budget control called for

Tight budgetary control would stimulate growth in the supply of goods to the markets, with the resultant benefits of cutting unit costs due to increased production.

The TCI said: "The break in the drought pattern will hopefully help to stimulate the agricultural sector and keep food prices down, but this will require careful monitoring. Administered prices are always a source of

concern due to their broad effect on the economy."

Most important of all, was the value of the rand. The TCI said: "Tied, as it tends to be, to the gold price, its performance falls to a large degree outside the control of the authorities, but we hope no more problems are experienced in the field of foreign exchange."

● From Page 1



Money rolling into govt coffers

BUSINESS DAY 18/12/86

Business Day Reporter

GOVERNMENT revenues for the first seven months of the fiscal year to October 31 are at R18,3bn, up by 13,9% on the same period of last year.

Inland revenue increased by 11,4% to R16,9bn, with income tax collections rising by 11,4% to R10,1bn and GST by R453m to R5bn.

Reflecting the boom on the JSE, revenue from marketable securities tax soared to R74,5m, an increase of 148%, as stock exchange turnover rose in the seven months ended October to about R4,9bn.

Customs and excise receipts went up

by R492m to R1,3bn, which includes R579m raised through the surcharge on imports. The comparative figure for October 1985 was R120m. The surcharge was introduced on September 28 last year.

The 1986 figure, however, is proportionally less than that for 1985, probably attributable to the abolition of the 10% surcharges on imported books in March and on certain imported motor vehicle parts in June.

impact. The list is long and arduous: insurance costs, repairs, PAYE payments, fuel costs, and so on.

Wiles has little problem with the figures: "I have found it effective to spell out the difference in tax cost between the company car and the travel allowance from a perks standpoint using a microcomputer program. But this should only be part of the inquiry into the question by management."

Deloitte Haskins & Sells' Peter Maspero says that before recent amending tax legislation favouring the company car, the cry was allowances, allowances, allowances. But with the new company car tables, he notes, a new Porsche 959 — with a price tag rumoured at

around R1m — "at worst will cost its driver a mere R270 a month in tax.

"Maintenance costs aside, interest alone computes at less than 0,4% a year. So a number of companies who aggressively pursued the car allowance route must be wondering whether to switch over once again."

Ernst & Whinney's Angela Tucker argues simply: a fully maintained company car with all costs, including holiday petrol, borne by the employer is the most tax efficient option.

"The official valuations are modest in relation to the cost of running a car. The taxable value of a vehicle priced at, for example, R20 100 (excluding GST) with an engine capacity of 1766 cc's is R2 160 a

year." She says it would cost considerably more than this to buy and maintain a car of this size out of after tax income.

But, says Tucker, car allowances nonetheless remain a good choice in some circumstances. "There are cash flow advantages, as the allowance is taxed on assessment and not at the time of receipt." To make the car allowance option really work, Tucker lists three essentials:

- You must be required to use your car for business purposes;
- The total distance you travel each year must be high; and
- The allowance must be pitched at a reasonable level. ■

EDWARD OSBORN

Is GDP not misleading?

49 FIN MAIL 19/12/86

IN MY OPINION



Edward Osborn, a former senior civil servant in Rhodesia-Zimbabwe and economist with the Chamber of Mines, is now economist with Nedbank.

SA's official GDP figures are statistically impeccable in that they conform with the principles of the UN National Accounting System, but are they really appropriate for the unique circumstance? SA is *sui generis*.

The question is whether the measures take adequate account of wealth transfers from the rest of the world to a very open economy through principal export prices.

Take the example of an Opec Gulf state that has maintained oil pumping levels but is suddenly presented with a fourfold oil price increase. Although statistically correct, the statement that the oil producer has not enjoyed economic growth is faintly absurd.

In strict product output terms there has been no growth, but in terms of the product's real worth vis-a-vis the rest of the world, growth has been considerable. Similarly for SA's coal exports in the Seventies, when world coal prices rose at phenomenal rates.

The issues raised by gold, however, are of greater interest and complexity. Following the suspension of gold-dollar convertibility in 1971 by the US, the price of gold rose progressively from \$35/oz during the Seventies to peak above \$800 in 1980.

While this was happening, SA was steadily adjusting its output of gold downwards. In fact, gold production declined from 1 000 t in 1970 to 655 t in 1981. The mining laws require compensating production policy to conserve natural mineral resources.

Now all other things being unchanged, real GDP would have shown steady decline in these circumstances. *Ceteris* were not otherwise *paribus* and a measure of growth was officially recorded, but it was misleadingly

understated for it took no account of the real value transfer from the rest of the world.

In a sense, the official measures were an affront to management and labour on the mines, for during this era the volume of rock raised to the surface and milled rose from 79 Mt in 1970 to 95 Mt by 1981. The end product of refined gold declined but the level of activity and effort rose and so did mining productivity in terms of output per man. But what value do you put on rock?

There is a way round this statistical conundrum in the so-called terms of trade adjustment. This consists simply of replacing exports deflated by *export* price indices by exports deflated by *import* price indices. This provides an estimate of real value of product against the yardstick of international prices.

We could call this concept gross domestic income at constant prices or real GDI. It is akin to gross national income at constant prices.

The outcome in practice naturally depends on the relative rates of increase of export and import prices, namely the terms of trade. If the terms of trade are improving, GDI will reflect a higher growth rate than GDP, and vice versa.

Quick estimates of real GDI are shown in

index form in the accompanying table compared with official real GDP estimates for two sets of years, 1972-1979 and 1978-1985. The figures are derived from the SARB *Quarterly Bulletins* of September 1980 and September 1986.

The results are interesting. For the earlier strong growth period of the Seventies, we see that growth is raised from an average of 2,95% to 3,58% a year. This was a period when export prices in general, but dominated by the rapidly rising gold price, outmatched import prices, notwithstanding the Opec oil price hikes.

Between 1978 and 1985, however, there was only a marginally higher growth rate on average, 2,00% raised to 2,04%. For the Eighties, per se, the negligible growth rate of 1,04% a year is eliminated altogether. Another striking feature of the exercise is the increase in amplitude of economic cycles, in particular the depth of the recession in 1982-1983 and the recovery in 1984. The latter series also highlights the unfortunate choice of 1980 as a base-year in official statistics.

The GDI figures offer a new perspective. I believe the Bank would provide a valuable additional series if it were to include GDI estimates in the *Quarterly Bulletin* as part of the table *Expenditure on GDP*.

COMPARING THE MEASURES

Gross Domestic Income versus Gross Domestic Product

Year	GDI Indices (1975 = 100)		Year	GDI Indices (1980 = 100)	
	GDI	GDP		GDI	GDP
1972	83,61	87,83	1978	86,32	91,69
1973	92,30	91,52	1979	90,75	94,67
1974	101,60	98,46	1980	100,00	100,00
1975	100,00	100,00	1981	100,47	104,77
1976	98,37	101,36	1982	96,29	103,94
1977	98,94	101,37	1983	95,22	101,37
1978	101,80	103,64	1984	100,21	106,49
1979	106,92	107,67	1985	99,42	105,30
Average growth per annum					
1972/79	3,58	2,95	1978/85	2,04	2,00
			1980/85	-0,01	1,04

1987 could mark turn of the economic tide

NOBODY forecasts an economic boom in 1987 — but business should be better than it was this year.

Businessmen might as well enjoy it while it lasts because economists' prognostications for 1988 are far from sanguine.

Reports last month of a weakening in consumer spending sent shudders up the spines of many retailers anxiously awaiting the traditional Christmas splurge. But indications are that the past two weeks have been marked by a rally in consumer retail spending and many stores are now daring to talk of "record" Christmas sales.

Bullish

The momentum has encouraged many economists to stick by — or even raise slightly — their economic growth forecasts for 1987. The latest round of interest-rate cuts has played a significant role in sustaining bullish views. So has the rain, which has been falling in buckets over most of the summer rainfall areas. Governor of the Reserve Bank Gerhard de Kock is happy to take all the credit for ending the drought.

Old Mutual economist Rob Lee is confident that his 3,5% gross domestic product growth forecast for next year is well within reach.

Sanlam economist Johan Louw also sounds a little more upbeat. He

By David Southey

writes in his Economic Survey: "Most economic indicators show that the SA economy is now in the early stages of a recovery phase and that, if nothing unforeseen happens, the revival could gain momentum in 1987 ... the relatively sturdy performance of the gold price, the stronger rand, the apparent decrease in domestic unrest and the prospect of a good agricultural season have largely contributed to this feeling."

The trouble is, as Mr Louw would be the first to admit, that "unforeseen" things invariably happen. But they need not necessarily be detrimental to growth.

In spite of the gloom surrounding car prices and the common view among SA businessmen that inflation has become endemic, economists are looking to a lower inflation rate in 1987. Admittedly, most got their forecasts wrong for 1986, but as things stand, next year might not turn out as catastrophic as some people fear.

Car prices

Because of under-recovery on the petrol price in the past few months, a small increase is possible. But, as Mr Lee notes, it is unlikely to be more than a few cents a litre and is not expected to add much to the inflation rate.

Meat prices will continue to rise as farmers hold back stock to take advantage of improved grazing.

Wage settlements next year are expected to be higher than in 1986 — and remain a cause for concern on the inflation front.

But economists are looking to the stability of the rand — in fact, its appreciation on a trade-weighted basis — along with the cut in bond rates to help hold inflation at 17,5% next year. Housing costs carry a 17% weighting in the consumer-price index. The inflation rate could even drop to about 16% in the early months of 1987 before picking up in the latter half of the year.

Pressure

Borrowing costs appear set to remain relatively low for most of next year. But do not be surprised if interest rates edge up after mid-year. As economic recoveries gain force they reduce the surplus on the current account of the balance of payments — with rising imports — which in turn puts pressure on the exchange rate.

Then there is the next round of the foreign-debt repayments to be negotiated in April. But the resulting capital outflow is not expected to be anywhere near as onerous as has been the case in the past 18 months.

The stock of money is also likely to grow faster next year than it has in 1986. But after failing dismally to

come anywhere near its growth target this year, the Reserve Bank will be less ambitious when it announces its sums in January.

The financing of what could turn out to be a bumper maize crop will in itself boost money growth around mid-1987. That in turn raises inflationary expectations and feeds interest-rate increases.

Deficit

On the fiscal side, the Government seems set to weigh in with a deficit before borrowing of more than R6-billion for the 1986-87 year. State spending is likely to rise by another 20% in 1987-88, and might entail a deficit of between R8-billion and R9-billion.

That sort of number precludes the possibility of major tax cuts, although economists still believe the Government will make some compensation for salary inflation — known as bracket creep.

Although SA is expected to maintain its export volumes in 1987, prospects for 1988 under tightening sanctions look gloomy. These could severely affect the balance of payments, the exchange rate of the rand, inflation and economic growth.

Thus, whatever hay can be made under a slightly sunnier sky in 1987 should be carefully stored in anticipation of leaner times.

SA pays — and pays — but debt shrinks slowly

2/12/86
SUNTIMES
49

SOUTH Africa's obligation to repay foreign debt remains a millstone around the economy's neck — and could impede growth and employment prospects for years to come.

In spite of the fact that SA has repaid \$3-billion of debt in only two years, economists are worried that continued erosion of the dollar against third currencies will mean that overall foreign debt — denominated in dollars — will not be reduced much.

The Reserve Bank will not disclose what part of the debt is in third currencies — Swiss francs, mark, sterling, yen — as opposed to dollars, but the amount is thought to be huge.

By David Southey

Nor is it known to what extent, if any, the Reserve Bank covers this part of debt against exchange-rate fluctuations, whether by way of buying currency options or whatever in the international markets.

What is worrying some economists, however, is that in spite of SA's repayment of well over \$1-billion between September last year and the end of June this year, the total *estimated* foreign debt dropped by only about \$500-million — from \$23,7-billion to \$23,2-billion.

Because in the international markets SA operates essentially as a dollar-linked economy, with exports and foreign debt denominated in dol-

lars, it is critical for the economy to build up its dollar reserves.

In the past six months or so, the net inflow of dollars has been much larger than the outflow. This is evident in the large increase in the gold and foreign-currency reserves which has enabled the Reserve Bank to redeem some of its gold swops as indicated by the jump in the value of the bank's gold holdings. It has also been able to hold the rand steady at about \$0,45 in spite of volatility in the gold price.

Although the rand is widely expected to hold roughly its current level through the first half of 1987, economists are concerned that a smaller current account surplus under the weight of rising imports could reduce the Reserve Bank's

ability to support the currency in the latter half of the year.

Speculation is that the bank will resist demands by foreign creditors to up its repayments when the next round of negotiations takes place in March or April. Too much pressure on SA could force it to bring more foreign debt into the standstill net.

Economist Mike Brown of stockbrokers Davis, Borkum, Hare, says the \$13-billion of debt that has matured is made up of \$8,5-billion in the net. The remaining \$4,5-billion is made up of Reserve Bank and other public-sector debt that has been rolled over and trade credits outstanding to the private sector — all of which are vulnerable to call-up by foreign creditors.

Next year, \$2,26-billion of debt matures, of which \$1,06-billion falls outside the standstill net.

Recently Reserve Bank Governor Gerhard de Kock suggested that repayments outside the net in 1987 could be R2,9-billion. Together with repayments of trade credits and taking the leads and lags effect into account, Mr Brown estimates that total repayments inside and outside the net could amount to about R6-billion in 1987. He says: "This could severely limit SA's growth potential in 1987."

Business support for new curbs

BUSINESS, scenting further boycotts and strikes, is in apologetic support of the new Press curbs, reports
HAMISH MCINDOE

23 11 86 80 20 41 49
A WEIGHT of business opinion, scenting more consumer boycotts and strikes in the last shopping days to Christmas, is in apologetic support for government's media curbs.

Said Pick 'n Pay chairman Raymond Ackerman: "Press censorship is supposed to cool things down, but I've never known anything so difficult as this time."

He reluctantly believed the curbs would have the "short-term rub" of not inflaming consumer boycotts and unofficial strikes.

Eclipsing hopes of strong Christmas spending in all sectors was the threat of a three-day work stayaway this week and two big retailers — the OK and Pick 'n Pay — involved in union disputes.

OK MD Gordon Hood carefully described the Press restrictions as "unfortunate", and dismissed the rumour that all leave had been cancelled in order for management to combat strikes.

Said Ackerman: "It's a double-edged sword. You don't want to promote the causes of strikes and boycotts, but restrictions make people more obdurate."

He appealed to the unions and the business community for calm over Christmas — "and that's not said with an eye on the bank balance; a lot of people could lose their jobs".

No negative feedback

The Associated Chambers of Commerce (Assocom), the Afrikaanse Handelsinstituut and the Department of Trade and Industry have reported no negative feedback on the Press curbs.

And few retailers trading heavily in black areas believe lack of information on boycotts and strikes would affect their business.

SA Breweries (SAB), for one, has its own townships information network to keep abreast of political actions that could mar beer sales. "But you still want more, not less information, when making business decisions in difficult times," said an SAB spokesman.

Progressive Federal Party finance spokesman Harry Schwarz stressed that government's approach to the Press curbs was "solely from the security angle and without a thought to their business consequences".

Assocom maintains it still too early to gauge the effect of the restrictions, if any — on business activity. But Assocom spokesman, Ken Warren, noted the chamber was getting a "constant stream" of media inquiries for business, in the absence of political stories.

JOHANNESBURG. — SA's growth has been stunted by punitive taxes as a result of a tax base squeezed by the shrinking private sector share of the economy under the pressure of excessive government and public sector spending.

This is one of the key distortions flowing from the continuing high rate of State spending, and must be urgently redressed, says Assocom in discussing future national economic planning in the latest issue of the Assocom Review.

There is no time to waste, says Assocom.

"Time is running out fast. We can no longer afford to waste precious months, even days, on repetitious debate, on preparing serialized memoranda, on the production of millions of words.

"We must stop talking and start doing ..."

Other distortions as a result of the State's profligate spending,

CM 1m B 23/1/86
**SA growth
'stunted'
by taxes**

says Assocom, have included: "The inability at times of the State to match current expenditure with current revenue so that, over the years, the capital/output ratio subsided leading to the country's most pressing internal problem — structural inflation."

The report says that with finance from abroad "being reduced to a trickle — and possibly cut off altogether — the availability of capital is likely to be limited.

"It can only come from our own savings and trading surpluses which will have to be carefully nurtured and used only to best advantage.

"There is only one way to ensure this. The market must be sufficiently free to determine the most efficient use of capital, not a cabal hidden out of sight."

But says Assocom: "Who determines the priorities?"

"It should not be a committee of officials, however well qualified. These people are too far removed from the market environment. They lack the 'gut-feel' which marketeers acquire ..."

At no time, says Assocom, "must we allow ourselves to be diverted from the common purpose" of involving the private sector more deeply and at an earlier stage in national planning.

"As many people of all races as possible must be involved in enriching the country through privatization, the development of small businesses and the expansion of the production base that is the largest generator of employment." — Sapa

Business 'must not retreat'

23/12/86

49
BUSDAY

BUSINESS must not allow itself to be forced into a "retreat mentality". If it does, any economic recovery will be short-lived.

That is the warning from Stellenbosch University's Bureau for Economic Research (BER) in its latest Manufacturing Survey.

It says there are two major impediments to the rate of economic progress — inflation and lack of confidence.

Inflation has received wide attention "but attention will not ameliorate the problem. The need to act against the inflation threat is of paramount importance".

The survey says the fact that economic activity has picked up in many areas is bound to improve confidence. The bottom of the business cycle appears to have been reached, production is up and indications are that this will continue, at least in the short-term.

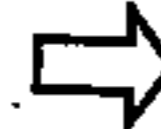
As well, the ability of the SA economy to adapt to changing circumstances has been illustrated in the past, notably in its

DAVID FURLONGER

successful circumvention of the arms and oil embargoes.

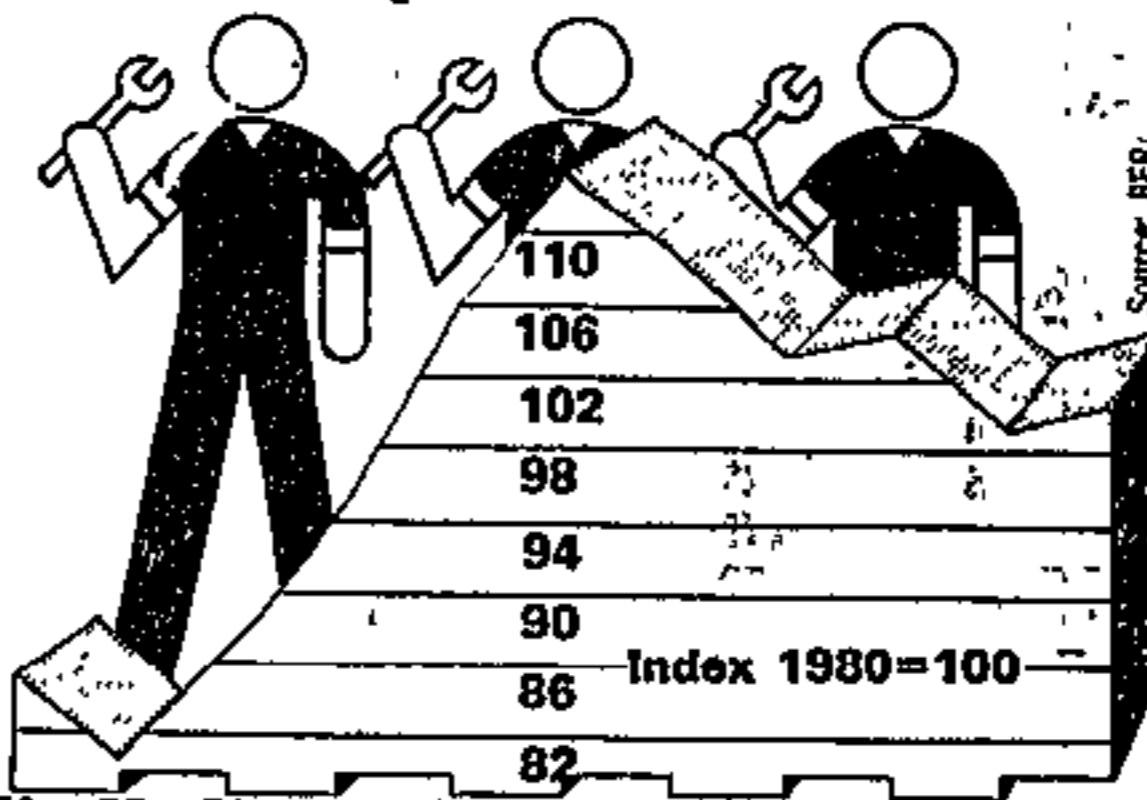
But the BER warns: "The danger, which has become a probability, is that

● To Page 2



VOLUME OF PRODUCTION*

Total Manufacturing



3rd Quarters

*Official statistics.

Source: BER

Business must not allow 'retreat'

23/12/86

49
BUSDAY

some part of SA business may consider itself pushed into a retreat economy.

"If this retreat mentality prevails, the present economic improvements will be very short-lived and the economy will experience a continued deterioration over the longer-term.

"Better co-operation and understand-

ing between SA and the rest of the world should still remain an essential aim, as is the active circumvention of punitive measures imposed by a persecuting world."

● From Page 1



on
de-

Time for talk is over — Assocom

Business hits at 'tardy' govt reform pace

(49)
23/12/84
BUDAY



INCREASED business confidence that stemmed from the November 7 "summit" with President P W Botha is already in danger of evaporating, says Assocom.

The Association of Chambers of Commerce says in its latest quarterly review that government must start backing up its assurances on reform and constructive change.

It says the element of confidence that was boosted by the President's conference should be sustained, "although the decision to refer back to the President's Council recommendations about the Group Areas Act can hardly be regarded as a confidence-booster.

"It signifies indecision when decisiveness is most necessary, inaction instead of action."

Assocom says the time for talking is over.

"We can no longer afford to waste precious months, even days, on repetitious debate, on preparing serialised

DAVID FURLONGER

memoranda, on the production of millions of words, written or spoken."

It says businessmen are wary of the government's "tardy" reform progress.

"Time is running out fast and it must not be wasted by temporising, procrastination and the shuffling of papers between private sector organisations and legislators and administrators."

Assocom says the tightening sanctions net must not be used by government as an excuse to impose economic controls that could "virtually destroy the functioning of markets".

With finance from abroad down to a trickle, the availability of capital will become limited.

"It can only come from our own savings and trading surpluses, which will have to be carefully nurtured and used only to best advantage. There is only one way to ensure this. The market must be sufficiently free to determine the most efficient use of capital, not a cabal hidden away out of sight."

SA growth rate of 4,3% forecast

49
CMT Traps 27/12/86

JOHANNESBURG. — The foundations have been established for economic recovery in the coming 18 months, says a Johannesburg Stock Exchange review of the economic outlook.

However, the leading firm of stockbrokers, Davis Borkum Hare, warns that the momentum will be hampered beyond next year unless the November summit called by President P W Botha with businessmen is followed by concrete proposals and developments in political and economic strategy.

In the longer term, says the firm, the economic outlook will remain hostage to politics.

'Increased spending'

In the 1987 scenario, the researchers nevertheless foresee:

- A quickening in the growth rate from below zero in 1985 to about 1,6% this year and 4,3% next year.
- An increase in private consumer spending of 3,4% in real terms — over and above the spiral in retail prices.
- A dramatic swingaround in the pace of real fixed investment from a 9,9% fall this year to a 3,3% rise in 1987 — the first increase since 1982.
- A repeat of the surplus on the current account of the balance of payments of a robust R5 000m — most of it to be swallowed by capital outflows,

but still leaving about R1 000m to boost foreign exchange reserves.

● An improvement in the rand/dollar exchange rate from the 1986 average of 44c to around 48c.

● A modest slowdown in the rate of inflation in the first half of next year, but leading to another upward sweep which is likely to leave the average for the year as a whole unchanged at between 18% and 18,5%.

● From the middle of next year, hardening interest rates, which are now at their lowest level in several years. This will push short-term rates on Bankers' Acceptances back to about 15% by the year-end, says the report, and the prime rate up from 12% to as much as 18% or 19%.

'Pressures'

The brokers' report forecasts a "relatively favourable environment" for JSE industrial shares next year on the back of economic recovery, improving profits, and further large cash flows from the financial institutions.

It says gold shares should be assisted by firm world markets and an average bullion price of \$450 an ounce.

However, investors are advised to seek shares in blue-chip quality mines rather than marginal mines, because of disinvestment pressures and a disinclination to indulge in new investments. — Sapa

There are better times ahead, say the experts

49
Economic
29/12/86

JOHANNESBURG — The foundations have been established for economic recovery in the coming 18 months, says a Johannesburg Stock Exchange review of the outlook.

However, a leading firm of stock brokers, Davis Borkum Hare, warns that the momentum will be slowed unless the November 7 economic

summit of President P W Botha and business leaders results in concrete proposals and developments in political and economic strategy.

In the longer term, says the firm, the economic outlook will remain hostage to politics.

The researchers nevertheless foresee:

- A quickening in the

economic growth rate from below zero in 1985 to about 1,6% for 1986 and 4,3% next year.

- An increase in private consumer spending of 3,4% in real terms.

- A dramatic swing round in the pace of real fixed investment.

- A repeat of the surplus on the current account of the balance of payments of a robust R5 000 million.

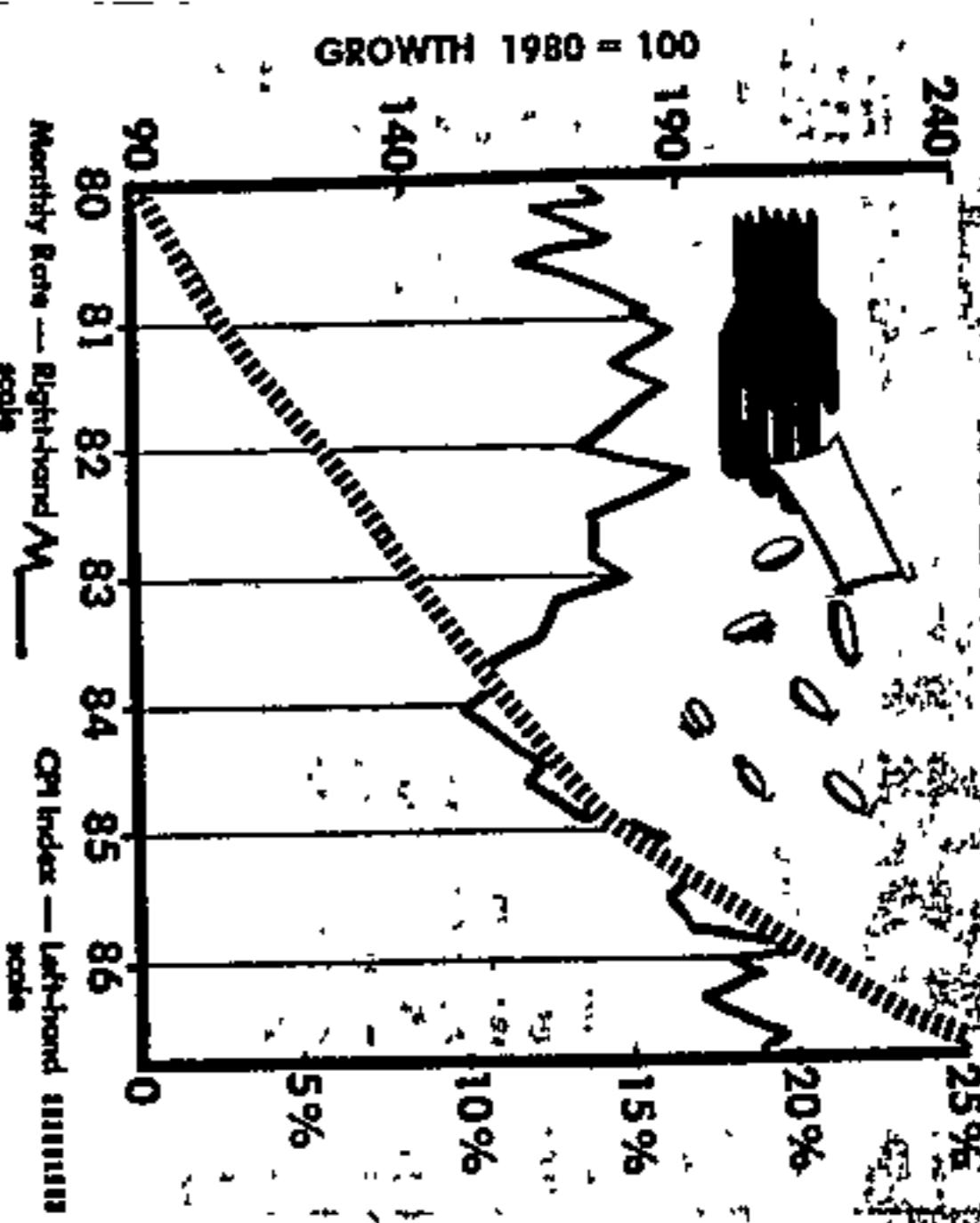
- An improvement in the rand-dollar exchange rate from the 1986 average of 44c to around 48c.

- A modest slowdown in the rate of inflation in the first half of next year, but leading to another upward sweep which is likely to leave the average for the year as a whole unchanged at between 18% and 18,5%.

- From the middle of next year, hardening interest rates, now at their lowest level in several years. This will push short-term rates on bankers' acceptances back to about 15% by the year end, says the report, and the prime rate up from 12% to as much as 18% or 19%. — Sapa

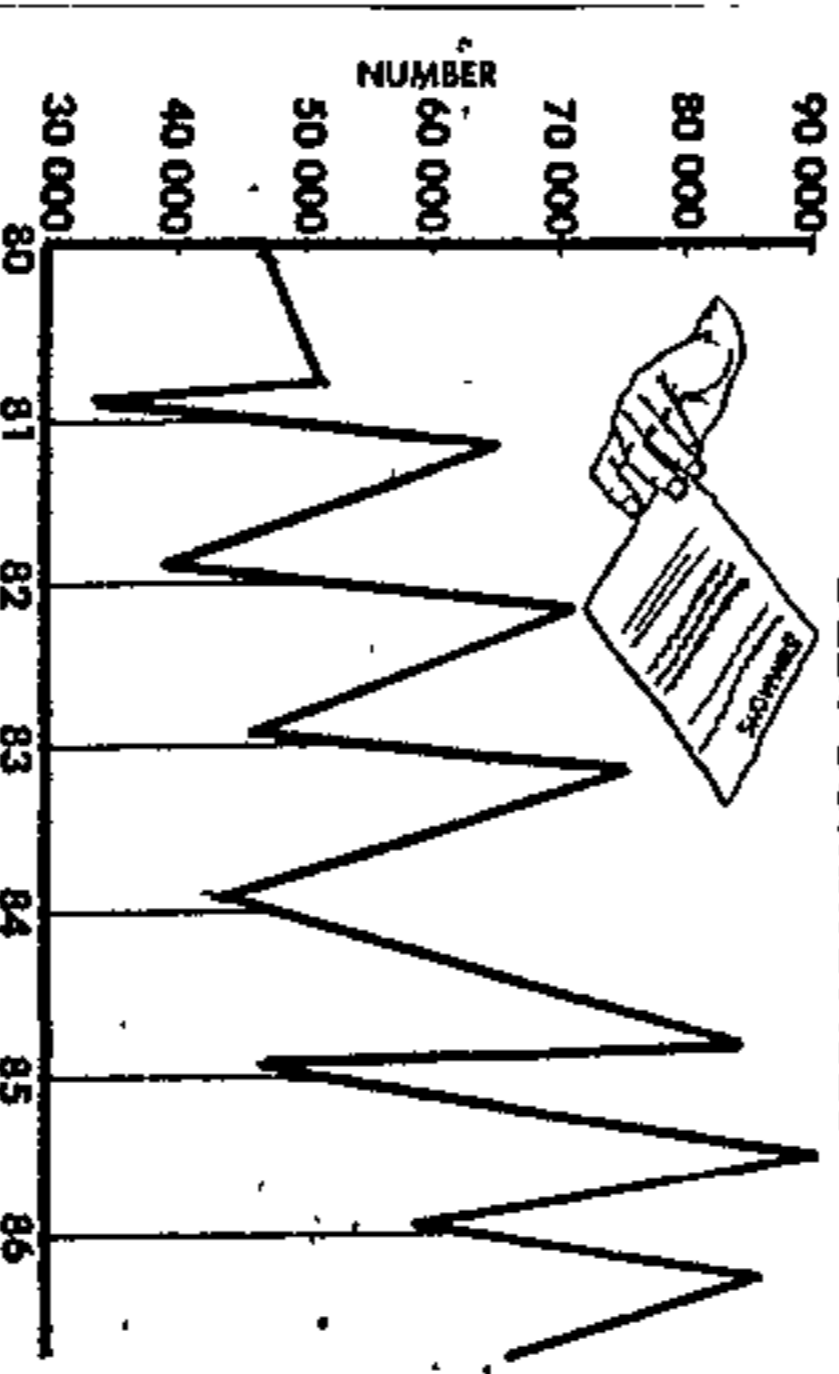
No boom yet, but a mood of optimism has come back

INFLATION



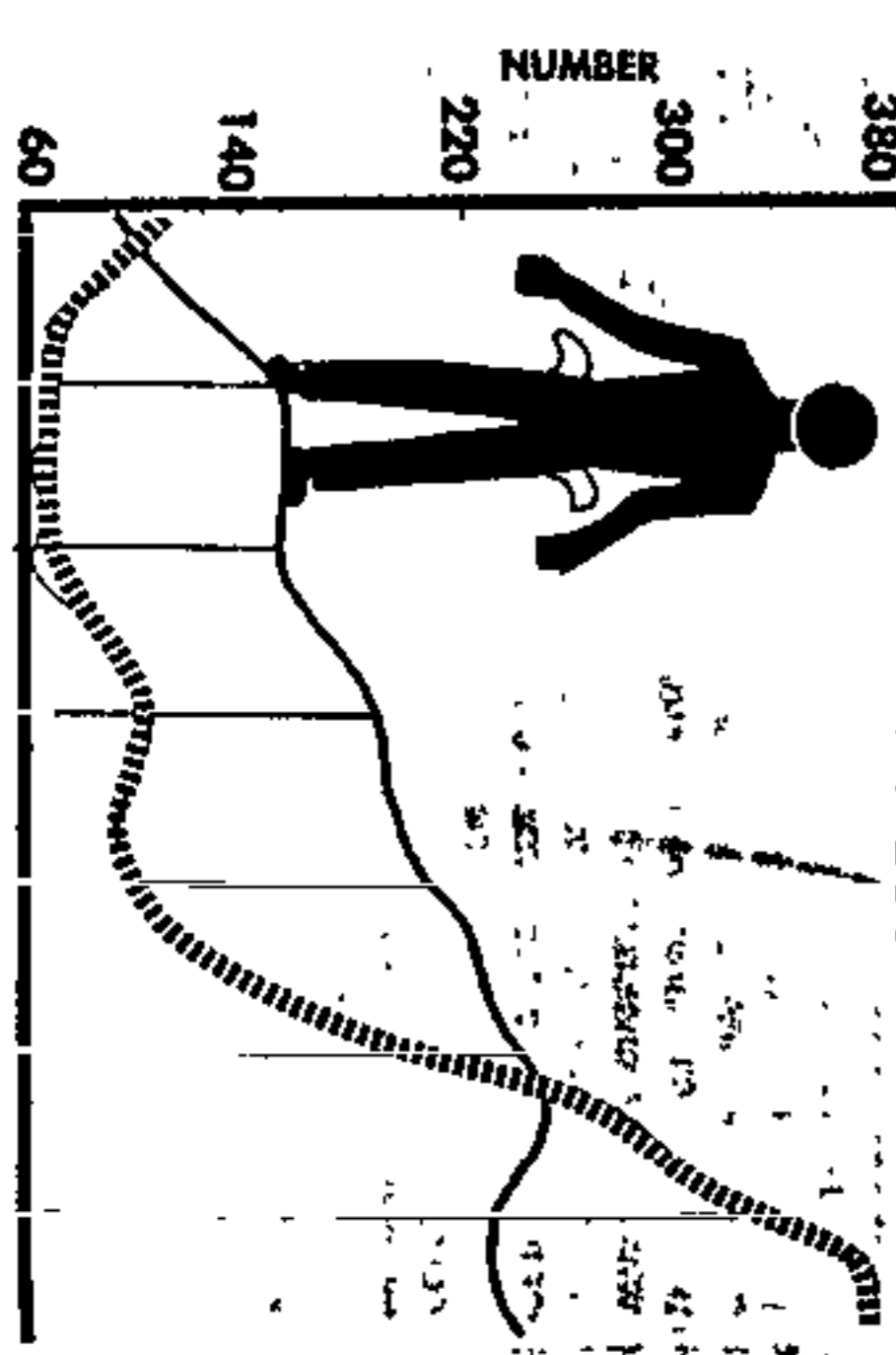
1. Aside from the socio-political turmoil, the economic agony which haunted the 1986 economic scenario was inflation. South Africans seem to have become immune to repeated shock announcements of increases as high as around 20 percent on the annual rate of the consumer price index spiral. More telling is the upward curve of the index, which spells out the brutal fact that what was bought for R100 in 1980 now costs more than R242.

DEBT SUMMONSES



3. More and more families, apparently reluctant to re-adjust to falling standards of living and staying on a spending binge, often buying on credit, have tumbled into debt. The monthly count of debt summonses shows the upward trend — slackening only when the paperwork pauses for Christmas holidays but always shooting back up when consumers face the hangover of their buying sprees.

GOING BUST



At last a small flicker of bright fight on SA's economic prospects

Special writer MICHAEL CHESTER and artist JAMES DE VILLIERS look back on 1986 in a series of graphics that provide a layman's guide to a number of key economic issues. The graphics also signal a mild improvement in the outlook for next year.

The candles on Christmas trees in South Africa this year may not have the power to penetrate deep political shadows — but they will be flickering encouraging signals about the New Year economic outlook.

The first candle was lit when the Reserve Bank orchestrated an accord with the banks and building societies and home bond rates diverged to as low as 12.5 percent, and prime overdraft rates to 12 percent — the lowest since 1980, and less than half the 25 percent peak touched in 1984.

The thrifty had little to celebrate because the cuts also entailed a lowering of interest earned on their savings accounts, but the moves were welcomed by most families whose budgets have been undrained in the worst cash squeeze in years.

New optimism

Not that interest rates alone looked likely to be capable of repairing all the damage caused by inflation, which approached the year-end still stubbornly at almost 20 percent. Even more significant

of Econometric, the research and analysis unit which prepared most of the accompanying graphs which mirror the economy — warts and all.

But the cautious against optimism. He estimates that economic growth looks set to reach around 3 percent next year — still too slow to be a panacea for chronic unemployment problems, but a vast improvement on the 1986 level, which is likely to work out at less than 1 percent.

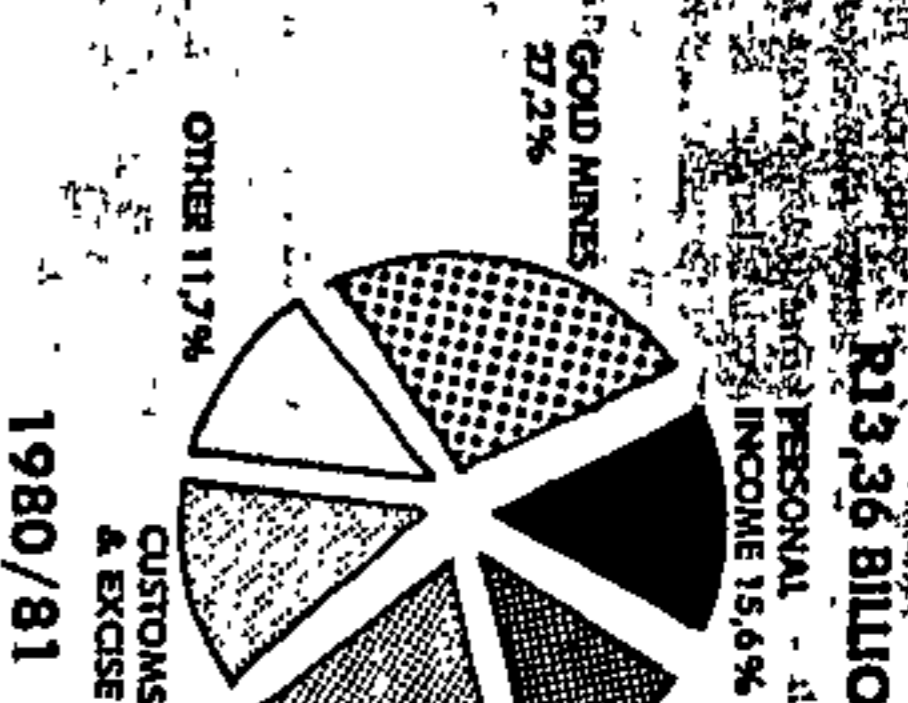
One of Dr Jammame's grave concerns is inflation. "While the rest of the economy has been asleep, inflation has been as wide awake as ever," he says.

"Our inflation rate continues to be around five times higher than the rates now enjoyed by our main trading partners, meaning the rand exchange rate is bound to remain under pressure."

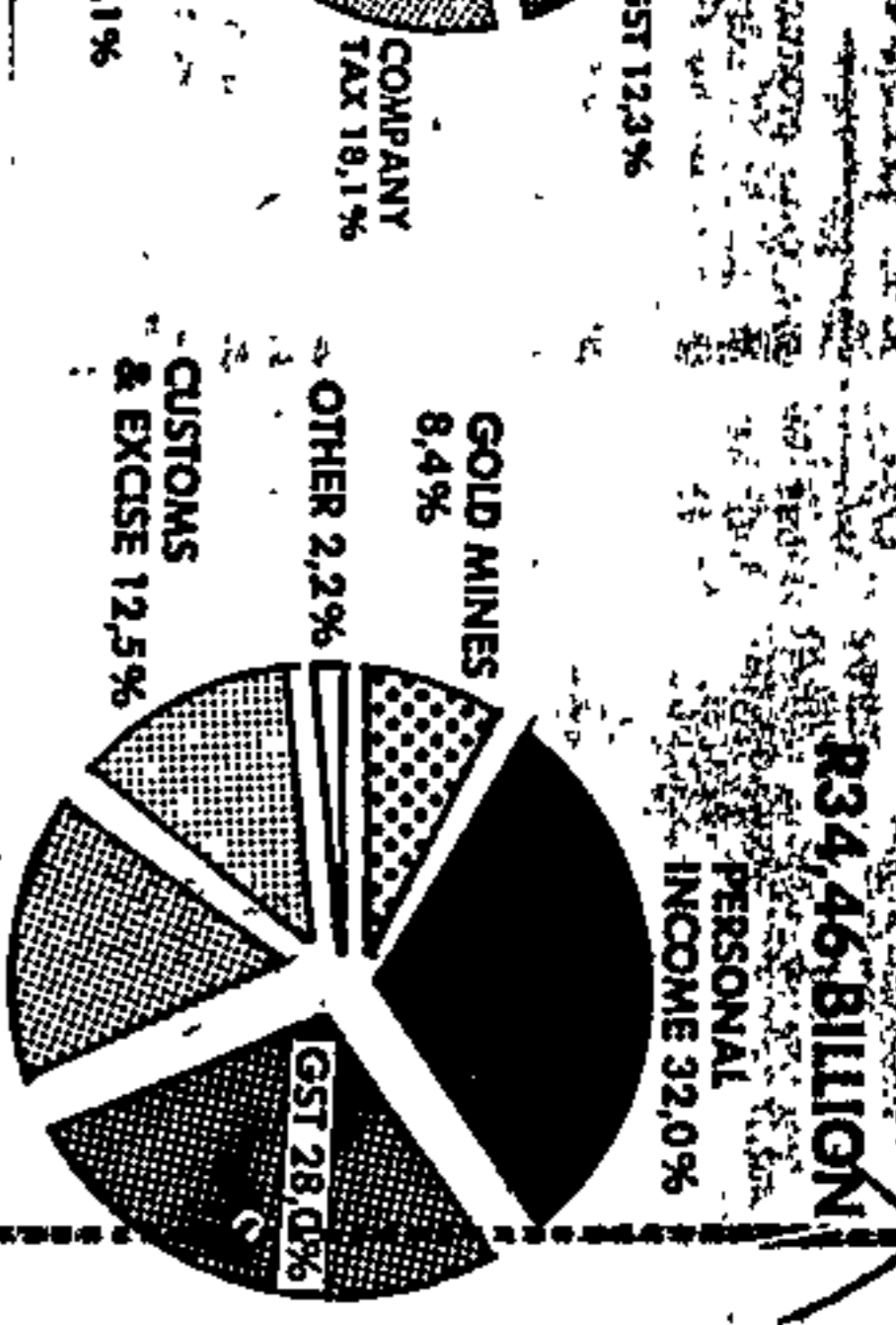
Minor impact

That being so, the fear of a few months ago that sanctions would imply a ban on sales of goods to South Africa is no longer relevant, for the medium term at least.

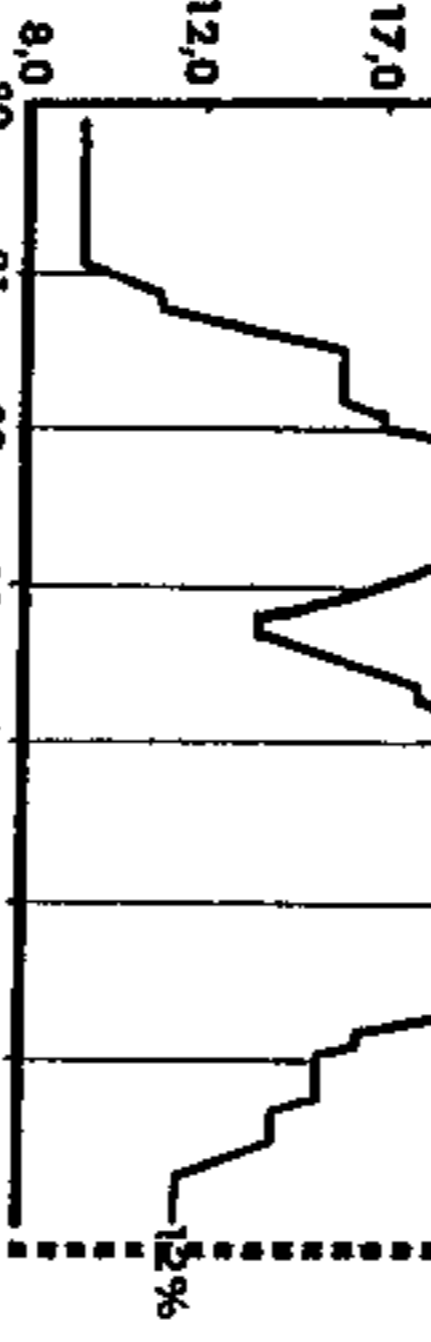
"This implies that the big impetus for import substitution, which was regarded as a potential source of high economic growth over the next few years, a la Rhodesia, is un-



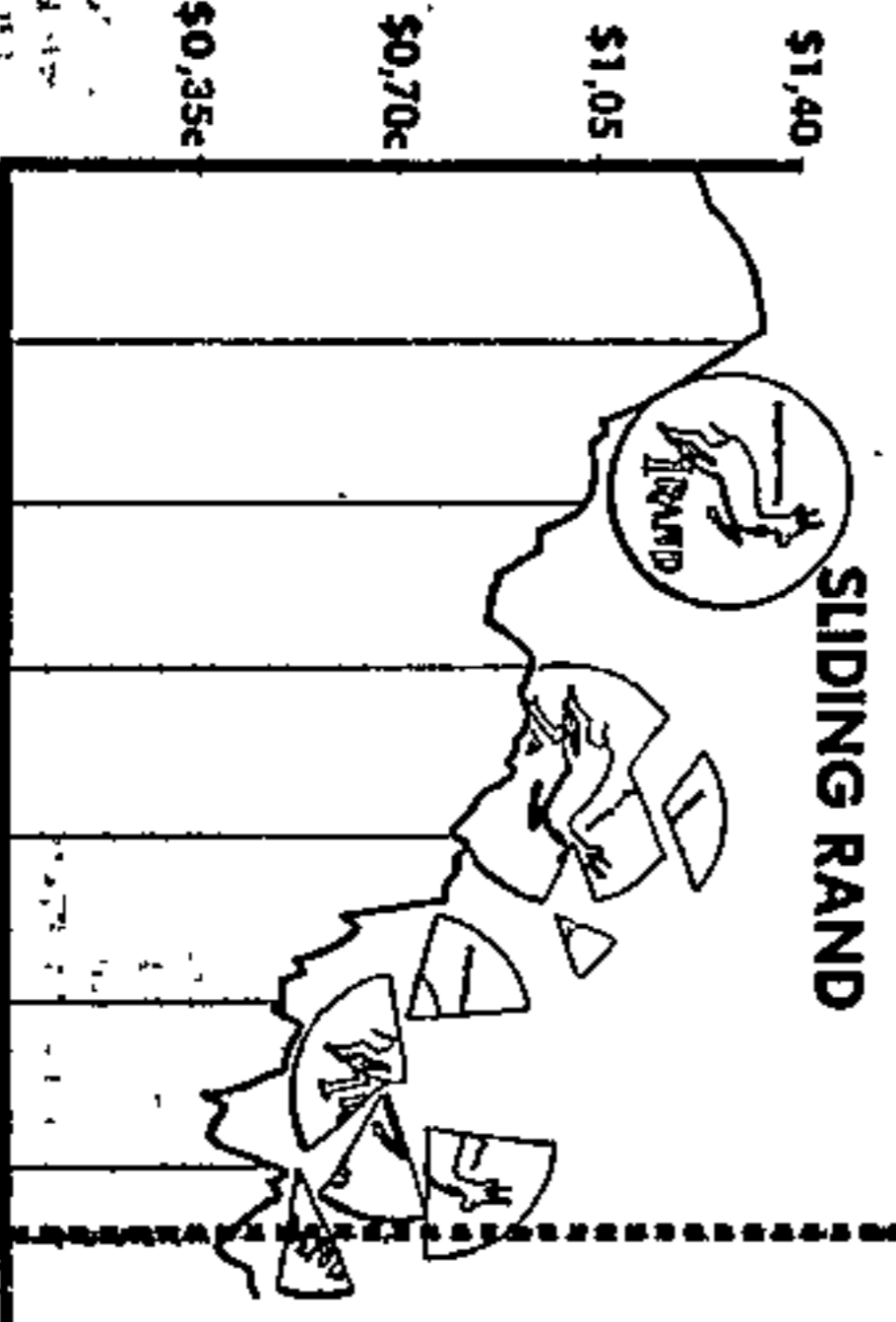
6 and 7. ABOVE and RIGHT: Annual increases in the tax burden — worsened by what economists call fiscal drag, which means the way inflation pushes workers into higher and higher tax brackets as their incomes try to keep abreast of inflation — have taken thousands of families unaware. The toll of personal income tax has soared from R2 000 million to above R11 000 million a year since 1980, aside from increases in general sales tax from under R1 650 million to over R9 600 million.



6 and 7. ABOVE and RIGHT: Annual increases in the tax burden — worsened by what economists call fiscal drag, which means the way inflation pushes workers into higher and higher tax brackets as their incomes try to keep abreast of inflation — have taken thousands of families unaware. The toll of personal income tax has soared from R2 000 million to above R11 000 million a year since 1980, aside from increases in general sales tax from under R1 650 million to over R9 600 million.

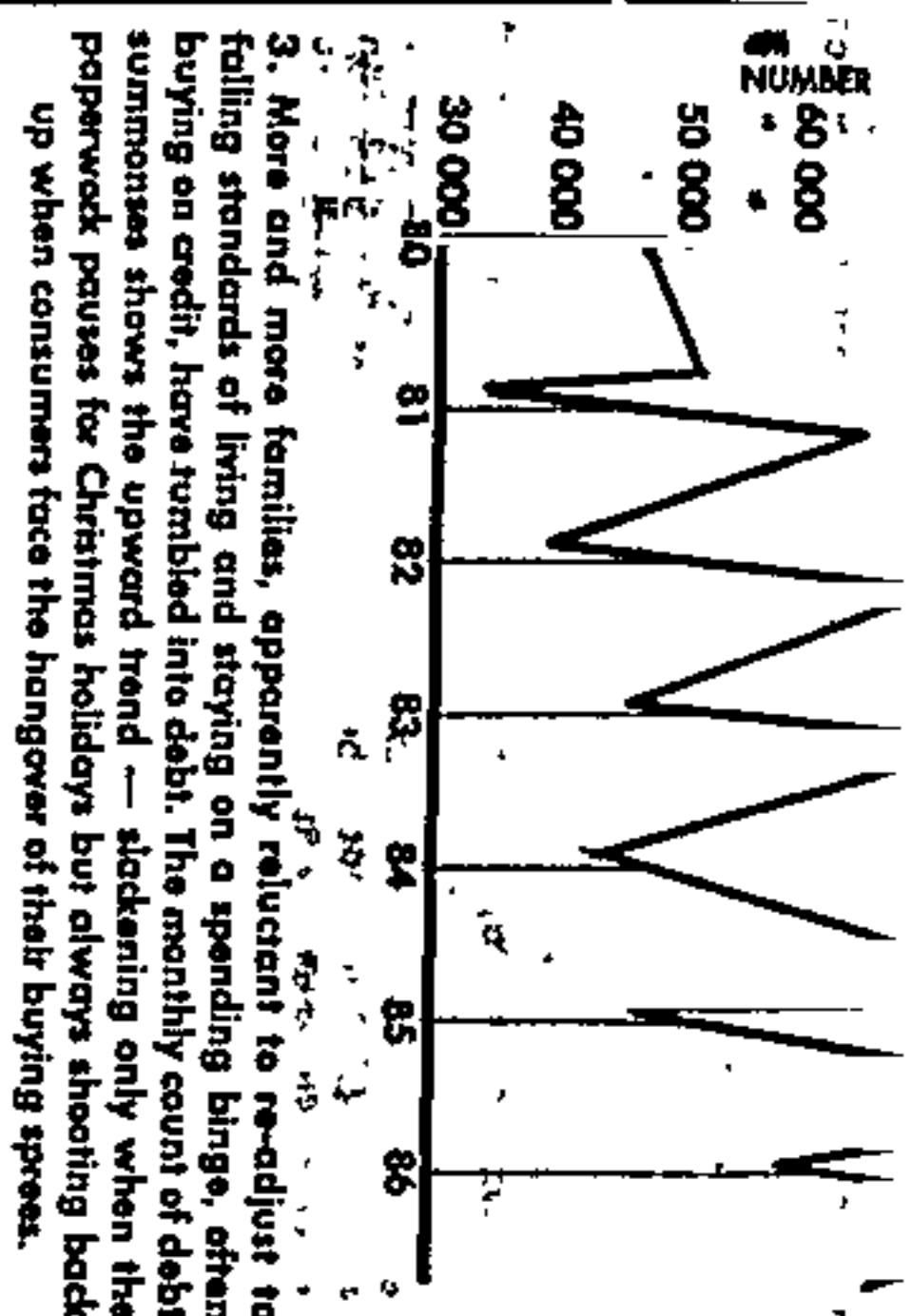


9. Flickering signals of encouragement for many families came in recent weeks when a full-scale battle between the banks resulted in the prime bank rate — the rate charged to blue-chip borrowers — falling to 12 percent. It pulled down a host of other interest rates, including those on hire purchase and leasing deals and home bonds. Hopes are now pinned on more consumer spending as the main key to an economic upswing out of recession.

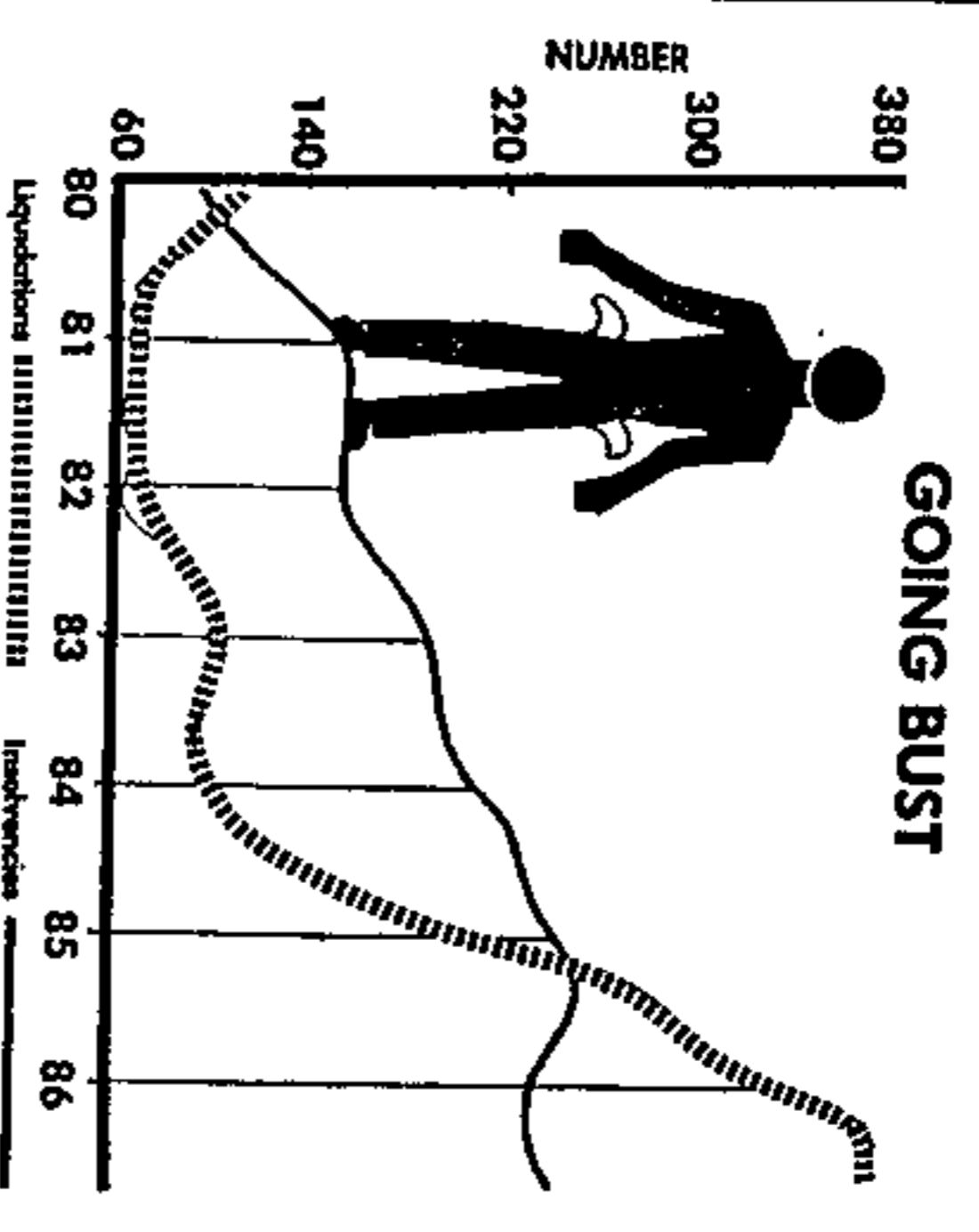


10. For most South Africans, overseas holidays have become a more distant dream than ever because of the plunge in the rand exchange rate. Back in the early 1980s, a R1 note bought 40, 20 or more. Now it buys fewer than 50 US cents.

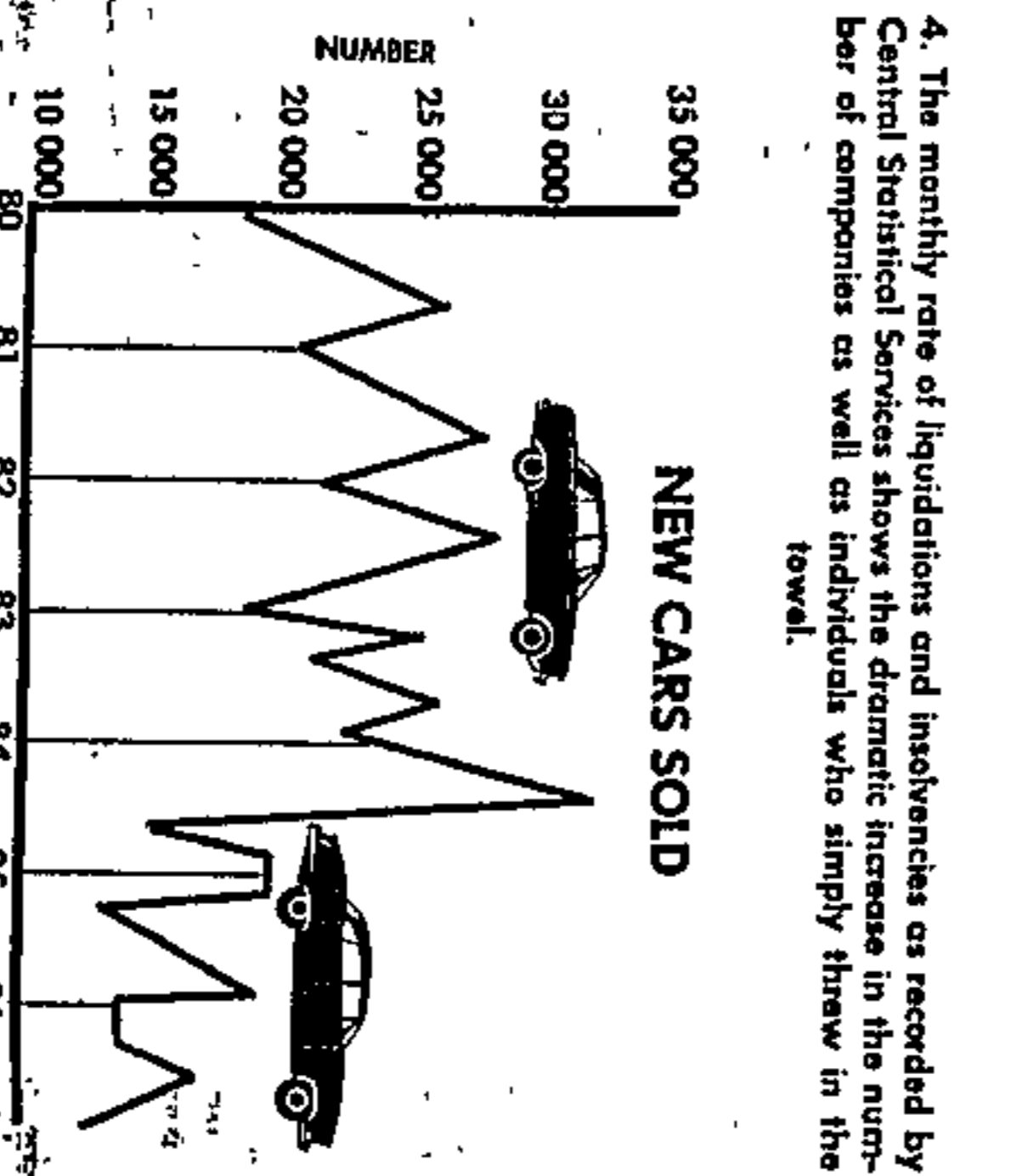




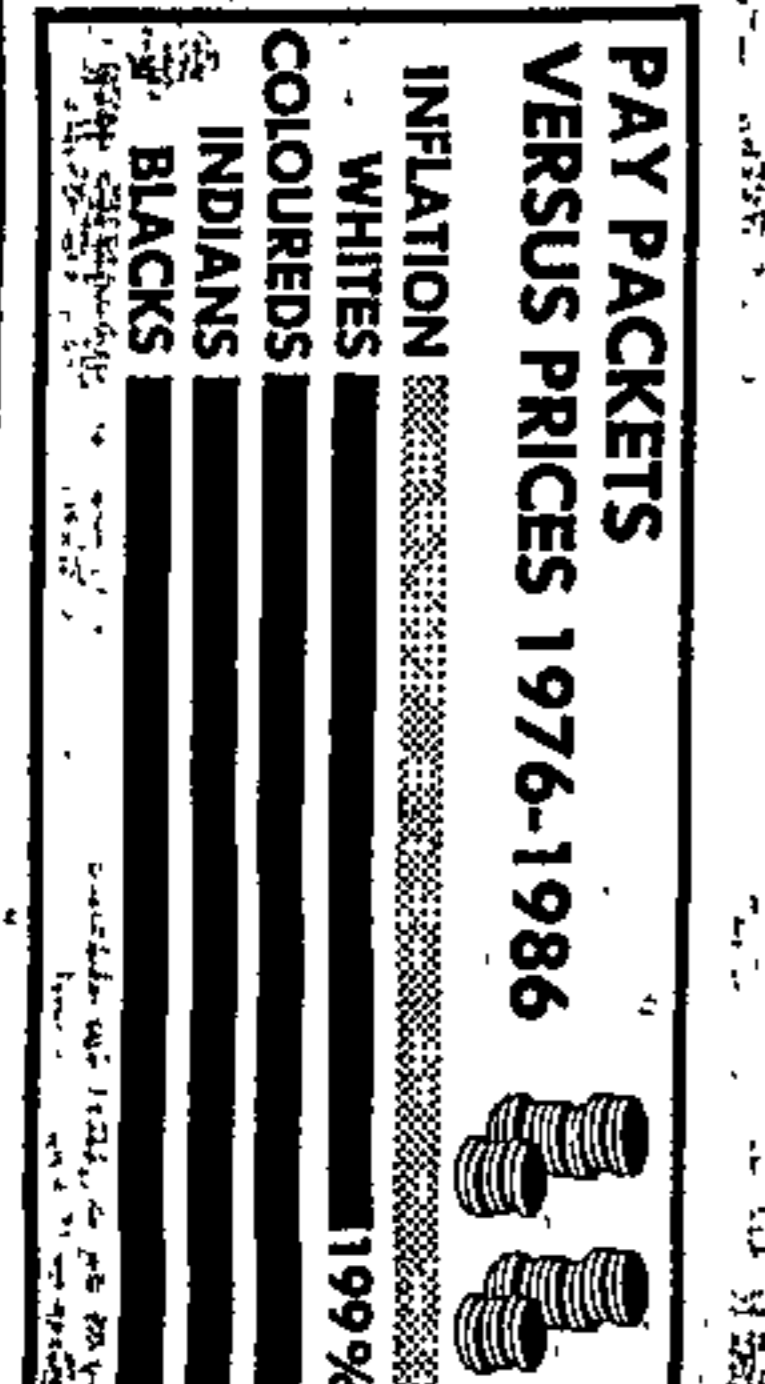
4. The monthly rate of liquidations and insolvencies as recorded by Central Statistical Services shows the dramatic increase in the number of companies as well as individuals who simply threw in the towel.



3. More and more families, apparently reluctant to re-adjust to falling standards of living and staying on a spending binge, often buying on credit, have tumbled into debt. The monthly count of debt summonses shows the upward trend — slackening only when the paperwork causes for Christmas holidays but always shooting back up when consumers face the hangover of their buying spree.



5. The pace of sales of new passenger cars has always been regarded as a key economic barometer. Figures produced by the National Association of Automobile Manufacturers show the disaster of monthly sales since the wild surge to beat the increase in general sales tax in 1984.



2. LEFT: As socio-political realities caused shrinkages in pay gaps on a racial scale, whites have fiddled hopelessly to keep pace with inflation over the past 10 years. While prices soared by 255 percent, the average wage and salaries of white workers have logged behind with increases of only 199 percent. Coloured and Indian workers fared better. Black workers stayed ahead of inflation.

power to penetrate deep political shadows — but they will be flickering encouraging signals about the New Year economic outlook. The first candle was lit when the Reserve Bank orchestrated an accord with the banks and building societies and home bond rates dived to as low as 12.5 percent, and prime overdraft rates to 12 percent — the lowest since 1980, and less than half the 25 percent peak touched in 1984.

But he cautions against over-optimism. He estimates that economic growth looks set to reach around 3 percent next year — still too slow to be a panacea for chronic unemployment problems, but a vast improvement on the 1986 level, which is likely to work out at less than 1 percent.

One of Dr Jammie's grave concerns is inflation. "While the rest of the economy has been asleep, inflation has been as wide awake as ever," he says. "Our inflation rate continues to be around five times higher than the rates now enjoyed by our main trading partners, meaning the rand exchange rate is bound to remain under pressure."

And then there is politics, also applying downward pressures. "Fortunately, South Africa has the counter-balance of a mildly bullish outlook for world gold prices, which in rand terms are now running higher even than in 1980, when bullion went berserk and soared to an astronomical \$850 an ounce.

On the issue of economic sanctions, Dr Jammie draws heavily distinct lines between trade boycotts and disinvestment. "What is becoming apparent with regard to trade boycotts is that their primary focus for the foreseeable future is on exports from South Africa rather than shipments to South Africa. Few countries seem prepared to extend their morality to the point where they jeopardise their trade balances and their domestic export industries in the name of killing apartheid."

Not that interest rates alone looked likely to be capable of repairing all the damage caused by inflation, which approached the year-end still stubbornly at almost 20 percent.

Even more significant, perhaps, were the candles lit by the Bureau for Economic Research at the University of Stellenbosch with the release of a survey showing new activity in the manufacturing sector over the past three months. Industrialists, while not talking about an economic boom, were in their most optimistic frame of mind in the past five years or more.

"The economy appears to be awakening from its slumbers at last," says Dr Azar Jammie.

Industrialists, while not talking about an economic boom, were in their most optimistic frame of mind in the past five years or more.

"The economy appears to be awakening from its slumbers at last," says Dr Azar Jammie.

Minor impact

"That being so, the fear of a few months ago that sanctions would imply a ban on sales of goods to South Africa is no longer relevant, for the medium term at least.

"This implies that the big impetus for import substitution, which was regarded as a potential source of high economic growth over the next few years, a la Rhodesia, is unlikely to materialise.

"The impact of embargoes on coal, iron and steel, certain companies, and possibly increase unemployment. However, on a macroeconomic scale, the impact is likely to be minor.

The potential loss of foreign exchange earnings resulting from the embargoes introduced so far is small when related to the impact of changes in the gold price, on which a large slice of the South African economy depends.

A rise in the gold price of \$80 an ounce is alone enough to generate an equal amount of foreign exchange.

Dr Jammie is far more fretful about the longer-term chain reactions of disinvestment moves.

He doubts if the pull-outs of multinational corporations through buy-out package deals worked out with local managers will have much immediate impact on the economy — in fact, may even motivate better performance and generate improved profitability, aside from bringing a short, sharp burst of capital inflows to finance the schemes.

Much more serious, says Dr Jammie, is the continued absence of new investment and loan capital from abroad.

"In short, in order to pay for the increase in imports which is required to achieve any rise in industrial growth, the economy is now more dependent than ever before on increases in exports — more and more difficult under the cloud of the sanctions scenario.

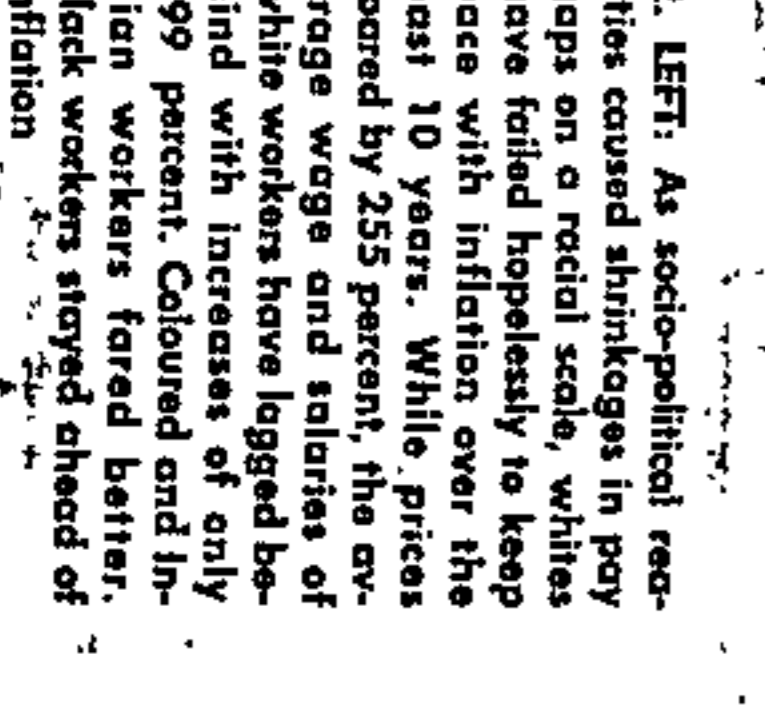
But South Africans shouldn't snuff out all the Christmas candles. Little by little, signs of a mild recovery in economic activity continue to emerge.

"The outlook for 1987 looks much healthier. Let's worry about the durability of the upswing and the longer-term problems when the Christmas and New Year celebrations are over."

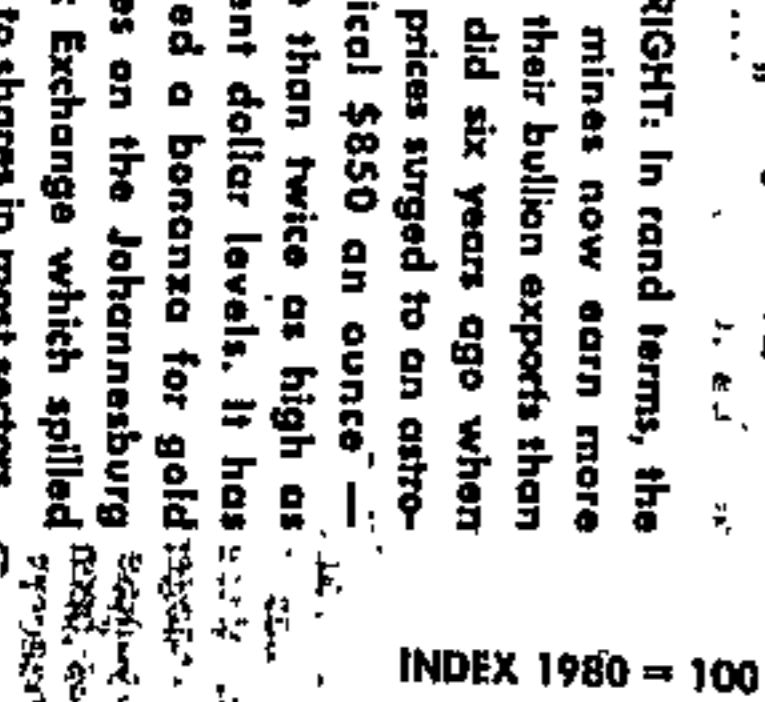
In rand terms, the gold mines now earn more from their bullion exports than they did six years ago when gold prices surged to an astronomical \$850 an ounce — more than twice as high as current dollar levels. It has spelled a bonanza for gold shares on the Johannesburg Stock Exchange which spilled over to shares in most sectors.

One benefit of a shrinking rand was that it gave South African exporters a new package of price advantages over their international rivals on non-essential imports.

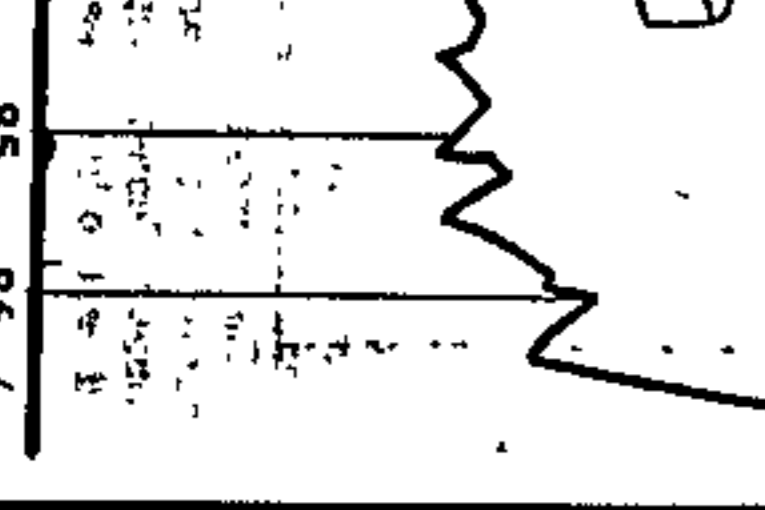
For most South Africans, overseas holidays have become a more distant dream than ever because of the plunge in the rand exchange rate. Back in the early 1980s, a R1 note bought \$1.20 or more. Now it buys fewer than 50 US cents.



8. Inflation stalked all the supermarket shopping trolleys. Statisticians show that while there has been a three-fold increase in the rand pouring into retail sales since 1980, the actual size of the average shopping basket has barely moved at all when measured in volume — the crucial difference between sales totals in current rand costs and at constant levels that take inflation into account.



10. For most South Africans, overseas holidays have become a more distant dream than ever because of the plunge in the rand exchange rate. Back in the early 1980s, a R1 note bought \$1.20 or more. Now it buys fewer than 50 US cents.



11. One benefit of a shrinking rand was that it gave South African exporters a new package of price advantages over their international rivals on non-essential imports.

12. RIGHT: In rand terms, the gold mines now earn more from their bullion exports than they did six years ago when gold prices surged to an astronomical \$850 an ounce — more than twice as high as current dollar levels. It has spelled a bonanza for gold shares on the Johannesburg Stock Exchange which spilled over to shares in most sectors.

11. One benefit of a shrinking rand was that it gave South African exporters a new package of price advantages over their international rivals on non-essential imports.

12. RIGHT: In rand terms, the gold mines now earn more from their bullion exports than they did six years ago when gold prices surged to an astronomical \$850 an ounce — more than twice as high as current dollar levels. It has spelled a bonanza for gold shares on the Johannesburg Stock Exchange which spilled over to shares in most sectors.