ECONOMY — 1987

JANUARY — APRIL.

Er, that boom you told us about, Dr De Kock?

Gerhard De Kock predicts a boom next year. But didn't he do the same this time last year? If he repeats himself often enough, reality is sure to fall in line.

DUNCAN INNES reports

Trading on the Senate vote: Not everyone lost out over sanctions Picture: AFP

TRY as one might at the end of 1986, it is difficult to recreate the image of sunny skies and Chevrolets

The sunny skies are here, but the Chevs have disinvested.

Last year all the pundits were telling us the recession was over and 1986 would bring with it boom times. Remember misty-eyed Gerhard de Kock, governor of the Reserve Bank, greeting 1986 by advising us to "prepare to meet thy boom"?

Well, it never materialised.

Now he's saying the same thing for 1987, and this time there might even be a modest economic upswing ahead Which just goes to show that if you repeat yourself often enough, you'll be proved right in the end.

Main highlights of the year were the rapid escalation in the sanctions-cum-disinvestment campaign; the rise in the gold price; the boom on the Johannesburg stock exchange; the tumble in interest and bond rates; the government's attempts to stimulate the economy in the face of the collapse of business confidence; and the government's attempts to stimulate business confidence in the face of the collapse of the economy.

To start with sanctions-cum-disinvestment, two of the government's staunchest allies abroad, Maggie Thatcher and Ronald Reagan, got mud in their respective eyes when the Commonwealth countries and the US Congress voted for sanctions against apartheid.

This caused overseas companies to take a hard look at their South African holdings with many deciding to take immediate evasive action. Over a 50-day period, foreign companies divested themselves of over R1-billion of their South African-held interests.

Such companies included General Motors, IBM, Honeywell, Revlon, Playtex, Bata, Coca Cola, Fluor Corporation, Johnson Controls, Eastman Kodak, Barclays Bank and, more recently, Dun and Bradstreet.

What was interesting, though, was that of the 37 American companies which pulled out this year, only two (Kodak and Stamler) did it properly by severing all links with this country and its markets.

The other 35 all sold off their local operations to South African and other foreign interests, but remained committed to supplying the local market, in one way or another, with products and services.

The advantages of this strategy to the foreign companies are that it retains access to our markets without any longer having to deal with anti-apartheid harassment back home.

On the negative side, the foreign companies cannot really get the money realised from the sale of its subsidiary out of South Africa because this has to go through financial rands, currently worth peanuts. However, the companies can simply leave their money to grow here until the political situation changes for the better.

For apartheid South Africa, such a massive scale of disinvestment clearly comes as a major psychological shock. The high level of panic within the corridors of power in Pretoria was perhaps best expressed by PW Botha's near-hysterical attack on the United States which, he claimed, was allying itself with the Soviet Union against South Africa. Democracy, Botha seemed to imply, cannot exist without some form of communism.

Many Marxists would agree with him.

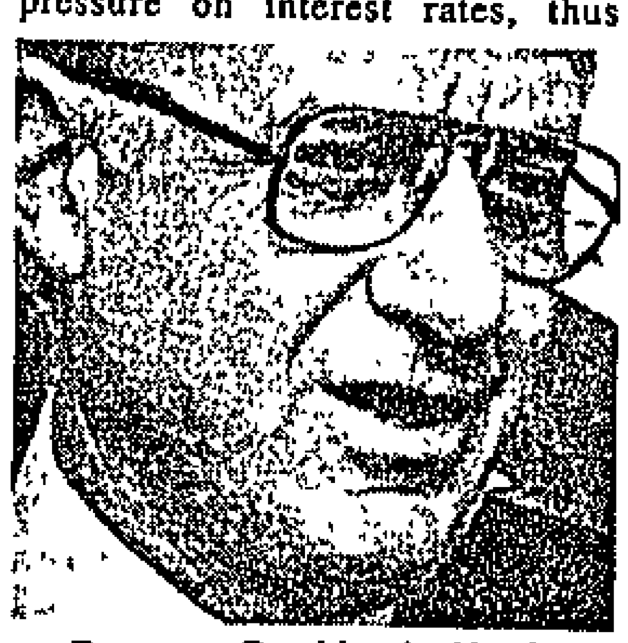
But, apart from the psychological shock, what effect will the current form of disinvestment have on the economy?

Over the short term, it will strengthen the white business community financially. The R520-million that Anglo American laid out for control of Barclays National gives Anglo a position of massive strength and influence over the whole economy. As a result of this take-over, Anglo are laughing all the way to The Bank — because it's Their Bank now.

But what of the longer term? At the moment, the money which is being used to buy up foreign-owned companies is not money lost to economic expansion because it wasn't going into expansion anyway

But should the economic upswing commence in earnest, then not only will there be no new injection of foreign capital, but there will also be a shortage of available local capital.

Under these circumstances, local borrowing will have to increase substantially, which will put upward pressure on interest rates, thus prematurely choking off the upswing.



Reserve Bank's de Kock

Therefore, the current spate of divestment, which seems set to continue through 1987, will eventually begin to restrict the potential for economic growth.

Of course, various factors might intervene to lessen the impact divestment will have.

For one thing, the dollar price of gold might run up to $500 next year. This would mean a much larger surplus on the current account of the balance of payments, helping us in our debt repayments. It would also help the rand to strengthen, thus reducing inflationary pressures to an extent and, in general, would stimulate our economy.

But will gold run up next year?

I believe it will. Earlier this year, when gold headed up through $400, I argued that it had gone up too far and too fast to sustain itself above $400 for very long. I argued then that it would pull back to between $380 and $385 — which it has now done

Although it might still pull back a bit further, the bulk of the correction is now over and gold should shortly resume its upward trend — first to $450 and then to $500 — which will in turn stimulate our economy, thereby reducing the impact of disinvestment.

And what about the impact of other factors, such as the dramatic fall in interest and bond rates? Will they not serve to stimulate growth and encourage a healthy reflation?

Before we all get too ecstatic about these falls, let's remember why they are occurring. The answer is because businesses are not borrowing money to invest, consumers are not borrowing to purchase commodities and potential homeowners are not borrowing to buy houses.

One of the main reasons for the lack of borrowing by businesses is the current political situation. As Bobby Zylstra of the Building Industries Federation puts it: "Government has been most unsuccessful in convincing the country and the businessman in particular that there is reason to have confidence in the future "

A Unisa survey carried out this year among the top 100 industrial companies in the country found that 75 percent of business executives expected strikes to increase during 1987; only 20 percent thought sanctions and disinvestment pressures would decrease; and 47 percent thought the overall political situation would deteriorate. Small wonder, then, that businesses refuse to invest.

Ironically, though, throughout 1986 business leaders themselves remained noticeably short on realistic ideas to solve these problems. Despite much press enthusiasm at the launch of the Business Charter, since then we have heard very little from that quarter; of the Charter's guiding lights, the Federated Chamber of Industries' Arthur Hammond-Tooke went so far as to decide to take up a post in America. Perhaps he knows something we don't

The lack of borrowing by private consumers seems to be less politically inspired and, instead, has more to do with government economic policy and the after-effects of the recession.

Since 1980, the average disposable income per capita of whites has plunged by 22,5 percent and by blacks by 5,2 percent. The massive fall for whites is mainly due to the fact that since 1980, the increase in direct personal taxes as a proportion of current income has almost doubled

In a word, then, private consumers have been so badly hit by the recession and tax increases that many are simply struggling to survive

This poses a serious problem for the government's growth strategy, which involves two phases. First, a phase of improved export volumes and prices which we have been experiencing during 1986 Then, in addition to the above, a phase of higher consumer spending which is financed by rising incomes and bank credit.

It is this second phase — so essential if growth is to be sustained — which the government is trying to ignite through lower interest rates So far, they have had not much success

In the face of consumer resistance, the government will either have to ease the load on private consumers by cutting personal taxes and/or GST or it may have to forego the upswing

While the government is reluctant to cut taxes because it needs the revenue, my bet is that next year will bring some tax cuts, particularly as it will be at least a mini-election year.

What all this means is that the government is encountering major problems in moving the economy out of the trough of recession

Looking at the situation on a sector by sector basis, we can therefore expect some improvement from agriculture next year, following this November and December's rains

We can also expect continued improvement from the mining sector as gold and other metal prices improve This in turn should produce another bull run on the stock exchange.

But as far as the rest is concerned, the prospects are not very encouraging. Most of the money available in manufacturing, commerce and finance will probably go onto the stock exchange and into financing take-overs — both of which serve to redistribute existing wealth instead of creating new wealth

Overall, projections for next year's growth rate range from a modest two percent to an over-optimistic six percent My own prediction is for a two or possibly three percent increase — which is, of course, wholly useless in terms of resolving social problems, such as poverty, the housing shortage and massive unemployment

But in order to tackle these problems, we would first have to rid ourselves of apartheid and the government which upholds it.

How's that for a New Year's resolution for 1987?

C For other prices, see Back Page

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BUSDAY 7/1/86- (19)

Pending general election puts SA Budget on ice

CHRIS CAIRNCROSS

THE pending general election has ruled out the possibility of a formal Budget being presented to Parliament before the second half of 1987.

It has also put paid to any likely major fiscal and monetary reforms flowing from the Margo Commission being introduced into legislation before 1988.

The election has also put on ice several crucial constitutional issues introduced during the last session which now urgently need to be dealt with.

These factors have angered right- and left- wing opposition political parties who stress that these are all issues which should be part of any election.

In announcing the election, President Botha indicated that the main Budget would not be presented during the short session starting in February.

This means that only a Part Appropriation Bill (mini-Budget) will be tabled in order to prop up the immediate fiscal needs of the Treasury and other State departments.

The main Budget will, therefore, only be tabled in Parliament around August.

Progressive Federal Party spokesman on finance Harry Schwarz described the decision as "straight political opportunism and a pure election ploy".

He said there was more than sufficient time to present the main Budget before an election was held at the end of April.

Schwarz called for the full Budget to be tabled in Parliament in the first session so that government's management of the economy could be fully discussed during the election campaign.

It was a purely political game to "hand out the sweets first" before an election, he said.

Record second-half for CSO

2/6 BUSDAY 7/1/87

World sales of diamonds are sparkling

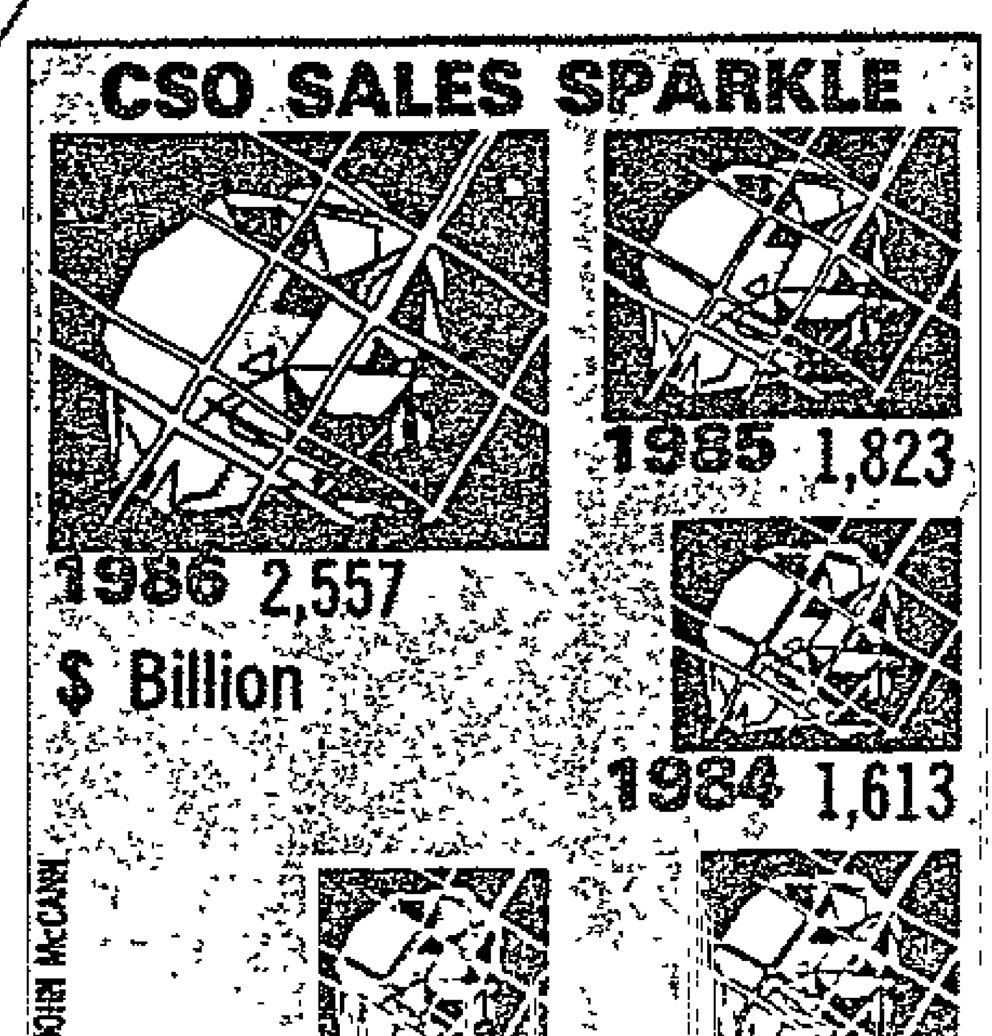
BRIAN ZLOTNICK
Investment Editor

THE recovery in worldwide sales of rough diamonds accelerated last year with Central Selling Organisation (CSO) sales jumping 36,2% to a record second-half of $1,343bn in 1986.

Total CSO sales in 1986 hit $2,557bn, 40% up on the previous year's $1,823bn, but are still short of the 1980 peak of $2,723bn.

In rand terms the sales are at a peak of R5,9bn, up 47% on 1985 and this largely reflects the progressive weakening of the rand in recent years against the dollar.

The average rand/dollar exchange [illegible]



NBS joins rates fight

HAROLD FRIDJHON

THE mortgage rate war has flared up again after the holiday lull with the NBS reducing its home loan rate from 15% to 13,5%, with immediate effect for new borrowers. Existing borrowers will enjoy the cut from April 1.

This makes the NBS new rate, together with that offered by Trustbou, the lowest among the building societies, although one percentage point higher than the home loan rates offered by Barclays and Standard banks.

The UBS, too has cut its rate, from 15% to 14% for new borrowers but effectively from April 1 on existing bonds. UBS had lagged behind in the rate-cutting war which flared up in December when Standard Bank entered the homeloan market with a 12,5% mortgage rate.

The Standard initiative was followed by Barclays meeting the competition and with most societies coming down to the present 14% on new bonds — the reduction applying to existing bond holders from the beginning of April.

The small EP Building Society and Trustbou, essentially a bank-controlled institution, cheekily cocked a snook at the industry's giants by bringing their rates down to 13,5% at Trustbou and 13,75 at the EP.

Cape-based Syfrets is quoting 13% on home mortgages.

NBS managing director John Bennet told *Business Day* last night the lower rates for new borrowers would have little effect on the society's profits but when the reduction encompassed the full book profits would be dented. However, it would not affect the forthcoming JSE flotation.

Asked whether the reduction in the bond rate would lead to further cuts in deposit rates, Bennett thought not — at least not in the foreseeable future because of the fierce competition in the market place for deposits and savings.

Gold shares continue to

MERVYN HARRIS
and LIZ ROUSE

GOLD SHARES continued to race ahead on Diagonal Street yesterday to bring the JSE [illegible] gold index wit[illegible]

Late Budget saps resolve

BUS DAY 8/1/87

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LINDA ENSOR

ECONOMIC uncertainty will be prolonged as a result of the general election delaying the Budget.

And a leading economist believes what little business confidence there is will be undermined by a negative, defensive election campaign by the the ruling National Party — as seems likely.

"What we need is a forward-moving, direction-giving campaign," he says. "This would act as a boost for domestic and international confidence."

Several leading economists believe President P W Botha should, to counter the uncertainty, make a major statement on economic and tax policy in February/March.

The delay in the Budget will mean government will only be enunciating its fiscal and monetary policies in August during the second parliamentary session.

It is not expected that a new direction or stimulus will be given to the economy in the Part Appropriation Bill, as this is normally a holding operation to tide over government departments until the full Budget is passed.

One serious implication of the delay — if government does not reveal its hand — is that companies wishing to undertake investments and new projects will be operating in the dark, as they will not know what tax rate will prevail.

Investment decisions could be delayed for six months to enable a full assessment of financial implications.

"One thing we have to have is certainty in the tax law, otherwise no future planning can take place," emphasises Arthur Young tax consultant Ian McKenzie.

Business Report

THURSDAY, JANUARY 8, 1987

CAPE TIMES 8/1/87

'Govt policy' caused high inflation rate

JOHANNESBURG. — The present high inflation rate is a result of government mismanagement of the economy by allowing a buying spree on credit when the gold price rose in 1980, says the director of economic consultants Econometrix, Azar Jammine.

He also suggests that the formation of huge conglomerates was an inflationary factor.

A report from Econometrix forecasts that the real value of the rand — with a buying power nearly half that of seven years ago — will have shrunk to 35c by the end of 1987.

Jammine is reported as saying that the results of his organization's studies underscore the mounting concern of economists over SA's failure to follow the lead of its Western trading partners in finding solutions to rampant inflation.

He believes that, because of hotly debatable weaknesses in the composition of official statistics, the full shrinkages in the rand's value may be even worse than those reflected in the Consumer Price Index (CPI).

He says that even the CPI concedes that a basketful of household items that cost R100 in 1980 now costs around R240, with the annual rate of inflation running close to 20%.

The result is that the purchasing power of the rand has plunged from R1 in 1980 down to 44c, with a deeper slide threatened as economists despair about the inflation spiral and its impact on living standards.

Jammine blames government mismanagement of fiscal and monetary policies as the main cause of inflation.

The way the private and public sectors allowed wages to gallop higher without any commensurate increase in productivity is also to blame, he says.

The ambition to start closing the wage gap between white and black employees was "commendable".

But government's error was "the failure to find simultaneous remedies for SA's dreadful productivity record".

"The numerous structural faults in the economy are well known. But the private sector must carry part of the blame for our present inflation headaches."

Jammine explains that the temporary boom at the start of the 1980s set in motion "a massive movement towards bigness in business, with large corporations growing even larger through a succession of takeovers of smaller companies and the emergence of massive concentrations of corporate power".

"It's a conventional issue but I'm convinced the sheer size of business enterprises can cause hiccups in classical economic theory.

"Unhappily, it is obvious that many giant corporations, rather than reduce prices, have simply resorted to reductions in production, hoping high prices will balance lower sales.

"However, they have caused more unemployment and loaded the problems elsewhere." — Sapa

FORECASTING (49) FIN MAIL 9/1/87

Out on a limb

While doctors bury their mistakes and (South African) Cabinet ministers traditionally ignore theirs, economic forecasters are less fortunate. When they are wrong, there is no escaping the consequences and they are, consequently, the butt of endless jokes.

Now, a study of South African economic forecasts has vindicated their work.

Analysis by Eon Smit of the University of Stellenbosch's Business School and Gilbert Wesso of the Peninsula Technicon has established that the forecasts in question were "reasonably accurate" and compared favourably with similar forecasts by the Organisation of Economic Co-operation and Development.

By examining forecasts with a time horizon of one year, published in the last quarters of the years 1979 to 1985, it embraced a full economic cycle.

Subjects of the study were:

- *Barclays Brief*;
- *Economic Prospects*, University of Stellenbosch's Bureau for Economic Research (BER);
- *Quarterly Forecast of the SA Economy*, Rand Afrikaans University's Econometric Study Group;
- *Economic Review*, Sanlam;
- *Standard Bank Review*; and
- Volkskas's *Economic Spotlight*.

By combining the various forecasts, the researchers also established a statistical average representing a consensus forecast.

No one participant consistently performed best or worst, though "within the limited range of the study Sanlam fares best," says the report.

The consensus version comes second and BER third. The researchers point out, however, that a small change in choice of period, variables used or revisions of Reserve Bank data could influence results.

A breakdown of the forecast into various categories shows that:

- Sanlam was most accurate in predicting percentage changes in real private consumption expenditure, real gross domestic fixed investment and real gross domestic expenditure;
- BER most successfully predicted changes in real exports; and
- Barclays changes in real imports, goods and non-factor services.
- Predictions of GDP tended to be over-optimistic;
- Volkskas was responsible for the most accurate predictions on inflation; and
- Standard Bank for the best predictions of the current account of balance of payments.

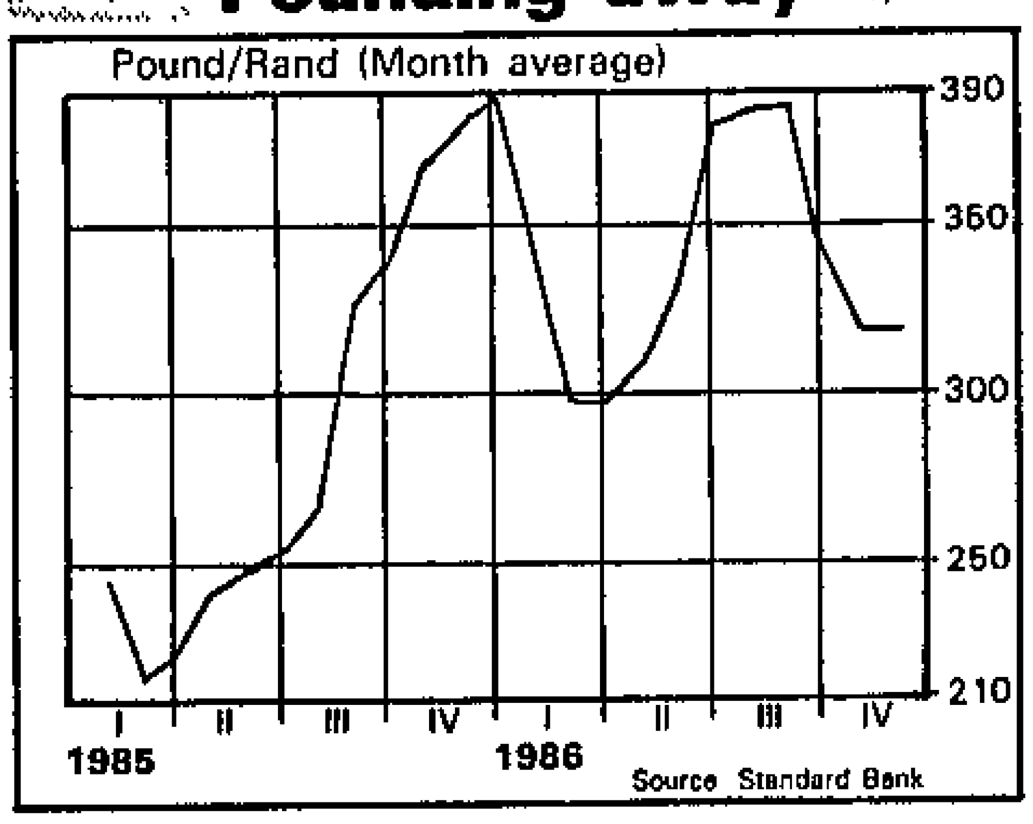
Overall performance leads the researchers to conclude: "Lack of confidence in SA forecasters is groundless. They make a worthwhile contribution in that they reduce the uncertainty with which decisionmakers work." ■

FOREIGN EXCHANGE

Stability amid turbulence

With relative stability restored to the rand in the second half of last year, it is easy to forget the turbulent past. Certainly 1986 was not nearly as dramatic as 1985, which saw the rand collapse, markets temporarily closed and a unilateral standstill declaration on part of SA's foreign debt.

Pounding away



For excitement, 1986 was no match; in deed, it was boring for dealers. Authorities and companies involved in international trade, however, were satisfied. Even the debate that raged over the desirable extent of Bank control seems to have quietened since speculation mid-year that further controls, even pegging, was on the cards.

But satisfaction over recent performance should be indulged with the greatest caution. Conditions change rapidly, often brutally. It is a slippery floor on which the rand can slide, especially given the hostile environment that government and many local companies face in international markets.

A further aspect often forgotten in these calmer times is that the currency might be stable but is certainly not strong. A few years ago people would have joked about a rand that bought US45c.

Only around June to August the currency hit all-time lows against major non-dollar currencies — 58,2 Yen (August 19), DM0,77 (August 25), and £1 was R4,24 (June 13). Standard Bank's trade-weighted index (a basket of 15 currencies with the dollar half the weight) too was at an all-time low of 38,83 (1983=100) on June 13.

Of major currencies, the rand firmed only against the dollar and pound over the year, from US39,35c at the beginning of the year, to about US45c; £1 was R3,65 and closed the year around R3,20. By contrast, the rand started at DM0,97 and Y79,7 and ended around DM0,9 and Y73,2.

With these provisos, the rand "stabilised" and strengthened against the dollar and pound in the latter half of 1986.

In the first half the rand had its fair share of volatility. Starting positively enough, an improving BoP and unwinding of unfavourable leads and lags (a result of mines again being paid fully in rand for gold sales and exporters having to cover forward within seven days of shipment) led to a 30% rise in the rand's effective exchange rate. Between December 18 1985 and March 13 1986 it rose to levels that would prove the year's highs against many currencies — US55,34c, DM1,16, Y92, and £1 bought R2,85. The Standard index also hit a 1986 peak of 55,34.

The currency subsequently dipped nervously ahead of the initial April 15 foreign debt repayment within the standstill "net."

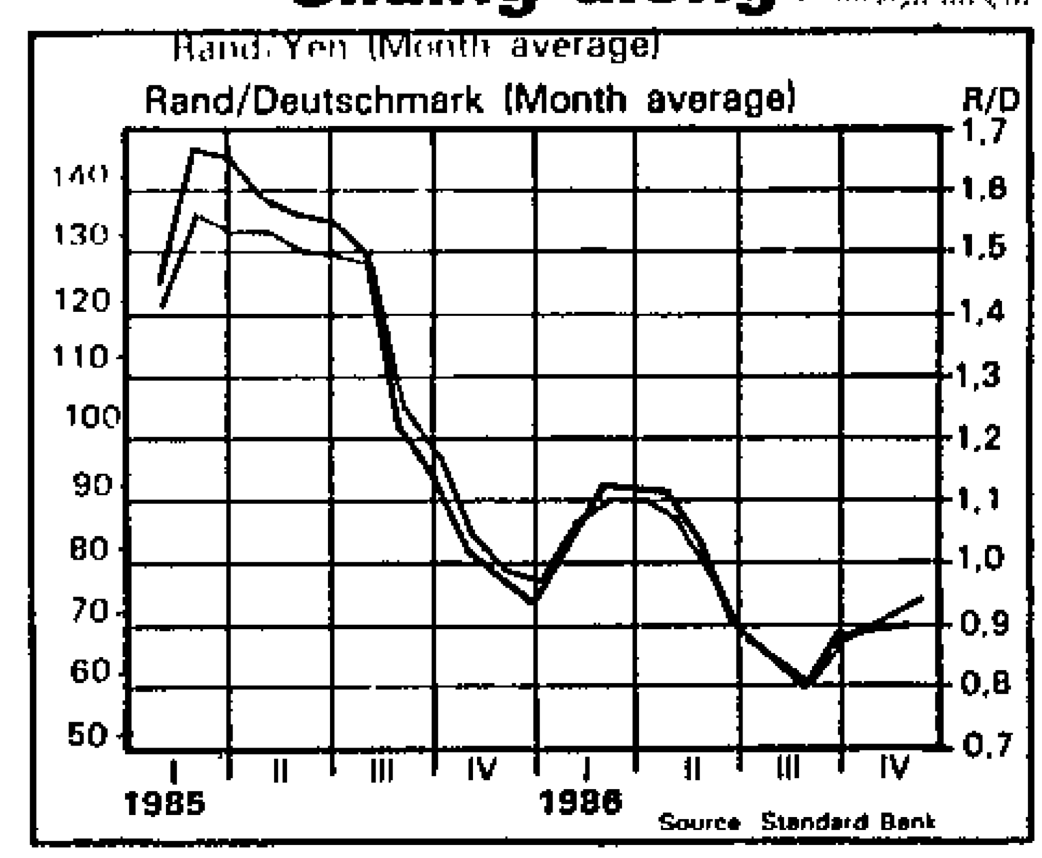
It soon regained most losses but then, while the dollar fell, Bank reserves dipped to jittery levels ($1,4 billion at the end of June — the lowest since March 1978), undermining its ability to support the currency.

Unfavourable leads and lags re-emerged, and political crisis deepened prior to Soweto Day on June 16 with a State of Emergency reimposed on June 12. The rand plunged to its lowest-ever trade-weighted value and against major non-dollar currencies. As the crisis deepened and capital continued to pour out, further depleting reserves, rumours were strong that the Bank was about to tighten forex controls, and even peg the rand.

But this did not happen to the extent feared. From mid-June the currency regained ground against the dollar and the pound; though against other major currencies it dropped even further.

Only in September could a rising gold price help the rand rally against all major currencies — its second major appreciation of the year. On September 15, the effective rand exchange rate was 17,9% above its June

Sliding along



12 low and by November 21 had appreciated by 23,7%.

Indeed, in September the Bank, with its eye on exporters, restrained the rand from appreciating too far and was at times even a net buyer of dollars. By end-September the rand had appreciated to US45,3c, 69,2 Yen, DM0,91, and £1 was R3,26.

With the higher gold price the Bank now had the reserves ($2,4 billion at the end of October) to support the rand and, more important, was seen to be more in control.

With extra reserves the Bank could also improve forex intervention methods. No longer confining trade to brokers, it began dealing directly with banks quoting doubles through the screen from August. Its position was thus visible to all.

It is also significant that this appreciation was by a lesser amount, more gradual (as was the reversal of unfavourable leads and lags), more stable and more firmly based than January's rapid rise. Importers were not rushing to cover forward immediately.

RAND BOOST FROM GOLD

Gaining from the dollar's weakness and the stronger gold price the rand rose to US46,46c on Tuesday from US45,20c at the end of last year. The dollar reached a six-year low against the D-mark of DM1,92; gold broke through US$400.

The rand has also appreciated against major third currencies: from DM0,881 to DM0,894; 72,4 yen to Y73,86; and from R3,24 against sterling to R3,18. Standard Bank's trade-weighted average index rose to 48,70 from 47,64 the previous week (100 in 1983).

The Reserve Bank is believed to have supported the rand by selling dollars in a thin market. Sentiment appears to be moderately bullish, with a further weakening of the dollar and appreciation of the gold price expected.

Citibank says the rand should remain moderately stable in the US45,4c-US46,4c range. It agrees with Reserve Bank support, saying: "The stronger determination of the rate was probably the Central Bank's desire to see stable cross-rates against the major currencies." However, it doubts if the Reserve Bank will be able to continue supporting the currency at higher levels.

One reason cited for a moderate increase in the rand is the political mileage from a stronger currency at election time.

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THE ECONOMY

Some modest advice on survival in gloom year

For the benefit of those who still have jobs and still have some savings, DUNCAN INNES offers a personal finances survival guide

NOW that the New Year festivities are over, we can take a more sober look at economic prospects for the coming year.

While the chances for a mild economic upswing continue to look good, this will not be an easy year, financially, for most of us.

In particular, job creation isn't likely to improve enough to make a meaningful dent in existing unemployment levels.

And although wages and salaries may improve, there is little likelihood that this will undo the damage caused to living standards by the last few years of high inflation.

So how does the ordinary person cope with all this?

One possibility is, of course, to emigrate. But for those of us who can't or don't want to, we need a strategy to help us to get by.

I have some modest advice here.

First, though, let me say that if you are a director of 10 or 20 companies then my advice will be of no use. Secondly, if you are down and out, what follows will be of no use either.

What I have to say really applies only to people with a salary, wage or other steady income who also have some savings, even only a small amount, stashed away somewhere. And it applies only to 1987.

The main problem we all face right now is how to cope with inflation. Currently running at between 18 and 20 per cent a year, it shows no sign of easing significantly. Nor will it during this year.

The rand continues to remain weak and, even though it has picked up a bit, the authorities are likely to want to keep it weak in order to give exports a boost.

On the internal front, government spending to stimulate our ailing economy, suppress dissent and beat up our neighbours shows no signs of easing — thereby contributing to inflation. If wages and salaries do rise, as seems likely, this will be a further (though not major) cause of inflation.

The question is: how do we survive in this inflationary environment? Well, if you can't beat 'em, join 'em. If the authorities cannot or will not bring down inflation, then the best way to survive is by getting in there and spend, baby, spend.

But will this strategy not contribute further to the inflation I was just complaining about? Indeed it will. But what is the alternative?

Should you be foolish enough to put all your hard-earned savings into a savings or deposit account — where you will be paid between 5 and 10 per cent interest (before tax) — you are on the road to financial disaster.

by, say, 10 per cent, prices in the shops will have risen by double that amount.

But is it not selfish to spend money, thereby contributing to inflation, since this will only make things more difficult for the unemployed? At one level this is true. But the other side of this argument is of course that by spending, consumers create demand — which in turn stimulates production and provides new jobs.

So an increase in consumer spending will offer hope to some sections of the unemployed at least.

However, to say you should spend still leaves open the question of how you should spend. Do you take all those savings out of the bank or building society and spend all your cash on commodities? That obviously makes no sense. Even in an inflationary environment you need to have some cash on hand.

makes much more sense to borrow the bulk of the money required for your purchases, using only a small proportion of hard cash as a first payment. With institutions lending money at between 12 and 15 per cent, it pays to borrow while inflation is as high as it is.

Negative real interest rates, which we have at the moment, mean the borrower is beating inflation.

However, this assumes both that inflation will remain high and that interest rates will remain low. But will they?

I have already argued that inflation will probably remain high this year: that is, above 16 per cent. As far as interest rates are concerned, there is a feeling that one effect of sanctions and disinvestment will be to push up interest rates.

Although this will probably happen eventually, I can't see any 'major hardening of rates this year. The famous economic upswing we hear of is still far too sluggish, and financial institutions are desperate to lend money. Proof of this is not only the [illegible] rates, but the

So, for the rest of this year, interest rates should remain low and certainly below the rate of inflation — although we could see some hardening in the latter half of the year.

This means it makes sense to borrow money now to repay before the end of the year — as long as you can afford the monthly repayments. And remember, although the so-called going rate for borrowing money may be 12 or 13 per cent, these rates are in fact negotiable, so it pays to shop around.

But what about borrowing money for a larger purchase, such as a car, which would have to be paid back over four years?

Loans come in two main categories: fixed interest and floating. In the latter case one pays the going rate, which obviously fluctuates; in the former one pays a set rate (usually slightly higher than the floating rate) which does not change over time. With fixed interest loans available at about 15 per cent for some commodities, you could do worse than take out a four-year loan at these rates.

So you should spend on commodities, because if you think they are expensive now just wait until next year.

This kind of spending should not necessarily involve a massive cash outlay, but should preferably be borrowed. If the loan is short term — that is, up to a year — a floating rate is preferable since interest rates may still come down further this year.

If the loan is for longer than a year, it is safer to take it at a fixed interest rate.

This strategy still leaves us with most of our savings intact. Given, as I argued earlier, that it makes no sense to leave it in a savings account (though some should remain there), what should you do with it?

The obvious answer is to invest it. But where?

Leaving aside such specialist forms of investment as gilts, stamps and pornographic movies, there is of course our old friend the Johannesburg Stock Exchange. Share prices, especially gold shares, have been moving up steadily since before Xmas and show no sign of weakening. I expect these shares to move much further ahead over the next month or so, so if you have the stomach for it then jump in quickly before it peaks.

But not everybody likes the stock exchange.

That only really leaves property, which usually means buying a house or flat. Over the last few years this has been one of the least successful areas of investment — but there does seem to be some light at the end of the tunnel.

Certainly, with the shortage of black housing being what it is and with bond rates falling and various subsidy schemes available, buying a house if you're black could prove a useful longer term investment.

For whites, smaller houses make sense. Apart from the fact that bond repayments are easier to meet, there is a greater demand for smaller houses — and their occupants are less likely to emigrate in large numbers.

Of course, as I said earlier, strategies such as this only really apply to people with a steady income and some savings.

And, finally, if you are unemployed and without significant savings, there is no financial strategy which can really solve your problem. Your problem is social, not economic — and what you have to do is organise.

Which is probably, when you come down to it, the most sensible strategy for all of us.

nerable dollar
es a pounding

currency after European EMS), and that the US rable. touched a against the metals

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pressure on the dollar. The Fed will keep interest rates down and perhaps lower them further.

This means that less Japanese and other foreign investor money will pour into US capital markets and support the US currency.

"President Reagan's hands are tied over Irangate. It is hardly surprising that the dollar is falling and gold is recovering," says Ted Arnold, precious metals analyst at Merrill Lynch Pierce Fenner and Smith in London. He notes that oil prices have surged to nearly $19 in Europe because of the worst winter freeze in many a year.

After a nervous weekend of bitter negotiations, European ministers revalued by three percent the Deutschmark and Dutch guilder against the French franc, Italian lira, the Danish Krone and Irish pound. The Belgian and Luxemburg francs were also upvalued by two percent against the weaker European currenciesin the EMS.

EMS officials said the dollar's decline in the past year, rather than economic problems within the European Community, "was the real reason for the weekend realignment of currencies".

Since the historic meeting at the Plaza Hotel in New York about 15 months ago, the dollar has slid by 35 percent against the Japanese yen and Swiss franc, by 30 percent against the Deutschmark.

Against weak sterling, the dollar has fallen by three percent. Its average fall on all currencies is nearing 20 percent.

"The sharp depreciation now surpasses the currency's decline in 1977 and 1978," notes Salomon Brothers.

Asked what the Community would do if the dollar slumped further, West German Finance Minister Gerhard Stoltenberg said talks on this subject were inconclusive because it was so "difficult".

The dollar has remained persistently weak, partly because several Asian countries from Hong Kong to Singapore and Taiwan have their currencies linked to the US unit.

Imports from those nations are pouring into the United States and Europe.

Taking a contrary view, Brendan Brown, head of economic research at London investment bank County NatWest Capital Markets, says that the dollar will strengthen later this year.

The reduction in British unemployment to 6,7 percent from 7 percent indicates that the economy is improving, he says. The Fed will be forced to tighten money policy in spring because of accelerating inflation and higher interest rates will boost the dollar.

"We are probably in the final phases of a sell-off," says Mr Brown. "Once that happens the dollar will be a good buy."

inquiry claims its third casualty

chairman and chief executive and the enforced resignation last month of Mr Roger Seelig from Morgan Grenfell, former advisers to Guinness.

All three were members of the five-man Guinness "war cabinet" which masterminded Guinness's tactics during its battle with Argyll for control of Distillers.

In a prepared statement Mr Roux said: "I have at all times sought to act in the best interests of the company and its shareholders. The board has now to consider the appropriate structure to carry to company forward in the long term and I believe that it is proper for me to offer my resignation."

Mr Roux's resignation was regarded as inevitable after he admitted last week to being intimately involved with the wide-ranging price support operations carried out to boost Guinness's share price during the bid for Distillers.

A letter sent by Mr Roux last Monday to Guinness's solicitors outlined the operations and also precipitated the downfall of Mr Saunders.

Economic upswing will be 'patchy'

(49) STAR 13/1/87

By Frank Jeans

The economy goes into the year on a see-saw, with good signs for exports, retail sales and manufacturing production but poor prospects for car sales, credit demand and real estate turnover.

This is the view of the Standard Bank in its latest economic report which concludes that while the chances of meaningful higher domestic growth in 1987 remain good, the economy is not about to take off rapidly.

"Moreover, the increase in activity has so far produced virtually no improvement in employment and this indicates that the recovery will remain patchy at least for the early months of the year," says the report.

Pointing out that inflation remains a serious problem, Standard says this spiral will add to the other "fundamental difficulties facing the country", making it nearly impossible to achieve the kind of growth required to reduce unemployment meaningfully."

The Liberty Life Association also sees inflation as the "major factor mitigating any long-term upward trend in economic growth".

"The Government's existing fiscal and monetary policies do not, at present, address the structural problems which are giving rise to inflation and any downward movement would be purely temporary," says Liberty in its Economic Review.

Pointing to unemployment as one of the main factors contributing to the unrest situation and lack of confidence among black consumers, the report adds that there has been a continued decline in real incomes because of high inflation.

"While the rate of increase in nominal remuneration was 14,7 percent in the second quarter last year, real wages were 2,5 percent below those at the same time in 1985."

Decision on homes subsi

By Frank Jeans

The Government is almost certain to raise the first-time home-buyers' subsidy from R40 000 to R55 000 in the wake of lower interest rates.

This follows mounting pressure from the National Association of Home Builders and a decision could be made by the end of this month.

Grotsius

"We believe the substantial reduction in bond rates which, in turn, means a pro rata rate cut in the use of state funds for the subsidy scheme, is a strong element in favour of the association's proposals for an increase,"says Mr Johan Grotsius, executive director of the NAHB.

"A rise in the subsidy limit would in no way affect the use of the scheme by people of all races whose income does not enable them to use the permissible amount in full."

While the first-time home subsidy has been a boon to an otherwise struggling building industry, and has helped to maintain stability in this particular sector of the residential market, rising costs have offset the advantages and

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SA Bias shares expectation of

By Gareth Costa

SA Bias shares rocketed 85c to 435c yesterday, fuelled by rumours that the company is to produce earnings about 50 percent higher and a dividend payout around 40 percent up for 1986.

The company's managing director, Mr Christopher Seabrooke yesterday said he could not confirm the rumours, but he added that profits were at least in line with the 30 percent prediction in the annual report.

He said SA Bias Binding — one of the two major profit contributors in the group — was doing "very well", and that the 23 acquisitions made over the past four or five years were beginning to pay off.

"I expect a substantial increase in pre-tax profit for the company in 1987."

Mr Seabrooke said Merhold, holding company for Merchant Shippers and Mertrade, would be listed some time in the second quarter of this year.

Merhold's nature was changing from a confirming house into financial services and trading.

"We have switched to a secondary banking operation where the risk is less than in confirming."

Mr Seabrooke said Merhold had done some investment banking — it was one of the financiers involved in Mac-

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Personal savings dropping

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HELENA PATTEN

INVESTORS' reluctance to make the most of investment opportunities, thereby stunting economic growth, has paradoxically undermined SA's traditionally high propensity to save, says Barclay's latest *Business Brief*.

Inflation, squeezing personal incomes, and encouraging anticipation buying ahead of expected price increases, has seen personal savings — as a percentage of disposable income — drop from an average 9,6% between 1972-1977 to 7,5% in the period 1978-1983.

The figure dwindled to a low of 1,5% in the third quarter of 1986. The expectations are that there will be no steady rise in private consumption spending in the short to medium term.

However, SA's gross domestic savings as a percentage of GDP compares favourably with other industrial countries. Only Japan bettters SA's gross savings rate. West Germany, the UK and the US all have lower rates.

Despite SA's public-sector dissaving in the past three years, the favourable gross savings position has been maintained through significant increases in corporate contributions.

Retained profits increased from just under 22% in 1978 to just under 30% in 1985. Also, provision for depreciation has been boosted by an inflationary environment, rising from 52% to over 64% between 1978 and 1985.

"The national savings propensity has thus been maintained at a respectably high level," says *Business Brief*.

"If anything, it could be argued that the failure of investors to take up the available investment opportunities in recent years in itself restricts the growth of domestic savings, because reduced investment spending retards income generation out of which savings are made."

Investment spending has been an alarming 15% lower than domestic saving between the beginning of 1984 and the third quarter of 1986.

Election 'sweetener' likely

BUSDAY

14/1/87

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Civil servants want R1,5bn pay increases

CHRIS CAIRNCROSS

REPRESENTATIVES of the Public Servants Association (PSA) are to press for blanket pay increases of up to 15% at a meeting in two weeks' time with Alwyn Schlebusch, Minister responsible for the Commission for Administration in the President's office.

If agreed to, the increases will be introduced from April, boosting the civil service wage bill by R1,5bn to R11,5bn — which would account for almost a third of total State expenditure.

The PSA will also ask for a substantial rise in the ceiling on the low-interest soft loans to civil servants for property purchases. The present ceiling for this 100% subsidy, estimated to have cost taxpay-

SCHWARZ

SCHLEBUSCH

ers at least R200m last year, is R50 000.

Government sources indicated yesterday that the pay demands would almost certainly be met — as an obvious "sweetener" to an important section of the electorate before the general election.

Opposition spokesmen said yesterday they had no quarrel with civil servants

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BUSDAY

PSA pushes for pay hikes

14/1/87

From Page 1 BUSDAY

getting pay rises.

But, at the same time, they demanded that government should indicate clearly how taxpayers were going to shoulder this extra burden.

PFP finance spokesman Harry Schwarz said government should not announce any pay increases prior to the election.

He added that the Part Appropriation Bill (mini-Budget) to be tabled in Parliament this session as a stop gap — with the main Budget delayed to August — was not the right place to announce these increases, particularly as the manner of financing them will patently be ignored.

Schwarz said government could not blame people for seeing any pay rises as a political ploy — and for treating them as such.

He again called on government not to delay tabling the main Budget, adding there was more than enough time to deal with it before Parliament rose towards the end of March.

PFP MP for Edenvale Brian Goodall commented that the burgeoning size of the State's wage bill clearly demonstrated SA was now saddled with a bureaucracy that was far too costly to maintain.

The State's expenditure now represented 30% of SA's gross domestic expenditure, amounting to a vast movement of resources from the private to the public sector — to the detriment of the long-term health of the economy.

He believed the mini-Budget would be a farce, with government intent on presenting only good news to the electorate, and likely to demonstrate a marked reluctance to deal with any of the structural problems facing the economy.

Finance Minister Du Plessis ... tax changes for companies?

THE BUDGET (49) FIN MAIL 16/1/87

An August date?

The constitution precludes officials from confirming that the main Budget will be delivered around August, but it can be taken as read. The delay is for practical reasons. The mini-Budget will be delivered in February after the no-confidence debate, prior to the general election in April or May.

Latest government spending and revenue figures give little room for pre-election voter pandering, however. Spending for the first eight months of the fiscal year, to end-November, figured at 18% against a 13,9% estimate. Revenue increased by 13,6%.

The estimated Budget deficit was then already exceeded, at R4,3 billion for the first eight months. Budget watchers expect the final deficit to easily exceed R5 billion, but at least its financing will be helped by the recent fall in interest rates.

It is normal practice to postpone the main Budget in election years; the most recent example was 1981. But this year's mini-Budget is likely to contain hints at, or even, major policy statements. It will also be a larger statement in the sense that Pretoria needs to tide itself over until August.

Changes following the recommendations of the Margo Commission on tax can be ruled out for the first half of 1986. But by August, Pretoria would have time to prepare a White Paper on its attitude to tax reform.

Several media reports have guessed at pay increases for the public service. This, along with policy statements in the mini-Budget, is no more than pre-election salting of the polls. But the latest spending figures, for November, show that only R3m of a budgeted R1 billion has been drawn down from the new title "improvement in conditions of service."

It is more realistic to speculate on changes to the structure of corporate tax — which could be unpleasant. Corporate tax is almost certainly on the agenda for the mini-Budget. This would follow Finance Minister Barend du Plessis' statement last year that individuals pay too much of the tax burden.

State President P W Botha may announce the date of the main Budget before the general election. But the date of the election itself must be set before officials can confirm that it will be in August. ■

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DEBT STANDSTILL

FINMAIL 16/1/87

Doing the rounds

Another round of talks between SA's debt negotiators and foreign creditor banks is to take place this month.

Three members of the second Standstill Co-ordinating Committee (SCC) set up in April 1986, finance Director General Chris Stals, Reserve Bank deputy governor Jan Lombard, and legal adviser Willem du Plessis, left for Europe last week. According to a Reserve Bank official, they will "visit some creditor banks to discuss debt repayment arrangements."

Details of the trip are being withheld from the press. The issue is sensitive for creditor banks, which want to avoid publicity linking them to SA.

A temporary agreement with 34 banks was concluded in February 1986 at a meeting at Claridges in London. By it, the standstill on interim debt repayments, in effect since August 1985, ended last March. Creditor banks (including 330 smaller banks not directly represented) were due to receive repayments by June 1987, worth 5% of the $14 billion foreign debt subject to the standstill. This amounted to about $700m — $420m of which was to be repaid by April 15 and a further $80m by the end of last year.

In the event, about $380m was repaid in April 1986, foreign banks agreeing to roll over the rest for technical reasons. It has been widely reported that substantially more than the agreed $500m was paid back by year-end and less than $50m remains to be paid by June, but Reserve Bank officials will not confirm this.

Also to be repaid by June are bearer bonds and notes of $89m and repayments to the International Monetary Fund of $245,2m.

Arrangements for future debt repayments are due to be made this April, but with an election campaign coming to a head that month, it would clearly be to government's advantage if preliminary talks paved the way for a favourable agreement.

Finance Director General Stals ... off to Europe

The April meeting is expected to take place in London. British, European and American creditor banks were almost equally represented last February. Presumably the composition this year will be much the same. As major creditors, they are unlikely to have sold their debt at what, according to recent reports, is the going rate for Mexican debt — a discount of between 43c-57c in the dollar.

Who will represent SA has not yet been decided, but it is likely that the present four-person SCC (which includes senior deputy governor of the Reserve Bank Japie Jacobs) will be enlarged. The contingent will be led by Stals.

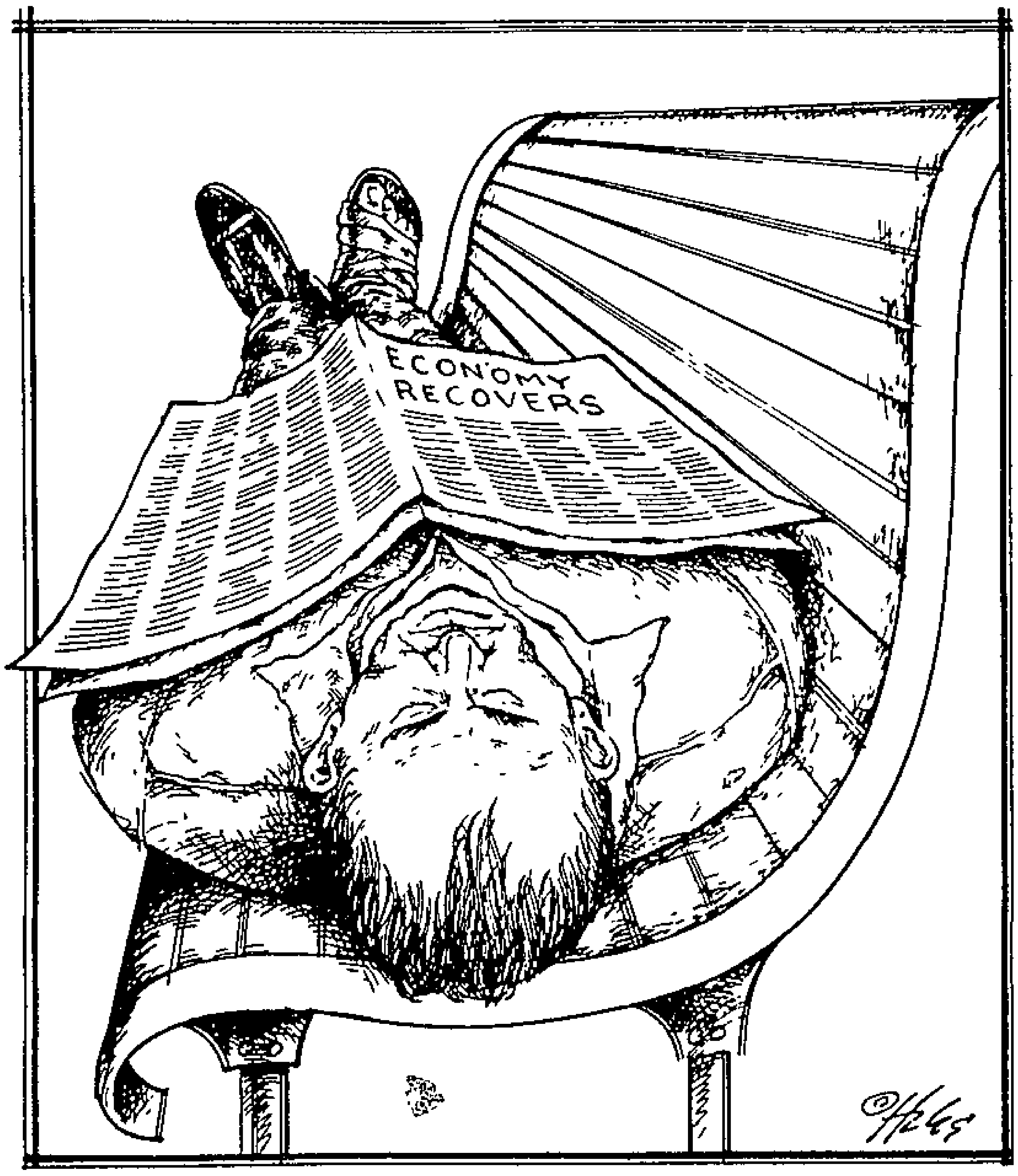
Because US banks are reluctant to enter long-term arrangements with SA, debt is to be repaid in tranches — with the length of period and amount decided afresh each time. This gives SA flexibility. With no rigid long-term commitment, negotiators can assess the situation each year and plan accordingly. ■

(49) Weekly Mail 16/1/87

THE ECONOMY

Oh, did you miss it too?

Have we all slept through the economic upturn they keep talking about? No, it just hasn't arrived yet — and it isn't likely to for a long, long time, says Auret van Heerden



A WORD of advice for those hard-pressed South Africans waiting for the economic recovery — don't hold your breath.

There's plenty of talk about the positive signs of revival, but precious little action that can be called economic growth.

The reasons for all the suggestive speculation are obvious: the government wants to perk up the voting public before they go to the polls, and talk of future economic health is better than admitting present ills.

Business also wants to convince the public that the recovery is on its way. Consumers and investors are still sceptical about the economic and political outlook, and that's bad for business.

But if actions speak louder than words, the negative trends are rising to a scream and certainly leave one wondering where the recovery will come from.

Most commentators have based their optimistic predictions on a combination of three factors:

- A hoped-for rise in consumer spending which would lift the retail sector and generate demand for consumer goods which might breathe some life into the generally dead manufacturing sector.
- Expanding exports, boosted by the low exchange rate.
- A high gold price and strong mineral export earnings.

Unfortunately, all three present more problems than prospects.

Consumers are hardly about to embark on a spending spree. Private consumption expenditure, in real terms — that is, adjusted to take inflation into account — fell 25% between 1981 and 1985, and the downtrend has continued. Retail sales shrunk over 6% in the last year, despite the fact that interest rates have fallen and credit is cheap.

With both producer and consumer prices climbing around 20% a year, and real wages falling some 15% since mid-1984, it's no wonder consumption is down. What's more, industry is also reluctant to spend in the present climate.

The level of real gross domestic fixed investment has fallen consistently since 1980. By 1985, it had slumped 16%. In manufacturing, the slide was 15% between 1982-1984, and 14% from June 84 to June 86. Inventories have been drawn down as low as possible, and the value of fixed capital stock has fallen by over 40%.

This signals more than just a lack of confidence in the economy — it's a systematic process of domestic disinvestment. Companies are not ploughing money back into productive investment, and reducing the value of their existing plant and stocks.

The notion of an export-led recovery is an old standard among business people, policymakers and economists. Generally, export-oriented industries have the greatest potential because the international market is so much larger than the domestic one.

South Africa has always had strong mineral exports, especially gold, but manufacturing has a poor record of export performance. Local production is expensive and inefficient, and simply not competitive against the Taiwans and South Koreas.

Right now, exporters are enjoying a boom because the rand makes their products relatively cheap. In 1985, exports grew 22% over the previous year, and their average price rose a respectable 29% — while the rand returns shot up 58%.

The problem is that our range of exports is disturbingly narrow, mostly pretty basic minerals, metals, and raw materials. The strong performers are base metals and metal products, and minerals.

The main non-mineral export products are paper and pulp, chemical products, and machinery and equipment. In comparison to mining and metals, though, manufacturers are small potatoes. Mining plays a bigger role in export earnings than ever before, accounting for almost 70%.

Most sectors of industry have not benefitted from the growth in exports and are still saddled with idle production capacity. Textiles, clothing, footwear, leather, wood products, furniture, industrial chemicals, electrical machinery, machinery and equipment, metal products, rubber products, pottery, canned and preserved fruit and vegetables, and motor vehicles, parts and accessories, are all producing less now than they did in 1980.

Instead of export-led growth, the contribution of exports to the gross domestic product has fallen steadilly, from over 45% in the early 1960s, to around 30% last year.

For most of that period, exports were overshadowed by imports and there was a deficit on the current account of the balance of payments. Foreign investment and the periodic gold booms helped balance the books, until the June 1976 uprisings and deteriorating returns on investment convinced investors to start getting out.

SA has been exporting money for the last ten years, and the flow turned to a flood after Botha aborted his crossing of the Rubicon in August 1985. In the last three months of that year R4,4-billion left through the capital account alone, and no-one will ever know how much went through more creative channels.

This leaves us sitting with a heavy dependance on imports, unimpressive exports, and a flood of domestic and foreign disinvestment. Historically, South African capital has been unable to break out of this syndrome, and there is no reason why 1987 should break the mould.

This is especially true when you recall that business overborrowed badly to finance the expansion that weak exports and small local markets couldn't pay for. Foreign debt as a percentage of exports grew to 136% by the end of 1985. This left the debtors little chance of paying out of earnings, and they would have had to borrow still more to service their debt.

Gold, of course, can make even the gloomiest picture glow. It singlehandedly makes up almost 50% of export earnings, provides employment to over 500 000 people, generates over 10% of the GDP, and buys goods and services worth R4-billion.

It's not enough, though. Gold is an anchor, not a sail. It's played roughly the same role for the last 40 years, and does little to alter the Catch-22 of disinvestment, narrow exports and expensive imports. Sure, a soaring gold price will boost the balance of payments surplus, but most of it is needed to repay foreign debt — so don't expect much local benefit.

Add escalating strike action, increasing unemployment, a deepening political crisis, more intense international pressure and sanctions, and the chances of an economic turnaround seem even slighter. And even if the roller coaster suddenly zooms upwards, it's the drop on the other side we need to worry about.

Blacks attracted more by socialism: study

17/11/87

STAR

By Winnie Graham

An in-depth study into the changing attitudes of black South Africans toward the United States has revealed the growth of anti-capitalist sentiment and a growing interest in socialism among blacks.

The study was conducted by Mr David Hirschmann while a fellow at Rhodes University, Grahamstown. His findings were released today.

Mr Hirschmann set out to determine what lessons South African blacks had learned from 25 years of domestic and foreign policy experience of independent Africa, what their attitudes were towards America and how the current prolonged period of crisis was affecting these attitudes.

He found everyone "seemed agreed" that the elimination of white rule would end the difficulties being experienced.

One person claimed South Africa was "tied to the apron strings of America and the United States was pulling strings to destabilise the sub-continent."

The extent of anger towards the President of the United States, Mr Ronald Reagan, he reports, was "broad and deep".

ANTI-CAPITALIST

The antagonism, however, had not been translated into a pro-Soviet foreign policy posture.

Mr Hirschmann records that the anti-capitalist sentiment, and the interest in socialism, did not seem to have much to do with the ANC or the makeup of the ANC executive.

"It seemed to be based on internal experiences and internal assessments, and also on the close links between the South African Government and capitalist countries," he writes.

The control of the media by the South African Government, he adds, has affected the way black South Africans looked at the world.

In most instances it had the opposite effect of that intended.

Educated black South Africans, he reports, distrust the media intensely.

Mr Hirshmann reports black South Africans had little romanticism about the African experience.

He quotes one black businessman as saying: "The African experience is pathetic. We don't want this to happen to South Africa."

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Sweeteners first — then the Budget medicine

By David Southey

IF the Government delays the main Budget until after the general election, it will still be able to hand out the customary pre-election sweeteners in its Part Appropriation Bill — the mini-Budget.

Although the Part Appropriation Bill is technically designed to tide the State over until the Budget has been approved by Parliament, there is nothing to stop Finance Minister Barend du Plessis from using it to announce pay increases for public servants, increased pensions and other vote-catchers.

According to PFP finance spokesman Harry Schwarz, Government invariably uses a Part Appropriation Bill or Budget before an April or May election "to make announcements attractive to itself".

Mr Schwarz says: "We get the sweets in the Part Appropriation Bill and the medicine later in the Budget. It is easy enough to make the announcements and then to pass the legislation."

Mr Schwarz identifies four categories of voters the Government will woo:

- Farmers — they can expect aid packages and various relief measures. "They still believe that rain comes from the Government and not from the skies."

Blind eye

- Blue-collar workers — tax tables could be adjusted to take account of inflation. GST could also be reduced because its removal would appeal "emotionally and psychologically" to lower-income workers.
- Public servants — they have called for a 15% increase across the board and can expect at least 10%. The actual increase is likely to be much higher because of job regradings and new job descriptions. Mr Schwarz describes this as the "silent increase" for public servants.

About 30% of voters are directly tied to the public service — whether as husbands, wives or children.

- Pensioners — they can also expect large increases. Mr Schwarz favours the creation of special, indexed investment bonds — similar to those in the UK — for old-age pensioners

Mr Schwarz believes the Government is caught in a catch-22 trap in its spending and it will rise by a minimum of 20% in the next financial year.

"It cannot cut back on security spending for the police and defence and is committed to raising social benefits, particularly under new pressure from the houses of delegates and representatives. The need for black housing funds is still enormous, there will be increases for unemployment relief and for job training and the vote for black education will go up substantially."

Economists believe that in the face of soaring expenditure demands — to which the Reserve Bank is happy to turn a blind eye under the current depressed economic conditions — the Government will come under renewed pressure to speed privatisation.

Candidates

Two companies in which the Government has the controlling interest — National Selections and Industrial Selections — are mentioned as prime candidates for sale to private investors.

Many other Government departments are self-financing and could easily be privatised.

Mr Schwarz believes the Government should publish a white paper on its response to recommendations of the Margo Commission of Inquiry into tax and make it an election issue.

"Even if we do not know the details, we should be allowed to debate the principles of such issues as indirect and direct taxation, capital gains tax and other matters."

Schwarz warns of medicine to come, but...

Mini-Budget 'will sweeten the voters'

(49) STAR 19/1/87

By David Braun, Political Correspondent

Cape Town

Consumers can look forward to a favourable mini-Budget next month.

Opposition politicians are expecting generous salary increases for public servants, railway workers and Post Office staff (but not for MPs), a reduction in general sales tax, the possible pay-out of the 1983 loan levy, a reduction in income tax and at least some announcements to please inflation-battered pensioners.

The bill for all this is not expected to be presented to the taxpayer until after the general election — when the main Budget is to be introduced — and at least one cynical MP said today parliamentarians would vote for their pay rises.

Progressive Federal Party finance spokesman Mr Harry Schwarz said today: "The voters will get their sweets before the election and their medicine afterwards."

He predicted the Government would not address the fundamental problems of the economy until after the election, expected in early May.

"Before then, by means of the mini-Budget, the Minister of Finance will try to pump money into the economy.

"A salary increase for the public service is clearly on the cards. About 30 percent of white voters are directly affected by the public service so any increase in income for these people has a tremendous impact in an election."

Mr Schwarz predicted that, despite its low level of collection, the Minister of Finance would probably decide to reduce GST to stimulate demand.

"He could also adjust tax brackets to give relief to salary earners who have been pushed into higher tax margins by inflation."

Better off

Mr Schwarz said the Government would have identified groups of voters to ensure that every major category got something from the mini-Budget.

- Farmers were better off this year because of the rains and very big assistance packages, so they ought to be happy.
- Public servants, including SA Transport Services and Post Office employees, would probably get at least rises of 12,5 percent, plus some promises.
- Blue collar workers would benefit from reduced GST.
- White collar workers would be helped by cut income tax.
- Pensioners would be happy with an announcement of an increase in social pensions. The Minister could further announce a raising in the tax-free amount of interest on investments.

Mr Schwarz said the bill which taxpayers would eventually have to foot for all this largesse would depend on external factors such as the gold price and the exchange rate of the rand.

He appealed to the Government to table the main Budget before the election so that voters could know the full picture and know what they were being asked to vote for.

Reagan angers SA blacks — report

SDAY 49
19/11/87

THELMA TUCH 327

SA BLACKS are deeply angry and disappointed with US President Ronald Reagan, and there has been a notable growth in anti-capitalist sentiment, according to Rhodes University fellow David Hirschmann.

A US academic, Hirschmann was attached to the Institute for Social and Economic Research at Rhodes for the duration of his research into "Changing Attitudes of Black South Africans toward the United States of America".

He said anger towards the US was widespread and intense, not only among radicals or "anti-imperialists" but also among professionals, senior managers and businessmen.

A notable depth of antagonism towards Reagan was expressed by middle-class blacks who favoured private enterprise.

Although some respondents distinguished between Republicans and Democrats, they did not see the US as helpful to their struggle.

Rather, they saw it as supportive of the SA government and a major hindrance to liberation.

Many were also angered by US actions in Nicaragua, Libya and particularly Angola.

However, the deep antagonism felt towards the US has not led to a pro-Soviet foreign policy posture. While Soviet assistance to the ANC was acknowledged it was not tranformed into a sense of long-term gratitude or any desire to be closely tied to the Soviet Union.

The anti-captitalist feelings did not seem to have much to do with the ANC, and was, instead, based on the close links between SA and capitalist countries and on the experiences of the respondents.

Hirschman's findings are based on 45 interviews conducted from June to August last year in Grahamstown, Port Elizabeth, Durban and Johannesburg. Of those interviewed 76 were university graduates, three undergraduate students and 16 had completed all or most of high school.

PE potential highlighted by embassy in London

By MICHEL DESMIDT

PORT ELIZABETH'S commercial and industrial potential has been promoted in the September edition of the "South African Business Report", published by the SA Embassy in London.

Highlighted are the city's "well-earned reputation for friendliness and beauty", as well as its importance as an industrial and administrative centre, port and tourist haven.

The report, entitled "The Southern Hemisphere workshop for the north?", gives demographic and geographic data.

Other benefits listed include:

- An extremely good urban freeway system.
- A modern airport in close proximity to the city.
- An adequate water supply.
- Space for the development of industry and commerce.
- A modern fresh produce market.
- Technical and academic training facilities.

The lack of raw materials and dependency on the motor trade are listed as negative factors.

The article gives a brief history of the Port Elizabeth-Uitenhage metropole's development into the "Detroit of Southern Africa" and outlines the decline in the industry which contributed to unemployment of above 50%.

The report will be tabled at the City Council's Policy and Resources Committee meeting this afternoon

(49) EVE POST 20/1/87

INTEREST RATES

Pressure on prime

Little more than a month after Barclays' dramatic announcement of a 1,5 percentage point cut in prime to 12%, there is speculation that it may bounce back — possibly by as much as 1%. Recent developments in the money market are putting pressure on margins to such an extent that bankers may have to give in and raise prime.

Described by bankers as "the last tranche," funds amounting to about R800m were withdrawn from the discount houses by the Corporation for Public Deposits (CPD) last Thursday and Friday, to offset the injection of liquidity into the system caused by the rise in forex reserves, mid-month government spending and the decline in notes in circulation outside the banking system.

According to the Reserve Bank, money was siphoned out of the system because the discount houses no longer needed it. At year-end, with the shortage at R2,55 billion, CPD funds amounting to R1,4 billion were with the discount houses. This was gradually withdrawn as liquidity built up.

At the same time, accommodation through the Bank window — the money market shortage — declined by R500m. By last Thursday, when money first started flowing out of the system, it was R605m; two days later, when the operation was complete, it had dropped further to R480m and by Monday was down to R306m.

Presumably liquidity levels were held up by government spending and a cash injection from Bank dollar purchases — a development the authorities are monitoring carefully.

Says Japie Jacobs, Reserve Bank senior deputy governor: "If we had maintained the customary CPD funds with the discount houses it would have indicated no shortage. This would not have been a true reflection of the situation."

Just such a situation arose in November, when about R500m was on deposit with the discount houses, effectively camouflaging a shortage in the market.

Last week's withdrawal came after a rise in the sums tendered for Land Bank and Treasury bills, including a R150m special tender. The moves have created a perception that cost of funds will rise and banks are now looking to the Bank for relief.

But Jacobs says it cannot accommodate them. "There is no reason to revise Bank rate at this point. The banks know very well that when we reduced it by half a percentage point in December we did not indicate that we would soon consider a further cut."

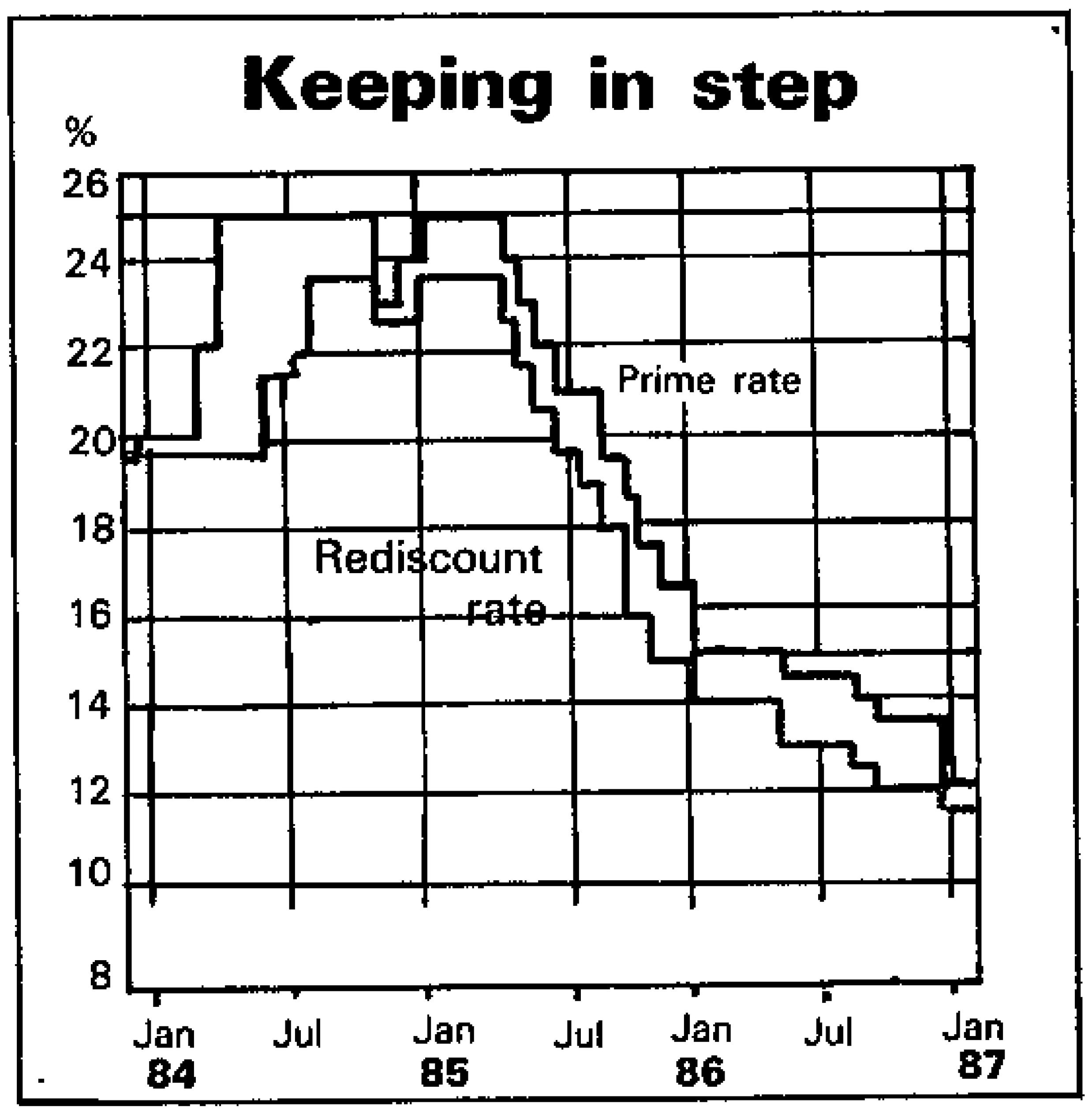
If rates do not ease over the next few days, banks under pressure will have little alternative but to increase prime rate.

So far, market leaders Barclays and Standard are noncommittal.

Says Barclays' senior GM Jimmy McKenzie: "Prime is under pressure and we are considering what steps to take."

No comment was forthcoming from Standard but it is known that, when the Reserve Bank announced a half percentage point cut in Bank rate on December 9, it favoured reducing prime by only one percentage point to 12,5%. A TV announcement that night by Barclays' GM Norman Axten, of its cut by a further 0,5% to 12% forced Standard to follow suit.

However, says a Barclays' spokesman: "The market had already discounted the one percent, and the only way to get elbow room was to create a psychological shift by dropping by more than that."



The December move by two of the largest financial institutions triggered a general round of reductions in interest rates — including mortgage rates. Now, with money market rates higher than on December 9, it seems as if the market had overreacted.

In the past banks have tended to move in tandem with the Reserve Bank (see graph). The last time they were seriously out of line was in November 1984, when a 1% cut in

TAX SHORTFALL?

320 FINMAIL 23/1/87

Is there a difference between the revenue losses produced by tax evasion, tax avoidance, and government missing its estimated budgets? There is — to the tune of billions of rands. But in many quarters the differences are being confused.

It was reported this week, for example, with some alarm, that GST may fall short by R250m for the 1986-1987 fiscal year. The analysis was based on collections for the first eight months being 62%, rather than two-thirds, of the budgeted estimate.

However, the analysis failed to mention that collections for the rest of the fiscal year are boosted by higher December consumption demand and swelling inflation. It fails to mention, too, that additional sales tax (including penalties) brought to account by auditors to September 30 1986 was R153m (*FM* January 9).

It forgets that other inputs help balance government's overall books — customs and excise, for example, increased by 41% in the first eight months. It also forgets that nearly R1 billion additional income was assessed to tax by Revenue's auditors over the same period.

To put government finances in true perspective, the related issues of tax evasion and avoidance, and activity in the informal sector, need to be scrutinised. The oft-accepted level of tax collection in most Western economies — and SA — is 80% of that due.

So when government estimates revenues, it assumes that only 80% of the tax liable will be collected at the tax rates in force. But the amount estimated forms 100% of government revenues for the period concerned. The balance of 20%, lost to tax evaders, equals R8,75 billion for 1986-1987 (*FM* May 24 1985).

Another means of estimating taxes lost to evasion is to use SA's "GNP tax rate" — its revenues expressed as a percentage of GNP — which is around 27% for 1986-1987. Unrecorded activity in the informal sector — using findings produced by the International Labour Organisation — is worth at least an extra R33 billion for 1986-1987.

This indicates that some R8,91 billion will be lost to tax evaders in 1986-87 (27% of R33 billion), and implies that the assumed 80% collection level for SA is too high.

Bank rate to 20,75% provoked a 2% cut in prime to 23%. This was rectified the following month by a 1% upward move in prime.

The authorities' latest decision to remove funds from the discount houses has other implications, of course, apart from possible future increases in interest rates.

It has shifted the focus of activity from the open market back to the rediscount window. Borrowers will now be forced to the Bank for accommodation.

This successfully re-establishes Bank rate and the Bank as lender of last resort. In recent months, with excesssive liquidity in the market, borrowers have to a large extent not had to go to the window, reducing the significance of the Bank's accommodation rate in favour of the cheaper CPD rate.

But the impact of the Bank's decision to tighten its grip on the money market is described by a Bank official as "psychological" rather than actual. And perhaps not too much should be read into the move — at this stage. With an election in the offing there is every reason for the authorities to want to keep rates low.

Jacobs points out that excess cash could have been absorbed by the sale of paper "but this would have pushed rates up even more."

So it seems the authorities don't want to put too much immediate pressure on interest rates. Jacobs makes it clear that monetary policy is still expansionary: "The sole objective was to prevent rates declining further."

The move ensures the authorities have a tight rein on interest rates to prevent inflationary pressures building up. These include an increase in government expenditure ahead of an election.

What of the effect of the reversal in interest rates on investor confidence? Some bankers believe it will discourage real investment even more, while others point out it will introduce more stability in rates.

"Investors are sophisticated enough to perceive the advantages of Bank control," says one. "It creates certainty, and investors need certainty." ■

☐ See *Markets*

FIN MAIL 23/1/87

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GOVERNMENT FINANCES

Cash for an election

Government revenues increased year-on-year by an unprecedented R1 billion in December. Until detailed figures are available later this month, the precise reasons will not be known. On the other hand, the rate of increase in spending slowed for the third month in a row, so the Exchequer ended the month with almost R2 billion on hand.

The figures are announced weeks before the mini-Budget in February.

Preliminary analysis of Inland Revenue figures suggests that a large number of tax payments were banked in December. The month-end fell on a weekday, and receipts could fall materially in January.

December's spending increased by 17,6% on a year ago, a decrease in real terms and less than in November, but still ahead of the 13,9% estimate. The 53% increase in December's Inland Revenue receipts, which an economist describes as "suspicious," raises the revenue increase for the first nine months of the fiscal year to 16,4%. This too is ahead of a 13,1% estimate.

Finance Minister Du Plessis . . . awash with funds

Overall, government is flush with cash for the first nine months of the fiscal year. A net R5,6 billion has been raised in stock and other issues to finance the deficit.

The high closing balance of R1,9 billion in the Exchequer account was achieved despite a one-off transfer to the Special Defence Account of R399m in December (which refers to section 2 of Act 77 of 1986). Budget-watchers suggest that government is accumulating cash for significant spending in the first few months of 1987 — timing well for the lead up to the general election possibly around April — one possible reason the authorities are currently mopping up cash from the system.

Spending exceeded revenues by R4,1 billion for the first nine months — well in line with targets. This deficit is easily affordable given the overall state of central government accounts.

But some big drawbacks can be expected before the end of the fiscal year. Perhaps the largest would be upwards of R1 billion for civil service pay hikes. Only R8m of a budgeted R1 billion for "improvement of conditions of service" had been drawn down to December. The R213m 1983 loan levy could also be refunded.

So far, none of the R750m announced for black housing in Finance Minister Barend du Plessis' 1986 stimulatory package has been allocated. Another item, on both revenue and spending accounts, is the planned transfer of R1,2 billion sterilised in the Central Energy Fund.

When the amount is transferred, it will in theory be a contra entry, thus not affecting the deficit. It would bring budgeted revenues to R35 billion and budgeted spending to R39,4 billion.

An increase in spending could be a tremendous stimulatory thrust for the economy, though whether a spending boost would have a more lasting impact than tax cuts is debatable.

But what budget deficit is affordable?

For the first nine months, government's R4 billion deficit has been over-financed. But net R5,6 billion financing has been easily absorbed in the capital and money markets. Indeed, many private sector institutions have asked for stock issues to mop up liquidity — and to comply with prescribed asset requirements.

In calendar 1986, government was the biggest borrower in the capital markets at R2,4 billion, some 43% of the total. Senbank estimates central government's capital market uptake in 1987 will be around 50% of the market, at R3,5 billion.

Utilisation of liquidity in the markets with comparatively soft interest rates, a recovering rand and hardening gold price would appear to make a Budget deficit of R5 billion-R6 billion affordable. This, in turn, would allow tax cuts for the year ahead.

But some economists have placed doubts on central government receipts for the remaining four months of the fiscal year.

Optimistic forecasters see an adjustment in personal tax rates, to at least reduce the effect of fiscal drag; but no decrease in the 12% GST rate.

Overall, the outlook for the year ahead, taking the general election into consideration, should be cautious optimism. Government seems to have achieved some notable control of issues on its main accounts. Something many economists have called for, substantial cash injections into the economy by central government, could be seen in the months ahead.

Many of the objectives in mind — to stimulate the economy — can be similarly achieved by tax cuts, that may now be more politically attractive than increased spending and, of course, good economics too. ■

SHORT-TERM INSURANCE

Premium furore

Insurance brokers are up in arms over the attempt by short-term insurers to re-introduce the "no premium, no cover" principle.

They say it would cause enormous administrative headaches, and could throw thousands of policyholders out of cover. Already flinching under a government "pincer movement" that involves stricter guarantee requirements and shorter credit periods for insurance brokers, these latest proposals could add the final turn to the screw.

Says Tom de Fontaine, a vice-president of the SA Insurance Brokers' Association: "This will destroy the age-old principle between brokers and insurers to *hold covered.*"

He says that an insured who wants cover at the last minute on a Friday afternoon, for example, will have to wait until Monday morning, the first opportunity he will have to pay the premium over. So clients could face periods without insurance over weekends and bank holidays, for instance.

Says Don Gallimore, executive director of Priceforbes Federale Volkskas (PFV): "The

We're poorer than 15 years ago, says report

49 W/M 26/1/87

Mercury Correspondent

JOHANNESBURG—In spite of a tenfold increase in the rand-gold price, South Africa is poorer than it was 15 years ago, says a report by stockbrokers Edey, Rogers and Co.

In constant 1980 prices, gross domestic product (GDP) per capita was lower in 1985 (R2 030;79) than in 1971 (R2 071,52), it says.

The report says that a GDP growth rate of 2% a year per head of population should be readily attainable in a country rich in natural resources.

'Such a rate has been met and exceeded by many countries of the West.

'It is apparent that while South Africa could have laid some claim to meeting such a target until the mid-1970s, the subsequent performance has been so poor as to bring the 15-year figure virtually to zero.'

And, if the figures for gold in 1980 and 1981 are stripped from the GDP figures, the long-term trend since 1974 has been downward.

'It must be noted, however, that the most important component of the economy, gold, has enjoyed a tenfold increase in rand terms since 1974,' the report says.

It adds that by the end of 1986 the deep recession of the 1980s was showing signs of ending, and leading indicators were beginning to point upwards.

But the report says there are some serious long-term defects in the economy and many of these are worsening. These underlying problems, such as inflation and the absence of real interest rates, will curtail seriously the magnitude, in real terms, of any prospective upswing.

(49) BUS DAY 26/1/87

SA poorer than 15 years ago, despite gold gains

GERALD PROSALENDIS
Economics Editor

DESPITE a tenfold increase in the rand gold price, SA is poorer than it was 15 years ago, says a report by stockbrokers Edey, Rogers and Co.

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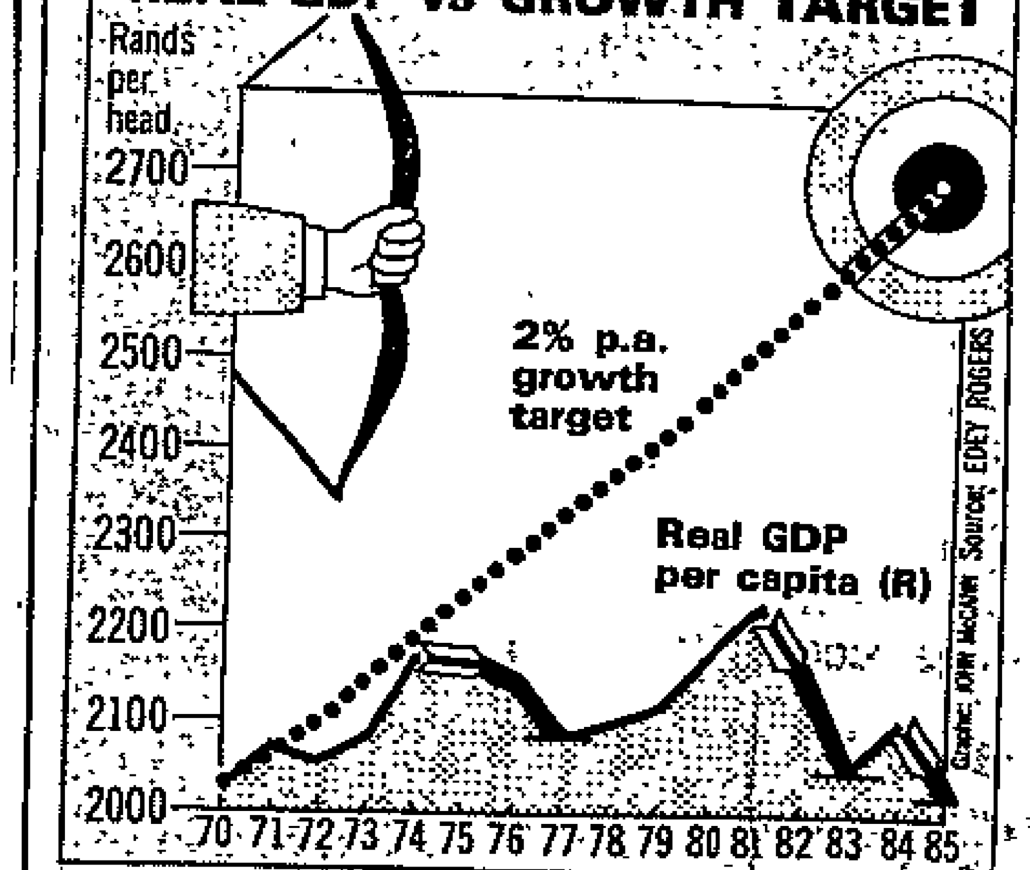
It added that by the end of 1986 the deep recession of the 1980s was showing signs of ending, and leading indicators were beginning to point upwards.

This would be encouraging if it weren't that:

- The leading indicators that began moving ahead in May last year were primarily financial ones. Even after a further 6½ months, and despite a sharp jump in gross domestic expenditure in the third quarter, the statistics relating to the real economy still made poor reading.
- The base from which the recovery might occur is so low that a pronounced and sustained upswing would be required before an acceptable level of economic performance can be claimed to be achieved.

REAL GDP vs GROWTH TARGET



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Brief moments during year in the dock

By Kym Hamilton, Pretoria Bureau

A year in the dock of attentively listening to the testimony of almost 100 witnesses has passed, often dramatically, for the 22 Delmas treason trialists.

The daily tea and lunch adjournments were times of reunions and family gatherings, as each day a small knot of relatives took their turn in making the journey to the Eastern Transvaal town to see the men.

They came bearing gifts of cakes, clean clothes and other items.

For some of the men, these few times were highly prized moments. Accused Mr Popo Molefe, who at the time of his detention was general secretary of the UDF, went into hiding in April 1985 to avoid the Security Police net so that he could be with his wife, Pinda, for the birth of his daughter.

Soon after Albertina Molefe's birth, he was detained.

Since then the only time he has had with his daughter has been a few snatched moments from the dock during the tea and lunch breaks.

Many dignitaries, both local and from overseas, have visited the Delmas Magistrate's Court.

Among them have been the Anglican Archbishop of Cape Town, Archbishop Desmond Tutu, general secretary of the South African Council of Churches, Dr Beyers Naude, and many other local activists.

Representatives of foreign governments, including many diplomats stationed in Pretoria, observers from legal associations, including the American Bar Association, the committee of international jurists and other organisations have spent time listening and watching the trial proceedings.

In June, the judge briefly surrended his customary place on the Bench to one of the accused, Mr Lazarus Mohapi More and his betrothed, Miss Golda Magauta Maphisa for a wedding ceremony. The co-accused assumed their usual place in the dock, but each sported a red carnation. The public gallery was packed with well-wishers and the wedding had all the trappings, including a two-tier wedding cake, candles and brightly coloured streamers.

Delmas treason trial defence to begin evidence

By Kym Hamilton, Pretoria Bureau

One of the most significant treason trials in decades resumes in Delmas tomorrow, more than 18 months after 22 men first appeared in Pretoria to plead not guilty to a charge of high treason.

After a year of testimony from State witnesses, 19 men remain on trial. They are all high-ranking members of the United Democratic Front, Azapo and local civic organisations. Most are spending their third year behind bars.

The State is trying to prove that the UDF conspired with the African National Congress (ANC) and the South African Communist Party (SACP) to overthrow the South African Government. As part of this alleged conspiracy plan, the UDF was supposedly actively involved in the events which led to the Vaal Triangle riots.

The indictment, which runs to more than 300 pages, contains a detailed account of the history of the UDF since its inception in August 1983. The State maintains the UDF is the internal wing of the ANC.

Much of the State's evidence has related to events before the eruption of violence in the Vaal Triangle in September 1984, which was followed by unrest round the country and hundreds of deaths.

Community councillors have testified how they saw angry mobs destroy and burn their homes and possessions, and some witnesses stated how they heard some of the accused call on Vaal Triangle residents to attack and kill local community councillors.

A number of secret witnesses, mainly captured ANC members, were called to testify on the nature of the alleged conspiracy. The court heard how some UDF members allegedly received crash training courses from the ANC.

'Bloody revolution'

Among other things, the men on trial are accused of furthering the aims of the ANC, inciting "bloody revolution" and causing the deaths of five community councillors in the Vaal Triangle townships. They have pleaded not guilty.

After the Vaal Triangle townships exploded into violence on September 3 1984, the 22 were detained under Section 29 of the Internal Security Act.

When the men appeared in court for the first time in June 1985, the Attorney-General issued certificates in terms of the Internal Security Act denying them the right to bail. Two attempts to [illegible] van Dijkhorst.

However, the court found that three of the accused — Mr Simon Vilakazi, Mr Mohapi More (26) and Mr Mkhambi Malindi (21) — had no case to answer and they were acquitted.

Six men were allowed bail of R15 000.

In his judgment on the application for release, Mr Justice van Dijkhorst said that on the facts placed before the court, a reasonable man might find the UDF could have been involved in a conspiracy to overthrow the Government.

The State's evidence showed that a certain pattern emerged in areas where there had been disturbances. Attacks were launched on councillors and damage done to their property, the property of local authorities, schools, post offices, police vehicles and public transport.

In cases where the disturbances conformed to this pattern, a UDF presence was shown. The judge said he was not prepared to find that there was no link between damage done and the UDF.

Marathon trial

When the marathon trial resumes tomorrow the defence will address the court before calling witnessess.

According to the charge-sheet, the accused are UDF publicity secretary Mr Patrick "Terror" Lekota (37) of Durban; UDF general secretary Mr Popo Simon Molefe (33) of Soweto; Azapo member the Rev Tebogo Geoffrey Moselane (39) of Sharpeville; former UDF secretary for the Transvaal Mr Moses Chikane (37) of Mamelodi; Mr Patrick Mabuya Baleka (25) of Soweto; Azapo member Mr Oupa Hlomoka (32) of Sebokeng; Vaal Information Service member and Rhodes Black Student Society member Mr Thabiso Andrew Ratsomo (27) of Sebokeng; Vaal Civic Association member Mr Gcinunuzi Petrus Malindi (25) of Sebokeng; secretary of the Evaton Ratepayers' Association Mr Petrus Mokoena (47) of Evaton; executive member of the Vaal Civic Association Mr Tsietsi David Mphuthi (48) of Sebokeng; Mr Naphtali Mbuti Mkopane (40) of Sebokeng; Mr Tebello Ephraim Ramakula (35) of Sebokeng; educator with the Urban Training Project Mr Bavumile Herbert Vilakazi (30) of Sebokeng; Vaal Civic Association executive member Mr Sekwati John Mokoena (33) of Vanderbijlpark; former Cosas leader and now Institute of Race Relations worker Mr Simon Tseko Nkodi (25) of Sebokeng; Mr Pelamotse Jerry Tlhopane (27) of Sebokeng; Mr Serame Jacob Hlanyane (37) of Sebokeng; Soweto Civic Association member and worker for the South African

BUSDAY

27/1/87

Elections 'may force quick solutions'

Business Day Reporter

THE coming general election is likely to force government to concentrate on seeking short-term solutions to the country's economic problems, warns a report from Stellenbosch University's Bureau of Economic Research (BER).

BER economist G E Moore says the temptation to buy votes with salary increases at the expense of rekindling inflation at a later stage "must seem very attractive".

"Perhaps indirect stimulation of the economy, via tax relief, will accomplish more by winning the support of not only the public but also the private sector," the report says.

This scenario unfolds against a background of depressed consumer confidence — with little chance of improvement in sight.

Confidence levels among retailers and wholesalers, already low, fell marginally in the last quarter of 1986, despite improved sales.

The latest data from BER indicate a moderate recovery may be underway.

But Moore says businessmen are sceptical about the size and sustainability of the upturn.

A *Business Day* survey of leading retailers revealed that no pick-up in consumer confidence is anticipated in 1987

● To Page 2

BUSDAY

Economy has undergone 'a personality change'

Star 27/1/87

By Magnus Heystek
Finance Editor

During the last six months the South African economy has undergone a "personality change" which has yet to be fully acknowledged by the man in the street, says Dr Cees Bruggemans, chief economist of Barclays Bank.

"Domestically, there is a whole battery of indicators that seem to have turned the corner.

"Confidence surveys among businessmen and consumers show some improvement; summonses for debt seem to have peaked and now appear on a downward trend; and the annualised growth in gross domestic product of three percent in the second and third quarter last year had quite a broad support.

"What remains lacking is that all-important ingredient called general confidence, most explicitly reflected in bank borrowing, consumer durable spending and business fixed investment," he writes in *Business Brief*.

Other positive developments which augur well for economic growth later this year include the firming in the dollar price of gold; recovery in the country's foreign exchange reserves; and good summer rains.

With a potential maize harvest of between 10 and 12 million tons a distinct possibility, GDP growth this year can be anywhere between three and five percent.

Other positive factors include the let-up on certain civil actions, a lifting of consumer boycott actions and more black children returning to school.

"Taken together, all these factors will contribute to an overall lifting of spirits generally, if the post-1961 and post-1976 periods are anything to go by, though this time it may take a while longer," he adds.

Dr Bruggemans warns, however, that all is not rosy. There remains the real fear that all the improvements listed above can be reversed overnight.

Trends may not be sustainable of their own accord, or some or all of the supports may give away.

Gold always remains critical, but so is the public perception of unrest, consumer boycotts and labour union actions. In the final analysis, affordability in terms of real income is the key.

Inflation is still extremely high, with increases in electricity tariffs, sugar and meat prices all having major ramifications.

There is reason to be positive, but it should be tempered in line with the many sectors and indicators that have not as yet started to improve.

Star 28/1/87 (49)

Recession has made the survivors stronger

Finance staff

Companies that have survived one of the worst recessions in South Africa have emerged stronger as a result of the experience, says Dun & Bradstreet (D&B), the country's largest supplier of credit and business information, in its latest Business Report.

Cash flows are strengthening because of consumer demand and cheaper credit, and if, as expected, the government presents a stimulatory budget, the current upswing should be sustained through 1987.

Signs of the upswing are shown by the fact that fewer businesses failed in November than in any other month in 1986.

According to D&B, only 181 liquidations were recorded, compared with October's 259 and the 1986 average monthly failure rate of 231. The September through November 1986 average of 223 was 11 percent up on September to November 1985, while down on the average of 250 for the previous three months.

The financial services and real estate sectors had the highest number of liquidations in November, accounting for 42 percent of the failures.

Liquidations in the wholesale and retail sectors appear to be on the decrease, presumably because of increased consumer spending. These declined from 61 in October to 45 in November.

The rate of failures in the manufacturing sector is dropping slowly, with 40 in September, 34 in October and 32 in November.

Another healthy sign is the 2 335 company and close corporation formations in November, compared with last year's monthly average of 1 812.

Mr Paul Edwards, D&B's marketing director, says the number of liquidations should begin to drop as a result of better cash flows following the recovery in consumer spending.

"Retail sales began to strengthen from mid-1986, with a dramatic increase in the third quarter when real gross domestic expenditure increased by an annualised 26 percent.

"December retail sales, however, were down on expectations which may indicate a slower recovery rate for 1987 than previously predicted."

The increase in consumer spending is reflected in the growth of manufacturing production volumes which rose by 4,7 percent (in seasonally adjusted terms) over the previous three months and by 3,7 percent over the equivalent 1985 period.

The latest civil judgments statistics show that in the period August to October 1986, 10 956 judgments were recorded against businesses. This was 13 percent down on the previous three months.

Consumer spending spree could keep upswing going

Star (49) 28/1/87

By Sven Lünsche

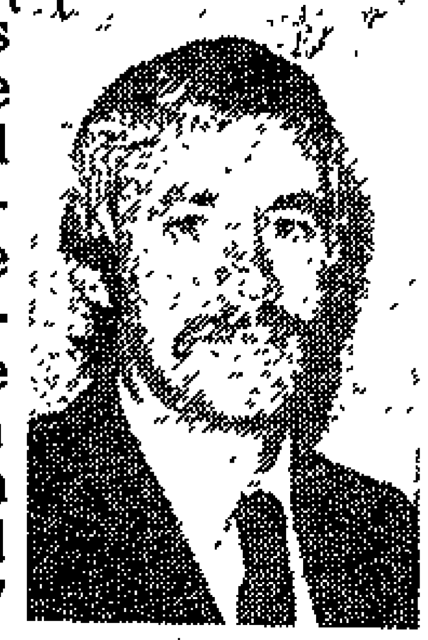
The private consumption spending boom has the potential of carrying the economic upswing through 1987 and pushing the real GDP growth to levels of three percent or higher, says Old Mutual's *Economic Monitor*.

This growth should be sustained by the recent improvement in agricultural output and a continuation of the tremendeous increase in private consumption expenditure.

But Old Mutual argues that for the spending spree to continue the consumer's fragile financial position has to be substantially improved, as individuals last year fell back on their savings to maintain a reasonable standard of living.

Old Mutual's economist, Mr Rob Lee, suggests that wage increases will have to be closer to the going inflation rate.

"There is some evidence that nominal wage increases have turned the corner, with the renumeration per worker in the second quarter 14,7 percent up on a year ago and companies are now in a better position to grant higher wage increases," Mr Lee writes.



Rob Lee

His second recommendation concerns relief measures on the tax front. "The ratio of direct personal taxes to personal income has increased tremendeously over the last six year and although there are early signs that this trend has slowed down recently further relief is needed to boost PCE in 1987."

"We believe that we should see a combination of such events taking hold in the course of the year and this improved financial position should see consumers taking advantage of the current low interest rates and subsequently stimulate credit demand," Mr Lee writes.

Further aided by an increase in government and public sector spending, preceeding the election, Old Mutual forecasts that total real domestic spending could show a healthy improvement in 1987, with growth of five percent not being ruled out.

South Africa's scope for a continued recovery beyond 1988 could be greatly limited.

"Unfortunately the position on the current account of the balance of payments is not likely to contribute to real GDP growth this year. Imports are already at a relatively high level, and the sanctions campaign is probably going to limit the growth potential of exports," Mr Lee writes.

Economists warn: Buying votes will force up inflation

Star 29/1/87

Finance Staff

Any short-term stimulation of the economy by the goverenement in order to woo voters will have severe long-term inflationary consequences, warns the Bureau for Economic Research at the University of Stellenbosch.

Consumers in South Africa, as elsewhere, tend to focus on the current economic climate, rather than on the economic stability. Thus, the temptation to "buy" votes with direct fiscal stimulation (such as salary increases) at the expense of rekindling demand inflation at a later stage, must be very attractive indeed.

The BER adds its voice to that of other economists who fear a repetition of the events before and after the referendum in 1983. Massive increases in salaries to government employees in the run-up to the referendum played a major role in the so-called mini-boom which petered out after only four quarters of vigorous, but short-lived economic activity.

Many economists feel that the measures introduced to cool down the overheated economy in August 1984 eventually led to the collapse of economic growth and subsequently the foreign debt crisis a year later.

Fears exist, not totally unfounded, that public-sector employees can expect similar treatment in the near future with the already over-burdened private sector having to pick up the bill. Not only will this depress growth prospects even further, but inflation will be be catupulted even higher.

Indirect stimulation of the economy via tax relief will accomplish more by winning the support of not only the public but also the private sector. In order to maintain the consumer led recovery apparent during the second half of 1986, fiscal stimulation is not only necessary but also possible due to the accumulation of more than R1,4 billion in the exchequer account.

The BER also reports a slight dip in confidence amongst retailer and wholesalers in spite of improved sales and more appropriate stock levels. This could indicate that businessmen are sceptical about the magnitude and sustainability of the upturn.

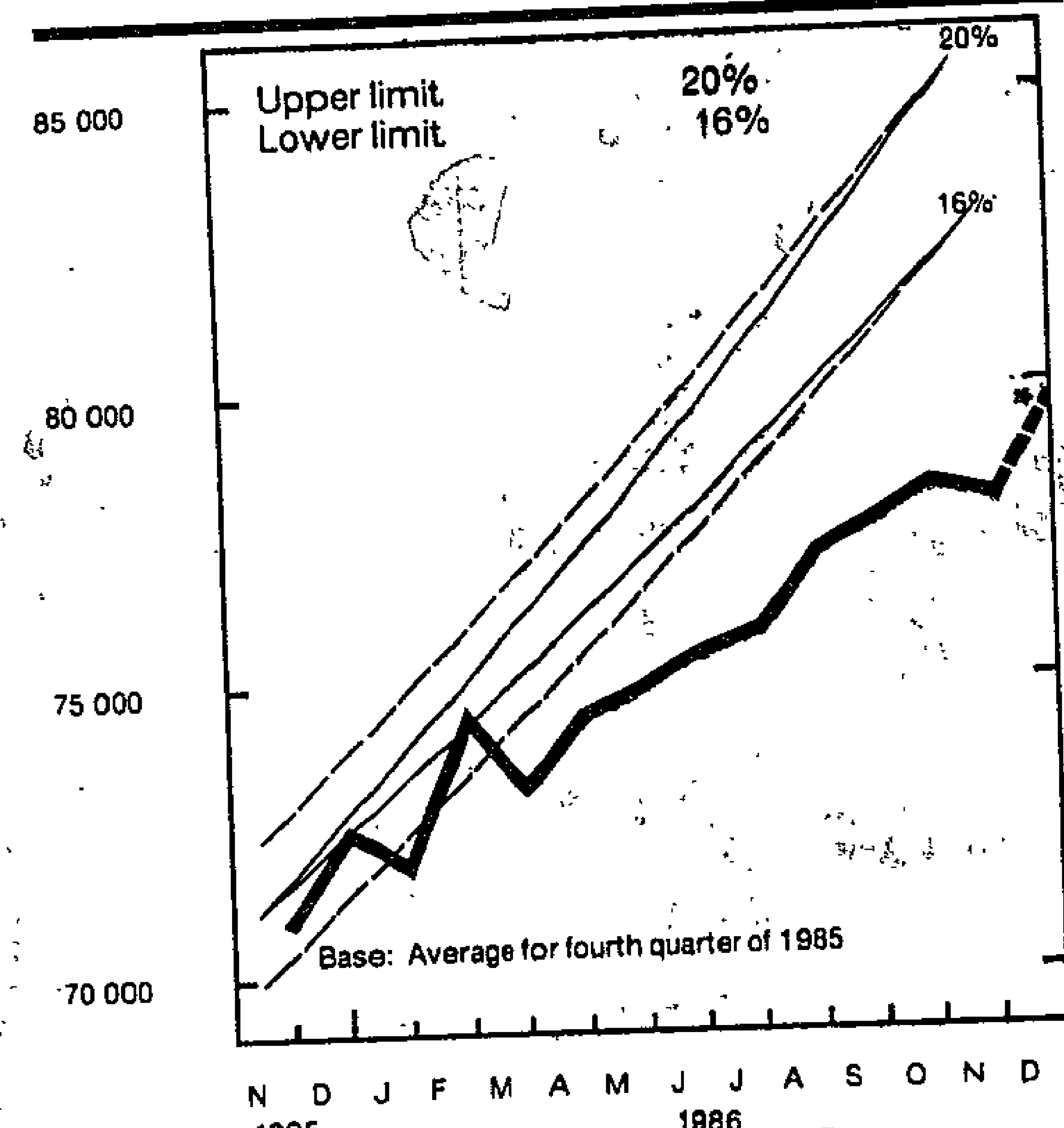
A major problem which businessmen have to face is that consumer resistance may set in later in the year if prices continue to escalate.

Economist wants better money supply gauges

Star 29/1/87

(49)

Official target figures for growth in the money supply will only be announced in "a few weeks time" a spokesman for the Reserve Bank has indicated. It is widely accepted in economic circles that the new figures will not differ from those of last year, namely targets of growth in the M3 money supply between 16 and 20 percent.



During 1986 the M3 money supply growth stayed within the 16 to 20 percent range.

By Sven Lünsche

The relationship between growth in the M3 money supply figures and domestic spending is often misleading and the authorities should consider adopting additional monitoring methods, according to Old Mutual economist Mr Rob Lee.

In the Old Mutual's latest economic report he writes: "Over the last few years the relationship between the growth in M3 and domestic spending in the economy has not been nearly as close as that of the narrower monetary targets."

When the Government accepted the need for money supply targeting in March last year, the Reserve Bank chose the broadest monetary aggregate M3, which includes all notes and coins in circulation, plus all demand, short, medium and long-term deposits and transmission accounts with banks, building societies and the Post Office.

However, Mr Lee argues that other money supply measures can provide additional and different information — which tends to be disregarded when concentrating on the behaviour of one aggregate.

In line with major central banks in industrialised nations he proposes that the Reserve Bank adopt additional aggregates: namely M0 (notes and coins in circulation) and M1A (M0 plus cheque and transmission accounts with financial institutions and the Post Office).

Advantage

The real growth of the M0 money supply measure corresponds closely with the real growth in domestic spending and "the current behaviour of M0 and M1A is thus far more consistent with what we believe is happening in the economy at present than is that of M3," says Mr Lee, referring to the apparent surge in gross domestic expenditure in the third quarter of last year.

He adds that a particular advantage of M0 was that the amount of cash in circulation was known virtually daily, several weeks ahead of even estimates of M3, enabling the authorities to set more appropriate growth targets.

"The interest rate reductions in December were clearly suggested by well-below target M3 growth, but the behaviour of M0 indicated that a more cautious approach would have been more appropriate," Mr Lee argues. The recent half a percent rise in the prime rate supports this view.

In conclusion he says: "We believe that additional information about the economy and about money conveyed by the narrower money measures can be best utilised by policy makers in the form of an official money supply target for M0, and preferably for M1A as well."

"The realistic and appropriately set targets for these aggregates would be welcomed by the market as a useful policy innovation."

Industrial index breaks 1 500

Star 29/1/87

By Gareth Costa

After rising steadily for eight consecutive days the industrial index of the Johannesburg Stock Exchange burst through the 1 500 mark yesterday, gaining 15 points to 1 514.

The index has been nudging new highs for over a week now, with analysts putting the interest in industrial shares down to the low rand gold price which is affecting the mining sector.

Coupled with this is the feeling that industrial companies can increase profits this year, although often from a low base, with some analysts forecasting an average earnings growth of 10 percent above the inflation rate.

The index stood at 1 423 on the first trading day this year, and the rise to the present level represents an increase of 6,3 percent. Over the past 12 months the index has risen by almost 45 percent.

The thrust yesterday above 1 500 points from 1 499 was helped by strong increases from Tiger Oats, which rose 600c to R100 for the first time, and SAB, which climbed 50c to R16. Barlows, the second biggest company on capitalisation in the index, rose 40c to R19,75.

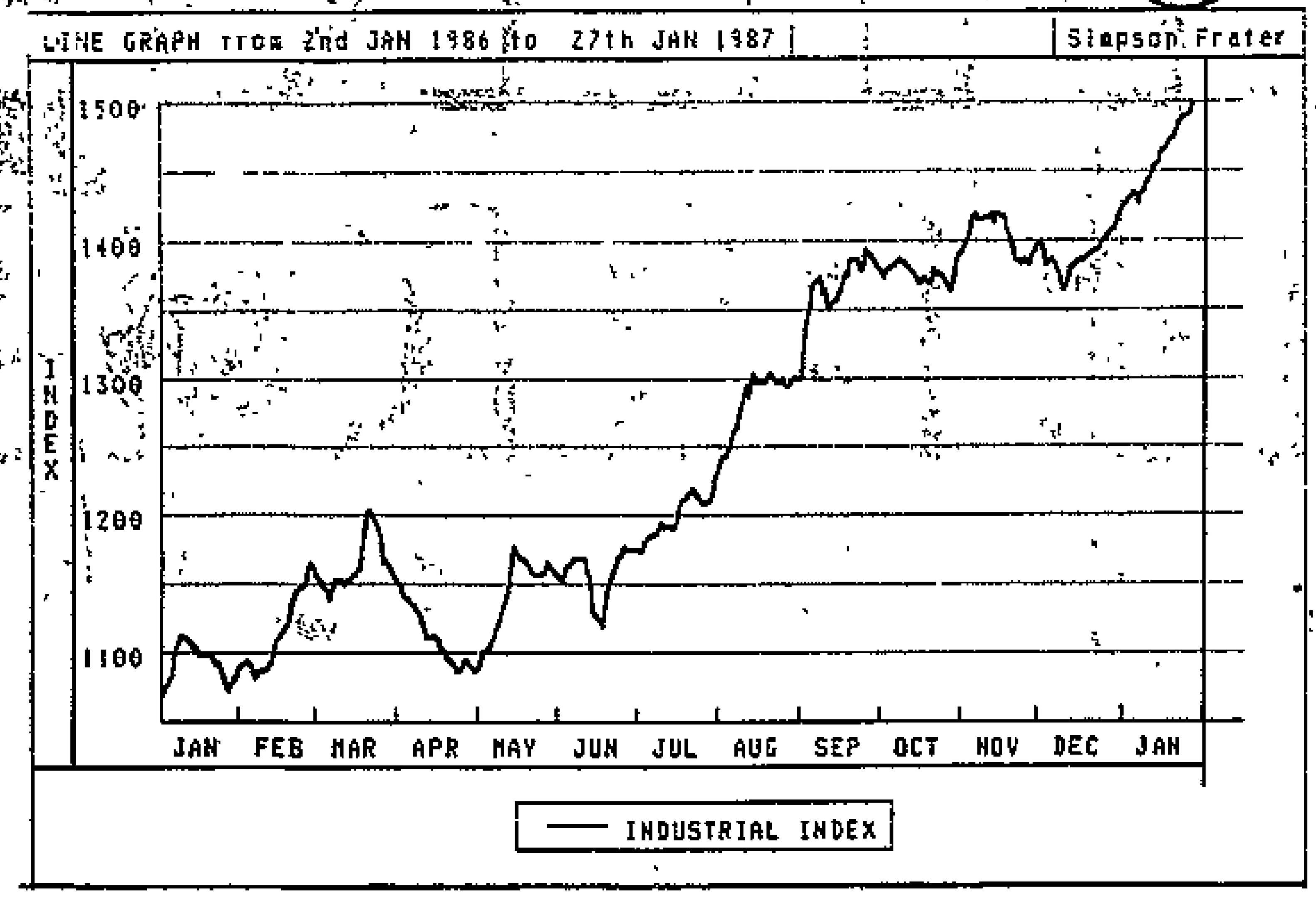
Since the beginning of the year, however, some major moves have come from companies such as Natal Canvas which climbed from R85 to R100, Afrox from R14,50 to R19,50 and Dorbyl from R10,90 to R15.

The other heavyweights in the index such as Rembrandt, Sasol and Amic have all firmed since the beginning of the year, but Sasol slipped 20c to 980c yesterday. AECI was R14,50 and is now R16,50.

Analysts point out the index could slip if the rand gold price shoots up, but many feel gold shares are overpriced at current levels and any rise would mostly compensate for this.

They say another contribution to the strength of industrials is the feed-back into the economy of last year's high earnings from the gold mines. Other lesser factors such as the breaking of the drought over most of the country and the possibility of favourable "breaks" in the mini-budget are also helping.

Another factor underpinning the market is financial institutions' huge cash flow — estimated at R15-R17 billion — and the relative shortage of script on the JSE, which will attract more than a third of that sum this year.



3/42

Confidence is gradually returning to economy

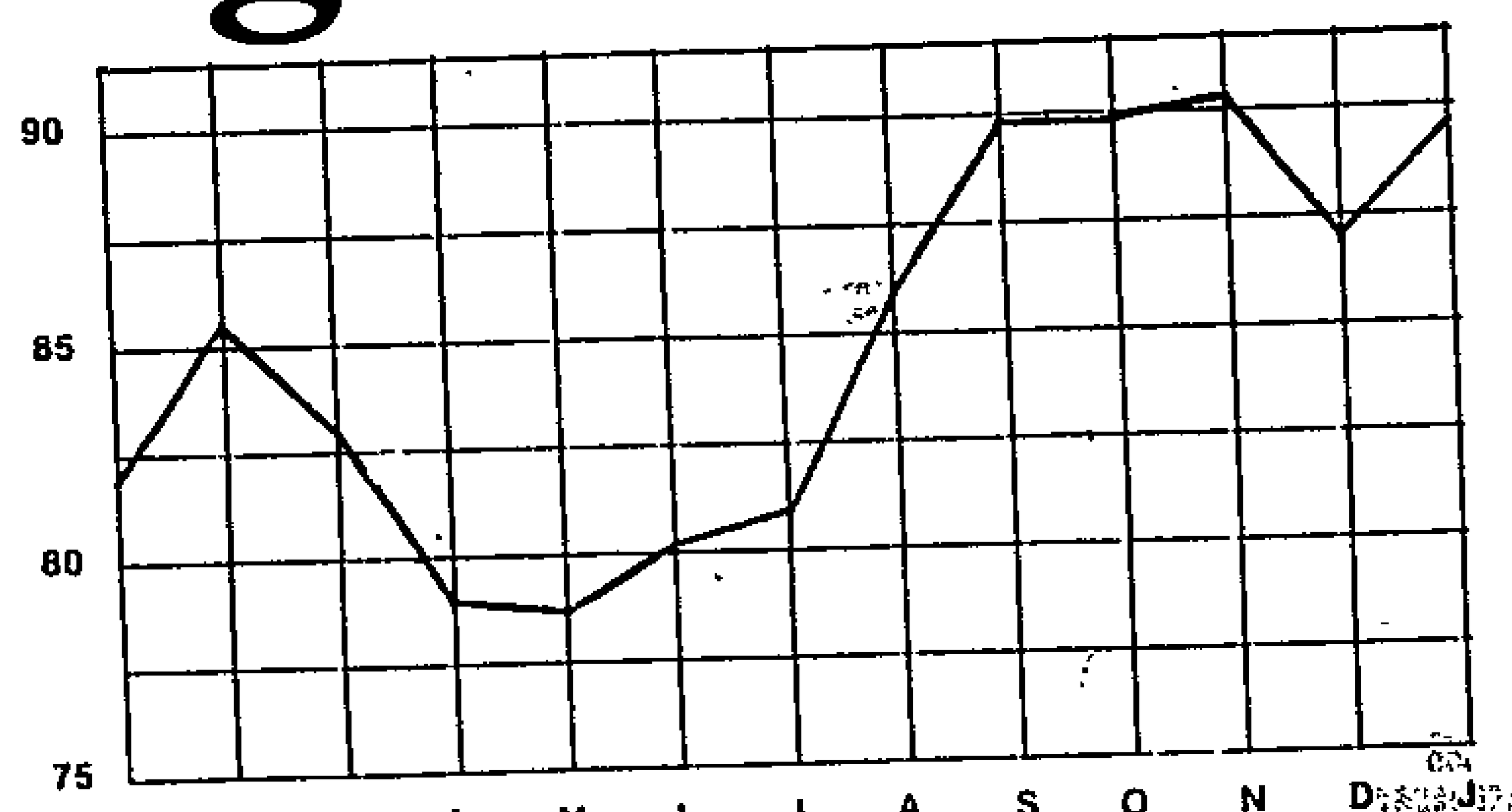
(49) Star 30/1/87

By Magnus Heystek
Finance Editor

Confidence is slowly returning in the economy, and economists and economic indicators point to confidence levels among businessmen and consumers creeping higher with each passing month.

But, as Assocom points out in its latest Business Confidence Index (BCI), this incipient business upturn is not yet secure and must be clearly nurtured to avert any relapse. In the absence of any such relapse a growth rate in real gross domestic product (GDP) of between 3 and 4 percent is possible for 1987, it forecasts.

Earlier in the week the Bureau for Economic Research at the Stellenbosch University also pointed to confidence among consumers, while Dr Cees Bruggemans, chief economist of Barclays National Bank, highlighted the "personality change" the economy was undergoing.



Assocom business confidence index (1983 — 100).

Accordng to Assocom, the BCI for January was 89,5 — about the same as levels reached in September, October and November last year and marginally higher than the level of 87 reached in December.

Assocom's BCI is a composite index which measures business confidence via the movements of 13 economic indicators which have the greatest bearing on the business mood. It includes the dollar price of gold, the rand/dollar exchange rate, the inflation rate, movements in the Johanesurg Stock Exchange, motor car sales, the prime lending rate and the number of insolvencies and unemployment.

After reaching a lower tuning point of 79,0 in April last year, the BCI rose consistently throughout the year to reach a high of 90,2 in November, mainly due to the firming of the rand against the dollar and the strenghthening in the gold price.

"Business confidence appears to be on a plateau. While the BCI is higher than it was a few months ago, there still is a strong element of caution in the current business mood. The question is whether positive economic factors wil prevail in the months ahead, as the BCI appears to be struggling to maintain its present level," says Assocom.

"Yet SA has entered 1987 with the foundations having been laid for economic recovery in the next 12 months. All the key economic variables - such as production, consumption and the balance of payments - are poised to generate a growth rate of three to four percent this year.

"In particular improved prospects for agriculture and a stronger exchange rate are favourable factors on the economic horizon," it adds.

'87 should be good year for profits and business can be more generous to workers

C/T ARGUS 3/1/87 49

MONEY AND YOUR LIFE

Martin Spring

THIS is the season for looking ahead over the coming year and trying to decide what it holds.

Managers are perhaps feeling more secure in their jobs (competition has slackened, with so many people emigrating), but no more secure about the uncertain business environment through which they have to pilot their companies.

Employees have not yet recovered much confidence to borrow and to spend, after a tough couple of years of retrenchments, company collapses, high inflation, low pay increases and painful interest rates.

Independent businessmen, having survived two terrible years, are in most cases feeling the early benefits of economic recovery.

Investors, except those locked into property, are the ones who are cock-a-hoop. Thanks to gold, cheap money and one or two other things, they had a fabulous 1986.

What does 1987 hold for us?

Economic recovery so far has largely been powered by the traditional locomotive — rising export earnings — plus some minor positive factors such as the release of black purchasing power, rebuilding of unusually-low stocks, Government spending and agriculture's recovery from drought.

If that recovery is to be sustained it needs to be supported by stronger consumer spending. That, in turn, requires a greater willingness:

- On the part of employers, to grant pay increases and/or to take on new workers;
- On the part of the Government, to restrict its desire to grab more in the form of taxes.
- On the part of consumers, to start borrowing again to finance big-money purchases.

Business generally is rapidly becoming more profitable, so employers are gaining the financial capacity to be more generous to their employees.

However, after the nasty experiences of the recent past, most employers will tend to be tight-fisted until they have regained confidence, returning prosperity hots up competition for staff, and the political future looks brighter.

The chances of seeing any of those things in 1987 don't look too good.

The Government, if only for short-term political purposes, may well curb its greed for higher tax revenues.

Consumers, able to borrow again comparatively cheaply, with the worst of their personal debt problems behind them, and conscious of the need for some buying to pre-empt price rises, should also be a moderately positive factor.

On balance, therefore, consumer demand should provide some extra boost to economic growth this year, though not on the scale that many of us would like to see. General business and consumer confidence should also receive important support from high prices for precious metals, but that support may be offset by another bout of international sanctions.

- Martin Spring is editor of Personal Finance Newsletter.

Barclays rates the rain factor

Cape Times 3/2/87

49

Harvest boon better than higher gold price

By AUDREY D'ANGELO
Financial Editor

THIS year's rain will probably be the most important single factor in causing economic growth, Barclays Economic Services division says in its business brief.

It explains that, since only confidence is lacking now, good harvests which boost consumer spending will have more effect on the economy than a higher gold price.

"With a potential maize harvest of between 10 and 12m tons a distinct possibility, gross domestic product (GDP) growth this year can range anywhere between 3% and 5%.

"The higher gold price is in that respect far too indirect a factor.

"It merely gives the country the capacity to go and spend some more dollars externally, and increase its production domestically, if it so wishes."

The Trust Bank, in its current Economic Report, also says that "good rains" as well as the stronger gold price will play a major role in strengthening the economy and forecasts a 3% growth in GDP this year.

Hampering recovery

Volkskas Merchant Bank, in its economic review, says that "prospects for the gold price in 1987 appear promising" and forecasts an average price of $450 for the year.

All three banks warn, however, that continuing high inflation is hampering recovery.

Barclays, which says that, despite encouraging indicators, "that vital ingredient called general confidence, most explicitly reflected in bank borrowing, consumer durable spending and business fixed investment," is still lacking, warns "all is not rosy".

It explains there is a real fear the improvements including better retail sales and a pick-up in manufacturing production can be reversed over-night.

"Trends may not be sustainable of their own accord, or some or all of the supports may give way.

"Gold always remains critical, but so is the public perception of unrest, consumer boycotts and trade union actions."

And, Barclays continues: "In the final instance affordability in terms of real income is the key."

Insolvencies

It points out that the inflation rate is still high, with recent price increases likely to push it higher.

"Company liquidations and personal insolvencies continue to rise, indicative that the financial squeeze is not as yet at an end.

"Unemployment is still rising, while the number of companies being registered is still falling.

"Job advertisements are at an historic low while overtime worked in industry is still declining.

"The immigration trend is slackening remorselessly even while visible emigration continues to rise."

There is, the bank says, "reason to be positive, but it should be tempered in line with the many sectors and indicators that have not as yet started to improve".

Trust Bank lists "political uncertainty, the high inflation rate, sanctions and disinvestment, the continued crowding out of the private sector by the government sector and other distortions of free market principles" as factors hindering long-term growth.

And Volkskas Merchant Bank says: "The rate of price increases does, however, remain an important problem in the SA economy."

Your guide to gilts

Name	Yield	Clean price	Cum price
RSA 12,5% 1.09.2003	15,80 (15,80)	80,83 (80,80)	79,90 (85,97)
RSA 13% 15.07.2005	15,46 (15,49)	85,09 (84,93)	85,73 (85,47)
RSA 14% 15.05.1993	14,05 (13,95)	99,76 (100,17)	102,79 (103,09)
RSA 14,5% 1.06.1987	9,25 (9,25)	101,61 (101,65)	104,11 (104,03)
Escom 10% (154) 1.11.2007	16,05 (16,15)	63,81 (63,41)	66,36 (65,87)
Escom 9¼% (158) 1.09.1994	14,68 (14,65)	75,68 (75,77)	75,00 (79,59)

(HA) Star 4/2/87

Indaba recommendations

Political Staff

The Government has rejected the recommendations of the Natal/kwaZulu Indaba for a single legislature and virtually refused to hold a referendum to test public opinion.

Parliamentary proceedings yesterday were dominated by the Indaba as the Government made it a major issue in the no confidence debate.

Although dismissing the recommendations of the Indaba, government speakers claimed they still felt the Indaba process was an important part of the consensus process.

But they emphasised repeatedly that the proposals could not be accepted because they were not based on the National Party policy of group representation.

Mr Chris Heunis, Minister of Constitutional Development, who opened the debate, said the Government was still prepared to discuss the constitutional development of the region with kwaZulu, the government-appointed provincial executive and political parties after the implementation of the approved Joint Executive Authority (JEA).

The JEA, approved after negotiations by the now scrapped NRP-controlled Natal Provincial Council and kwaZulu and on which the two executives will decide jointly on matters of common interest, will be formed shortly.

The attack on the proposals and their support by the PFP and NRP was started on Monday by the newly appointed chief information officer of the National Party, Mr Con Botha (NP, Umlazi).

After Mr Heunis, the attack was joined by the NP's Natal leader, Mr Stoffel Botha, who was even more explicit in his rejection, and Mr George Bartlett, former NRP member and now Deputy Minister for Economics and Technology.

The National Party attack was made on several fronts.

The speakers attempted to discredit the proposals on the grounds that they would lead to black domination based on one man one vote, that the economy of the region would be destroyed and white educational standards would be adversely affected.

The speakers also suggested that the PFP had manipulated the Indaba for its own petty political ends and had misled the NRP into an alliance in the process.

Mr Harry Schwarz (PFP, Yeoville) told Mr Heunis that he had done peaceful change in South Africa a disservice by rejecting the Indaba report.

People both inside and ouside South Africa who wanted peaceful change regarded the Indaba as one of the most hopeful signs the country had seen for years.

Mr Derrick Watterson, Natal leader of the New Republic Party, strongly defended the Indaba as true compromise and negotiation in which there were no winners and no losers.

Mr Watterson firmly rejected National Party claims that group rights were not protected by the Indaba proposals.

He said the National Party had reacted so strongly to the NRP and PFP agreement to form an election alliance on the basis of the Indaba proposals because this had placed several of its seats at risk.

The NRP, which had co-sponsored the Indaba, was however a "true reformist party that believes its duty is to join other reformists of all colours or political creeds in trying to get rid of the apartheid albatross that has been placed around our necks by the NP Government".

Almost every group in Natal accepted the Indaba proposals as a reasonably negotiated settlement in which simple democracy and group/cultural protection was accommodated, Mr Watterson said.

Budget tax cuts to soothe voters?

49

DD 4/2/87

Dispatch Correspondent

CAPE TOWN — All-round tax cuts are being predicted in the "mini-budget" which the Minister of Finance, Mr Barend du Plessis, will introduce on Monday to tide the country over until after the election on May 6.

Nationalist sources said yesterday the government was acutely aware of the rising tide of resentment among voters because of constantly rising food prices, levels of taxation and the cost of living in general.

Speculation was that among the largesse Mr du Plessis would hand out was a reduction in general sales tax, a general tax cut on personal income and further concessions for married women on joint income.

It was thought that GST could be cut by one or two percentage points from the present 12 percent which would immediately inject millions of rands into the consumer market and stimulate the economy.

It was pointed out that Mr Du Plessis had said at the National Party congress in Natal last year that GST would have to be reduced drastically.

He is also expected to cut personal tax by six or seven per cent, which would find favour with thousands of voters.

Though it was generally expected that Mr Du Plessis would also give further relief to married women, there was no indication of how much.

It is not expected that he will introduce any of the Margo. commission's recommendations at this stage because of the timing of the election. This is expected to wait until the full budgetary session later this year.

Income tax, GST cuts on the way

49 30 W/M 4/2/87

Ormande Pollok
Political Correspondent

CAPE TOWN—Tax cuts all round. That's the prediction for the 'mini budget' which Finance Minister, Barend du Plessis, will introduce on Monday to tide the country over until after the Assembly elections on May 6.

Nationalist sources said yesterday the Government was acutely aware of the rising tide of resentment among voters because of constantly rising food prices, levels of taxation and the cost of living generally.

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Cape Times

February 5, 1987 11

'Real threat is the working class'

49

Labour Reporter

PARLIAMENT has begun to realize that the real threat to the current regime lies in the increasing support for socialism among black workers and that its real enemy is the working class, a packed St George's Cathedral Hall was told yesterday.

UDF Gardens area committee member Mr Gordon Young said the Deputy Minister of Transport, Mr Myburgh Streicher, had made this clear when he told Parliament this week that the government could not permit the capitalist system to be replaced by the redistribution of wealth and land.

"None of the parties in Parliament, or those standing for election, are calling for socialism," Mr Young said.

'Shadow'

"Mr Streicher is not addressing the parliamentary opposition, but the vast and growing movement of the working class which is beginning to take socialism seriously," he said.

"The shadow of the working class is falling over this Parliament although they are not represented there."

Mr Young said the government's anxiety was shared by capitalists, who had begun "education programmes" within their companies to try to teach "ignorant workers" about the free-enterprise system.

'Failed'

"Capitalism has failed utterly in this country to do anything but provide privileges for the few and poverty for the many. It has failed to convince the working class that it has anything to offer the future of South Africa," he said.

Another speaker, Mr Moses Mbotwa, of the Transport and General Workers' Union, said he had first-hand experience of conditions for workers under capitalism as he had worked as a dustman for 18 years.

"Experience itself talks," he said.

"Under capitalism, workers work hard all day and then go home to places where they don't even have bathrooms to wash off the sweat, while those who do nothing live in comfort."

(49)

Inflation of '15% to 20%'

Cautious hopes for economic growth in SA

HELENA PATTEN

MOST economists have conservative projections for economic growth this year, and do not expect any dramatic slowdown in the inflation rate.

Their estimates for growth in gross domestic product are cautious — between 2% and 4% — and estimates for inflation are between 15% and 20%.

Several economists say factors which will inhibit stronger growth are:

- A weak revival in personal consumption spending which will have an adverse effect on the level of inventories and fixed investment, especially private sector investment;
- Little hope of improved performance in SA's exports;
- The enormous debt under which consumers are labouring.

However, a number of factors will contribute to growth in the economy this year:

- The good rains which will boost agricultural output;
- A strong possibility of tax cuts;
- An increase in State spending in the run-up to the general election.

Individual economists made these predictions:

- Rudolf Gouws, group economist for Rand Merchant Bank: 2,5% economic growth and an average inflation rate of 17,5%. Some short-term relief will be felt but inflation will rise again towards the end of the year;
- Louis Geldenhuys, of stockbrokers George Huysamer: 2,5% growth and inflation between 16% and 18%;
- Cees Bruggemans, economist for Barclays: a "statistical" growth of more than 4% is possible, with inflation fluctuating between 15% and 20%;
- Hans Falkena, economist for UBS: 2% growth and an average inflation of 18% — 20% in the first quarter, easing to 17% in the fourth quarter.

Although economists do not see inflation subsiding significantly, the possibility of hyper-inflation is not considered likely in the near future.

However, Falkena said that if government granted substantial pay increases to civil servants, the resulting inflation would force a depreciation of the rand to maintain SA's export competitiveness.

He said this situation could be "very dangerous".

Missing the money targets

Brian Kantor is a professor of Economics at the University of Cape Town

In 1986, the first year of money supply targeting, the Reserve Bank failed by a large margin to achieve the planned growth in money supply (M3) of between 16%-20%. Actual growth will be less than 10%.

As a result, the economy suffered much avoidable damage. Had the money supply targets been achieved, the economy would have grown much faster and without very much more inflation.

It should be emphasised that the inflation of 1986 had nothing to do with excess demand. Demand was severely depressed; prices rose in response to the devaluation of the rand in 1985 and 1986. So the confidence-shocked economy needed every encouragement from faster money supply growth. What it got was a substantial and devastating decline (some 10%) in the real quantity of money.

The economy did get help from a decline in short-term interest rates, but this was too late and probably too little.

The purpose of money supply targets is to help stabilise spending. Satisfying the targets would prevent money supply from growing too rapidly when confidence is high and the underlying willingness of consumers and firms to spend strong. When confidence is low and firms and households reluctant to spend, achieving monetary targets would help prevent a decline in total spending.

The purpose of monetary targets is, therefore, much more important than monetary signalling of higher or lower interest rates. Other signals for this are readily available. Indeed, it is not at all obvious that the commitment to money supply targets made any difference to the actions of the Bank in 1986. It led declines in interest rates in response to the weak economy and large export surpluses, just as it would have done in the absence of money supply targets.

The De Kock Commission Report explained clearly why monetary authorities cannot hope to control permanently both the quantity of money and its price, expressed in interest rates. Therefore, if money supply targets were to have been met in 1986, interest rates should logically have declined much sooner than they did, and perhaps much further. In other words, the interest return on savings after inflation and taxation should have left savers even worse off. But the economy would have recovered sooner and returns to investments and so interest rates would have risen sooner.

Achieving money supply targets directly, without regard to interest rates, would however require a fundamental change in the way the Bank operates. It would mean supplying the market with a predetermined amount of cash reserves in the form of notes or credits at the Bank at a price the market would be willing to pay. This would mean no more nor less than the Bank giving up management of short-term interest rates.

It is this power and importance in financial markets that central bankers everywhere — not only in SA — are naturally most reluctant to yield. Central banks, while acknowledging the importance of the supply of money, even while committing themselves to money supply targets and admitting that they cannot control both the money supply and interest rates, continue to want to exercise power over short-term rates of interest.

To succeed with money supply targeting, while at the same time controlling short-term rates, requires the Bank to estimate accurately the demands for loans from the banking system and, in turn, the demands commercial banks will, therefore, make on the central bank for cash reserves.

The price for this extra cash is set by the Bank by its discount rate. The overdraft or other bank lending rates thus remain closely linked to the rate at which extra cash can be obtained from the Bank.

Demands by the borrowing public for loans from the commercial and other banks depend, in part, on the interest cost of loans, linked as they are to the discount rate.

They also depend, in part, on the state of the economy and the confidence of borrowers. If the central bank over-estimates demands for bank loans, growth in bank lending and in bank deposits — that largely make up money supply — may fall below target.

This is what happened in 1986. By implication, interest rates should have been set lower, sooner, to have encouraged sufficient demands for bank credit to realise the money supply targets. When the economy recovers, it is likely that the Bank will, as in the past, under-estimate rather than over-estimate demands for bank credit. In which case, money supply will grow above target and prove excessive. Interest rates will rise in response to excess money growth, but probably by too little, too late.

These problems could be avoided were the Bank simply to auction off a predetermined and targeted amount of extra cash to the banking system, leaving the price of such cash to be determined by the money market.

In this way, targets would be met and monetary policy prove highly stabilising. A stable economy achieved this way would surely mean less, rather than more, volatile interest rates. Such a solution was rejected by the De Kock Commission; the economy has had to live with the consequences.

There was another reason why important short-term interest rates were too high. Most unfortunately for the depressed economy, the cost of borrowing from building societies did not decline anything like as fast or as far as did their cost of raising additional funds.

In any competitive financial market, rewards from supplying extra funds to the market would decline with the cost of attracting extra funds.

Fixed costs of borrowing help the profits of financial institutions when interest rates rise unexpectedly but reduce profits when they fall unexpectedly.

In 1986 building societies could still enjoy much wider margins between the cost, at the margin, of borrowing and lending because most were preparing to become public companies.

They all wish to earn and retain more profits and so build up reserves. None seemed willing to rock the boat by competing actively for additional mortgage loans.

Many of the shareholders who would, in time, benefit from the greater profits and might in normal circumstances have been willing to spend some of the extra wealth being created for them by the building society managers, were not identified, with the exception of the new shareholders in the United Building Society, and then only late in 1986.

Perhaps coincidentally, it was also only late last year that banks seemed willing to compete actively for more of the highly profitable business of lending on mortgage.

Mortgage rates have since dropped but, frustratingly, given the need to encourage spending, much more so for the few "new" rather than the many "old" borrowers. In a highly competitive market, distinctions between new and old borrowers would become irrelevant as banks and building societies competed away the margins between the cost of borrowing and the reward for lending.

Such competition would be greatly encouraged were mortgage contracts made easily negotiable with third parties, as well as much less expensive to enter into. Such negotiability would enable the creation of tradeable blocks of mortgages in which the risks of default could be spread.

The ability to package mortgages and resell them through financial markets (sometimes called securitisation) would allow primary marketers of mortgage loans to pass on the risks of fluctuations in interest rates to those in the financial markets best able and willing to bear them.

Building societies or banks would not then have to be big or geographically spread to be efficient and competitive. Borrowers, especially the great bulk of old borrowers, would benefit greatly from such competition.

Financial Mail

FM 6/2/87 (49)

THE ECONOMY

Give it the gun

Finance Minister Barend du Plessis faces a curious dilemma over the forthcoming mini-Budget. Simply put, he needs to inject a strong fiscal stimulus into the sluggish economy. Relatively modest actual government spending over the past nine months, and higher-than-expected revenue receipts, suggest he has scope — preferably through tax cuts, though an argument could be made by some for increasing public spending.

As we spelt out earlier (*FM* January 23), December's 17,6% *actual* spending increase represented a decrease in real terms and was less than in November. Revenue receipts in the first nine months of the fiscal year were 16,4% up against an estimate of 13,1%. As an active borrower the Exchequer is full of cash.

The rub is that if Du Plessis takes account of *authorised* spending — remember the R400m on black housing stuck in the bureaucracy — and adds to that the demands heavy-handed Cabinet colleagues are making, his room to manoeuvre is much less. Those who don't understand supply-side economics — or don't want to — would argue that indeed he has none at all.

As far as public service pay increases are concerned, Du Plessis will want to emphasise the circumscribed position and the need, in terms of longer-term economic strategy, to keep the deficit before borrowing — the difference between income and receipts — down to around 3% of the total value of output, GDP.

However, if he adheres resolutely to this narrow path, he will fail to maximise the upswing in business activity. For without taking into sufficient account actual spending, and depending to a greater degree on long-term borrowings to fund future spending, he has very little hope of ultimate success.

He must remind free-spending colleagues that under the present parliamentary system the Finance Minister — not the Cabinet — is sole arbiter of public expenditure. In the final analysis, he carries the axe. He must not hesitate to use it as and when the situation calls for restraint, regardless of earlier spending agreements.

A borrowing deficit at 3% of GDP is no more than a useful rule of thumb and longer-term target. The International Monetary Fund may have to present such a ratio as dogma to Third World impoverished profligates. But economic policy here should be above that sort of rigidity.

We guess that he will have to go some way to meeting public service pay demands, especially with an election looming. If he does this without taking worthwhile steps to encourage rising economic activity, substantial resources will be transferred from the private sector to the less productive public one.

The risk then will be that recession is prolonged and the chances of a quick dash for growth this year — before trade sanctions begin to bite — won't materialise. In plain words, things will just get worse. An opportunity that won't recur will have been lost.

The time could not be better for an adventurous plunge into supply-side measures to boost consumption and investment, leading in time to greater tax revenues as corporate profits rise. The real danger is that once again too little will be done too late.

Concern at the capital account of the balance of payments and the need to repay foreign debt is not pressing right now. Of course, with reserves of \$2,5 billion — of which the gold content is at present rising — and a substantial current account surplus, foreign bankers will press for accelerated repayments of the debt within the net.

But our repayments have been so punctilious and the rate of interest so high that the Treasury negotiating team would have to be suckers indeed not to be able to negotiate further reasonable repayment terms. An important point is that we have no non-performing loans, so foreign bankers have had no problems from their regulatory authorities.

Foreign trade credits are flowing again and for major purchases abroad there has never been a shortage of export credit. For the moment, at least, the heat is off capital outflows.

Precisely because the dead hand of political paralysis has such a grip on business confidence, Du Plessis needs to push harder for growth. Economically, SA could not be better poised for a strong upswing. ■

ECONOMIC PROSPECTS (49)

FM 6/2/87

Elegy for growth

The latest Stellenbosch Bureau for Economic Research's (BER) *Economic Prospects* paints a depressing picture of an economy "in the process of decay" with mounting pressure of sanctions, further heavy commitments towards foreign debt repayments and a deterioration of industrial and socio-economic relations.

Rebuking foreign lobbyists, BER says adverse economic circumstances "have been exacerbated by a persecution of SA, probably unparalleled in history by persons, political parties and countries, who see in it an opportunity of furthering their own political and economic interests."

In part this is manifested in trade sanctions and boycotts. From a constraint on economic growth the balance of payments has developed "into a bear-hug."

Says the report: "At a minimum, energy and ingenuity will be absorbed in sanctions-busting which could have been more profitably applied in other endeavours, and will entail a deterioration of the terms of trade."

BER identifies 1974 as the "watershed year" between the era of vigorous growth and the beginning of the "anaemic economy." Growth since then has averaged one third that of the preceding 14 years.

SA has not been helped by apparent stagnation in the economies of first-world countries, whose average growth has halved since 1973, harming export performance.

The report provides a chilling reflection of sentiment among some economists and businessmen as a backdrop to the impending second round of foreign debt negotiations.

It says that unless there is a "drastic change in the customs and habits of South Africans," without direct control over imports the repayment of sizeable amounts of foreign debt must mean an anaemic economy and increasing impoverishment.

"Foreign creditor nations who forced SA into this situation are either ridiculous in demanding debt repayment while making it impossible for her to do so, or otherwise fiendishly — and foolishly — intent upon inflicting maximum harm."

But SA's homespun political framework has provided grist to the mill. Foreigners' moral turpitude hardly obviates the need for domestic political and social reform.

BER, perhaps remarkably given its litany of doom, predicts GDP growth of 3,4% for 1987, compared to an estimated 1,1% last year. It sees government consumption and stock building as the mainsprings, jointly generating 69% of the projected GDP rise.

Additional spending on personnel and unemployment expenditure or salary increments higher than the inflation rate — to which the election may make a contribution —is, according to BER, "not much appreciated by the private sector."

If the future is to hold much hope, the bureau argues that considerable emphasis should be placed on supply factors, rather than demand. "Or, we shall become just another African economy" ■

ECONOMIC CONCENTRATION (49)

6/2/87 FM

Flawed structures

Concentration of market power has been almost unavoidable in SA, given the size of the economy and the restrictions placed upon it. Economic policies that focused on the export of raw materials and the import of manufactured goods limited markets and provided little scope for economies of scale.

At the same time, major statutory constraints were imposed over the years — for example, by the Group Areas Act, Land Acts, job reservation, influx control and discriminatory access to funds. These distorted growth patterns excluded large segments of the population from commercial life and created conditions in which it was easier for big business to prosper than for the smaller enterprise.

Once in place, the tendency for control to find its way into a few hands gained its own momentum.

Profits generated within such concentrations must find fresh investment avenues. In the nature of things, they will follow the line of least resistance. And, with exchange control damming up funds, sanctions cutting export markets, and the weaker rand sending up costs of capital investment, there is likely to be growth by acquisition.

Unfortunately, at precisely this moment, the economy has never been more vulnerable to the damaging potential inherent in this situation. The forces most conducive to increases in concentration make it most harmful — because they help perpetuate both the crippling recession and the frightening rate of inflation.

With investor confidence and consumer demand low and the cost of capital investment often prohibitive, any merits of concentration are neutralised while its defects are maximised.

The reason is that monopolists tend to respond to demand by putting up prices rather than pushing up production (thereby creating jobs). So non-competitive markets counter most forms of anti-inflationary policy, while increasing their impact on unemployment.

Most research on concentration of control has centred on inflation. According to Rhodes University economist Brian Dollery, findings both in SA and abroad have been "inconclusive and controversial." His own study of price changes in SA between 1978-1980 does not support the theory that "product market imperfections play an important role in the local inflationary process."

Research by Frederick Fourie of the University of the Orange Free State shows that, between 1972-1979, prices in competitive sectors did not increase any more slowly than those in concentrated sectors; for, among other reasons, benefits conferred by economies of scale can counter the restraints of non-competitiveness.

But he stresses that, though concentrated sectors don't contribute more to inflation than deconcentrated sectors, this doesn't mean they don't play a part; and if price rises are passed on this could propagate inflation.

He points out, however, that one has to distinguish between high prices and continuously rising prices. "Only the former is indisputably caused by economic concentration. Absence of competition may create distortions in relative prices, but one-off price rises alone can't create or perpetuate inflation."

There are even indications that near-monopolies can be a positive force in containing inflation. Dollery's research confirms that their large market shares allow them to exploit the advantages of economies of scale, while competitive firms experience higher average costs.

However, there is evidence that, when demand is constrained, the opposite may be true.

Says Fourie: "My results indicate that a lack of competition tends to impede anti-inflationary demand policies. I haven't done much research on its effect on supply policies, but my feeling is that concentrated sectors may be slow to respond to incentives, cost changes and new opportunities."

So downward price inflexibility is more likely in non-competitive than in competitive markets.

Even more serious, given SA's social instability, is the impact of concentrations of market control on unemployment. "When authorities suppress demand, the trade-off between inflation and unemployment is more painful," says Fourie, "and a higher price has to be paid in terms of unemployment." ■

Govt must 'think again' on debt payment

CAPE TIMES 7/2/87

(49)

JOHANNESBURG. — The government needs to think again on the repayment of SA's foreign debt, says the president of the Afrikaanse Handelsinstituut and senior general manager of Saambou National Building Society, Christie Kuun.

"SA will have to take a harder look at the repayment terms of its foreign debt and, if necessary, also at stricter import control, if the country's trading partners persist with boycotts and sanctions," he says.

Addressing the Bethal Afrikaanse Sakekamer, Kuun said the SA economy had not been so ripe for stimulation for the past six years. Whatever strategy was adopted to stimulate it, however, shortages on the current account had to be guarded against because this would seriously damage any prospects of economic growth.

Extraordinary steps

Kuun said SA could not be expected to meet its debt obligations if the country was denied the opportunity to earn vital foreign exchange through exporting.

SA had thus necessarily to take extraordinary steps to protect its balance of payments. It would be morally defensible for SA's negotiating team at the next round of talks to insist on redeeming only a nominal amount of its debt over the coming year. Such a step could not be seen as contrary to GATT rules, because countries party to this agreement had the right to take steps to protect their balance of payments.

Kuun said the present boycott action had already damaged SA appreciably, and hence an attempt would have to be made to "save a commensurate sum by means of import control".

Kuun said a growth rate of 2,5% in 1987 could not be excluded, but that this revival would probably not extend beyond the first quarter of next year. The inflation rate would probably not drop below 16%.

Dim prospects

He expressed his concern at the brevity of the anticipated economic revival, and said it could give rise to undue expectations which could lead to increased labour unrest.

In addition, he added, the general economic prospects over the longer term to the end of the decade were not particularly bright. A political settlement which satisfied all groups in the country was unlikely in the foreseable future.

SA could thus stand by for more sanctions. These would result in a low economic growth rate and general decline in living standards.

Kuun pointed out that countries like the US and Britain had faced the same socio-economic problems, and succeeded in recovering their economic esteem through purposeful economic strategies based upon price stability and strengthening their balance of payments. There was no reason, he said, why SA should not follow the same course. — Sapa

Little relief expected in mini-budget

(49) WIE Pad 7/2/87

By PATRICK CULL

CAPE TOWN — South Africa's hard-pressed taxpayers can expect little in the way of relief when Finance Minister Barend du Plessis presents his Part Appropriation Bill (mini-budget) on Monday.

In fact, it is generally agreed that the only plus in the mini-budget will be that the 1983 loan levy, due to be repaid in 1990, will now be returned to taxpayers this year.

It is understood that the original package proposed by Mr Du Plessis contained tax cuts for the lower income groups, a drop in general sales tax and an announcement of increases for civil servants.

The Cabinet, however, apparently turned down these proposals.

One thing mitigating against increases for civil servants is that negotiations between the various employee bodies and Government are still taking place

It is understood, however, that increases will be announced before the election on May 6 and that some arms of the service, such as the police, have already been informed that they will receive increases in April.

Mr Du Plessis also wanted to drop GST by 1% or 2%, something which would have been widely welcomed, particularly in the hard-hit motor industry.

Once again, however, his proposals apparently met a stone wall at this week's Cabinet meeting.

Predicting that the Government would adopt its normal election ploy of handing out largesse prior to a general election, a warning has come from the Oppostition spokesman on finance, Mr Harry Schwarz.

Stating that the main Budget would only be presented after the election, Mr Schwarz warned that voters might well receive the sweets first and the medicine afterwards.

TODAY the Minister of Finance, Mr Barend du Plessis presents his Part Appropriation Bill, the "Mini-Budget," in Parliament. In our Focus today Barclays Bank economist NCEDO MLAMLA looks at what Mr du Plessis is likely to present to Parliament.

BAREND du Plessis . . . Minister of Finance.

Mini-Budget will bring some relief

(49)
Sowetan
9/2/87

FOCUS

THERE is speculation that the so-called Mini-Budget will bring some relief to the beleaguered inhabitants of this country. While stimulatory measures may be adopted for all the wrong reasons, i.e. to woo voters in the coming general election, the economic benefit should provide the ordinary man with some respite.

It is, for instance, expected that the Minister of Finance will allow an early repayment of the 1983 loan levy. This measure alone will inject some R213 million into the pockets of consumers. While most of this handout is likely to be spent, it remains only a small gesture in an economy of R140 000 million a year.

It is also being speculated that, since the Margo report has been completed, the Government may announce (during the course of the year) *some changes in the tax structure.*

This may take the form of a cut in general sales tax or for that matter a combination of the two.

Either way, the Government would be cutting its source of revenue, if it adjusts the tax rates downwards. The realisation that we have to get the economy vibrant once again, makes this option attractive although its possible implementation would mostly be an election ploy.

A reduction in GST or income tax would give more sustained support to consumer spending than a once-off loan levy repayment. A cut in GST for instance would be visible every time a consumer makes a purchase.

The same would also apply to a cut in personal income tax, if one were to be granted. Every time a person gets paid, the pay check would be fatter than before a cut for personal income tax. Consumers can under these circumstances commit themselves on additional consumption spending, because pay cheques are a recurring cash flow.

A cut in either of the two or both would have a much desired economic effect because they will result in visible and immediate additional cash to the consumer. We have got to realise that while raising revenue was the major goal of taxation, such a goal cannot be attained when the economy is stagnant.

High tax-rates as we experience in South Africa suppress entrepreneurship more than other activities. It has to be borne in mind that entrepreneurs undertake investment at great risk. As a result they require and expect an acceptable return on their investment as reward for taking such risk.

If therefore this return is reduced too much through taxation, the spirit of entrepreneurship may be undermined. In our particular case where we have high unemployment, the existence of a vibrant underground economy cannot be dismissed. It is possible that in an environment as this, which is coupled with high tax rates, the Government may actually be reaping less or reduced revenues from taxation.

There is yet another speculation that all the civil servants are in line for a pay increase ranging somewhere between 10 and 15 percent. Taking into account that the Government is the largest employer, such a move would certainly have economic impact.

It may be expected that such a pay increase would result in increased consumer spending.

A move of this nature combined with the others we mentioned earlier on, is mostly likely to lead to a temporary acceleration of spending in the economy. Considering the economic state that we are presently experiencing these measures are by no means drastic. In any event if we regard our present economic status as being dire, we should adopt drastic measures to correct such a status.

As for the inflationary prospects of adopting such measures, it is rather doubtful that they can be any worse than they are now.

READER Number 4, 1986 ava...

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W Mail 6-12/2/87

(49)

THE ECONOMY

Don't look to the farmers for recovery

Instead of real increases or positive results, we are being tickled with tantalising slowdowns in the rates of plunging earnings. AURET VAN HEERDEN shoots down the theory that farmers will lead the way out of the gloom

THE trickle of positive indicators has grown into a stream of statistics insisting that the recovery is here. But before donning your water wings, check if the depth demands it.

The latest turnaround is in the hotel industry, which reported slight improvements in the three months to November 1986. Eleven of the 20 regions had better room occupancy than the year before, and 14 had better bed occupancy (which probably means more people are sharing.)

However, 16 regions had lower bar sales and only one, "the rest of the Free State", had improved real income of 8 percent.

These are the terms in which the recovery is being measured. Instead of real increases, or positive results, i.e. better than zero, we are being tickled with tantalising slowdowns in the rate at which earnings and output are falling.

The Barclays Business Brief for January lists as positive factors the bumper harvest the good rains should bring; the negative real interest rates that are now so low that "a turning of the stock cycle cannot be far away"; a reduction in the rate of short term capital outflows; the strengthening of the rand against the dollar; fewer summonses for debt; a blip in the downtrend in retail sales; a pickup in overall manufacturing production and an improvement in chemical production.

Improved exports have helped basic iron and steel production volumes, and gold appears to be climbing again. Finally, the stock exchange bull run looks set to continue.

Scratch the surface though, and these bright spots are pretty grey underneath.

Bankruptcies have slowed from 250 a month in 1985 to 230 in 1986. Demand for credit is at an all time low despite lower interest rates, the rand has failed to reach 50USc despite a gold price of over $400 an ounce, and retail sales remain flat. Even the good rains will not produce much of a rainbow.

Agriculture, in good years, contributes only six to eight percent to the GDP, compared to manufacturing's 22 percent. This limited contribution pales a bit when you consider the agricultural sector owes more than it earns. It has rung up debts of around R12-bn, 55 percent of it short term, while the gross value of its output is less than R11-bn.

Averaged out, this means each farmer owes some R180 000, but will earn only R170 000. These averages are misleading though, since a mere six percent of the farmers produce a full 40 percent of the income. This means the remaining 94 percent, or 61 100 farmers, share R660-m, which gives them each about R11 000.

Net farming income has been falling almost four percent a year, while input costs rise by over 23 percent. It's no wonder the number of white farmers has shrunk 27 percent, a total of 25 000, in the last 10 years.

The retail sector is still down, and with real incomes declining in a politically uncertain environment, consumers can hardly be expected to go out and splurge. Volkskas says real personal income after taxation fell about 9,5 percent in 1986, which adds up to a 20 percent drop since 1980.

Our per person share of the national product is shrinking as well. A recent report by stockbrokers Edey, Rogers and Co. shows that SA's per capita GDP was lower in 1985 (R2 030,79) than in 1971 (R2 071,52), and even with the injection provided by repeated gold booms, the 15-year growth rate is zero.

Despite good profits, companies are simply not investing in production or stocks. Instead, some R12-bn per year is joining the JSE paper chase where it does little to create jobs and pay wages that may assist a general recovery.

Dig a little deeper into the soil of recovery and you strike rock, not gold. The crucial sector in terms of any recovery is manufacturing. It is the largest single component of GDP and employs more people than any other sector. The index of manufacturing production is showing a slight improvement, and may strengthen if either internal or external demand picks up.

Fat chance. Declining real wages and increasing unemployment, rapidly rising prices and social insecurity put any chance of greater local consumption out of sight.

Export prospects are no better. International standards of quality, productivity and price leave little room for SA's manufacturers in world markets, and the only penetration they have comes from the weak rand. And there's the catch. For any turnaround in manufacturing involves an increase in imports of capital and intermediate goods. Imports in this sector exceed exports 4:1, and the low rand makes them very expensive indeed.

Any increase in manufacturing production will therefore be on the basis of considerably higher costs than presently prevail and will carry through to the consuming public, whose ability to bear them is questionable.

The higher import bill would change the shape of the balance of payments which currently tilts in favour of exports. This the country cannot afford, as the current account surplus is needed to counterbalance the massive short-term debt that still has to be repaid. With the standstill agreement about to expire, the Reserve Bank cannot afford a sudden cut in the surplus through rising import costs.

The bank also cannot afford to let the rand rise to help importers, because this would reduce the export earnings which generate the surplus in the first place. They are likely, therefore, to tread a compromise path between an exchange rate that would price imports out of reach and one which would undermine export earnings.

Most commentators think the Reserve Bank favours a range of 45-50USc, assuming it can hold it there. The national industrial action which can be expected if wage negotiations deadlock in the mining and metal industries would almost certainly discount the rand to its previous Rubicon range of 35-40USc.

So will the hardline right turn in parliamentary politics as the election draws near, and the further rounds of repression PW Botha says are necessary before reform can take place.

Budget tax relief out?

49 DD 9/2/87

Dispatch Correspondent

CAPE TOWN — Parliamentarians are wondering what happened in the middle of last week to make the Finance Minister, Mr Barend du Plessis, change his mind about today's mini-budget.

Earlier in the week they had been confidently predicting tax cuts all round but by the weekend they were saying the only surprise would be that it would not be an election budget.

There had been earlier predictions of a cut in GST and personal tax, relief for working wives, increases for civil servants and an early repayment of the 1983 loan levy.

Now it seems civil servants will have to wait until later in the year and, apart from possible minor concessions, the only thing taxpayers will have to look forward to is the repayment of the loan levy.

The general opinion is that the cabinet decided on Wednesday the country just does not have the money and ruled out large scale tax relief in spite of being well aware of the growing voter resentment over the rising cost of living.

It has also been suggested that President P. W. Botha did not want to be seen as buying votes with tax cuts.

The mini-budget will provide finances to keep the state running until the main budget later in the year.

It is not known when this will be. Parliament is expected to reassemble only weeks after the May 6 Assembly election to sit for several weeks and then adjourn until sometime in August for a third session.

The government is thought to be keen to give the economy a boost to keep it on an upswing but an early repayment of the loan levy will be only a minor injection.

New tax measures are expected later in the year after the government has had time to fully consider the options presented by the Margo Commission.

Use the R200-m to adjust pensions gap, says Reddy

10/2/87 Star

(49)

PARLIAMENT — It was to be hoped that the additional R200 million allocated in the mini-budget for pensions would be used to address the present disparity between the races, the **Minister of the Budget in the House of Delegates, Dr J N Reddy**, said yesterday.

He was speaking during the second-reading debate on the Part Appropriation Bill.

WORKING

He said the concessions announced went some way to meeting the genuine grievances of working wives, but the reduction in personal tax was not as much as one would have wished.

It was important that it encouraged taxpayers with concessions so the tax base could be expanded and work opportunities increased.

Mr Reddy added that many people would be concerned at the decision not to reduce GST and he appealed to the Government to seriously consider a reduction in the main Budget later this year.

The additional sum voted for pensions should be used to address the disparity in pensions between groups in addition to improving the general level of pensions, he said.

Mr Mahmoud Rajab (PRP Springfield) referred to the slogan of "Forward with confidence" suggested by the State President, Mr P W Botha, at a meeting with business leaders last year and which the Minister of Finance, Mr Barend du Plessis, suggested could be a "rallying cry" for 1987.

It was ironic that Mr du Plessis should make such a remark when Mr Botha had just slandered South Africa's largest bank and its chief executive, Mr Rajab said. — Sapa.

Mark time budget

CAPE TIMES 10/2/87 49

By AUDREY D'ANGELO
Financial Editor

"AS YOU WERE" is the general impression left by some R1 billion worth of handouts in the Part Appropriation Bill — mini-budget — delivered in Parliament yesterday by the Minister of Finance, Mr Barend du Plessis.

The appropriation, which must tide State spending over until the main budget, expected at mid-year, offers several tax concessions, but offers dubious gains in real terms.

Individual (not company) income tax cuts come into effect from March 1, along with early repayment of the 1983 loan levy.

Organized commerce and industry appear to be favourably disposed towards the proposals and even the civil service has evidently accepted with equanimity that it will have to wait until June to clear up details of an anticipated pay rise.

But there was disappointment that GST and company tax were not cut.

And Mr Harry Schwarz, Progressive Federal Party spokesman on finance, said in his reaction to the mini-budget that the government was handing out "sweets before the election".

He also accused Mr Du Plessis of being unethical and trying to hoodwink voters.

"He says to the civil servants, be good and vote for me and you will get your increases later."

The Cape Town Chamber of Commerce and the Cape Chamber of Industries said that a cut in GST and company tax would have encouraged investment and growth.

The fireworks are expected in the main budget, after the election, when drastic changes to the tax structure are hoped for as a result of the long-awaited report by the Margo Commission.

Meanwhile, Mr Du Plessis made it plain that he was primarily concerned about fiscal drag, which erodes the effect of annual increases by pushing wage and salary earners into higher income tax brackets set without regard to inflation.

To offset this, tax rates have been cut and the tax threshold — the level of income above which tax has to be paid — has been raised.

The married women's earnings allowance has been raised. From March 1, when the changes come into effect, wives with jobs will have a tax-free earnings allowance of R2 250 or 22,5%, whichever is the greater, compared with the present R1 800 or 20% of the earnings, whichever is greater.

The maximum rate of tax, paid by single people with an income of R42 000 or married couples with

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The mini-budget 49

an income of R60 000 or more, will be reduced from 47% to 45%.

A doubling of tax-free income on savings, from R500 to R1 000 a year, will help people on fixed incomes.

The 1983 loan levy will be repaid before the end of March, putting another R210m plus R77m interest, into consumers' pockets.

And R200m will be spent on increasing pensions.

No announcement was made on public service salaries and pensions.

Professor J L Weyers, chairman of the Consumer Council, welcomed aspects of the budget such as higher pensions, but cautioned the man in the street not to be too optimistic about possible financial benfits.

□ Mr Colin Cameron, president of the Public Servants Association, said last night that he had not anticipated a salary increase in yesterday's announcement.

Govt handling of inflation, unemployment under attack

Political Staff

The main thrust of opposition attacks in the House of Assembly on the mini-budget was that the Government had failed to come to grips with inflation, unemployment and instability.

While tax cuts and other concessions were welcomed, the Government's handling of the economy came under fire from all the opposition parties.

Mr Harry Schwarz (PFP Yeoville), the chief Opposition spokesman on finance, accused the Government of using "unethical methods" to lure voters before the coming election.

He said the Government was offering voters "sweets" now but was saving the "medicine" till after the election.

This was "an immoral thing" that the Government had done.

"IMMORAL"

Mr Schwarz was ordered by the chairman, Mr Rex le Roux, to withdraw the word "immoral".

After withdrawing the word, Mr Schwarz said what the Government had done was "unethical".

He moved an amendment that the House decline to pass the second reading of the Part Appropriation Bill because the Government had failed to administer the economy effectively.

The proposed amendment also said the Government had failed to apply appropriate fiscal and monetary policies and "by reason of its blunders has seriously contributed to high inflation, unemployment, instability and debasement of the country's currency".

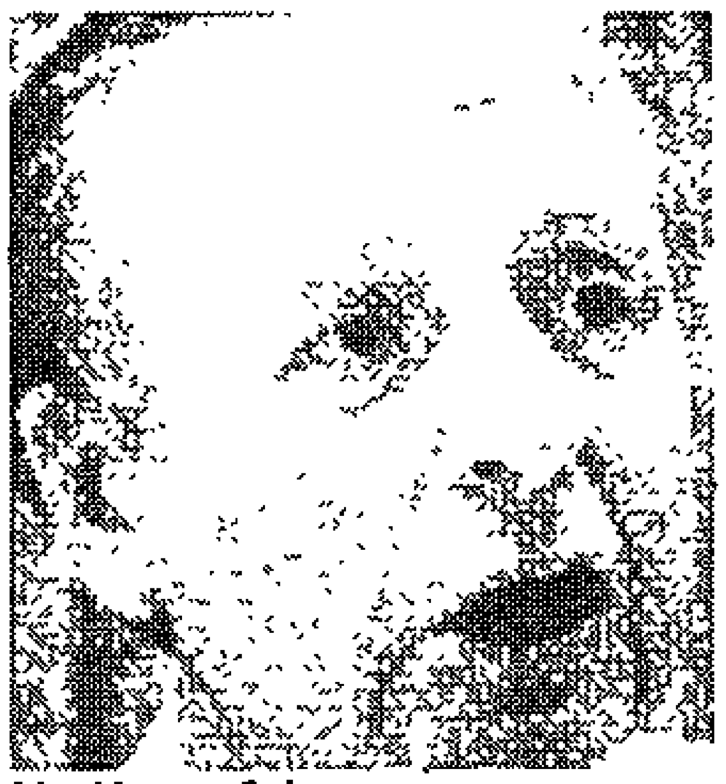
Mr Schwarz said there was clearly no enthusiasm, not even on the Government side, for the mini-budget proposals from the Minister of Finance, Mr Barend du Plessis.

The Minister had underestimated the intelligence of voters.

He had made promises to the effect that public servants would be granted salary increases "if they are good and vote for the NP".

The Minister had also underestimated the intelligence of women.

"The women of South Africa cannot be bought. They can be wooed with love, but they cannot be bought," Mr Schwarz said in a reference to the proposed increase in the tax rebate for married women.



Mr Harry Schwarz ... accusation of "unethical methods".

Mr Schwarz also accused the Government of having destroyed the confidence of businessmen, consumers and investors.

Referring to President Botha's controversial remarks last week about Barclays Bank managing director Mr Chris Ball's alleged involvement in the funding of pro-ANC advertisements, Mr Schwarz said:

"If anything was calculated to do harm to business confidence it is what we witnessed last week."

Mr Jan van Zyl ... people being "taxed to death".

Mr Schwarz said his advice to President Botha was to "keep out of economic affairs".

The Conservative Party's finance spokesman, **Mr Jan van Zyl (CP Pretoria Sunnyside)** said the Minister of Finance was "taxing the people to death".

People had to pay so much tax that they could no longer buy what they needed, let alone save any money.

Mr van Zyl proposed an amendment that the House decline to pass the mini-budget because the Cabinet had not taken effective steps to combat inflation, price increases, unemployment and unrest. The Government had also failed to give adequate aid to certain sectors of agriculture.

Mr Derrick Watterson (NRP Umbilo) said his party hoped the Government would not try to "buy" support from voters in the election, even if this was done with promises.

Mr Charles Simkin (NP Smithfield) said: "This is not a fat-cat budget."

Opposition criticism had been vague and did not offer any concrete proposals to solve the country's economic problems.

Mr Karel Swanepoel (NP Gezina) rejected opposition claims that the mini-budget would be inflationary. He said what was inflationary was irresponsible price increases after salary adjustments for civil servants.

Introducing the Part Appropriation Bill yesterday, **Minister Barend du Plessis** announced cuts in income tax rates, an increase in the tax concession for working wives, the repayment of the 1983 loan levy, and higher Government pensions.

Mr du Plessis said the Government would be injecting the economy with a total of R1 billion.

MINI-BUDGET REACTION

FCI calls for reform to restore confidence

Business Day Reporters

THE Federated Chamber of Industries (FCI) warned yesterday that investor confidence could only be fully restored if substantial progress was made on the reform front.

Reacting to the mini-budget, FCI president Hans Snyckers said it was firmly aimed at stimulating confidence in the still flagging economy.

Increased consumer spending power should put greater thrust into the upswing, he said.

Medium-term

"The chamber hopes other actions in the government's pipeline will not neutralise the positive effects generated in this budget." he said.

Snyckers welcomed the emphasis on implementing the medium-term economic strategy — especially in terms of pursuing a policy of promoting inward industrialisation.

Spokesmen for both the Associated Chambers of Commerce and the Afrikaanse Handelsinstituut last night welcomed the package announced by Finance Minister Barend du Plessis in Parliament yesterday.

Assocom CE Raymond Parsons said he "shared the realistic assessment of the economic situation and the outlook for SA" given by Du Plessis.

He welcomed the tax and other concessions.

He said they would make a "positive contribution to business and consumer confidence".

"Assocom believes that the fiscal decisions embodied in the Part Appropriation speech improve the chances of SA reaching a target growth rate of 3% in 1987, unless neutralised by other unforeseen circumstances," said Parsons.

He added he was pleased with the Minister's rejection of price and wage controls as well as the postponement of salary increases for civil servants.

AHI vice-president and MD of Sanlam Pierre Steyn said he was "pleasantly surprised" by the content of the budget.

In particular, lower personal taxation rather than a general salary increase would contribute towards fighting inflation.

Loan levy

"The lowering of the maximum marginal rate to 45% will be especially beneficial to entrepreneurship," he said.

The steps announced would boost both consumer spending and consumer confidence.

And this would be enhanced by the early repayment of the loan levy.

However, Steyn warned against unnaturally high private and public sector salary increases later this year.

INCOME TAX PAYABLE: 1987 AND 1988 MARRIED UNDER 60

Income	No Children			1 Child			2 Children			3 Children		
	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction
R	R	R	R	R	R	R	R	R	R	R	R	R
3 300	—	—	—	—	—	—	—	—	—	—	—	—
6 000	2	—	2	—	—	—	—	—	—	—	—	—
6 500	78	—	78	—	—	—	—	—	—	—	—	—
7 000	154	55	99	59	—	59	—	—	—	—	—	—
7 500	230	130	100	135	30	105	40	—	40	—	—	—
8 000	306	205	101	211	105	106	116	5	111	21	—	21
9 000	458	355	103	363	255	108	268	155	113	173	55	118
10 000	610	505	105	515	405	110	420	305	115	325	205	120
11 000	762	655	107	667	555	112	572	455	117	477	355	122
12 000	914	805	109	819	705	114	724	605	119	629	505	124
14 000	1 263	1 136	127	1 168	1 036	132	1 073	936	137	978	836	142
16 000	1 689	1 544	145	1 594	1 444	150	1 499	1 344	155	1 404	1 244	160
18 000	2 177	2 018	159	2 082	1 918	164	1 987	1 818	169	1 892	1 718	174
20 000	2 704	2 532	172	2 609	2 432	177	2 514	2 332	182	2 419	2 232	187
25 000	4 188	3 994	194	4 093	3 894	199	3 998	3 794	204	3 903	3 694	209
30 000	5 905	5 702	203	5 810	5 602	208	5 715	5 502	213	5 620	5 402	218
40 000	9 951	9 590	361	9 856	9 490	366	9 761	9 390	371	9 666	9 290	376
50 000	14 318	13 831	487	14 223	13 731	492	14 128	13 631	497	14 033	13 531	502
60 000	18 873	18 228	645	18 778	18 128	650	18 683	18 028	655	18 588	17 928	660
80 000	28 367	27 225	1 142	28 272	27 125	1 147	28 177	27 025	1 152	28 082	36 925	1 157
100 000	37 867	36 225	1 642	37 772	36 125	1 647	37 677	36 025	1 652	37 582	35 925	1 657

NB. (1) The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants.

(2) The standard deductions for medical expenses and rebates for insurance premiums have been allowed.

Mild welcome for mini-budget

NM (49) 10/2/87

Finance Editor

YESTERDAY's mini-budget has not proved to be 'wildly exciting' for commerce and industry, which is waiting for the Government to tackle inflation.

It has given money to wage and salary earners better able to cope with food prices rising at 22% a year than voteless and unemployed people who would have benefited from a cut in GST at the same cost to the Government's coffers.

Mr Rod Draper, chairman of the Natal Chamber of Industries' taxation committee, 'mildly welcomes' the measures but says the tax concessions will be negated by the effects of general salary increase, meaning that the Treasury will 'get in more than it is giving away'.

Levies

Mr Brian Hill, president of the Durban Metropolitan Chamber of Commerce, focuses on the lack of specific steps to combat inflation and a warning that the impending levies for Regional Services Councils 'could take out of consumers' pockets more than GST did in its first year of introduction'.

Mr Peter Searle, president of the National Association of Automobile Manufacturers of South Africa, was cheered by the stimulus given by the R1 000m package and thought that demand for motor vehicles was likely to receive a modest boost.

Dr Hugo Snyckers, president of the S A Federated Chamber of Industries, thought the flagging economy should get a boost from the increased spending power and was aimed at stimulating confidence.

But he warned that 'other actions' from the Government might neutralise the positive effects in the mini-budget and that 'investor confidence can be fully restored only if substantial further progress is made on the reform front.'

Mr Walter Geach, a tax consultant, said the need to introduce separate taxation for working couples remained and he hoped this would come about in the Margo Commission.

The increase in the wife's earnings was heartening but the principle needed to be changed 'since continous increases in the amount of the deduction merely highlight the absurdity of including a married woman's earnings with those of her husband.'

Durban Chamber of Commerce's Mr Hill said the budget was plainly aimed at marking time until the main budget on June 3 but it was continuing the Government's commitment to channel money into housing schooling, training and job-creation.

There was no indication of the state of the Government's finances and how far spending had overrun: nor was there anything about inflation — indeed, 'the vagueness about what the Government is going to do about it is disturbing'.

Taxation

Mr Hill said the findings of the Margo Commission on taxation needed to be released now for public consideration while a White paper on the Government's reaction could be postponed.

He said: 'Some people' would get relief with the repayment of the loan levy and the tax concessions and they would go some way to rekindling demand, 'which remains at a very low ebb.'

But the concesssions did not go anyway towards overcoming the problem of fiscal drag, he said.

The Chamber of Industries' Mr Draper said the move to help working wives would continue the recent measures 'until an acceptable accommodation is reached.'

On loan levies it was hoped that they 'will never be seen again.'

And the interest incentive might encourage ordinary persons to retain investments in fixed interest securities pending a solution to the problem of inflation and taxation on this class of investment.

Mr Draper said the tax concessions did not compensate for the effects of inflation, 'seeing that the limited for taxable income have not been raised.'

The five-year help to farmers was reasonable as they undergo the transition away from control boards.

He said the import surcharge was inflationary and in spite if repeated pleas had not been removed. There was surplus capacity in industry which would have to replaced through imports.

'It is disappointing to note that there is nothing to directly encourage this.'

(49) NJM 10/2/87

Unease over idea

MR DU Plessis said he was uneasy at the view that business profit margins had to be fully restored before meaningful price reductions could be offered.

He said such 'ill-advised' policies could lead to a 'vicious price-cost spiral' that could force the Government to impose direct price controls.

At the moment, the Government believed it would be folly to depress demand by unduly restrictive monetary or fiscal policies.

'Neither do we envisage a resort to the direct control of prices or incomes but I must express my unease at the view apparently taking root in some quarters, that profit margins need to be "fully restored" before any meaningful relief can be looked for on the score of prices.

'I would caution against the unqualified acceptance of a doctrine of this kind,' he said. — (Sapa)

Economic policy berated

B Day 10/2/87

Own Correspondent

A VOTE for the NP on May 6 would be a vote for "economic masochism", Brian Goodall, PFP MP for Edenvale, said in the House of Assembly yesterday.

He said he could understand why government did not want the economy to become an election issue: "If my record was as bad as theirs, I would not want to discuss it, either."

He said during the second reading debate on the Part Appropriation Bill that since 1980 the economy had grown in real terms by 1%, which was the worst rate achieved since 1920.

If government remained in power in the 1990s, the growth rate would be minus 1,5%, he said.

Goodall said that when the government was elected in 1981, gross domestic product (GDP) per capita was R2 127 in real terms.

By the end of 1986, it had dropped by 10% to R1 917 — less than it was in 1972.

He said nothing had endangered SA's stability more than government's ability to destroy jobs.

In 1986, manufacturing industry employed 133 000 fewer people than in 1981.

Tax cuts, levy refunds and more for working wives in Barend's mini-budget

(49) Star 10/2/87

R1 000-m boost to economy

By David Braun, Political Correspondent

Income tax is down, working wives keep a bigger slice of their earnings and the 1983 loan levy is refunded in a R1 000-million boost to the economy announced by Finance Minister Mr Barend du Plessis in Parliament yesterday afternoon.

Pensioners and people who rely on income from investments are also to get relief.

But the expected cut in general sales tax and an increase in the pay packets of public servants were not contained in the mini-budget tabled by the Minister at a joint sitting of Parliament.

These are the highlights of what Mr du Plessis termed "an attempt at a mild stimulation in order to continue the momentum of the economic recovery".

They come into effect from the beginning of next month. The loan levy refund should be posted to more than one million individual taxpayers by the end of March.

The details of the package are:

- Income tax: The entire scale of progressive income tax has been adjusted downwards in order to compensate taxpayers for the effects of fiscal drag.

The maximum marginal rate of income tax has been reduced from 47,5 percent to 45 percent. The upper bracket of income at which the maximum marginal rate becomes applicable remains unchanged (R60 000 for married people).

The threshold before income tax becomes payable has been shifted from R5 987 to R6 633 in the case of a married taxpayer under 60 with no children and from R9 112 to R9 966 in the case of a married taxpayer over 65 with no children.

All rates decreased

The bottom marginal rate has been reduced from 16 percent to 15 percent.

All rates on the scale between bottom and top marginal rates have been decreased accordingly.

The income tax adjustments will cost the Treasury R550 million in the new tax year.

- Working wives: The portion of earnings which working wives will not have to pay tax on is increased. Where wives now do not pay tax on the first R1 800 or 20 percent of their income (whichever is greater) this is adjusted so that the first R2 250 or 22,5 percent (whichever is greater) is not taxable.

This concession will cost the Treasury some R100 million in the new tax year.

- Savings: The concession on tax-free interest from investments is increased from R500 to R1 000 a year (after which interest is taxed as ordinary income).
- Social pensioners: Mr du Plessis has allocated an extra R200 million for pensioners in the new tax year. The exact amount each pensioner will receive, and the commencement dates of their new pensions, are to be determined soon.
- Loan levy: R210 million plus R77 million interest is to be posted to taxpayers before the end of March.
- Salaries of public servants: Mr du Plessis said this was not a matter to be dealt with on an ad hoc basis in a mini-budget.

The entire issue would be dealt with in the main Budget, after the election.

- General sales tax: Mr du Plessis made no announcement. It is understood the Government at this stage simply cannot afford a cut in this tax.

INCOME TAX PAYABLE: 1987 AND 1988
MARRIED UNDER 60

Income	No Children			1 Child			2 Children			3 Children		
	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction
R	R	R	R	R	R	R	R	R	R	R	R	R
3 300	—	—	—	—	—	—	—	—	—	—	—	—
6 000	2	—	2	—	—	—	—	—	—	—	—	—
6 500	78	—	78	—	—	—	—	—	—	—	—	—
7 000	154	55	99	59	—	59	—	—	—	—	—	—
7 500	230	130	100	135	30	105	40	—	40	—	—	—
8 000	306	205	101	211	105	106	116	5	111	21	—	21
9 000	458	355	103	363	255	108	268	155	113	173	55	118
10 000	610	505	105	515	405	110	420	305	115	325	205	120
11 000	762	655	107	667	555	112	572	455	117	477	355	122
12 000	914	805	109	819	705	114	724	605	119	629	505	124
14 000	1 263	1 136	127	1 168	1 036	132	1 073	936	137	978	836	142
16 000	1 689	1 544	145	1 594	1 444	150	1 499	1 344	155	1 404	1 244	160
18 000	2 177	2 018	159	2 082	1 918	164	1 987	1 818	169	1 892	1 718	174
20 000	2 704	2 532	172	2 609	2 432	177	2 514	2 332	182	2 419	2 232	187
25 000	4 188	3 994	194	4 093	3 894	199	3 998	3 794	204	3 903	3 694	209
30 000	5 905	5 702	203	5 810	5 602	208	5 715	5 502	213	5 620	5 402	218
40 000	9 951	9 590	361	9 856	9 490	366	9 761	9 390	371	9 666	9 290	376
50 000	14 318	13 831	487	14 223	13 731	492	14 128	13 631	497	14 033	13 531	502
60 000	18 873	18 228	645	18 778	18 128	650	18 683	18 028	655	18 588	17 928	660
80 000	28 367	27 225	1 142	28 272	27 125	1 147	28 177	27 025	1 152	28 082	36 925	1 157
100 000	37 867	36 225	1 642	37 772	36 125	1 647	37 677	36 025	1 652	37 582	35 925	1 657

The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants. The standard deductions for medical expenses and rebates for insurance premiums have been allowed.

'No comment' until details of pension rise available

By Carina le Grange

Personnel working with the aged have welcomed the announcement that the threshold has risen from R500 to R1 000 before tax applies to interest on savings.

But they were cagey about discussing the extra R200 million in social pensions handouts.

Old-age pensions and disability pensions will improve.

But officials said they could not comment fully until they knew the details.

A spokesman for the National Council for the Aged in Cape Town, Dr F A van Rensburg, said inflation would erode the positive effects of the extra money.

A spokeswoman for the council's black pensions department in Johannesburg, Mrs Nomsa Mtfeweni, said: "Let's see how the money will be distributed before we welcome this news wholeheartedly.

"Disparity between black and white pensions causes ill-feeling. Will the money be used to close the gap?"

On the news that interest on the first R1 000 in savings would now be tax free, Mr Laurie Starfield of the Johannesburg Association for the Aged (Jafta) said the development would help those who had saved.

But not many pensioners helped by Jafta had large savings.

He added: "The move is welcome — but the benefit will go to the wealthy. We were looking for something for the little man."

A spokeswoman for the Transvaal regional office of the National Council for the Aged, Mrs Rita Scribante, said the increase would not affect pensioners much.

Fedhasa reacts

The Federated Hotel Liquor and Catering Association (FEDHASA) says the economy should have started recovering a year ago and hopes the mini-budget will provide the psychological kick needed.

"The hotel industry is a barometer of economic conditions," says Mr Fred Thermann, executive director operations of Fedhasa.

"Present occupancy levels are still far too low, although there has been some improvement." It remained an open question if the mini-budget would put enough money into consumers' pockets to change their frame of mind. — Sapa.

Public servants still hope for good salary increases

By Sue Leeman, Pretoria Bureau

Public servants are disappointed that no pay increase was announced for them during the mini-budget address, said the general manager of the Public Servants Association (PSA), Mr Hans Olivier.

But, he said, they were optimistic that the main Budget, to be announced on June 3, would include good increases for them.

There has been speculation that the Government would use salary increases as an election "sweetener". Across-the-board raises in the public service traditionally take effect on April 1.

However, Minister of Finance Mr Barend du Plessis said yesterday that public service salaries were not a matter to be dealt with on an ad hoc basis in a mini-budget.

The Government, he said, was sympathetic to public servants' representations and to their problems and the entire issue would be dealt with in the main Budget.

Public servants have indicated they want increases of between 10 and 18 percent, which are on a par with increases given recently in the private sector.

Mr Olivier said the PSA, which met Mr du Plessis and other Cabinet members last month for pay talks, had put forward a good case.

It had been pointed out, he said, that public service salaries were lagging behind inflation.

Tax relief for wives called 'a disgrace'

By Dan Side

Reaction has been mixed to the tax relief granted to working married women in the mini-budget presented by the Minister of Finance, Mr Barend du Plessis, yesterday.

The portion of earnings on which married women are exempted from paying tax has been increased from R1 800 or 20 percent of income, whichever is the greater, to R2 250 or 22,5 percent.

"It's a disgrace," said tax expert Mr Costa Divaris. "The concession was already a generous one.

"It's discrimination against single-breadwinner families and bachelors, and, on behalf of them, I protest.

"I would rather see the money this is costing come off the general tax table instead of favouring just one particular category of taxpayer," he said.

Mrs Roberta Johnston, spokesman for the Women's Legal Status Committee, described the concession as "not a handsome gift by any means".

She reiterated the aim of her organisation that women should be recognised as taxpayers in their own right.

"Therefore, we see the tax concession as one extended to the husband on behalf of his wife," she said.

"As adult persons, women should be taxed as adult persons.

"This size of abatement — R450 at the base — doesn't make an awful lot of difference except to people in the lower income-earning groups.

"Granted, it's going to save people a little bit, but it does not really satisfy our aim of trying to get tax rates significantly reduced," said Mrs Johnston. "They are very high in this country."

Mrs Paula Janeke, chairman of the Women's Bureau in Johannesburg and head of the committee on women and taxation, said the concessions had to been seen against the background that they were presented in a mini-budget, but would bring relief from inflation and reduce fiscal drag.

"The concessions," said Mrs Janeke, "were not considerable, but put the accent where it was most needed — on the family unit, pensioners and the lower income groups."

Barend's mixed bag mini budget

(49)

NM 10/2/87

CAPE TOWN—The injection of R1 billion into the economy through the raising of individual tax brackets, higher pensions and the repayment of the 1983 levy — announced in yesterday's mini budget — has been welcomed generally by economists and organised commerce and industry.

Mercury Correspondent

But there was disappointment that GST and company tax were not cut.

The fireworks are expected in the main budget, after the election, when drastic changes to the tax structure are hoped for as a result of the long-awaited report by the Margo Commission.

Meanwhile Finance Minister Barend du Plessis made it plain that he was concerned about fiscal drag, which erodes the effect of annual increases by pushing wage and salary earners into higher income-tax brackets set without regard to inflation.

To offset this, the levels of tax brackets have been raised. So have the tax threshold — the level of income above which tax has to be paid — and the married women's earnings allowance.

From March 1, when the changes come into effect, wives with jobs will have a tax-free earnings allowance of R2 250 or 22,5%, whichever is the greater, compared with the present R1 800 or 20% of the earnings, whichever is greater.

This means that highly paid professional women will benefit most.

The raising of tax brackets and the tax threshold means that single people under 60 will not be liable for tax if they earn up to R4 700 a year, compared with the present R4 231, a difference of R469.

Doubling

A married person with four children can earn up to R9 300 a year tax free, compared with the present R8 487, a difference of R813.

For single people above 60 but below 65, the threshold has risen by R519 to R5 500 and for single people above 65 to R8 033, an increase of R677.

A married couple with no children, with the husband earning R20 000 a year and the wife R12 000, will pay R311 less tax. Their bill will fall from R5 761 to R5 450.

The doubling of tax-free income on savings, from R500 to R1 000 a year, will help people on fixed incomes.

The 1983 loan levy will be repaid before the end of March, putting another R210 million, plus R77 million interest, into consumers' pockets.

And R200 million will be spent on increasing pensions. It is not known yet whether this will be divided equally between the race groups or how it will be allocated.

No announcement was made on public-service salaries and pensions. That is expected to come after the election and it is not known whether rises will be retrospective.

Ormande Pollok writes that Mr du Plessis was accused of trying to hoodwink voters with the mini budget.

Mr Harry Schwarz, PFP spokesman on finance, said there had been much speculation before the budget about what Mr du Plessis would do.

'He has virtually done the whole lot,' he said.

'He says to the civil servants: Be good and vote for me and you will get you increases later. I have never seen such impudence. He is keeping the civil service on a string.'

Mr du Plessis had also underestimated South Africa's working wives as they could not be bought 'with a few rands'.

Mr Schwarz said he was dishing out 'sweets' now and would bring the 'medicine' after the elections.

A previous Minister of Finance, Dr Nic Diederichs, had said before the mini budget in 1974 that it would have been 'unethical' for him to introduce tax concessions before an election.

Prof J L Weyers, chairman of the Consumer Council, welcomed aspects of the budget such as higher pensions but cautioned the man in the street not to be too optimistic about possible financial benfits.

● See Editorial Opinion and Page 4

INQUIRIES — TELEPHONE EAST LONDON 26141

Mini-budget a bid to woo voters, says Schwarz

49 DD 10/2/87

Bad news to come after poll

CAPE TOWN — The government was using "unethical methods" in offering voters "sweets" in the mini-budget and saving the "medicine" until after the election, the Official Opposition spokesman on finance, Mr Harry Schwarz, said yesterday.

Opposing the second reading of the mini-budget, he said the budget should be presented as a whole, with full accounts of revenue and expenditure.

"You should not come before the election and dish out a few sweets, and then administer the medicine after the election. This is an immoral thing that the honourable minister (of finance) has done."

Mr Schwarz was ordered by the chairman, Mr Rex le Roux, to withdraw the word "immoral", which he did.

He said that, in the mini-budget before the 1974 election, the then Minister of Finance, Dr Nic Diederichs, had said the National Party did not need to introduce favourable measures to attract voters.

"But now the National Party needs to use these unethical methods," Mr Schwarz said.

He moved as an amendment that the House decline to pass the second reading of the bill because the government had failed to administer the economy effectively and to apply appropriate fiscal and monetary policies and, "by reason of its blunders, has seriously contributed to high inflation, unemployment, instability and debasement of the country's currency".

Mr Schwarz said the Minister of Finance, Mr Barend du Plessis, had implied in his mini-budget speech that public servants would be granted salary increase "if they are good and vote for the NP.

"He says it in so many words. I have never seen such political impudence in my life. He is keeping the public servants on a string."

The minister had also underestimated the married women of South Africa in the additional tax relief he had granted.

"The married women of South Africa can't be bought. He (Mr Du Plessis) thinks that with a few rands he can get the married women to vote for the NP. But they are fed up with this minister and this government."

Mr Schwarz said he was not saying that tax relief and salary increases were not justified but he believed this should be done as part of a full budget.

He said that most of Mr Du Plessis's predictions in last year's Budget — on inflation, economic growth, and business confidence — had been proved wrong.

Under NP rule, Mr Schwarz said, inflation had increased, disposable income had dropped and "an unholy mess" had been made of exchange control.

In addition, the government fed the country with statistics on unemployed people that were "unadulterated garbage.

"What worries us is that the government has got us into this mess, has no way to get us out and yet it is seeking a mandate to get us into an even bigger mess."

The NP underestimated the voters if it believed they would support such a situation, Mr Schwarz said. — Sapa

MR SCHWARZ

Time to separate

Redcliffe: SA has become a rudderless ship

CAPE TOWN — It was despicable that the head of Barclays Bank, Mr Chris Ball, could be tainted by the attack on him in parliament by the State President, Mr P. W. Botha, the Labour Party's finance spokesman, Mr Charles Redcliffe, said yesterday in the Representatives.

Speaking in the second reading debate on the mini-budget, he said there was more to it than met the eye.

It was probably the government's way of getting at Mr Ball for his visit to the African National Congress in Lusaka.

"They are using him to demonstrate to other businessmen intending to talk to the ANC what they will do to them."

The attack on Mr Ball was reminiscent of the 23 minute castigation on television of the leader of the Labour Party, the Reverend Allan Hendrickse.

The country had become a rudderless boat on the ocean Only the security generals knew what was going on.

One could not blame the Progressive Federal Party for having no future vision for the country, he said. The tragedy was that the National Party did not have one either.

"I want to warn the Nationalists that there is an atmosphere of disillusionment among members of this House.

"We came here as an act of hope, but we're becoming sadly disillusioned.

"We are not here to be a rubber stamp for the National Party or to have our presence abused," he said. — Sapa

Opposition slams Barend's 'vote-catching'

A R1bn boost for consumers

B/Day 10/2/87 (49)

● DU PLESSIS

CHRIS CAIRNCROSS

PART APPROPRIATION BILL AT A GLANCE

- ☐ Upward adjustment of tax brackets gives taxpayers R545m;
- ☐ R237m for the reconstruction of agriculture;
- ☐ 1983 Loan Levy of R210m repaid plus R77m interest;
- ☐ Social pensions allocation up R26m to R200m;
- ☐ Tax concessions for working wives now 22,5 percent of salary;
- ☐ Marginal tax threshold raised to R60 000; rate reduced to 45%;
- ☐ Tax concessions of savings up from R500 to R1 000.

GOVERNMENT yesterday presented a R29bn mini-budget designed to mildly stimulate the economy and draw the support of voters in the May election.

It was immediately slammed by opposition spokesmen as an exercise in "political impudence", "totally immoral", and designed to seek a mandate for creating an even bigger economic mess.

● See Pages 4 and 5

In presenting the Part Appropriation Bill in Parliament, Finance Minister Barend du Plessis promised a package of "sweeteners" to the electorate which he claimed will place an additional R1bn into the hands of the consumer. They include:

☐ Repayment by the end of March of the 1983 loan levy — an amount totalling R287m.

☐ An increase in the total social pension pay out — from R174m to R200m.

☐ An improvement, from R500 to R1 000, in the tax exemptions on interest-paying investments. This is expected to result in a revenue loss of R119m in the 1987/8 tax year.

☐ The tax rebate for working wives is to be raised to R2 250 or 22,5% of total net earnings, compared to R1 800 or 20% of net earnings. This concession will result in revenue losses of R95m.

☐ Concessions to individual taxpayers involving a 1% reduction to 15% in the tax levels applicable to lowly paid earners, and a reduction in the marginal rate from 47,5% to 45% in the case of taxpayers earning incomes in excess of R60 000 a year.

The new tax rates will apply from March and will result in a revenue loss of R545m over the next year.

Du Plessis also offered a major palliative to the farming community.

He promised a R117m pay-out to the agricultural sector in the main Budget. This would be part of a first instalment in a five-year programme for reconstruction of this sector.

A further R120m will be made available for other assistance programmes to farmers during the year. Details will be

● To Page 2

R1bn boost for SA consumers

B/Day (49) 10/2/87

● From Page 1

announced later.

Apparently on specific instructions from President P W Botha — who does not want to be seen to be blatantly buying voter support in the coming election — Du Plessis declined to provide details of wage increases likely to be granted to the public service.

He stressed, instead, that these will be dealt with sympathetically in the main Budget early in June.

Finance Department sources said the increases — between 12% and 15% — have already been agreed to and could well have been announced now instead of later.

It seems certain the pay rises will be back-dated to April 1.

Du Plessis did not cut GST, although he indicated it was an option that was considered.

The main reason for this decision was no alternative revenue sources could be identified: for every 1% cut in GST the revenue loss would be an estimated R850m.

Another reason was no major conclusions had been made on the Margo Commission's recommendations — which are still the subject of review.

Little comfort in mini-Budget

10/2/87 (49) Sowetan

By SOWETAN REPORTER

YESTERDAY'S mini-Budget had little comfort for the man in the street — general sales tax (GST) stays the same but there was a slight income tax relaxation for working women.

Social pensions are to be increased but details will only be given after the various welfare departments have made calculations.

The Budget was announced by Finance Minister Barend du Plessis in Parliament yesterday. The expected salary increases for civil servants will only be announced on June 3 when the main Budget is presented in Parliament.

Loan

In terms of yesterday's Budget R1 000 million is to be pumped into the economy. The Government is also to repay the 1983 loan levy.

But as most blacks were taxed separately at this stage they will not benefit from this.

Mr BAREND du Plessis . . . Minister of Finance.

There was speculation last week that the Government would announce a good news budget — thus buying votes for the coming elections. The good news would have been a reduction in the GST and an announcement on salary increases for public servants.

The R1 000-m package, aimed at continuing the momentum of the Government's mild stimulation of the economy was aimed almost exclusively at reducing the taxpayer's burden with tax general adjustments, including those for working wives and the aged.

The main concession, expected to put nearly R550 million into taxpayers' pockets is an upward adjustment of tax bracket thresholds and a simultaneous reduction in tax rates.

The marginal tax threshold has, for instance, been raised to R60 000 and the rate reduced to 45 percent.

Wives

The tax concession for working wives is to be increased from R1 800 or 20 percent of her salary to R2 250 or 22,5 percent, whichever is the greatest. This will generate a further R74 million in spending power.

Social pensioners are to have their allocation for increments boosted from R174 million in 1986 to R200 million. Tax concessions on savings are to go up from R500 to R1 000.

Mini-budget will give boost to the economy

10/2/87 Star (49)

Magnus Heystek
and Sven Lünsche

The economic stimulation contained in yesterday's mini-Budget will provide a much-needed boost to economic growth which has beenshowing signs of flagging.

Economists now feel a little more comfortable that a growth rate of 3 percent in Gross Domestic Product (GDP) can be achieved this year, with some even predicting a higher rate.

Tax reductions and the early repayment of the 1983 loan levy will no doubt place more money in the pockets of the average consumer.

The immediate effect of the budget will be to bolster personal disposable income which has been under considerable pressure.

Dr Hans Falkena, chief economist at the United Building Society, predicts that this will increaseby at least 20 percent giving a real increase (after inflation) of approximately two percent.

Mr Mike Brown, economic consultant to stockbrokers Davis Borkum Hare, forecasts a real growth rate of 3,9 pereent for 1987, tapering off to only 0,9 percent next year, as external brakes on economic growth come into play. This scenario can change if the gold price started rising suddenly, he says.

"Growth momentum in the economy will continue in early 1987 with official demand-management keeping economic stimulative policies in place during the first half of the year, both to consolidate the economic activity and to provide a favourable background to the general election.

"The second half of the year will, however, probably see some acceleration in inflation, rising interest rates and the growth in the balance of payments surplus starting to tail off.

These factors will act a a drag on economic growth and the peak economic momentum in the current upward cycle is likely to be experienced in the first half of this year," he added.

Analysts doubt that yesterday's concessions to the taxpayer will encourage an increase in personal savings.

The savings ratio has declined from four percent in the first quarter of 1986 to 1,5 percent in the third quarter.

Finance Minister Barend du Plessis said yesterday that one of the aims of the mini-budget was to stimulate the weak demand for bank credit in order to encourage both consumer spending and consumer confidence.

Commenting on the concessions, Dr Hans Falkena says: "We could see a moderate increase in private consumption expenditure and a very moderate increase in the personal savings ratio, but in general the prospects for growth are not very exciting."

"As real consumption expenditure is expected to increase by some three percent, personal savings could decline further by about eight percent to R1,1 billion and we foresee a personal savings ratio of about 1,2 percent for the fourth quarter of last year."

The major measure announced yesterday, which is aimed at boosting savings, while at the same time stimulating credit demand, is a concession on tax-free interest from investments, which has been increased from R500 to R1 000 a year.

But John Banos, economist for stockbrokers Simpson, Frater, Stein and Strong, commentedthat the majority of savings have recently moved into pension funds and retirement annuities and not into personal savings accounts, so that the R500 increase would have only a limited effect.

He added that last year's boom on the JSE, which has seen market capitalisation rising by almost 58 percent to R102 billion, has also had a greater wealth effect on those consumers who invested in equities, than for example the repayment of the loan levy.

"Forty percent of the investors on the JSE are private investors, and as witnessed by the recent listing of UBS, they are benefiting enormously from the boom in stock prices," Mr Banos said.

'Positive vision of future needed for growth'

GM Times 11/2/87

Reform now crucial for SA — De Kock

(49)

JOHANNESBURG. — Reserve Bank Governor Gerhard De Kock yesterday called for comprehensive further political reform, together with the maintenance of law and order, to achieve growth and prosperity for SA.

Speaking in Johannesburg at the annual Frankel Kruger Investment Conference, De Kock said short and long-term economic policies alone would not be adequate for the task.

Positive vision

"The economy will not approach anything like its optimal performance until businessmen and consumers gain a more positive vision of SA's political, constitutional and economic future," he said.

"Any meaningful return of confidence will catapult the economy into a period of rapid growth and rising living standards.

"Like most other South Africans I am painfully aware that in recent years a series of intertwined political and economic developments have adversely affected the SA economy. I realise only too well that the present situation and prospects cannot be judged by economic criteria alone. Political realities also have to be taken into account."

De Kock introducing the following five-point plan for economic growth in SA:

☐ Demand must not be reduced nor mandatory price-wage controls imposed;

☐ A moderately expansionary montery policy is needed;

☐ The exchange rate must be kept realistic;

Gerhard De Kock

☐ Fiscal policy must also be only moderately expansionary; and

☐ Of chief importance for growth is the restoration of confidence in SA's future.

The main cause of current inflation, he suggests, is "clearly to be found in the movements of the exchange rate.

"From a relatively stable level of around $0,50 between January and late July 1985 (when some American banks precipitated a withdrawal of short term foreign credits from SA) the rand depreciated to between $0,36 and $0,38 in the subsequent months — about 28%.

"As the capital outflow diminished in the early months of 1986, the exchange rate recovered to around $0,50, but the new wave of unfavourable payments leads and lags that preceeded Soweto Day on June 16 pushed it down again to a low point of $0,36 in mid June, before it entered the recovery phase analysed earier."

"It follows that as the lagged effects of the earlier depreciation peter out, the rate of price increases should gradually decline in the months ahead".

The proviso's are, of course, that "There should be no new deterioration of political perceptions and no re-appearance of demand inflation.

Moderate increases

"What the Government should do, is to set an example to the rest of the economy by granting only moderate increases in public sector salaries and wages."

Dealing with monetary policy, De Kock notes: "In the present circumstances one obvious recipe for improving the growth rate is to persist with the present moderately expansionary monetary policy. To this end, full use will be made by the Reserve Bank of the market-oriented techniques of public debt management and open-market operations".

De Kock: "But if priority is to be given to growth, an excessive or unduly rapid appreciation of the rand is to be avoided.

"The real recipe for growth in both the short and the long term is the restoration of confidence."
— Own Correspondents and Sapa

Barend du Plessis ... inflation a complex problem

Rand eases

JOHANNESBURG.— The rand slipped back in late trading on some short-covering, to close slightly higher at $0,4813/20 after rising to about $0,4850 earlier on the sharply lower dolllar and steady gold pricce dealers said.

The rand opened yesterday at $0,4833/40 against a close here on Monday of $0,4785/92.

The financial rand rose steeply to $0,2400/50 from Monday's $0,2338/88 finish.

Against other major currencies, the rand closed at:

USA: 0,4813/20.
UK: 3,1760/90.
Germany: 0,8735/45.
Switzerland: 0,7370/80.
France: 2,9110/30.
Netherlands: 0,9855/65.
Japan: 73,60/70.
— Reuter

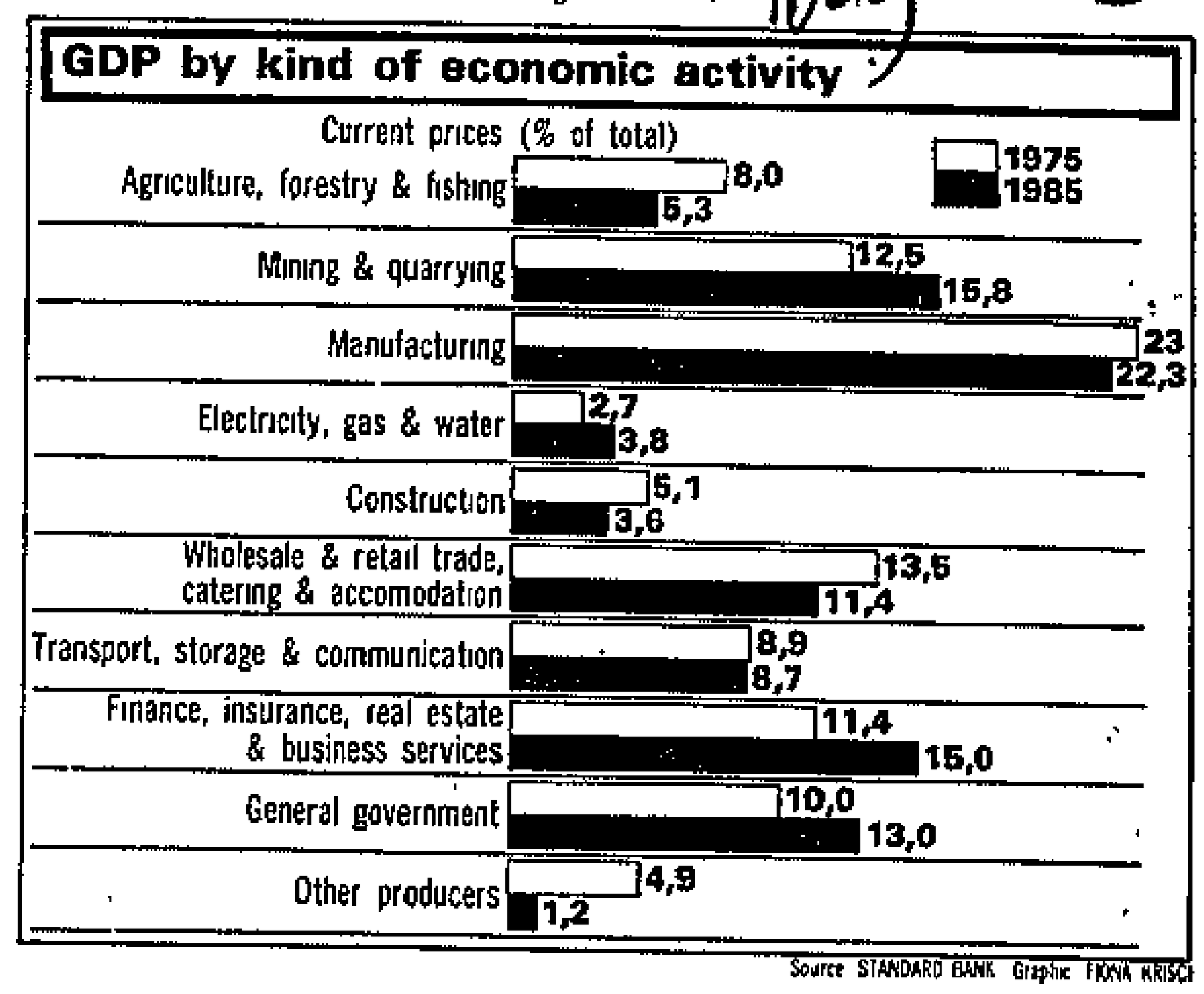
Mining boosts GDP

11/2/87 B Day (49)

SOUTH AFRICA has become more dependent on its mining and quarrying sector in the last decade, and the agriculture, forestry and fishing sector has contributed less to GDP.

The changing structure of the SA economy is evident in figures released by the Standard Bank last week.

The mining and quarry industry increased its share of GDP from 12,5% in 1975 to 15,8% in 1985, while agriculture, forestry and fishing was 8% of GDP in 1975 but only 5,3% in 1985.



HELENA PATTEN

Ronnie Bethlehem, group economist at JCI, said it was important to differentiate between cyclical and secular variations in contributions to GDP.

He said that the agricultural sector's decline in relative importance in the last five years was not a secular variation. Rather, the extended drought had contracted the sector and it would recover when climatic conditions improved. Bethlehem said that the collapse of the exchange rate and the extent to which it had encouraged exports had been a major reason for SA's increased reliance on gold and other exports. This was very important in the sanctions environment.

In the longer-term, as SA's economy developed, the manufacturing sector should increase in significance. He said that the development of this particular sector is threatened by sanctions, which is worrying in view of the importance the sector has in creating jobs.

The finance, insurance, real estate and business services sector has come to contribute substantially more to GDP — 11,4% in 1975, compared with 15% in 1985. General government has a larger share, contributing 10% of GDP in 1975 and 13% in 1985.

Over the same period, manufacturing lessened its importance from 23% to 22,3% of GDP. The construction sector fell from 5,1% of GDP to 3,6%; wholesale and retail trade, catering and accommodation fell to 11,4% of GDP from 13,5%; and other producers contributed 4,9% of GDP in 1975 compared with 1,2% in 1985.

(49) B/Day, 13/2/87

Boosters 'not in sight'

HELENA PATTEN

THE two potential boosters of the SA economy — strong world growth and a major advance in the gold price — were not in sight, said the latest Standard Bank *Review*.

Failure to make meaningful progress in 1986 towards correcting global trade imbalances, together with exchange rate movements, had led to intense political pressures and serious protectionist tendencies.

It was desirable for the major industrial nations to work towards international policy co-ordination and the reduction of trade barriers.

"The alternative could be the collapse of the US dollar if the American economy is forced into a recession by its towering budget and trade deficits," said the *Review*.

The deflationary benefits of the substantial decline in world energy prices appeared to have been exhausted, and the hardening of energy prices over the past few months was likely to move like a wave through these countries' cost structures, it said.

"A helpful factor for SA could be the prospect of a general reversal of the declining trend in world inflation this year.

"At this stage the downward potential for the gold price is small... Equally unlikely is a major break-out of gold..."

An increase of South African exports in line with the overall moderate growth projected for the OECD countries was unlikely to be achieved because of the limited, but nonetheless real, impact of sanctions on South African exports, said the *Review*.

Financial Mail

(49) FM 13/2/87

BARENDS'S MINI-BUDGET

Seeing the light at last?

Those who have been arguing for the past year or more that tax concessions are the best way to stimulate confidence and get the economy moving can only welcome the apparent belated realisation of this by the Department of Finance.

It's a pity it took an impending general election to concentrate the mind; meanwhile, we had several ineffectual attempts to boost spending (how much of the sums promised for black housing have actually been spent?) and the Bryntirion jaw-jaw — any beneficial effects of which, as we warned at the time, have been ruined by P W Botha's new hard line that virtually equates dissent (if not the normal conduct of commercial banking business) with treason.

Even though the specific concessions of the mini-Budget (see *Economy*) are backed up by signalling concessions to farmers and civil servants which will only be detailed in the main Budget on June 3, fundamental criticism must centre on whether the proposals go far enough.

There still appears some preoccupation with the deficit before borrowing as a percentage of GDP. The *FM* has pointed out before that this may be a desirable long-term objective, but should not put counter-cyclical policy in a straitjacket. Alternatively, we could adopt the approach that the deficit should be considered against a notional *full-employment* GDP.

Either way would give more flexibility and allow more stimulatory policies without jeopardising long-term financial discipline.

And as so often, fiscal drag (whereby inflation and progressive tax rates steadily transfer resources from the private to the public sector) has been glossed over. The *FM*'s calculations suggest that Du Plessis' "concessions" will still entail such a transfer at any likely rate of inflation over the next year.

The jury is thus still out on just how much stimulation the mini-Budget will really engender, bearing in mind too that under the PAYE system it may be months before lower tax levels and higher thresholds have an impact.

While radical tax reform is stymied by consideration of the Margo report, the fact that some adjustments were made to individual tax rates makes it all the more regrettable that one long-overdue need was ignored: an increase in allowances on retirement annuity contributions.

Given the need to encourage provision for retirement, it could be argued that these should be jacked up even more than the doubling that would offset inflation since the last adjustment.

Welcome without qualification is that Du Plessis has rejected price and wage controls, though with qualifications.

In a way, a Part Appropriation Bill just ahead of a general election is a no-win situation. This one is being criticised as a pre-election giveaway; but if it contained no concessions, it would be slammed as evidence of economic mismanagement.

Du Plessis appears to have tried to steer a responsible, though timid, course through this dilemma, with a new emphasis on supply-side measures. He may not have been bold enough; but at least he deserves two cheers. ■

(49) FM 13/2/87

THE MINI-BUDGET

Trendy without tendons

In this week's mini-Budget, Finance Minister Barend du Plessis announced a list of personal tax concessions amounting to about R700m. Though he had room to afford more, the general thrust of the proposals was in the right direction. And impatient advocates of supply-side economics will be pleased because it will have a favourable impact — though modest — on economic growth.

What is interesting, is that he could have achieved a similar fiscal impact, and much faster, had he cut GST by 1%. That would have cost R850m and helped the poor more than the rich.

He was wise not to do so. For GST is economically a tax that does not interfere with the creating of wealth by attempting to redistribute income. This could imply that the Margo Commission has recommended a radical change to indirect taxes, possibly a value-added tax.

On the other hand, should authorised (as opposed to modest actual) expenditure shoot ahead, receipts from GST would decline, especially if inflationary pressures reduce.

Du Plessis made no commitment on government spending. Nor did he announce changes to company tax rules, while the much-maligned regional service council imposts are to go ahead. But he sacrificed more than R1 billion revenue for 1987-1988 by tax reductions that will most benefit working married couples with children.

The farmers are to be given a package of R237m in the main Budget, along with news on public service pay increases.

Funding the R1 billion of concessions should not be a problem considering the liquid position of the Exchequer. But much depends on how strong the supply-side stimulus proves to be and whether government spending is allowed to race ahead.

Government spending in 1987-1988 must at least keep up with inflation, which should average at least 15%. So that probably represents the minimum increase.

The absence of changes in company tax in the mini-Budget suggests that on June 3 he will tackle corporate allowances and some questionable tax advantages. Companies that are part of large groups find these advantages by devices such as transfer pricing and favourable tax opportunities in other group companies.

Du Plessis says, correctly, that revised personal tax tables will provide "some alleviation of the burden of fiscal drag." In a realistic, working example (see table), the *FM* calculates that a couple earning R54 400 in 1986-1987 (husband: R36 000; wife: R14 400) will benefit in tax terms, although they will still lose after inflation.

OLD & NEW TAX RATES

Working it out

	1986-87 joint income R	1987-88 (no pay rise) R	1987-88 (14% pay rise) R
Taxable income	50 400	50 400	57 456
Wife's earnings allowance	−2 880	−3 240	−3 694
	47 520	47 160	53 762
Standard deduction	−300	−300	−300
Taxable income	47 220	46 860	53 462
Tax payable	14 841	13 560	16 433
Primary rebate	−880	−920	−920
	13 961	12 640	15 513
Discount 5%	−698	—	—
	13 263	12 640	15 513
After Tax Income	37 137	37 760	41 943

If the couple is given no salary increase in 1987-1988, after-tax income rises just 1,8% to R37 760 — well below expected inflation. PE Corporate Services' preliminary estimate of private-sector increases for 1987 is 14% (based on 1 000 companies). This raises after-tax income by 12,9% to R41 943 — again, below expected inflation.

In detail, the 1983 (personal) loan levy is to be repaid with some R287m expected to be posted to taxpayers before March 31. There is an increase in the portion of a working wife's tax-free income to 22,5% of earnings with a minimum of R2 250, which will cost the fiscus R74m.

Allowed tax-free interest (including building society dividends) is doubled from R500 to R1 000. The cost is not given. Reconstruction of the tax tables, raising thresholds and clipping the top marginal rate from 47,5% to 45%, will cost R545m. Primary rebates for married and unmarried taxpayers are increased marginally.

With SA's tax burden at its highest ever in overall terms, it is difficult to criticise any tax cuts.

Predictably, PFP finance spokesman Harry Schwarz has accused Du Plessis of cutting taxes now to gain electoral advantage. There is no doubt some truth in this, but he could have gained even more advantage had he been bolder in his tax cuts. What a pity he let the opportunity pass.

The mini-Budget asks for R29 billion of additional expenditure for the current fiscal year and for expected disbursements up to November of the new fiscal year. This is against last year's R10 billion, but the delayed main Budget makes comparison inappropriate.

On the broad economic front, preliminary 1986 statistics show that SA had a R6 billion surplus on current account and a R15 billion trade surplus. Du Plessis says the current account surplus has allowed SA's private and public sectors to continue repaying foreign debts, honouring more than R3 bil-

P.T.O.

TAX RATES (1987-88)

Married persons

If taxable income does not exceed R12 000 15%.
If taxable income exceeds:

R	R
12 000 but not 13 000	1 800 + 16%
13 000 but not 14 000	1 960 + 18%
14 000 but not 15 000	2 140 + 20%
15 000 but not 16 000	2 340 + 22%
16 000 but not 18 000	2 560 + 24%
18 000 but not 20 000	3 040 + 26%
20 000 but not 22 000	3 560 + 28%
22 000 but not 24 000	4 120 + 30%
24 000 but not 26 000	4 720 + 32%
26 000 but not 28 000	5 360 + 34%
28 000 but not 30 000	6 040 + 36%
30 000 but not 35 000	6 760 + 38%
35 000 but not 40 000	8 660 + 40%
40 000 but not 45 000	10 660 + 42%
45 000 but not 50 000	12 760 + 43%
50 000 but not 60 000	14 910 + 44%
60 000 —	19 310 + 45%

Unmarried persons

If taxable income does not exceed R10 000 15%.
If taxable income exceeds:

R	R
10 000 but not 11 000	1 500 + 16%
11 000 but not 12 000	1 660 + 18%
12 000 but not 13 000	1 840 + 20%
13 000 but not 14 000	2 040 + 22%
14 000 but not 15 000	2 260 + 24%
15 000 but not 16 000	2 500 + 26%
16 000 but not 18 000	2 760 + 28%
18 000 but not 20 000	3 320 + 30%
20 000 but not 22 000	3 920 + 32%
22 000 but not 24 000	4 560 + 34%
24 000 but not 26 000	5 240 + 36%
26 000 but not 28 000	5 960 + 38%
28 000 but not 30 000	6 720 + 40%
30 000 but not 34 000	7 520 + 42%
34 000 but not 38 000	9 200 + 43%
38 000 but not 42 000	10 920 + 44%
42 000 —	12 680 + 45%

Source: Ernst & Whinney

lion since the end of 1984.

The Reserve Bank's gold and foreign currency reserves increased from a low of R3,2 billion at end-April 1986 to R4,5 billion at end-December 1986. Du Plessis says that during January gold and currency reserves increased further to R5,5 billion.

Adding reserves from the rest of the banking sector, total gold and currency reserves are now around R6 billion. This, equal to two-and-a-half months' imports, can be "regarded as reasonable, though not adequate for a small country like SA in an unstable international milieu of fluctuating exchange rates."

Du Plessis says the real growth rate, "though relatively low," should continue to rise this year; inflation should decline; the current account should again produce a surplus; and gold and foreign exchange reserves should rise to a more comfortable level.

An important aspect of the mini-Budget is that Pretoria could have afforded to give more. The deficit of R4 billion (at end-December) is in line with targets, while the interest rate burden has fallen considerably.

Treasury has over-financed the deficit and ended December with R2 billion on hand, despite an ex gratia transfer to the Special Defence Fund of R400m. Moreover, next month Treasury will take transfer of R1,2 billion from the Central Energy Fund.

Seldom is the state of government funding in such a healthy position. Provided Du Plessis can keep the heavy hand of big spenders, like Chris Heunis, under control and relative political calm prevails, the economy could be set on an encouraging growth path. ■

Cash injection necessary, says Barend

THE stimulatory measures announced in the mini budget could not have waited until the introduction of the main Budget, the Minister of Finance, Mr Barend du Plessis, said yesterday.

'It was important to get that injection into the veins of the economy as soon as possible,' he said in his reply to the third reading debate on the mini budget.

'The amounts seem modest but they can help maintain the momentum in the economy.'

It had also been necessary to take into account the perceptions of the man in the street.

'When you deal with as fragile an economic recovery as ours, it is not just rands and cents that count but the perception of the man in the street,' Mr du Plessis said.

He was responding to Opposition statements that tax and other concessions announced in the mini-budget were a 'stunt' to attract votes.

He said the Government had wanted to avoid the 'mishap' that had occurred last year, when the economic recovery slowed down and more money had to be injected into the economy.

'It was desirable to maximise the cash flow into the economy.'

Of tax concessions to married women, he asked why it was necessary to wait until after the main Budget if it were possible to grant them from the first day of the new tax year.

His announcement that social pension increases would take effect from October had been prompted by speculative statements, he said. He had not planned to announce the date in the mini budget, but had been urged to do so by his colleagues in the other two Houses.

Too modest

Mr du Plessis said he acknowledged that the amount granted for social pension increases was 'far too modest' but it was all the Government could afford.

Earlier, Mr Derrick Watterson (NRP Umbilo) said he wondered whether inflation was 'deliberately being maintained' by the Government for its own purposes.

One advantage of such a move to the Government was that inflation eased the balance of payments situation by making imports expensive and exports more attractive to overseas buyers. — (Sapa)

Spending, investment still hobbled

17/2/87

Economic upturn will take time, says BER report

B/Day

49

MICK COLLINS

WITH private expenditure and investment still hobbled by a lack of confidence, the economic recovery forecast for this year will be slow.

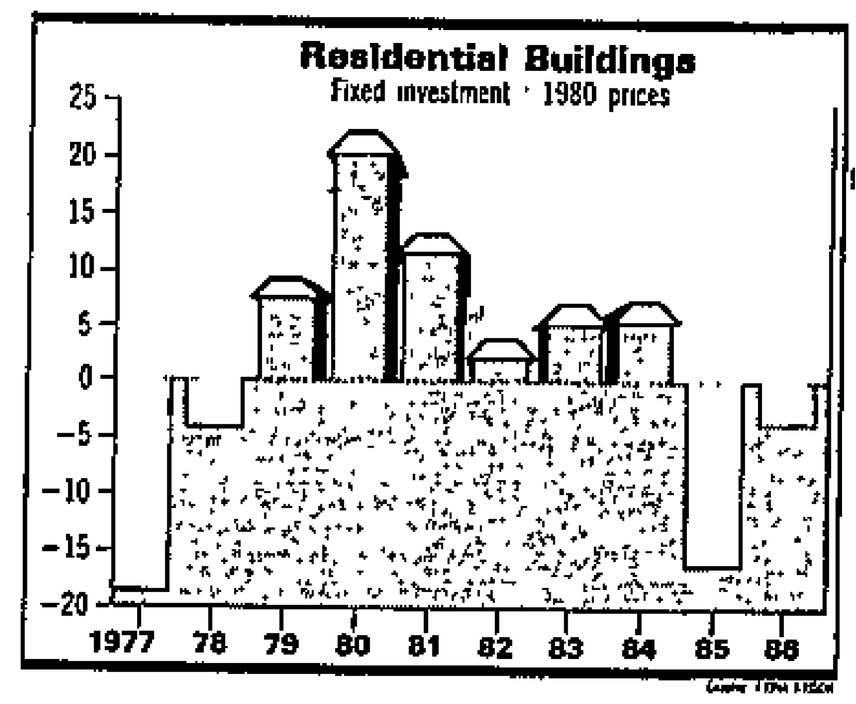
So says the latest index of leading economic indicators from Stellenbosch University's Bureau for Economic Research (BER). It says it is apparent the economy is recovering, albeit slowly, but the situation is not encouraging for the building and construction industries..

The BER said, in its latest "Building and Construction" report, that although government announced more stimulatory measures in its mini-budget, they were restricted because of problems with inflation and balance of payments.

In the residential sector, an oversupply of white housing still exists. Nearly 70% of all building activity is for such accommodation, with the result that, at this stage, little interest in the market exists.

The BER says: "During the past year a substantial shift of emphasis in the direction of an increased provision of housing for the lower income groups has taken place.

"With the initiation of a housing fund to be financed by the private and public sectors, the way is being paved for an increased contribution to lower income housing by the private sector."



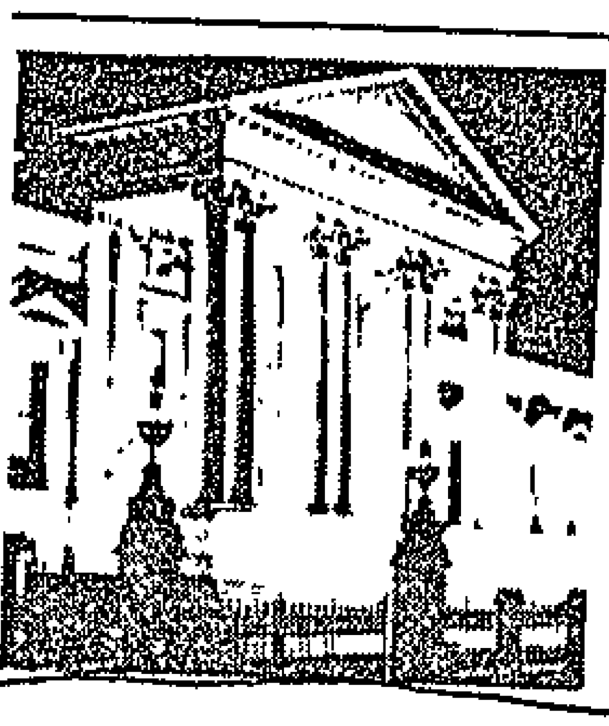
Fixed investment in residential buildings will increase this year by about 7,8%.

The BER said: "The analysis of house prices indicates the market, which in the past year was in a downward phase, is in the process of stabilising (see graph).

"The moderate growth in the overall economy, low interest rates and increased inflation ought to stimulate the market."

But budget cuts by government and parastatals such as Sats, the Post Office and Escom, will see total fixed investment in construction dropping by nearly 1,2%.

PARLIAMENT



MINI-BUDGET

(49) ARGUS 17/2/87

Barend apologises for loan levy interest error

By FRANS ESTERHUYSE
Parliamentary Staff

THE Minister of Finance, Mr Barend du Plessis, has admitted an error in his mini-budget speech which could have meant a half-percent loss in loan levy interest for taxpayers.

Mr du Plessis admitted the error and apologised to the House of Assembly after an opposition threat to take the Government to court.

The incorrect figure given in the Minister's mini-budget speech meant that the interest on the 1983 loan levy of R210-million to be repaid to taxpayers would have been a half percent below the interest rate promised by the Government.

The issue was raised by Mr Harry Schwarz (PFP Yeoville), chief opposition spokesman on finance, during yesterday's third-reading debate on the Part Appropriation Bill.

Promised figure

Quoting from Hansard, Mr Schwarz said the Government had promised in 1982 to pay eight-percent interest on the 1983 loan levy.

Yet the figure given by the Minister in his recent mini-budget speech was only 7,5 percent — a half percent less than the promised figure.

"Why is he taking away a half percent? If he tries, we will take him to court," he said.

He added that the Minister would not make a mistake in favour of taxpayers.

Replying, Mr du Plessis said Mr Schwarz was right — the interest rate was eight and not 7,5 percent as stated in the mini-budget speech.

A "very senior official of absolute integrity" had been responsible for the mistake.

"I tender my apology to the House and to the public at large. It was a bona fide mistake. Nobody intended to pinch anything from anybody," Mr du Plessis said.

Sats 'notes the needs of its clients'

Parliamentary Staff

THE South African Transport Services took into account the "needs and preferences" of all its clients, said the Minister of Transport Affairs, Mr Eli Louw.

He was responding to opposition criticism that there was either too much or too little apartheid in Sats.

He said South Africa was in a process of reform. Sats monitored the situation and adapted accordingly.

Reacting to a call by Mr John Malcomess (PFP Port Elizabeth Central) for the removal of racial discrimination from Sats passenger services, Mr Louw accused Mr Malcomess of being "a white radical liberal".

Mr Louw said: "We have direct channels for negotiation with all groups."

TAKEN BY CAR

Reacting to Conservative Party complaints about the "crowding-out" of whites at railway stations, Mr Louw said adaptations were made to ensure that racial clashes would not occur.

Earlier Mr Jan Hoon (CP Kuruman) said there had been racial friction and clashes since Sats did away with apartheid at railway stations.

He told of an incident where whites refused to travel on a Sats bus from Kuruman to Kimberley because there were coloured people on booard.

The whites were then taken by car.

Mr Hoon said Sats should go back to its old policy of racial segregation. This would prevent racial friction.

Argus 17/2/87

Govt denies having manufactured inflation

17/2/87 Argus

IT was unfair electioneering to accuse the Government of "manufacturing" inflation, the Minister of Finance, Mr Barend du Plessis, said.

Replying to third-reading debate on the mini-budget, he said there was no clear-cut policy that could address the issue of inflation and eradicate it without causing an enormous number of unpleasant side effects.

"We can kill inflation but we will kill the economy in the process," he said.

SOCIAL WELFARE

If South Africa had a more comprehensive social welfare system the Government would be able to embark tomorrow on a programme to kill inflation, as it would have been able to cope with a much larger unemployment figure.

"I'm prepared to accept the criticism levelled at us for the relatively high rate of inflation. But what are our choices?

"My problem in this job is to reconcile the difference between the demands for equalisation now or in the near future, and the ability of the economy in terms of growth to pay for it."

Mr du Plessis denied that the mini-budget was a "blank cheque" for Government spending. Opposition members should not be too sure that the Government was not getting departmental expenditure under firm control.

Mr Derrick Watterson

Earlier, Mr Derrick Watterson (NRP Umbilo) said he wondered whether inflation was "deliberately being maintained" by the Government for its own purposes.

One advantage of such a move to the Government was that inflation eased the balance of payments situation by making imports expensive and exports more attractive to overseas buyers.

Mr Watterson said he believed there was no hope of inflation decreasing under the present "bloated bureaucracy" which would increase with the new Regional Services Councils. — Sapa.

'Squeegee affair harms SA'

Parliamentary Staff

THE Squeegee banning incident and the "local option" it represents have been condemned as "ridiculous" in the House of Representatives.

The Rev Allan Hendrickse, chairman of the Ministers' Council for the house, said the banning of Nkululeko Skweyiya from the school athletics at Menlo Park would "harm the relationship among all South Africans and destroy existing goodwill".

It gave "credence and ammunition to our critics who say reform is meaningless".

He commended the Minister, Mr Stoffel Botha, for his statement condemning the action.

"But I also want to draw the attention of the National Party to the ridiculousness of what they term the "local option'."

Argus 17/2/87

Making cents of Barend's mini-budget

(49) Sowetan 17/2/87

FOCUS

THE Minister of Finance announced a R1 billion stimulation package for the economy. Primarily the package is aimed at sustaining the Government's mild stimulatory momentum of the past year. The mini-budget at a glance highlights the following:

- A reduction in personal tax rates from March, starting with a reduction of the minimum rate to 15% (previously) and moving up to 45% (previously 47,50%) at a taxable income of R60 000 and above. This change is worth about R545 million to the taxpayer.
- Repayment by the end of March of the loan levy, amounting to R210 million plus R77 million in interest.
- Social pensions allocation increased by R26 million from R174 million to R200 million.
- Tax concessions for working married women increased from 20% to 22,5% of the salary, the minimum being R2 250 (and worth R95 million).
- Tax exemption on interest-bearing investment increased from R500 to R1 000 (and worth R119 million).
- An amount of R237 million allocated for the reconstruction of the agricultural sector.

LAST week the Minister of Finance, Mr Barend du Plessis, presented his mini-budget. In today's column an economist with Barclays Bank, Mr Ncedo Mlamla (left), translates the language of the budget into simple rand and cents that we can understand.

It would seem that the thrust of this mini-budget is in the right direction.

A debatable issue is whether the thrust is sufficient enough to reduce our national plight and provide an added impetus to the stagnant economy. We have to view this from the standpoint that we are a R140 000 million economy.

No tax

The reduced rate of personal income tax was further reinforced by increasing the minimum level at which taxpayers become liable to tax.

For instance a person with a gross income of R6 500 with no children, would normally pay tax amounting to R78 in 1987. However, because of the one percent reduction in the minimum tax rate and also because of the increased minimum level at which people begin paying tax, such a person will pay no personal tax at all in 1988.

Another example is that a person with a gross income of R10 000 a year with one child, would normally pay a tax amount of R515 in 1987. The one percent reduction in personal tax rates would mean he pays R405 in 1988.

The examples are, of course, based on the assumption that the taxpayer's wife has no income, and that the standard deduction of medical expenses and insurance premiums have been taken care of.

On the other side of the coin we have people in the higher tax brackets. A person with an income of say R100 000 a year with one child would have paid tax amounting to R37 772 in 1987. However, with the tax cut of 2% (that is from 47,5% to 45%) he will pay tax amounting to R36 125 in 1988. This is a reduction of R1 647 because of the tax cuts.

The situation with the loan levy repayment is somewhat different from the one discussed above.

Loan levy is an amount over and above one's tax liability that is paid to the Government.

Loan levy

Suppose, for instance, that one's tax liability in 1983 was R1 000. If the loan levy in that year was say 10% then an additional amount of R100 would have been paid to the Receiver. However, the loan levy is refundable within seven years of being imposed, and also earns interest.

Within the context of the mini-budget the loan levy collected in 1983 amounted to R210 million, and earned up till now R77 million interest.

Therefore, overall R287 million is being paid back to the taxpayers on whom the levy was originally imposed. This repayment will take place in one lump sum during March.

The tax concession to working married women has been increased from 20% to 22,5% of income with a minimum of R2 250, meaning that 22,5% of the wife's income is tax deductable. If, for example, the working wife earns R15 000 a year, she would be allowed to deduct R3 375 from her income, before having to calculate tax payable on the remaining income.

The cost to the Government in terms of lost tax income in 1987 is R95 million.

Interest income exempted from taxation is to increase from R500 to R1 000. This means that R1 000 of interest earned from investment will not be taxed. The cost to the Government in terms of lost income tax is R119 million for 1987.

Mr BARENDS du Plessis ... Minister.

These are some of the main issues that were covered by last week's mini-budget. As we mentioned before, these tax cuts are welcomed as a means of maintaining the momentum to economic recovery.

However, the Minister of Finance could have considered doing more for the poor by cutting general sales tax.

Instead, he appears intent to spend more on education, housing and public sector salaries, some of which does of course benefit the lower income groups.

Lest we

SA ECONOMY (49) FM 20/2/87

Trading limits?

SA needs both strong world growth and a major advance in the gold price to boost the incipient economic recovery. This is the conclusion of the latest *Standard Bank Review*, which goes on to discuss the implications of problems in the world economy.

Mildly stimulatory fiscal and monetary policies in 1986 in Japan and Europe tried unsuccessfully to encourage internal growth. This led to only modest growth in the OECD countries: 1,7% in Japan, 2,7% in the UK, 3,2% in West Germany and 1,8% in France.

Trade imbalances were not corrected by currency realignments. Last year West Germany and Japan experienced massive trade surpluses of $52 billion and $81 billion respectively. But the effects on the depreciation of the US dollar were not enough to eliminate the US trade deficit of $170 billion.

The positive impact of the dollar's fall was hampered because the currencies of many trading partners, such as Canada, South Korea, Taiwan, Singapore, Hong Kong, certain Latin American countries and SA, are linked partially or directly to the dollar. So the competitiveness of their exports to the US did not change significantly.

Factors other than currency movements affected trade behaviour and worked against the elimination of the US trade deficit. These included the inelasticity of US import demand, government policies relating to trade, oil price movements and, probably most important, the willingness of foreign companies to cut profit margins rather than lose US export markets.

What are the implications for 1987?

The *Review* suggests that instead of resorting to protectionist tendencies as is now occurring internationally, the major world economies would be well advised to move to co-ordinate economic policy.

Underlying confidence in the US economy is still boosting capital inflow, compensating for the weak current account. If the economy is forced into recession by continued trade and budget deficits, that confidence could evaporate and signal a movement out of dollar-denominated assets. This would benefit the gold price but a recession would not be "helpful" long-term.

The increase in energy prices late in 1986 will move through cost structures quickly, and energy prices in all currencies will be higher on average in 1987. This may marginally benefit the value of precious metals but, according to the *Review*, a return to double-digit inflation is highly unlikely in major industrialised nations in the long term.

Given the weak US dollar and only reasonable growth potential in OECD countries, Standard Bank suggests that prospects for SA gold and other exports in 1987 are limited. Even an increase in line with the overall growth projected for OECD countries is unlikely, when the impact of sanctions is felt.

However, the much-heralded recovery in domestic demand is unlikely to result in a "balance of payments bottleneck" — the propensity to import may be constrained by high excess productive capacity and reduced oil import needs. ■

THE BUDGET

R2 billion short

Finance Minister Barend du Plessis needs an additional R1 948m to balance the 1986-1987 Budget, according to figures presented to parliament in this week's additional appropriation speech. Significant specific increases include R10m for "planning" in the Bureau for Information; R6m for "merchant shipping" in Transport; R202m for "budgetary aid" to TBVC countries in Foreign Affairs, R76m for "logistical support" and R12m for "computer services" in the SA Police vote.

There are new amounts of R400m for the SA Housing Trust in the Public Works and Land Affairs vote, and R6m "assistance to the motor vehicle industry" in Trade and Industry.

There are additional sums of R50m as a

20/2/87 FM

contribution to the Small Business Development Corporation in the Trade and Industry vote; R14m for assistance to gold mines in Mineral and Energy Affairs; R14m for "Administration" in Finance; R13m for "Auditing" in the Audit vote; R28m for "services to citizens" in Home Affairs; R124m for computer services in the Commission for Administration; R148m for "grants and financial assistance to State-aided institutions" in the Improvement of Conditions of Service; and R3m for "Administration" in Central Statistical Service.

He also asked for additional funds for the Budgets of the four provinces: R432m (25,2% extra) for the Transvaal; R239m (14,65%) for the Cape; R74m (9,67%) for Natal; and R110m (24,1%) for the Free State. ■

Positive signs in economic growth

CAPE TOWN — A positive scenario of the South African economy is evident from Sanlam's latest economic survey.

A relatively firm gold price, a growth rate of up to three per cent, a substantially lower inflation rate, a firm rand and interest rates that remain at low levels are foreseen.

Sanlam's chief economist, Mr Johan Louw, said the tax relief announced in the mini-budget should also help to improve consumer confidence and business sentiment and, by doing so, strengthen the economic recovery. The real gross domestic product could grow by three per cent this year.

Should the external value of the rand maintain its firmer trend, Mr Louw expects a gradual decline in South Africa's inflation rate during the greater part of 1987. Factors going hand in hand with the expansion of the economy (such as higher remuneration levels and greater demand for consumer and capital goods), however could in time place renewed pressure on consumer prices.

After the average rate of inflation rose from 16,2 per cent in 1985 to 18,6 per cent in 1986--the highest figure since 1920--Mr Louw foresees a rate of 17 per cent for 1987.

Sanlam estimated that the current account of the balance of payments yielded a surplus in the region of R7 000 million last year. Smaller surpluses are expected in the course of this year which will continue to hamper economic growth.

Mr Louw expects that the rand will maintain its strong trend against the US dollar in the next few months. As a result of the expected smaller surpluses on the current account of the balance of payments, larger repayments of foreign debt and a renewed acceleration in the inflation rate later this year, a less favourable tendency in the external value of the rand is envisaged for the second half of 1987.

Mr Louw said sharp increases in money market interest rates appear unlikely. As there are indications that the claims of the public sector on the capital market will not make excessive demands on the available funds of the institutional investors, he believes that long-term interest rates too will not be subject to strong upward pressure during the last six months of 1987.

/ 37 ....

Go-it-alone SA depends on pay rises for growth

(49) ST 27/2/87

By David Southey

SEVERAL economists have been sticking their necks out in their 1987 predictions.

They have widely differing views on certain key economic variables. Not everyone can be right, so some will have to modify their forecasts as the year progresses — or face the ire of their superiors.

Most agree on one issue, however — that South Africa will be unable to rely on world economic growth to boost the demand for and price of commodities. Domestic economic growth will depend mostly on wage and salary increases — in the public and private sectors, on how deeply South Africans are prepared to dip into depleted savings, and on their willingness to increase borrowing.

Richer

A big jump in the gold price will, of course, make almost everyone richer.

Most economists expect a modest increase in the gold price on the back of continued weakness in the dollar. But all hedge their bets.

Standard Bank's Andre Hamersma says: "The downside potential for the gold price is small because generally expansionary fiscal and monetary policies have been in place for some time in most key countries. Equally unlikely, though, is a major break-out of gold and hedge commodity prices towards a much higher range than the present one. Gold can therefore not be counted on to provide a boost to SA's incipient economic recovery."

A more optimistic Trust Bank says in its Economic Report: "We remain bullish on gold for this year, but we repeat the warning that gold could be in for a bumpy ride."

Trust's optimism is based on a further decline in the dollar, lower real interest rates and the growing uncertainty about the security of the paper markets."

UBS economist Hans Falkena is more forthright. He expects US inflation to reach 4% in 1987 — compared with 2% last year — and expects an average gold price of $440 an ounce in the next 18 months.

Mike Brown of stockbrokers Davis, Brokum, Hare thinks "the likelihood of further currency turmoil and market disturbances for alternative investment assets suggest that gold's

Hans Falkena ... only 2% growth this year

day will come and prices of $450 or over are possible later in the year".

But Mr Brown goes to considerable lengths to cover a possible retreat. He says, for instance, that "until investment demand is stimulated, the gold market faces a supply overhang ... Until such stage that investment conditions prove more propitious, supply factors could keep gold around $400 or even below."

The good news is that SA's export earnings weighed against the expected capital outflow, including foreign-loan repayments inside and outside the net, should be sufficient to help the Reserve Bank hold the rand reasonably steady.

Mr Brown thinks an average rand rate of 0,46 US cents will prevail in 1987. Trust says a fall in the rand in the "near future also seems unlikely as the Reserve Bank seems to have adequate reserves to protect (it)".

Bottleneck

Dr Falkena also foresees "stabilisation" in the exchange rate. Standard thinks the rand could "respond favourably to some anticipated recovery in the gold bullion price".

Standard also expects no "seriously inhibiting balance of payments bottleneck" to emerge, noting that the high level of spare capacity in the economy and a reduced oil import bill may "well have a reduced import propensity this time".

UBS says: "Our gross gold and foreign exchange reserves could rise moderately considering a current account surplus of R6-billion".

Trust Bank is looking to a lower current account surplus in 1987 of about R4,5-billion.

Disagreeing with Standard, Trust says: "Imports are expected to increase in volume in the first half of this year because of the firmer rand and the improved local economic outlook."

Mr Brown, with his more bullish gold view, expects a current account surplus of R5,5-billion.

On the domestic spending front, UBS expects real consumption to rise by 3% and personal savings to slump by about 8% to only R1,1-billion with a personal savings ratio of about 1,2%.

"In this environment expenditure on durable consumption goods will remain rather depressed," it says.

Trust Bank, by contrast, forecasts real private consumption expenditure growth of about 2%, the biggest rise being about 5% in durable goods. This it attributes to the obsolescence of durable goods currently held, low interest rates and high inflationary expectations.

Higher wages

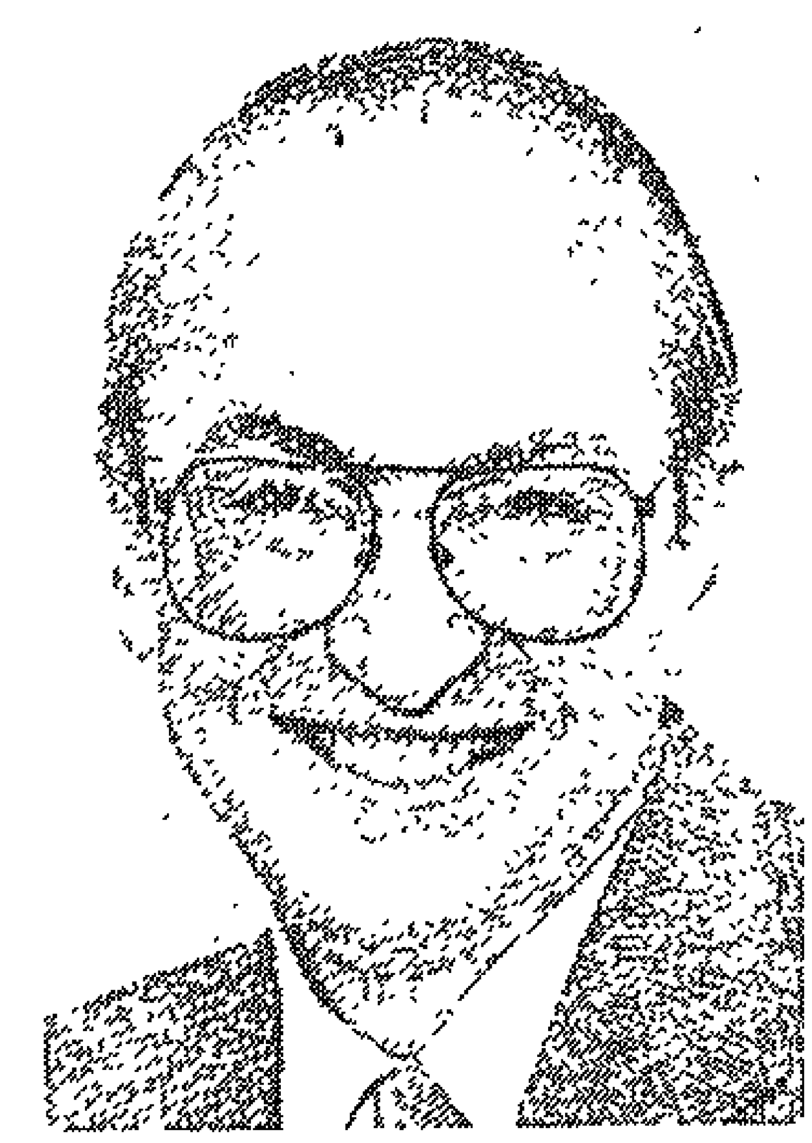
Mr Brown is more optimistic. He expects private consumer spending to rise by 4,5% in real terms on the back of an 18% to 19% wage increase.

Economists generally agree that Government's consumption spending bill will rise by about 3% in real terms — or by about 20% in today's rands.

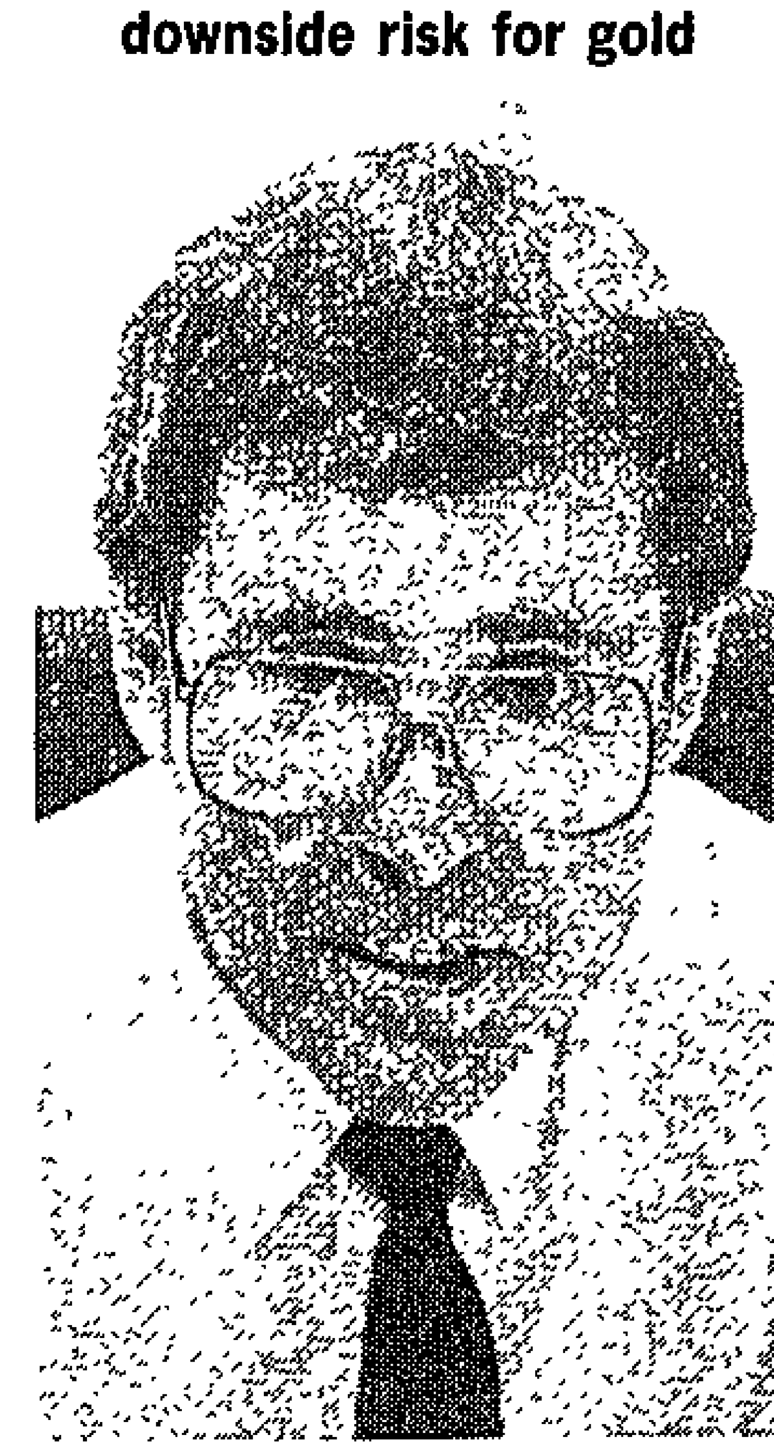
Dr Falkena is more pessimistic than many of his colleagues in his economic growth forecast for 1987, projecting that gross domestic product (GDP) will rise by only 2%. Trust expects GDP to grow by about 3%. Mr Brown says real GDP "could peak at over 5% in the first and second quarters of 1987, slowing thereafter, so that overall real gdp growth for the year falls to just below 4%".

Mr Brown's views are supported by the University of Cape Town's Brian Kantor who thinks economists may be underestimating the strength of the recovery potential. He projects growth at close to 4%.

Dr Falkena forecasts that the bank rate will increase by three percentage points to 12,5% before the yearend and the demand for money to rise by about 18%. Trust says that



Andre Hamersma ... small downside risk for gold



Mike Brown ... optimistic about economic growth

"if the economy does not really get off the ground, money-market rates may remain stable at their current levels for the rest of 1987".

Mr Brown's interest-rate forecast is in line with Dr Falkena's and he expects a bank rate of 12,5% by the yearend. This should lift prime overdraft rate to 15,5% and the bankers' acceptance rate to 12,5%.

Sanlam foresees more spending

More money for consumers may boost GDP rate

B/Day 23/2/87 (49)

SANLAM remains cautiously optimistic the small boost for consumers in the mini-budget will go some way towards easing the economy's uphill struggle.

Sluggishness that still exists is tied to the poor financial position of the man-in-the-street: his spending ability has been curtailed and his tax burden has reached proportions where he is not only reluctant to spend, but also incapable of spending more, says Sanlam chief economist Johann Louw.

He believes the latest measures announced in the Part Appropriation Bill should go a long way to improving consumer confidence and business sentiment.

"We expect the extra purchasing power placed in the hands of the general public will give private consumer spending a firm push."

Louw says this could lead to GDP growing by 3% this year, compared with the meagre 1% recorded in 1986.

In keeping with economic thinking generally, Louw believes the inflation rate will tail off to about 17% over the year.

This will only happen if the external value of the rand maintains its present firmer trend, and if in-

CHRIS CAIRNCROSS

creased domestic spending does not put significant pressure on consumer prices.

As the economy moves into a stronger recovery phase trend, imports are expected to increase appreciably over the year.

Export performance, on the other hand, is expected to be further disrupted by sanctions.

The combined picture suggests the balance of payments, which recorded a surplus of about R7bn in 1986, will come under pressure — exacerbating economic growth.

Looking ahead to May's main Budget, Louw reckons it is unlikely government will budget for less than a 15,5% increase in expenditure for the 1987/8 year.

This compares with the 22% jump recorded for the 1986/7 year, announced by Finance Minister Barend du Plessis in the Additional Appropriation Bill tabled in Parliament last week.

If it is accepted that government wants to limit the deficit before borrowing to about 4% of GDP, the surplus on the current account could be about R6,6bn.

The MINISTER OF TRANSPORT AFFAIRS:

(1)

(a)	(b)	
(i) *(aa)* 627	Class 15F	As at 31 January 1987
(bb) 12	Class 15AR	
(ii) *(aa)* 16	Class NGG	
(bb) 480	Class GMA/M	

(2) *(a)* and *(b)* Yes. The locomotives referred to in part (1) (ii) *(bb)* of the question have been placed as follows:

De Aar	187
Klerksdorp	30
Germiston	92
Capital Park	42
Bloemfontein	13
Volksrust	19
Kroonstad	10
Witbank	5
Springs	2
Breyten	2
Mason's Mill	10
Pietersburg	3
Touwsrivier	9
Midlandia	9
Sydenham	7
Krugersdorp	40

(c) The locomotives, excluding the 40 at Krugersdorp earmarked for the Transport Services Museum's national collection, are put up for sale by tender. In the event of no tenders being received they are dismantled and cut up.

(d) (i) *(aa)* and *(bb)* Locomotives are covered with grease and oil.

(ii) All brass and copper parts are sealed in the coal tender.

Hansard 23/2/87

Khayelitsha: demolition of buildings

543. Mr K M ANDREW asked the Minister of Law and Order:

(1) Whether members of the South African Police were called to Khayelitsha, Sites B and C, on or about 2 December 1986 in connection with the demolition of houses and a community centre in this area; if so, *(a)* what were the circumstances surrounding their being called to Khayelitsha on this occasion, *(b)* how many houses were demolished and *(c)* who demolished the buildings in question;

(2) whether the Police took any action as a result; if not, why not; if so, *(a)* what action and *(b)* with what result?

Hansard 23/2/87

HoA

The MINISTER OF LAW AND ORDER:

(1) and (2). Yes, but because the dispute between the residents of Khayelitsha, Sites B and C and the leadership of the respective communities was defused and settled by the intervention of the South African Police and the Chief Director, Housing of the CPA Community Services in the Western Cape, I do not regard it in the interest of the communities to furnish any information with regard to this matter.

Complaints about Black person

544. Mr K M ANDREW asked the Minister of Constitutional Development and Planning:

(1) Whether a certain Black person, in respect of whom particulars have been furnished to the Minister's Department for the purpose of his reply, is or was in any way attached to his Department; if so, *(a)* in what capacity, *(b)* when, *(c)* what are or were the responsibilities of this person and *(d)* what is his name;

(2) whether he or any official attached to his Department has received any complaints about this person; if so, *(a)* from whom, *(b)* when and *(c)* what was the nature of these complaints;

(3) whether any action has been taken by his Department as a result of these complaints; if not, why not; if so, *(a)* what action, *(b)* when and *(c)* with what result?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) No.

(2) No.

(3) Falls away.

Amounts owed by State

546. Mr J J B VAN ZYL asked the Minister of Finance:†

23/2/87

What amounts were owing by the State on *(a)* 31 December 1985, *(b)* 31 January 1986, *(c)* 30 June 1986, *(d)* 31 October 1986, *(e)* 31 December 1986 and *(f)* 31 January 1987?

Hansard

The MINISTER OF FINANCE: 49

(a)	31 December 1985	R37 949 959 288,21
(b)	31 January 1986	R38 743 457 834,21
(c)	30 June 1986	R42 416 796 182,21
(d)	31 October 1986	R44 338 402 540,40
(e)	31 December 1986	R45 582 300 446,96
(f)	31 January 1987	R45 921 940 319,57

Stolen vehicles

547. Mr J J B VAN ZYL asked the Minister of Law and Order:†

(a) How many motor vehicles were reported to the South African Police as stolen in the calendar years 1983, 1984, 1985 and 1986, respectively, and *(b)* what is the estimated value of these vehicles in respect of each of these years?

HoA

Hansard 23/2/87

The MINISTER OF LAW AND ORDER:

(a) 1983—45 078
1984—45 025
1985—42 696
1986—58 119

(b) 1983—R177 915 795
1984—R171 845 677
1985—R180 000 000
1986—R871 785 000

Note:

1. I also refer the hon member to my reply to written Question Nr 101.

2. Although less vehicles were stolen during 1985 than 1984, the estimated value increased. It can mainly be contributed to the general increase in the price of motor vehicles. The same goes for the increase during 1986 as opposed to 1985.

Strikes

548. Mr J J B VAN ZYL asked the Minister of Manpower:†

(a) How many employees in each race group were involved in strikes in each calendar year from 1980 up to and including 1986 and *(b)* in respect of each of these categories, (i) how many strikes were there, (ii) how many man-days were lost, (iii) how many employees were in service and (iv) what was the estimated loss in wages?

The MINISTER OF MANPOWER:

23/2/87 Hansard

Motor theft drains billions from the economy, says Vlok

Political Correspondent

PARLIAMENT — Motor vehicle theft has become a billion-rand drain on the economy, according to statistics released by the Minister of Law and Order, Mr Adriaan Vlok.

In answer to questions by Mr Harry Schwarz, PFP MP for Yeoville, Mr Vlok said yesterday that there were 58 119 vehicles reported stolen in 1986 — 36 percent more than in the previous year — and collectively worth R871 million.

Of these, 20 217 had been recovered in undamaged condition (collectively worth R303 million), 6 069 had been recovered damaged and 2 745 were in a cannibalised condition.

Just more than half of all the vehicles reported stolen — 29 088 — remained missing.

The number of stolen vehicles represented an increase of 36 percent, but the number of cars recovered had also risen dramatically.

The total recovered undamaged represented 35 percent, damaged 11 percent and cannibalised 5 percent, compared with 3 percent, 1 percent and 8 percent in the previous year.

There had been 131 033 cases of thefts from cars.

The increase in crime could be ascribed mainly to:

- the increase of motor vehicles, especially among coloured and black populations, while storage facilities were not always available.
- The fact that individuals increasingly neglected to secure vehicles against burglaries and left loose articles in vehicles.

Theft of vehicles and from vehicles had become an epidemic which had been allowed to get completely out of hand.

If one added the value of the vehicles stolen to the value of property stolen from cars, then quite clearly the total loss would be far more than R1 000 million, Mr Schwarz said.

RACKETS

"There are clearly major rackets of cars being cannibalised, made to disappear into neighbouring territories or converted in some way in which they cannot be detected.

"Something drastic has to be done, particularly when one considers the low number of prosecutions in relation to the number of vehicles recovered."

The soaring rate of car theft was symptomatic of how crime had increased generally.

The crime rate had in recent years had increased at twice the population rate.

Drastic action should entail:

- Increasing the size of the police force dealing with crime.
- The public being made more conscious of crime defence.
- In the long term the underlying social causes be removed, specifically unemployment and deteriorating social conditions.

The vast values involved had a ripple effect on the economy. An immediate impact was rocketing insurance premiums.

Warning of price shocks

GERALD REILLY

● SCHWARZ

DAMMED-UP price shocks would hit the economy after the May 6 elections, PFP finance spokesman Harry Schwarz warned yesterday.

They would include a series of administered price rises — among them higher Sats tariffs and certain postal and telegraphs charges.

Schwarz said a downturn in the CPI was likely to be maintained in the next few months. The index would, however, probably start to climb again in the later half of the year.

The price for pre-election concessions would have to be paid with a spurt in living costs in the second half.

Government would attempt to highlight progress in limiting inflation and unemployment and in stimulating the economy towards greater growth, and it could be expected that extraordinary efforts would be made to keep the economy bouyant by pumping more funds into the system.

Efforts would be made to reduce pressure for interest rates to rise, Schwarz said. However, they were likely to escalate in the second half of the year.

The extent to which the taxpayer would be asked to fund salary increases for public sector workers would also be made known in the June budget.

Report by Gerald Reilly, 216 Vermuelen Street, Pretoria.

Steady, but slow, growth ahead for SA

25/2/87

Dr PIET van SCHALK is the economist at stockbrokers J D Anderson

(49) B|Ocy

PIET VAN SCHALK

COUNTRIES such as the US, West Germany and Britain have enjoyed remarkably steady economic growth over the past few years — largely by design. SA is also about to enter a period of steady although relatively slow growth, but largely by default.

That the shape and pattern of the business cycle had to change following the debt standstill in 1985 was clear. Upswings in domestic demand driven by improved exports (followed by a turnaround in the current account of the balance of payments, increasing liquidity, lower interest rates, etc) have, at least for the time being, become a phenomenon of the past.

Domestic demand, or more particularly consumers' ability and willingness to spend, now has to be triggered by other means. This is an enormous problem.

Not only is it difficult (given the state of the economy over the last five years, the performance of corporate profits, interest rates, inflation, etc) to engineer a sufficient and sustainable increase in take-home income, it is even more difficult (for the same reasons, as well as the substantial increase in unemployment) to increase consumers' willingness to spend.

This has been sufficiently evident over the past 12 to 18 months. It is also quite clear that economic policy is largely powerless.

After all, the Minister of Finance had hoped that, via last year's Budget, subsequent announcements regarding stimulation and low interest rates, the economy could grow by 3% last year. As it turned out, the growth rate was a third of that.

Will the year ahead be substantially different? Will the consumers' mood and financial position (salary increases and balance sheets) improve sufficiently to coax them into a spending spree and lift the economy on to a growth track, as was the case in 1983/84, 1980/81 and the early Seventies?

The upswing must come from consumer spending and we must hope that government does not try to spend the economy into an upswing.

Average salary and wage increases for 1987 will be of the order of 14% to 15%. If a small increase in employment is added to this, and taking into account some improvement in the financial position of the farming community, the wage bill for the economy as a whole could increase at little more than inflation, working on an inflation rate for the year of about 16,5%.

Add to this consumers' still high debt position, the fear of becoming redundant and the fear of interest rates again rising to the levels of a year or two ago, the answer must be that consumer spending is likely to rise only slowly in real terms this year and possibly marginally faster next year.

This has implications for those two components of demand that really triggered the high growth rates that were experienced in the past — investment in fixed assets and investment in inventories.

There is more than sufficient evidence to show that it is not low interest rates that causes the private sector to expand production capacity and restock. Rather it is rising demand and the prospect of demand continuing to rise at reasonable levels.

Latest statistics show that capacity utilisation is running at 78%. The lowest number recorded between 1970 and 1985 was 80% and the highest 87%.

Add to the equation the argument about consumer demand and it is clear that it can take quite a while before capacity utilisation will get to levels where it will result in the creation of new capacity in the private sector.

There is also little likelihood that the public sector (government and public corporations) will be a major force in this field. In fact, public corporations are specifically slowing down in terms of new investment.

The same argument holds for the inventory cycle. Many companies still remember the experience of being caught with high inventory levels while demand was falling and interest rates rising.

As in the rest of the world, inventory management has become somewhat of a finer art than it was a few years ago.

The upshot is that it is highly unlikely that SA will experience a sharp increase in consumer demand, a surge in fixed investment and a restocking cycle all in the space of a year or two. This is what happened in past booms.

This implies slower growth rates, but it also implies that the growth cycle will last longer than in the past.

Also the economy will not overheat as quickly as in the past, thereby eliminating the need for corrective action on a current account deficit, demand pull inflation, sharply rising interest rates and a plummeting exchange rate.

The question is whether this is good or bad news. The only serious negative implication is that rising unemployment is to be a problem for some years to come. For the rest, this may be good news.

The boom and bust cycles of the past have created dubious advantages and nightmares for management. What is more, the overall growth performance has been dismal in any case.

The average growth rate of 3,4% per year between 1971 and 1980 was followed by 1,1% per year between 1981 and 1986. This gives an average of 2,7% per year over a period of 17 years. This is nothing to write home about and could be surpassed in the next five years.

Ngoma: economy depends on all

DP 49 27/2/87

Dispatch Reporter

FORT COX — The establishment of a sound economic base in Ciskei, based on agriculture, as contained in President Lennox Sebe's ten point plan, was the responsibility resting squarely on everyone's shoulder, the Minister of Agriculture and Forestry, Mr Luyanda Ngoma, said at a function here.

He was speaking at a briefing day for twelve senior agricultural officers, who are to undergo an intensive two-month course in various fields in Israel in May.

It was his first official public function since he was appointed Minister of Agriculture.

The course is being sponsored by an Israeli agricultural company, Agri-Carmel.

Mr Ngoma said that the profession of agricultural officers also involved providing each Ciskeian with a meal a day, to some this might sound simple enough but it could be the most difficult task to avoid malnutrition.

Mr Ngoma said that he was of the opinion that to increase agricultural production, they needed to have better skills, knowledge, technology and insight.

He said that those who received education should be able to better serve the Ciskeian farmer and turn him to a commercially oriented type of farming.

CAPE ARGUS 27/12/87

Shares boom as big firms climb out of the red

49 30 88

By TOM HOOD
Business Editor

SEVERAL large companies reported strong recoveries today after being heavily in the red.

A R25-million loss a year ago was turned into a half-year profit of R17-million by Tradegro, the retail group which includes Checkers, Dions, Metro, Russells and other chain stores.

Checkers swung to a R1-million profit from a R24-million loss.

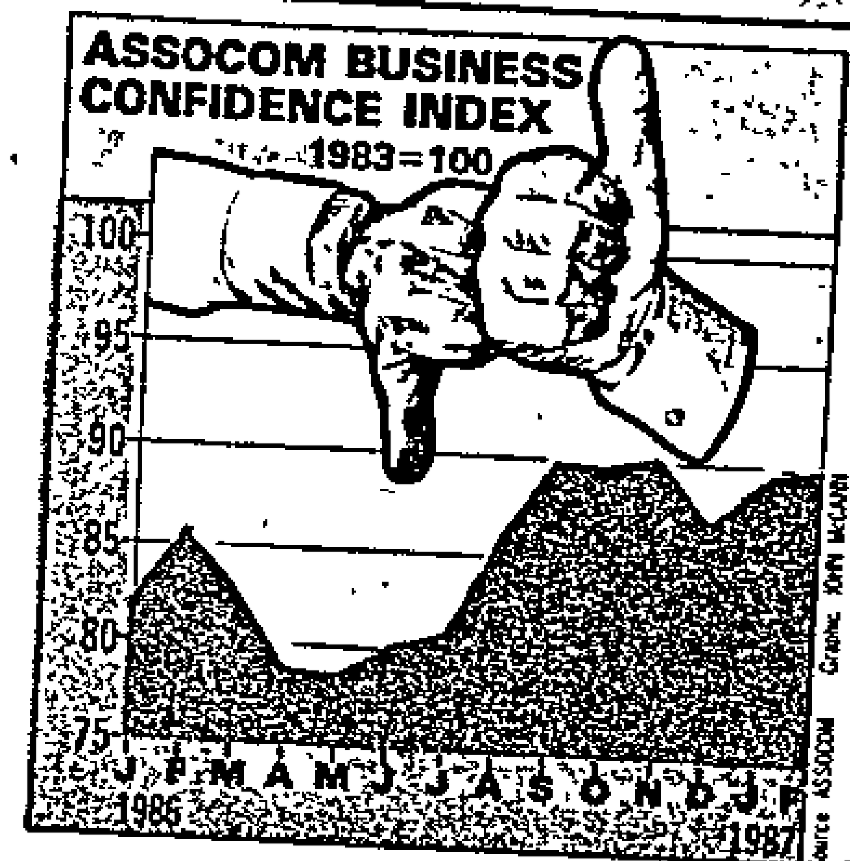
NEW PEAK

Packaging giant Kohler is resuming dividend payments, having turned a R13-million loss for 1985 into a R15-million profit.

The good news fuelled the industrial share boom on the Johannesburg Stock Exchange and the industrial index jumped 12 points to a new peak of 1 609.

The euphoria boosted the new Sol Kerzner company Transkei Sun, which made its debut yesterday. The shares, issued at 150c, opened at 260c and closed at 250c with 1,3-million shares worth R3,3-million changing hands.

● See Page 16.



27/2/87 B/Day 49

Assocom's confidence index firms

HELENA PATTEN

ASSOCOM's business confidence index (BCI) firmed slightly to 89,8 in February from 89,5 in January.

Assocom yesterday noted cautious optimism in the business mood and said: "The economic omens are favourable."

It was too early to assess the precise impact on the economy of the recent "mini-budget", but the immediate effect had been favourable.

SA could hope for a year of slow but steady economic growth at 3%-3,5%.

Positive developments in January had been a recovery in the number of new cars sold, a drop in the number of registered insolvencies of private individuals and partnerships, a small drop in unemployment, a slight decrease in the num-

● To Page 2

February business confidence index firms

27/2/87 49 ● From Page 1 B/Day

ber of emigrants and the fall in the rate of increase of the CPI.

Assocom cited the decline in the overall market index of the JSE, mainly because of the sharp fall in the gold index, as a negative development.

The decline in the average dollar price of gold in February against January and the drop in the number of new companies registered were also negative factors.

Financial Mail

THE ECONOMY

Expedient reflation

If you did not have the good fortune to be born one of the chosen brethren, it is difficult to judge just how deep the fissure in National Party (NP) ranks goes — or how politically important it could be. Apartheid has been a barrier not only between the blacks and whites of this land.

But there are some indications which suggest that, had Finance Minister Barend du Plessis been blessed with hindsight, his mini-Budget of only a few weeks ago would have been much more than a token gesture to economic reflation. At the time we reflected that it was an opportunity lost. How much more that seems to be the case now.

For the fact seems to be that the defection of the intelligentsia from NP ranks is rattling President P W Botha and his diehards. Certainly, from the extravagance of the president's utterances in recent times, Sir Edward Boyle's law appears to have been applied: the greater the external pressure, the greater the volume of hot air.

With no new vision of a post-apartheid society to offer, the Old Nats face a dauntless election task. To them foreign policy doesn't matter a damn any more. Able ambassadors are being juggled for no good reason: Washington has even been downgraded to Piet Koornhof.

Just about all that is left is an effort to jack up economic growth — and they are going about it with a will. We have no doubt that the decision to go ahead with the R5,5 billion Mossel Bay project (see *Business*) was precipitated by the need to ginger up business activity, especially in that part of the country. Of course, with only about R300m likely to be spent this year, the economic impact will initially be muted. The real economic clout will come only next year. At least it seems Mossel Bay spending will flow through rather faster than the vast sums nominally allocated last year to low-cost housing.

With that in mind, our impression is that the SABC was told to squeeze the utmost propaganda from the project, which, while it will increase SA's fuel self-sufficiency substantially, is at best only dubiously commercial.

But, of course, it will be economically positive *and* short of the supply-side measures — such as substantial tax cuts — that we have long and ardently advocated. Spending on capital projects, it might be argued, is the next best thing. Certainly, it is better than a significant increase in government's current expenditure.

Our guess is that Mossel Bay will not be alone. Other major capital projects, possibly connected with synthetic fuels, will also be hastened along. A few more large hospitals (though we don't need white ones) and, who knows, even another opera house or two might be on the cards. The speed at which this occurs will be directly proportionate to the defections of New Nats.

But Barend will not leave things there. Indications from Pretoria are that the multiplier will be pepped up by sustained government spending. According to the Treasury's Gerhard Croeser, the authorities are stepping up spending without worrying about keeping the deficit before borrowing at a too-modest 3% of GDP (see *Economy*).

In present economic circumstances, with demand so low that the money supply cannot even grow as fast as its modest targets, there is scope — though not without limits — for funding government spending through long-term borrowing at market-related rates of interest.

This is not the ideal way to encourage economic growth. It would have been far better to have cut taxes substantially a few weeks ago, and pressed ahead much more vigorously with deregulation and privatisation. But it will be a stimulus and the economy needs one right now, regardless of whether it is expedient for the riven ruling party.

The problem is that by its very nature this type of stimulus will increase the flow of productive assets to the less efficient public sector. The outcome will inevitably be bigger government. Also disconcerting is that economic policy is clearly subordinate to, and being adjusted piecemeal to, the electoral fears of the diehard Nats. We have doubts too whether this stimulus is really going to be sufficiently effective ahead of the election. For Pretoria's dogged insistence on going ahead with the regional services councils (RSCs) with their payroll and turnover taxes is not what we need.

Depending on what sort of brake RSCs place on economic growth, the more economic policy will be at the whim of frightened politicians. In that event, you can bet your bottom dollar that government's current expenditures will rise; chances are they will be financed with as much expediency as possible. That most likely means through the highly-inflationary mechanism of prescribed investments — the old captive market at below-market rates of interest. In plain language, it would be back to the printing press to produce the rands that Pretoria needs.

That may get money supply growth back on to target. But it might also release a tidal wave of pent-up demand that will take the inflation rate way above the 20% level from which it is falling so encouragingly now.

There is little doubt that, with the rand having remained stable for some time, the inflation rate has probably peaked and will tend downward, despite tinkering with administered prices. But that decline is far from robust enough to withstand an unchecked spurt in demand.

The worrying thing at that stage, if more political fissures heighten government's consternation, is that Pretoria will again begin listening to the advocates of prices and incomes policies — voluntary or obligatory, it amounts to the same thing — which will in turn lead again to a massive dislocation of resources and pent-up inflationary pressures.

President Botha must realise by now that in political terms the May election was a mistake. In business ones it could turn out to be even more so, especially if the temptations become overwhelming for the ruling party to go for a quick economic fix. For the plain fact is that one won't stick.

To get the economy moving is going to require more courage, determination and innovation than we fear the ruling Old Nats have between them. ■

49

FM 27/2/87

GOVERNMENT FINANCES

Into a R10 billion deficit

A new era of government finances is dawning, led by Pretoria's conscious decision to allow 1986-1987's R5,5 billion deficit to rise to R8 billion when the new fiscal year starts on April 1. While a period of protracted deficit financing in 1987-1988 would be stimulatory and welcomed by economists, fundamental changes will take place at lower government finance levels with the collection of the first regional service Council (RSC) levies in July.

Deficit financing at national level will probably be used in lieu of tax hikes, theoretically needed after Finance Minister Barend du Plessis revealed that government will overspend its estimates for 1986-1987 by R2 billion. The effect of overspending, without tax hikes, is that the original estimated deficit of R4 billion will be an actual R5,5 billion for 1986-1987.

Gerhard Croeser, CE policy, Department of Finance, argues that in the current economic climate a deficit equal to 4,5% of estimated 1987-1988 GDP of about R170 billion (around R7,65 billion) is acceptable by international standards.

The deficit will be helped to that level by Pretoria's habit of overspending (though calmer now), and the modest tax cuts in the recent mini-Budget. This appears to be a radical change from the earlier commitment to hold the deficit around 3% of GDP.

Croeser adds that while a R7 billion-R8 billion deficit is justifiable on economic grounds, it is also affordable given the current capacity of capital markets, and interest rates that remain low on slack credit demand.

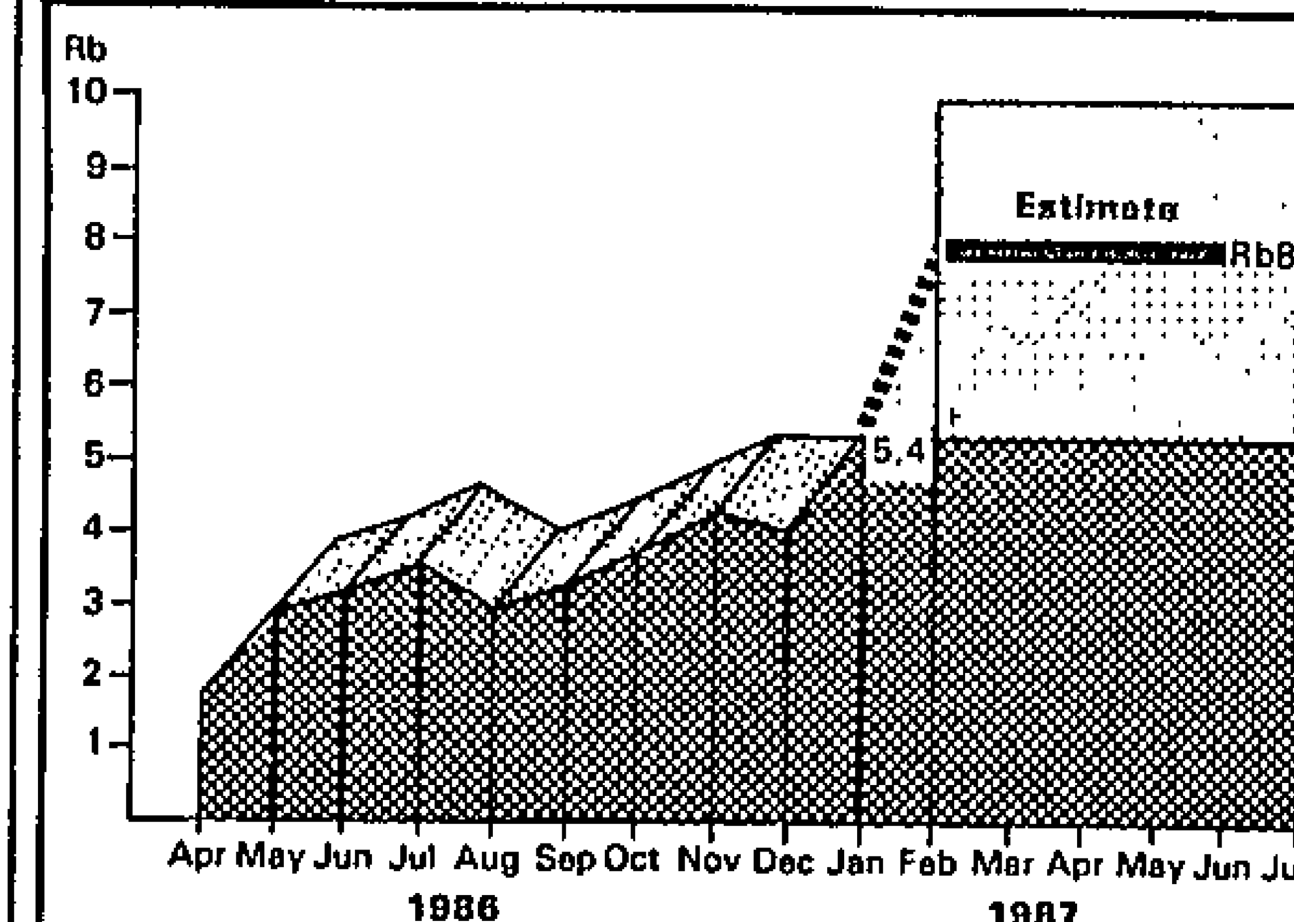
He thinks capital markets will absorb deficit stock around an average 12% coupon, implying R1 billion financing cost for a projected R8 billion deficit. The UBS's Hans Falkena even sees a 6% 1987-1988 deficit of R10 billion as comfortable *provided* government savings turn positive (current income exceeds current expenditure).

Such a deficit, says Falkena, would only be justifiable if financed in the capital markets and the cash raised spent on items classified as capital items by the IMF (*not* military expenditure, for example). The alternative of financing such a deficit through the money markets (which Pretoria has now come to avoid) would be inflationary.

If there is one worry about government finances it is simply the apparently insoluble overspending characteristic.

Du Plessis pointed out that revised 1986-1987 spending of R40 billion was an increase of 22% on the previous year's R33 billion. He added that if spending generated by the stimulatory package was taken out, spending had risen by just 19,9% — modest in real terms. Indeed, "in the light of the economic situation it is fully justifiable."

The budget deficit



The projected 1986-1987 spending increase was 13,9%. If it rises in the coming fiscal year by about 20%, R48 billion, equal to 28% of GDP, will go through fiscal coffers. But what will happen to revenues without a tax increase? Could the deficit truly go through the roof without one?

Projected revenues for this year of R34 billion need rise 18% in 1987-1988 to R40 billion to produce an R8 billion deficit on R48 billion spending. While an 18% rise in revenues is unlikely given the effect of the mini-Budget tax cuts, pay increases of 14% in the private sector and a probable 15%-20% in the public sector will push taxpayers into higher tax brackets. GST collections will rise on swelling consumer prices — all making good the 18% rise.

There is speculation too that Du Plessis will act in the June Budget against numerous tax concessions available to the corporate sector. It is thought that the main thrust of the finished but unpublished Margo Commission on tax is the general cutting of tax rates by abolishing as many concessions as possible. The corporate sector is a prime target for such a policy: the idea would be to close the gap between the official 50% company tax rate and the actual rate of an estimated 25%.

Government finances will be irreversibly impacted by the first RSC payroll and turnover taxes in June. The "colour-blind" RSCs will become a major general election issue; already "deep concern" has been expressed by Assocom and the FCI over last week's promulgation of the RSC regulations.

Assocom and FCI argue that the Margo Commission report should be awaited and RSCs acquire "bridging finance" meanwhile. They are disturbed by "lack of precision" in the regulations and the absence of the right to lodge objections and appeals.

RSCs are based on the "benefit" principle and will have jurisdiction over 22 services provided at local level. They have many options regarding each service ranging from financing through levies to abolition; from re-capitalisation to privatisation.

Each RSC will have a minimal staff; Inland Revenue will collect and police the levies. Croeser estimates RSCs will collect R800m in their first 12 months and reduce the strain on the central Exchequer. To what extent (if any) RSCs will reduce the burden of mainstream taxes (by privatisation, for example) is unknown.

However, a main function of RSCs will be to create and maintain infrastructure, lessening the burden on Exchequer. In recent times Pretoria has spent substantial amounts through the Exchequer on creating infrastructure, which will be assumed by RSCs in their relevant areas.

Moreover, RSCs should relieve to some extent the substantial amounts incurred by the Exchequer on transport subsidies. Officials point to this year's Transport White Paper, which reckoned that responsibility for transport should be assumed at the lowest possible level.

With abolition of the Provincial Councils effective on July 1 last year, the provinces go on to the list of Exchequer votes as of 1987-1988. The four provinces retain taxing powers (over horseracing, for example), and will be subject to a Parliamentary Standing Committee.

But these political developments should not shroud watchdogs of government spending. George Huysamer economist Louis Geldenhuys is concerned about the overall quality of government spending. Concern has been voiced over rising consumption replacing capital spending, for example. A new worry is that what appeared to be one-off items in last year's stimulatory package may become recurring, due to their socio-political nature.

The main example is the R661m allocated to the SA Housing Trust and other low-cost housing. If these schemes for black housing are a success it will be extremely difficult not to replenish the funds in years ahead. Officials point out, however, that the Trust will be expected to find further funding of up to R400m (equal to its budgetary allocation) in the capital market — so becoming financially self-sufficient.

GOVERNMENT GAZETTE

OF THE REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

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STATE PRESIDENT'S OFFICE

27/2/87

No. 476. 49 GG — 27 February 1987

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 14 of 1987: Additional Appropriation Act, 1987.

KANTOOR VAN DIE STAATSPRESIDENT

No. 476. — 27 Februarie 1987

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 14 van 1987: Addisionele Begrotingswet, 1987.

Main Budget will determine durability of economic upswing

49

SM 4/3/87

Finance Staff

The main budget, due for presentation on June 3 this year, will play a central role in ensuring a continued upturn in economic performance this year.

It will reveal whether the authorities intend continuing to discipline themselves, thus ensuring that the modest upturn in the economy can develop into a stronger, more definite trend, says Mr RB Justus, assistant-general manager of Santam Insurance.

In his quarterly review of economic conditions and the investment outlook, Mr Justus says the relative restraint shown by the authorities in the recent mini-budget was very encouraging.

"Only when we can see that this discipline has been carried through to the main budget, will we be able to assess economic potential for the coming year.

"As matters stand now there is little to get excited about," he pointed out. "A growth rate of about three percent is hoped for. This is reachable and is the least we should be achieving from the current low base. The vexing question is what will bring about more economic growth in South Africa, if any upswing is going to be more than just a brief reaction?"

He suggested three possible growth determinants:

- "An export-led upswing although this seems unlikely since most overseas economies are not looking particularly positive.
- "Increased government spending (both current and investment) might do it, but this would be highly inflationary and in the end defeat its own purpose.
- "An increase in private consumption expenditure would do the trick, but where is the money to come from which would allow increased spending. Either the consumer must use up his savings (if he as any left) or he must borrow money to spend."

Mr Justus feels it is probably only from a government-sourced initiative (through the creation of confidence and by providing the consumer with increased net disposable income through greater tax relief) that reasonable economic growth can be achieved.

Even then, he says, any upturn will have to be very gently nurtured, with an eye on the already high inflation rate.

He expects the authorities to try and keep control of the foreign exchange value of the rand at around the present level of 46 US cents until well past the middle of the year.

"Should there be economic growth coupled with high inflation, then something is bound to give and that is most likely to be the currency. In an environment of higher economic growth the demand for imported goods will rise, the balance of payments will come under pressure and a renewed bout of currency-related inflation will start," he says.

Mr Justus is fairly confident that a base for widespread economic growth has been laid, but only if financial discipline is maintained. This, he says, applies to the private as well as the government sector.

The private sector has the motivation to improve and encourage productivity as it has the discipline of the profit motive while being answerable to shareholders. However, it is difficult to motivate the public sector to accept the greater disciplines which are necessary.

"The signs contained in the mini-budget were encouraging, but if the authorities are unable to maintain them, the the country will have a repetition of last year which saw virtually no growth".

rgain' Cape farms snapped up as buyers exploit weak financial rand

Foreigners pour cash into SA

Argus 5/3/87

49

Staff Reporter

MILLIONS of rands are pouring into South Africa as an increasing number of foreign investors take advantage of the weak financial rand to buy property, listed securities and businesses.

In the Western Cape, historic farms are proving the big attraction and several near Paarl and Stellenbosch have been sold to foreign investors for R1-million and more.

These include Wilde Paardejacht in the Klein Drakenstein area, sold for R1-million to Mr Richard West, a Canadian living in Britain, and Dennegeur, which went to a Swiss buyer for R900 000.

Two years ago Mr Jannie Momberg, athletics administrator and campaign manager for Dr Denis Worrall, sold his historic Neethlingshof farm to German financier Mr Hans-Joachim Schreiber for about R8-million.

Attractive

Estate agents calculate that, with foreign buyers able to put up at least half the purchase price in financial rands, a R1-million property would cost about $ 320 000.

"The terms are very attractive because, having bought in at the financial rand rate, they are able to take out their profits in commercial rands," said one.

"These are very attractive terms to any investor."

Mr Johan Louw, managing director of Caprop, a Paarl estate agency, said South Africa was considered to be a bargain situation and his company had "a couple" of transactions pending for overseas buyers.

Buyers did not appear to be interested in the political situation, he said.

Job creation

"We have had German purchasers and several from Britain buying property in the R3-million range, but not many Americans showing interest," said Mr Gabriel le Roux, a partner in a Stellenbosch estate agency.

"If the buyer can show that he intends setting up some kind of labour intensive or job creation project he can negotiate for up to 100 percent of the purchase price to be in financial rands."

Commercial bank sources said it was not only farms that were attracting interest, but any business venture.

"They are not looking at capital growth but at return on their investment," said a spokesman for Boland Bank in Paarl.

"Considering the depressed property market and favourable exchange rates they are buying for nothing and the income generated on a good buy is phenomenal."

Govt action 'warranted'

6/2/87

GOVERNMENT felt that moderate stimulation of the economy was warranted despite the potential dangers of a consumer-led recovery at the current high rate of inflation, Finance Minister Barend du Plessis said at a business seminar in Johannesburg yesterday.

The economy was now clearly in a modest recovery phase "and the recovery will gather momentum if given a slight nudge", he said.

Du Plessis said that while final figures for 1986 were not available, indications were that the surplus on SA's current account amounted to more than R7bn.

The Reserve Bank's gross gold and foreign exchange reserves had recovered from a low of R3,2bn at the end of April 1986 to a total of about R5,5bn in January this year.

"You may well ask what is the official strategy with regard to this developing upswing? The short answer must be that we have been and are doing what we can, consistent with the need to keep inflation under control, to reinforce a consumption-led recovery." — Sapa.

INVENTORIES (49) FM 6/3/87

Sanctions stocking

The level of inventories can be a helpful indicator of economic activity. Though the seasonally annualised rate of inventory growth in 1986 fell in the first quarter by R1,6 billion, and a further R2 billion in the second, the third quarter registered a significant build-up of R5,3 billion.

This augurs well for the economy, following seven quarters of declining stocks. But changes in inventory levels can give ambiguous signals.

Azar Jammine of Econometrix believes the likely reason for the build-up in the third quarter was the threat of sanctions. He also points out that prior to the recession it was common for businesses to maintain very high inventories. "Stocks were reduced to dangerously low levels," he says; anticipation of a mild upturn in demand was extra incentive to build up stocks quickly, even though traders might have realised that the upturn would be less than spectacular.

One of the few positive factors to emerge from the ravages of recession is that business has adapted to permanently lower inventory levels. "The recession, especially high interest rates, penalised those with high stock levels. Business was forced to improve the efficiency of stock management. Now, even during periods of economic upturn, inventory levels will not be kept as high as in the past," says Jammine.

Growth in inventories in the third quarter may also have been encouraged by negative real interest rates. Manufacturers expecting inflation to continue at a rate above short-term interest rates would view stockpiling as profitable. Trust Bank economist Ulrich Joubert sees this as an important factor.

Real consumption expenditure did increase sharply as anticipated in the third quarter of 1986. This may have partially explained the significant growth of inventories, though there is traditionally a lag between spending and stocking.

However, Edward Osborn, head of Nedbank's Group Economic Unit, explains that the positive impact of inventories on GDP was partially negated by the high import content. "If inventories are supplied domestically there will be a positive impact on growth. However, if inventories are predominantly imported, as in the third quarter, an upturn in inventories will not contribute to the domestic economy."

David Mohr, an economist at Old Mutual, believes that the growth in inventories from the second to the third quarter was a one-off increase from a low base, and unlikely to spark off a consumer-led boom.

Reserve Bank estimates for inventory changes in the fourth quarter may confirm Mohr's scenario. Bank sources forecast negative growth for the last quarter of 1986. It is not yet known, however, whether the yearly change in inventories will make a positive contribution to 1986 GDP.

Jammine suggests that expected negative changes in fourth-quarter inventories may indicate that the "expected bite of sanctions has not yet materialised." He nevertheless believes there will be a decline in the rate of destocking in 1987, which may be a primary factor in encouraging growth, depending on the import component.

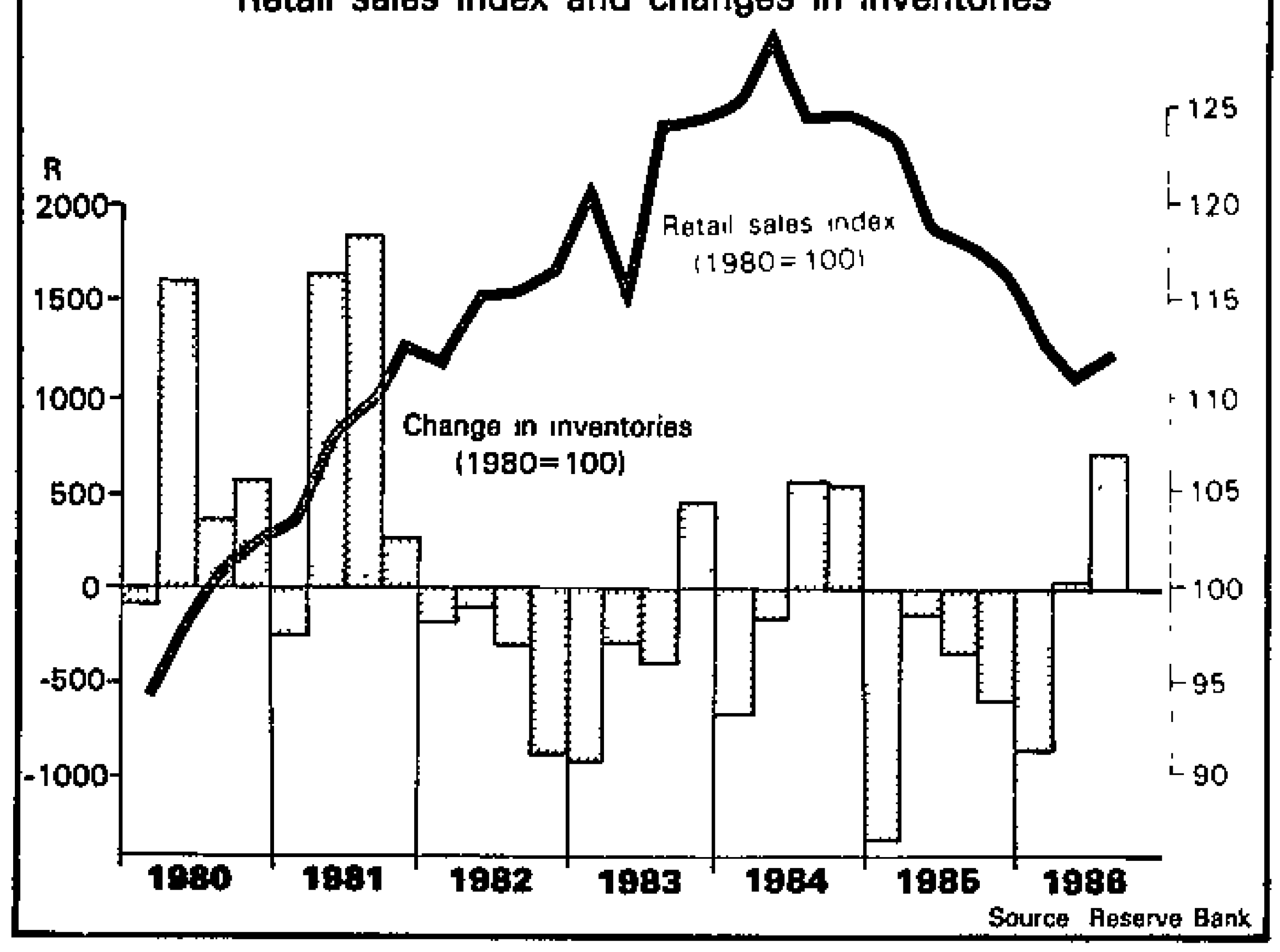
Osborn agrees that the fall in inventories in the past few years is over and there will be a modest increase — about R500m annualised. However, a significant portion will be precautionary stocking. "The real impact of sanctions will be strongly reflected in import growth in 1987."

An upturn in the retail sector could also make a marginal contribution to growth. However, the financial position of the personal sector is, according to Osborn, still unsound. "In personal and instalment indebtedness there has been some recovery from the hammering of interest rates, fiscal drag and inflation. There is also pent-up demand. But the remaining debt constraints make a surge in private consumption expenditure unlikely." Nedbank predicts it will increase in real terms by 3,4%.

Southern Life *Economic Comment* for January 1987 stresses that "GDP growth in 1987 should be greater than that of inventories to GDP," and predicts rates of 4,0% and 3,0% respectively. It proposes that as long as the drawing down of stocks is less than in the previous year, the "swing" in inventories will be positive, so must add to growth. ■

Taking stock

Retail sales index and changes in inventories



CONFIDENCE

Edging up but edgy

Everyone knows that economic expansion is out there just waiting to happen. But nobody quite knows when.

The latest Business Confidence Index (BCI) published by Assocom reflects caution among consumers which is keeping recovery on a slow burner. Though the BCI for February shows a slight improvement over January — 89,8 over 89,5 and four percentage points up on the previous February — "confidence in the wider sense remains an elusive yet vital factor" concludes Assocom's economic comment.

It points out that the tentative improvement will rely heavily on the outcome of several crucial events: the general election on May 6; possible further increases in administered prices; the shape of the main Budget; the authorities' response to the Margo Report into reform of the tax structure; and the impact on the business community of proposed regional taxes.

Meanwhile, consumers who entered 1986 carrying a "considerable legacy of debt" are reluctant to incur more. So demand for credit "remains modest." Should consumers decide to throw caution to the winds, the restocking of inventories will be retarded by cost inflation and cash-flow problems among small businesses. Growth is being restrained at source and restricted along the multiplier mechanism.

However, though confidence is tentative, prospects are reasonably encouraging.

Positive developments reflected by the BCI were new cars sold, which recovered from a December low; a drop in insolvencies of private individuals and partnerships; a small decline in registered unemployment and the number of people emigrating; and a deceleration in inflation (though this was partly due to technical factors).

Negative developments were: a decline in the JSE overall index due to a sharp fall in the gold index; a decline in the dollar price of gold; and a decline in number of new companies registered. ■

□ See *Inventories*

11/3/87 B/Day (49)

Economy slowly moving ahead — De Kock

GERALD PROSALENDIS
Economics Editor

THE SOUTH AFRICAN economy was moving slowly off a low base, Reserve Bank Governor Gerhard de Kock said yesterday.

There was little danger of the economy overheating, leading to a re-emergence of demand-led inflation, and the monetary authorities would do their best to ensure interest rates remained low.

"We have no intention of increasing or decreasing Bank rate. If money supply growth is inadequate by June, there may be some additional fiscal stimulation in the Budget."

Bank credit would not rise signficantly in the next few months, nor would inflation decline sharply, although there could be a gradual downward tendency.

The authorities would not, however, recommend a wage and salary freeze — it would further devastate real remuneration, which had declined for two years.

De Kock said SA had succeeded in adjusting to adverse circumstances and severe economic shocks. "I would not have thought it possible."

However, SA had no soft option. For political reasons, a current account deficit could not be financed with foreign capital — further adjustments to the prevailing circumstances will have to be done the hard way.

So far, the cost had been a decline in employment and the standard of living.

He said the current account surplus for 1987 would be about R5bn. "I am not boasting about this surplus — I would rather see a deficit and higher growth."

SA was a developing country and running a current account surplus was unnatural. "But we have to repay debt. We cannot afford to be reckless."

However, if SA experienced a strong upswing, resulting in a rise in imports, the authorities would not dip into reserves but would use trade credits

□ Preliminary Reserve Bank figures show a real growth in GDP in the fourth quarter of 1986 of 1,8% compared with the same period the previous year.

'Folly to weaken SA's economy'

99

EPost 11/3/87

DURBAN — It was the height of folly for the West to weaken South Africa's economy in any way, the president of the South Africa Foundation, Dr Fred du Plessis, said today.

Addressing the annual meeting of the foundation, Dr Du Plessis said it should be the foundation's single-minded objective to persuade Western leaders that mutual interest dictated that SA should be re-absorbed into the Western system.

"If they have a 10-year vision of Southern Africa as they would like to see it, one would presume that it would in essence be the same as our own — a region already consisting of some 100 million people that will have developed economically on the Western pattern to the stage of at least being able to feed all its people and to have become firmly committed to the free world camp in the process," he said.

"This desirable situation can come about only if economic growth in the region consistently stays ahead of the population increase and it is hard to see that happening in any of our eight neighbouring states without the economic engine that only SA can provide.

"Fortunately there are already signs in official circles abroad of second thoughts 'about the wisdom of sanctions."

If the objective of sanctions was to nudge the SA Government closer to power-sharing with blacks, then sanctions have had the reverse effect, he said.

"To use an economic weapon as a means of politically persuading the SA Government was always ill-informed.

"The Government has traditionally thought in political and social terms rather than in ecomomic ones. Sanctions have therefore had predictable consequences. — Sapa

Economy set for expansion — BER

(49) B/Day 11/3/87

AFTER a period of contraction, the economy should be taking a turn for the better and entering a period of expansion, according to the Bureau for Economic Research (BER) at the University of Stellenbosch.

However, excessive price increases had been the "Achilles heel" of the economy since 1970. "The trend-cycle graphs depicting movements in the production price index, as well as the consumer price index, hold little hope for an abatement in these increases in the near future."

In its latest edition of *Trends*, a quarterly statisticical analysis of economic trends, the BER said the improvement in economic activity showed up clearly in the graphs which reflect the performance of the manufacturing sector.

The total physical output of this sector was increasing, although some sub-sectors were still struggling.

Sectors doing better than a year ago included tobacco, textiles, wearing apparel, machinery, paper and packing.

Sectors in which the tempo of activity remain sluggish include metal products, iron and steel and food and beverages.

The bureau said the building sector was apparently still sluggish. The index which reflects cement sales peaked in mid-1984 and as yet there has been no hint of a lower turning-point.

Mining production volumes tended to move upwards in total, but sectors such as diamonds, coal, manganese, non-metallic minerals and metallic minerals were experiencing cyclical declines in the volume of production.

Turning to the business cycles of the various regions within SA, the bureau said the country was apparently moving out of recession and such movements were particularly clear in Durban, Pretoria and even Port Elizabeth. The Johannesburg and Cape Town cycle appeared to be bottoming out.

Millions lie unclaimed in State's coffers

Star 12/3/87

By Michael Chester

Tens of thousands of South Africans are gasping from the cash squeeze on family budgets — unaware there are State treasure chests bulging with more than R200 million that is owed to them and merely awaits collection.

The sources of the cash vary between inheritances from deceased relatives or close friends and the final settlement of debts owed by companies that long ago went into liquidation and which creditors had written off. There are piles of cash owed to stock market punters who forget to collect the flow of dividends from their shares. There are wages that were never collected when workers changed jobs. Even pensions that have been ignored.

The fortunes have been amassed by the Masters of the Supreme Courts based in seven centres spaced out around the various provinces.

They act as guardians to all sorts of credits that have never been claimed, often because beneficiaries have changed address and their precise whereabouts are unknown. Often because people do not know the credits even exist.

MYSTERIES GALORE

Mr P B van den Rooyen, of the Supreme Court in Pretoria, estimates that there is R88 million lying in limbo in the Transvaal alone.

"There are mysteries galore about why cash goes unclaimed", says a colleague. "But the law has a system to ensure credits never disappear.

"Once every 12 months we print a list of all new creditors in the *Government Gazette*, yet still the cash accummulated in what we call Guardian Funds keeps on growing.

"We have formidable lists of people who are owed money, but rarely come forward with claims. To list them all would take a fair-sized telephone directory — thousands and thousands of names.

"Sometimes the credits are still unclaimed after as long as 30 years, at which point they are handed over to the state. But anyone who believes he may be entitled to claim is welcome to come and wade through our lists — as long as he can prove identity, of course."

One of the biggest chunks in the list of dormant money is taken by inheritances where beneficiaries never stepped forward. The latest *Government Gazette* carrying a full list of Guardian Funds shows there were no fewer than 44 beneficiaries named in the will of the late John Hubert Davies whose inheritances had sat unclaimed after more than a year.

POSSIBLE BENEFACTORS

Between them, they were entitled to R103 785,11 — from the R5 601,85 for A W Transold to the R324,76 that H S Richards and H Simons can each collect if they make the effort.

There was also R55 633,96 awaiting the unknown heirs to the estate of the late M Folkersz.

Eye also needs to be kept on the cash that still pours into estates after the death of possible benefactors. For example, there was R29 073,26 owed to the estate of the late King Sobhuza II but had gone ignored for 12 months and longer.

There were cobwebs around R300 awaiting collection by the Philharmonic Society of Johannesburg. Also around the R200 that the late H J C Bond left to All Saints' Church of Waterval-Boven.

Not that the laggards were confined to the Transvaal. Across in Windhoek, gathering dust after lying unclaimed for over a year, there was R10 288,68 owing to Aina Shigwetho, left by the late S Hanulenya plus R11 270,62 awaiting Kashingo Enjala, who may not know he was named heir by the late K Iyungo.

To add to the mystery of credits that go ignored... the Department of Finance in Pretoria is still sitting with R1,6 million owed out on at least 2 000 prizes never claimed from old Bonus Bond draws, even though the last draw was as long ago as January 1985.

Basic economic problems 'unsolved'

SA upswing 'not enough'

(49) BDay 12/3/87

HELENA PATTEN

THE current upward trend in the economy will not solve SA's fundamental economic problems, says Standard Bank's latest *Review*.

It says the present upswing is largely dependent on gradually improving domestic demand, which could collapse in the face of any unpleasant surprises. Most post-war growth phases of the SA economy have been based on strong growth in export volumes and earnings.

The *Review* says many indicators show improvement. The volume of manufacturing production has been increasing on a broad base since the second quarter of 1986 and retail sales volumes are also rising.

"The competitive position of South African manufacturers was considerably enhanced by the depreciation of the rand in the second half of 1984."

However, not all sectors have prospered during 1986.

"The building and construction industry has continued to stagnate. The only exception is housing. . ."

"The motor industry is probably over the worst, and car sales in 1987 should exceed the 1986 total of 174 000 units."

In spite of improved profits in many sectors of the economy, the immediate outlook for both employment and new fixed investment is not good.

Worker militancy and rapidly rising nominal wages provide a strong incentive to mechanise operations and some major employers in the mining sector are increasing their efforts in this direction.

In other sectors, there is still significant spare capacity and the overtime percentage is still low compared with 1981. This means there is scope for further growth in output without the creation of new jobs and new capacity.

"Confidence in the economy appears to be improving, and the present neutral policy stance is therefore appropriate. Further demand stimulation now would mean a higher future inflation rate and weaker rand than would be the case if policy makers leave well alone."

Political comment in this issue by Ken Owen Newsbills by Trevor Bisseker Headlines and sub-editing by Michael Allwright All of Times Media Ltd, 11 Diagonal Street, Johannesburg

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ACT

To appropriate an amount not exceeding R1 550 000 000 out of the State Revenue Fund for a part of the requirements of the Administration: House of Representatives for the financial year ending 31 March 1988.

(English text signed by the State President.)
(Assented to 5 March 1987.)

BE IT ENACTED by the State President and the House of Representatives of the Republic of South Africa, as follows:—

Appropriation of moneys for part of requirements of Administration: House of Representatives.

1. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund such an amount not exceeding R1 550 000 000 as a charge against the Revenue Account: House of Representatives, as may be necessary for a part of the requirements of the Administration: House of Representatives during the financial year ending 31 March 1988, until such time as provision has been made in an Appropriation Act for such requirements.

Short title.

2. This Act shall be called the Part Appropriation Act (House of Representatives), 1987.

ACT

To appropriate additional amounts of money for the requirements of the Administration: House of Representatives during the financial year ending 31 March 1987.

(English text signed by the State President.)
(Assented to 5 March 1987.)

BE IT ENACTED by the State President and the House of Representatives of the Republic of South Africa, as follows:—

Appropriation of additional moneys for requirements of Administration: House of Representatives.

1. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated for the requirements of the Administration: House of Representatives during the financial year ending 31 March 1987, as a charge to the Revenue Account: House of Representatives, the additional amounts of money shown in column 1 of the Schedule.

Short title.

2. This Act shall be called the Additional Appropriation Act (House of Representatives), 1987.

Schedule

Vote		Column 1	Column 2
No.	Title		
		R	R
1.	Budgetary and Auxiliary Services	17 857 000	
2.	Education and Culture	14 521 000	
3.	Local Government, Housing and Agriculture	27 906 000	
4.	Health Services and Welfare	20 804 000	
5.	Improvement of conditions of service	7 771 000	
	Total	88 859 000	

more family accommodation.

Clearly, the mining houses are open to the suggestion of housing their employees on a family basis. But many issues will have to be resolved first. Some of these relate to costs. Schemes will have to be developed to put home ownership in the reach of mineworkers. How these will work remains to be seen.

Other factors are in the court of government: questions like making land available, proclaiming townships, and the Group Areas Act.

Quite patently, this calls for more, and more determined, reform. ■

MONETARY TARGETING

FM 13/2/87

Still the flavour of the year?

(49)

The end of the first year of monetary targeting in SA coincides with major criticisms of, and changes to, the technique in the US and UK. But the Reserve Bank is pressing on.

A year after SA, following many other countries, set its first money supply growth target range it is tempting to suggest that the exercise proved meaningless, as M3 consistently fell way short of target.

In the long run, growth in money supply must equal real growth plus the rate of inflation — what the London *Financial Times's* Samuel Brittan calls growth in money GDP, and has long urged the UK to adopt as a policy target.

The 16%-20% target aimed for 4% growth and a 12%-16% GDP deflator mix, but we got higher inflation and undershot growth.

The economy, it is now revealed, grew by a real 2,4% between the fourth quarters of 1985 and 1986 (not quite 1% for calendar 1986), while the GDP deflator was 15,6% (year-on-year inflation in December, as measured by the CPI, was 18,1%; the deflator for calendar 1986 was 16,2%).

Governor De Kock

The reason reported money supply fell short, and didn't relate to growth and inflation, is an unprecedented increase in velocity of circulation (V) — the rate at which money changes hands.

Computing V by money as a proportion of nominal GDP (GDP/M3) since 1980 (a fair year to start, as the beginning of the present market-orientated era), its change has ranged from a 6,4% decline to an increase of 4% quarterly or from a 9,9% fall to 8% growth on an annual basis.

Reserve Bank Governor Gerhard de Kock notes that V increased 7,6% in the 12 months from the fourth quarter of 1985, because of disintermediation — replacing bank credit by other forms of credit extended directly by primary lenders to borrowers — and the flow of funds into the stock market.

"This is a typical development when real interest rates are not high enough to attract deposits," he says. "Taking V into account, M3 actually grew an average 18,4% in the fourth quarter of 1986 compared to 1985. This is well within the target range." Indeed, as the graph shows, if money supply is adjusted for V, it fell within the target range virtually throughout the year.

In reducing the target range of M3 growth — broadest of the four aggregates — to 14%-18% between the fourth quarter of 1986 and that quarter of 1987, the Reserve Bank is hoping for 4% real growth over this period (3% for calendar 1987) and by implication a 12%-14% rise in prices as measured by the Bank's GDP deflator.

The Bank — and the De Kock Commission, on whose recommendation targeting was introduced — argues that targeting helps control inflation, provides advance notice of the likely stance of monetary policy which assists people in planning and reaching decisions, and is a yardstick against which performance can be judged and policies altered if need be.

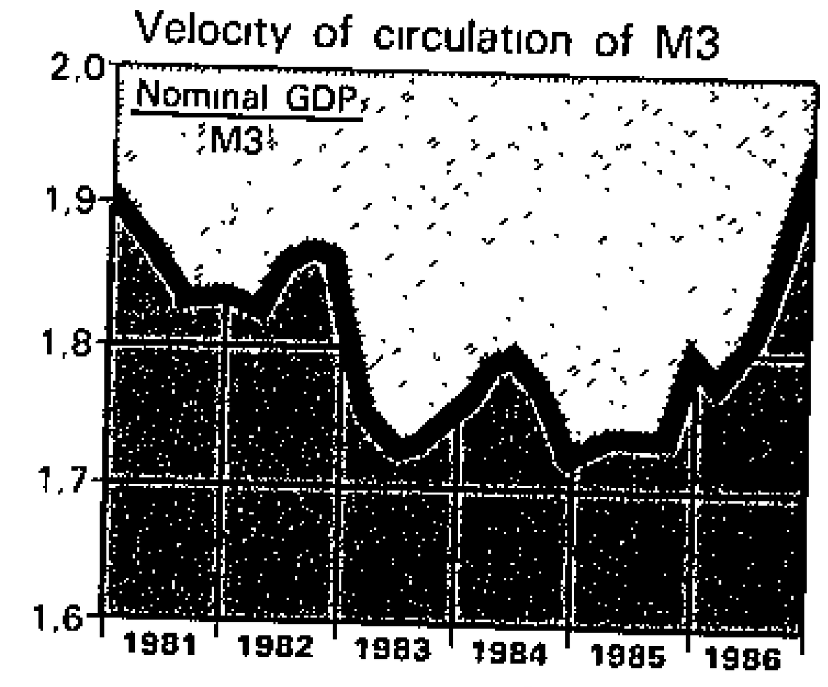
The Commission and the authorities subsequently talked of a flexible and low-profile approach, emphasising they are "not recommending a rigid and overriding 'money rule' that implies leaving interest and exchange rates completely free to find their own levels at all times." Monetary targeting is a means to an end, not an end in itself; once a target is accepted by government, it is a useful discipline.

While some doubt the Bank's ability to hold money supply growth within its target range, hardline monetarists on the other hand question the degree of commitment to targets. What, they ask, is the use of targets if you are not serious about sticking to them?

"Rigid targets would probably be unattainable ... But flexible targets are like Hamlet without the Prince, Chicago without the Loop, like monetarism without a predictable quantity of money," wrote veteran economist Ludwig Lachmann in the *SA Journal of Economics* (SAJE) in March 1986.

Virile money

Velocity of circulation of M3



Critics argue that money supply cannot effectively be controlled because it is influenced by many internal and external factors, not least demand for money and the gold price. In the same issue of the SAJE, American academic Basil Moore and Stellenbosch University's Ben Smit emphasise that the Commission "failed to appreciate that the stock of credit money is necessarily, and at the same time, both demand-determined and credit-driven."

Barclays' former economist Johan Cloete draws a similar distinction between transactions demand for money and demand for financial transactions.

It may, of course, be that targeting will really only be tested when M3 shows signs of overshooting. Undershooting is unusual; but when there is overshooting, and government has to adopt a more restrictive policy (like pushing interest rates up) will it do so? De Kock argues that once money supply targets are agreed, government will find it easier to resist pressures to print money.

Talk about V rekindles a fierce theoretical debate. Its volatility also raises the question of whether V too should be targeted — though this may simply not be possible in practice.

The Commission and monetarists consider money supply growth as a strong influence on the price level. According to the Quantity Theory of Money, the supply of money (M) multiplied by V equals the price level (P) times the amount of final transactions (T): $MV=PT$.

Even die-hard monetarists concede that South African inflation is today of a cost-push nature, unusual in being largely driven by exchange-rate changes. But some — including the Bank — hold that this is only a temporary phenomenon: whatever the causes of rising prices, in the long run they cannot be funded if the supply of money is held rigidly constant.

Finally, there is debate about which of the Bank's four money definitions to target: M1(A), M1, M2 or M3. The last is the broadest, comprising cash and virtually all deposits with banks, building societies and the Post Office. (The Post

Office and building societies were brought in under the policy of treating all institutions alike.)

Many argue that narrower definitions are more accurate, thus preferable targets. Old Mutual's Rob Lee considers the narrowest definition, M0, best: "It shows the strongest correlation to domestic spending. The behaviour of M0 and M1(A) is more consistent with what is happening now than M3."

The Bank holds that M3 has the most stable relationship to income, as it is less affected by deposits in banks and building societies. As the broadest definition it is not affected by a change in money from one form to another.

Monetary targeting was pioneered by the West German Bundesbank in 1974 in the wake of the first oil price explosion. Its duty is enshrined in law and its independence constitutionally guaranteed.

Bundesbank president Karl Otto Poehl's simple interpretation is: "It is not our job to guarantee full employment: we're concerned with stability and price levels."

The choice of Central Bank money stock (CBMS) in circulation (excluding bank-held balances) plus banks' required reserves on domestic liabilities was predicated on controllability and sensitivity. In concept an annual target corridor for CBMS growth is simple.

The Bundesbank analyses all indicators and judges capacity for real growth, to which is added a rate of "unavoidable" price increases to project a nominal rise in GNP.

In theory, the corridor is an "automatic stabiliser." But theory was sunk by external pressures in 1986.

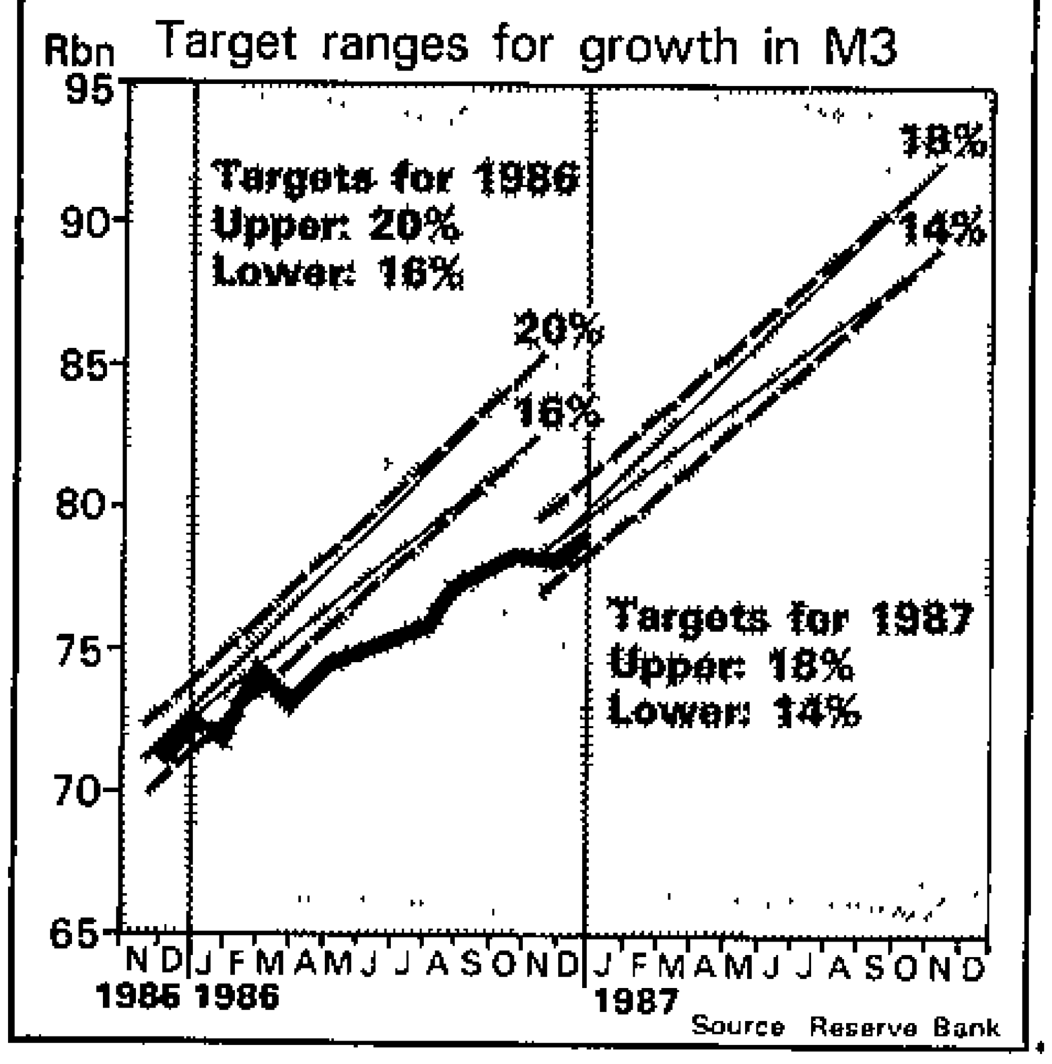
The rise of the D-mark reduced exports, and liquidity preference induced by falling prices cut growth from an assumed 3,5% to 2,5%. Currency speculation brought capital flows which bloated CBMS.

Theory dictated a tightening of policy, but the exchange rate and international pressures precluded this, forcing the Bundesbank onto a tightrope of compromise.

According to one estimate, had the Bundesbank stuck to theory to squeeze CBMS back into the corridor, the impact on the exchange rate would have produced a GNP fall of 2% and negative inflation of 4%.

For this year, the Bundesbank has assumed growth potential at 2,5%-3,0% and price increases of 1,0%-1,5%. But the experience of 1986 — when CBMS growth of 8% overshot the 3,5%-5,5% corridor for the first time since 1978 — and continuing exchange rate pressures have forced it to widen the monetary target to a more flexible and above all credible 3%-6%.

Way short?



In the UK, the monetarist experiment has required even more flexibility. Introduced by Labour as part of the International Monetary Fund's rescue package during the 1976 sterling crisis, monetary targeting was formalised as part of the Thatcher government's medium-term financial strategy for tackling inflation.

The broad (but not broadest) aggregate of sterling M3 was chosen — notes and coin in circulation and private sector sterling sight and time deposits with banks.

Professor Alan Budd notes: "The targets went haywire almost immediately." The 7%-11% range for 1980-1981 saw an outturn of 19,4%. It was all mopped up by inflation — the second oil price shock and a wages free-for-all plus increased value added tax — which peaked at 22% in the 1980 recession.

Hoare Govett's chief economist Roger Nightingale says: "If government had tried to stick to the target, the implications for the real economy would have been disastrous."

The downward lurch in inflation after 1980 did bring M3 growth more in line with adjusted targets — it was inside the range in 1982-1983 and 1983-1984. But it went out of kilter again as broad money supply became distorted by deregulation in the financial sector. In 1984 the government brought in a new, narrower target: M0 (notes and coins in circulation and bank till money plus banks' deposits with the Bank of England).

M0 has behaved better. But the government has stuck with setting aims for M3 — even though it briefly suspended that target in late 1985 when growth of 14,8% wrecked the credibility of the desired 5%-9% range. However, the exchange rate has also become a prime instrument in combating inflation.

Actual growth of 18% in M3 last year confirmed for doubters, such as the Bank of England, that the relationship between the broad aggregate and nominal GNP growth is no longer valid. And the Bank's governor Robin Leigh Pemberton has publicly suggested that the practice of setting targets which are continually changed or exceeded is unnecessarily damaging to confidence.

Nightingale, however, says it is still an open question whether the overshoot is storing up future inflationary trouble or whether, because of changed financial markets, changes in monetary aggregates no longer have the meaning they were supposed to. The US Federal Reserve's decision to jettison its main monetary aggregate, M1, as a policy tool, came as no surprise.

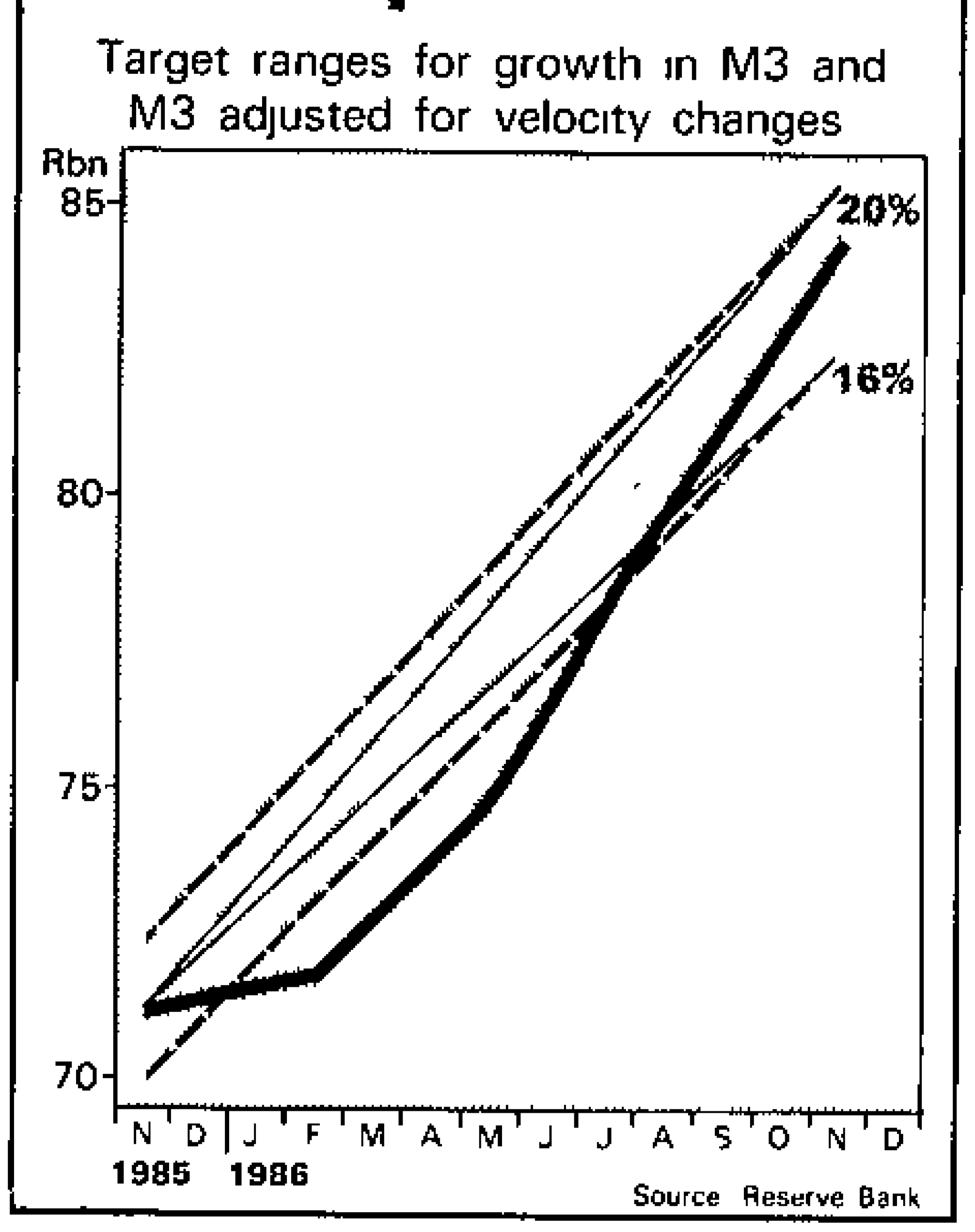
The Fed has paid little attention to M1's rapid growth in the past year (over 14%) and merely formalised its non-committal position when chairman Paul Volcker told Congress that no growth rate would be targeted in 1987. Interestingly, one reason for the overshoot is that, contrary to South African experience, V fell sharply in the US last year.

Volcker stresses, however, that the decision does not signal that the Central Bank has given up the fight against inflation. Instead, it has adopted a month-to-month attitude to M1 growth because there "is no institutional basis for judging how the narrow measure of money supply should perform in an environment of declining interest rates." The Fed has set growth limits for broader aggregates M2 and M3 of 5,5% and 8,5%.

It is aiming for inflation of 4% or less in 1987. Any sign of a rise above that could trigger a substantial tightening move. However, the Fed is only projecting 2,5% growth this year, giving it less room to respond to surges in money supply without risking plunging the economy — not just of the US, but of the world — into recession. Also, resurfacing fears about the ability of Latin American nations to repay debts will be worsened if US interest rates rise.

Budd believes the UK experience shows there is more to the issue than "being lucky enough to go for the right target." He says: "Economic turmoil — whether it be rapidly rising inflation or even falling — doesn't seem conducive to operating monetary targets. But once you get stability, it's OK."

Spot on



The fact is, neither the SA Reserve Bank nor any other central bank is a hard-line monetarist: they all believe, some more than others, that a degree of discretion is necessary in economic management — what could be described as an eclectic mix of monetarism and Keynesianism.

As long as it is not treated as an immutable rule, monetary targeting is a useful guide to how that discretion should be exercised, as well as a healthy discipline on politicians. ■

Chamber warns on sanctions sell-outs

Exporters and importers must 'pull together'

By Chris Moerdyk

...e of the more serious problems of ...nctions was local businesses "sel... ...ch other out". ... Pat C...in, pr...nt ...sbu...

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The Star's October 13 story warning of sanctions "sell outs".

Sell-out firm ignored Chamber's warning

By Chris Moerdyk

A warning six months ago by the Johannesburg Chamber of Commerce that one of the more serious problems of sanctions was "local businesses selling each other out", has gone unheeded by at least one South African company.

According to reports from Washington yesterday, a South African company, angered by its inability to get off the US sanctions "hit list", has told the US Government that several other South African companies should also be on the list.

In October last year, The Star quoted Mr Pat Corbin, president of the JCC, as saying "sanctions spawn self-interest and competing exporters could resort to leaking information on competitors".

Mr Corbin told The Star yesterday: "It is a pity businesses tend to look at their own interests rather than those of their country.

"This particular company has obviously reacted to its inclusion on the US list by saying 'it's not fair' and refuses to stand by while its competitors have an unfair advantage."

He added that businesses could also be expected to "sell out" their competitors for no other reason than their own private gain.

"This kind of thing is most unfortunate, but moral or strategic issues aside, the bottom line is human nature."

Company failures down 53,3% — ITC

Cape Times 13/3/87 (49)

Own Correspondent

JOHANNESBURG. — Company liquidations dropped to 112 in January 1987, the lowest monthly level since August 1982, said the Information Trust Corporation.

Company failures were down 53,3% compared with January 1986.

The average number of monthly liquidations in 1986 was 228, compared with 225 in 1985.

Central Statistical Services figures show company liquidations for last year dropped by 10% to 2 741.

Insolvencies, however, showed a big increase of 31,9% to 4 248 in 1986.

The number of compulsory liquidations increased marginally by 1,7% to 2 049 compared with 1985.

MD Paul Edwards said: "If the upswing proves sustainable company failures should maintain their present lower levels, while there should also be an increase in the number of new companies and close corporations registered."

W/E Argus 14/3/87

LABOUR AFFAIRS
DICK USHER

Freedom Charter and NUM

49

THE adoption of the Freedom Charter by the National Union of Mineworkers (NUM) as a blueprint for a future democratic South Africa underlines the dangers of viewing the labour movement as homogeneous.

It also provides a clearer understanding of the currents within the movement than that given by the "workerist-populist" divide — which is becoming about as hackneyed as the old verkrampte-verligte analysis of National Party politics.

Implicit in this endorsement by the NUM which, claiming 350 000 members, is the largest affiliate of the Congress of South African Trade Unions (Cosatu), is an acceptance of a two-stage programme for the creation of a worker-controlled state — policy of all the major union federations.

It also implies a closer alignment with popularly based organisations such as the UDF.

And therein lies the rub.

As Professor Jakes Gerwel, rector of the University of Western Cape, said in a speech to the annual congress of the Black Sash this week, apartheid has three major strands — racial discrimination, economic exploitation and repression for the maintenance of power.

Although racial discrimination is said to be fading, what is viewed by the unions as economic exploitation is still with us and many of the organisations affiliated to the UDF represent business interests with which the formation of a worker-controlled state would not find favour.

The argument is that a "popular front" movement to dismantle apartheid could include these interests and other groups such as the Progressive Federal Party and could lead to the emergence of non-racial government which would not be the worker state at which Cosatu and other major federations are aiming.

The two-stage theory accepts this as the first stage, following which a further struggle would have to be undertaken against this "bourgeois democratic" state to form a "fully democratic" state.

Opposed to this view are unions within Cosatu, such as the Commercial, Catering and Allied Workers' Union of South Africa (Ccawusa) which last year said: "We are prepared to fight with all organisations fighting for socialism . . . Our long-term aim is to form a socialist society and our enemy is the ruling class *and capitalism* (italics added).

"The UDF call for an anti-apartheid alliance is problematic because it could include our class enemies like Nafcoc (National African Federated Chambers of Commerce) and the PFP, and all those who are anti-apartheid but not pro-socialist."

The argument is: Why waste your energies fighting to put your class enemies in power when you will then have to start all over again to eject them ?

The issue is sure to be deeply debated at Cosatu's congress in July.

(49) STAR 14/3/87

Ber study sees uplift in economic activity

CAPE TOWN — The South African economy has probably reached the end of a period of contraction and should now be taking a turn for the better and enter into a period of expansion, the Bureau for Economic Research at the University of Stellenbosch has reported.

In its latest edition of "Trends" a quarterly statisticical analysis of economic trends, the Bureau said the improvement in economic activity showed up clearly in the graphs which reflect the performamce of the manufacturing sector. The total physical output of this sector was increasing, although some subsectors were still struggling.

Sectors which were apparently doing better than a year ago included tobacco, textiles, wearing apparel, machinery, paper and packing.

Sectors in which the tempo of activity remain sluggish include metal products, iron and steel and food and beverages.

The Bureau said the building sector was apparently still sluggish, the index which reflects cement sales peaked in mid-1984 and as yet there was no indication of a lower turning-point being near.

Mining production volumes tended to move upwards in total, but sectors such as diamonds, coal, manganese, non-metallic minerals and metallic minerals, were experiencing cyclical declines in the volume of production.

The up-tick in economic activity was also reflected in an improved utilization of productive capacity in the manufacturing sector. This was fairly broadly based and included subsectors such as basic iron and steel and industrial chemicals.

Wholesale and retail sales remained sluggish and the trend in general appeared to be sideways. There were, however, indications that the retail cycle may reverse course in the near future as wholesale sales have already done so.

Even though productive capacity was better utilized by the motor industry, sales of both passenger and commercial vehicles were declining steadily in terms of units sold. In revenue terms, however, the trend is decidedly upwards with used vehicles in particular doing well.

As far as trends in the tourism industry were concerned, total revenue of hotels improved during 1986 as a result of an increase in bednights sold as well as a higher occupancy rate.

The Bureau said excessive price increases have been the Achilles heel of the South African economy since 1970. "The trend-cycle graphs depicting movements in the production price index as well as the consumer price index hold little hope for an abatement in these increases in the near future."

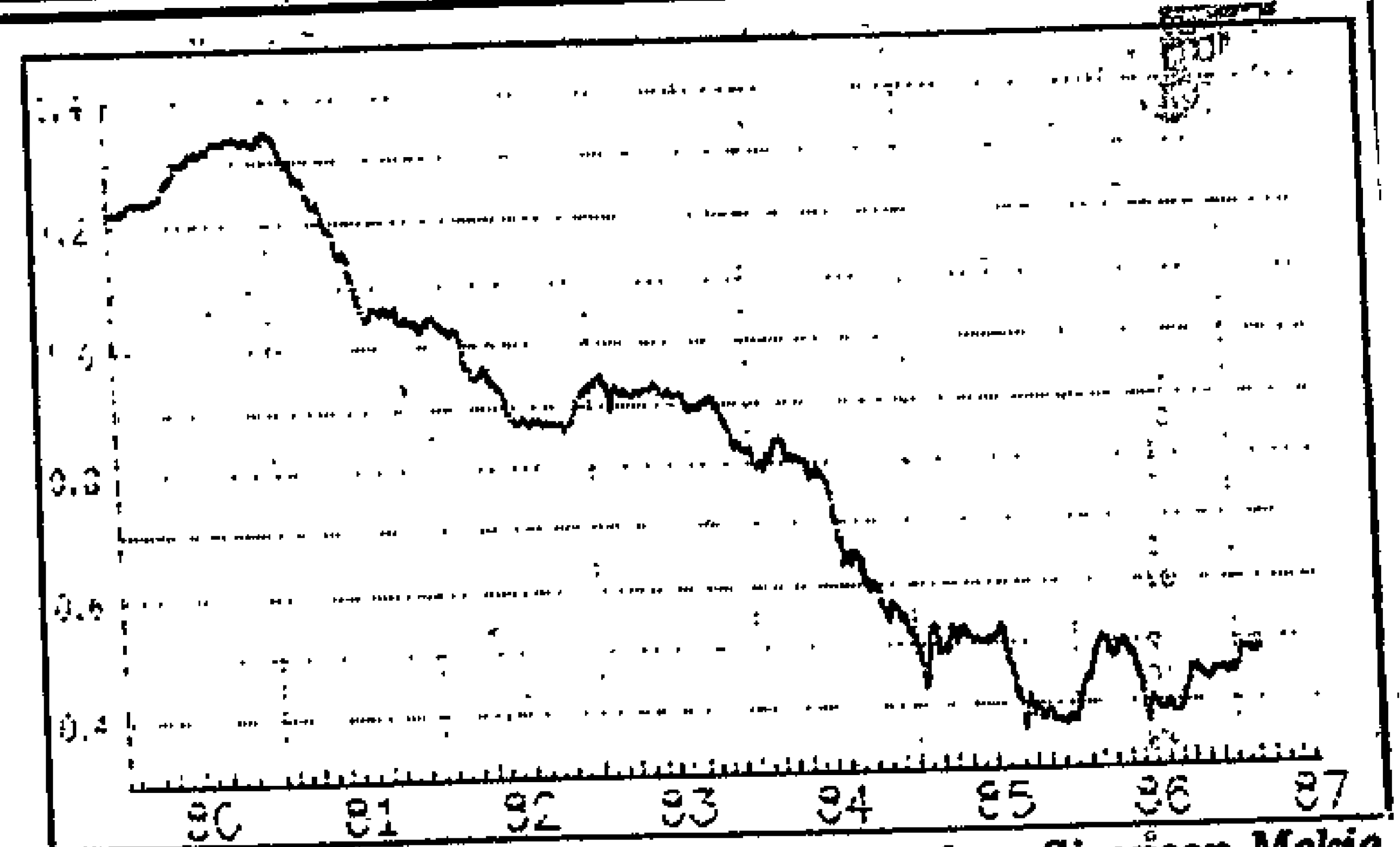
Turning to the business cycles of the various regions within South Africa, the Bureau said the country was apparently moving out of recession and such movements were particulary clear in Durban, Pretoria and even Port Elizabeth. The Johannesburg and Cape Town cycle appeared to be bottoming out.

"Thus, the economic expansion is clearly not yet spread over the country as a whole."

The Bureau said it must also be kept in mind that confidence was lacking and that the election campaign by itself was dampening economic growth.— Sapa.

(49) STAR 14/3/87

Floating rand has been good for the economy



Dollar/rand exchange rate

Graph — Simpson-McKie

By Sven Lünsche

The adverse economic conditions experienced in the South African economy during recent years cannot be attributed to the fall in the rand exchange rate, writes the Reserve Bank's Dr Roger Gidlow in the latest edition of the Bank of Lisbon's *Economic Focus*.

His defence of the floating exchange rate system, although widely supported on purely economic principles, has met with criticism on the basis that the low rand was partially responsible for the lack of ~~business confidence~~.

"The rand has an in-built political factor and any drop in its value was often a reflection of negative overseas conceptions about the economic and political future of South Africa," one economist said.

He added that this subsequently led to a decrease in foreign investments in this country and also contributed to a dramatic decline in the confidence levels of local businessmen and consumers.

Following the State President's August 1985 "Rubicon" speech, the rand dropped to new lows, while the economy was hit by an unprecedented depression, with both local and overseas businessmen showing no inclination to inject large sums of money into the economy.

However, while economists are partially critical of the rand's "total innocence", they support it in purely economic terms and totally reject any ideas of a return to a fixed exchange rate.

Says Simpson McKie's economists John Banos: "If the rand had dropped and the authorities had tried to fix it, the country's gold and forex reserves would have been completely depleted, which would have had far worse implications for business confidence."

Adds Dr Gidlow: "Had attempts been made to stabilise the rand, severe deflationary measures would have been necessary with their potential adverse political, economic and social consequences."

"The floating rand system fulfilled the important function of providing a cushion for the economy, which has enabled it to adjust to important external exogenous shocks such as falling commodity prices, as well as trade and capital sanctions," Dr Gidlow writes.

A floating exchange rate is also a far better reflection of what is happening to the country's balance of payment position.

Says Dr Gidlow: "Resources had to be allocated on a larger scale to the balance of payments sector, and the fall in the rand provided the incentive for such a shift."

A dramatic improvement in the current account position has also materialised since 1981 despite the absence of any external windfalls and the increasing impositon of trade sanctions and capital disinvestments.

"While largely boosted by weak internal economic demand, there is, however, no doubt that the depreciation of the currency has aided our exports," says Rudi Gouws, economist of Rand Merchant Bank, adding that imports and exports are not very price sensitive in the first place.

A low rand is bound to squeeze specific areas of the economy which are import concentrated, but these lagging sectors are counterbalanced by other sectors which gained, such as mining.

Says Dr Gidlow: "The volatility of the exchange rate has been marked. But in view of the dominance of mining products in the total export mix, it is difficult to believe that this appreciably harms exports."

Mr Gouws points to a final problem relating to a fixed rate: "We would have to fix the rand against a major overseas currency or a metal price, which themselves are subject to large-scale price fluctuations."

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(49)

Govt must take the rap for economic chaos, says Schwarz

GERALD REILLY

GOVERNMENT'S economic mismanagement is an election issue whether State President P W Botha and his Finance Minister Barend du Plessis like it or not, PFP finance spokesman Harry Schwarz said at a meeting in his Yeoville constituency last night.

The country's economic mess was one issue the public was acutely aware of, and from which there was no running away.

Schwarz was reacting to a statement made at a political meeting earlier this week by Du Plessis, who said it was unfair and unjust for voters to be influenced by current economic conditions. He hoped they would not become an election issue.

"Let him ask struggling pensioners and housewives and those living on fixed incomes, whose living standards have been undermined by inflation, whether they think it is unfair to be influenced by economic issues."

Schwarz said economic mismanagement — which had caused massive unemployment, battered the rand and sent prices soaring — was the basic reason for much of the instability and unrest plaguing the country.

"The government is afraid to fight this election on economic issues but no amount of propaganda and tub-thumping can conceal the mess they have made of the economy."

Schwarz added no constitutional reform programme could succeed in a failed economic environment.

Economy can be saved by manufacture — Volkskas

31 Dec
18/3/87

THE manufacturing industry is the most important sector on which SA's future prosperity will be based, says Volkskas's latest *Economic Spotlight.*

Agriculture has limited growth potential because of the land constraint, the mining asset-base is fading away, and the services sector is dependent on the wealth created by the primary and secondary sectors, it says.

In contrast, the manufacturing sector's raw materials can be replenished, its fixed capital stock can be enlarged and renewed, and technological innovation encourages continual growth.

It says the problems associated with the economy have taken a toll on the industry, but improving tendencies have emerged since mid-1986.

The volume of factory production declined 5,1% in 1985 and continued to decline in the first half of 1986, although total factory production was about 1,5% higher in the third quarter of 1986 than a year before, and preliminary figures show an improvement of more than 4% for the last quarter.

The publication says the average cost increases for the industry have also been high, but the rate of increase in operating costs per unit of production have declined to 15% in 1986 from 18% in 1985. A contributing factor to the lower rate of increase in operating costs is a visible improvement in productivity.

Operating profits are improving because production volumes have improved, capacity utilisation has risen slightly, the rate of increase in the unit cost of production has decelerated and the terms of trade have improved.

The slower rate of increase in operating costs means that a slower growth in the rate of inflation could be forecast with greater confidence than had been the case until recently.

Wrong policy decisions could easily neutralise the underlying favourable trends with regards to inflation. The growth momentum of recent months has to be maintained, Volkskas says.

Argus 18/3/87

'Cut taxes?'

Push personal saving — says Sanlam chief

By TOM HOOD, Business Editor

A CALL for tax concessions from the Government to promote personal saving after a sharp weakening of the country's personal savings effort was made today by Dr Fred du Plessis, chairman of Sanlam.

The country urgently needed to boost personal saving, replacing foreign capital which has dried up and to provide more jobs, he said at the insurance giant's 68th annual meeting in Bellville.

It was vital that the Government should actively promote personal saving through more generous tax concessions.

Dr du Plessis

The rebate for life assurance premiums, as well as deductions allowed for annuity premiums, should be increased, he said.

Some of the amounts on which tax rebates were granted for annuity contributions had not been changed for nine years. In real terms these tax incentives had dropped to unacceptably low levels.

Capital was urgently needed to create employment and since the country was largely cut off from foreign capital sources, a sound savings effort was of vital importance.

Sanlam's investments on behalf of policy-holders created 42 000 additional jobs in the past five years, a time of economic recession and massive unemployment, he said.

South Africa did not have a social security system, so individuals had to fend for themselves, partly by taking life assurance.

Driving force

"In our case one would expect assurance premiums to make up a relatively larger portion of gross domestic product, yet a large part of our population has little or no assurance.

"Indeed, if the premium income per capita is the yardstick, South Africa is last in the line of leading life assurance countries, with a figure of about R172 a year against R880 for Switzerland, R862 for Japan and R796 for the United States.

He disagreed with those who claimed that an increase in company saving had compensated for the weaker personal savings.

"They forget that company saving is often a reflection of the unwillingness of companies to invest.

"Investment is the strongest and most desirable driving force in the economy, but has been on the decline in South Africa for some years now."

Company saving could not exert a direct influence on consumer-spending, and neither did it help to lighten the burden of social security resting on the shoulders of the authorities.

It was obvious that personal saving and company saving were two totally different phenomena and that company saving would never be a substitute for personal saving.

Speaking of South Africa's national strategy, Dr du Plessis called for plans of action to be drawn up immediately now that consensus had been reached about the most pressing economic problems.

This should be in close co-operation with the private sector. These plans should be introduced to the public in an imaginative way to get everyone's support.

He was pleased that a long-term strategic plan had been drawn up by the President's economic advisory council and that it was discussed in detail at the Pretoria conference last November.

South Africa's problems were so serious, deep-rooted and complicated that one would not be able to solve them, nor be able to use the country's long-term economic potential, without such a plan.

Dr du Plessis said the Sanlam group need never rely on monopolistic powers to achieve success. Its successes were achieved in a strongly competitive market to the benefit of the entire community.

49

Economic reform must come first

STAR 24/3/87

ROY COKAYNE

Economic reform and not political reform is the highest priority in South Africa, says Sanlam chairman Dr Fred du Plessis.

"I am convinced political reform is not possible in South Africa without economic reform.

The highest priority is to have a sound foundation for any further political reform and that sound foundation is only found in a strong economy," he told the 96th annual general meeting of the Pretoria Chamber of Commerce last night.

Whatever political reforms are introduced over the next year or two will not result in a dramatic increase in foreign investment.

"We may even have difficulty in convincing our foreign allies to continue doing business with us for quite some time.

"It is in our hands, and particularly for the business sector, to rather argue for the necessary economic reforms to enable the creation of that kind of climate that is needed to continue with thorough equitable political reform," He said.

Dr du Plessis said the whole question of fixed investment in the country should firstly be addressed.

"We've had a decline in fixed investment for six to seven years. Even before that we had a very slow fixed investment situation by the private sector.

"There may be many reasons for this but I do believe that one of the most important ones is that in South Africa we are not really willing to accept that you don't do business unless you make a good profit.

"Our approach has been a very short-sighted and one which said if somebody makes a good profit its for the tax man to take it away. It's essential that we get back into a mode where there is an incentive for private enterprise," he said.

Dr du Plessis said as a matter of importance attention should also be paid to deregulation.

Acceptance for people to do business rather than a disincentive was needed now, he said.

GOVERNMENT FINANCES

Racing to the finish

Government spending shot up 36% in February compared to a year ago; but the deficit for the first 11 months of the fiscal year fell to R4,5 billion, from R5,4 billion a month before. Cumulative spending for the first 11 months increased 21% on a year ago, against a 13,9% estimate, while revenue rose 15% against a 13% estimate.

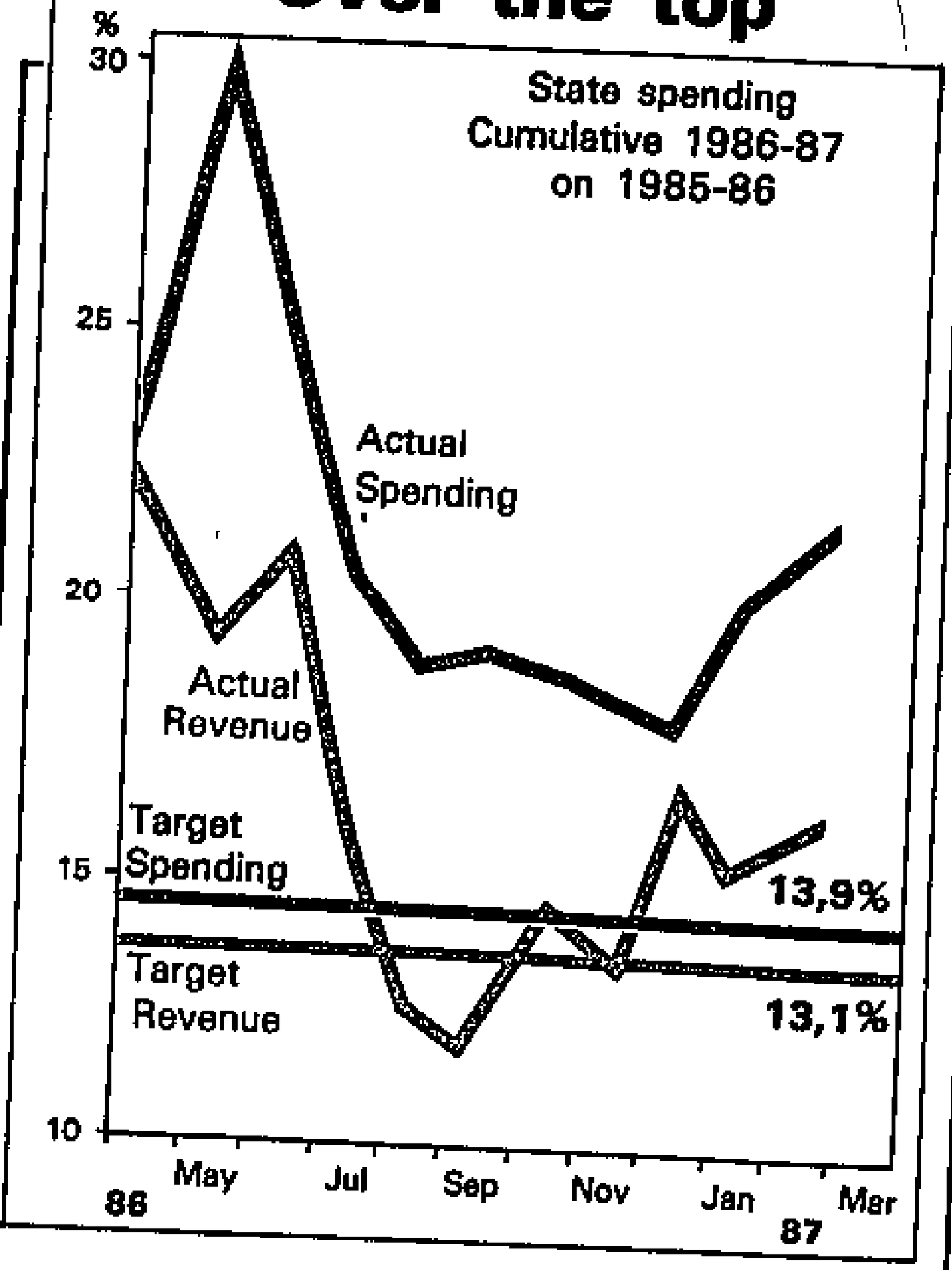
The details show that no exchequer accounts are exceeding their revised estimates for 1986-1987. It is now said in government circles that spending beyond these figures is "unauthorised." But what would be the penalty for such spending?

The main reason for February's leap in spending was another draw down from the R1 billion budgeted for "improvements of conditions of service." This account was left virtually untouched until January. The account is to be exhausted in three equal drawings in the last three months of the fiscal year. Conversely, revenue benefited from a recovery from abnormally low receipts in January.

With the budget deficit set to go to R5 billion or more in the 1987-1988 fiscal yea (see *FM* February 27), the figures for Febru ary give Pretoria ample scope for manoeu vre.

Finance Minister Barend du Plessis inti mated in last month's additional appropriation bill that the final deficit should be R5,5 billion. This would allow spending of an extra R1 billion in March. But recent trends and feelings among government officials are that the deficit may close below R5,5 billion. ■

Over the top



CAPE TIMES 49

Andrew: NP 'is making way for alliance'

By BARRY STREEK
Political Staff

THERE was little doubt that the National Party was breaking up to make way for an alliance of moderate South Africans who would rid the country of apartheid, the chairman of the Progressive Federal Party's federal executive, Mr Ken Andrew, said last night.

He said that in key constituencies there would be "large swings away from the NP and a loss of many seats by the

Du Plessis replies on 'mismanagement'

Political Correspondent

THE Minister of Finance, Mr Barend du Plessis, has dismissed as "pure expediency" criticism in recent newspaper editorials that the government was mismanaging the economy.

Suggestions that South Africa had reneged on its international debt were a "blatant lie", he said at a meeting in Muizenberg this week.

Mr Du Plessis conceded that inflation, unemployment and local taxes were "too high". However, things could have been "much worse" if the government had followed a different "policy mix" in recent years, Mr Du Plessis said to laughter.

South Africa should not be compared with advanced industrialized countries when assessing its economic problems but rather with the "market borrowers" in the Third World. The inflation rate in these countries averaged 46,8% in 1986, he said.

Mr Du Plessis said South Africa was not getting its economy to "fire on all six plugs" because of the need to generate a surplus in the current account to repay international debts.

South Africa could have embarked on a process of eradication of inflation but this would have entailed unacceptable sacrifices in terms of lower economic growth and increased unemployment.

Various factors beyond the control of the government's economic planners had affected the economy, including the oil crisis, the withdrawal of credit lines by foreign banks, the drought and the slackening off in demands for crucial raw materials such as gold, diamonds and platinum, Mr Du Plessis said.

(Report by A Johnson, 122 St George's St, Cape Town)

Kuun's nine point plan to spur economic growth

21/3/87 Star

FINANCE STAFF (49)

A nine-point plan to ensure economic growth into the 1990's has been proposed by the President of the Afrikaanse Handelsinstituut, Mr Christie Kuun.

Addressing the Cape Town Afrikaanse Sakekamer, Mr Kuun, who is also Senior General Manager of Saambou National Building Society, said implementation of the principles contained in the nine-point plan was of the utmost importance.

If South Africa did not do something now to ensure sustained economic growth, the country was destined for economic and social problems with incalculable consequences.

It would also not help over the longer term to expect the Government to activate growth — the necesary action would have to come from the private sector itself.

The nine-point plan proposed by Mr Kuun consisted of the following principles:

- Financial discipline and the maintenance of sound monetary and fiscal policies.
- A general remuneration policy which bore closer relation to actual production.
- An increase in domestic saving from which to finance sound investment and maintain a surplus on the current account of the balance of payments. In this connection, Mr Kuun said, further thought would have to be given to the merits of import control and a new "Buy South African" campaign.
- More purposeful utilisation of South Africa's capital assets, since the ratio between yield and capital had declined by 25 percent over the past 15 years.
- Greater fixed investment to awaken economic renewal and growth.
- Better utilisation of production factors such as capital, raw materials and energy inputs.
- More research and development, because the amounts which the country was spending on them, as a percentage of its gross domestic product, compared poorly with those of other countries.
- The continued preservation of the country's balance of payments. It was of vital importance, Mr Kuun said, that the current account should continue to show a surplus and consequently that those aspects over which control could be exercised should receive earnest attention.

This meant that exporters should enter the international markets strongly while domestic spending was kept in check so that imports did not increase too sharply.

- The promotion of effective competition, because this was the only way to advance economic efficiency.

Mr Kuun said that apart from maintaining law, order and political stability, it was and remained necessary that basic economic affairs be managed correctly and well. If these principles were persevered with, the country's economic prospects would without doubt improve.

20/3/87
(49) B Day

From economic point of view ...

Election timing 'is tactically wrong'

CHRIS CAIRNCROSS

THE government committed a tactical error in announcing the forthcoming election when it did, UCT Economics Professor Brian Kantor, a member of the Competition Board, said yesterday.

He said the economy was now showing signs of resilience and was in the early stages of recovery, and if government had allowed sufficient time for these conditions to filter through to the consumer, it would probably have had to contend with a much more amenable electorate.

The contention made earlier this week by Finance Minister Barend du Plessis that the state of the economy, and government's management of it, should not be an election issue was an extremely "extraordinary statement", said Kantor.

"We have to judge government by the way the economy performs and is managed — and government is making a number of serious mistakes."

In his view, government was concentrating too much on increasing its level of spending and not doing nearly enough to cut taxes.

It was a poor argument which suggested that tax cuts would not lead to increased levels of consumer spending.

The greater levels of state spending — and announced plans like Mossel Bay — were little more than pre-election politicking.

Kantor suggested the NP's main electorate — public servants — were obviously more likely to be favourably impressed by increased spending rather than lower taxes.

Government's budgetary responses to the needs of the economy were ad hoc, knee-jerk reactions which had only led to increased levels of uncertainty.

Kantor said he subscribed to the concensus view among economists that the economy should achieve growth levels of 3% to 4% over 1987.

But, he warned, these levels would be difficult to sustain in 1988, and would be highly dependent on the gold price strengthening to as much as $550.

He was optimistic on inflationary prospects, estimating that on a year-on-year basis it could come down to 12% to 12,5% by December. Wholesale and consumer prices were already softening and a discernable trend should be visible during the third quarter of the year.

Shock report on SA economy

B/DAY 23/3/87

Real fixed investment down by 16%

(49)

GERALD PROSALENDIS
Economics Editor

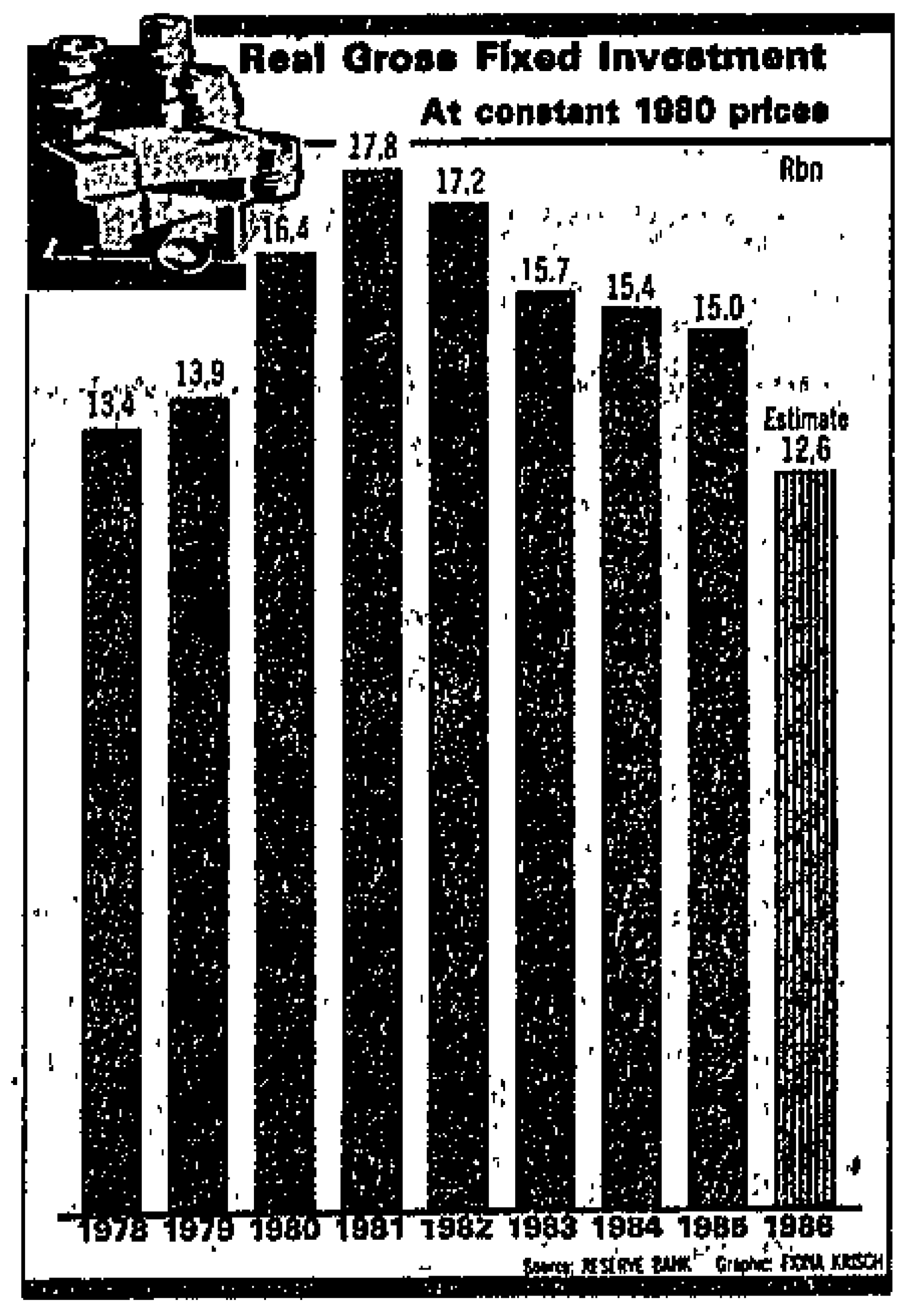
SA'S GROSS real fixed investment (GDFI) declined by more than 16% last year, preliminary Reserve Bank figures show — reflecting continued low levels of investor and consumer confidence and the decision by state corporations to reduce spending.

The decline in fixed investment — a measure of spending on plant, equipment and construction — to about R12,6bn in 1986 follows a decline of 2,6% to R15bn in 1985, and a drop of 1,4% to R15,4bn in 1984.

Since 1981 GDFI has declined by 29% from R17,8bn in real terms. Annual expenditure on fixed investment is now at a lower level than in 1978, when it stood at R13,4bn.

Taking into account that these figures include the replacement of present capital stock — GDFI includes depreciation — the decline in net fixed investment (new investment) was even greater.

There are encouraging signs in the latest figures, however. A Reserve Bank spokesman said the staggering decline in GDFI in the first half of last year was halted in the second half. But it appears confidence is still too weak to lift the economy significantly despite the recent



● To Page 2

Shock report on economy

(49) B/Day 23/3/87

● From Page 1

announcement of R500m investment by SAB.

This contrasts with the period immediately after the Sharpeville upheaval in 1961. SA experienced real GDFI growth of 18,3% in 1963 and 20,4% in 1964. The present period seems more akin to post-1976 developments when it took a large increase in the gold price, and some 2½ years to turn political and economic uncertainty around.

Possibly much of the decline in GDFI can be explained by a cutback by state corporations after a change in policy on capital expenditure to reduce the public sector's claim on the local capital market. For example, Escom is understood to have been allowing its outstanding short-term borrowings to run down.

This drop in GDFI comes at a time when industrial shares on the JSE are hitting record highs — the industrial index closed at an all-time peak of 1 691 on Friday, up 4% from the end of February and 18% since the start of the year.

With so much money flowing into these shares, it is disturbing there is not a simultaneous increase in fixed investment. This reflects investors' desire to remain liquid and not to commit their funds in the longer term, which would increase productive capacity.

In fact, the utilisation of manufacturing production in August last year — the latest available official figures — was down to 78,3%. In 1983 capacity utilisation was 84,9%. These figures could also be understated as many firms have scaled down the number of shifts they are working.

The problem, it seems, remains insufficient confidence to produce a rise in consumer and investment spending.

While confidence languishes, SA will be hard pressed to produce even the 3% GDP growth forecast by the monetary authorities for this year.

The economy has sufficient savings to cope with higher growth. Government, large corporations and financial institutions — including banks, building societies and insurance companies — are flush with cash:

- The money market shortage has all but disappeared and there is little likelihood of liquid conditions tightening significantly in the months ahead;
- SA banks are now able to finance exports and imports locally;
- The country continues to repay debt, and is able to build up foreign reserves;
- Government has R3bn deposited with the Reserve Bank, Corporation for Public Deposits and the Public Investment Commissioners;
- Interest rates remain low — corporates are borrowing at way below prime.

Deficit in Budget of up to R8bn predicted

CHRIS CAIRNCROSS

CAPE TOWN — Economists are predicting that government will work on a deficit before borrowing of between R6bn to R8bn, when it presents the delayed Budget in May.

There appears to be concensus that Finance Minister Barend du Plessis will boost state expenditure to an initial R44bn-R45bn, representing an increase of about 12% on the R40bn in 1986/7.

Tax revenues, on the other hand, are expected to rise from last year's R33bn to about R38bn.

Both UCT economics professor Brian Kantor and Sanlam's chief economist Johann Louw believe the deficit will be within manageable proportions in SA terms, even though the State's share of the economy rises to around 27%.

Kantor's bet is that the Budget framework will be based on a supposition the economy will expand by about 16% during 1987, with GDP rising to about R162bn compared with 1986's R140bn.

This assumes an optimistic economic growth forecast of 3% for the year, and a year-on-year inflation rate of 14% — a level which Kantor admits is probably not attainable.

Louw remains doubtful that the average inflation rate for 1987 will be brought down to less than 16%.

He is also more pessimistic on growth prospects, and has revised his estimates downward to around 2% to 2,5%.

Report by Chris Cairncross, 122 St George's Street, Cape Town.

Bleak view (49) of credit demand

24/3/87 B/Day

HELENA PATTEN

THE South African economy is probably only half-way to rectifying its credit demand distortion, says Barclays latest *Business Brief*.

Interest rates will only attain "normal" levels again when this distortion is overcome, it adds. Until then, short-term interest rates will remain negative in real terms.

Barclays says the relative contribution of liquidity and credit demand is materially different from the 1978-1980 period. Liquidity is increasing because of rising foreign exchange reserves, while credit demand is falling in nominal terms.

The domestic economy is expected to remain sufficiently subdued to require a level of import demand that can easily be met from expected export earnings, allowing a surplus to repay foreign debt and augment foreign reserves.

Public consumption spending and materially higher deficit funding than in the recent past may be expected, which may further enhance the liquidity position.

A rapid improvement in household confidence appears unlikely, although, an external gold "windfall" could succeed in "buying" the consumer's willingness to a commitment to future obligations.

A normal replacement demand may in time return, even though consumer confidence levels may not have reached levels traditionally associated with such recovery. Such correction of household replacement behaviour is likely to occur during the next two years.

The decline in the short-term interest rates in the past two years, and particularly negative interest rates, is probably encouraging at least a part of the corporate sector to relax its asset management, says Barclays.

State expenditure jump of 22% mooted

BDay 24/3/87

CHRIS CAIRNCROSS

THE May Budget is expected to show State expenditure jumped by 22% to R40,2bn over the past financial year, says Sanlam in its March *Economic Survey*.

This is well beyond the average inflation rate of 18% for the year, represents a rise of about 3% in real terms and is significantly higher than estimated economic growth in real GDP of 1% for the same period.

The higher level of State spending and the share of the economy swallowed by the public sector (about 27%), has already sparked widespread criticism and is likely to generate even more when Finance Minister Barend du Plessis tables the delayed Budget in May.

The original figure budgeted for was R37,5m. To this is added about R561m covering the part abolition of the 2% rebate, R259m for additional statutory expenses and an extra R1,9bn for the stimulatory package announced last year.

The increased expenditure resulted in government's financial measures being greater than expected.

Economists believe government should have focused less on looking to increased State spending to get the economy moving again, and given more attention to introducing tax cuts in an attempt to stimulate consumer spending.

Sanlam estimates that State revenue for the year will amount to R34,8bn, an increase of 16% on the previous year.

To help cover additional expenses, R1bn was transferred from the Central Energy Fund to the Exchequer, it says.

The result is that the estimated deficit for the year (excluding loans) is expected to reach about 3% of GDP — more than the 2,7% budgeted for.

Sanlam says the full impact of a substantial portion of State expenditure will only be felt over this current fiscal year.

The higher levels of State expenditure should have a marked effect on economic activity for the rest of the year, it adds.

Report by Chris Cairncross, 122 St George's Street, Cape Town.

Stellenbosch bureau's conclusion echoed

Economic upswing gains momentum

(49) STAR 24/3/87

By Magnus Heystek, Finance Editor

The economic upswing is gaining further momentum and spreading to more sectors of the economy.

This is the conclusion reached by the Bureau for Economic Research (BER) at the University of Stellenbosch in a report released today and is echoed by the views of leading economists.

Although the economy is not about to exhibit "great vigour", recent developments, including an increase in manufacturing activity, a strengthening of the rand, a firmer gold price and a return of confidence to businessmen and consumers point to meaningfully higher domestic growth in 1987.

Economists are now cautiously optimistic that a growth rate of 3 percent in real Gross Domestic Product (GDP) can be attained this year ending one of the longest and most severe recessions in the post-war period.

Although the inflation rate as measured by the year-on-year increase in the consumer price index (CPI) moved up slightly from 16,1 percent in January to 16,3 percent last month, the trend at present is downwards, adding further impetus to optimistic growth prospects.

Fears of hyperinflation, as forecast by some economists last year, now seem to be unfounded, for the time being at least.

Even the property market, both commercial and residential, is showing signs of revival.

Gold analysts have long been predicting an upsurge in the international price of gold.

This morning the price of gold moved up by more than $3 an ounce in Hong Kong to $410 an ounce. A fix above this level on the London market could well trigger technical buying and catapult the gold price to much higher levels than present.

Surplus

Based purely on economic considerations, the South African economy must be poised for a period of sustained economic growth. The country experienced a surplus on the current account of the balance of payments of more than R7 billion last year, gross gold and foreign reserves have been increasing sharply in recent months despite large payments to foreign creditors including the International Monetary Fund and the agriculture sector has returned to normal conditions following a summer of above-normal rainfall.

Other factors precipitating economic growth at present include tax concessions and increases in salaries and wages much closer to the inflation rate.

The bureau adds, however, that the improved overall performance of domestic production levels, evident since the second half of last year, should be seen against the background of longer-term retrogression.

The report also notes that confidence levels among businessmen and consumers alike — although still reflecting vulnerability — have improved in recent months.

● See Page 11.

Farming sector to the rescue as . . .

Real GDP rises marginally by 0,5% in 1986

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(49) 25/3/87

Olgeneral

PRETORIA — The country's real gross domestic product (GDP) increased by a marginal 0,5% last year, according to the first comprehensive estimate made by Central Statistical Services (CSS).

CSS points out this is lower than recent forecasts and estimates from other sources.

However, it stresses, only improved agricultural conditions made a positive growth rate possible.

Real production in the agricultural sector rose by 16,1% last year, whereas real production in the non-agricultural sector declined by 0,5%.

CSS says that following the poor

GERALD REILLY

economic performance in 1985, when real GDP declined by 1,1%, the relatively serious contraction in the first quarter of last year pointed to an unsatisfactory growth rate for 1986.

However, it says, although growth did not come up to expectations, there was definite proof that the economy has moved into an upwards phase since the low in the first quarter of last year.

Seasonally adjusted total real GDP declined by 4,8% at an annual rate in January to March last year.

After this it increased by 6,1% in the second quarter, 3,4% in the third quarter and 4,4% in the last quarter.

Goldstein. JSE assistant GM and head of the

South Africans clawing their way out of debt

(49)

BTday

GERALD REILLY 26/3/87

SOUTH AFRICANS seem slowly to be clawing their way out of massive debt that piled up during three years of recession.

Economists say this is a reasonable conclusion to draw from the latest debt figures released in Pretoria yesterday by Central Statistical Services.

They show that in the three months to end-January, the number of summonses for debt decreased by 12,4% to 189 304, compared with 216 075 for the November-January period in 1985-86.

Civil summonses for debt also declined — by 10,5% to 92 846, against 103 767 in the previous November-January period.

Amounts involved in civil default and consent judgments for debt on business enterprises and private persons in January this year decreased by R5,347m to R53,210m, compared with January last year.

Amounts involved in judgments on private persons decreased by R11,125m to R46,730m.

B Day 284

Sanctions attack

26/3/87

ULUNDI — KwaZulu leader Chief Mangosuthu Buthelezi yesterday criticised the UDF and the Congress of South African Trade Unions (Cosatu) over the sanctions issue.

He accused UDF patron Allan Boesak and Cosatu vice-president Chris Dlamini of first promoting disinvestment and then back-tracking when it became clear that most blacks were disenchanted with the policy.

Buthelezi said: "The victims of apartheid had never clamoured for disinvestment and it was tragic that they had to continue paying the price for it while time matured in their favour.

"Cosatu and the UDF knew this, but they had had the liberty of saying what they wanted to without referring to the people. They were basically affiliate organisations and were not dependent on endorsement by individual membership.

"Dlamini's political shallowness was revealed when he said Cosatu had never called for companies to pull out, but that it did support sanctions," said Buthelezi. — Sapa.

Economy looks set to move

Markets soar on renewed confidence

B/Day 26/3/87 (49)

Business Day Reporters

SA's FINANCIAL markets soared yesterday, reflecting renewed confidence by local and overseas investors in the country's economic outlook.

Yesterday's activity in the market comes after the extraordinary performance in chalking up a record annualised current account surplus for the fourth quarter of last year of R13bn, according to preliminary Reserve Bank figures. The surplus was mainly due to low imports levels after a bunching of imports in the third quarter and a stronger rand.

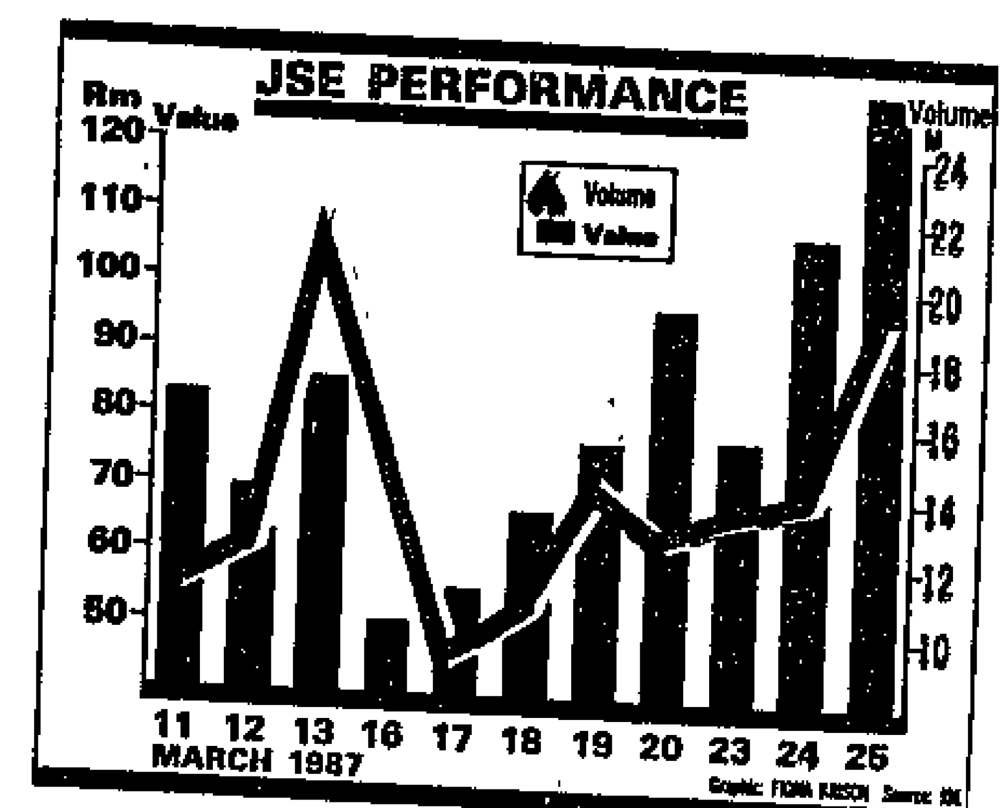
Developments in the financial markets yesterday included:

□ The commercial rand at one stage touching $0,49, and closing at $0,4893/4900. On Tuesday it closed at $0,4847/54;

□ The financial rand continued to rise sharply closing at $0,3280/3330 compared with Tuesday's $0,3110/60;

□ Turnover on the JSE was a record R129,9m, up from Tuesday's record of R108,12m;

□ A 48 point (2,3%) rise in the overall index to 2 133 — 1,2% off its January peak of 2 159 — which was propelled by



the 78 point jump in the JSE all gold index to 1 956. The JSE industrial index advanced nine points to a record 1 701;

□ Capital market rates eased with RSA 13% 2005 stock closing at 14,80% compared with Tuesday's 14,88%.

In a separate development, the gold price firmed, closing in London at $413,75 compared with Tuesday's $408,75.

Eighteen months ago, the SA economy was believed to be on its knees, but it is now in the process bouncing back. Behind the new mood of optimism is the satisfactory outcome of this week's

● To Page 2

SA financial markets soar

(49) 26/3/87 B/Day

● From Page 1

foreign debt negotiations between SA and its creditor banks. The reaction to the deal borders on the extravagant.

However, bankers say that one basic indicator, demand for credit, has not yet moved off its low base and nor is it likely until longer-term investors are convinced the present enthusiasm can be translated into sustainable productive growth.

The debt deal has been unanimously supported by business leaders who view it as the start of a return to a "more normal" international financial relationship.

Altron deputy chairman and financial director Neil Davies said the reaction from foreign banks he had spoken to yesterday had been "very positive".

He said: "I would not be surprised if we start seeing a small inflow of foreign loans. Compared to other creditor countries, we are seen as responsible in meeting our debts and European banks, in particular, are now prepared to start lending again."

Happy days here again — official

29/3/87 (49)

STI

THE economy is improving — and that is official.

Business Times Reporters

The Reserve Bank Bulletin released on Friday paints a picture of an economy turning encouragingly in the last two quarters of 1986 after nine quarters of contraction or stagnation.

Some positives in the March bulletin are:

- Real growth in the fourth quarter of 1986, as in the third quarter, was a "fairly impressive" 4,5%.
- Exports are rising and imports falling in volume terms and the current account of the balance of payments in the last quarter hit a record R12,9-billion.
- The gold and foreign exchange reserves have been rebuilt to more comfortable levels. The reserves at R5,7-billion were 14,5% of import payments and in January and February there was an improvement of R1,7-billion.
- The harder rand brought the inflation rate down from a high of 20,7% to 16,1% in January.
- Government stimulation is wearing down reluctance among businesses and consumers to spend.
- The long decline in real gross domestic fixed investment is showing signs of ending.
- Unemployment has stopped rising. Both the Government and the mining industry increased numbers employed. Commerce and industry numbers moved sideways.
- Improved financial results "suggest that consolidation, cost cutting and retrenchment are drawing to a close".

Because of negative growth in the first two quarters, real growth for the year was only 0,7%. The current account surplus for the year was also less spectacular than the annualised figure for the quarter at R7-billion.

The main negatives were flat consumer spending and a measure of destocking. This reflected a disappointing Christmas and has probably been remedied because traders in most sectors report a strong first quarter.

Conservative

Another negative was an outflow of R2,7-billion on the capital account of the balance of payments. The Reserve Bank ascribes it partly to technical factors. For the year as a whole, the outflow on capital account fell from R9-billion to R6-billion in spite of heavy sales of SA shares and disinvestment by several large companies.

One economist says falling gross fixed investment has been the major constraint on the growth rate for 18 months. If fixed investment merely moves sideways from this point, it could add 3,5% to economic growth.

Growth for the whole of 1986 was a disappointing 0,7%, but third- and fourth-quarter trends, together with today's higher dollar gold price, could make most economists' estimates of 2,5% to 3% for 1987 conservative.

The most striking part of the bulletin is the improvement in SA's external position before this week's big breakthrough with creditor banks on foreign debt.

Thanks partly to a fallen rand, exports have risen strongly in volume and rand terms. Imports have fallen in volume terms, leaving a record R12,9-billion annualised surplus on the current account in the last quarter of 1986.

Imports are expected to pick up as domestic demand revives, but one bank economist says that depending on gold, exports could rise even more quickly. Sanctions are not working yet, he says.

Higher pay

Reluctance of consumers to spend remains the major constraint on the economy but even here there is hope.

The Reserve Bank reports "a material improvement in real household disposable incomes in the course of 1986".

It says aggregate real labour remuneration in the fourth quarter was 6% higher than the same quarter a year earlier. After shrinking by 6% in the first half of 1986, real personal disposable income rose 2% in the second half.

Deposits with CPD 322% higher

Govt faces cash surplus dilemma

CAPE TIMES 30/3/87 49

From GERALD PROSALENDIS

JOHANNESBURG. — Government is sitting on an enormous cash surplus which is creating problems for both monetary and fiscal policy.

Government balances with the Corporation for Public Deposits (CPD), the Public Investment Commissioners (PIC) and Reserve Bank have been rising for two years. The latest Reserve Bank Bulletin shows central government's deposits with the CPD stand at R3,991 billion — 322% higher than the R946m at end-March 1985.

In the same period, deposits with the CPD by government, Sats, Post and Telecommunications, public corporations and local authorities rose 123% to R5,131 billion from R2,3 billion.

Faced with dilemma

Part of the money is a result of the debt standstill. When foreign banks refuse to roll over loans, or SA companies switch to local sources of finance, the money is paid into the PIC. More than R700m is believed to be held in the PIC from this source.

Government surplus funds means it will have little difficulty in financing the deficit before borrowing. Government is now financing itself from cash flow, but this has presented problems, especially for the main budget.

The monetary authorities are faced with a dilemma. If the money is put into an ordinary government account it will end the fiscal year with a massive surplus, making it difficult to resist demands for increased spending by government departments.

But if it is allowed to flow into the private sector, the money market would move strongly into surplus, rates would fall sharply and the Reserve Bank would lose control over short-term interest rates.

Inflationary spiral

This would force the Reserve Bank to issue paper to mop up excess liquidity and prevent Treasury bill rates and other short-term rates from falling. This would be costly as government would be obtaining funds, on which is has to pay interest, that it does not need.

Monetary authorities fear lower interest rates because they could set off a programme in the private sector leading to more capital-intensive production at the cost of higher unemployment and an inflationary spiral.

So what to do? Rather than giving the money to state departments or the money market, expect the Budget to hide the money from both.

Added to the surplus of government funds are banks flush with cash because of low demand for credit in a stagnant economy, and insurers flooded with funds because they are unable to invest abroad in terms of foreign-exchange controls.

Budget: Fuel, car fees set to rise

(49) Post 30/3/87

CAPE TOWN — Vehicle licence fees and the levies on fuel are almost certainly going to be raised substantially in the delayed May Budget, Department of Finance sources say.

The increases are needed to prop up the funds to finance the national road network, currently facing a shortfall of R253 million.

It is understood the increases will be restructured to bring them into line with actual costs, thereby conforming with Government's new policy initiative of implementing a "user charge" approach in the provision of services and necessary infrastructure.

This means that heavy freight vehicles are probably going to have to pay proportionately more to the National Road Fund in the form of fees and levies than will lighter vehicles and those used for private transport.

A spokesman for organised commerce says business has no quarrel with the user-charge concept, but warns that any substantial jump in the fuel levy and licence fees will have serious cost-raising effects that will inevitably be passed on to consumers.

It is understood a multidiscipline meeting is to be held in June in the hope of establishing some basis for improving the system of raising revenue specifically earmarked for road construction and maintenance.

Mr Gerhard Croeser, policy chief executive in the Department of Finance, spearheads the official initiative pushing for a rethink.

In a recent paper to the Passenger Transport Association, he pointed out that the existing system was characterised by several shortcomings which ignored the needs of long-term planning.

Foreign bankers now more optimistic about SA stability

STAR 26/3/87

By Anthony Robinson

Foreign bankers' acceptance of a three-year debt rescheduling agreement with South Africa is the clearest evidence to date of a fundamental change in perceptions about the country, its political stability and economic strength.

On February 20 last year bankers, especially United States bankers, refused South African pleas for a long term rescheduling. Mindful of shareholders and public opinion, they insisted on one year only and also pressed hard for maximum repayment of the $14 billion frozen by the August 1985 "debt standstill".

In the 13 months since then much has changed, both in the world and in foreign perceptions of South Africa. A year ago the nightly television of township violence and repression helped fuel the feeling that South Africa was heading for an Iranian-style revolution. Mounting sanctions and disinvestment pressure added to doubts over the ability of the economy to function and the willingness or ability of the authorities to continue servicing the frozen and unfrozen portions of a debt totalling $24 billion.

Few today would still argue that South Africa is on the verge of either political or economic collapse. Re-imposition of the state of emergency, accompanied by draconian curbs on the media, have succeeded in reducing the level of violence, although not, of course, the underlying causes. Neither sanctions nor disinvestment has had a significant effect, thus far at least. Some evidence points to the contrary.

Exports last year rose from R36,5 billion to R41,8 billion, while imports rose less, to give a record trade surplus of R14,9 billion, a major factor behind the more than R7 billion current account surplus.

Higher gold, platinum and other prices helped. But figures released this week, which showed that GDP grew by only 0,5 percent, instead of the original target of 3 percent, and other statistics which show a 16 percent decline in real fixed investment last year, demonstrate that the surplus from which loans are being repaid is largely the fruit of a depressed domestic economy.

But barring fresh political disasters, the economy is poised for faster growth. The Reserve Bank expects a current account surplus of around R5 billion, more if gold rises further.

Even before this week's debt agreement, the reserves had been rising sharply with the narrowing discount on the financial rand confirming brokers' reports that foreign investors' attitudes were becoming more bullish.

The latest debt agreement, by removing a major uncertainty and putting the financial scene in a longer term perspective, is expected to encourage a further re-rating of South Africa's prospects.

Even so, it still leaves South Africa, essentially a developing country, in the position of a net capital exporter.

The real breakthrough still depends on developments in the political arena and convincing proof that apartheid is indeed about to be replaced by a form of power sharing acceptable to all race groups — and the watching world. — *Financial Times*.

Turnaround!

ARGUS 1/4/87 (49)

Economy starts to shine after months of gloom

By TOM HOOD, Business Editor

THE tide is turning for the South African economy — with clear signs that the business upturn is quickening and the possibility of a mini-boom by the end of the year.

A review of 109 companies shows their profits were 31 percent higher than a year ago, salaries are beginning to improve in several sectors of the economy and unemployment is declining from the high levels of the recession.

Another study, by the Bureau for Economic Research at Stellenbosch, has shown an increase in manufacturing activity.

Several economists forecast the country's gross domestic product will rise by 3,5 percent for 1987 and the bureau's director, Dr Okkie Stuart, says his projections point to a growth rate of slightly below five percent in the fourth quarter.

This would be well above the one percent average for the last seven years. Growth of five percent was last seen in 1980 and means almost a mini-boom for a short period at the end of this year and early next year.

After months of gloom, business confidence improved sharply in March and has now reached its highest level since the end of 1985, an Association of Chambers of Commerce spokesman said.

Factors improving the business mood include the strengthening of the rand-dollar exchange rate, steadying of interest rates, increased retail sales last month, a rise in sales of new cars and a decline in South Africa's "brain drain".

The rescheduling of the country's foreign debt has also paved the way for a stronger upturn in the economy.

Slightly clouded

It is expected to halve the country's R6,6-billion capital outflow forecast for this year, making more cash available for industrial expansion and the creation of more jobs.

But confidence is slightly clouded by inflation worries, the state of emergency, fears of continuing unrest and uncertainty over the general election.

Lower mortgage rates are also encouraging more property sales, with a near-record R60-million worth of property changing hands in Cape Town last month.

More overseas confidence in South Africa's economic and political situation is shown by the state of the financial rand.

This has risen in the past two months by more than 50 percent — from 22 American cents in January to more than 35c now.

Analysts believe an important reason for the rise has been a sudden increase in foreign purchases of South African gold shares.

But economists and business leaders make an important proviso before saying everything looks rosy.

They say they assume that political stability and reform will continue.

ARGUS 2/4/87 49

Debt decrease shows economy is improving

Staff Reporter

A DECREASE in civil debt indicates the present economic upturn is gathering momentum, according to a Johannesburg credit information bureau.

Information Trust Corporation, formerly Dun and Bradstreet, compiled figures for January this year, which indicated a significant decrease in both the number and value of judgments against individuals and companies.

According to the company, the value of judgments against individuals was down 19 percent from January last year — at R46 730 000 — and was 24,5 percent below the monthly average of last year.

The number of judgments recorded was down by 18 percent, and issued summonses decreased by 11 percent.

Companies improve

Companies fared even better with the value of civil judgments decreasing by 39,4 percent at R6 500 000 and by 43 percent over the monthly average for last year.

The number of judgments was down by 40 percent and the number of summonses issued by 29 percent.

Mr Paul Edwards, managing director of Information Trust Corporation, said: "Companies are trading more profitably in most sectors as a result of improved demand and more efficient management.

"Fewer companies are now failing to meet their debt commitments and healthier cash flows are being experienced as seen by the sharp drop-off in business failures."

Better increases

He said individuals were beginning to benefit from the upturn as a result of better salary increases and lower interest rates.

"Although the ratio of debt to disposable income is still relatively high, there is evidence of a greater willingness to take on more debt," he said.

"Confidence is returning slowly to the market."

ECONOMIC GROWTH (40)

3/4/87

Analysing the cake

A material improvement in labour market conditions in the fourth quarter of last year has been confirmed in the latest *Reserve Bank Quarterly Bulletin.*

"Signs of more significant increases in demand for labour could be observed in certain important sectors," it says. "Contributions to higher production levels were made by all major sectors with the exception of commerce."

Significant increases in production were recorded in consumption-based industries such as food, clothing and in the basic metal industries.

The statistics confirm that the vice of higher rates of employee remuneration and depreciation provisions may be loosening its grip on company operating surpluses — and hence profits. A breakdown of GDP reveals that operating surpluses, squeezed since the early Eighties, began to recover strongly in the second half of 1986 (see graph).

Says the *Bulletin*: "Gross operating surpluses, mostly reflecting the much improved profit performances of business in a wide variety of activities, rose at an annual rate of 11% in the first half of 1986, but at an unusually high rate of 36% during the second half." The average for the calendar year panned out at about 22%.

The *Bulletin* says that though aggregate labour remuneration rose by only 13,5% for 1986 as a whole, in the second half it rose by an annualised 22%.

As a percentage of GDP in 1986, however, aggregate labour remuneration declined from 57,6% to 56%. Provision for depreciation climbed to 19,3% from 17,9% in 1985; and operating surpluses, already tight, increased marginally from 24,5% of GDP to 24,7%.

As a comparison, net operating surplus was healthier in 1981, when provision for depreciation was 14,9% of GDP and employee remuneration 55,5%; while the surplus was a glowing 29,6%. Since then the squeeze on company profits has been tightening, only to ease in the second half of 1986.

Econometrix's Azar Jammine points out that provisions for depreciation can be viewed as just "bookkeeping." Given that, company cash flows and profits actually improved at the expense of wages in 1986. That is not to say that individual wage rates did not increase; there is sectoral differentiation in wage increases, while employment levels may have been lower.

Rand Merchant Bank's Rudolf Gouws expects real GDP growth of 3% in 1987 to be spread evenly between company profits and labour remuneration.

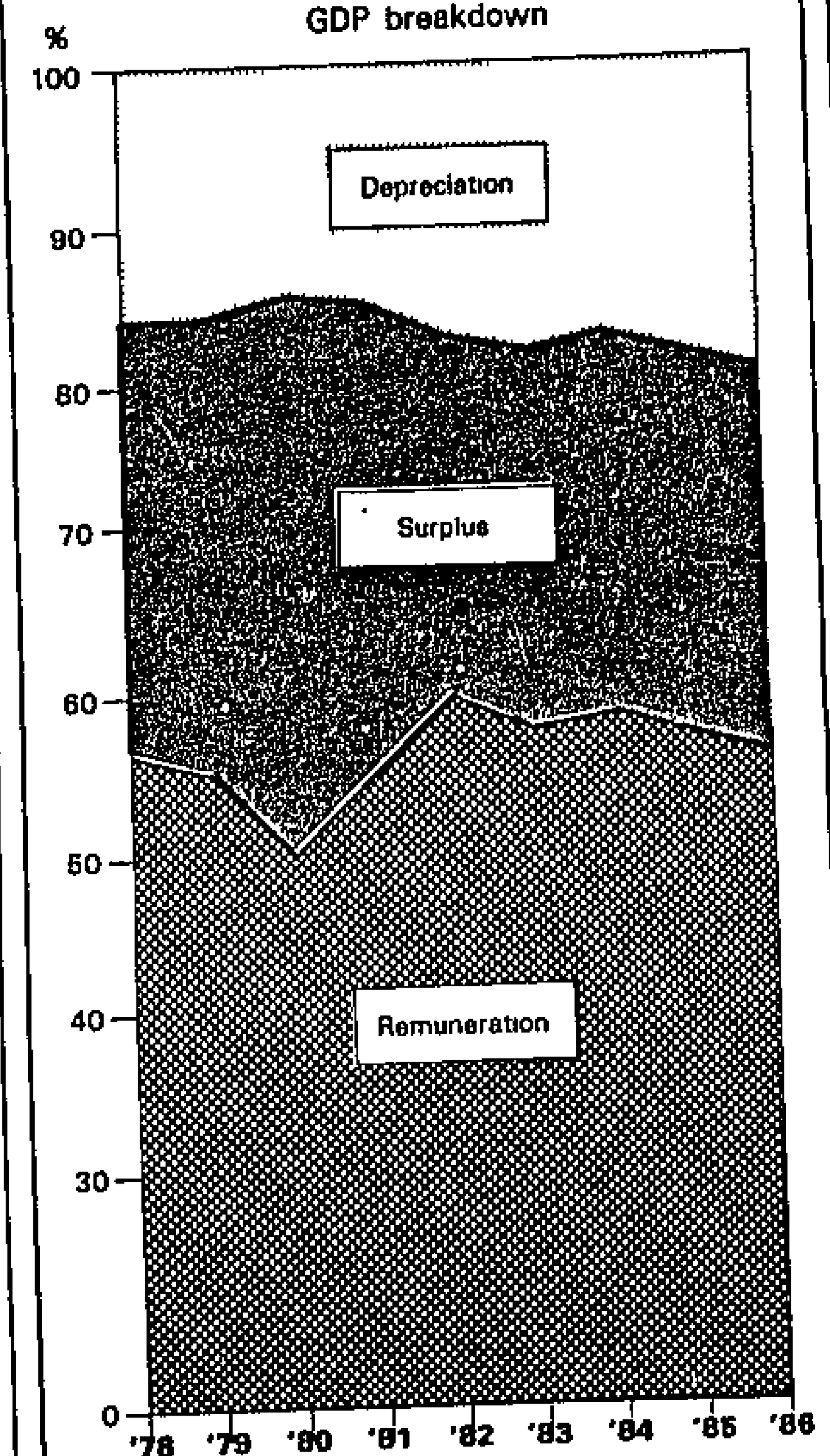
Jammine agrees: "Average wages should increase in nominal terms by 14%." Though the GDP pie will be larger, he expects little change in the relative shares of the three components, company surpluses, depreciation and remuneration.

Trust Bank's Ulrich Joubert believes that increased spending in 1987 will be directed to the non-durable and semi-durable sectors.

Joubert argues that many GDP forecasts are based on a good year for the agricultural sector. He believes that though farm outputs may be lower than initial post-drought assessments anticipated, 1987 will be a more "normal" agricultural year.

"Heavy rain that fell through the summer was not evenly distributed. ■

Surpluses squeezed



THE ECONOMY

Some light at last

49 FM 3/4/87

About the best that can be said of a 1986 real growth rate in GDP of about 1,5% is that it's positive again — even though substantially below the rate of population growth, so still a decline on a per capita basis. Still, events of the last few weeks, which brought the gold price surging back into the US$420s, a stronger commercial and financial rand, better prospects for the inflation rate and a sustained surplus on the trade account, suggest that the tide is turning at last. Also, of course, there has been the debt rescheduling arrangement which provided better terms than most dared to expect.

But there is still no cause for euphoria. As the Reserve Bank *Quarterly Bulletin* makes clear, while the overall outlook for 1987 is for further growth, there are worrying areas.

Indeed, even though the fourth quarter brought annualised growth of GDP of about 4,5%, real GDE fell back, and was less than in the *second* quarter of 1985. In other words, the improved GDP was entirely due to the external sector, with strong exports and continued low imports — not to any pick-up in the domestic economy.

This is confirmed by the fourth-quarter return to a renewed ("if modest," says the Bank) rundown in inventories and a slowdown in annualised private consumption expenditure growth from the third quarter's 5% to about 2%. The significance of this is underlined by the fact that the fourth quarter includes the Christmas peak retail sales.

As the *Bulletin* coyly puts it: "Renewed contraction of total real GDE in the sixth quarter of the current economic recovery showed spending behaviour ... still subject to inhibitions and constraints that are not normally a part of the SA business cycle."

Government is presenting the debt rescheduling as a triumph for SA, and implying that the economic outlook is now rosy. But foreign bankers don't entirely accept the first point. As for the second, it is true that the auguries are not all good, but recent developments certainly suggest that at last things could be moving SA's way.

Consumers are trying to improve their debt position, rather than spend, in the light of lower real incomes, falling real property prices, unfavourable prospects for employment and promotion, and perceptions of a less favourable outlook for standards of living. In brief, the lack of confidence that the *FM* has so often pointed out permeates all sectors of the economy.

Is this lack of confidence still justified? Certainly the business mood is picking up fast, as Assocom's latest Business Confidence Index shows (see *Economy*). The latest rise in the gold price will also help confidence as well as, more concretely, the Balance of Payments.

The *Bulletin* points out some of the underlying emerging plus factors. They include:

- ☐ An improvement in the labour market, which accelerated in the fourth quarter;
- ☐ Hopes of a reduction in the inflation rate;
- ☐ Continued growth in domestic output;
- ☐ A further rise in the current account of the Balance of Payments, to a (surely unsustainable) adjusted annualised R12,9 billion surplus in the fourth quarter;
- ☐ "Tentative evidence" that the prolonged downturn in real fixed investment may be coming to an end;
- ☐ A filtering-through of the so-called "moderately expansionary stance of fiscal and monetary policy"; and
- ☐ Much-improved financial results and balance sheets in the corporate sector.

To this must be added last week's debt rescheduling, which came too late for the *Bulletin* to comment on. The terms were more generous than most local commentators had expected (see *Economy*), which seems to be confirmed by the grudging foreign reaction (see adjacent *panel*).

The authorities in Pretoria like to see the rescheduling as a testament to our fundamental economic strength; from their point of view no doubt it is. To international bankers — with much bigger problems on their mind than little old SA — it may just have seemed the only deal in town.

But whatever the reservations, at least SA has confirmed that it is very different from a Latin American basket case. The new three-year breathing space will allow much greater certainty in financial planning.

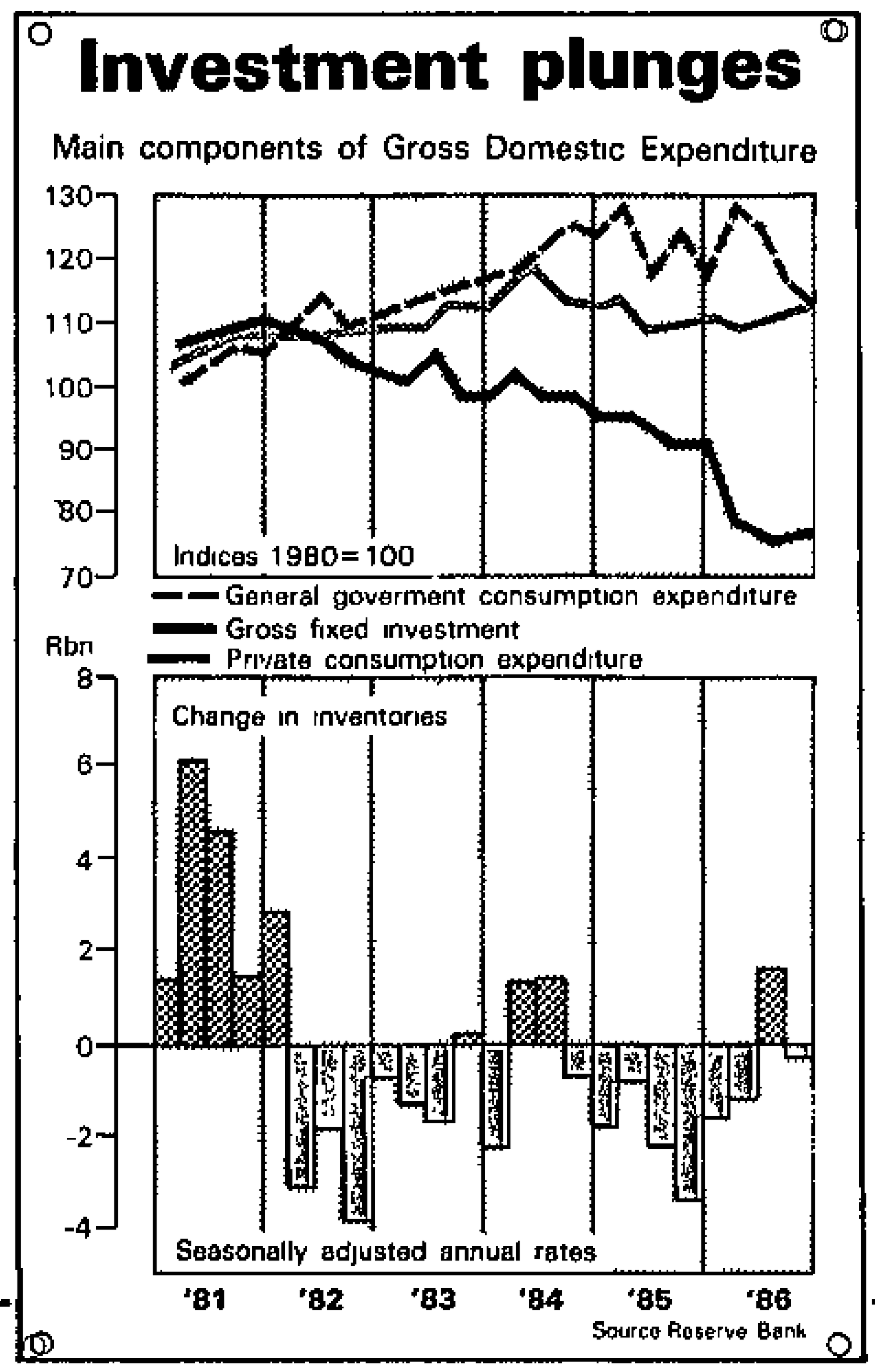
Indeed, Reserve Bank Governor Gerhard de Kock has suggested that the first quarter of 1987 has actually brought a fresh capital inflow, and that the large outflow in the final quarter of 1986 reflected the switching of trade credit from foreign to domestic sources — presumably encouraged by the declining interest rate structure.

Of course, the implication is that if interest rates turn up, trade finance could move offshore again — but there are no signs of that yet.

Even before the rescheduling, the rand was strong against the dollar. Subsequently, it has improved against other currencies too.

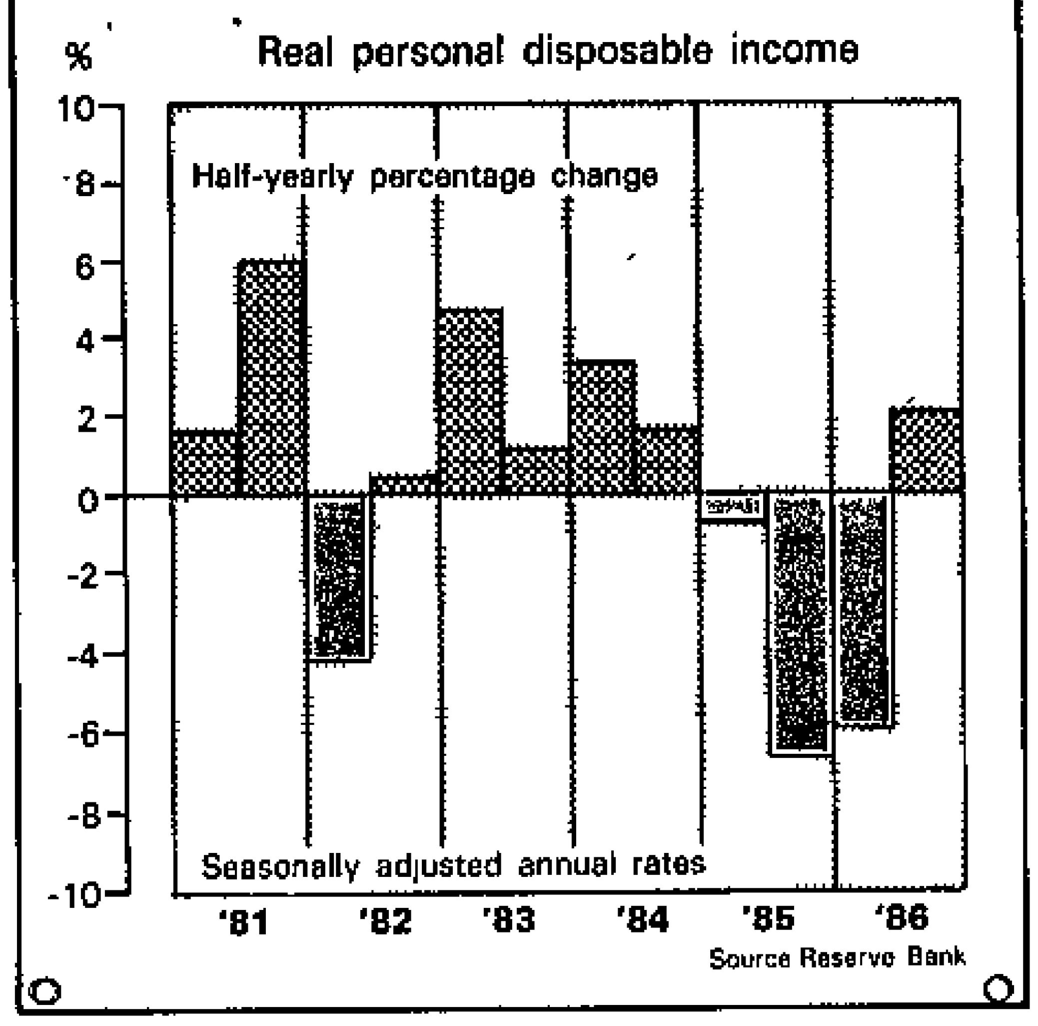
The gap between the commercial and

Governor de Kock ... SA's basket case



Finance Minister du Plessis ... don't hog the benefits

Feeling the pinch



financial rand has narrowed substantially. While it is true that official pressure has deliberately prevented the commercial rand from appreciating as far as it might, a near-doubling of the financial rand must at least in part reflect restored foreign confidence.

SA is not, it is now clear, going to disappear in a cloud of smoke overnight.

But in spite of all this good news, virtually all commentators are looking for a growth rate for 1987 as a whole *less* than that recorded year-on-year in the fourth quarter of 1986. And not everybody would accept at face value all the Bank's "encouraging features."

For one thing, while the avowed object of fiscal and monetary policy may be stimulatory, it is far from clear that fiscal policy at least is having that effect. The *Bulletin* itself points out that government consumption expenditure fell by 1,5% last year; the tax "concessions" of the mini-Budget are not likely to be enough to offset fiscal drag; and the pending RSC imposts will transfer substantial further resources from the (productive) private to (unproductive) public sector.

For another, the end of the downturn in fixed investment has yet to have any great effect. It will take some time for, for instance, Mossel Bay and SA Breweries to have any real impact — though not as long, it is to be hoped, as the vast sums nominally allocated to low-cost housing. The decline in fixed investment last year, at 16,5%, was so steep that — as Rand Merchant Bank's Rudi Gouws has pointed out — it is inconceivable that a recovery this year could cancel it out.

Then there are divergent opinions on how far inflation will in fact fall. Certainly, imported inflation is coming down fast, but the domestic component remains intractably high. Food prices are a major bugbear; administered prices are not helping. Holding the rand lower than market forces would set it helps exporters but keeps import prices up.

While business talks of the need to restore margins, profit reports by JSE-listed companies suggest these are already recovering sharply. In this context, it is easy to sympathise with Finance Minister Barend du Plessis' warning that the benefits of recovery must not be hogged by the corporate sector.

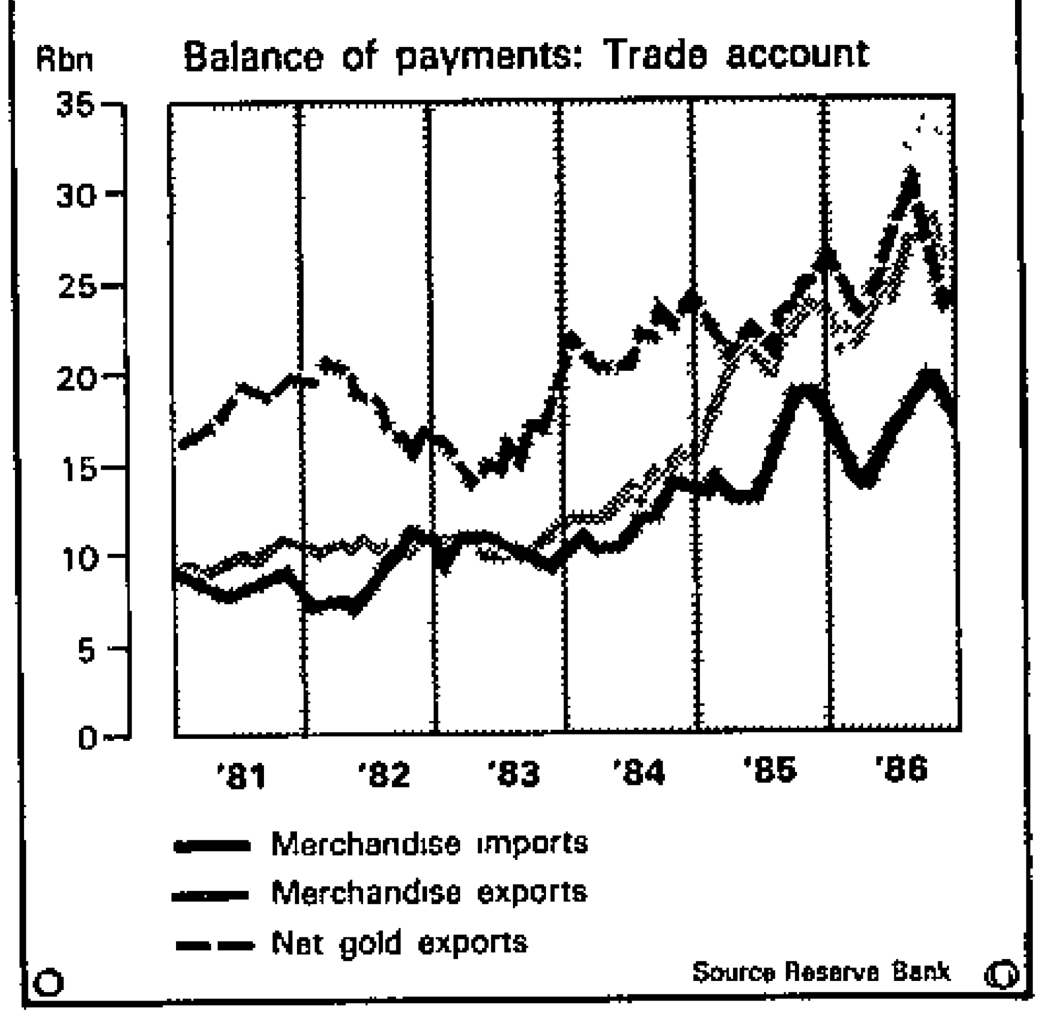
And while there is still considerable overall surplus capacity, patches of scarce resources could soon emerge. Skilled labour is a case in point. Next year bottlenecks — that dread word — could reappear; present cost-push inflation could be replaced by the historically far more common demand-pull variety.

SA has been exposed by the misfortunes of recent years as still basically a Third World economy, though with a sophisticated First World veneer in some (not important) sectors. And — thanks to political factors from which the government cannot escape responsbility — we are the only Third World developing country expected to cope with being a net *exporter* of capital.

Attempts at industrialisation and diversifying the economy have not proved the answer. We are if anything more dependent on primary exports than we were a decade ago. Ever-tighter sanctions may compel us to develop domestic manufacture, which will stimulate employment in the short term; but by definition such investment is uneconomic, and reduces total wealth by misallocating resources.

A return to the halcyon days of the Fifties and Sixties is simply not on. We can look at best to modest economic growth this year

Imports sluggish



which will barely keep pace with an expanding population. Restrained official forecasts for this year's growth rate suggest some apprehension that even this subdued recovery is frail.

One can but rejoice that we are pulling sluggishly out of the worst recession for 50 years. But that is far from the end of our problems. At best, it will provide a shaky platform from which we can address the structural problems that face us. ■

MUTED FOREIGN REACTIONS

Domestic joy at the second interim debt agreement is not matched abroad. Reaction of European banks (two British, a Swiss and a German) has been mixed. Overall resignation — "better than nothing," "at least something we can work with," and "a compromise which leaves nobody very happy" — is combined with a belief that the South Africans could have offered a bit more.

One dissenter feels the economic uncertainties are such that it will prove a tough deal from SA's point of view — especially as no new money is in sight at least until a new agreement in 1990.

"How can anyone predict the price of gold, especially in non-dollar terms?" he said.

Others feel SA could have been "more creative." There was, on current outlook, scope for a repayment better than 13%. "But I can see they had to strike a balance between conflicting pressures," the *FM* was told.

"The Reserve Bank needed to ensure SA stayed clean with the international banks. But with the pressure of sanctions, etc, it was understandable the Treasury wanted to preserve foreign exchange for a 'war chest.' Even so there was a bit of rough injustice towards those who had been prepared to lend longer-term money."

A more creative approach would have been to take 13% as a base with additional payments based on a formula linked to balance of payments or trade performance. "That way there would have been an interest on the part of the creditors to facilitate trade in order to get back more. We would like to believe that in fact what has been announced is a base which will be improved upon."

The quid pro quo for 20% over the period could have speeded up a return to some normality in the capital markets. "A couple of years on that basis would have re-opened some markets. As it is we can't really expect access for another three years. It's a holding operation rather than a big step forward."

One Frankfurt view, however, is that by not going for performance-related payments the Reserve Bank has at least avoided classification as a Latin American-type debtor. "But they have been a bit hard-nosed and that combined with the Americans' attitude has left us where we are," a bank spokesman says.

As for the incentives to convert to 10-year debt outside the net, the prospects "are in the hands of the politicians — like everything else," comments a Zurich bank. "Equity conversion possibilities — if offered — will face the same considerations."

Gold swaps remain the only viable medium for raising liquidity, but "the South Africans may be able to quietly raise small amounts through private placings, perhaps through German banks. Venezuela, after all, is preparing to come back into the market, so why not SA, though they could not do it openly?"

Financial Mail

THE ECONOMY

How to keep the ball rolling

A potential growth rate of 3% this year will be the second-best in seven years — and the only year that beat it was an unsustainable mini-boom in 1984 that still left GDP no better than in 1980. If — as Finance Minister Barend du Plessis tries to persuade us — it is wrong to blame government for the wasted economic years of the Eighties, it's to be hoped that the politicians will be equally modest in disclaiming credit for this year's mini-recovery.

But it is of course nonsense to suggest that governments bear no responsibility for the economies they preside over; and that responsibility is not merely nominal. The chosen mix of fiscal and monetary policy has a direct and major bearing on economic performance.

In democracies like Britain or France governments have fallen because of economic mismanagement. Even here, Reserve Bank Governor Gerhard de Kock has had the temerity (has he ever been forgiven in some civil service circles?) to point out how public sector profligacy in 1984 contributed to our problems and drove interest rates to unprecedented levels.

We are now entering the second quarter of 1987 with an economic outlook that, though rocky, could be claimed to be healthier than at any time during this decade. What policy prescriptions do we need to keep the show on the road?

In the first place, though external pressure and sanctions threats may force short-term modifications, we must not abandon the stated policy of greater market-orientation. Market policies have not failed (De Kock argues persuasively that it was not even the relaxation of exchange control that triggered our capital outflow); they have simply not been allowed to work.

Time and again we are told that we have to protect the farmers, that privatisation and deregulation are lengthy processes, that industrial cartels cannot be broken up overnight. The arguments are wearing thin. Potential black entrepreneurs, in particular, will not wait for ever.

Then, we need to shift the emphasis of government spending away from consumer spending into capital formation. That does not mean more prestige projects — gaudy opera houses, unused (and unsightly) hospitals for whites, and the like. It means basic infrastructure, housing, education and training. We must put on one side our First World pretensions and remember that the few Third World countries to have achieved satisfactory socio-economic development have done so by starting at the bottom — with the peasants.

Next, it would help if the reality of government policies bore some resemblance to stated intent. Year after year Ministers of Finance tell us how much they're "putting into" the economy, and exhort the private sector to follow suit. Year after year — largely because of fiscal drag — budgets (and other measures) which purport to be stimulatory in fact on balance drain resources from the private sector.

Finally, we must reward enterprise. This means a simplified and tolerable tax system, and real rates of return for investors — and *all* investors, not just those who throw funny money around Diagonal Street.

If the private sector sees opportunities for profitable investment in real assets, it will take them. It is government's responsibility to create an appropriate environment; a responsibility that has clearly not so far been met. It will have to be in future if our latest hope of economic upturn is not to be nipped in the bud, like so many unfulfilled precursors. ■

POLITICAL FUNDING

A touch of chutzpah

We warned at the beginning of the campaign that it was shaping up to be a dirty fight. Now poor Denis Worrall — within living memory our honoured and respected Ambassador to the Court of St James — is being reduced to the level of Oliver Tambo, with smearing insinuations about how the Independents are funding their election campaign.

That the dirt should be thrown by a former member of an administration whose ability to inspan every resource of the State for what to others appear party-political purposes would be a pleasing irony if it were not so distasteful.

Those who believe that reform through the ballot box is impossible will only be encouraged by this circus.

For the rest of us, it is a timely illustration how, in National Party eyes, the boundaries of what Van Wyk Louw called *lojale verset* are becoming ever-more circumscribed. Wimpie de Klerk found it no longer possible within the *laager*; Worrall is being hounded now he's left it.

Advanced democracies actually subsidise their oppositions. If we are not to do that, at least leave legitimate opponents to fund themselves in peace.

When severe restrictions on fund-raising were introduced, we were assured they would be used only against "radicals" and "subversives;" legitimate opposition would not be hit. That has been shown as empty as most political rhetoric.

And why stop at asking the Independents to disclose their financing? Let's hear how the NP, too, is funded.

But does it really matter? We suspect that the level-headed voters of the Boland will not lightly change their opinions of such local notables as Jannie Momberg or Esther Lategan. If anything, it could rebound in their favour. ■

Civil debts down 'due to better times'

KAY TURVEY

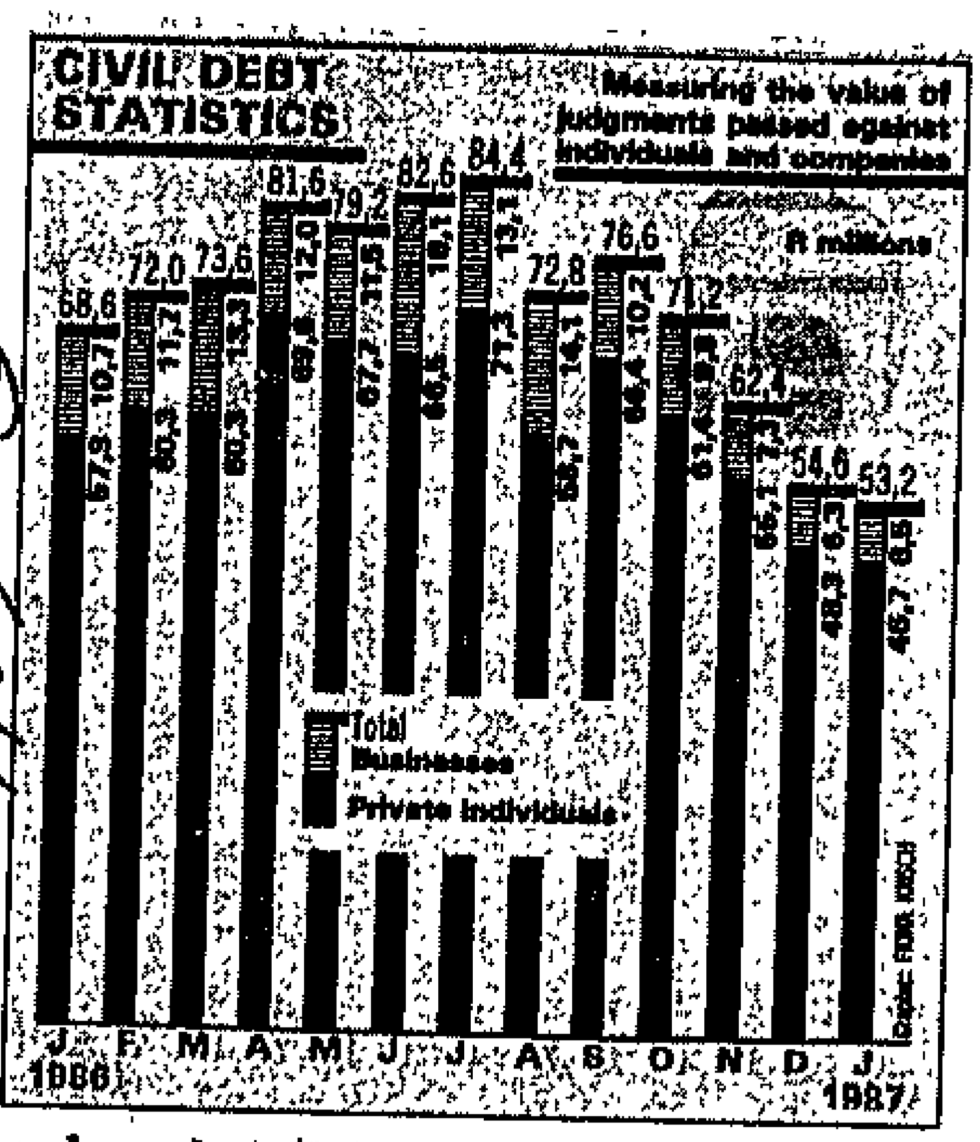
CIVIL DEBT has dropped significantly and attorneys handling debt recovery say this type of work is on the wane.

Banks, too, have noted the fall-off in bad debts with the slight economic upturn.

Nedbank GM (advances) Kay Davidson said the number and amounts of bad debts were "happily" lower than last year.

Barclays Corporate Banking group senior GM Peter Springett said yesterday the debt position of companies had also improved dramatically. Corporate debts had dropped by about 50% since March last year, he said.

Figures released by the Information Trust Corporation this week show the



value of civil judgments passed against companies in January this year as R6,5m — a decrease of 39,4% compared with January 1986, and 43% compared with the monthly average last year. The number of judgments was down by 40%, while the summonses issued dropped by 29%.

To Page 2

3/4/87 B/Day

(49)

Upturn heralds drop in civil debt

3/4/87 B/Day

From Page 1

Individuals did not fare quite as well, recording debts of R46,73m in January this year — down 19% compared with January 1986 and 24,5% below the monthly average last year. The number of recorded judgments declined by 18% and summonses issued decreased by 11%.

A Johannesburg lawyer said yesterday: "The massive decrease in debt recovery can be attributed to the improving economy and the fact that the financially weaker individuals and companies have gone under already."

Credit Guarantee Insurance Corporation manager Mike Truter said the fall-off in insolvencies could be attributed to lower interest rates, a slight strengthening of the rand, and firming business and consumer confidence.

"Most of the companies that survived the recession have done so on tighter asset management and improved financial structuring," he said.

(49)

EVENING POST, FRIDAY, APRIL 3, 1987

Up and away

49

PE economy is starting to move back into top gear

By JULIETTE SAUNDERS

PORT ELIZABETH'S economy is definitely on the way up . . . This was said at the official opening of the PE Agricultural Show last night by the Mayor, Mr Ben Olivier.

Mr Olivier said PE had "bottomed out and is on the way to strong recovery and a happy and comfortable future for all". He said there were definite signs of renewed optimism among industrialists and businessmen, as well as a spirit of enthusiasm to embark on new challenges and a will "to finally shake off" the current recession.

The city's building tempo had increased — a strong sign of confidence as building was a fixed investment for the future, he said, adding: "From building-plan statistics, it is clear a turning point has been reached."

This, he said, was confirmed by:

● A 21% increase in the number of plans submitted to the municipality for approval during the first three months of this year compared with the corresponding period last year. There was also an "extraordinary" increase of 73% in the value of the buildings planned.

● A 91% increase in the value of construction started in the first two months of this year compared with the same period last year.

● A 74% increase in the value of buildings completed in PE during January and February compared with the first two months of last year.

In spite of disinvestment, PE had also received a few new industries Mr Olivier said, adding it was particularly pleasing that industrialists were showing an increasing interest in the local processing of ground resources.

"It is essential that we export our ground resources only after they have been refined.

"There is definitely an excitement growing in Port Elizabeth at the present time. I can feel it, we can feel it. And many people already are starting to feel it in their pockets."

Mr Olivier said the sales figures from exhibitors at this year's show were encouraging. "This is all part of a pattern of progress in the city, also reflected in increased tourism and better motor sales."

Bleak outlook for Africa

(49)
7/4/87

By Tsegaye Tadesse

ADDIS ABABA — Africa's economic performance in 1986 was disappointing with only a 1,2 per cent growth in combined gross domestic product (GDP) and prospects for 1987 would remain bleak, according to an UN economic report on the continent.

"Despite the determination by African countries to undertake policy and institutional reforms, the economic growth for the region was disappointing in 1986. The combined gross domestic product in real terms increased by only 1,2 per cent," said the report, prepared jointly by the UN Economic Commission for Africa and the African Development Bank.

Performances on a regional or categorical basis varied considerably with oil exporting countries experiencing a decline of 0,3 per cent in GDP and non-oil exporters registering a four percent growth rate. Africa's inflation rate rose to an average 9,8 percent last year from 8,9 in 1985, the report said.

Agriculture recorded a three percent rise owing to favourable weather and improved incentive schemes while the manufacturing sector grew by four percent.

Exports down

The decline in oil prices and falling world demand for minerals last year led to an estimated 28,7 percent fall in export earnings, turning a $5,9 billion surplus in 1985 into a $7,1 billion trade balance deficit in 1986.

The report said prospects for 1987 would remain bleak with depressed markets for Africa's primary commodities.

"Trade and current account deficits are likely to remain large, though below 1986 levels. The volume of net resources and inflows is expected to stagnate at 1986 level," the report added.

Agricultural output would record another significant rise in 1987 while the manufacturing sector would be constrained by shortages of imported raw materials, the report predicted.

It noted Africa's determination to raise from domestic resources $82,5 billion of the $128,1 billion needed for a five-year economic recovery programme launched last year and called for an increase in private saving, particularly in rural areas.

The report also called for development of the private sector, to encourage "capital markets which are important institutions mobilising domestic resources and channeling them into productive investments."

The report advised African governments to restrain increases in public spending and subsidies to public enterprises, noting that rapid growth in public expenditure and subsidies has not generated adequate revenue and has often led to deficits.— Sapa-Reuter.

(49) Sowetan 7/4/87

IN TODAY's column NCEDO MLAMLA, an economist with Barclays Bank, says that the South African economy is improving, but something still needs to be done by the politicians to make it more than just a short term improvement.

Economy gains — politicians must do their bit

FOCUS

THE latest figures released by the Reserve Bank indicates a definite turn in our downward slide.

The Bureau of Economic Research of the University of Stellenbosch reported in January that their composite business confidence index has shown a marginal improvement during the fourth quarter of 1986.

The March Reserve Bank bulletin figures for the same quarter provided the underlying factors behind this upsurge in confidence. Some of the exciting factors contained in this bulletin are:

Growth

- Real economic growth in the fourth quarter was 4,6 percent. This means that our output during the fourth quarter went up by this percentage on an annualised basis when compared to our third quarter output. However, the growth for the whole of 1986 was only 0,7 percent;
- Exports which have been increasing since the first quarter of 1986 maintained the same momentum in the fourth quarter. Imports which were also increasing from the first quarter dropped in both volume and money terms in the fourth quarter;
- Gross gold and foreign reserves as at the end of the year were at a level of R5,7-billion;
- The improved rand had the effect of lowering our inflation rate;
- The decline in real domestic fixed investment which started improving during the third quarter of 1986 continued to improve during the fourth quarter;
- The public authorities and the mining industry continued to increase their employment levels. The manufacturing industry was rather static in this respect.

Decline

The construction industry showed a marginal decline in its employment level towards the end of the fourth quarter. The corollary of course is that there was a marginal reduction in the registered number of the unemployed.

Although there was an increase in private consumption expenditure, the emphasis was on non-durable goods which contributed some 45 percent to total consumer spending. Steady growth in semi-durable goods continued into the fourth quarter. However, expenditure on durable goods continued to dip.

This could be ascribed to lack of certainty on the side of the consumers.

It is expected that the momentum of the last quarter will continue. The recent debt rescheduling deal with our foreign bank creditors is certainly good news for South Africa. It will definitely provide some optimism to our business and it also provides the economy with much needed relief. The agreement provides for the repayment of $1,42-billion (about R3-billion) inside the standstill net between July 1, 1987, and June 30, 1990.

The exact schedule provides for the repayment of $508-million (about R10,16-million) which has to be paid during the second half of this year. For the years 1988 and 1989, the amounts to be repaid are $400-million (about R800-million) and $346-million (about R792-million) respectively.

ECONOMIST Ncedo Mlamla.

In early 1990 the final sum of $166-million (about R332-million) has to be paid. Thereafter, a new agreement has to be drawn up as to how the remaining debt will be scheduled. When looking at the sums that have to be repaid by 1990, an impression may be created that these should be easy to meet.

The present debt agreement covers only that portion of the foreign debt that is inside the standstill net.

Outside the net (that is money owed to organisations like International Monetary Fund, Central Banks of other countries, etc.) some $10-billion (about R20-billion) is owed, and most of this debt supposedly matures by 1990.

Real growth up by 4,6 pc in fourth quarter

To be able to meet these obligations, our current account of the balance of payment has to show large surpluses, a feat we are likely to attain if the present performance is anything to go by.

This, however, has to be aided by gold and positive changes in terms of what the politicians do.

In the short-term, though, the economy should improve.

No zeroes

The Crafford Committee, appointed to investigate new methods of government budgeting, is unlikely to recommend radical departures.

The committee, appointed by Finance Minister Barend du Plessis, has handed in its first preliminary report.

Any decisions taken as a result could have a significant impact on central government finances. Du Plessis identified the central exchequer problem mainly as a process whereby the Executive — in practice — seldom amends decisions in regard to functions created.

Du Plessis' new policy, to optimise and reduce government expenditure, needed a new approach to budgeting. He obtained Cabinet approval for a special task group. Most members are from the private sector, so as to make objective the approach to public finances.

Du Plessis instructed the group to work in close co-operation with the top management of government departments. It was to evaluate all aspects of spending, with particular reference to each service instituted by the Executive over the years.

Chairman Jan Crafford is convinced the committee will receive the co-operation of directors general and other top management. "Functions and programmes will be evaluated to try and form an opinion whether they should be reduced, reconsidered or discontinued."

Although the committee is known as the "zero-based budgeting" committee in some circles, this forms just part of its investigation. Zero-based budgeting is based on the precept of annual justification: each cent allocated by the exchequer must be reasoned by the department concerned.

Crafford says the committee does not yet envisage recommending that the existing basis of budgeting for government finances, programme budgeting, be replaced with zero-based budgeting: "Such a change would have huge practical implications."

But though government finances are apparently healthy, the work of the committee should not be overlooked. ■

STAR 7/4/87

Cosatu 'wants status quo destroyed'

By Mike Siluma

The strike by between 13 000 and 16 000 black South African Transport Services (SATS) workers has entered its 26th day, with management accusing the Congress of SA Trade Unions (Cosatu) of seeking to "overthrow the status quo" in SATS and other sectors of the economy.

Reacting to a Cosatu offer to help resolve the dispute, SATS spokesman Mr Jannie van Zyl said it was well known that SATS had been singled out as one of the major industries in which single industrial unions have been planned by Cosatu.

"It would be very naive for SATS to negotiate with a union which, as pointed out, seeks to overthrow the status quo not only of SATS but also other industries of our economy," said Mr van Zyl.

He said Cosatu's aim of one union an industry represented "a point of view which is not only contrary to the principle of freedom of association but also very far removed from modern industrial relations".

Mr van Zyl said Cosatu's call for the intervention of organised commerce and industry would "hopefully not succeed, as many of the industries represented by these bodies are also on Cosatu's agenda".

Cosatu spokesmen could not be reached for comment this morning. Cosatu has said, however, that the strike is rooted in the workers grievances and the union will support them in every way.

Cosatu said it was the workers themselves who would decide on the course of the strike.

The railway workers are demanding the unconditional reinstatement of a colleague dismissed from the SATS City Deep depot last month.

Other organisations which have supported the SATS workers include the Transvaal Students' Congress, the National Union of Mineworkers and the Cusa-Azactu federation.

● The Post and Telecommunications Workers Association (Potwa) reported that about 4 000 black post office workers are on strike in Soweto.

The workers are protesting alleged racial prejudice by senior officers as well as management's alleged anti-union stance.

Management comment was unavailable early this morning.

ECONOMIC POLICIES

What the parties offer

49 10/4/87 FM

Finance Minister Barend du Plessis would prefer economics to stay out of the election. While that may be a forlorn hope, the economic policies of the major contestants mostly offer only broad generalities.

Ideologically, all the political parties contesting the May 6 election broadly support capitalism — though with disparate views on the desirable degree of State intervention. But that support tends to be hinted at — through new buzz words like deregulation — rather than directly advocated as part of a platform. What, then, do they have on offer?

The National Party (NP) presents itself as the staunchest supporter of free enterprise. Says Finance Minister Barend du Plessis: "Government believes in private ownership, private initiative and the benefits of an efficient market system."

On the Independents' side, Wynand Malan believes in individual responsibility and private initiative as the basis of the economy, but also in "justice and fairness in the economic process."

The Conservative Party (CP) blends support of free enterprise with heavy concern for special groups like white farmers, consumers and small business. Clive Derby-Lewis says it will "encourage true free enterprise."

The Progressive Federal Party (PFP) is also relatively interventionist, mixing free enterprise with social welfare support. It, says Harry Schwarz, believes a "market system should operate . . . but within the constraints of a social conscience."

The PFP is adamant that "economic reform must go hand-in-hand with political reform." The NP too, says Du Plessis, believes interaction between political, social and cultural reform and economic development is unavoidable. Here are some details:

Fiscal policy

The "basic norms" in NP policy are that annual expenditure increases should not be excessive; the tax burden for both companies and individuals should be reduced "if at all possible;" the deficit before borrowing should be held "within reasonable limits;" current government expenditure should not be financed by borrowing "in normal circumstances." Policy must aim at reducing government's share in the economy.

At present, with the private sector "evidently reluctant to consume or invest," a "temporary departure from these norms is warranted," Du Plessis argues.

The CP will apply conservative fiscal and monetary policy. It will "ensure big business pays its due share of the tax burden and reduce taxation in proportion to its success." It also talks about correcting "the NP policy of redistributing wealth from the middle class to the rich."

The CP will abolish estate duties, which are "particularly detrimental to the farming community." Husbands and wives will be taxed separately, as this is "financially more advantageous."

To Malan, the tax system causes a disproportionate amount of household savings to be directed to insurance and pension funds. "We must strive for a tax system which is neutral in respect of the various savings and investment channels."

The PFP mentions creating incentives through "an acceptable taxation system" which will also enable provision of "adequate" social services; privatisation "where appropriate;" and deregulation "on a substantial scale to reduce bureaucracy."

Privatisation and deregulation

"Privatisation just gives more and more of SA's assets to big business, the only people able to purchase State assets with their excessive untaxed profits," says Derby-Lewis.

The NP is nearer the PFP on this score. Linked to its policy of "orderly urbanisation" is an acceleration in implementing free trading areas, providing further assistance to the informal and small business sectors, and meeting the demand for infrastructure and housing.

Du Plessis says the "optimal utilisation of capital must be pursued through privatisation, by applying business principles to the business activities of the public sector, including cost-benefit and other appropriate evaluation techniques."

Malan says deregulation must be carried out quickly. "The State must have an extremely limited role and only deliver that which cannot be delivered privately."

Inflation

All are against it, but, barring the CP, thin on solutions. Derby-Lewis considers excessive money creation and the narrowing of the wage gap as major causes of inflation.

He thus believes in stronger control over the printing of money and the "immediate suspension of the policy of narrowing the wage gap unless accompanied by a concomitant increase in productivity. Black unions will not be permitted in white SA," so eliminating inflationary wage demands.

Schwarz says inflation should be fought by "restricting the share of government in the economy, ensuring that monopolies and economic power do not artificially increase prices and ensuring true competitive circumstances exist, with adequate legislative consumer protection." The PFP will also introduce an "inflation-proof savings medium" for the elderly.

All Du Plessis offers on inflation is that government is "seriously concerned," and has asked the Economic Advisory Council to make firm proposals. "There can be no instant remedy for this complex problem," he says.

He stresses: "It is vital that the rate of economic growth be increased," while accepting that further "moderate stimulation" is not likely to push up inflation in the short term. "Both monetary and fiscal policy should remain mildly stimulatory for the present."

Monopolies and economic concentration

The CP is heavily against "monopoly control of the economy by big business" and portrays the NP as the party of big business. Derby-Lewis says the sector enjoys preferential interest rates. "Bank interest rates with a ceiling of 32% are crippling independent small- and medium-sized businesses, and much of the agricultural sector."

Tough anti-monopolistic and consumer protection laws, he insists, are reconcilable with free enterprise. "There is never a totally free system: the degree of freedom depends on the degree of abuse. Control ensures minorities do not abuse the majority."

Malan also suggests that "economic power concentration" be addressed. "Not because large is wrong as such, but because the structural character of most large companies means that enterprise is limited. Managers of small companies in big groups become simply administrators who have to consider the interests of large companies."

Monetary policy

The NP relies on the "strict discipline" of the market. It accepts the need for flexible interest and exchange rates, but with the reservation that the authorities can and should periodically intervene.

Schwarz says the PFP is not monetarist: "Money supply is not the key to everything. Controlling it is but part of an effective monetary policy."

Reserve Bank Governor Gerhard de Kock will be interested to hear that the CP will "use the Reserve Bank for the benefit of all sectors of our economy to eliminate preferential treatment." The CP reckons the rand's "disastrous level" results in the "paradox of a depression while big business flourishes."

Unemployment

Integral to curing this, is the promotion of rural development. Du Plessis stresses that we must accept the dualistic nature of SA's economy. Manpower policy is aimed at creating opportunities through, among others, appropriate training and education.

The PFP will introduce an employment programme of creating jobs to improve the quality of life in under-privileged areas. "This will deal with unemployment, economic growth and stability," says Schwarz.

A CP priority will be training all workers. The CP will encourage development in the territories of other national groups "wherever economically possible," in line with its idea that each "nation in SA" is responsible for its own economic development.

So now we know. Or not, as the case may be.

Three pointers to economic growth

(49) SMAIL 15/4/87

By Magnus Heystek, Finance Editor

Economic growth prospects continue to improve with the latest rise in the gold price to levels around $450 an ounce, a commercial rand exceeding 50 US cents for the first time since last April, and a decline in the producer price index for inflation in February to its lowest levels in more than two years.

If the upturn in the gold price — which contributes more than 40 percent of South Africa's foreign exchange earnings — can be sustained, it will be a major boost to business confidence and economic growth later in the year.

Dr Gerhard de Kock, the Governor of the Reserve Bank, estimates that if the gold price averages $420 an ounce this year, it will improve foreign exchange earnings by more than R2 billion at the present exchange rate. This will provide the economy with scope to boost the local economy by reducing personal tax in the June 3 Budget.

A stronger commercial rand has advantages in the fight against inflation, but an appreciating currency coupled with sanctions and boycotts of South African goods could harm South Africa's non-mineral export earnings.

Further good news released this morning was a decline in the producer price index (PPI) of inflation, usually a reliable guide to the consumer price index (CPI). It reflects the price of goods and materials used by producers in manufacturing.

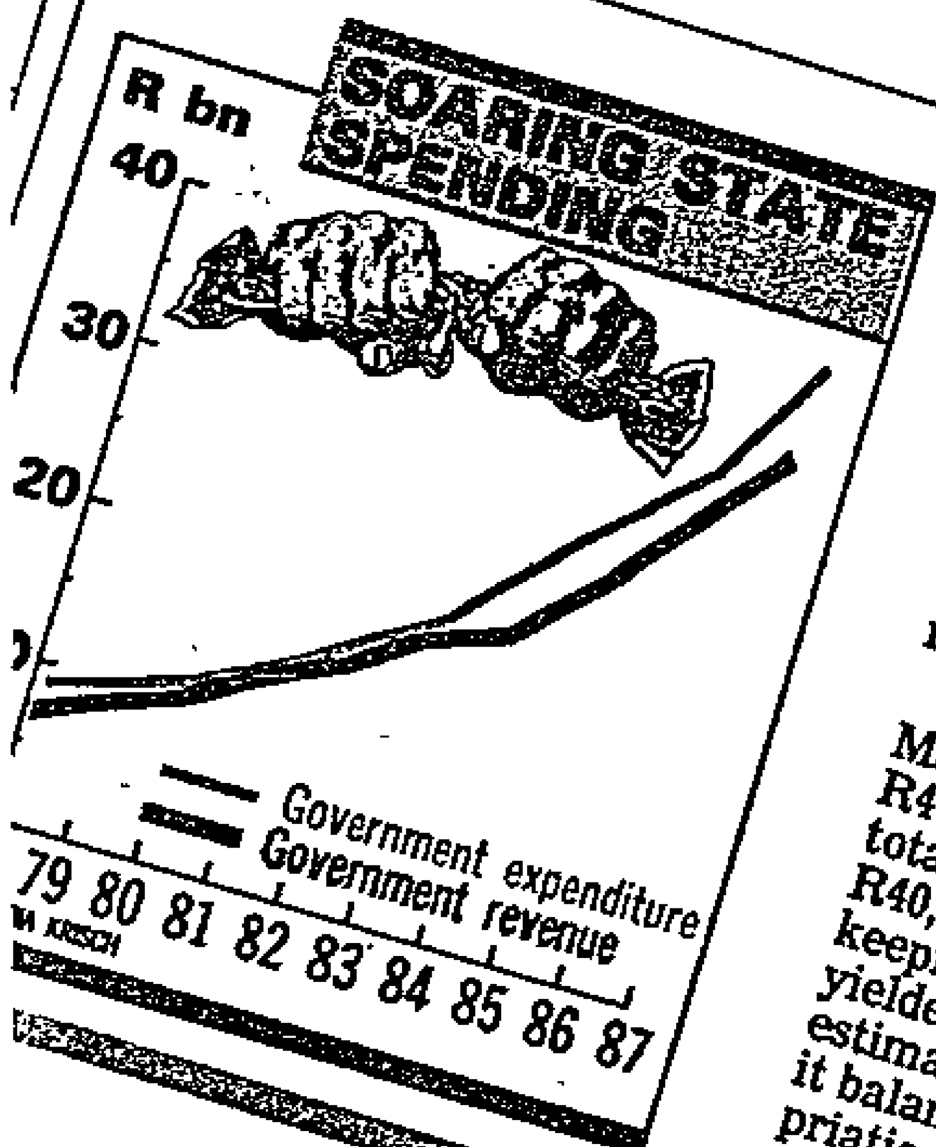
According to Central Statistical Services the PPI increased by 14,5 percent on an annual basis in February this year, down from the annualised increase of 14,9 percent in January.

Volkskas economist Mr Adam Jacobs forecasts personal taxes will be reduced in the Budget to boost personal disposable income which has been under pressure since 1980. Provided there are no unexpected shocks, Mr Jacobs expects real economic growth this year to rise by between two and 2,5 percent.

"THE VITAL VIEWPOINT"

(49) B/Day 24/4/87

Can Treasury maintain its book-balancing act?



HAROLD FRIDJHON

ZEALOUS control in the Treasury has apparently resulted in expenditure for the past fiscal year balancing with the budgeted amount with spectacular accuracy.

According to Exchequer returns for March 1987, state spending amounted to R40,4bn, an over-run of R400m, while total revenue, including loans, was R40,3bn. But this did not result in a book-keeping deficit because revenue not only yielded R551m more than the R34,5bn estimated but also because it had a credit balance of R200m from unused appropriations in the previous year.

What is interesting is that most departments ended the year with their expenditure maintained accurately to the last thousand rands.

Big spender Constitutional Development and Planning was given a budget of R5 288 482 000 and, according to the Exchequer statement, when the accounts were closed on March 31 this was the exact amount disbursed.

Foreign Affairs used its R1 603 564 000, not a cent more or a cent less. The House of Assembly administration with its R4,535bn allocation was another model of good housekeeping.

Defence overran its budget of R5,123bn by exactly R200m in spite of the extra duties the army has been performing in the townships.

Of the 31 departmental votes, 21 apparently spent exactly what Parliament allocated them, including the prison services which came out on a budget of R428,5m in spite of a swollen prison population, the product of civil disturbances. The police, too, kept their spending within the authorised limits.

Perhaps the budgetary control was not as meticulous as the current figures suggest and the bottom red lines were drawn only when the ceilings of the various appropriations had been reached. This we will only know when the next Parliament considers the Additional Appropriation Bill to authorise excess spending.

Then we will also know how sloppy the Treasury budgeting really is.

Last year the much-vaunted Du Plessis Budget, which purported to keep state expenditure at R37,4bn, an increase of 13,6% on the previous "revised" Budget, climbed to R40,1bn when the Appropriation Bill was finally approved.

(49) B Day 28/4/87

Stimulatory Budget hopes

KAY TURVEY

THE June Budget is expected to encourage positive economic growth in 1987 and early in 1988, Stellenbosh University's Bureau for Economic Research (BER) says in its latest Economic Prospects.

It says government's consumption expenditure is expected to be raised in real terms. Growth of 2,8% is expected in 1987 for this component of GDP.

Real investment spending by government will rise by about 6%, reflecting increased spending on black housing and township development.

Moderate tax relief is foreseen — specifically in the form of lower personal income tax rates. Married couples could expect relief in terms of lower joint taxation, and savers could be rewarded by reductions in the taxation on investment income.

Civil service salary increases of about 10% are envisaged, with the average remuneration per worker projected to rise by 15% over 1986.

More favourable financial variables would provide scope for government to begin following a more expansive fiscal policy, the BER says.

This stance is further expected to boost economic growth. This is after total general government spending last year exceeded total current spending, producing the first positive government saving since 1981.

The decline in government spending and the increase in tax rates during "the most serious economic recesssion in 50 years" must be seen against the over-expansive fiscal policy of 1984, the report says.

During the next 12 months personal income will rise by 2,9% and average wage increases of 15,8% are predicted. This is after real per capita disposable income, influenced by the negative overall economic conditions and rising personal tax, fell to a 17-year low in 1986.

The tax relief expected in the Budget, and declining inflation, will also accelerate recovery in the financial position of the individual, BER says. Furthermore, personal incomes will benefit from rising small business and informal sector activity and improving corporate dividend payments.

The sale of durable goods will also benefit from the improved financial position of individuals as well as higher confidence levels. Sales will also be boosted by pent-up demand through the postponing of replacement purchases which occurred in 1985 and 1986.

The report foresees an average growth of 6,4% in private consumption of durables in 1987, with this growth rate rising still further early in 1988.

Real GDP growth is projected at 2,0% in 1987 and 3,2% in the first half of 1988, with greater growth in the manufacturing sector, while mining and agriculture remain "relatively stagnant".

Economic growth may falter in '88

(49) Star 24/9/87

Finance Staff

South Arica's immediate economic prospects are good and a three percent growth rate is possible for 1987 and even for 1988, predicts Old Mutual's chief economist, Mr Rob Lee .

But he warns this recovery may not last beyond 1988 because of two major factors — inflation and the nature of the foreign debt agreement.

Mr Lee yesterday told a meeting of the Tygerberg Chamber of Commerce in Cape Town that a growth of three percent compared favourably with less than one percent last year and an average of 0,1 percent during the last five years.

He outlined four key reasons for his optimistic short term outlook.

"Consumers are likely to be in a better position to increase spending than they have been. The level of wage and salary increases should be higher than last year and the inflation rate should be lower, averaging about 16 percent compared with 18,5 percent in 1986.

"Secondly, economic policy has been increasingly stimulatory over the last 18 months and is likely to continue giving growth promotion top priority in the immediate future. The main thrust of this stimulation will be in higher government spending rather than in tax cuts.

"Thirdly, I believe the dollar gold price will continue to move higher in the course of the next 12 months and the $500 level may well be reached during this time," Mr Lee said.

Constraints

"Finally, the level of confidence appears to be rising, albeit from a very low level. This is reflected in the rise of both the financial and commercial rands, the booming stock market, the longer term nature of the recently negotiated foreign debt agreement and in surveys of the business and consumer mood," Mr Lee said.

He stressed, however, that this projected economic recovery might not be sustainable beyond 1988 due to two major constraints, one external and one internal.

"The foreign debt agreement is an external constraint. This requires South Africa to continue repaying foreign debt for the next three years within the standstill net. In addition, the total amount of foreign capital currently lent to us outside the net will also be reduced further during this time," Mr Lee said.

"With the continued outflows of foreign capital we must continue to export more than we import. Even assuming a significantly higher dollar gold price, it is likely that our current account surplus will decline over the next 12 to 18 months from the present high level.

"The main internal constraint is the rampant inflation rate. Every upswing experienced by South Africa since the 1960s has been accompanied by a marked rise in inflation and we are starting this upswing with an underlying inflation rate of 15 percent to 16 percent.

"The main feature affecting the inflation rate at present is the stronger rand. This strength has been primarily against the dollar, but on a trade-weighted currency basis the rand has done no more than hold its own in the last few months.

"It seems probable that the rand will start to come under downward pressure again before year-end and certainly in 1988, while on balance it seems likely that the inflation rate will be rising again in 1988," he said.

Financial Mail

(49)

GOLD AND THE ECONOMY

To the rescue again?

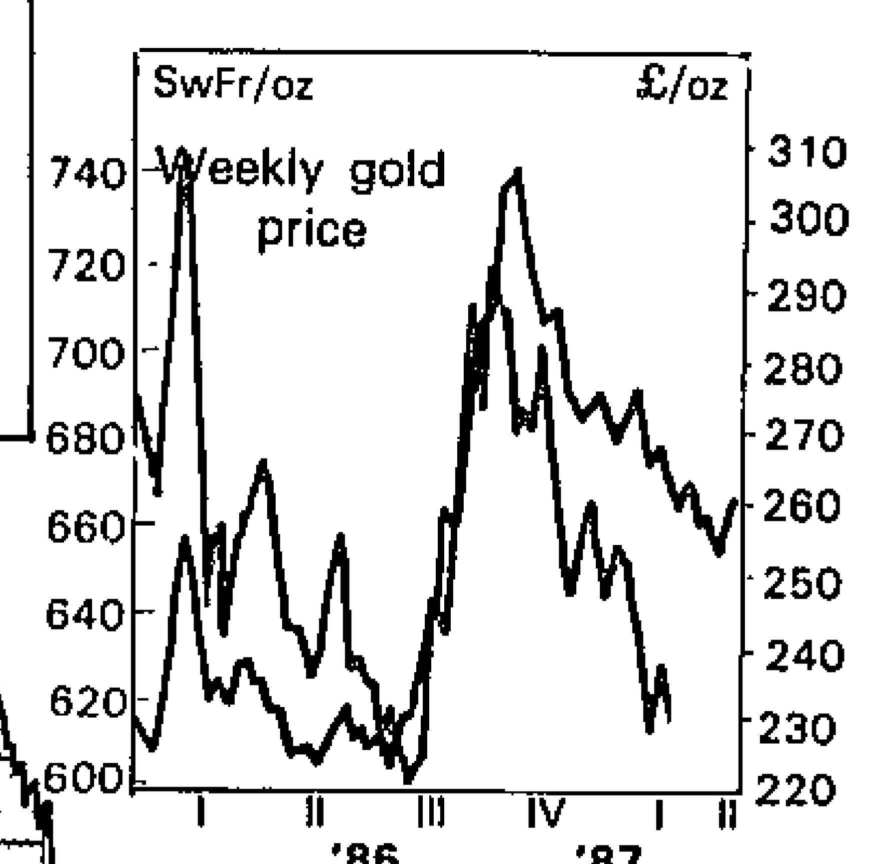
As the bullion price touches US$450 an ounce and the rand US50c, the standard euphoria has set in yet again. But what does this really mean?

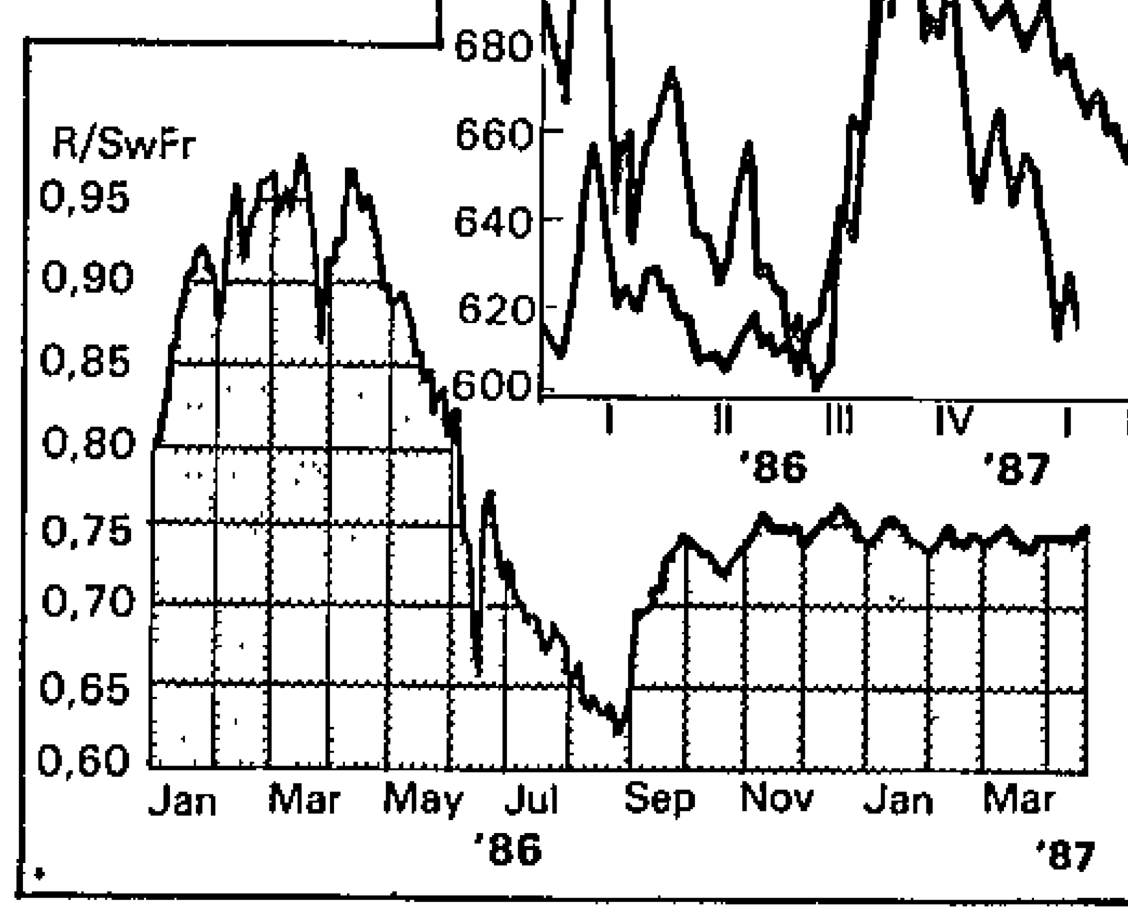
Without doubt a higher gold price is welcome. If the rand holds at US50c every US$50/oz increase in bullion price adds R2,1 billion to the value of current annual gold output. If SA's dollar revenues improve, our ability to repay foreign debt is enhanced. Other things being equal, the balance of payments (BoP) should also improve in rand terms.

The strength of BoP has virtually doubled the dollar value of gold and forex reserves from the 1986 low — a performance that would look even better if the steep decline in the Reserve Bank's own dollar liabilities (US$1,3 billion at the time of the standstill) is taken into account. Real net reserves are the highest for several years.

But our good fortune is largely a reflection of the dollar's bad fortune. The rand has firmed 40% against the dollar from its low, and 30% against a trade-weighted basket of currencies. But with the dollar constituting the bulk of the basket, performance against other major currencies has been less impressive. As the graph indicates, the rand has shown no appreciation against (for example) the Swiss franc since late last year.

Not so firm





Equally, while currency uncertainties and fears of a possible pick-up in world inflation rates later this year have pushed up the bullion price in non-dollar terms, its gain has been far less marked (again, see graph).

True, the dollar price is what matters to the gold mines. But even then, what is good news for the gold mines may not be good news for everybody else.

Other exporters suffer from a strong dollar, and domestic suppliers complain that imports are becoming more competitive — which may help check inflation but dampens any revival in demand for local manufactures.

Moreover, with gold mining's high rate of marginal tax, the bulk of any increased revenue goes straight to the taxman; when the rest is finally passed on in dividends, some is drained off by financial institutions and retentions at the mining houses.

So the ultimate increase in personal incomes is both muted and delayed.

The upshot is that semi-official estimates of a R5 billion BoP current account surplus and 3% growth rate this year have not yet been adjusted upwards. They were, after all, based on an average gold price of US$425; and the average this year (already four months gone) is only about US$410. It will take another couple of months of bullion around US$450 before more optimism can be justified.

The Bank, incidentally, denies having fixed targets for the rand, claiming the basic policy of managed floating has been unchanged since 1979.

Governor Gerhard de Kock points out that attempts to set rates a long way from market perceptions are usually unsustainable — as the Group of Five has found: "What we can say is that if only gold rises and nothing else changes, we would be reluctant to see the rand go up too much. But if the dollar goes down too, the rand must go up, or we will depreciate against the D-mark and Swiss franc — and that would not be desirable."

There are as yet no signs that the dollar has bottomed against the yen. However — echoing their local counterparts — Japanese exporters are starting to complain that the strength of the yen is pricing them out of some export markets. There is even evidence of selling below cost to maintain market share.

At some stage automatic mechanisms will cure the massive Japanese BoP surplus. Already there are signs that in volume terms exports are not behaving as well as in yen terms.

As markets always exaggerate, when the turning point is reached the dollar could manage a sharp partial recovery. Until that happens, to assume that any particular set of exchange rates — however favourable — will be lasting, is dangerous.

In virtually every respect the economy is healthier than it has been for years.

The price has been high: a decline in overall living standards which has fallen hardest on those least able to afford it. But it is important to note that it has been achieved not with foreign banks leaning over themselves to extend new credits, but with the added constraint of having to become a net exporter of capital. Not for us the Latin American solution.

Current economic forecasts for 1987 may well turn out too conservative. But, like a massive oil tanker, an economy does not pick up speed immediately the wind turns favourable. It is safer to say that, if present conditions continue, the duration (and acceleration) of the upturn could be extended at least well into 1988.

Late last year, business confidence remained low when there were many signs of a pick-up in real economic activity. Conversely, confidence is now growing fast; but further quickening of the tempo of real activity is harder to generate. ■

ECONOMY - 1987

~~JUNE~~

NOVEMBER — DEC.

MAY — ~~SEPT~~ —

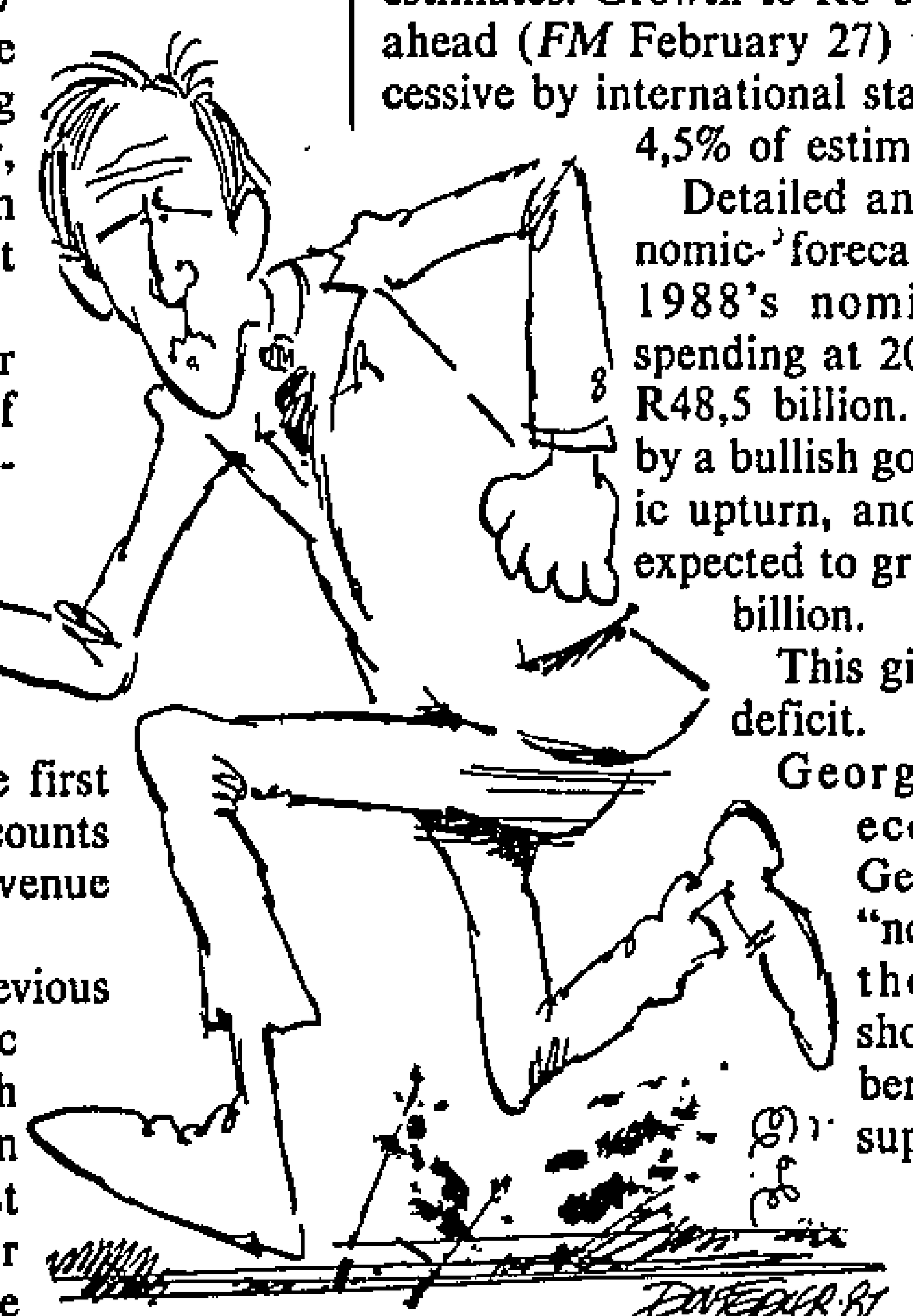
GOVERNMENT FINANCES

Tax cut follies

The scope for tax cuts in the June 3 Budget may be negated by unprecedented demands on State spending. This could be the case even if the deficit is allowed to top R10 billion.

Events, political and constitutional, which affected 1986-1987, will continue to undermine financial manoeuvrability.

Final figures for 1986-1987 to end-March show spending of R40,7 billion — some 23% more than a year ago — and well ahead of the 13,9% original estimate. Revenue increased some 16% to R34,7 billion; also ahead of the 13% expectation. Spending for March alone, however, shot up 30%, to produce an overall (and record) deficit of R6 billion.



But 1986-1987's major changes in the structure of government finances exposed weaknesses that will pose distinct threats in the new fiscal year. For example, it will be the first full year that provincial accounts are included in the State Revenue account.

Just one danger on the previous provincial accounts is public health and hospitals, which suffered massive losses in 1986-1987. An economist sees "no change" in the year ahead, estimating that the account could drain R500m from the Exchequer.

In spite of the abolition of several development bodies, services must still be met. While in theory an RSC may assume responsibility for as many as 22 services, few are likely to be taken over in 1987-1988. Those taken over will be funded by RSC levies; others will need funding by the taxpayer.

Another worrying area, says an economist, is the Foreign Affairs account, which funded "massive overspending" in the national states in 1986-1987. "I cannot see pressures from TBVC countries diminishing."

There are yet broader threats for the Exchequer. Events associated with destabilisation of the economy always cost money; for example, trade union militancy. Counteraction, such as the raid into Zambia, clearly strains the Exchequer too.

Trade unions seem set to consolidate their wage negotiation position in the year ahead. This pressure, along with Pretoria's determination to continue its costly (if necessary) education programmes, underscore the pessimistic outlook for tax cuts.

There is even pressure from the opposition. Says PFP finance spokesman Harry Schwarz: "I see job creation as the number one priority. This has to be funded by government. Much bigger figures will be needed to launch such a programme."

Indeed, it seems more a question whether tax rates can be held, rather than cut, in the Budget. The final deficit for 1986-1987 of R6 billion was R500m more than the revised estimates. Growth to R8 billion in the year ahead (*FM* February 27) would not be excessive by international standards, at about 4,5% of estimated GNP.

Detailed analysis by an economic forecaster puts 1987-1988's nominal growth in spending at 20%-plus, to about R48,5 billion. Revenues, aided by a bullish gold price, economic upturn, and fiscal drag, are expected to grow 17% to R40,5 billion.

This gives an R8 billion deficit.

George Huysamer economist Louis Geldenhuys expects "no fireworks" in the Budget. "It should be remembered that gold taxes supply less than 10% of total revenue."

And, as a government spokesman points out, GST revenues grow more slowly than the inflation rate; company tax payments can be delayed by as much as six months.

Unfortunately, the state of government finances offers taxpayers no joy. The tax burden continues to make new records, encouraging dubious tax schemes and increasing antagonism. The Margo Commission on tax, informed sources say, is unlikely to be given much attention in the Budget.

Its report was recently handed to State President P W Botha. It is unlikely that government departments will have time to form opinions before the Budget.

At least personal taxes have been cut in nominal terms for the past two years.

Price Waterhouse's Chris Frame points to the dilemma at the personal taxpayer level. Further tax cuts would be welcome, yet this group contributes the most to the fiscus.

Frame points to the further problem that "since the economy is now firmly mending, it is the time when tax cuts are least needed."

Previous tax cuts, plus other monetary and fiscal developments, have on all accounts contributed to the recovery; maybe that's as far as the authorities will go.

The Budget may well be cautionary, reflecting an intention to mark time pending political developments, and relying on the current modest upswing in the economy to gain its own momentum. ■

(49) 21/5/87 Star

Steady rise in business confidence

MAGNUS HEYSTEK
FINANCE EDITOR

Business confidence, as measured by Assocom's Business Confidence Index (BCI), increased further in April to 95,9 largely on the strength of the higher gold price and the rand exchange rate continuing it's firm trend against the US dollar.

This is the fourth consecutive month that the BCI has showed significant improvement after a lower turning-point of 87,0 in December last year.

Assocom warns, however, that the present restrictions placed on the free flow of information in terms of the State of the Emergency could possibly influence the business community's perception.

The BCI must be seen in that context, Assocom warns.

Despite this factor, it is clear that business sentiment is continuing to strengthen and that economic prospects in South Africa are gradually improving.

Although consumer spending remains the weak link in the economic scenario, the evidence points to higher levels of business and consumer confidence. Business confidence may, however, be running ahead of improvements in the real economy.

The financial budget of the average consumer remains tight and this will have to be redressed, possibly in the forthcoming Budget on June 3.

Retail sales in real terms appear to be on a plateau at present and increases in real disposable income remain the key to sustained growth this year.

Assocom points out that there is tentative evidence to suggest that the demand for consumer credit may be increasing slightly as reflected in the marginal increase in the moeny supply figures (M3) rising on an annualised basis by 10,6 percent in March, as opposed to an annualised growth of only 7,6 percent in February this year.

Assocom remains convinced that a real growth rate of three percent is possible this year if the correct economic policies are pursued. There is no obvious reason why — barring unforeseen economic or political shocks — the business mood should not remain positive for the time being.

Whether the improved business and consumer mood will persist in the second half of this year will depend, inter alia, on the following factors:

- The outcome of the General Election. The political mandate which emerges from the results will influence whether short-term business confidence is translated into long-term confidence as reflected by private fixed investment.
- The broad economic policies followed in the remainder of the year.
- Inflation as measured by the CPI is still percieved by businessmen and consumers to be at an unacceptably high level. The fact that the current upswing is commencing with an inflation rate in the region of 17 percent is a worrying factor to businessmen and consumers alike and could be the major stumbling block in the way of any durable economic upswing.

Assocom believes that the recent strengthening of the rand is the biggest single factor associated with the prospects for lower inflation.

Jo'burg budget set for a rough ride

(49) 8/5/87

By Shirley Woodgate, Municipal Reporter

Johannesburg's billion-rand budget is once again heading for controversy as D-Day approaches for the annual debate on May 17 and 18.

The PFP's bargaining powers have been considerably strengthened by the addition of Mr Pat Rogers to the party's line-up, making it the majority group in the Johannesburg City Council. It is therefore likely the PFP will exert significant influence on any financial decisions taken this year.

The new PFP management committee will probably not take office before the budget debate if normal council proceedure is followed. In that case, the sitting National Party/Independent Ratepayers Association management committee will have to steer the 1987/8 budget through the debate.

Last year the meeting turned into a marathon when the debate was deadlocked for several days after the PFP refused to vote for certain tariff increases. A majority of the council — 24 of the 47 votes — is needed to pass tariff increases. Only a simple majority is required to pass the budget itself.

Impasse broken

The impasse was finally broken when the tariffs were separated from the budget and each item was voted on separately.

"The PFP's basic approach to the budget will be placing the interests of Johannesburg ratepayers first," said Mr Sam Moss, PFP council leader.

"Certain tariff increases are inevitable, but with our majority in the council there is no way the coalition will get price hikes through this time without PFP agreements."

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IN MY OPINION

PEET STRYDOM

Budgeting against inflation

Peet Strydom is economist at Sankorp. This is the second in a series of economists' Budget previews.

The coming Budget will take shape against a gradual slowdown in real economic growth in SA's major trading partners, partly cyclical but also related to the negative effects of protectionist measures on world trade.

These measures will, no doubt, give further impetus to the rising international inflation pattern, particularly in the US. SA would benefit from rising commodity prices, particularly precious metals, which are likely to compensate for loss in export volumes triggered by cyclical factors, sanctions and protectionist measures.

Foreign trade will play an important part in generating State revenue. The surplus on current account, amounting to R7,2 billion during 1986, coupled with the favourable agreement on foreign debt repayment, could also give government more elbow room to stimulate the economy.

The sharp decline in domestic economic activity has probably reached a lower turning point. During 1986 real GDP was 0,7% up on 1985 as opposed to a fall of 1,5% the previous year.

Unfortunately the economy appears reluctant to show a definite recovery, the major reasons being a lack of buoyant consumer spending and the absence of an important growth factor through fixed investment expenditure.

In real terms gross domestic fixed investment has been falling since 1982. During 1986 it was 16,6% down on the previous year. The poor performance is primarily explained by lack of confidence owing to political instability and the adverse effects of high domestic inflation on the real rate of return.

The major challenges of the Budget are clear: to encourage recovery through stimulatory measures which do not disturb the balance of payments; to curb inflation; and to reinstate investment as a growth factor while restoring the confidence of the consumer.

These challenges are not easily met. The usual pattern of fiscal stimulation through rising current or consumption expenditure in the public sector is not appropriate as it is likely to put undue pressure on the balance of payments.

Moreover, through excessive spending government has already increased its share in GDP rapidly.

In 1980 the relative share of general government in GDP amounted to 9,3%. During 1986 it reached 13,2%. Excessive spending is evident by the extent of budget overshooting. During the fiscal year ending March 1987 actual expenditure was R40,4 billion, almost 8% in excess of budget. Rising current expenditure by government is unwarranted. Government should restrain wage increases in the public sector while concentrating more on investment expenditure.

A disturbing factor of fiscal policy during recent years is the large tax burden. Total revenue collected as a percentage of GDP has increased from 19,4% in 1980 to 23,8% in 1986. This problem is also evident by the fact that during the fiscal year ending March 1987 total revenue amounted to R34,6 billion, almost 3% in excess of budget.

During the previous fiscal year State revenue was 5% above the printed budget estimate. These statistics stress the importance of fiscal stimulation in terms of supply-side economics — that is, tax relief and reducing the share of government in the economy.

Major reforms in this regard have been implemented in the economies of our major trading partners. Similar actions are probably already overdue here. Fiscal policy actions of this nature could go a long way in restoring the real income levels of the consumer while encouraging fixed investment spending.

We make no progress by paying lip-service to fighting inflation while government has no target in place. Major anti-inflation policies abroad have succeeded because government committed itself to a target.

Time is running out on our inflation problem. This Budget should stage an anti-inflation package through fiscal and monetary policy measures with a definite commitment to a particular target.

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FINANCE

SA's real election choice: 'splendid economic isolation'

By Neil Behrmann

LONDON — The South African electorate has chosen "splendid economic isolation" say businessmen, bankers and brokers in London.

The recent surge in the financial rand was precipitated by hopes that a growing reform movement would jolt sterile white politics. Instead, it is evident that English-speaking voters, which obviously include many businessmen, have decided to shift to the Right.

"The National Party has become the Rhodesian Front of South Africa," says David Willers, director of the South Africa Foundation in London. "It is most depressing that the official Opposition is now the Conservative Party."

On the face of it, however, the election will have little discernable immediate impact on the South African economy and the nation's international trade, economists say.

Exchange control is locking in hundreds of millions of rands. Since most local investors con tend that the sanctions and disinvestment issues are already discounted by a booming stock market, few are concerned by outside pressures.

In London buoyant gold prices have changed the mood from fear to greed. Only nine months ago South African gold shares were depressed and ignored.

But with tight censorship, less news is coming out of South Africa. Markets have short memories, especially when money is to be made.

The financial rand and gold stocks weakened slightly in foreign markets following the results, but as David Ridley of Williams de Broe said, the decline was the result of an easier gold price, rather than election results.

Says David Crowe of Smith New Court: "Investors are disappointed with the outcome of the election. If gold stabilises or falls, South African shares and the financial rand could slump. On the other hand, if bullion rises, gold shares and the financial rand will follow suit.

"Like it or not markets prefer stability and in the short term that is what President Botha is giving them," says a London broker.

Adds a bullion dealer closely acquainted with South Africa: "Let us wait and see — it is the same government, but will it put on a new face?"

GREAT CONCERN

The long-term impact, however is of great concern to those who are trading and investing in South Africa. They are worried that the white electorate will turn the black moderates against peaceful change.

Economic growth is slack and the inflation rate is high. Foreigners are sensing growing labour strife. Regardless of political views or pressures, the economy itself is less attractive. Emigration of skilled workers and professionals is increasing.

The rand remains deeply devalued so that South African exporters, from coal to textiles, slash prices to counter either official or voluntary sanctions.

Mr Ridley is "frustrated" about the election results and complains that sanctions encouraged the electorate to swing to the Right.

Others say that President Botha's combination of ruthless repression to stifle black opposition, vigorous censorship to keep the white community uninformed, and unspecified token reforms were sufficient to seduce many white-collar workers and businessmen.

Nationalist propaganda, claiming that sanctions proponents were interfering with South Africa's internal affairs fooled the electorate. But the propaganda, for obvious reasons, avoided the essential point.

National Party policy is so unacceptable to civilised Western democratic states that it is difficult for businessmen abroad to associate themselves with South Africa.

Liberty Life's uphill battle to appoint its executives as board members of Sun Life is just one example

Nick Mitchell, director of the British Industry Committee on South Africa (BICSA), an organisation lobbying against sanctions, still believes that foreign businesses operating in South Africa should do their utmost to dismantle apartheid on the shop floor. They should also maintain pressure at government level.

TRACK RECORDS

He agrees that given President Botha's track record of snailpace reform, it is difficult to be optimistic about the results.

BICSA, a friend of South Africa makes the following comment: "Apartheid is intolerable and there will be no real peace in South Africa until all people have secured human and political rights. The end of apartheid is inevitable, the only question is whether it comes about by negotiation or through increasing violence and bloodshed. What is certain is that continued absence of political change will strengthen the calls for sanctions."

At the moment there is a lull similar to the first few years of post-UDI euphoria in Rhodesia. But foreign pressure is likely to increase, says Richard Hopgood, an independent economic consultant who specialises on South Africa.

Willers reckons that the swing to the Right will place pressure on anti-sanctions nations such as Britain. Arguments claiming that the SA Government will make the system acceptable to Western interests appear to be barren.

Any move towards meaningful reform could face an unreceptive climate, fears Willers. "Since pressure is likely to increase, there isn't much to encourage foreign businessmen involved in South Africa.

"South African businessmen must actively lobby for a just society," says Willers, "otherwise they will lose their credibility."

'Involve blacks in business'

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Own Correspondent

PORT ELIZABETH. — A large number of young blacks believed that business would have no place in post-apartheid South Africa and considered "capitalism" to be a swear word, according to Soweto civic leader Dr Nthatho Motlana.

Taking part in an open workshop on business at yesterday's Idasa conference here, Dr Motlana said that because of this attitude, there was an urgent need to involve blacks in business "on a massive scale".

He said people wrongly understood the Freedom Charter to contain a final definition of the type of economic system which would exist in the future but even the African National Congress had not decided exactly what would ultimately be nationalized.

Detainees

To date, the only sectors of business which were known to be in line for nationalization were giant corporations — particularly Anglo American — and banks, he said.

Another speaker, Mr Blair Hartley of Rhodes University Students' Representative Council, said business should examine the material needs and interests of workers and regularly state their attitudes on events such as the election or state of emergency.

Protection of workers by business should take the form of both financial aid and physical protection to the extent of calling for release of detained leaders, Mr Hartley said.

Mr Christo Nel, of Project Freedom Enterprise, said business as well as other sectors grossly under-estimated the depth of misinformation being fed to white South Africans which resulted in "political and social illiteracy".

Business — and in particular the factory floor — was one of the few areas where people could meet without the "extremities of apartheid" being an inhibiting factor.

Therefore, Mr Nel urged, democracy should begin in the workplace with employers giving a "demonstration of intent" and showing true solidarity with workers.

At an open workshop on education at the conference, a speaker said that an entirely new educational structure — one which was not based on the raising of the level of black education to white standards — was the only long-term real solution to the education crisis.

The concept of establishing a new, democratic and non-racial educational system was mooted.

The discussion group heard that while there were the obvious problems in black education, white education was also fundamentally corrupt in that white schoolchildren were being trained to fit into an exploitative capitalist scheme of things.

"The whole country should be made into a school. Factories should become places where people learn and universities should become peoples' universities," one speaker said.

Mr Richard Todd, head of the Leadership Education and Advancement Foundation, who opened the workshop, said that if one took all the money that was spent on education and divided it equally among all pupils, the end result would be that only slightly more money would be available for blacks.

Mr Todd said there was no simple answer to educational problems, but original and lateral thinking was needed to rebuild the entire foundation of the educational system.

☐ The regional chairman of the National Educational Union for South Africa, Mr Mvuyo Ralawe, said at the conference that whites were trained to calculate, decide, manage and rule.

The educational system had, however, trained blacks to be subservient.

There was a dire need for an education system to be based on the policies of the liberation struggle, which included non-elitism, non-authoritarianism and the breaking down of divisions.

"Children should be taught not to scorn manual work. They should be trained for manual work, as well as intellectual and creative workers."

Schools should be responsible to the community, all decisions should be taken democratically and it should become the duty of those who had an education to teach others.

BER has bleak view of SA's growth

(BD) 13 Bus Day
12/5/87

CHRIS CAIRNCROSS

PESSIMISM about SA's short-term economic development after the election, which will directly affect the consumer, has been expressed by the head of Stellenbosch University's Bureau for Economic Research (BER), Ockie Stuart.

Writing in Intermarkdata, an advertising newsletter published in Cape Town, he said it should still be stressed that the pace of future economic development remained a function of the speed at which political obstacles were removed.

But, judging by the speed with which this was done over the past 18 months, Stuart expressed doubts about seeing material developments occurring in the short term after the election.

He noted that the lot of the consumer had deteriorated "rather rapidly" since the 1981 election — mainly as a result of high inflation and sharp increases in direct taxes.

He said that since that election, the process of an ever-increasing inflation rate (approximately 20% in 1986) and heavier tax burdens (direct tax on personal incomes was 12% last year) had continued to erode the income of consumers.

Collectively, they were much poorer before May 6.

And, apart from the hammering consumers have taken through declines in their living standards, they have also had to contend with a great deal of uncertainty as a result of political events over the past two years.

"The political reform process by itself created confusion simply because neither the pace thereof not the content was ever spelled out clearly," said Stuart.

This increased uncertainty eventually spilled over into a lack of confidence because of political factors.

CITIZEN Times 13/5/87 (49)

Politics' 'growing role' in economy

By JANE ARBOUS

POLITICS would play an increasing role in the economy and investors needed to make far more use of political factors in making investment decisions, MP Harry Schwarz said yesterday.

The finance spokesman for the Progressive Federal Party was addressing the Fintel investment strategy conference on the influence of politics on financial markets.

Schwarz said investors did not only want to see share prices go up, but also looked at the potential of a company in the economy as a whole.

Political factors to watch included the general level of political stability, industrial peace, sanctions and disinvestment, the impact of confidence on domestic savings which affected capital formation, the ability to attract foreign investment, and the degree of violence affecting businesses and everyday life.

Violence, he said, was endemic to South Africa and because people were used to it, it had far less effect on investment decisions than in the past. Strikes were also perceived as being part of the scene.

Commenting on election implications, he said the nature and pace of reform would determine the level of stability. However, pressure from the Conservative Party as the new opposition would be counter-productive to reform and there was now a real risk that there could be a right-wing government within five years.

There was also no real long-term constitutional plan on the drawing board and no meaningful plan to deal with overseas pressure and unemployment.

☐ Roger Gidlow, an advisor to the Reserve Bank, told the conference that in his opinion there were three main factors which had led to increased world anxiety and the consequent rise in the gold price.

These were the state of Third World debt and the intensifying trend towards unilateral reschedulings, the dollar position and growing threats posed by protectionism.

Financial Mail

ECONOMIC POLICY

FM's Board of Economists

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Unfortunately serious economic issues were passed by in the heat of the battle of the election. Security and the Nats' ruthless humiliation of the PFP overshadowed everything. But these matters need urgently to be addressed as the Budget is only a few weeks off.

Of over-riding concern is the high and persistent rate of inflation. While in the past the generally rising trend in prices was caused by excess demand, which in turn was fed by excessive growth in the money supply, it has since the Rubicon speech of August 1985 had its roots firmly in the depreciation of the currency and constantly rising administered prices.

While inflation persists, the current account surplus needed to finance the foreign debt repayments is constantly being eroded. That in turn could necessitate a continuously weak rand to keep exports stimulated, unless the Americans continue to oblige us with policies that encourage a rising gold price.

The question of how continued economic growth can be financed without simultaneously creating a huge potential inflationary bubble needs to be addressed.

Against that background the need to streamline the economy by encouraging a flow of assets from the public to the private sector assumes new importance. This suggests that greater emphasis be given to privatisation of public corporations, which is being delayed because the extravagant pension rights given to public servants will need special funding.

When this is tackled the full extent of these benefits will become public knowledge and there is bound to be an outcry, as it could mean a heavy impost on the taxpayer.

Deregulation, like constitutional reform, has been more discussed than implemented. It is necessary to streamline the economy and help create more badly-needed jobs.

The question of competition and cartels needs to be tackled in a sensible way for precisely the same reasons. The paranoia about concentration of ownership of domestic assets needs to be dealt with intelligently before it becomes economically destructive.

Tax has long been a matter of enormous public interest. The Margo Commission into tax reform has reported to government and its findings are expected to be made public before the Budget. It will most likely contain important implications for fiscal policy.

Its recommendations are going to need close scrutiny in the light of economic growth expectations. In fact, many economists believe that the level and appropriateness of taxation is the most important key to economic growth.

Government may have to take some very brave decisions in the light of this important report.

Trouble is that in the formulation of these policies government has placed itself at a disadvantage. For since the reconstitution of the State President's Economic Advisory Council valuable inputs from private-sector economists are not flowing directly to policymakers.

Nor do we believe that there is adequate public discussion on matters such as these which impinge in varying degrees on the lives of all South Africans.

To assist in the public discussion of economic policy, the *FM* has formed a Board of Economists whose deliberations and ideas will be published three times each year. Seven leading economists have agreed to serve on this board, which meets for the first time today to evaluate the economic consequences of the general election and, in that light, to suggest what would be the appropriate economic policies to formulate ahead of the June Budget.

The function of the board is not to forecast economic trends but to discuss the formulation of appropriate policy in the light of changing circumstances.

Three members of the board will constitute each regular meeting, under the permanent chairmanship of Assocom's Raymond Parsons. Those members not at today's meeting will meet in August after the annual address of the Governor of the Reserve Bank. Thereafter, two members will rotate after each meeting.

Visiting economists may from time to time be invited to join the discussions.

The board members are Anglo American's Aubrey Dickman, University of Cape Town's Brian Kantor, Standard Bank's André Hamersma, JCI's Ronnie Bethlehem, Old Mutual's Rob Lee and George Huysamer and Partners' Louis Geldenhuis.

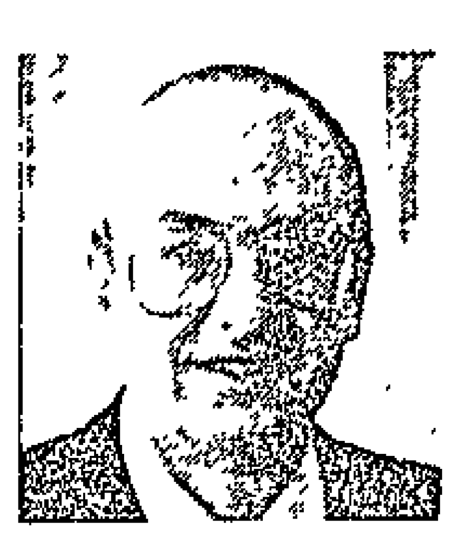
The *FM* has never been backward in stating its own views on the matters with which the board will deal, and it will continue to do so in its normal manner.

But the object of the board is to bring to readers directly the views of professional economists working in important sectors of the economy. The *FM* will observe and report on the board's deliberations but will not itself participate. ■


Parsons


Dickman


Kantor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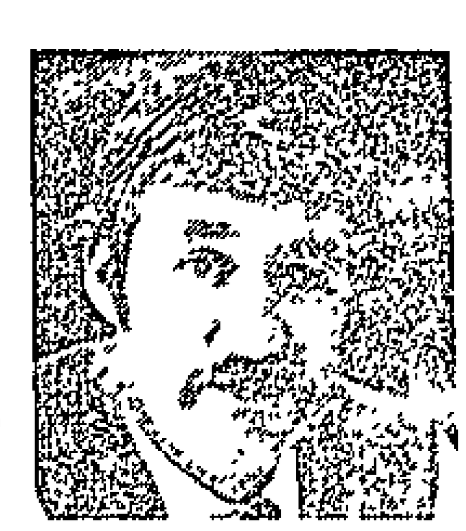

Lee


Geldenhuis

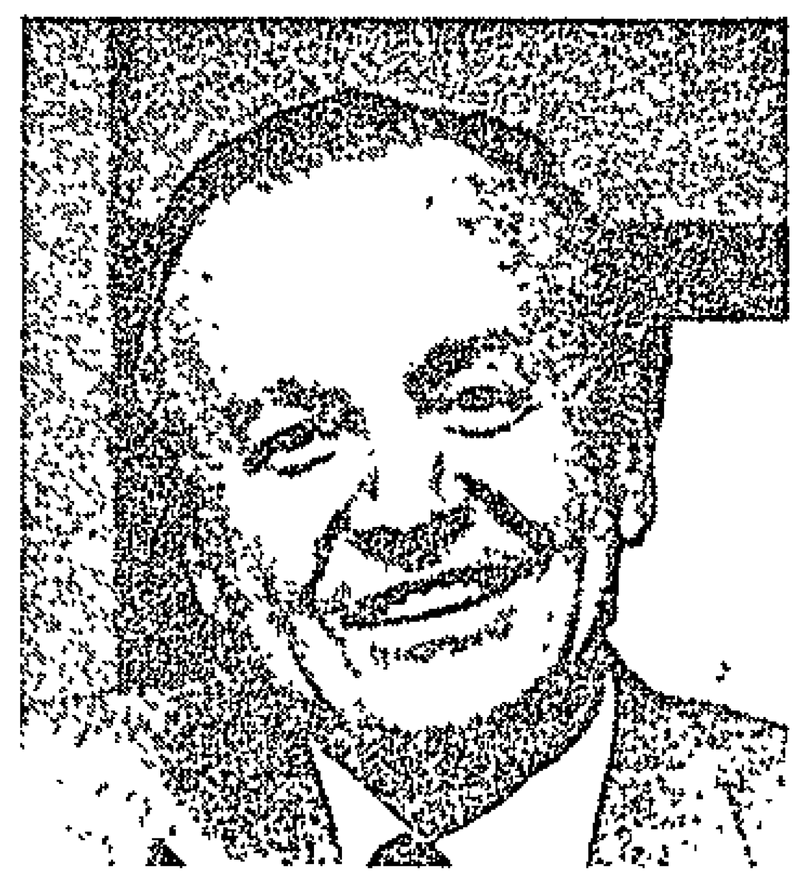
POST-ELECTION ECONOMY

The day after . . .

"Too early to tell," is the sad consensus of economists' and businessmen's comments on the election results. Financial markets generally reflected this sentiment by doing nothing. The early barometers — the money, capital, forex markets and JSE — barely reacted to the rightwing gains.

For many it seems business as usual. The mild upswing is expected to proceed cautiously, if for no other reason than that no new negative factors have emerged.

A return of the National Party (NP) to power was, of course, expected and is perhaps the source of the consumer confidence talked about by Johan Louw, economist at Sanlam: "In the immediate term, consumers could start spending more as they feel confident and more certain about law and order. Feeling safer, they will be prepared to buy more on debt."


PFP's Schwartz


Sanlam's Louw

If one does not look too far ahead, the economic impact of the election is probably neutral. Even should pressure build up (which it has not), much improved reserves, high liquidity and a healthier gold price should give the authorities scope to handle any short-term crisis.

No economist, by the *FM*'s count, has changed his forecast for the short term. Nor does anyone expect a change in cautiously stimulatory monetary and fiscal policy — the NP certainly offered no major innovation or change in its manifesto.

A deficit before borrowing of 4,5% of GDP is the fancied figure that Minister of Finance Barend du Plessis will work with for the Budget on June 3. Government is also thought to be looking for nominal GDP of R160 billion by the end of fiscal 1988.

But, extending the horizons, while one must assume white consumers are feeling better, it is difficult to imagine why. Certainly, all progressive organisations have made clear that the result will only exacerbate SA's conflicts — as Premier's Tony Bloom notes (see *People*) — and was a vote for confrontation.

Bullish sentiment is given about 18 months.

Longer-term, economists fear further labour trouble, while emigration of skills will undermine future investment decisions. The risk is that the recovery could run out of steam before generating enough jobs to alleviate unemployment.

Officially it is estimated that a growth rate of 4,5% is required merely to absorb people coming on to the labour market. No-one is in any doubt what going into a slump — with unemployment high and living standards badly eroded — will do for reform and stability.

As senior economic consultant to Anglo American, Aubrey Dickman, says: "The way the votes went does not bode well for confidence and creates all sorts of uncertainties. SA is unlikely to be any better able to move away from heavy reliance on gold than before."

Lot of Jokers

The election leaves a lot of jokers in the pack. Sources of uncertainty include future union reaction, sanctions, emigration, taxation, and whether further reform can or will take place. In any event, many are rightly confused about precisely what "reform" now means.

The priority for the electorate was a vote for security, undeterred by a party that has led SA into an unprecedented economic mess of declining fixed investment, poor growth, record unemployment, and inflation way above its main trading partners.

In sharp contrast, if Margaret Thatcher, as an example, took such a disastrous performance to the electorate, her party would lose. As it is, her announcement of a June 11 election, and strong indications of a third victory — unprecedented in UK politics — gave financial markets there a further boost.

In the UK, privatisation has been successful and popular. As part of reform in SA, politicians have continually promised deregulation and privatisation. Yet little has been done.

It is surprising then that organised business reacted so positively to the election. As Assocom president Harold Groom says: "We believe government has been given a strong mandate for real reform."

But one investment analyst responds: "That's a load of rubbish; it's wishful thinking." Instead, he says, businessmen's fears of sanctions, further union troubles and higher taxes to fund more defence spending have, if anything, worsened.

This may be where the ambiguity in businessmen's thinking lies. For the short term, no further reform plus security means stability and a better working environment; yet in the long term, major reform may be expensive fiscally, but is the only route to stability.

It is difficult to imagine fixed investment — hence jobs and living standards — increasing as a result of the election. If the PFP's Harry Schwarz is correct that upper income earners, the major investors, did not desert the PFP, then they are presumably not investing.

Also causing concern is the reaction of workers to what they justifiably see as a rebuff by the white electorate.

Will industrial militancy intensify, violence escalate, and demands increase? A heavy clamp on labour unions is feared.

Unions, now much stronger than ever before, are not going to sit back and see hard won gains fly out of the window. In using their muscle, the economy will suffer.

Overseas anti-apartheid lobbyists will see the swing to the Right as justifying their standpoint, too, and may raise the pressure. Japan, for example, may join in trade sanctions.

But the picture there is no less confusing. The consensus is that the outside world will perceive SA's crisis as deepening as whites become increasingly intransigent, and sanctions, disinvestment and other pressures will all tighten. This could reduce the many options open to SA right now to just one: a siege economy.

A hardening of attitudes all round will not ease pressure on the balance of payments, particularly the capital account. SA cannot indefinitely export capital.

For many, despondent that confrontation is now even more inevitable, the result is the final straw that will push them overseas. The number of talented, skilled and trained people who have left is already a major negative economic factor. It will, in all likelihood, worsen.

The question asked for months thus remains: how sustainable is the present mild recovery? It now appears even less sustainable than previously thought — which was not very long.

Pre-Budget jitters over Government spending

SVEN LUNSCHE

With the Budget only a few weeks away, economists and business leaders have once again urged government to cut down on expenditure and adhere to the original budgeted estimates.

And once again it seems likely that government will ignore these suggestions and move ahead with rapidly increasing expenditure budgets.

In particular, concern has been expressed over the growth in the government's share of the gross domestic product (GDP). In terms of expenditure this share has increased from 22 percent in 1980 to 28 percent in 1986.

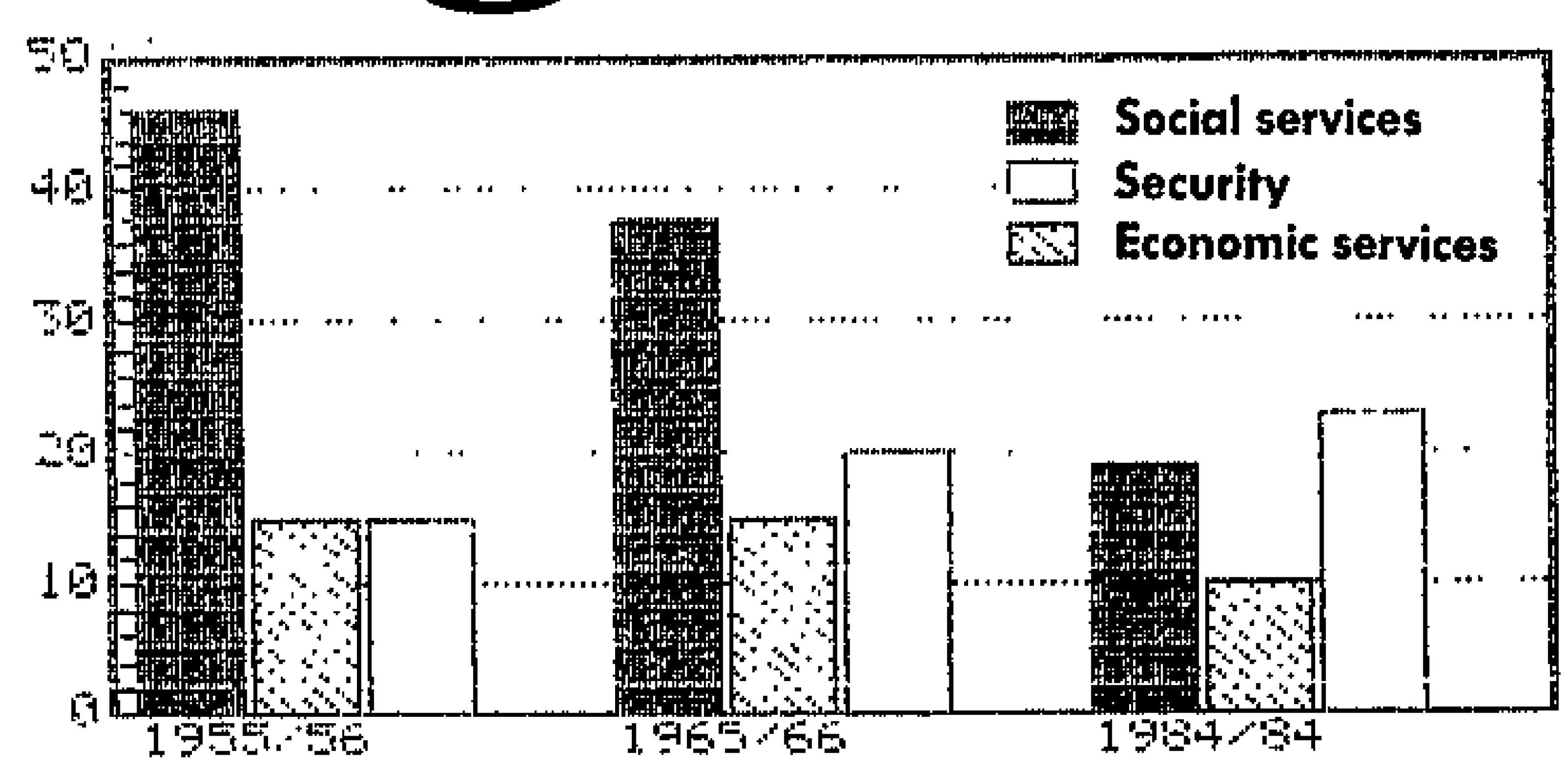
In a recent memorandum the Association of Chamber of Commerce (Assocom) commented that the rise in the state's share occured during a period of static or negative growth. "The only mitigating feature of this disturbing trend is the fact that the country's real GDP might have declined further had it not been for the real growth of government expenditure."

The government claims that increased spending on their part is one of the ways of stimulating economic demand, but economists strongly disagree.

The financial position of the consumer remains tight and increases in real disposable income should be of the utmost priority.

One of the ways of doing this would be to present the individual with substantial tax cuts in the Budget on June 3, but whether there will be room for cuts will depend upon the level of state spending.

If there should be a further rise in government expenditure, the contribution by individuals to the state's coffers will inevitably rise, as it has done over the past years — total taxes as percentage of the national income increased from about 18 percent in 1960 to 35 percent in 1985.



Composition (%) of Government expenditure.

A further concern to the business sector has been the consistent inability of government to operate within the budget estimates. Over the past six years the overspending on the budget has ranged from 4,6 percent to 9,1 percent.

Assocom believes that "the underestimate on the estimates of expenditure is virtually a certainty and inevitably leads to an accommodation which impacts adversely upon the private sector."

"We would prefer economic stimulation to come via tax cuts, rather than higher state spending, but unless increases in public sector expenditure can be kept to definite limits, there will be little relief in store for the individual," the organisation adds.

There is general pessimism among economists that a cut-back in state spending will be implemented, although some relief on taxation is expected.

In view of several postponed policy decisions, discipline in spending will be difficult to achieve this year.

The most prominent example is the promised increase in civil servants' salaries and the Minister of Finance, MrBarend du Plessis will have to budget for R1,2 billion in order to grant civil servants their expected 12 percent pay rise.

It is also clear that the huge bureaucracy and its cost continued to expand last year, with employment figures in the sector rising by more than 5 percent and wage renumeration increasing by 15 percent in the last financial year.

But not only the constant rise of state spending has been criticised. In a severe attack on the composition of government expenditure, the Bureau for Economic Policy and Analysis of the University of Pretoria says that changes on the political scenario over the past 30 to 40 years have had a meaningful influence on the government's ability to spend.

In a detailed study, which has been published by Mercabank, the economists state that the share of social welfare spending in the central budget has decreased from 40 percent in the 1950's to 20 percent during the past few years.

The share of expenditure on economic services also decreased by four percent to 11 percent. But on the other hand, the relative share of expenditure on defence has risen from 15 percent to 23 percent over the same period.

The 'Tukkies' academics explain: "Political events have increasingly diverted sources from productive uses, such as infrastructure creation as well as from investment in human capital, such as education, towards unproductive expenditure on defence and police actions."

Brain drain is putting a brake on economic growth

Star 19/5/87 (49)

The factor most constraining economic growth today is the growing and serious shortage of skills at all levels of management, says Mr Martin Westcott, managing director of the large management consultancy group, P-E Corporate Services.

"This is aggravated by the brain drain, which can be expected to increase after the severe swing to the Right in our politics. The more mobile among our management force are aleady seeking their fortunes overseas," he said.

As the supply of competent South African managers weakened further, the government would need to allocate an enormous investment to ameliorate the frustrating situation before it became even more critical, said Mr Westcott

"Management training has been neglected badly for the last two years during the recession period as training budgets were slashed by a massive 40 percent during 1985-86 compared with 1983-84.

"The considerable cuts resulting from recessionary trading conditions meant that South Africa has spent a miserly R5-R10 on training per economically active person — which is an embarrassing 60 percent less than is spent per capita in economically developed countries.

"Without adequate investment in training South Africa is doomed to no more than treading economic water and declining into Third World economic status."

Mr Westcott is confident the private sector can find the spare cash for training. "As company results have improved, so have discretionary funds. Instead of limiting investments to new acquisitions, capital intensive plant and machinery, or other grandiose plans, companies should increase allocations to training budgets and invest in human resources."

There was always a temptation to expand the corporate empire but this was often at the expense of decreasingly effective management, which was now even more seriously stretched at the middle to supervisory level.

"Already South Africa suffers with a dangerously wide span of control at supervisory level — one supervisor to 45 workers. In developed economies the ratio is 1:8 to 1:12 on average.

Mr Westcott said his company was most concerned at the recent trend in companies suffering from volatile industrial strife who were opting for capital intensive investments, instead of improving labour relations.

"This soft option can be very risky," he said. "With a Conservative Party victory likely in the British general election, we may be saved the likelihood of general economic sanctions, despite the right wing shift in our politics.

"But sanctions remain a distinct possibility, and this would spell even more trouble for capital intensive industries if they begin to rely on imported machinery.

"Companies that become over-dependent on foreign suppliers will obviously suffer from sa[...]tions imposed on new equip[...] or spare parts for existing pl[...] as well as being at the mercy o[...] the release of foreign exchange t[...] pay for imports."

Capital-intensive compani[...] were also less flexible in ad[...]ing to upswings in the econom[...] and increasing production at [...] appropriately rapid pace.

"There is also the obvious d[...]ger from industrial sabotage. T[...] problem of population explosion here to stay, at least for the n[...] few decades, Mr Westcott said.

"One must accept the socio-p[...]litical fact that the economy m[...] be expanded to accommodate increasing number of job seeke[...]

"For this reason alone, it [...] possible that the governm[...] could start imposing drasti[...] duties on imported equipment [...] a last ditch effort to persua[...] the private sector to follow t[...] labour intensive route in ord[...] to contain the unemployment and hence — revolutionary el[...]ment."— Sapa.

Business can play a role, says Steyn

CAPE TOWN — As the "unstoppable and inevitable" processes of change regained momentum in South Africa the business community, with its links on both sides of the country's political divide, would be better able than ever before to act as a catalyst for change, Mr Jan Steyn, executive chairman of the Urban Foundation, said yesterday.

Addressing the Public Relations Institute of South Africa on the topic "Can the Private Sector Bring About Social Change?" he said the subject was more challenging now than it would have been before May 6 because many of those who had faith in a common future saw the election result as a setback for the ideals the State President, Mr P W Botha, set for South Africa when he opened Parliament last year.

Mr Steyn said that because of the country's racially divided society there was little understanding of the aspirations, frustrations and feelings of rejection that had become established among leadership groups in those communities.

Many young people were more uncertain today about the country's future than at any time since Sharpeville in 1960. The rapid rise in their emigration was assuming alarming proportions.

"Despite the enormous polarisation that has occurred recently among black people a majority, despite their frustration and anger, still evidence goodwill and, despite the vitriolic rhetoric of some of their leaders, are willing to support reasonable, but real compromises.

"Therein lies the hope for the future." — Sapa.

(2) (88) Star 20/5/87

Business has to try — director

49 21/8/87

BLOEMFONTEIN. — Business leaders had a definite contribution to make in the handling of South Africa's formidable challenges, the managing-director of the Trust Bank of Africa, Dr Chris van Wyk, told the Afrikaanse Handelsinstituut's (AHI) annual congress here yesterday.

Discussing economic perspectives, Dr Van Wyk said there was sufficient leadership potential, ability and entrepreneurship in the country to achieve encouraging results on all fronts.

There was a much wider consensus of people who desired to progress in peace than was realised and South Africa had powerful human potential, he said.

South Africans had the ability to ensure a bright future for the country. There were strong leaders who must live out dynamic leadership.

Dr Van Wyk said there was still much goodwill between all population groups. "They just lack vision, cohesion, a positive dispensation and, again, leadership to ensure peaceful coexistence and survival."

A strong white government had just been elected which had sought and got a reform mandate. What was now necessary was purposeful, logical and fearless political leadership to implement not only the numerous 'dramatic' reform steps that had already been announced but also meaningful economic strategy. — Sapa

Tambo to meet Britain's business leaders

22/5/87 Star

Mr Oliver Tambo . . . to tell UK businessmen about the ANC's objectives and policies.

By Michael Morris, The Star Bureau

LONDON — African National Congress leader Mr Oliver Tambo will meet Britain's top business leaders next week to discuss their future role in the South African economy under a black government.

It will be a unique opportunity for the ANC leader to discuss informally his organisation's tactical objectives and future policies with the businessmen who control billions of rands of investments in South Africa.

It will also be an opportunity for the businessmen, 60 executives from Britain's biggest multinationals, to explain their plans and hopes and to try to influence the leader of one of Pretoria's most virulent critics.

Mr Tambo and Sir Leslie Smith, chairman of the British Industry Committee on South Africa, will be two of the main speakers at the one-day conference on May 27.

Called "South Africa: Strategic Options for International Companies", the conference has been arranged by Business International, a global business research and information company.

The meeting will be attended only by invited delegates and will be closed to the Press. Among the delegates will be the South Africa Foundation's London representative, Mr David Willers.

Director of Business International's South African services, Mr Graham Hatton, said: "We want to give delegates an opportunity to discuss South Africa informally and behind closed doors so they will feel able to speak freely and possibly say things they would not wish to be made public.

"The discussion will focus initially on the question of sanctions, foreign investment and disinvestment and then on the ANC's future strategies — its attitude to nationalisation and the political and economic system it would create if it came to power.

"Of course, it is also a forum that will allow companies to influence the ANC and make suggestions."

No South African Government representative will attend nor will any foreign diplomats or representatives of other interest groups.

ARGUS 22/5/87 (49)

'SA's objective should be to create jobs'

The Argus Correspondent

JOHANNESBURG. — South Africa's main national objective should be to create employment for the 300 000 new people coming onto the job market each year, according to the deputy governor of the Reserve Bank, Dr Jan Lombard.

Speaking at an Executive Association of Southern Africa luncheon in Johannesburg, Dr Lombard said the resources to create the jobs were the people who offered themselves for work and the country's savings potential.

Dr Lombard said since 1974 the average rate of growth was two percent of the GDP, which was "far, far too low." The population was expanding at almost three percent a year and people were moving to cities at a much faster rate than this.

"It is a very serious situation," Dr Lombard said.

'Standstill'

Reasons for this downturn were the prolonged drought, drop in the price of gold and a serious drop in international trade activity. This was followed by the deterioration of international confidence in the political situation in South Africa during 1985.

This was the setting for the international withdrawal of credits in 1985 and the debt standstill.

More people were being employed in the government and finance sectors but employees were being dismissed in industry, construction and trade.

Dr Lombard said 300 000 economically active people a year were coming on to the labour market, educated by better and better schools.

"They have to be employed and that is the challenge facing the economy. The main national objective should be to create employment."

Dr Lombard said economic growth depended on capital formation and capital formation depended on savings. South Africa had been saving up to 95 percent of its financing needs.

Two things that went wrong in the past were the capital-labour ratio and the negative rate of interest.

Employers in the past turned more to machinery and technology and less to labour "to such an extent that it requires 60 percent more capital to employ the same number of people today than was necessary in the middle 1970s."

One of the reasons why entrepreneurs opted to replace labour with capital was the negative real rate of interest. Interest rates were continually lower than the rate of inflation.

The pattern of savings had shifted, Dr Lombard said, from voluntary savings in households to contractual savings through insurance premiums, pension payments and mortgage repayments and retained earnings in the corporate sector.

Since August 1985 South Africa could no longer rely upon a net inflow of capital from abroad, he said.

"This makes it compulsory that we remove all the obstacles in the way of entrepreneurs and small business and make use of available finance to productively employ as many people as possible."

assess relative yields.

A general industry complaint is that the funds going to relatively small companies are distorting the market — in terms of what every small computer oper- ing itself at stock market ratings. The upshot is that there are very few reasonably priced acquisitions around.

Silicon Valley Fever (Basic Books, 1982), "it is entirely possible for a new firm to grow itself to death."

Pat Kenney

FM's ECONOMIC PANEL

'May we suggest' . . .

Raymond Parsons chairs the first meeting of the *FM's* Board of Economists, which discusses what policies should be followed in the Budget on June 3. The panellists are Aubrey Dickman (of Anglo American), Brian Kantor (UCT) and André Hamersma (Standard Bank). The panel will meet again in August, after the annual address of the Governor of the Reserve Bank, when (again chaired by Parsons) it will comprise Ronnie Bethlehem (JCI), Rob Lee (Old Mutual) and Louis Geldenhuis (George Huysamer & Partners).

Parsons: Before we start making recommendations, we should outline how we see the present situation.

Dickman: Growth started improving from the middle of last year. For the first quarter of this year, I would say that the evidence is probably still positive but not startlingly dynamic. It is a mixed bag.

The BoP current account was running at a very high surplus in the fourth quarter of last year. In rand terms it certainly fell in the first quarter, but should be looked at in relation to the strengthening of the rand.

Financial conditions are still easy.

Kantor: If you look at expenditure growth certainly the final quarter was disappointing, but there is no doubt that domestic expenditure is now picking up strongly.

Hamersma: It is mainly stimulated by government expenditure. This recovery differs from previous recoveries in that it is not based on rising exports it depends on domestic demand. There is no strong underlying growth factor.

Kantor: One fundamental running very strongly is probably the most important: the gold price in dollar terms is significantly up, so exports in dollar terms are probably growing strongly, if not in rand or volume terms.

Parsons: How do you see consumer and business confidence?

Dickman: Confidence has improved.

Parsons: Short-term and long-term confidence are not the same thing. To what extent is there evidence of a real improvement in private fixed investment, as reflecting longer-term confidence?

Hamersma: In the banking sector interest is developing in the fixed investment field. But consumers are still not borrowing.

Kantor: The economy is running very lean and businesses are planning for small volumes. If this recovery is even moderately sustained, ability to meet demand will be threatened by capacity constraints. Private investment spending will improve in response. But the public sector is also a very important investor; last year declines in spending by public corporations and public authorities were an important contributor to very weak investment performance.

Dickman: Figures for real disposable income and savings seem to show there are no personal savings left, which doesn't fit with our knowledge of what savings go into pension funds, etc.

Kantor: The savings mix has changed fundamentally and for good reason. Corporate savings have become the vast bulk of total savings, because the returns corporations can earn after tax have been much better than the returns savers can get for themselves through banks and building societies.

What is going to be critical for consumers is shortages of labour, shortages of skills which will come about again and put pressure on employment benefits.

Dickman: Wages are rising fast in mining, in contrast to the rest of the economy.

Parsons: Could we comment on the impact, if any, on business and consumer sentiment of the general election?

Dickman: The first reaction is positive in that the financial rand has not declined and the stock market has gone on strongly. This may well be a response to the return of a strong government.

Hamersma: The result has not been well received abroad, particularly in the UK and US. In Europe people are more relaxed.

Kantor: I think reactions are mixed, depending on how you voted. People who voted for the PFP or perhaps the Independents, though I think the Independents did well, feel pretty bad. If anything the election will encourage emigration, not discourage it.

Hamersma: The results could foster a more inward-looking policy. People may feel that we must emphasise domestic security rather than reform, which would have a beneficial effect on the view the outside world takes. Because of the structure of our economy, we should be outward-looking.

Dickman: We use the term inward industrialisation, which is of course outward-looking in itself. You need a different attitude towards the export of the resources we have. If the emphasis is a return to a more security conscious approach, how we are going to carry on with this broader strategy of bringing the black population into private enterprise?

Kantor: The business community was shown to be irrelevant. If anything it campaigned against government, which won hands down.

Parsons: We have identified some major elements in the background to the Budget. So what do you see as the main challenges facing the minister of finance?

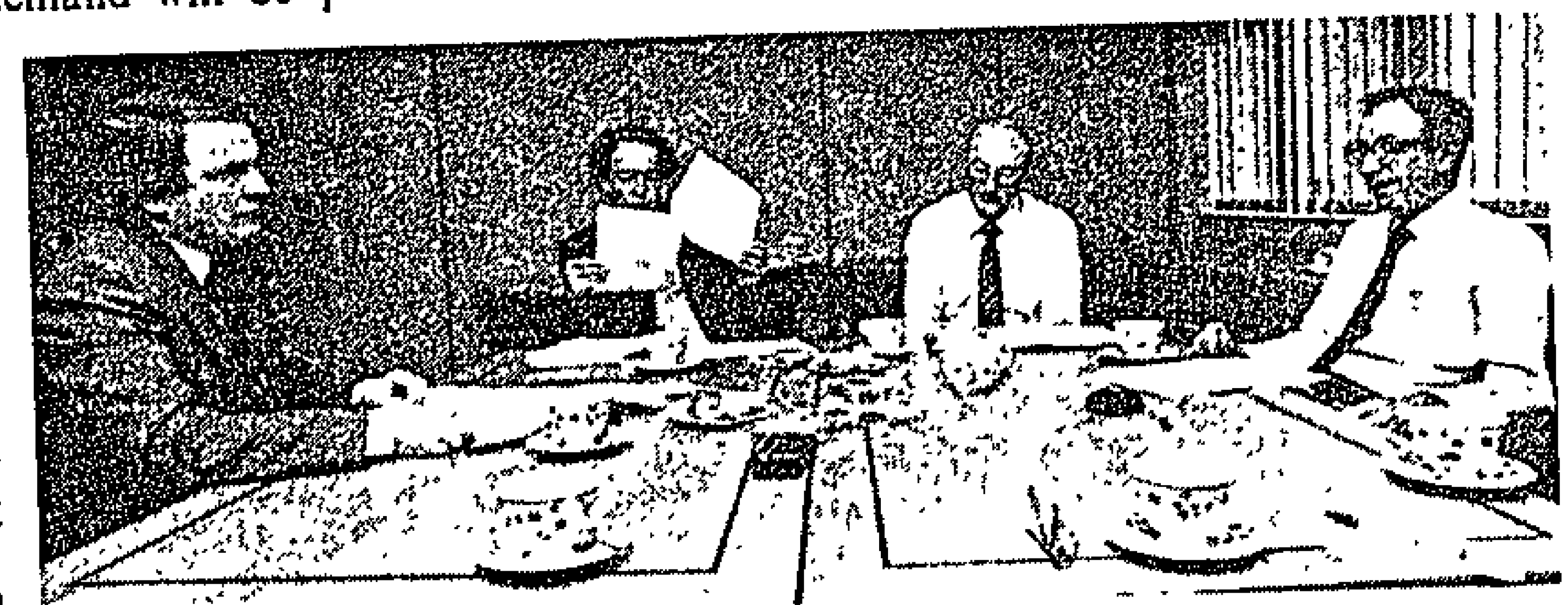
Kantor: The challenges are always the same: to design policies that maximise growth within the political constraints.

Parsons: What is the maximum growth we can afford, given the constraints?

Kantor: The potential growth of SA is enormous. There's no ceiling. The problem is not generally deficient demand, but the appropriate structures for growth.

Hamersma. No, there obviously is a constraint. We know how weakly the economy has performed. It is wrong to try to stimulate the economy by massaging it in the short term, adding a bit of spending here and there. We must take a longer-term view and decide what is going to create growth, depending on our comparative advantages.

The world economy is not performing in a way which could provide positive reliable stimulus. And we are out of phase; we are trying to create growth at the wrong



The panel (l to r): Parsons, Kantor, Hamersma, Dickman

(49)

time of the international business cycle. We must also focus on the inflation problem. We cannot have longer-term growth if we do not do something about inflation. We cannot maintain international competitiveness merely by depreciating the currency all the time.

Kantor: The constraint on government is less the weaker you think the economy will be over the next 12 months.

Dickman: My major problem is that I just don't know what the Budget figures mean. We've had a 21% increase in exchequer spending, but according to the national accounts real government spending didn't increase last year. A lot of technical problems will make it difficult to interpret this Budget, and give advice in advance.

Kantor: I agree with long-term planning and long-term budgeting. We haven't had either. If you introduce long-term plans, you must think in terms of full employment budgeting, full employment tax policies and the like, so that the government sector becomes a stabilising rather than a destabilising force.

Dickman: There must be caution in terms of the deficit before borrowing. I think there should be moderate stimulus, preferably mainly on the tax side. Fiscal drag is a major problem. Government spending is difficult to cut back. We have to look in terms of priorities. Look at all the minister said about priorities last year, and I don't know where it has got us.

Kantor: The deficit before borrowing is only important in determining the arithmetic of the tax relief the minister can justify. The bigger he is prepared to put that deficit, the more room for tax cuts. We are off the books of the IMF, so a 3% deficit has no meaning.

Hamersma: Monetary and fiscal policy can't work if they are not believed. That is why we must look at this Budget as part of a longer-term process. We must establish certain ground rules for Budgets. If we do that, and stick to them, policy becomes credible.

Growth in government spending must not exceed the inflation rate plus real growth. We cannot afford a deficit before borrowing of 5% of GDP or more, because it cannot be financed properly and will, in due course, be monetised and increase the money supply. The Budget of 1985 went a long way towards establishing the right ground rules, but there was a major retreat last year.

Parsons: Would you include among those targets the 3% GDP growth government is aiming for this year?

Hamersma: Yes.

Kantor: If we had long-term targets we would have much higher government spending now, because the economy has not grown at 3%, partly because government's own spending has been pro-cyclical. The 1985 Budget was much too deflationary in conception and it, too, started from a low base.

There is no simple link between the deficit and interest rates on the capital market. It is naive to think there is and it is naive to think that government can hold spending in real terms from depressed levels, especially of fixed investment. Current spending includes military spending, which is really not big by international standards, salaries, and education — which everybody thinks is a good idea.

Parsons: What share in total spending should government have?

Kantor: Share of what? Of GDP at what level? Do we take GDP at today's level and say that government should confine itself to that share, knowing that GDP has been very depressed for a number of years?

Parsons: Do I draw the impression that the minister has no scope for tax cuts, or ought he to have scope for tax cuts?

Kantor: He has; revenue growth is strong.

Parsons: Direct or indirect tax cuts?

Kantor: He will go for cuts in direct taxes.

Hamersma: While in the end the consumer pays for everything, in the short-term people feel better with direct tax cuts.

Dickman: In the longer term there will be problems with GST anyway.

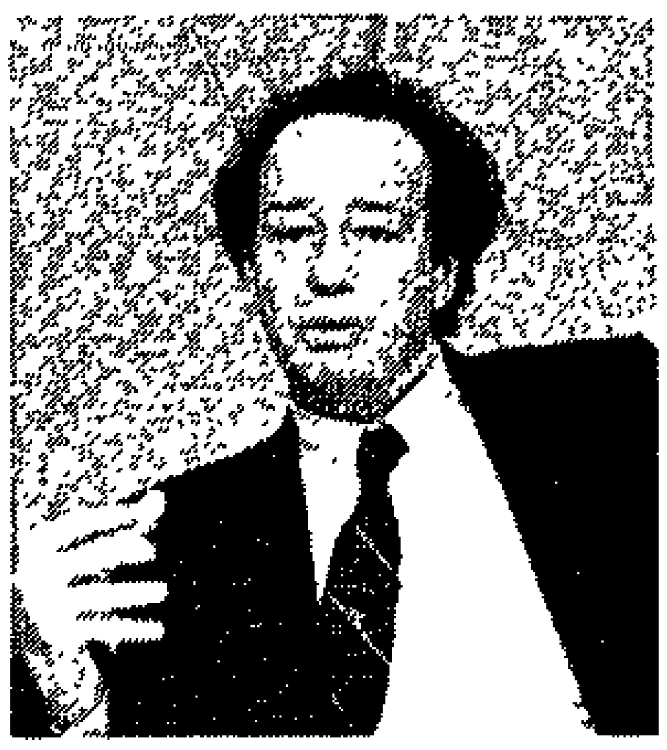
Parsons: What about the new regional services councils taxes?

Kantor: I haven't a kind thing to say for regional services councils. There is nothing they will be able to do that couldn't be done voluntarily, except genuine income redistribution — which, of course, is the intention. But my view is that the money will go mostly to the bureaucrats running the system.

Parsons: How do you feel about a payroll tax in our circumstances?

Dickman: It is hardly sensible, with our employment problems.

Parsons: What deficit *before* borrowing would you be comfortable with in the Budget?



Kantor

Kantor: 4,5% of GDP of about R170 billion, which is around R7,5 billion.

Hamersma: I would prefer something lower — maybe 3,5%.

Dickman: There should be a blend of tax cuts and public spending. Public-authority capital spending has been falling for years. We are way behind in infrastructure and housing; we have too much of the wrong things and too little of the right things. Only government can redress this.

Hamersma: If you think in terms of salaries, wages and socio-political demands, the pressure on spending is going to be immense. It is not going to be easy to achieve this sort of deficit, particularly the 3,5% I'm thinking of. It will be difficult on the basis of the hard figures to justify tax cuts.

Kantor: You must consider the real resources that will be transferred to government, for which the government expenditure budget may be a very loose proxy. I think if you can hold the increase to about 15% on the historic R41 billion, that'll be all right.

Hamersma: I'd be happy with that; for the past three years it has been over 20%.

Kantor: That is actual growth, after the Budget. We start off with the Budget figure, which we know is not important, then take a deficit and then get a potential tax relief. Both revenue and expenditure growth will turn out higher than budgeted.

The long-term outlook is cloudy. To think that the private sector will really take up the slack of investment spending is inappropriate. I think it is unrealistic, at this stage, to expect real stringency in the capital expenditure programmes of government, given that the private sector is likely to remain a weak point — except perhaps mining.

Parsons: How high do you rate the risk of the economy becoming overheated?

Kantor: It depends on monetary policy.

Dickman: I think there is a danger.

Hamersma: It is not immediate, but if we continue in an undisciplined way certainly there is a danger.

Parsons: What kind of monetary policy do you want to see?

Kantor: Pressure on money supply growth will not come from the government sector in large part, but — as before — on pressures on the banking system from private borrowers, particularly households, and accommodation by the Reserve Bank.

Hamersma: We have started on the right track with monetary targeting. Monetary policy is crucial in fighting inflation. The Reserve Bank is ultimately responsible for fighting inflation and this means the money supply targets must be reduced. You won't achieve miraculous results overnight, but here again it is a matter of credibility.

When money supply grows within the target areas we must accept that interest rates will react. I have a gut feel that this is going to be a problem because of bad experience in the past and resistance to allowing interest rates to go up, but it is an integral part of monetary policy: if you control the supply, you must allow the price to set itself.

Kantor: If you look at expenditure for 1986, you see the deflationary effect of a savage decline in real monetary growth. Prices rose because of the devaluation. This year ideally we will keep to our targets and inflation will be well down by year-end. If we had kept to the targets last year, we would have had a more accommodating monetary policy, which we needed. I don't accept volatile velocity of circulation as an excuse.

Dickman: Monetary targets are a very important element in our strategy. But all over the world there is a move away from them. Measuring money is a great problem. You can't ask monetary policy to carry the whole burden of fighting inflation because our experience has shown the lack of harmony between monetary and fiscal policy.

Kantor: Fiscal policy has not been a problem recently. If you have a target and government wants to spend more, interest rates rise. That's where targets become so important, because the monetary authority has the means then to say no.

Dickman: I agree, but the Reserve Bank is not independent of the system.

Hamersma: I have a problem about there being too much discretion in this area. There is an interesting saying that monetary policy is called an art by those who have not mastered its technique.


Dickman

Leaving too much discretion always leaves open the door for all sorts of things to happen.

Parsons: What exchange rate policy should we follow?

Hamersma: Exchange rate policy has become a handy tool for people who do not want to fight inflation. This is disastrous. You have a cumulative process: you depreciate to ensure competitiveness, inflation goes up and you become uncompetitive, then you have to depreciate further.

Kantor: I share those sentiments, but exchange rate policy has a crucial bearing on money supply growth rate. If you keep the exchange rate undervalued relative to market perceptions for political reasons, you encourage monetary growth, leads and lags and position-taking.

The Reserve Bank tries to neutralise these inflows through the balance of payments; it misses, and the process runs away, as it did in 1982 and 1983.

Dickman: The debt standstill is something quite new to the system.

Kantor: We may not get the same open positions with overseas banks, but the funds from leads and lags can flow quickly and overwhelm the ability of the Reserve Bank to influence the exchange rate. There is an inflationary bias because when the gold price goes up the exchange rate lags behind, and when the gold price falls the exchange rate falls immediately with it.

Parsons: Do you advocate the unification of the rand?

Kantor: Of course: the sooner the better. Maybe the opportunity is there now to unify the rand and relax exchange control. If you are scared about capital outflows from individuals, relieve control only for portfolio managers.

A couple of billion invested overseas by South African institutions would take the pressure off the exchange rate and money supply, and give a very useful resource for when the gold price falls again.

Dickman: We delayed relaxing exchange control in 1980, but finally did it. Most of us were extremely pleased; but then we got our political problems and things did not work out the way the De Kock Commission hoped, so we had to bring controls back.

Kantor: Those were difficult times. But if we had let the exchange rate find its own level, we wouldn't have the debt problem.

Dickman: There would still have been a problem with reserves because debt — or at least that part not caught in the net — has to be paid in foreign currency.

Kantor: At some point money would have come in, just as it would through the financial rand.

Parsons: What are the prospects for reducing inflation?

Kantor: Let us first establish what the inflation rate is at the moment. We know it's not the year-on-year rate — that is highly smoothed. The inflation rate over the past six months, September to March, unseasonally adjusted, is 13,5%.

Dickman: Government says there are various bodies looking into inflation, but don't we know the causes of inflation? By the way, if we had taken Brian's (Kantor) route on the debt crisis what would inflation have been? We now have a stronger rand running at 5% above the average of last year.

I think we all want that to continue and not strengthen, depending on the export position. It is not demand inflation today, but cost inflation.

Don't people understand this can't be cured overnight? There is no need to take direct measures, impose controls or act against monopolies because we had much bigger monopolistic situations years back and we didn't have this rate of inflation.

Kantor: Yes, I agree that we must wait for slower import price inflation to work its way through. Whether inflation stays down will depend on how we manage our recovery.

Dickman: The government sector has been the greatest employer and the only area where employment has increased, so let's be careful about cutting it.

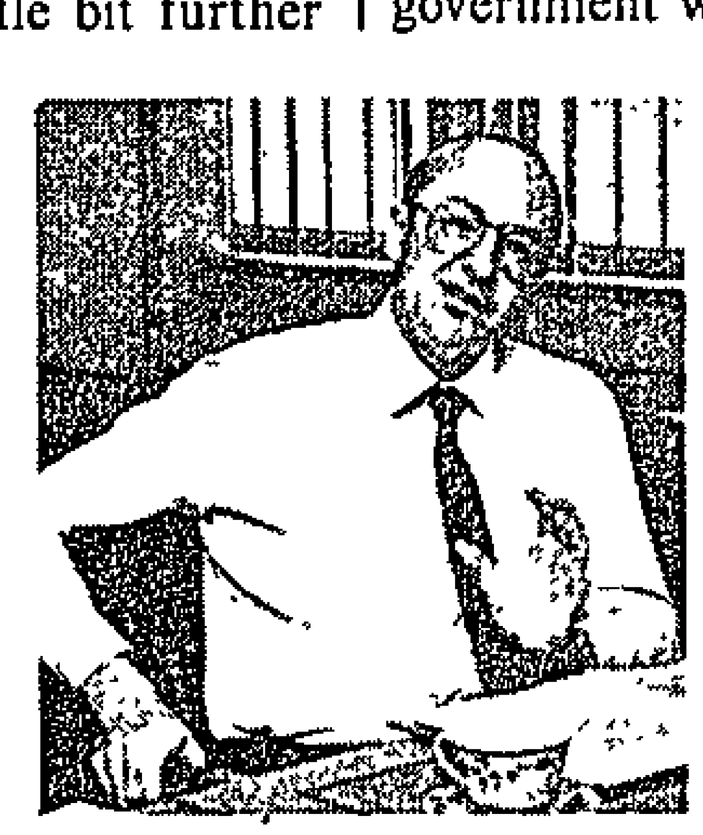
Parsons: What is our optimum level of inflation?

Kantor: You must aim at zero, but recognise that in a country like SA — where the gold price is so important and therefore the exchange rate is volatile — you will get movements about zero.

I've always argued for gradualism in policy. Unfortunately, we saw the failure of gradualism last year. In 1981, in the US and UK people would laugh at the thought of zero inflation, but look what happened. They may be going in the other direction now, but that's because they don't think money supply important.

Parsons: Could we look a little bit further ahead at the elements in policy and strategy you would like to emphasise for the medium and long-term?

Dickman: We can't have satisfactory economic growth unless we have clearer perceptions and directions of reform. If you go on to longer-term strategy and so-called inward industrialisation — which to my mind is nothing more than the policies recommended by liberal economists since the Twenties, to use resources correctly — fine, let's have it.


Hamersma

Parsons: Yet we are growing in somewhat unfavourable political circumstances now.

Hamersma: I am not happy about the longer-term sustainability of this growth. One issue we haven't touched on is labour. This year labour problems will be one of the major issues businessmen will face.

The structure of our economy is such that we cannot become inward-looking. I have a problem with inward industrialisation; it is something we should do, but there is a feeling that we can ignore the rest of the world and start growing in our small little corner. This flies in the face of comparative advantages which are well established and which we cannot ignore.

Parsons: How much progress can we make towards normalising external financial relations medium to longer term?

Hamersma: The present climate is very unsatisfactory. We will have to do something; it will not happen automatically.

Kantor: I agree absolutely that we would like political solutions. But I don't think we'll get them. We may get short-term order, which will probably be sufficient to sustain growth. One would have hoped that the issues of reform and law and order could have been separated, but they haven't.

Government has been forced into a corner: it first has to prove it can generate reasonable security before it can go ahead with its reform programme.

Deregulation and tax reforms are important in encouraging savings and discouraging consumption. Deregulation is a complex issue but, I think, pretty much on course. Progress on privatisation is disappointing. It offers opportunities for both more efficiency and fiscal relief. Sasol is a wonderful success story.

The money coming out of repayment of Sasol loans, maybe unfortunately, is going into Mossel Bay, but it is still fiscal relief. We should be repeating that experiment with Escom and Sats.

We should also be concerned that large units can be more easily disrupted by labour unrest. Close down Escom and you close down electricity. You don't want to be vulnerable like that. The interface between blacks and whites is at the workplace and I think it is going well.

There is a lot of learning going on. If government were wise, it would allow more decentralised management of black/white relations, educating local authorities as well as the trade unions.

We will not float new issues abroad as long as people can invest in Escom through the financial rand. We may get short-term trade credits if the recovery picks up and it looks as if government is in control. We will not get long-term capital until we sort out our political problems. ■

It may be bad news on PO and Sats tariffs next week

23/5/83

By PATRICK CULL
Political Correspondent

SOME of the post-election medicine forecast by the PFP's Mr Harry Schwarz is likely to be handed to the consumer next week when both the Post Office and South African Transport Services (Sats) budgets are presented.

The Post Office budget will be presented by Mr Stoffel Botha, Minister of Communications, on Monday. Mr Eli Louw will present the Sats budget the following day.

A wide range of increases seems inevitable, particularly in the light of the 12,5% increase given to all Government employees this week.

The two part appropriations (mini-budgets) presented in February this year were particularly mild and the only increase announced was a 2c rise to 16c in the standard letter rate.

But there were hints at the time that more increases would be announced later — after the election.

In February, Mr Botha said that the current cross-subsidisation of services could not continue at current levels and would have to be phased out.

Just how he is going to do this will be disclosed on Monday.

Across-the-board increases in postal tariffs seem likely. Bearing in mind the R130-million loss projected for this year, it is likely that telephone tariffs will also rise.

A warning of further increases in this area was given in last year's budget.

A general round of increases has also been predicted when the Sats budget is presented on Tuesday.

Again a mild mini-budget was delivered in February prior to the election. And, safely back in power, the Government can now hand out the medicine.

The main Budget will be tabled on June 3.

Sanlam: Tax cuts on cards

B/Day 23/4/87

MICK COLLINS

INDIVIDUAL taxpayers should be able to look forward to a further cut in rates in the June 3 Budget, says Sanlam.

In the company's latest economic review, chief economist Johan Louw says he believes further stimulatory fiscal action is necessary and justifiable.

He considers that the Budget should be mildly expansionary and tax cuts a vital element of the stimulatory package.

"While current government expenditure should be kept strictly in check, there is justification for a marked increase in capital government expenditure on essential infrastructure expansions which will also be a much-needed boost for the building and construction industry."

He estimates that at the present tax rates, government revenue will increase by approximately 13% to about R38bn in the 1987/88 financial year.

"A deficit of about R7,5bn (equal to approximately 4,3% of GDP) against a real deficit of R5,5bn (3,8%) in the previous financial year is not excessive."

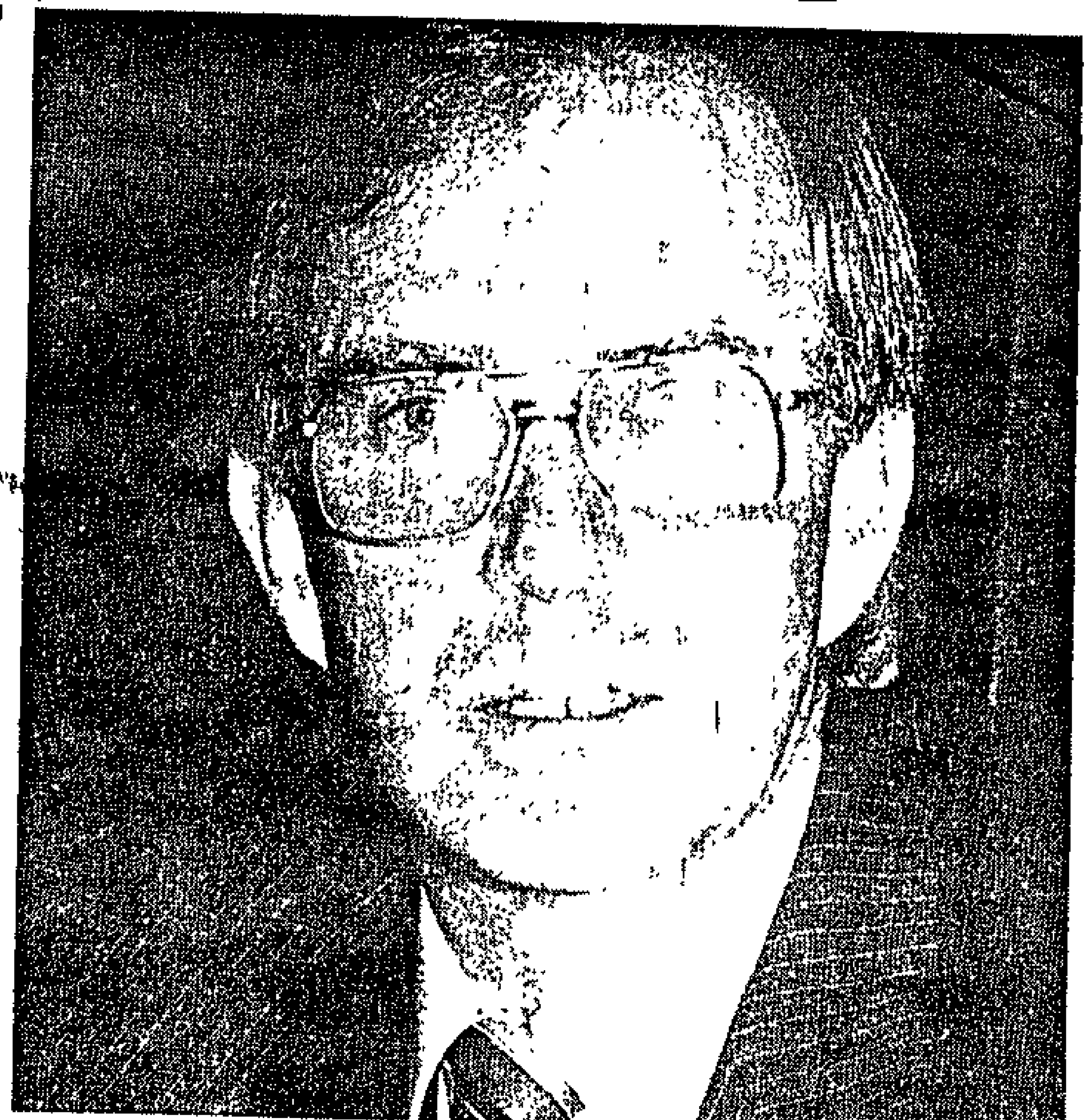
THE AIM SHOULD BE TO CUT INFLATION

FOCUS

(49)

STam 25/5/87

AS South Africa waits with bated breath for the Government's budget for this year, our columnist, Ncedo Mlamla, an economist with Barclays Bank, points at the direction he thinks Mr Barend du Plessis, the Minister of Finance, should be taking.



FINANCE Minister Barend du Plessis: Must focus on long-term solutions.

THE main instrument which lays down the government's fiscal policy is the annual budget.

The fiscal policy can be viewed as an attempt on the part of the government to influence the economy by means of changes in expenditures and/or taxes in such a manner as to have an impact on aggregates such as unemployment, inflation and economic growth.

The budget has therefore to be drawn up within the framework of what the key objectives of the economic policy are, and appropriate targets must be set.

This year's budget will be tabled against some positive economic developments. The favourable debt rescheduling agreement has helped to ease the perceived strain on the capital account of the balance of payments.

The relatively high gold price is providing the authorities with the much-needed currency reserves to protect the now fairly stable rand exchange rate. Inflation seems to be on a downward trend, due to the appreciated rand.

Economic growth which in 1985 was minus 1,5 percent, marginally improved to 0,7 percent in 1986, suggesting that recovery, albeit still very weak, was getting underway.

All these variables which broadly reflect the core of the economy, seem to suggest that if there could be an economic stimulus by the authorities, sustained growth can be achieved.

It has been said many a time that what is lacking to really boost the economy is vibrant consumer spending. This is probably one aspect on which the budget should focus

Spending

Consumer spending is primarily a function of real wages and employment in the economy. Real wage increases have been negative over the past two years, mainly because of the high inflation rate. Unemployment is still a problem.

This lack of consumer spending is further clouded by the socio-political perception of the consumers. The authorities should approach this problem by channelling more funds into investment spending. This could alleviate unemployment and boost incomes.

In other words, the budget should really focus on long-term solutions. Current spending should be limited to a specified reasonable target, which would be in line with the stated manifesto of deregulation, while also taking cognisance of the current socio-political problems.

It need not be reiterated that over the past years, the government's share of the gross domestic product has been steadily increasing. This means that although the stated intention has been to deregulate the economy, what has been taking place is in effect the opposite.

One should not, however, underestimate the difficulty of responsible level of government spending under the present political and economic climate.

However, a starting point may well be a restraint in wage increases in the public sector.

The other factor that should be addressed by the budget is curbing the inflation rate. The inflation - differential with our trading partners has long been our undoing.

The current decline of the dollar suggests a possible rising trend in the inflation rate of our partners. Curbing our domestic inflation would therefore aid our exporting sector while easing the burden on households.

Burden

Although unlikely to be exhaustively addressed by the budget in the light of the fact that the Margo Commission report on taxation has not been tabled as yet, tax relief, especially on individuals, should be considered.

The increasing tax burden has been a constraint on increased investment spending by corporations. With ordinary individuals the tax burden has served to restrain their consumption spending.

The tax relief should at least be of such magnitude as to offset the bracket creep effect (taxpayers move into higher income brackets because of inflation and are subsequently taxed accordingly).

In turn this increases the share of income that is taken by the government. Such an approach could do well in stimulating the economy.

Budget gets unanimous approval

(49) STAR 26/5/87.

By Toni Younghusband

Randburg's record R106 million budget for 1987/88 was last night presented before council and unanimously approved.

This is the first time in the town's 28-year history that a budget has exceeded the R100 million mark. Last year the budget was R91 372 804, R15 390 957 less than the R106 763 761 budget for this financial year.

It is also the first time a budget has been approved by the opposition party without any amendments being put forward.

The entire budget was read and discussed before council in four hours — it is usually about eight to 10 hours before a budget is finally passed.

The PFP last night congratulated the chairman of the management committee, Mr Frans Lourens, and his team from the town treasurer's department for the excellent budget.

Aside from a few questions, the opposition party had no serious problems with the budget and it was passed unanimously.

While ratepayers will be expected to pay some R20 more a household for municipal services, the council has included the establishment of a recreation area, a community centre, a garden of rememberance, an animal shelter and a clinic in its budget.

Councillor Dick Muller (PFP) said the budget was "responsible and sensible".

● See Page 4M.

Sats budget tabled today

49

Star 26/5/87

Political Correspondent

CAPE TOWN — Consumers get their second dose of administered price increases later today when Transport Affairs Minister Mr Eli Louw tables the budget for SA Transport Services.

The first of what politicians have called "vote-now-pay-later" budgets, the Post Office budget, was tabled by Minister of Communications Mr Stoffel Botha yesterday. (See Page 3.)

The main Budget next week will deal with taxation.

Mr Harry Schwarz, PFP finance spokesman, said the Post Office budget was the first of the medicine he predicted would come after the election.

● Full details of the SA Transport Services budget will be carried in later editions of The Star.

(49) 20/5/87 STAR

PO budget will wring R5 845-m from public

By David Braun, Political Correspondent

PARLIAMENT — Whopping increases in phone rentals and installation charges were among rate rises in the record R5 845-million Post Office budget tabled yesterday.

Although the increase in overall revenue for the Post Office from the new rates averages at 8,8 percent for the remaining nine months of the financial year (11,7 percent on an annualised basis), among the services going to cost substantially more from July 1 are:

- Phone rentals — up 36 percent at R15 a month (currently R11).
- Phone installation — up 38 percent at R125 (now R90). Social pensioners will still pay R25.
- Phone call units — up 12,5 percent at 13,5c (now 12c).
- Pay phones — doubled to 20c a unit for local calls and up between 50 and 60 percent at 15c or 16c a unit for long-distance.
- Telegram handling charges — almost doubled to R2,50 (now R1,30).
- Telegram costs per word — up 50 percent to 12c (now 8c).
- Non-standard mail — up 13,6 percent.
- Standard mail — unchanged after rising by 14 percent to 16c a letter last month.

Tabling the figures at a joint sitting of Parliament, Minister of Communications Mr Stoffel Botha said total spending by the Post Office in the new financial year would be about R5 845 million — up 9,9 percent on the previous year.

Operating expenditure would rise by 15,3 percent to R3 891 million, mainly because of the 12,5 percent increase in salaries awarded from July 1, financing of new loans, international commitments and the exchange rate, and general cost and price increases.

Mr Botha said the capital expenditure programme had been reduced by 20 percent in real terms to keep increased spending to the unavoidable.

Unless rates were adjusted the operating deficit would be R307 million and would have to be paid for through loans — an unsound practice no business could afford.

Mr Botha said that even after the rate adjustments the postal services would still lose R147 million in the new financial year while the telex service would lose R13 million and the telegram service R28 million.

The only viable option was to apply a cost-related structure so people using one service would pay for it without being subsidised by users of other services. Rates would be adjusted gradually to achieve this.

Mr Botha said the rental for a phone service was the minimum necessary from any customer for his service to be viable. This amount should be paid even if no calls were made and should cover the cost of giving the customer access to the system.

He said: "The current rent for a phone does not nearly cover the cost of providing and maintaining it and rentals will still have to be subsidised to an extent of more than R500 million a year by call charges."

Mr Botha said the cost-related rental of an urban phone service was R27 a month and a non-automatic party line R78 a month. An automatic party line cost R137 a month.

As a sudden increase of rentals to these cost-related levels would be too drastic, only a moderate increase was proposed now.

The average cost of installing a telephone was R204, he said.

On the higher telegram rates, Mr Botha said: "As the man in the street only occasionally uses the telegram service the increase will not constitute an undue burden."

Mr Botha also said total expenditure was R81 million less, operating costs down R47 million, capital spending R47 million less, total revenue R152 million more, saving on personnel R51 million.

Business urged to think of the future

(49) STAR 27/5/87

By Duncan Guy

Businessmen who foresee South Africa under majority rule should be advancing their black employees to adapt to future conditions, a group of senior businessmen heard last night.

Dr Linda Human, head of Cape Town University's Centre for African Management, in her address "Black advancement — commonly held beliefs may be inappropriate", told of a Zimbabwean company which in 1974 decided to advance black employees.

"When Mugabe demanded certain Africanisation programmes he was satisfied with their record and unlike companies that suffered because of the transition, this one did not," she said.

Reminding her audience that by the year 2000, 75 percent of South Africa's population would be black, Dr Human warned businessmen to be prepared for a very different environment in which they would have to operate.

ENCOURAGEMENT

She called for business people who believe in black advancement to encourage white employees to become familiar with black cultures so blacks would not be disadvantaged by having to work in the "white" business culture yet socialise in another.

"You should look for a business culture in which all racial and cultural groups can work together," she said.

"Jews, Afrikaners and Portuguese working in white business together are able to tolerate one another. Blacks, therefore, should not have to be made white."

Outlining reasons why blacks in senior managerial positions are at a disadvantage, Dr Human said the Group Areas Act makes it difficult for them to identify consistently with their white colleagues.

Another problem, she said, was that blacks in managerial and supervisory positions are branded as sellouts in the townships.

Referring to solutions, she said it is necessary for companies' employees to be aware of black advancement programmes as well as to have top-management's commitment to that end.

The Star

No cheers for rising tariffs

THE POST OFFICE and Sats budgets are object lessons in how to fool most of the people most of the time. Even spokesmen for commerce and industry have fallen into the trap of assessing the performance by the yardstick of mediocrity so characteristic of such operations.

By those standards, it cannot be denied that the managements of the Post Office and Sats have done a satisfactory job. They have held postal and rail tariff increases below the inflation rate. They have converted some bureaucratic practices into more businesslike ones. They have increased efficiency, productivity and service. But being partly "businesslike" is not enough. It is time to question the basic criteria upon which the judgments on these governmental operations are based.

Is it really cause for praise when expanding deficits — financed increasingly by taxpayers' money — are reduced after decades? Looking at the broader picture, both budgets highlight the critical need for accountability to be introduced into what are essentially business undertakings. Both indicate an inherent inability of State services to conduct businesses (big or small) economically.

In reaching this conclusion, we are not personally criticising the managers of these concerns. On the contrary, the individuals in question are doing their jobs as well as (if not better than) their counterparts in other countries.

What we do criticise is government meddling in the economy. Like Mrs Thatcher, our belief is that in a private enterprise society, business must be run by the private sector — for the ultimate benefit of all. Accountability to a body of shareholders will, by definition, eliminate the need to bleed taxpayers in order to subsidise mediocrity. Like Mrs Thatcher, we are certain that privatisation will elicit more efficient goods and services at lower prices.

After years of passive acceptance of the burgeoning cost of government inefficiency, isn't it time we saw signs of government recognition that its pervasive intrusion is strangling the economy?

"Certain provisions of transport budget attract criticism from some quarters but ...

Most are resigned to Sats increases

STAR 27/5/87

By Janine Simon

Political parties and consumer organisations have criticised the South African Transport Services (Sats) budget as inflationary, although major employer bodies say the average 10 percent tariff increase is not exorbitant.

Most groups criticised the increases in the pipeline transport of petrol and diesel (7,4 percent and 12,1 percent respectively), saying the pipeline was already very profitable.

And their fears of a rise in fuel pump prices were confirmed yesterday when the Minister of Mineral and Energy Affairs, Mr Danie Steyn, announced that petrol and diesel pump prices would rise, although probably by not more than one cent, from July 1.

Reacting to the budget, the Public Carriers Association and the Progressive Federal Party called for clearer moves on the deregulation of transport services.

But the Transport Consultative Committee (TCC), which represents 19 major employee bodies, said it recognised that the differential tariff increases and structural adjustments announced yesterday were an attempt to align tariffs to within the range set as a precondition for deregulation.

Salary increases and moves towards employee parity were welcomed in many quarters although the handling of the strike was condemned by the Conservative Party.

Sats's white union, the Federation of Trade Unions of the South African Transport Services, expressed "disapointment and unhappiness" at the pay increase of 12,5 percent.

Conservative Party and Progressive Federal Party spokesmen on transport affairs said the tariff increases were "shocking".

Conservative MP Mr Tom Langley said the budget was "not only inflationary but disturbing" and that it was obvious why the Government had waited until after the election to table it.

Mr John Malcolmess, for the PFP, said increases in transport costs affecting railways were more in the order of 15 than 10 percent.

He congratulated Sats on its 1986 profit but said the budget had been "knowingly set too low in order to justify price increases". He said the petrol and diesel pipeline increases were "nothing but a blatant cross-subsidisation" at a stage when this was meant to be phased out.

Labour Party spokesman on transport, Mr Chris Wyngaard, said the budget held little for the largest portion of the impoverished community.

"I regret the increased tariffs and believe they are absolutely too high," he said.

AA concerned

Automobile Association spokesman Mr Robin Scholtz expressed concern at the fuel pipeline increases and said these, coupled with rail tariff increases, meant that inland motorists were still penalised by having to cross-subsidise uneconomic services.

The South African Consumer Council said the 10 percent average increase was relatively mild but that each increase was inflationary and promoted impoverishment of consumers and degeneration of the already unstable economy.

The TCC said it accepted the inevitability of the tariff increases but warned that they would cause a ripple effect and would have a negative influence on the economy.

It welcomed the move away from ad valorem on coastwise cargo and said this would result in a more equitable competition between road, rail and sea transport between coastal areas.

The chief executive of the South African Foreign Trade Organisation (Safto), Mr Wim Holtes, warned that the increases, together with a stronger rand, would have a direct effect on the competitiveness of South African products abroad. The commodity market, which was already under pressure from trade restrictions, would probably be the worst affected.

The general secretary of the black trade union of Sats, Mr S M Matloha, said the union had great pleasure in announcing that, after tough negotiations, it had successfully negotiated:

- The 12,5 percent salary increase.
- Increases of between 15,13 percent and 22,76 percent for black labourers.
- Parity with whites for the same qualifications and work and parity of pension benefits and service conditions.
- The re-employment of those black employees who did not voluntarily participate in the recent strike but who lost their jobs through intimidation, and condonation of their break in service.

AIR FARES: NO CHANGE	
RAIL FARES	**INCREASE**
Intercity Passengers:	15%
Suburban Passengers:	10%
ROAD TRANSPORT	
Goods	16%
Passengers	12,5%
Parcels, Post & Misc	12,5%
HARBOURS	6,8%

RAIL FARES

SUBURBAN FIRST CLASS	WAS	NOW
JHB to Dube (18 km)		
Single	R1,40	R1,50
Weekly	R10,50	R12,00
Monthly	R39,00	R43,50
JHB to Pretoria (70 km)	WAS	NOW
Single	R4,30	R4,80
Weekly	R27,00	R29,00
Monthly	R99,00	R107,00

SUBURBAN THIRD CLASS	WAS	NOW
JHB to Naledi (28 km)		
Single	80c	90c
Weekly	R4,10	R4,50
Monthly	R16,50	R17,50

INTERCITY	WAS	NOW
JHB to Cape Town (1 530 km)		
First Class	R197,00	R230,00
Second Class	R139,00	R163,00
Third Class	R70,00	R82,00
JHB to Durban (721 km)	WAS	NOW
First Class	R102,00	R116,00
Second Class	R72,00	R82,00
Third Class	R36,00	R41,50

Transport workers' pay increases please black union, anger white

The white Federation of Trade Unions of the South African Transport Services has expressed its "utter disappointment and unhappiness" at the 12,5 percent pay increases granted in terms of the Sats budget, while the black trade union of Sats, Blatu, announced its "pleasure" yesterday at negotiated increases.

Mr S M Matloha, general secretary of Blatu, said in a statement in Johannesburg yesterday that the union had "great pleasure" in announcing that "after tough negotiations" it had "successfully" negotiated:

- The 12,5 percent salary increase.
- Increases of between 15,13 percent and 22,76 percent for black labourers.
- Parity with whites for the same qualifications and work and parity of pension benefits and service conditions.
- The re-employment of those black employees who did not voluntarily participate in the recent strike but who lost their jobs through intimidation, and condonation of their break in service.

Mr Matloha said, however, the union was justly proud of what it had achieved but was sad that some 16 000 workers, "who allowed themselves to be misled by Sarhwu (the South African Rail and Harbours Workers Union) cannot share in these achievements."

Blatu had a clear conscience as it had done all it could to get those workers back to work before it was too late.

He asked black workers to judge whether Blatu or Sarhwu had the interests of the workers at heart.

The Federation of Trade Unions of the South African Transport Services said the Minister of Transport did not adhere to his earlier indication that a salary increase of 15 percent was fair.

A spokesman for the federation said: "The federation has decided to request an urgent meeting with the Minister of Transport during which it intends to convey its unhappiness about the matter."

"We also remember the undertaking given by the State President to a delegation of the federation — when transport employees' service bonus was arbitrarily reduced by 33 percent — that he would stand by the federation should they stand by him.

"As a result of the Minister's announcement transport employees' service bonus has once again been reduced because salary increases have not been given effect as from April 1 1987." — Sapa.

Good news, bad news EL budget

By MATTHEW MOONIEYA
Local Affairs Reporter

EAST LONDON — Rates and tariffs are to be increased by between 12 and 15 per cent to enable the council to balance the city's R152-million budget.

Delivering a budget of gloom and hope last night, the leader of the finance portfolio, Mr Gwyn Bassingthwaighte, outlined how the municipality proposed to to make up the R11,38 million deficit on the income and expenditure account and warned of a possible lowering of standards.

The city council last night accepted these increases to balance the books:

- Rates up 12,5 per cent;
- Sewerage up about 60 per cent;
- Water 15 per cent;
- Electricity up in two phases by 15,74 per cent; and
- Cleansing tariff up 20 per cent;

To complete meeting the deficit of R11 338 389, housing rentals will have to go up from July 1 to yield R346 808 and cemetery and crematorium fees to yield R39 305.

Explaining the dramatic increase in sewerage costs, Mr Bassingthwaighte said it was the result of capital charges for the new R22 million scheme, as well as the operating costs to inaugurate the scheme.

"These costs will unfortunately have to be borne by the consumers," he said and drew attention to the two-phased electricity cost increase on July 1 (4,94 per cent) and January 1 (9,8 per cent).

The increase in electricity costs amounts to R53 179 601 largely because of the projected 10 per cent Escom increase from January 1.

The capital and repairs funds totals R34 165 237 and Mr Bassingthwaighte announced it would be necessary to borrow R10 million from external sources to finance the capital programme.

He said the losses to be borne by ratepayers because of the provision of housing for all race groups remained a problem with a deficit of R366 981 on all schemes. This comprises R198 461 through administration not recovered and R171 391 through excess repairs not financed through the repairs fund.

"The budget, in my opinion, is technically sound and has been cut as close to the bone as possible," Mr Bassingthwaighte said.

"However, the management of our city's financial and technical functions, as well as the proper development and maintenance of our assets, has got to be streamlined and dramatically improved or we are going to find ourselves in such a serious predicament that we will need central government assistance to save our city."

(19) 27/5/87

(29)

EL City Council budget debate

Roads to get a R4,2 m facelift

By MATTHEW MOONIEYA,
Local Affairs Reporter

EAST LONDON — Despite severe cuts in municipal operating expenditure, there was some welcome news in the budget delivered by the leader of the finance portfolio, Mr Gwyn Bassingthwaighte.

The first phase of the establishment of an industrial area received R1,3 million.

"I believe this is vital for the economic future of our city, as well as to create additional job opportunities," Mr Bassingthwaighte said.

Ratepayers have complained about the state of roads and lack of tarring, and R4,2 million has been set aside.

The capital and revenue estimates for new roads is R2,9 million and maintenance of existing roads R1,4 million.

Mr Bassingthwaighte announced that the differential rate, where a 14,17 per cent rebate is granted to residential property owners, would be retained.

The council would also continue to grant relief to pensioners on the basis of a rebate varying between 20 and 40 per cent, depending on income.

The general rate on residential property is 8,519c in the rand and 0,71c on improvement, which will yield R6 239 961. The general rate on all other properties is 11,359c in the rand and 0,947c on improvements, which will yield R8 172 154.

Mr Bassingthwaighte said non-productive municipal services would come under scrutiny and the bus service, with its R1,6 million shortfall, remained a cause for concern.

The bus shortfall represented a 10,3 per cent subsidy from the rates income.

The council accepted a report from the workstudy section and the situation would be monitored for the next six months, he said.

A survey to ascertain the views of ratepayers on the retention of the service was planned.

He also drew attention to the R2,7 million deficit on the fire services.

"Although this is an essential service it is noticed with concern that the subsidy received from the provincial administration is not based on 40 per cent. This results in R539 471 being funded by the ratepayer," he said.

Mr Gwyn Bassingthwaighte, with Mr William Morris on his left.

Lack of planning: services suffer

EAST LONDON — The city had no financial or technical forward planning and this could result in development stagnating and services deteriorating, the leader of the finance portfolio, Mr Gwyn Bassingthwaighte, warned in his budget speech last night.

He proposed an ad hoc committee be formed to formulate a well motivated and structured financial forward plan to form the basis for future financial planning.

He said the city lived from hand to mouth and ad hoc decisions were taken on almost all aspects of running and maintaining the city which was fighting for its survival.

He said the successful running of the city in the future would depend on whether the council planned ahead in the face of inflation, sanctions, labour unrest and political upheaval which all added to the destablising influence on the city's economy.

"If we fail in clearly identifying our targets, goals and financial planning, we will see the deterioration of our services and assets take place, with a resultant lack of development.

"This of course has a multiplying effect that creates more unemployment, leads to increase in crime, lack of stability and dramatically increases the burden on our city.

Overall, however, the city's finance were satisfactory although it was worrying that the unappropriated surplus had decreased to R4,5 million.

"I believe we must endeavour to build up our reserves to minimum level of R5 million. It will be essential to budget for a surplus in future years."

Mr Bassingthwaighte said the state treasury had placed a limit on local authority expenditure of 15 per cent but that the council had exceeded it by 3,87 per cent.

He said the revenue sources available to local authorities remained an area of concern, while the question of whether the proposed Regional Services Council would solve it was still an open question.

Two-pronged plan to save EL assets

EAST LONDON — Privatisation and an integrated approach with the private sector toward municipal problems were two ways of fighting the rapid deterioration of the city's assets, infratructure and services to the ratepayers, the leader of the finance portfolio, Mr Gwyn Bassingthwaighte, said last night.

Delivering his budget speech, Mr Bassingthwaighte said council would soon have to face many crucial issues that would determine how the city would be managed.

"We often bemoan lack of productivity and criticise departments for overspending while we talk about improving productivity. But we fail to see the wood for the trees.

"This council is not only burdened with many loss-making functions that need to be looked at critically, but we often embark on various long and short-term projects which contribute to these loss-making functions."

He suggested privatising certain functions as well as utilising the services and offices of the private sector.

"Such co-operation is taking place all over the country where public and private sectors on all levels of operation are joining together and sharing expertise to improve and develop society.

"The time has come for people to sit around a table and discuss common problems. It is of vital importance that we erase the old-fashioned concepts that municipal and official functions are of necessity distanced from the private sector.

"We cannot afford the luxury of remaining aloof from other sectors of the community who have a major input to make with their expertise and professional know-how," he said.

Power supply fee increase

EAST LONDON — If you're reconnecting or disconnecting your electricity supply, take note.

Fees are going up from July 1.

Reconnection of supplies temporarily disconnected will go up R2 on the existing R14; connection, transfer and disconnection will now cost R16 instead of R14 while a check on meter readings will now cost R16 instead of R14. Testing of service meters will cost R24.

THE ECONOMY

W Mail 22 – 28/5/87 (49)

Mercabank puts social spending under spotlight

WEEKLY MAIL REPORTER

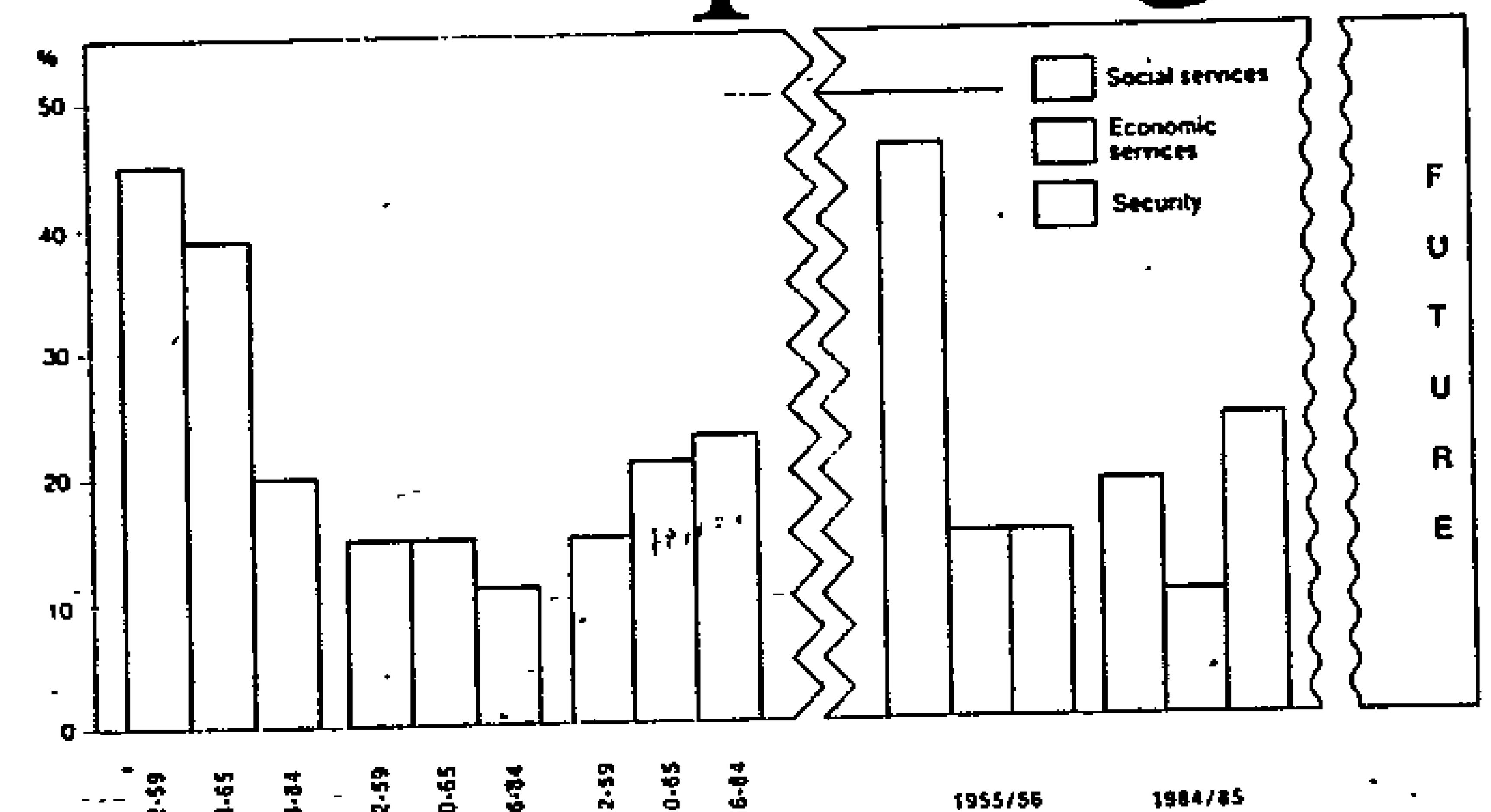
AS the June 3 Budget approaches, government spending priorities and the cost of its policies emerged last week in Mercabank's latest seminar entitled *Political Reform and the Economy*.

Over the past few decades Mercabank has found that government spending and taxation are up while the proportion spent on social services has halved and government savings have dropped to negative levels increasing government debt.

The share of the annual budget that goes towards social welfare spending currently stands at a mere 20 percent. In the Fifties it was 40 percent. What Mercabank fails to note is that this trend comes at a time when more people than ever before are desperate for assistance due to chronic unemployment —some say over six million — and deteriorating living standards.

Worse still, the portion spent on security has risen from 15 percent to 23 percent over the same period and now exceeds the amount spent on social services.

There are obviously problems with any such analysis — the Budget's classification categories have changed drastically since the Fifties, there are now "independent homelands" with their own budgets, and the maze of cross-departmental expenditures make it difficult to assess from where funds are spent and on what. Besides, what Mercabank considers "security" and "social services" is a subjective notion. How much of the Constitutional Development budget,



Political events have increasingly diverted sources from productive uses such as infrastructure creation as well as from investment in human capital, towards unproductive expenditure on defence and police actions

for example, is spent on security related matters?

But these reservations aside, it is the sorry trend that is significant and can be considered relatively accurate.

Overall, the rise in security expenditure has more than offset the decline in spending on social welfare. Total government expenditure has increased from 15 percent of GDP in 1960 to 23 percent in 1985.

It is evident that government spending in South Africa is not being utilised as productively as possible. As Mercabank — a merchant bank in the Sanlam group — itself says: "Events have increasingly diverted sources from productive uses such as infrastructure creation as well as from investment in human capital such as education, towards unproductive expenditure on defence and police actions."

This is particularly serious when one considers that the private sector is not investing "productively" — the lack of confidence among investors is another consequence of government policies.

Financing an increasingly heavy expenditure has resulted in a heavier tax burden. As a proportion of national income, notes Mercabank, total taxes have risen from 18 percent to 35 percent since 1960.

Mercabank also finds that in spite of numerous increases in GST (from 4 percent in 1978 to its present 12 percent) direct taxes, as a percentage of current government income, have remained relatively stable. This undercuts the very purpose for introducing GST which was (and still is) to move away from direct taxation towards indirect tax.

All that has happened is that both direct and indirect tax have increased in tandem.

In spite of this stiffer tax burden, government expenditure has been such that it still has to draw from savings.

Government savings, as a proportion of expenditure, is now negative making the interest bill an important component of expenditure. Interest payments now comprise some 14 percent of total expenditure compared to five percent in the early Sixties.

Political Staff

(49) Star 29/5/87

CAPE TOWN — Theft or the irregular use of Government money amounting to R303 680 is reported in the Auditor General's report on the administration of the House of Assembly.

Dealing with the budgetary and auxiliary services of the Assembly administration, the report, which has been tabled in Parliament, gives details of a number of cases:

- R166 694 was fraudulently obtained by an official who forged documents in 83 cases. An amount of R19 482 has since been recovered.
- R111 963, meant for welfare pensions, was irregularly obtained by another official. He was taken into custody but died during detention.
- R10 581 was obtained through 49 receipts issued for the recovery of arrear rent which were not brought to account.
- Two salary warrant vouchers amounting to R2 630 were fraudulently cashed by an unknown person.

The Auditor-General, Dr Joop de Loor, also reported that in addition to these cases a further 11 warrant vouchers totalling R12 081 were cashed irregularly by ten unknown persons and one former official.

In respect of nine cases R7 068 was recovered by the SA Reserve Bank from commercial banks while one case of R998 was still receiving the Treasury's attention.

In another case R4 015 was being recovered by the State Attorney from a former official at R50 a month.

First the sweet, now the medicine

By David Braun,
Political Correspondent

CAPE TOWN — Finance Minister Mr Barend du Plessis tables the main Budget in Parliament next week, an exercise in which he is likely to be walking on eggs.

Progressive Federal Party spokesman on Finance Mr Harry Schwarz warned in February that Mr du Plessis would be giving the country its economic medicine after the election, having handed out a few sweets in the "mini-Budget" before the poll.

The sweets doled out then, you will remember, were a cut in income tax, working wives being allowed to keep a bigger slice of their earnings, and the refund of the 1983 loan levy.

The maximum marginal rate of income tax was reduced from 47,5 percent to 45 percent, while the bottom threshold before an income tax return had to be submitted was raised.

The concession on tax-free interest from investments was increased from R500 to R1 000 a year, while there was more relief for pensioners.

Government sources indicated this week that Mr du Plessis did not have much more, if anything, to give taxpayers next week.

The Budget, they predict, will be largely neutral with the Minister probably opting for a larger deficit before borrowing, rather than squeezing taxpayers too hard.

SALES TAX

The Government is known to be concerned about general sales tax which it has been advised is too high.

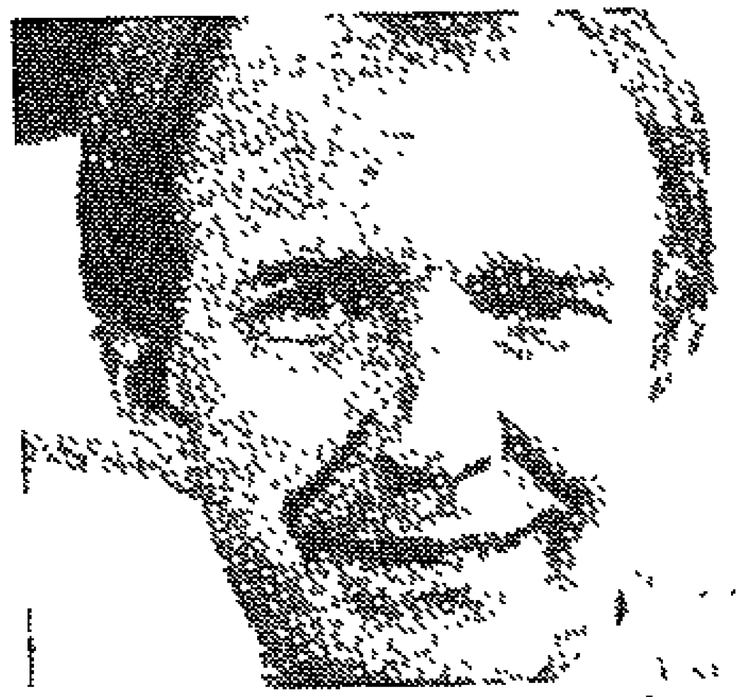
There is a possibility that GST could be lowered a percentage point or two but that it will in future be applied to all consumer goods, including fresh produce. The argument here is that poor people largely buy canned goods rather than fresh produce as they do not have refrigerators.

The big question to be answered next Wednesday is how Mr du Plessis will finance increased State expenditure, particularly the latest 12,5 percent increase in the State wage bill.

This is what the politicians are predicting for next Wednesday:

● Mr J H Heyns, MP for Vasco and chairman of the National Party's Finance Group: "I hope the Minister takes steps to stimulate the economy modestly but it is also necessary to guard against inflation, the country's greatest economic problem.

Next week's Budget is tipped to contain few concessions



Mr du Plessis . . . will not have more to give taxpayers, indicate Government sources.

Mr Harry Schwarz . . . "All in all this will not be a very exciting Budget."

"It is possible for the Minister to come with a reasonably positive Budget but I do not think there will be many concessions for the man in the street, especially not after what was given earlier this year.

"Factors to be taken into account include salary adjustments for the civil servants, the foreign debt repayment position and the agricultural reconstruction programme."

● Mr Harry Schwarz, Progressive Federal Party spokesman on Finance: "All in all this will not be a very exciting Budget. I do not expect any major tax cuts as all the sweets were given before the election.

"If there are any concessions they will probably deal with rebates for the elderly and with increased premiums and medical deductions and pensions because these have not kept pace with inflation.

"As inflation has increased, revenue from GST has gone up, and the Minister should at least reduce GST. That would also contribute to an increase in consumer demand.

"Gold mine taxation could go up and I expect the Minister to borrow more than he did last year.

OWN AFFAIRS

"There will be greater Government expenditure in a number of fields. One simple example of this is that the Government has to provide for its share of the regional service council levies which in the end has to come from taxpayers.

"There will probably also be increased spending on the own affairs administrations, black education and on measures to remove discrimination in social services.

"There may be an increase in the excise duties on alcohol and cigarettes."

● Mr Cas Uys, Conservative Party spokesman on Finance: "Everyone agrees inflation and the chaotic state of agriculture are among the main problems facing the country.

"While there is talk of a modest upturn in the economy, actually it seems to be moving sideways.

"The Minister should try to stimulate growth but it is not clear how this could be done. Higher Government expenditure will fuel inflation.

"It is absolutely necessary Government expenditure should be kept under control, yet the indications are that this year it will be 30 percent higher than it was last year.

"The correct way of stimulating growth will be to put more money in the pocket of the man in the street, so it is therefore necessary to lower taxes.

"Then again, Mr du Plessis does not have much to play with."

Financial Mail

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THE BUDGET

What Barend should do

The Budget may have lost significance, both through growing emphasis on other instruments of fiscal and economic policy and through dwindling credibility. But it remains the most important single statement of economic policy and the yardstick by which other measures are judged.

It is thus important that next Wednesday Finance Minister Barend du Plessis should make a clear statement of priorities and policies that will encourage a continuation of our modest economic recovery. It is distressing that the first quarter of 1987 brought a slackening of growth, and that once again we are relying heavily on the rising price of gold (in US$) to save our bacon through the balance of payments.

It is probably too much to hope that there will be a deferment of the hastily introduced, half-baked proposals for RSC levies. And the need to assess the Margo tax commission may prevent radical, if needed, changes in tax structure. But even within the existing structure, it is possible to make more than cosmetic changes in the right direction.

While the object of introducing GST was to shift the load away from direct (income-based) to indirect (consumption-based) tax, indirect taxes make up no more of government income now than they did in 1960; while the share of direct taxes has actually increased.

In effect, all the direct tax "concessions" of recent years have been swallowed up, largely by fiscal drag. It is regrettable that this process actually gives government an interest (short-sighted) in inflation remaining at a high level.

Judged against the original proposals, a 12% GST should virtually have allowed the total abolition of income tax. That is clearly not on, and nobody would favour direct tax cuts at the expense of another hike in GST. At any rate, pending Margo, that tax has surely hit its sustainable maximum.

On the other hand, there is no reason why other consumption-based taxes such as excise duties on liquor and alcohol should not be raised after last year's holiday. Not only has inflation eroded their real cost and yield, the political revolt of the Boland reduces the clout of wine farmers.

Certainly, significant adjustments of personal income tax brackets are needed, not only to offset fiscal drag but also to help consumer confidence. While the real impact of direct tax cuts on consumers' incomes may be limited, as well as being only equitable, they do have a major psychological impact — and psychology is what confidence is all about.

The *FM* has argued repeatedly that in the present state of the economy there should not be a slavish adherence to restricting the public sector deficit before borrowing (PSBR) to any rigid formula level. Brian Kantor made the point last week that sound long-term planning should relate PSBR to a notional full-employment GDP, anyway.

But that PSBR should not be an undue constraint does not mean caution on State spending can be thrown to the winds. And the *composition* of State spending is as important as its *size*.

Statistics can be bandied around justifying the cost of our bureaucracy. But as the chilling figures presented at Mercabank's recent seminar (*FM* May 22) show, attempts by Owen Horwood in the late Seventies to rein back government's share of resources have fallen by the wayside.

Past profligacy is such that the minister will have little room, on historic revenue and spending, to make significant tax cuts. As tax cuts are desperately needed, and even though PSBR should not be an obsession, discipline on public-sector spending remains vital.

At the very least, the increase in *current* government spending should be held back. This year, it should not exceed GDP growth; over time, it should be trimmed in real terms. If we need more teachers and nurses, that must be offset by fewer pen-pushers. However much the figures are juggled, it is common cause that we are an over-governed society.

To the extent that higher public-sector spending is tolerable, it must be on the capital side. Extravagances in the Sixties built up an infrastructure in many ways ahead of our then needs. That slack has now been taken up.

Renewed capex on necessary projects (not luxuries like opera houses) will not only increase the capacity of the economy to grow, but put money directly back into the private sector through construction contracts. It is in this area that PSBR can be ignored, for a while. And the projects must start to come through quickly — not like the vast sums allocated low-income housing, at the pace of the tortoise.

On the inflation front, the minister's worst enemies seem to be his Cabinet colleagues. The Sats and Post Office budgets show that the public sector's knee-jerk reaction to lossmaking services is still to price themselves even further out of the market.

The Minister must reaffirm the commitment to privatisation. And we must not just replace uncommercial public monopolies with uncommercial private ones. A competitive element must be introduced — as in the UK, where Mercury is an effective discipline on British Telecom.

Privatisation should also lead to a structural shift of resource-use away from the unproductive public sector. But *pace* Mrs Thatcher, it is not there just to ease the PSBR.

The minister must reaffirm the commitment to privatisa-is no place to talk about political reform. But he must know, and should be telling his colleagues, that restoration of confidence is impossible without reform.

Finally, credibility. Budgetary policies that are not believed are useless. This has long been a problem, even before Du Plessis succeeded Horwood. The spectacle of budgetary policies being overturned by apparently uncontrollable civil servants, necessitating Part-Appropriation Bills which make a mockery of the initial figures, is unedifying.

It may be the eleventh hour; but if Du Plessis wants to be remembered as one of our better finance ministers, now is the time to take a stand. The whole of SA will benefit. ■

Optimism for economic turnaround is growing

(+9) Star 30/5/87

MAGNUS HEYSTEK
FINANCE EDITOR

A barrage of official statistics are now confirming the turnaround in the South African economy on a wide front.

A continuance of this trend in the remaining months of the year could see the economy attaining, and even surpassing, the consensus growth rate of 3 percent as forecast by most economists.

In some sectors the increase in real activity has been fairly dramatic, albeit from a very low base, but with the gold price on a definite uptrend and confidence returning slowly to businessmen and consumers alike, there is no reason for this trend not to continue.

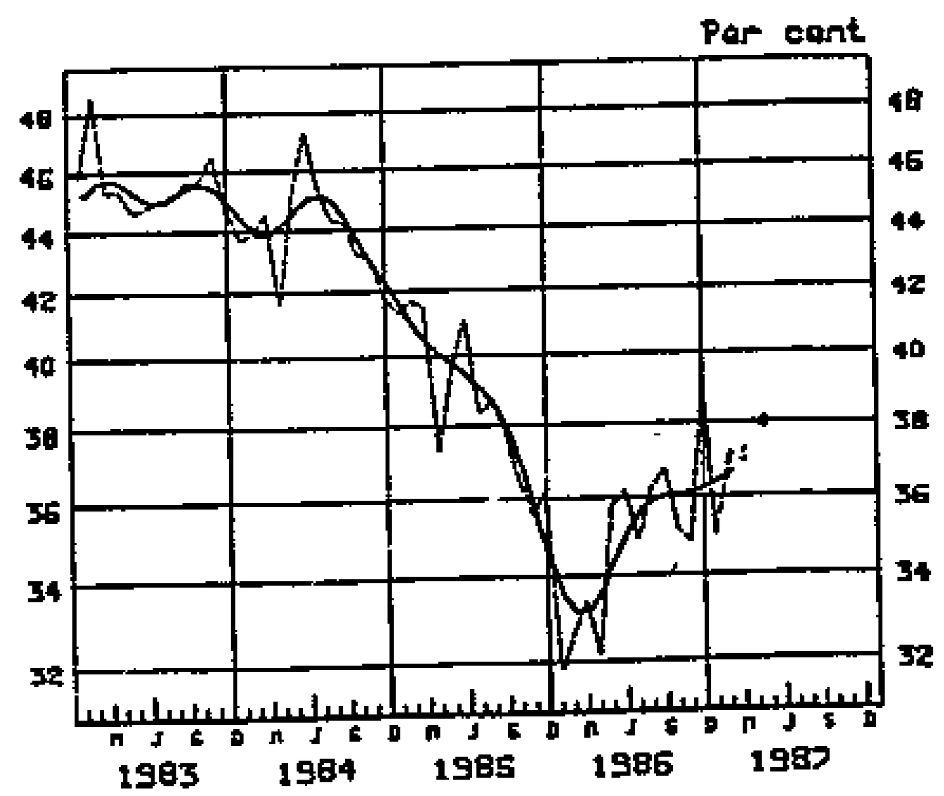
The Budget, due to be tabled in Parlaiment next Wednesday, is seen by most economists as a crucial determinant in further enhancing the upturn which in many cases is still beset by fundamental problems.

Some of the latest statistics from the Central Statistical Services pointing to the sharp increase in economic activity include:

Positive factors

● Both occupancy rates and total trading revenue of South African hotels — one of the sectors hardest hit by the downturn in the economy — increased sharply in February. Bed occupancy was 12,6 percent higher than the corresponding period the year before while total trading revenue was 15,6 percent higher in February this year.

● The number of summonses for debt in the first quarter of this year was down 6,5 percent compared with the corresponding period last year and down 5,1 percent on a seasonally adjusted basis compared with the last quarter of 1986.



Occupancy rate — Registered hotels.

This declining trend is also reflected in the number of debt-related judgements which shows a decline of 8,6 percent in the March-quarter compared with the same quarter a year earlier.

● A distinct upward trend in whole sale trade sales (excluding diamonds) is also reported for the six months to end March compared with the previous half-year period. For these periods wholesale trade sales show a seasonally adjusted increase of 8,6 percent. At 1980 prices the increase is 3,1 percent in real terms. This trend is expected to continue in April, says CSS.

● Architects are also feeling the effects of the turnabout in the property and construction industries. The sketch plan stage of commissions recieved by architects for all buildings shows an increase of 24,7 percent compared with the corresponding quarter of 1986 and an increase of 22,3 percent compared with the quarter ended October 1986.

A further sign of the revival in the building industry is that the sketch plan stage of commmissions received, based on estimated value, by architects for additions and alterations for the quarter ended January 1987 shows an increase of 116,7 percent compared with the same quarter of 1986 and an increase of 6,8 percent compared with the previous quarter.

● The total trading revenue of the wholesale and retail trade in motor vehicles and accessories in the six months to end February this year is up 25 percent compared with the previous six months, despite a slight downturn in January and February of 9,8 percent on a seasonally adjusted basis.

Manufacturing

Nedbank's *Guide to the Economy* points to further positive improvements in the economy. After reaching a seven-year low in March last year, the downward trend in the overall volume of manufacturing production was reversed and by January this year had recovered by 11 percent. More than half the number of industries (representing nearly 70 percent of total output capacity) grew strongly over the last three-quarters of 1986.

Nedbank identified the three main determinants affecting industry, namely confidence, consumer purchasing power and new opportunities arising from the present South African situation.

Confidence, already improving from its recent lows, is being aided by an improvement in overseas investors' confidence, an appreciating and steadier currency, the higher gold price and the outcome of the recent general election for white voters. In the short term, this will boost confidence, says Nedbank, as an element of uncertainty has now been removed.

Following two years of decline in real retail sales, demand has started to improve during the second half of last year.

Disposable incomes

Nedbank argues that the officially estimated drop of 4 percent in real personal disposable income during 1986 as a whole hides the improvement that occurred during the second half of the year.

This factor, together with a reduction in personal debt and some stability in the unemployment statistics, point to a further improvement in overall consumer spending in the months ahead.

Import substitution, fueled by the declining currency, sanctions and the threat of sanctions, are also opening up new possibilities for local manufacturers.

The one threat to sustained economic growth remains the high and unabating inflation rate. Economists are dismayed at the apparent admission by government that it's backing down in the fight against inflation. Growth and the creation of employment opportunities is the main thrust of economic policy, even if this has to take place at the cost of and even higher inflation rate.

Many economists argue that inflation is the prime cause of the lack of growth and employment creation experienced in this decade. A high rate of inflation will nip any economic boom in the bud, they argue.

Crumbs! Budget time is a drag

UNDERCURRENT AFFAIRS
BY HARVEY TYSON

IN about 100 hours from now you will know the best, and the worst, of the 1987/88 national Budget and how it affects your pocket. Unless you have been playing the Stock Exchange, like some of those share millionaires The Sunday Star has been writing about, your interest in tax benefits and other crumbs from the State will be unusually high this year.

The advance indicators, as we Low Finance experts say, tell me and other misleading economists that there is ... wait for it ... good and bad news waiting to be revealed by the Budget speech.

The good news is that there is almost a consensus among economists that income tax must be reduced. Now, agreement among economists is more rare even than charity from tax collectors, so this rallying cry for reduction in personal tax (a cry led by Sanlam and other company economists *nogal*) is good news indeed.

The fact that the winks (nods are not permitted) from "usually reliable sources close to the Government" indicate little change in Wednesday's Budget is not necessarily bad news. Government sources like to build up pessimism on the eve of Budget Day in order to make the medicine more palatable.

In sum: a reading of the bones indicates that it is reasonable to hope for some cuts and rebates on your income tax.

The bad news, however, is that the changes are likely to be small, and could be mere window-dressing.

The worst news is that, even if Barend du Plessis hands you as much as 10 or 15 percent of your hard-earned money back, you will *not* be better off.

News that you are losing even when you are winning is so depressing that I now have to call in the real experts to explain it. What is happening is that you are being caught in a triple play between the State, that bogyman Inflation, and its sinister partner Fiscal Drag. (No, Simon, Fiscal Drag is not seen at fancy-dress parties at the Treasury.) Fiscal Drag is the means whereby the Government collects more and more money from you without announcing tax increases.

As your salary goes up each year in a vain attempt to beat inflation, the tax-rate automatically increases and the taxman quietly takes more of your income.

South Africans take pride in having the biggest, worst, newest or shiniest of everything in the world. We can also claim to have the meanest, fastest-growing Fiscal Drag on Earth. It is so strong that average personal income has declined in real terms each year.

Last year the decline in the average real earnings was 6 percent. Where the average tax on income was 15 percent in 1981, it would be 32 percent in 1987. Put another way, if you received a 20 percent salary increase to offset a 20 percent inflation rate, Fiscal Drag would, if you fell into the "average" category, rob you of 2,5 percent more of your real income.

That's why some authorities and organisations are seriously suggesting that the Government should tax Stock Exchange transactions instead. That is where the money is at present.

But I tread on holy ground. Let me move on to a more popular target, which is the tax for the highly-controversial, bureaucratic Regional Services Councils. Some economists estimate that in trying to raise R650 million from the private sector, anything from R300 million to R400 million will be spent on collecting the tax.

Whatever the arguments may be concerning allotment of taxes, the fundamentals remain the same: increased revenue has to be found, and it can be found only by increasing taxes, selling off State-run services, borrowing money, or simply printing it. The last would turn inflation and Fiscal Drag into uncontrollable monsters.

The solution seems to lie in the first two, but they should be accompanied by a major change in the tax structure and a major drive to increase entrepreneurship.

□ □ □

Last week I wrote about the slipperiness of words, and how polluted many of them had become in the South African political lexicon.

Reader A P Hart confirms this in a letter attacking me for misusing words in my own column. He accuses me of foisting "rubbish on an ill-informed and prejudiced readership" by referring to "socialism" when (he informs me) I really mean State capitalism. State capitalism results from nationalisation of resources, whether by governments of the Left or Right.

Mr Hart adds: "Tyson writes of 'socialist ... democracy as government ... regardless of individual rights', which is nonsense by definition, because there can be no government (state machine) in a socialist world."

Well, of course it depends on definition, and who is defining. One can go back to Utopian Marxism; or one can take words in their universal common usage meaning; or one can adopt the fast-changing South African political lexicon (which can be used even to demonstrate that the general election was a move to the Left).

I was not referring to State capitalism when I wrote the word socialism. I was using the precise word used by everyone in phrases such as "African socialism" and "socialist democracy".

□ □ □

Now to the lunatic fringe.

A regular reader informs me that some people are interpreting the star emblem on the masthead of The Star as "a communist emblem". The accusation was implied in a letter published by *The Citizen*, and some weirdos were making similarly absurd statements "at meetings here and overseas". He asks me to enlighten readers.

What can I say? Would those people believe that the world is not really flat? The Star has had its emblem for well over a 100 years — long before the communist symbols were invented. Before the invention of colour printing the star emblem on this newspaper used to be black and white. I dread to think what the lunatic fringe would have made of that.

THE INDEPENDENT

JOHN PATTEN

Can Budget meet those tall orders?

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STAR 30/5/87

IT is the height of Budget season just now ... a little later in the calendar year than usual, but then the Government did not wish to upset its election campaign with anything hurting the average family pocket. More important this year the accusations (many of them valid) over vote manipulation is the question of whether the budgets can jointly act as any appreciable instrument for meaningful reform. As the anniversary of the state of emergency approaches, the Government must feel the pressure to do something remarkable in furthering its reform programme — an action it can afford to take now that its support with the electorate has been confirmed and quantified.

There will be politicians to Left and Right of the Government who will latch gleefully on evidence of tariff and fare increases, even public service pay increases, that have been held back till their impact could not damage the National Party at the polls. The Post Office and SA Transport Services budgets this week have provided that evidence already, and Wednesday's main Budget could add further fuel to that controversy.

But there was also an interesting switch of emphasis apparent in the Government's attitude to labour relations in the Transport budget this year. It would be encouraging to believe it represented a political straw in the wind.

Minister of Transport Affairs Mr Eli Louw announced that Sats is to introduce "one set of service conditions for all personnel", a decision expected to cause a dramatic improvement in working conditions for coloured, Indian and black workers.

Before the election, the same Mr Louw would not deal with the Sarhwu strikers, and eventually had them dismissed — a hardline decision which possibly won votes at the cost of lives. Now suddenly the strike on which he refused to show any flexibility is proving to have had some effect. Not only has Mr Louw conceded principles that would have gone far to end the strike peaceably (had he announced them then, before animosities were aroused), but he even indicated that recently dismissed Sats workers would be re-employed, probably with their service linked so they could share in the improved service conditions and pension benefits.

CONFRONTATION

There is reason to feel aggrieved at the way the Government handled the whole confrontation with Sats strikers. But that should not blind people to the very important further step that has been taken towards fair employment practices in a major state-controlled industry. It is to be welcomed strongly.

What can Minister of Finance Mr Barend du Plessis do in his main Budget on Wednesday? He has wider scope than the Post Office or Transport portfolios, but he also has more constraints and problems. It is vitally important for him to keep the economy in equilibrium. He has to try to stimulate economic activity further without fuelling inflation. He has to tackle the problem of upgrading education and of relieving the housing shortage. He will be under pressure to step up expenditure on the security services. All this, and to cut taxes too.

But he has little revenue leeway. The Government machine is still overspending and needs a hefty inflow of money to run its far-from-fuel-efficient work engine.

Faced with an international freeze on loans to South Africa, Mr du Plessis has to find a substitute for foreign loans as a means of avoiding further tax pressure. He could do a Thatcher and find a state enterprise to sell to the public. It would be a welcome move, but one that would take people by surprise just at present. Otherwise he could borrow on the local capital markets — an option that would tend to put a damper on the stock exchange boom, soak up excess liquidity, and push up interest rates.

Higher interest rates would close the negative gap that exists with inflation, but would slow an economy that needs to expand to cut unemployment and accommodate the inflow of new job-seekers.

Out of that tangle of threads pulling Mr du Plessis in different directions, he must consciously use the Budget to set priorities in dealing with South Africa's problems of the day. That means deliberately increasing Budget allocations in certain areas so they help affect public perceptions.

Moves to stimulate the economy, increase employment, relieve social misery and raise the level of economic co-operation and participation could all gently benefit political and social reform in the country. It is important that these constructive steps should be seen to outweigh the emphasis on security. Where, before the election, the Government considered it tactical to put the emphasis on security as a vote-catcher, it is now politic that it be seen to be put the emphasis on reform.

(49)

The giant black holes we can expect in the budget

The economic decisions that matter to the Cabinet have already been made. The decisions that matter to the majority won't be made at all. What the budget doesn't say is as important as what it does. HILARY JOFFE reports

THE budget which Minister of Finance Barend du Plessis will table in parliament on Wednesday is more likely to reflect South Africa's fundamental economic problems than to address them.

There is consensus among the budget forecasters that the June 3 main budget will involve mild stimulation of the economy, with the government making some attempt to provide for the slight improvement in the economy anticipated for this year.

But economists, trade unionists, business figures and politicians, who would have the state's resources directed towards fundamental problems of widespread poverty, inequality and unemployment, would like to see more far reaching measures. These are unlikely in Du Plessis' budget.

Actually, the budget will probably be rather a non-event. Changes in taxes, public sector salaries and government expenditure, which in the past have been voted through the main budget, have this year been implemented before the budget.

Concessions on personal income tax as well as increases in pension payments and subsidies for farmers were voted in February's "mini budget", before the white elections. Civil service salaries were raised by 12,5 percent earlier this month. And perhaps the biggest shocks have come in the railways and post office budgets, with an average 8,8 percent increase in postal tariffs and 10 percent increase in railway tariffs announced in the last two weeks.

By comparison, the main budget will not provide much economic drama. But that doesn't mean we shouldn't take it seriously, say economists. For a parliamentary budget is, above all, a political statement: An index of the government's priorities.

"Any democratic system would have to take account of our most pressing problem; very high unemployment among unskilled, mainly black workers," says University of Cape Town economics lecturer Iraj Abedian. "The lack of sensitivity of the cabinet to such issues reflects the lack of the franchise for the majority of South Africans."

The need to pay attention to unemployment is not simply a moral issue, says Abedian.

"To the extent that the whole system depends on economic stability one would expect even a white only government to pay attention to the problem of unemployment. Instead, we can be sure that the cabinet will take note of the 'white preference', in PW Botha's terms, for security."

Abedian would favour government support for a strategy of economic growth based on creating jobs through investment in such areas as construction of schools and roads, in community upgrading and in training and skills.

Many commentators have emphasised the need for government spending on job creation (see box). Current estimates of unemployment range from 1,5 million to 6 million, with the recent President's Council report putting it at 3,3 million.

Government investment in the provision of infrastructure is needed not only for job creation but also to deal with social needs.

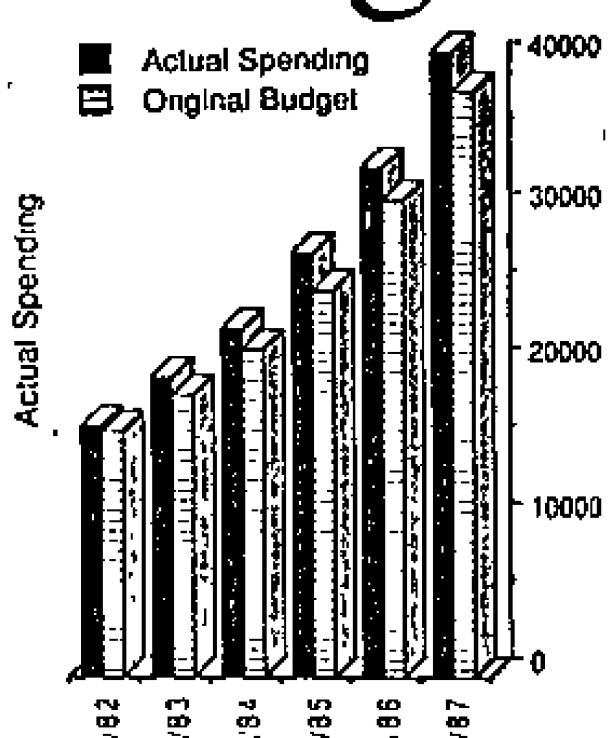
Some budget watchers predict that the minister of finance will stimulate the economy by spending more on goods and services. The Nedbank Group Economic Unit predicts in its *Budget Prospects* that up to R1-billion more of government money will go to "infrastructural expenditure on roads, bridges, buildings, housing and the like".

"This is a necessity if we are to get the economy going again," says Nedbank chief economist Edward Osborn. "There is a backlog of infrastructural development which has got to be addressed and it's important that the minister puts as much as he can into this."

Other economists are more pessimistic. Dr Ockie Stuart, director of Stellenbosch University's Bureau for Economic Research, would like to see government spending directed at the provision of social infrastructure and job creation, but doesn't think this will happen in the budget.

He points out that the increases in government expenditure on housing, in 1985/86 did not have much effect. The figures have to be kept in perspective though. An increase of R1-billion in government spending on social infrastructure would not have a very significant effect on job creation.

The other side of a stimulatory budget would be cuts in taxes such that consumers have more money to spend, boosting demand and ultimately investment and job creation.



What you see in the budget is not what's actually spent: budget estimates are usually too optimistic

If alleviating poverty is a priority too, this would indicate that the taxes to be cut should be general sales tax, which would affect all classes of South Africans. Cuts in income tax, would affect only those who pay tax.

But the forecasts are that GST will remain as it is, with the government unwilling to gamble with its sources of revenue.

Wednesday's budget will not include major changes in income tax either. Small concessions to individual taxpayers were included in the mini-budget and the government is waiting for the recommendations of the Margo Commission, which is expected to recommend a major overhaul of the whole tax structure and may report its findings later this year.

Economists and business people point to constraints which will limit the Finance Minister in planning the getting and spending of government money as reflected in the budget.

One constraint may be the government's reluctance to upset the balance of payments, at present showing a surplus on its current (trade) account.

"The minister can't go overboard and overstimulate the economy," argues Osborn, "because this can give rise to heightened expectations, with traders stocking up to meet the expected increase in consumption and ultimately a rise in imports."

Another constraint is inflation and fear that a large budget deficit would aggravate this.

Two years ago the Minister of Finance argued the budget deficit before borrowing should not exceed three percent of the country's gross domestic product.

In a political climate in which the government is emphasising 'security', expenditure on such items as the military, policing and the courts, is certain to increase. Any stimulatory measures (either in the form of increased government spending on infrastructure and social security or reduced taxes) would further increase the size of the budget deficit.

Budget commentators argue however that the deficit before borrowing can and will exceed the three percent limit. The *Standard Bank Review* predicts an increase in government expenditure of at least 20 percent, with a deficit of about R8,2-billion, or five percent of GDP. Most other economists estimate a deficit of around four to five percent of GDP, although Nedbank's prediction is as low as 3,5 percent.

Ultimately, however, these constraints limiting the 1987/88 budget are technical ones, while the nature of the budget itself reflects the Nationalist government's political priorities.

A budget which addressed fundamental problems of poverty, inequality and unemployment would be a different one tabled by a different government.

GLIMPSES OF A MORE 'PROGRESSIVE' BUDGET

How would the budget look if government priorities were different? Below are four suggestions

ALEC ERWIN (education secretary, Congress of SA Trade Unions) There are very good reasons why this government and the budget it is likely to present will be incapable of solving our real problems.

The first need is for a settling of political problems in both South Africa and Southern Africa — because without solving these problems, this government is tying up vast resources in the military and security and in taking internal repressive action.

As a result it cannot put resources into the areas where the real problems lie: housing, social security and the whole range of social infrastructure which has to be developed in the cities and in the rural areas.

The problem is further compounded by the fact that despite earning very large profits in the last year or so, the large companies are just not investing in South Africa at all, both because of political reasons and more fundamentally because of the very low incomes of the vast majority of people in the country.

Low incomes mean that the monopolies are not able to build houses and other necessities at a profit, so they just export their profits. What we need is a government able to reduce its expenditure on the military and security and a government which would be prepared to prevent the export of profit and redirect it into job creating activities inside South Africa.

This government can do none of these things and in the budget it is just fiddling with relatively insignificant amounts here and there.

PHIROSHAW CAMAY (general secretary, National Council of Trade Unions) We would like to see more money spent on education and more money spent on social welfare and pensions. We would like to see pension discrimination scrapped and a universal education system such that the same amount is spent on black pupils as on white.

The constitutional budget should be dismantled and the House of Delegates and the House of Representatives should be disposed of.

We'd like to see the budget provide for the creation of a forum where unbanned organisations would be able to participate in developing a new constitution for South Africa.

HARRY SCHWARTZ (PFP MP for Yeoville) I would like to see increased expenditure to eliminate discrimination in social services such as pensions and hospital services: this is a major priority. I'd like to see a substantial amount of money voted to deal with job creation.

PROFESSOR FRANCIS WILSON (University of Cape Town) Far more important than the size of the national budget is the efficiency and humanity with which it is used.

Employment creation should be increased; provision for housing should be increased; pensions should be increased. We should have a budget which is moving towards a concern for poverty, because the security of this country rests ultimately on democratic participation and full employment and the absence of hunger, rather than on a strong police force or army.

Premier MD Tony Bloom

One is looking for a shift in priorities away from knee-jerk security to dealing with the underlying issues in our society.

TONY BLOOM (Premier Milling) The problem which the budget should be addressing is that the man in the street is suffering and dipping into savings to live.

I would like to see a reduction in GST, for example of two percent, which is better than reducing income tax because it would affect everyone in South Africa, not just taxpayers.

I'd like to see the reintroduction of the investment allowance because fixed investment has declined over the last three or four years and no jobs are being created: this kind of tax incentive would offset the effects of negative fixed investment so jobs could be created.

Also given the improvement in the current account of the balance of payments, the surcharge on imported goods should be removed, as an anti-inflationary measure.

At last, President's Council warns on unemployment

By PUNDY PILLAY

UNEMPLOYMENT has reached "unacceptable levels" and the government should direct urgent attention to the creation of productive employment opportunities, the President's Council has suggested.

The report of the council's committee for economic affairs, entitled "A Strategy for Employment Creation and Labour Intensive Development", concludes that employment creation is the "most suitable way in which to raise the level of prosperity of the economically less developed members of the community".

The report released last week nor- [...] ca is not unique, the report maintains. However, its authors neglect to mention that some upper middle income nations (of which South Africa is one) such as Hong Kong, Israel, South Korea, Singapore, Mexico and Argentina managed to reduce unemployment levels to lower than seven percent during 1985.

The committee stops short of quantifying unemployment but notes that assessment varies from eight to more than 20 percent of the work force.

The surplus labour pool in 1980 [...] age of savings for capital formation and international sanctions.

The committee thus locates the causal factors outside the sphere of government and private sector control

High economic growth is seen as a pre-condition for resolving the problem of labour absorption.

Attention is focused particularly on the employment creating capacity of the policy of inward industrialisation which involves manufacturing to meet increased domestic demand.

The committee believes the relative change in income distribution in favour of blacks since 1960, if contin- [...]

While the report does represent an acknowledgment by official sources that unemployment is a problem, it seriously lacks innovative proposals.

It emphasises urban-oriented employment, drawing attention to the large numbers of frustrated unemployed people on the doorstep of white areas, and points to the need to ease the "political and social tensions" that could be generated.

● **Pundy Pillay is a lecturer at the School of Economics, University of Cape Town.**

Economist: Budget aimed at spending

Dispatch Correspondent

JOHANNESBURG — The Budget next week will be aimed at encouraging spending rather than saving, Mr Nico Czypionka, head of the Standard Bank Economic Research Department, said at a Cape Chamber of Industries mid-year meeting.

"Official policy at this point favours borrowers at the expense of savers. It is a deliberate policy to crank up consumer spending."

Mr Czypionka forecast that interest rates might rise marginally by the end of the year if demand had risen sufficiently but could, instead, fall further if the recovery did not take off fast enough.

Pointing out that "liquidity is just sloshing around in the JSE instead of being used in ways that would help the economy to grow", he went on: "By the end of this year I see prime rate at a maximum of 13,5 per cent — more probably 13 per cent.

"Perhaps there is even a chance of an interest rate reduction."

If there were no sustained growth in the economy "the first thing the Reserve Bank is going to do is pull interest rates down even further."

Mr Czypionka said that the sharp fall in business confidence, which was now beginning to rise again, had "nothing to do with politics" but was due to the steep rise in interest rates in an attempt to bring down inflation.

It was only later that the State of Emergency had been declared.

Explaining that the decline in South African prosperity after the 1960s had been due to factors including the changing patterns in Western industrialised countries which had hit all commodity producers, and the prolonged drought, he said it had been made worse by the lack of a decisive economic policy.

"This is why in the last few years this country has under-performed incredibly."

He said there was now a need for a comprehensive recovery strategy, which could not work unless it had a political as well as an economic dimension.

"The ideal would be to subordinate politics to economic pragmatism."

Mr Czypionka said the cheapest, quickest way to provide more jobs was to deregulate the informal sector.

But for this to have the desired effect it must be done quickly. And it must not be seen as a substitute for First World economic development but as a stepping stone to it.

Black people wanted to take part in a First World economy, not an upgraded Third World one.

There was also a need for extensive privatisation, both of services and assets. The funds raised in this way could be used to build up a social infrastructure.

This would make it possible to reduce the size of government administration, which would shift the balance of economic power and also make it possible to reduce taxes.

Mr Czypionka said the government had accepted this policy but wanted to carry it out slowly.

Discussing inflation, he said there was "no chance whatever of bringing it down to 10 per cent", and he expected it to start going up again early next year because the rand was no longer improving.

Prepare for a 'no news' Budget

(49) SA 2/6/87

Political Correspondent

CAPE TOWN — Tomorrow's Budget to be presented by the Minister of Finance, Mr Barend du Plessis, is already being dubbed the "no news" budget.

Two reasons are being advanced for this.

Firstly, announcements normally associated with the Budget have already been made — the increase in pensions, salary rises for public servants and the response to the clamouring for tax relief from the man in the street.

These matters were either dealt with in the mini-budget in February — the pre-election sweets as they were dubbed by the MP for Yeoville, Mr Harry Schwarz — or were announced shortly after the election.

The second reason is that Mr Du Plessis has very little room in which to manoeuvre and the consensus is that at best there may be some minor adjustments aimed at partially neutralising the effect of fiscal drag.

It is hoped that Mr Du Plessis will finally take the lid off some of the findings of the long-awaited Margo Commission Report.

If there are to be announcements in tomorrow's Budget they may concern excise duties and the Minister may see his way clear to granting some relief for certain industries.

A "hands-tied" Budget is how one source described the Budget today.

Another added that it could be the most low-key and, for the man in the street, "boring" Budget in history.

ARGUS 2/6/87 49

Govt can cut income tax by 20% — Kantor

By TOM HOOD
Business Editor

THE Government has room to make tax cuts equal to 20 percent of income taxes paid last year, says Professor Brian Kantor, director of the school of economics at the University of Cape Town.

This would amount to a real reduction of perhaps five percent, he says in a Budget forecast today.

"This is very much the opportunity available to the Government. If they fail to seize it, they will only have themselves to blame at the next election."

Criticising last year's Budget for being "absurdly conservative," he believes tomorrow's will be important if it has a favourable influence on confidence.

Growth in revenue could be forecast

"Visibly lower personal income tax payments could be very valuable in boosting confidence."

Economic recovery and inflation will add significantly to revenues and a built-in growth in total revenue of between 16 and 18 percent could be confidently forecast, said Professor Kantor. The authorities could also easily justify to themselves and to financial markets an extra borrowing requirement or fiscal deficit of up to 4,5 percent of potential gross domestic product (GDP).

A conservative estimate of GDP for the financial year would be about R170-billion, so that the planned deficit could be R7,65-billion.

This, if added to revenues excluding transfers from the Central Energy Fund of R39,6-billion, could produce a total expenditure Budget of R47,25-billion.

The estimate of revenue is for 18 percent growth on

Professor Brian Kantor

R33,6-billion — excluding transfers from the Central Energy Fund.

"Income tax concessions will therefore depend on the authorities reducing this growth in expenditure to something like 15 percent and the willingness to draw again on the Central Energy Fund.

Delay in civil service increases important

"Delaying the increase in Civil Service salaries by three months is an important factor in the calculation.

"Fifteen percent growth may well be feasible and an expenditure budget of about R42,6-billion will leave room for income tax cuts of about R1-billion.

"A further R1-billion from the Energy Fund would make for a politically meaningful reduction in income taxes equal to 20 percent of income taxes paid in 1986-87 and a real reduction of perhaps five percent."

The economy today is undoutedly in a much healthier state than it was a year ago, said Professor Kantor.

"In fact, the resilience of the economy in the face of disastrous political and economic shocks is quite remarkable and deserving of respect in financial markets.

"South Africans cut back on their standard of living in order to meet withdrawals of capital in a way other borrowing countries have been quite unable to do.

"The worst of such sacrifices would appear to be behind us. Domestic expenditure is recovering from very low levels and is as yet in no way prejudiced by the balance of payments restraints.

Balance of payments dependent on gold

"In fact, the sooner the ability to finance higher real imports through foreign credits is tested, the better.

"Fiscal policy should, if anything to the extent it can be, be encouraging of expenditure growth, especially private expenditure growth."

Concern for the balance of payments was a long way off and would also depend on the gold price which, so far this year, had been encouraging.

Revenue last year was augmented by a R1-billion transfer from the Central Energy Fund to cover the spending package.

This fund was a secret off-Budget item but as much a source of revenue as any other. It was being augmented by the repayment of loans by Sasol, which was a very successful example of privatisation.

"The authorities are also over-recovering on the petrol price now that the rand is more valuable. It would make every sense to turn to the Energy Fund again as a source of revenue."

Budget poised to boost economy?

(19) 3/6/87 DD

Dispatch Correspondent

PORT ELIZABETH — South Africa's economic recovery is poised for a moderate boost from a long delayed national Budget likely to entail expenditure in the vicinity of R40 billion.

The Minister of Finance, Mr Barend du Plessis, is certain to strive for faster growth while attempting to restrain inflation in the Budget package to be tabled in the House of Assembly this afternoon.

Fireworks are unlikely. It is generally believed that most tax concessions were released in February in the Part Appropriation Bill, or so-called mini-budget, which effectively took the place of the election-delayed main Budget usually tabled in March.

In February tax rates were announced to help compensate for fiscal drag or bracket creeping (higher tax attracted by inflation related salary increases offering nil gains in real terms).

The maximum marginal tax rate was reduced to 45 per cent from 47,5 per cent. The tax liability threshold was raised, working wives got a better deal and repayment of the 1983 loan levy was declared.

This time around the Minister's new finance options appear largely limited to hikes in customs and excise duties and an increased Budget deficit which, if overdone, could heighten fears of higher interest rates and inflation.

Mr Du Plessis is accordingly expected to tread a careful path offering some incentives to spending, made easier by higher tax receipts from buoyant company profits and healthy mines.

No significant changes in state tax policy can be anticipated until after the report of the Margo tax commission in a few months.

Building societies and insurance companies have been lobbying for more encouragement for savers but the head of Standard Bank's economic research team, Mr Nico Czypionka, thinks they will have little success.

He put his money on a Budget to encourage spending, rather than saving, in view of the government's commitment to stimulating the economy.

The director of the Stellenbosch Bureau for Economic Research, Mr Ockie Stuart, said he was not "expecting very much from this Budget".

"The best way to stimulate the ecomomy would be by reducing direct tax or GST but I do not think the Minister will do that. He will probably use the Margo Commission as an excuse not to," he said.

"Cutting GST down to 10 per cent would be the best way to stimulate the economy because it would have a tremendous psychological effect," said the President of the Federated Hotel, Restaurant and Catering Association (Fedhasa), Mr Mike Kovensky.

Popular opinion and most economists are doubtful and Mr Kovensky himself concedes: "I think the Budget will just be an accounting exercise."

Volkskas Bank's economist, Mr Adam Jacobs, believed the Minister's room to manoeuvre was very limited as he had to bring down inflation and maintain a favourable balance of payments.

Mr Jacobs did not expect the Minister "to do anything serious about bracket creep" although there might be token gestures.

However, he was concerned about the prospects of a large budgetary deficit and how it would be financed.

Price of guarding SA goes up by R3 billion

(49) 3/6/87

By PATRICK CULL
Political Correspondent

CAPE TOWN — Expenditure on protection services now swallows up 22% of the annual budget.

Presenting a R46,318 billion Budget in Parliament today — R8 billion more than for the 1986/7 financial year — the Minister of Finance, Mr Barend du Plessis, made provision for expenditure of R10,070 billion on protection services — an increase of nearly R3 billion on last year.

A breakdown of the increases shows:

- The Defence budget is up by R1,760 billion.
- The Police budget is up by R717 million.
- The custody and the administration of justice budget is up by R229 million.

Other major increases in projected expenditure announced were in the departments of Foreign Affairs, Trade and Industry, Education and Training, and the administration of the three Houses that make up Parliament.

The main increase in proposed defence expenditure concerns air defence, where the amount budgeted has risen by nearly R1 billion to R2,6 billion.

Another R450 million is added to the budget for landward defence, R76 million for maritime defence and R38 million for medical support.

The major increase in the police budget is R335 million for law and order.

Budgetary aid for the TBVC homelands, included in the Foreign Affairs vote, has been increased substantially from R714 million to R1,375 billion.

Under the Development Aid vote, the amount in assistance aid to be paid to the governments of self-governing homelands will nearly double from R1,250 to R2,029 billion.

Expenditure on black education is also set to rise dramtically, with the major portion — R152 million — going on pre-primary and primary education.

A further R58 million is allocated for secondary education to bring the amount spent in that sphere to R345 million.

● See page 3.

Charles

Growth is the aim

Creation of new jobs is a top priority

49

By PATRICK CULL
Political Correspondent

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis, this afternoon presented a R46 billion Budget — up from R38 billion last year — "designed as a stimulus towards bringing the economy out of recession and putting it back on the path of sound growth".

Finance Minister BAREND DU PLESSIS holds the Budget that he presented in the House of Assembly this afternoon.

Expenditure on social services will now take 37% of the economic cake — up from 32% last year — protection services 22% (19%), economic services 13% (14%) and public services 11% (9%).

Mr Du Plessis said the 1987-88 Budget was the first presented in terms of the five-year plan outlined last year.

But, he said, the Government had refrained from major changes in the tax system while it awaited the Margo Commission Report, now scheduled to be released in August.

The Budget, the Minister said, reflected the continuation of direct and indirect concessions and measures to "promote thrift and provision both for one's working life and for retirement".

He said the Budget had to promote the creation of new jobs and ensure the continuance of existing ones by way of grants and other measures, always bearing in mind the fact that employment creation belonged primarily in the private sector.

Finally, he said, the Budget had to provide for the maintenance of law and order "in the face of an unprecedented escalation of the risk of violence and where possible act pre-emptively in this regard".

Sketching the Government's long-term economic strategy, Mr Du Plessis said the highest priority in determining economic goals had to be given to a growth process that above all generated work in such a way that ensured the participation in the ensuing benefits of the greatest number of people.

In the light of this, he said, the further development of the South African economy would be threefold:

- The strengthening and development of the modern sector.
- Economic growth generated internally by the increased demands of a burgeoning urban population.
- The promotion of rural development and the creation and maintenance of job opportunities there.

The Minister said the Government's fiscal strategy aimed at a relative reduction in total public sector expenditure from 38% of the gross

To Page 2

P.T.O

Budget set to boost economy

CAPE TIMES 3/6/87 49

Finance Staff

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Fireworks are unlikely. It is generally believed that most tax concessions were released in the Part Appropriation Bill, or so-called mini budget, which in February effectively took the place of the election-delayed main budget usually tabled in March.

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Lobbying for savers

Mr Du Plessis is accordingly expected to tread a careful path offering some incentives to spending, made easier by higher tax receipts from buoyant company profits and healthy mines. No significant changes in state tax policy can be anticipated until after the report of the Margo tax Commission in a few months.

Building societies and insurance companies have been lobbying for more encouragement for savers, but the head of Standard Bank's economic research team, Mr Nico Czypionka, thinks they will have little success.

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He is concerned about prospects of a large budgetary deficit, and how it would be financed.

Govt has room to announce tax cuts and improve SA's confidence, says Kantor

49 3/6/87

Own Correspondent

CAPE TOWN — The Government has room to make tax cuts equal to 20 percent of income taxes paid last year, said Professor Brian Kantor, director of the school of economics at the University of Cape Town.

This would amount to real reduction of perhaps five percent, he said in a Budget forecast.

"This is very much the opportunity available to the Government. If they fail to seize it, they will only have themselves to blame at the next election."

Criticising last year's Budget for being "absurdly conservative", he believed today's would be important if is had a favourable influence on confidence.

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Economic recovery and inflation would add significantly to revenues, and a built-in growth in total revenue of between 16 and 18 percent could be confidently forecast, said Professor Kantor.

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Professor Brian Kantor ... Govt must restore confidence.

JCC and T to join for giant busi

By Teigue Payne

The Johannesburg Chamber of Commerce and the Transvaal Chamber of Industries have thrown the cat among the pigeons of organised commerce and industry by announcing that they will merge.

The move comes after the main national bodies representing commerce and industry — the Association of Chambers of Commerce (Assocom) and the Federated Chambers of Industry (FCI) — have said they are not negotiating to merge.

The new Witwatersrand Chamber of Commerce and Industry, as it will be called, will cover the entire Witwatersrand, spanning three Regional Service Councils. It will thus represent 65 percent of all business activity in South Africa, according to Mr Hennie Viljoen, president of the Transvaal Chamber of Industries.

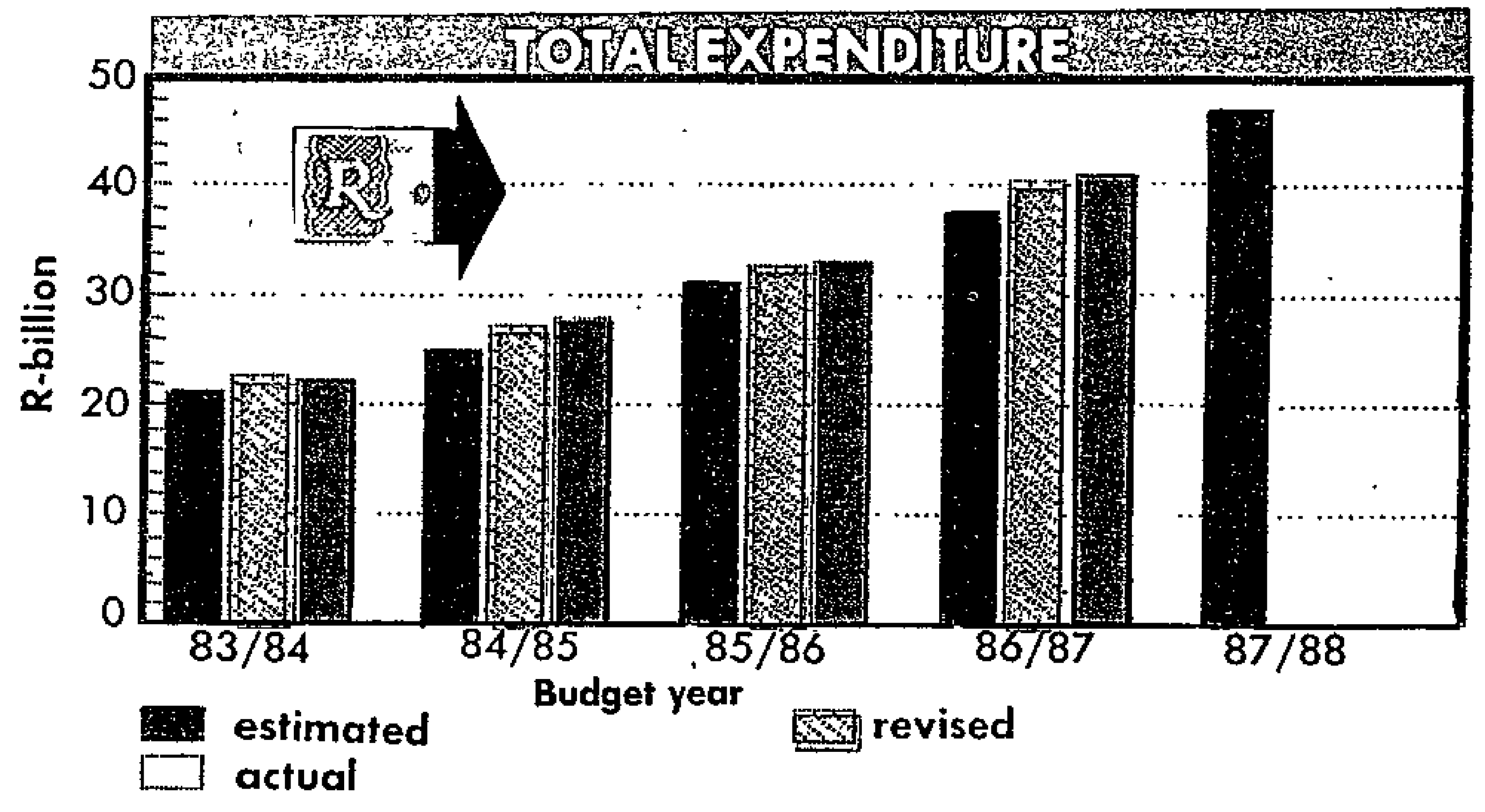
This powerful voice will, once merged, be thrown behind a move to merge the two national bodies. This move can be expected only after the merged organisation comes into being, but Assocom and FCI may decide to preempt the move by initiating talks.

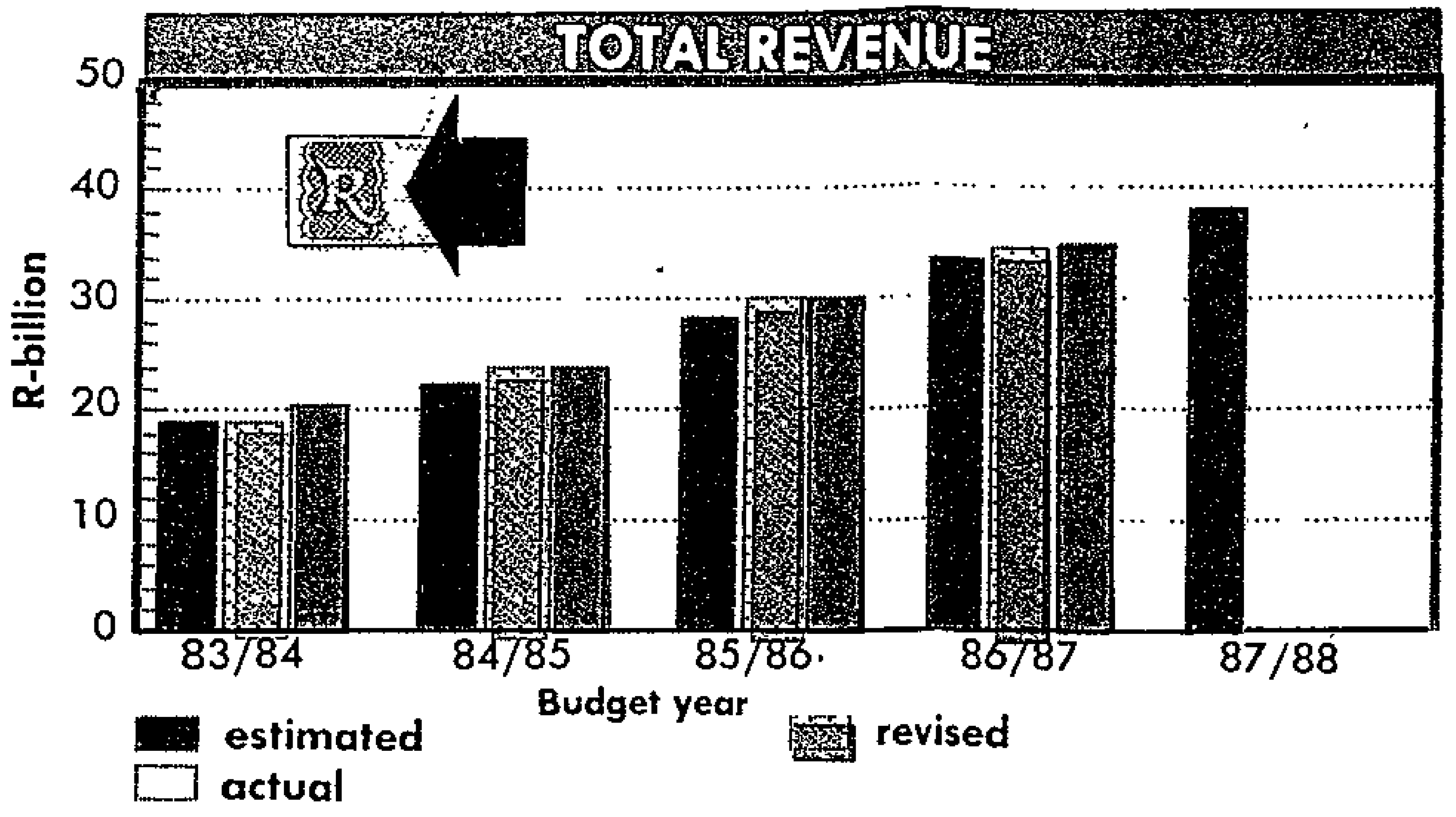
Last night representatives of the two Transvaal organisations confirmed that talks between Assocom and FCI were not

BUDGET FOCUS . . . 1987

All the news, views and comment

The Budget tale told in graphics





The government is budgeting for an expenditure of R46,868 billion for the current financial year. This presents an increase of 24,7 percent on the main Budget for 1986/87 and of 16,2 percent on the total actual expenditure for that year.

The revised estimate of the 1986/87 financial year was R40,321 billion, an increase of R2,75 billion on the main Budget and bringing finally a 22,5 percent increase over the actual expenditure of 1985/86.

In terms of government expenditure's share of GDP, this figure rose from 22 percent in 1980 to 28 percent in 1986.

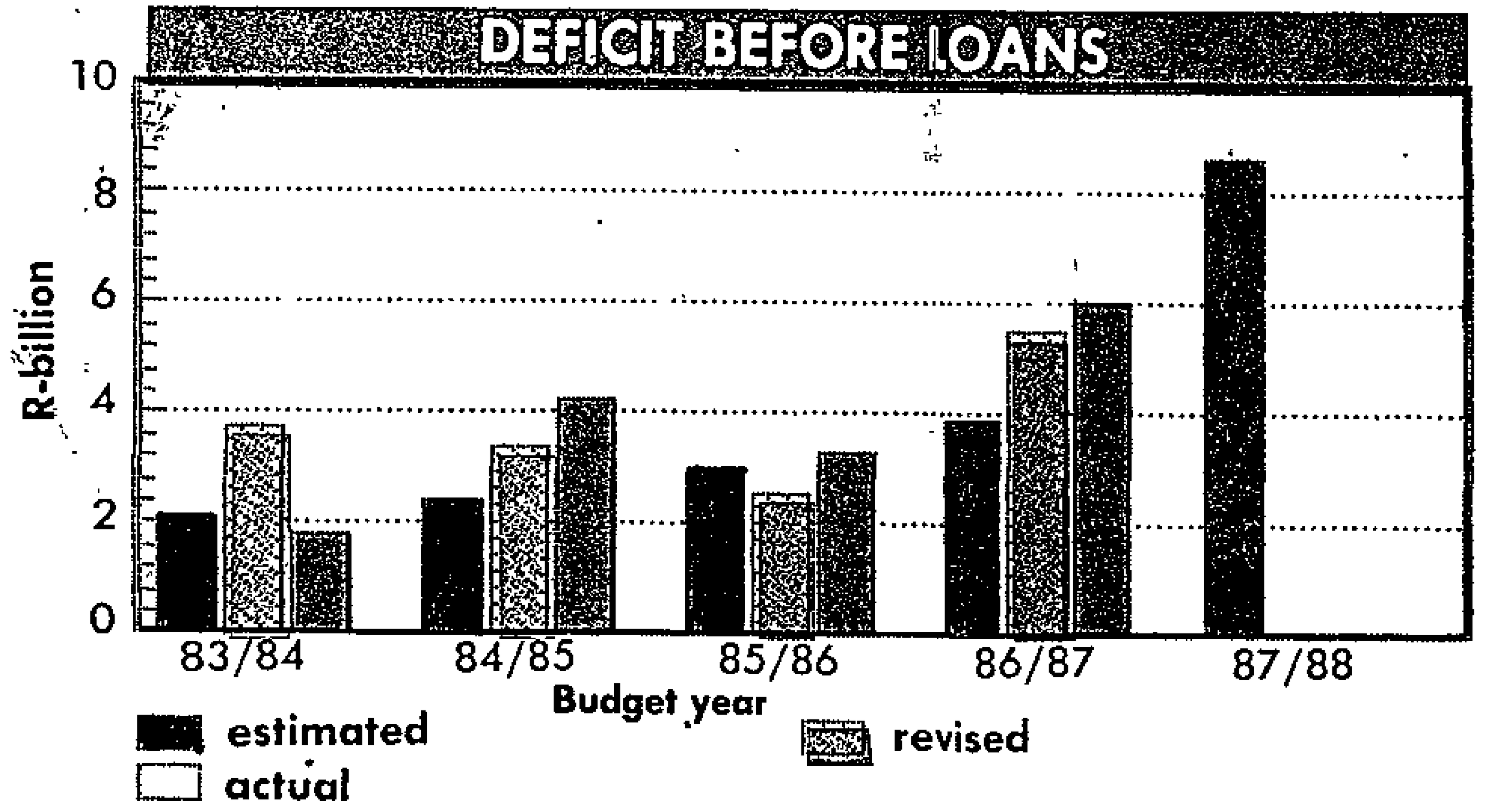
Total revenue for 1987-88 was estimated at R38,443 billion, compared to last year's R33,3 billion, with the majority of the increase coming at the expense of the individual.

As the adjusted expenditure total is R46,868 billion, the deficit before borrowing will be R8,425 billion, or 4,7 percent of estimated gross domestic product; loan redemptions are estimated at R2,465 billion, and the total financing requirement is thus R10 890 billion.

The deficit before loans last year was R4 billion, an increase of 32,8 percent on the 1985/86 figure of R2,97 billion. This figure represented 2,7 percent of South Africa's GDP, which was then well below the target of three percent.

Over the past six years overspending on the budget has ranged from 4,6 percent to 9,1 percent.

Finance Minister Barend du Plessis admitted that the deficit before borrowing was clearly very high. "But in the present economic climate, and with due regard to the liquid position of the capital market, it is not considered advisable to propose any significant tax changes to reduce the deficit."



Where the money comes from

Income Tax 31,43%

Where the money is going

Other 43,40%

Govt aims to lock SA into present political system, say experts

Political scientists and socio-economic experts yesterday said the State's massive spending on defence and internal security was designed to lock South Africans into the existing political system.

Professor Andrew Prior, head of the University of Cape Town's department of political science said the Government had introduced the tricameral Parliament in an effort to legitimise its political policies.

"The huge spending on defence and on the police indicates that the tricameral system has failed dismally. And now the tricameral system is seen to be a failure, more money has to be spent on trying to prop up the surrounding political structure," he said.

'LAAGER BUDGET'

"By spending such huge amounts on security the Government is demonstrating that it intends locking us into its political system. The country's economy is simply being roped in to help maintain that system."

Professor Peter Vale, director of the Rhodes University Institute for Socio-Economic Studies, described it as a "laager budget".

He warned that it would prove to be massively inflationary.

"Spending on defence and internal security show that these two areas are the centre of gravity of the whole system.

"But in the end this is the option for which white South Africans voted in the recent elections so they should not be surprised at what they got.

"They should be aware, however, that they have also sanctioned some heavy impending inflation."

He said it appeared that the Government had committed itself so heavily to defence and internal security spending in an effort to boost the confidence of foreign investors.

"Whether it will have the desired effect remains to be seen."

Professor Vale said it was interesting to note that the banned African National Congress was now recognised by 132 countries, yet it operated on probably about one percent of the amount voted yesterday for the Department of Foreign Affairs.

Foreign Affairs spending has been pegged at R1 375 million, with a substantial portion of it expected to go in one form or another to maintaining the homelands and TBVC countries.

He labelled spending on education as totally inadequate.

HEAVY SPENDING

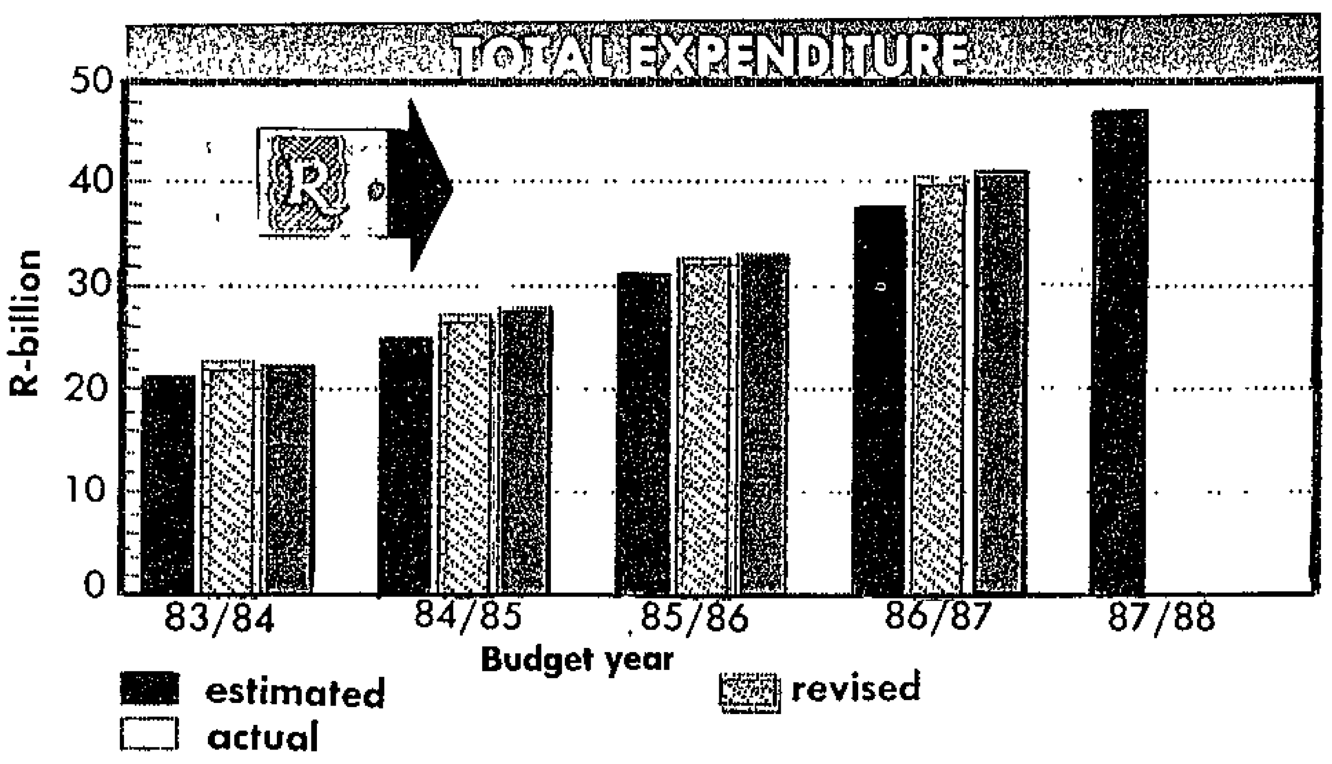
Professor Willem Kleynhans, former head of the department of political science at the University of South Africa, said that on the whole the Budget seemed fair and reasonable.

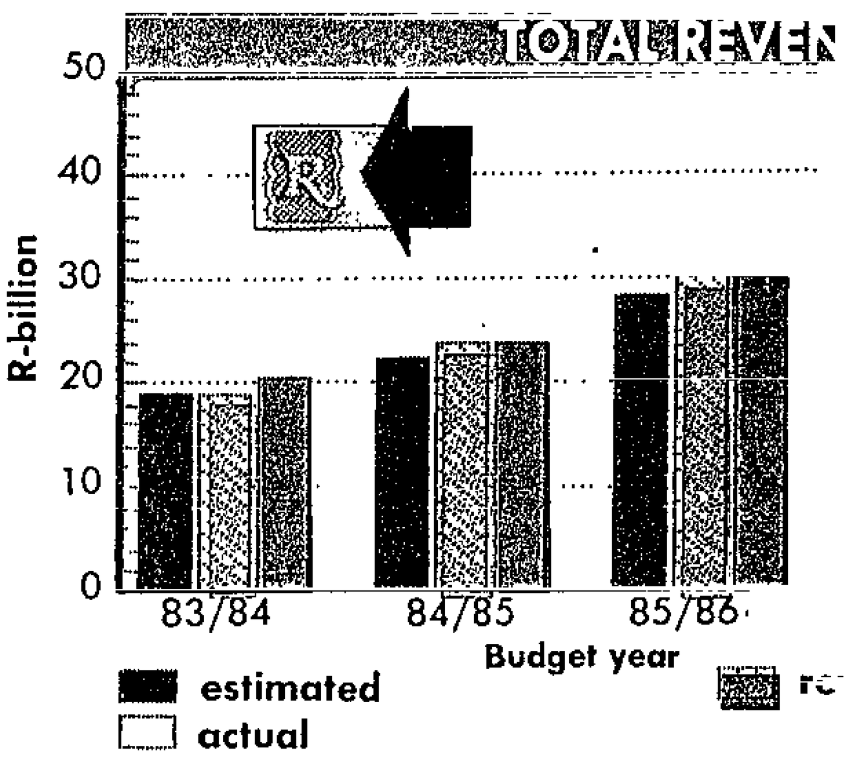
"Defence and police spending was heavy but it was in line with the mandate the Government asked for and received in the May election.

Professor Mervyn Frost, head of the department of political science at Natal University, said it was apparent the Government took its security mandate extremely seriously.

He expressed surprise at the absence of big spending on housing.

The Budget tale told in graphi





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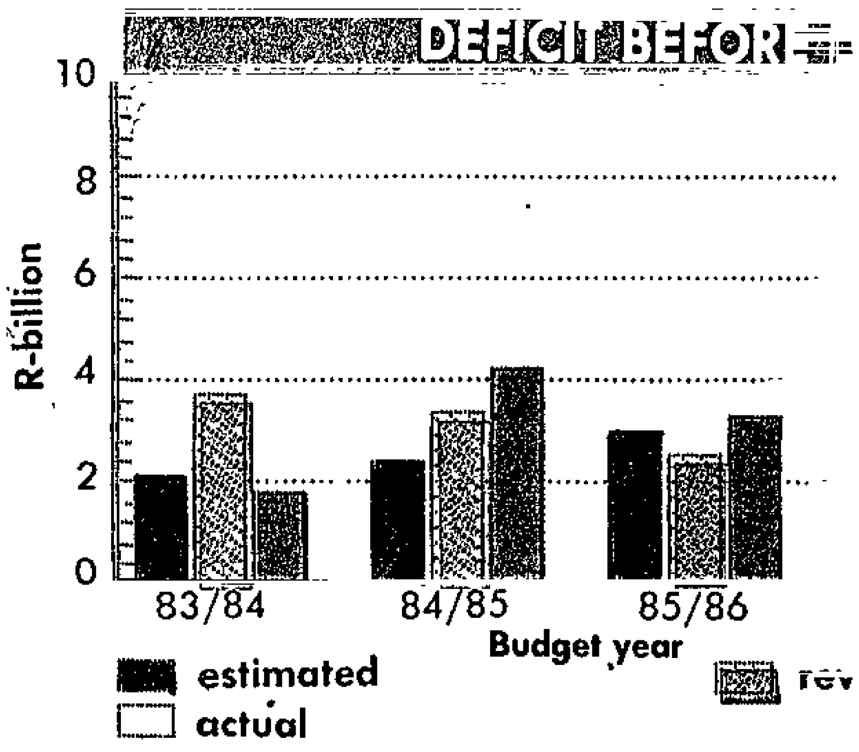
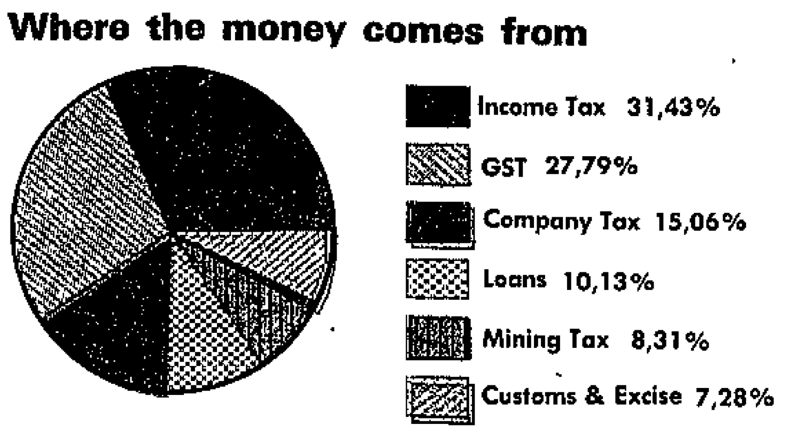
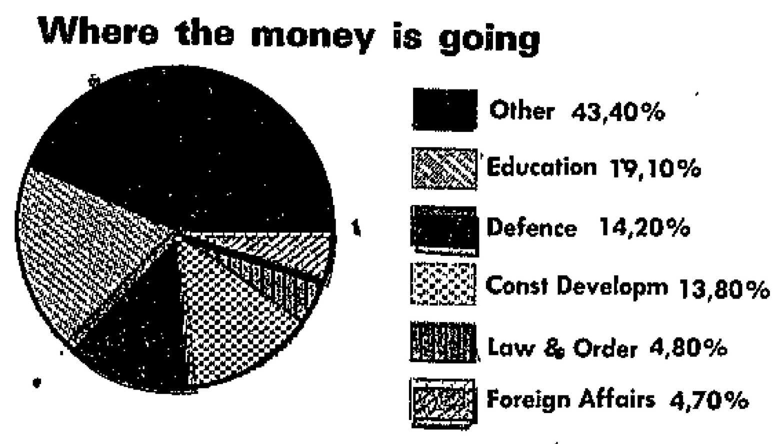






1987's cash flow — in and out

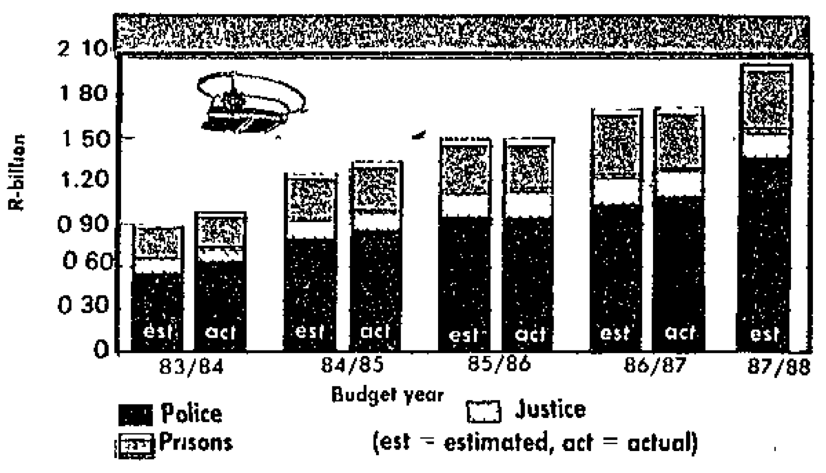
Government revenue creation has shown a marked change over the last five years — largely to the detriment of the man on the street.

Individual income tax will account for 31,4 percent of the estimated revenue (1986/87 — 30,3 percent), GST for 27,8 percent (23,6 percent), company tax for 15,1 percent (17,9 percent) and tax on mines for 8,3 percent (7,5 percent).

The respective figures in hard currency terms were R12,1 billion, R10,7 billion, R5,8 billion and R3,2 billion respectively.

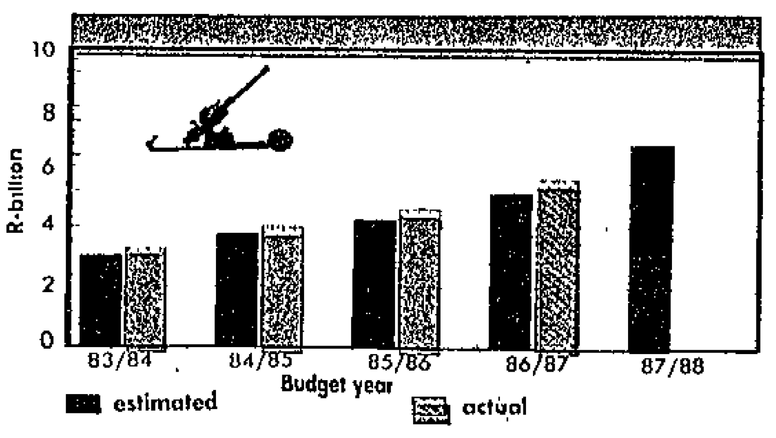
With regard to the GST figure, the individual and companies account for about the same amount of government revenue, an issue which has spawned much criticism.

The other major sources of revenue are customs and excise and loans, which this year are expected to boost R2,8 billion and R3,9 billion respectively to the State's coffers.



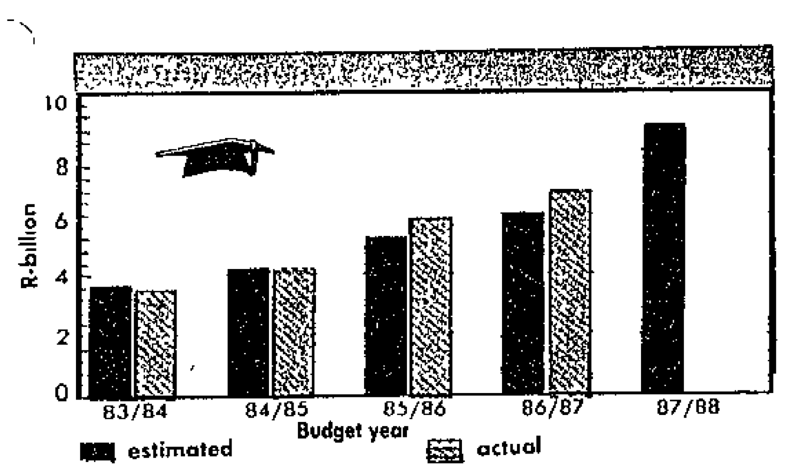
The accent on South Africa's internal and external security has once again bolstered the budget of the Department of Law and Order.

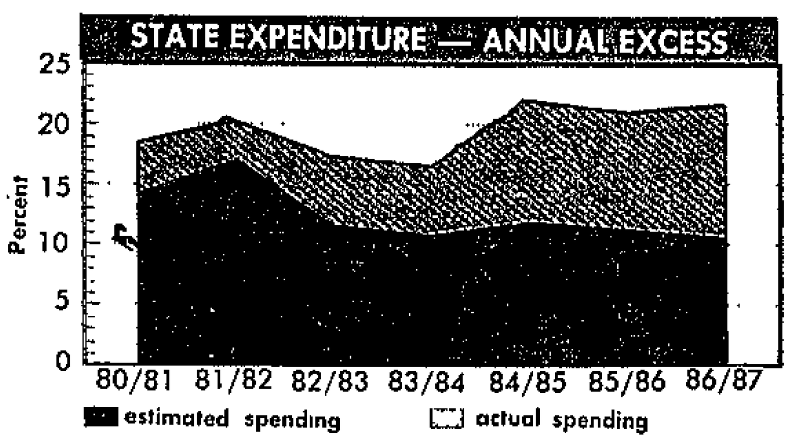
The total amount allocated to this department is R2,23 billion, a substantial increase on last year's R1,69 billion. The breakdown is: Police R1,5 billion (1986/87-R1,07 billion), Justice R240 million (R212 million) and Prisons R490 million (R408 million).



The second largest expenditure item in the Budget was Defence at R6,68 billion, a 30 percent increase on last year's R5,12 billion. Defence accounts for 14,2 percent of the total estimated expenditure for 1987/88, which is slightly up on the 13,7 percent of the two previous financial years.

Law and Order's share this year was 4,8 percent, compared to last year's 4,5 percent. Constitutional development in the current year will receive 13,8 percent of the estimated expenditure.





Education still forms the largest expenditure item in the budget, and the R9 billion proposal for 1987/88 represents an increase of 20 percent over the budgeted figure for 1986/87. Regarding the important field of black education, this amount increased by just over 31 percent to R1,5 billion.

A longer term view provides a gloomier picture. The share of expenditure on social services, including education, has declined from over 40 percent in the 1950s to 20 percent in 1985, while that for the security services increased from 15 percent to 23 percent over the same period.

The annual excess of government expenditure over the estimated figures has remained constant at levels of around 10 percent up the 1985/86 financial year. Last year, however, it soared to just over 11 percent.

'An enormous overspend'

Checkers group financial director, Mr Serge Martinengo, said while the Budget was stimulatory and expansionary to the South African economy, it was also "an enormous overspend".

He said the most positive aspect of the 1987/88 budget was that no revenue had been taken from the man in the street, or from companies.

"By putting aside funds to create jobs, the urgent issue of unemployment has been addressed. Another positive aspect was the increase in spending in both black and white education.

"Our company would have liked to have seen a reduction in tax for the individual, especially general sales tax. A decrease in GST, keeping in mind the latest increase in government salaries, would have helped to stimulate consumer spending.

"We would also have liked to have seen more food items exempt from GST," he said.

It was disappointing that the Margo recommendations had not been addressed in view of the introduction of RSC levies which create an additional tax burden.

Gingerly on gilts?

Dealers on the capital market were divided on the effect the Budget would have on gilt rates. Mr Louis Kruger of PLJ Van Rensburg & Partners said: "This budget is bad for gilt rates and we expect rates to rise.

Mr. Colin Dunn, from the Discount House of SA thinks otherwise and sees rates falling.

R-billion

Personal tax will bring 24-pc increase in revenue

Take care! There's a hidden sucker punch

By Anthony Tobin, tax consultant

The Minister of Finance, Mr Barend du Plessis, has announced no changes in personal tax rates but from past history we know enough to look for the hidden uppercut.

He himself spells it out with the expectation of a 24-percent increase in revenue from personal tax.

Total budgeted expenditure is up by 21 percent so the individual has once more to carry more than a direct proportion of increased government expenditure.

While there may be a few more taxpayers this year, the bulk of this massive increase in revenue must come from existing taxpayers. This is presumably a consequence of fiscal drag, "bracket creep" or in basic layman's terms, giving up most of your salary increase to the government.

To make matters worse, we have already had increases in railway tariffs and post office charges

There is the pending introduction of Regional Services Council levies and the anticipated rise in the petrol price. Even though some of these charges are not paid directly by the individual, the end result will be a boost to our already heavy inflation.

Looking at the latest Barclays Business Briefs, we see that real after-tax income in 1986 is about the same as it was in 1975. With a no-change income tax budget, the average wage-earner in 1987/88 will probably be worse off than he was 12 years ago.

Fortunately, interest rates have not yet started to rise. If this happened quickly it would put the home-owner with a large mortgage into serious financial difficulties. Ony state employees and other favoured taxpayers with low interest loans would be exempt from this additional burden.

Tax tables previously showed a rate less five percent. These have been revised to eliminate the five percent but without change to the amount payable as shown in the attached tables.

The Minister has pointed out that the Budget has no proposals that conflict with the Margo Commission report. He also states that the Margo Commission report would have wide implications for the economy.

With this in mind, we find it incredible that the report could be delayed still further when the need for economic growth has become so urgent and imperative.

It is still our firm belief that the corporate sector should relieve the individual of some of his burden. The only way to achieve this is by creating a greater profit incentive.

A flat tax rate of say, 25 percent on all company profits (about five percent more than was actually paid last year), would simplify tax collections, drastically reduce the need for highly specialised tax consultants and allow businessmen the opportunity to concentrate on profits without looking at every project from a tax angle.

In addition, a 25 percent tax rate would lure numerous "retired" businessmen back to the fold. This is the only real way of generating employment on a large scale and expanding the overall tax base.

Budget could push up inflation

● From Page 1

the liquid position of the capital market, it is not considered advisable to propose any significant tax changes to reduce the deficit."

Rand Merchant Bank's Rudi Gouws agrees: "If the Government can effectively implement the controls on its own expenditure, the rise in government spending should not get out of hand."

"In that respect the lack of large tax cuts makes sense, especially in view of the tax benefits granted earlier in the year," he adds.

There is, however, concern that unchecked government spending could exert further pressure on the inflation rate.

The huge bureaucracy and its cost continued to expand last year, with employment figures in the sector rising by more than five percent and wage remuneration increasing by 15 percent in the last financial year.

Over the last four to five years government has regularly overshot on its budgeted amounts by about four to five percent, with expenditure in the security-oriented departments heading the list.

A recent study the Bureau for Economic Policy and Analysis at the University of Pretoria established that over the last 30 years the share of social welfare spending had decreased from 40 percent in the 1950s to 20 percent in 1985.

On the other hand the relative share of expenditure on defence has risen from 15 percent to 23 percent over the same period.

Commented the Tukkies academics: "Sources have been diverted from productive uses, such as expenditure on infrastructure creation and investment in human capital, such as education, towards unproductive expenditure on defence and police."

This year has been no different. While expenditure on education has risen by 20 percent to R9 billion, the increases for the defence and the police departments have been 30 percent and 50 percent respectively.

Economists agree that the increasing deficit and the way in which the money is spent could well spell danger for the inflation rate.

"In the longer term, government expenditure could trigger a further inflationary spiral if the authorities do not start adhering to budgeted estimates," says John Banos, adding, however, that the stronger rand will keep a lid on the rate in the near future.

Adds Mr Gouws: "If the authorities stick to spending targets, I do not think the soaring expenditure presents an inflationary threat."

Estimated 3 pc growth rate seen as optimistic

The Chamber of Mines said it was concerned that the projected rise in public spending would make it still more difficult to achieve the government's professed aim of giving more scope to the private sector.

A Chamber spokesman said the Minister's estimate of a three percent growth rate in the gross domestic product for 1987 seemed optimistic, particularly after the relatively unimpressive performance in the first quarter.

He added, however, that it could be confidently expected, from established precedent, that government spending would exceed the projected target.

This meant the deficit before borrowing could be expected to be even larger than anticipated. There was a danger that this approach would further inhibit the role of market forces and thereby reduce the confidence of entrepreneurs in the immediate prospects for the economy.

The Chamber spokesman also noted the Minister had indicated that the problem of inflation had to be slotted into the Government's overall economic strategy.

"While accepting the importance of an overall economic strategy, we are concerned that not enough priority has been devoted to inflation, which is now at unacceptably high levels.

"A much lower rate of price increase is essential if South Africa is to achieve the rate of economic growth which will make peaceful change and substantial reform possible," he said.

Motor men welcome raw material concession

The vice-president of the National Association of Automobile Manufacturers of South Africa (Naamsa), Mr Spencer Sterling, says the budgetary measures are largely in line with expectations.

Following the income tax concessions announced in the part appropriation Bill earlier this year, the Minister obviously had little scope for further major fiscal concessions, he says.

"The main thrust of the budget was through the expenditure side and Naamsa appreciates the proposed increase in expenditure on education which represents the single, largest budget allocation.

"Overall, the fiscal and monetary policies are consistent with the attainment of a growth rate, in real terms, of three percent and the budget proposals should sustain the moderate upswing in the economy."

Naamsa also welcomes the undertaking by the Minister that close consultation will take place with representative private sector organisations before any final decisions are taken on the recommendations of the Margo Commission regarding possible future changes to the tax structure.

"In this regard, the Minister has correctly emphasised the need to avoid or minimise the disruption to the economy arising from any possible implementation of the Margo Commission's proposals.

"Particularly welcome, from the motor vehicle manufacturing industry's point of view, is the Minister's announcement that the import surcharge exemption will be extended, with effect from June 3, to all imported raw materials and intermediate products used in local manufacture."

The exemption from import surcharge of inputs in a process of local manufacture would have a welcome cost reducing effect for the economy as a whole, Mr Sterling says.

This go

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All reports i... the Star's F...

Tax cc decisi...

The Minister of F... release the recom... Margo Commi... Government's re... also be released ... member of the prominent tax ... Mike Katz, last ...

The Minister ... Barend du Plessis, ... speech that ... Commission report, ...ment's reaction to released by Augus... said a copy of the ... handed to the State translation into Af... complete.

He said it was from the beginning, should give a ... which recommenda... able and which were

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Before implemen... mendations there ... discussions with bodies, he said.

A working group

Builder

The fact that there is likely to be an increa... interest rates in the ... seeable future is a ... point for the home-bu... ing industry.

Mr Johan Grotsius, ... ecutive director of ... National Association Home Builders, sees ... tone of the Budget as expansionary one and ... lieves there might ... be scope for increa... expenditure on housi... arising from the allo...

COMMENT

Now, more than ever, the Margo Commission of Inquiry, has a central role to play in reviving the South African economy from the apparent quagmire into which it is ever deeper heading.

Anyone looking for imaginative answers to this country's complex economic and political situation in yesterday's Budget would have been sorely dissapointed.

The bottom line of yesterday's Budget is not hard to find: more government spending means more taxation. No fancy fiscal footwork can conceal this fact. Were we supposed to jump for joy that taxes were not "in-

We're i...

creased"? When has ... increase of 24 percent aggregate personal ta... tion been considered concession? Because th... is precisely what w... happen in the current ... nancial year.

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This is how you are going to be taxed

The following new scale of income tax rates for individuals will apply as from the 1 March 1987, that is the 1988 year of assessment. The discount of 5% applicable in the 1987 year of assessment falls away with effect from the 1988 year of assessment.

MARRIED

— 12 000	15% of the taxable income	
12 000 — 13 000	R 1 800 + 16% of the excess over.............	R12 000
13 000 — 14 000	R 1 960 + 18% of the excess over.............	R13 000
14 000 — 15 000	R 2 140 + 20% of the excess over.............	R14 000
15 000 — 16 000	R 2 340 + 22% of the excess over.............	R15 000
16 000 — 18 000	R 2 560 + 24% of the excess over.............	R16 000
18 000 — 20 000	R 3 040 + 26% of the excess over.............	R18 000
20 000 — 22 000	R 3 560 + 28% of the excess over.............	R20 000
22 000 — 24 000	R 4 120 + 30% of the excess over.............	R22 000
24 000 — 26 000	R 4 720 + 32% of the excess over.............	R24 000
26 000 — 28 000	R 5 360 + 34% of the excess over.............	R26 000
28 000 — 30 000	R 6 040 + 36% of the excess over.............	R28 000
30 000 — 35 000	R 6 760 + 38% of the excess over.............	R30 000
35 000 — 40 000	R 8 660 + 40% of the excess over.............	R35 000
40 000 — 45 000	R10 660 + 42% of the excess over.............	R40 000
45 000 — 50 000	R12 760 + 43% of the excess over.............	R45 000
50 000 — 60 000	R14 910 + 44% of the excess over.............	R50 000
60 000 — +	R19 310 + 45% of the excess over.............	R60 000

SINGLE

0 — 10 000	15% of the taxable income	
10 000 — 11 000	R 1 500 + 16% of the excess over.............	R10 000
11 000 — 12 000	R 1 660 + 18% of the excess over.............	R11 000
12 000 — 13 000	R 1 840 + 20% of the excess over.............	R12 000
13 000 — 14 000	R 2 040 + 22% of the excess over.............	R13 000
14 000 — 15 000	R 2 260 + 24% of the excess over.............	R14 000
15 000 — 16 000	R 2 500 + 26% of the excess over.............	R15 000
16 000 — 18 000	R 2 760 + 28% of the excess over.............	R16 000
18 000 — 20 000	R 3 320 + 30% of the excess over.............	R18 000
20 000 — 22 000	R 3 920 + 32% of the excess over.............	R20 000
22 000 — 24 000	R 4 560 + 34% of the excess over.............	R22 000
24 000 — 26 000	R 5 240 + 36% of the excess over.............	R24 000
26 000 — 28 000	R 5 960 + 38% of the excess over.............	R26 000
28 000 — 30 000	R 6 720 + 40% of the excess over.............	R28 000
30 000 — 34 000	R 7 520 + 42% of the excess over.............	R30 000
34 000 — 38 000	R 9 200 + 43% of the excess over.............	R34 000
38 000 — 42 000	R10 920 + 44% of the excess over.............	R38 000
42 000 — +	R12 680 + 45% of the excess over.............	R42 000

All reports in this Budget Focus were written by the Star's Finance and Political Staff, and Sapa.

Financial institutions are not happy about Senior Citizens Bonds

The big Budget surprise decision to introduce Senior Citizens Savings Bonds (SCSBs) at an interest rate of 15 percent has been slated by financial analysts for the serious implications it could have on banks, building societies and even home owners.

While the move is designed to ease the burden of older people whose fixed investment return is the only major source of income in most instances, it could put real pressure on building societies to increase their mortgage rates to supplement any increase in deposit rates necessary to remain competitive.

Now, in contrast to recent downward pressure on deposit rates due to the cut-throat bond rate war, upward pressure on bond rates is a real possibility if there is an outflow of cash to SCSBs and financial institutions react on deposit rates to retain market share and a major portion of their very necessary funding source.

Natal Building Society and the Perm have already reacted to pressure by banks on the one flank, with the banks' all out efforts in the home loan market, by increasing their rates by 0,5 percent last month as pressure on margins began to affect profitability.

They are surely not alone in this predicament, and erosion of building society profit margins from the other flank is now also a real concern.

Banks on the other hand face a similar problem, and with much of their money in shorter term deposits the initial outflow from their coffers could be greater than in the building societies, says one analyst.

NBS financial director Mr John Gaffney says that his society, and others, have been making an all-out effort to gain senior citizen deposits by offering premiums on rates.

However, with rates at 10,75 percent on 12 month fixed deposit this is way below the 15 percent offered by the Government.

Many of the building societies are far from happy over what one leading society source says is a situation in which they are competing directly with the Government.

The Perm's Mr Brian Kemmy says that the new scheme has created a serious distortion in the market.

"The consequences will be severe. It is obvious that the Perm will have to protect its considerable share of the over 60s market by finding some way to meet this competition at the expense of profit margins."

Dr Hans Falkena, the United Building Society economist, says: "The latest situation is unrelated to market forces and it will be very difficult to operate in such a market.

"While we understand the plight of the pensioner, it is the way the Minister has done it which concerns us.

"It is an elegant gesture from the Treasury's point of view but how can the building societies meet the challenge?"

It should be appreciated, however, that the Senior Savings Bond is fully taxable while the indefinite period shares of the building socities, are partly taxable which, on an after-tax basis, is taking most of the advantage of the new concession, depending of course on the indvidual's income bracket.

Working, for instance, on a 25 percent tax rate for the individual, the advantage will be about two percent between a building society indefinite period and the new senior savings bond.

Nevertheless, as one banking ana lyst says, "people have short memories and by the time the 12-month wait on their existing fixed deposit is up, they will have foregotten about the Goverment offer."

Another building society source says: "It is not really necessary to help the senior citizen through a public sector facility.

"This can very easily be done through under existing facilities of the private financial sector."

Tax consultant backs Govt decision on Margo report

The Minister of Finance's decision to release the recommendations of the Margo Commission only when the Government's reaction to it could also be released was supported by a member of the commission and prominent tax consultant, Professor Mike Katz, last night.

The Minister of Finance, Mr Barend du Plessis, said in the Budget speech that details of the Margo Commission report, and the Government's reaction to it, could only be released by August. Mr du Plessis said a copy of the report was recently handed to the State President and its translation into Afrikaans was almost complete.

He said it was imperative that, from the beginning, the Government should give a clear indication of which recommendations were acceptable and which were not.

The commission's report could be released only if it was accompanied by an indication of the Government's reaction to the most important proposals.

Before implementation of recommendations there would be further discussions with representative bodies, he said.

A working group of the Department of Finance had meanwhile studied the more than 300 recommendations.

The chairman of the commission, Mr Justice Margo, members of the commission and officials had recently further investigated aspects of indirect tax overseas.

Some of the recommendations could have a drastic impact in several spheres of economic life, said Mr du Plessis. He said none of the tax proposals in the Budget were in conflict with the report.

Prof Katz said the approach that the report was a package which "hangs together", and that some recommendations could not be released without others, and without the Government's response was correct.

As the Minister said, some proposals were far reaching and might considerably affect some industries. If only some of the proposals were released, or the proposals were released without the Government's response to them, there could be vast undesirable effects. This included unwarranted speculation about whether the Government would approve or dissapprove of certain proposals, and speculation in affected shares on the stock exchange, he said.

SBDC gets R15 million to supplement original grant

The additional R15 million set aside by the Minister of Finance for the Small Business Development Corporation appears to be a puny contribution to a vital cause when compared with, say, defence and constitutional development expenditure.

However, the contribution will be welcome in assisting the SBDC to raise finance through the prescribed assets system.

Presenting the Budget, Mr du Plessis said the R15 million would be in addition to the R5 million already allocated to the SBDC in this financial year, of which R3 million was for interest subsidy on loans of about R60 million that the SBDC intends to raise in the capital market.

"Insofar as neither the State nor the SBDC's private sector shareholders can now provide the long-term funds the SBDC requires, it will to a greater degree than anticipated have to rely on the capital market to meet its needs, and this calls for additional funds for the interest subsidy.

"It is proposed that a further R10 million be voted for this purpose," said Mr du Plessis.

The chairman of the SBDC, Dr Ben Vosloo, would not immediately comment on the measures announced by Mr du Plessis. However, the extra R10 million will apparently be directed to subsidising the interest rate on further small business development bonds by five percent.

These bonds will qualify as prescribed assets, in which institutions must invest prescribed proportions of their funds.

As the minister said, R3 million was originally set aside for the five percent subsidy — which meant that loans of R60 million could be raised through the prescribed assets system.

The extra R10 million now allocated for the subsidy indicates that the SBDC will now be able to raise a further R199 million through the prescribed assets system.

This will be a shot in the arm for the SBDC, which, as the minister said, must now increasingly look to the capital market rather than its State and private sector shareholders to finance its snowballing projects.

The total extra allocation is brought to R15 million by a vote of R5 million for the SBDC's pioneer projects fund — a fund directed at high-risk projects in remote areas which need low-interest financing.

Builders see increased expenditure on housing ahead

The fact that there is not likely to be an increase in interest rates in the foreseeable future is a bullish point for the home-building industry.

Mr Johan Grotsius, executive director of the National Association of Home Builders, sees the tone of the Budget as an expansionary one and believes there might well be scope for increased expenditure on housing arising from the allocations to home affairs administration.

"The decrease in capital expenditure may not be as critical as it seems at first glance," he says. "In that a fair share of capital is tied into defence and other accounts and, as such, are not classified as capital expenditure."

The fact, too, that the Minister does not expect a rise in interest rates and further makes the specific point that the exchequer's demand on the money market will reduce will, in effect, have a dampening effect on tendencies for rates to move upwards.

"Interest rate patterns have a direct bearing on the affordability of housing, and the industry desperately needs stability in this field," says Mr Grotsius.

Taking a broader view of the Budget's effects, the NAHB director believes it is not clear from the Minister's speech whether the 40 percent of the total expenditure aimed at rural development embraces the allocation to rescue the agricultural sector.

If not, it can be assumed that a lot of physical development will take place in the form of the creation of infrastructures and other services, that these actions will have a retarding effect on the flow rate of influx into the larger metropolitan areas and would add stimulus to the provision of housing in the less densely populated regions of the country.

On the downside, Mr Grotsius believes that as housing is such a critical economic factor within the South African economy, it is disappointing that nothing more specific in regard to it emerged from the speech.

"The training of building skills constituted a fair share of the allocations thus far for training generally," he says.

"The cut in the allocation must, therefore have a detrimental effect on the much-needed training programme aimed at replenishing the depleted building labour force as a result of the recession."

COMMENT

By Magnus Heystek

We're in a quagmire — and sinking fast

...w, more than ever, the ...rgo Commission of In...ry, has a central role play in reviving the ...th African economy ...om the apparent quag... e into which it is ever ...eper heading.

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No wonder some economists, like Dr Azar Jammine, director of the Econometrix research unit, described the Budget as a "disaster".

"Not a shred of imagination has been used," he said.

"At the precise moment that South Africa is in desperate need of bold new initiatives to accelerate the economic tempo and create more jobs, the Minister of Finance has merely delivered a re-hash of the timid stuff that has been served out for the past three or four years," he said.

"Economists are stunned by the Minister's abysmal failure to take action to curb the impact of fiscal drag, the mechanism that forces taxpayers into higher and higher marginal tax brackets the harder they try to keep incomes abreast of inflation.

"It means that the proportion of income tax paid by individuals to total tax revenues now threatens to move upwards from 32 percent to no less than 35 percent.

"Disposable incomes will also be hit by far bigger bites in general sales tax.

"The Budget has done absolutely nothing to encourage faster momentum to the economic recovery."

Harsh words? Perhaps. But consumers are still reeling from the effect of last year's Budget — in retrospect, a sleight-of-hand ploy which did them a lot more harm than good. One suspects the same is going to happen again this year.

Another matter of great concern is the level of government spending. "Are we trying to spend ourselves out of the recession?" was the exasperated comment from one economist on hearing the level of overspending budgeted for this year. Judging by its record in recent years, government expenditure is bound to overshoot these levels again this year. The results could be disasterous for the local capital market.

Tax consultant Mr Nic Nel regarded the Budget as a formula to move South Africa closer and closer to hyper-inflation.

"The size of the deficit that must somehow be closed means that the current inflation rate of around 16 percent may well soar as high as 25 percent inside the next 12 months", he said.

One can only hope these doomsayers are wrong. The fear that they are eventually proven right, is real. Very real.

In all fairness to Mr Barend du Plessis, it would have been unrealistic to expect fundemental tax reforms barely months before the Margo report is tabled. In more ways than one, yesterday's Budget was a holding operation, trying to sustain the present fragile economic upswing which is already showing signs of faltering.

This places even more hope on Margo. May such hope not be in vain.

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BUDGET FOCUS ... 1987

All the news, views and comment

Tourism industry generally pleased

The Association of Southern African Travel Agents (Asata) said it was generally pleased with the Budget and expressed the hope that the massive increase in government spending would have the desired expansionary rather than an inflationary effect.

Stable exchange and interest rates were the most important factors for both incoming foreign tourism and outgoing tour operators and retailers.

"Here, the Minister's promise to stabilise rates in these two important spheres of our business is welcomed."

Asata said inflation should not encourage carriers to increase their rates and, hopefully, it will not be detrimental to the disposable income available to our black community, as well as our increasingly impoverished and over-taxed white community."

Foreign debt funds should help to stimulate economy

The Minister of Finance, Mr Barend du Plessis, announced a budget yesterday aimed at stimulating the economy, and said it would be financed partly with funds locked in the foreign debt fund.

Economists say the use of these funds should greatly help to stimulate the economy.

Mr du Plessis told Parliament that the Government was planning to spend R46,9 billion in the fiscal year ending March 30 next year. This was an increase of 16 percent on the R40,3 billion spent last year.

An amount of R1,2 billion of this expenditure would be financed from the foreign debt fund.

He also reported that the Government had already dipped into this fund for R1 billion in March to help finance the 1986/87 Budget. Using the foreign debt fund money enables the Government to step up spending without having to raise taxes or increase borrowings and push up interest rates.

The result is that a large amount of new money with a strong potential to stimulate growth is injected into the economy.

Mr du Plessis said the introduction of the debt standstill on the redemption of foreign loans on September 1 1985 led to about R2,5 billion in foreign funds being held by the Public Investment Commissioners (PIC).

As the PIC sometimes found it difficult to invest this money with private institutions it was then invested temporarily in special treasury bills.

The Treasury therefore was not only paying interest on a large portion of these funds, but was also carrying the full exchange rate risk on deposits denominated in foreign currencies.

As a large portion of the funds would remain with the PIC for a good while yet, he proposed that the State should use the money as short-term loans.

In this manner the foreign funds, that by virtue of balance of payments considerations cannot immediately be repaid to foreign creditors, will be utilised more effectively in the South African economy.

Mr du Plessis said that in addition to the foreign finance, the PIC would invest R4,1 billion in government stock, leaving the Government to raise R4,35 billion of which R1,85 billion represented rollovers and R2,5 billion new issues.

As the Reserve Bank had already raised R2 billion by tap issues and the demand for capital market loans was limited, there is no reason for the sale of Government securities in the rest of the financial year to exert upward pressure on interest rates, the Minister said.

Higher economic activity possible

The National Productivity Institute (NPI) said the Budget could be regarded as mildly stimulatory, measured in terms of the increase in the deficit before borrowing to 4,7 percent of gross domestic product.

"The way in which the deficit was envisaged to be financed should not, under current economic conditions, be inflationary and could, therefore, lead to higher economic activity.

"Better utilisation of existing capacity as well as the expenditure on employment creation and training could, in the short-term, lead to higher productivity," said the NPI.

Positive long-term productivity benefits could also emanate from the higher expenditure on education, particularly on black education.

"From a productivity point of view, the enhancement of personal disposable income could have received greater support," the NPI said.

Housing: property, building men wanted more for all groups

While there have been strong advances in a public-private sectors effort on the housing front, residential property men were expecting a little more encouragement from Minister Du Plessis in the area of home ownership for all South Africans.

"I had hoped for something a little more positive in the crucial area of housing for all our population groups," says a leading Reef estate agent, Mr Basil Elk.

One thing is certain, however. The "ticking over" budget will, in no way, retard the impending recovery of the homes business which has been already showing signs of pre-Budget buoyancy.

And the old contentious issue of tax relief for bond repayments appears to be still as far away as ever.

coming impracticable in the light of today's ever rising costs.

Indeed, there might well be a future lesson for South Africa from the American experience where sellers of homes do not pay tax so long as they reinvest in another property within a limited time.

"This is a feasible operation," says Mr Elk, "and one which could be easily applied here.

"It would be nice for older people who want to move from their bigger properties into smaller flats and conversely, it would be good for young people moving from flats to houses."

Certainly, the white residential property market is continuing to show definite signs of an upturn.

An indication of this can be ssen from Basil Elk's own performance tained price levels are settling in.

"We expect prices to rise steadily and by the end of next year hit the 20 percent improvement mark," says Mr Elk.

"There is nothing in the Budget to distort this view.

"I attribute the improvement to the fact that property is coming back into perspective.

"It should be remembered, too, that the building industry cannot replace some of the housing being sold today at today's prices."

Endorsing the brighter prospects of the housing market has been the latest issue of the Quarterly Housing Review of the United Building Society which says that house prices rose by 5 percent in the first quarter of this year compared to the fourth quarter of 1986.

Currently, the price of medium-size house is

This is how The Star's editions brought you the news yesterday

Consumer reaction mixed while food price spiral seems likely to continue

Consumer reaction to yesterday's Budget was mixed — with the Consumer Council viewing it as "moderate and stimulating" and the Black Consumer Union (BCU) finding "nothing to applaud".

And with the consumer price index up to 18,6 percent for 1986 in comparison to 16,2 percent for 1985, spokesmen for major supermarkets could not reassure the public that the most basic commodity — food — would not continue its steady price increases.

The director of the BCU, Mr Eldridge Mathebula, said consumers already felt overtaxed. Blacks felt they were given little benefit for the money they paid in tax. "That makes it very difficult to applaud the Budget," he said.

He added that the savings incentive for pensioners announced was of no use to blacks. "Only rich people can save and they are the whites. Black people cannot afford to save R500 when they are 60 years old," he said.

The director for the Consumer Council, Mr Jan Cronje, said in a statement the council viewed the Budget as a "moderate and stimulating economic plan".

The council particularly welcomed the senior citizens savings plan, concessions to agriculture and education and the fact that import surcharges on raw materials and intermediate products had been lowered. It also applauded stricter action concerning tax evasion, stable interest rates and the fact that there were no new tax demands on the consumer.

Mr Cronje said it was a pity the findings of the Margo Commission had not been announced as these would "hopefully have provided more signifi cant tax concessions".

Referring to the increases in foo prices, supermarket director Mr Serg Martinengo said he expected the Bud get to increase the rate of inflatio and that he could "only hope this won' affect food prices as disproportionate ly as in the past".

Labour and transport costs contri buted to higher food prices.

"Packaging also played a part a raw material for packaging is largel imported and with the exchange rat against us, it pushes the price u But with the decrease in surcharge o some imported materials this wi hopefully help".

Mr Geoff Kahn, director of anothe supermarket chain, said: "A lot of fo price increases are related to packa ing costs — you can't fight that situ tion."

been reduce to ease the burden of the homeowner and the homebuilding community was hoping for an increase in the R40 000 first-time home subsidy — an area which many believe is fast be-

were at the R100 000 level on the basis of 200 sales monthly.

This figure dropped back to about R96 000 probably ahead of the Budget but there is little doubt that more sus-

...houses are ... relatively expensive and in the first quarter of this year, the cost of new house was, on average, 13 percent more than the price of an existing dwelling of comparable size.

Assocom concerned over level of State spending

The president of Assocom, Mr Harold Groom, said the association shared the overall assessment of the economy given by the Minister of Finance, including the renewed emphasis on the need for economic growth.

"Although we appreciate the factors which have made this budget mainly a holding operation, it remains doubtful whether the fiscal decisions embodied in the budget will guarantee a growth rate of three percent in 1987.

"Assocom continues to be concerned at the high level of State spending and regrets that there has not been more scope for further tax cuts. It, therefore, welcomes the warning by the Minister that the current upswing may fail to gather the necessary momentum and may have to be supported once again."

He said Assocom reiterated the urgent need for effective control mechanisms which would avoid the constant material overruns in State spending which occurred in successive budgets.

The question of control over government spending, the low level of personal savings and the problem of inflation were all issues deserving of greater attention than had been possible in this Budget, he said.

Bolder approach needed — FCI

Mr Steve Anderson, executive director of the Federated Chamber of Industries (FCI), said that while the cautious stimulation built into the budget was widely expected, the FCI would, nevertheless, wish to express some disappointment that a bolder approach was not adopted.

Under current conditions of still hesitant growth and low investor confidence, a substantial case could be made for stronger stimulation via tax cuts and a larger deficit before borrowing.

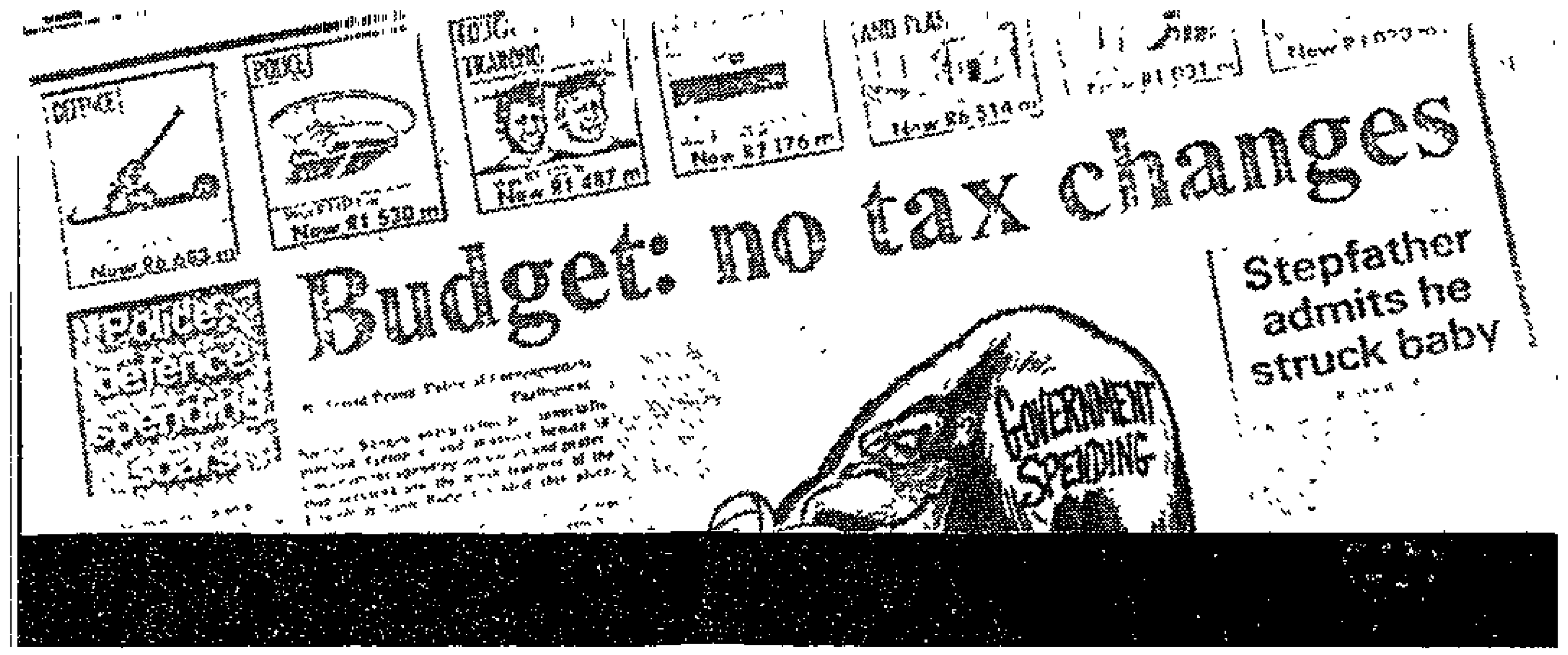
"The upswing may well have to be supported again later in the year," he said. "As regards particulars, we welcome the positive elements in the budget such as the reduction in the import surcharge which should ease the rising cost burden in industry.

"The large increase in expenditure, especially on black education, will contribute towards a rising supply of skilled labour to industry.

"Although company profits have recently been rising substantially in money terms this is not necessarily the case after inflation and taxation are taken into account.

"Industry therefore remains vitally interested in the proposals of the Margo Commission, especially as regards the tax treatment of fixed investment.

"Removing uncertainty in this sphere is crucial if industry is to undertake longer term investment."



Farmers welcome support package for agriculture

There were whoops of joy down on the farm yesterday when Minister Barend du Plessis announced his massive R1 billion Budget support package for agriculture.

"Much more than we expected," responded Mr Joshua du Plessis, senior general manager of the 14 000-member strong Eastern Transvaal Cooperative (OTK).

"Considering all the help the Government has already given agriculture — as recently as March we got R237 million in emergency aid — this is really good news."

However he cautioned farmers and the public against overreacting to agriculture's slice of the Budget pie.

"We mustn't forget that the combined debt of the South African farmer is R12 billion. The Budget aid represents only a small percentage of it. However every little bit helps."

One of the largest maize farmers in the Bethal area, Mr Philip Malan, said the Budget assistance for farmers was to be welcomed.

"It will help many of those about to go bang but for others it will just prolong the agony."

The vice-president of the South African Agricultural Union, Mr Nico Kotze, said the Budget was, in general, met with approval by organised agriculture.

"The voting of an additional R400 million aimed at farmers facing sequestration is particularly welcome against the background of a growing number of farmers with financial problems. The amount allocated could make a significant contribution to the stabilisation of problem areas in the rural regions."

Mr Kotze expressed the hope that certain agricultural inputs still subject to surcharge could be exempted.

On the new dispensation for fuel rebates, Mr Kotze said certain practical problems were foreseen which could necessitate further negotiations.

Emphasis on exports lacking - Holtes

The chief executive of the SA Foreign Trade Organisation, Mr Wim Holtes, said the Minister of Finance had presented a good, balanced recovery Budget, but there had not been any emphasis on the importance of exports.

His speech had shown a greater acknowledgement than previously of the international factors affecting the South African economy — the gold price, foreign exchange rate fluctuations, world demand for raw materials and trade restraints. There had also been recognition of the openness of the economy.

"However, the stimulation measures are mainly directed at the domestic market," he said. "There is no clear statement of the importance of exports in generating the present revival and creating the current account surpluses in 1985 and 1986 that enabled successful negotiation of South Africa's foreign debt repayment."

Welcome news for exporters was the Minister's emphasis on maintaining a stable rand.

"Certainly, some positive signals to South African exporters are necessary, for with exports showing their current flaccid performance, the country will be hard-pressed to achieve the R5 billion current account surplus the Minister expects in 1987," said Mr Holtes.

... not push up price of petrol

The consolidation of the fuel price levy announced in yesterday's Budget speech will not mean an increase in the price of petrol for the consumer, but means farmers will no longer get a rebate on diesel fuel on purchase but have to reclaim the rebate on an after-payment basis.

The consolidated levy on fuel represents customs and excise on which rebates were allowed and will apply, especially to diesel used in agriculture.

"Reclaiming the rebate will involve farmers in more bookkeeping and paperwork," Dr P J Gouws, the chief executive of the National Maize Producers Organisation said last night.

Mr Barend du Plessis said a consolidated fuel levy was needed to clamp down on the increased evasion of tax on fuel and bring in an additional R300 million.

"As long as the rebate on diesel used for agricultural purposes is not taken away and only involves extra bookkeeping, the farmers will just have to make sacrifices in the interest of bringing in revenue lost through tax evasion," said Dr Gouws.

The Minister of Economic Affairs and Technology, Mr Danie Steyn, said in a statement in Cape Town that the pooling would, with the amendments to the price zones, eliminate confusion and additional administration costs.

Details on how the pump price and other selling prices would be influenced would be announced as soon as the complete figures had been worked out and the Cabinet had decided on the most practical method.

"I wish to emphasise the fact that the contemplated adjustments to the fuel price composition will not impose additional costs to consumers."

Mr Steyn said price of fuel differed not only from product to product but also according to the use of a product by particular categories of consumers.

Specific concessions to certain categories of consumers applied to levies, duties and taxes which, among others, composed the fuel price and were therefore not paid by them.

Evasion had assumed such proportions that the further pooling of duties, levies and general sales tax "can no longer be postponed".

Also, large amounts had to be spent annually on the administration of the collection of differentiated prices.

Mr Steyn said the existing crude oil supply situation and a favourable exchange rate enabled the Cabinet to give consideration to an overall simplification of fuel prices.

The pooling of certain duties, levies and taxes would affect fuel on which rebates were allowed to particular categories of consumers.

"These rebates especially apply to diesel and the grouping will result in rebates to consumers who do qualify for these rebates, being reclaimable on an after-payment basis," said Mr Steyn.

Barend's speech raises only a yawn on the JSE

The Johannesburg Stock Exchange greeted the Budget with a yawn, showing absloutely no raction to his supposedly expansionary speech.

The broking community was mostly critical,saying it was inflationary.

"The bottom line, is that the seemingly expansive budget is somewhat inflationary," says Anderson Wilson industrial analyst, Chris Gilmour.

The problem arises when the increases are directed into the non-productive, although often necessary security-related areas, that provide little feedback stimulation to the economy that has to fund this overspending.

A longer term positive aspect is the huge increase in education expenditure, but as one analyst argues, stimulation is needed now.

Initial reaction on the gilt market was for rates to fall, but they then corrected and seemed a little "edgy", according to one dealer.

On the equity floor no reaction was felt, and the industrial index finished the day 10 points higher after declining for most of the past week. However, dealers and analysts do not attribute this to anything in the Budget.

Mr Gilmour says it is marginally positive but he can see no spinoffs for industry from this "lacklustre" Budget.

On the positive side, government's imagination in using the foreign debt standstill loans to fund the deficit has been described as "crafty" and is welcomed by some as making the best of a bad situation.

However, Simpson Mackie economist John Banos says funding requirements of the deficit before borrowing, at 4,7 percent of gross national product, will in the short term be met through the local capital markets and will not cause a problem.

However, he says that this is only possible due to the use of R1,2 billion of the blocked foreign loans currently held by the Public Investment Commissioners and would probably not be available to governement again once they were repaid.

A possible result of this could be an overhang of potential borrowing on the capital markets and a resultant uncertainty and nervousness.

BUDGET FOCUS . . . 1987

All the news, views and comment

Budget package could have severe inflationary results — economists

The non-event of the year with possible severe inflationary consequences, was the consensus viewpoint from economists who were canvassed for their views on the Budget's impact on the economy.

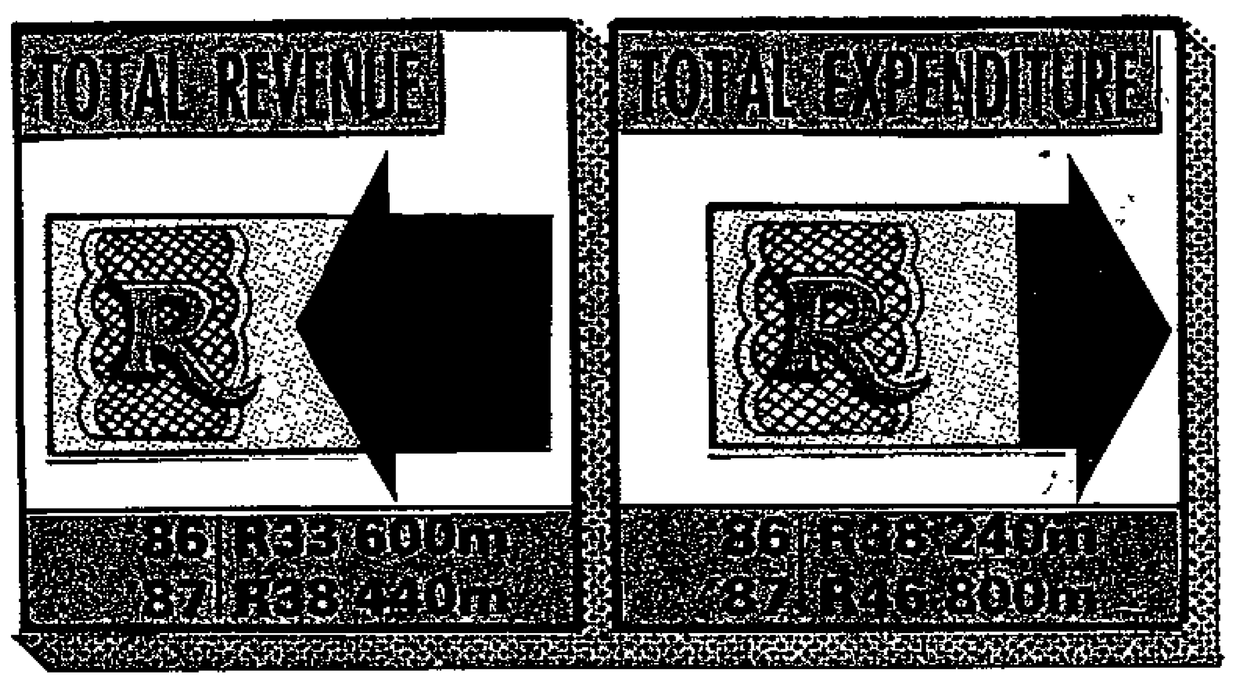
"Given the existing constraints on the economy Mr du Plessis did not have much room to manoeuvre in," said Louis Geldenhuys, economist for stock brokers George Huysamer and Partners.

The Budgets presented in Parliament in recent years have ceased to be Budgets in the strictest sense of the word and have rather been turned into mere financial statements.

This year's Budget was effectively presented in three different stages — the mini-budget in February, the announcement of public sector wage increases and the main Budget.

Overall it appears it is a package to provide some tonic sorely needed by an economy rapidly approaching a critical juncture in terms of future prospects.

But economists are questioning whether the right method has been chosen to facilitate a recovery.



The general feeling is that fiscal policy has done its bit, as represented by measures announced in the mini-budget but that the rest should be left to market forces.

Tax benefits were granted individuals in February, providing a slight boost to the income levels of consumers, but ultimately the soaring rate of government expenditure will give the economy only a temporary shot in the arm.

In the five-year expenditure plan starting with this Budget, Finance Minister Barend du Plessis has recognised this. "The five-year plan will have to give shape to the Government's declared aim of allowing greater room for private sector activity."

The plan envisages a relative reduction in total public sector expenditure, from almost 38 percent of gross domestic product in 1985/86 to about 34,5 percent in 1991/92.

Economists agree that the Government will have to reduce its role. "I would have preferred to see the recovery being carried by the consumer rather than the Government," said Simpson McKie's John Banos.

Gillian Raine of stockbrokers Frankel Kruger said: "There is no correlation between the Government's proclaimed long-term aim of reducing its involvement and the ever-increasing budget-deficit."

"In the near future the authorities will manage to finance the deficit, but what if we don't have the foreign loans or the debt standstill to fall back-on in the 1990s?" she asks.

Mr du Plessis defended the almost chronic overshooting of the expenditure estimate — this year it soared to more than R8,6 billion — that has often led business to treat budget forecasts with little respect.

"In the present economic climate, and with due regard to

● To Page 10

The R35 900-m smile of a Finance Minister

MR BAREND DU PLESSIS, the Minister of Finance, in his office shortly before delivering the 1987 Budget speech.

Individual's share of tax burden grows and grows

Sharp increases in tax since 1980 have contributed greatly to the reduction in the spending power of individuals.

Finance Minister Barend du Plessis did not raise any tax rates yesterday but individuals will effectively contribute almost 50 percent of revenue flowing into the State's coffers in the 1987/88 financial year.

This year's revenue estimates suggest that R12,1 billion will be generated by tax on individuals, 24,1 percent above the 1986/87 collections, with a further R10,7 billion expected to be collected from GST payment, half of which is paid by individuals."

A historic view provides even more gloomy figures. If there are any further rises in government expenditure, the contribution by individuals will inevitably rise, as it has done over the past years — total taxes as percentage of the national income increased from about 18 percent in 1960 to 32 percent in this year's Budget.

As a percentage of personal income, the individual's total tax burden has risen from 9,5 percent in 1980 to 18,8 percent last year.

Economists are also highly critical of the authorities' explanation that this year's increase stemmed largely from the growth in the number of taxpayers and from average salary increases, which are expected to be higher than in the previous financial year.

"Individuals have been hard hit and I certainly do not expect any significant upturn in consumer spending levels as a result," says Southern Life's economist Mike Daly.

"The financial position of the consumer will certainly not improve in the near future," adds Simpson McKie's John Banos.

Yesterday's Budget must be seen in conjuction with earlier tax benefits effected in the mini-budget in February, but they were implemented against the background of a soaring inflation rate and a consistent erosion of real disposable incomes.

Ironically, big industry once again got off very lightly. Revenue from mines will drop to R3,15 billion, despite expected higher precious metal prices, while non-mining companies will boost revenue slightly from R5 billion to R5,8 billion.

Biggest burden falls on taxpayers' shoulders

The mass of the R46 868 million which the Government intends to spend this year will come directly from the taxpayer.

Finance Minister Mr Barend du Plessis told Parliament he would take R35 365 million from the pockets of the taxpayer.

R12 100 million would come directly from personal taxpayers and R10 700 million from GST.

Customs and Excise would provide R2 820 million including R300 million from the consolidated fuel levy and the Central Energy Fund would provide a further R258 million.

This left a deficit of R8 425 million with a further R2 465 million required for servicing and repaying loans before borrowing.

The deficit would be made up by R8 870 million in domestic loans, R1 200 million from foreign sources, R352 million from the International Monetary Fund deposit account and R371 million which was a surplus from last year, leaving a balance of R3 million.

Defence spending increase modest - SADF document

THE 30 percent increase in defence spending was "in fact modest" when one considered the in- grammes, inflation and "the transfer of responsibility for border protection to the SADF and

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BUDGET FOCUS

Budget package could have severe inflationary results — economists

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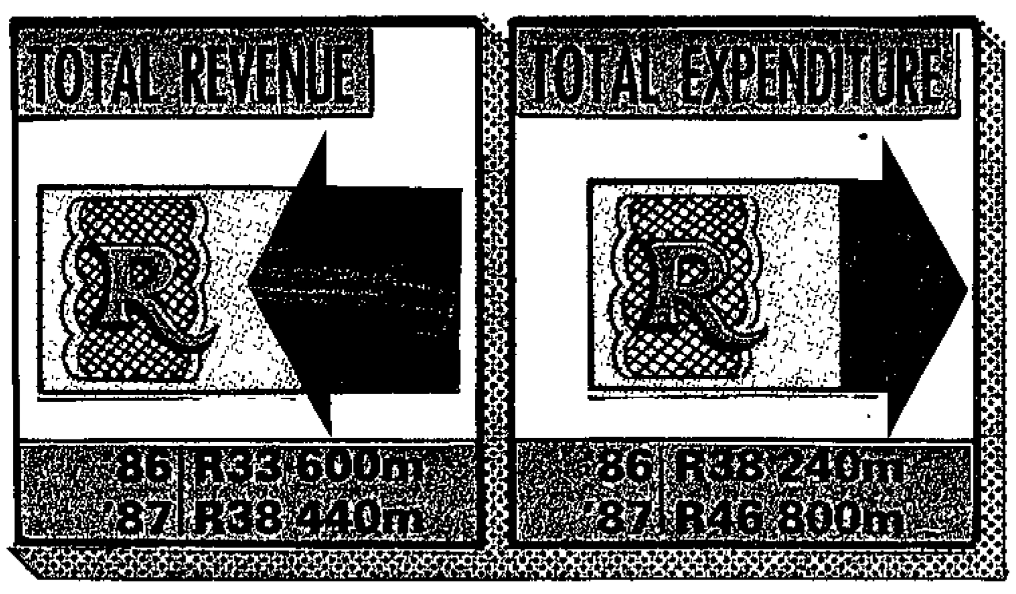

The general feeling is that fiscal policy has done its bit, as represented by measures announced in the mini-budget but that the rest should be left to market forces.

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The plan envisages a relative reduction in total public sector expenditure, from almost 38 percent of gross domestic product in 1985/86 to about 34,5 percent in 1991/92.

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Defence spending increase modest - SADF document

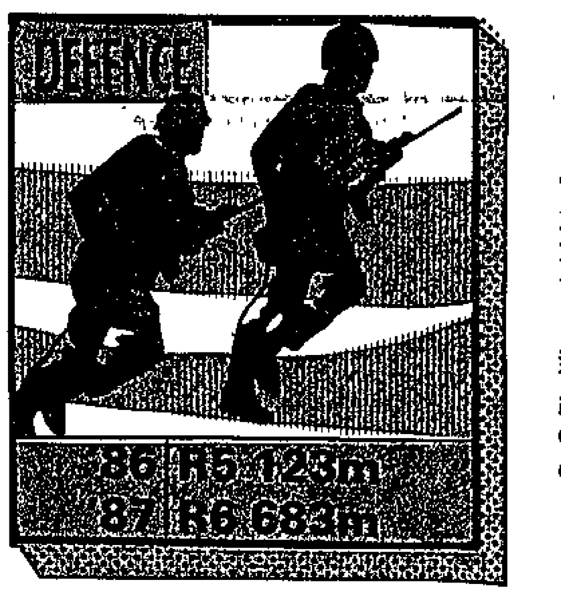
THE 30 percent increase in defence spending was "in fact modest" when one considered the inflation rate and the extent of renewal programmes, the Department of Defence said today in an explanatory memorandum on its Budget vote.

Measured in real terms this year's budget was in fact less than that of 1984/85, it said.

"The Defence Force is very much aware of the fact that a stable and healthy economy is just as much a prerequisite for a strong Defence Force as a strong Defence Force is a prerequisite for a healthy South African economy," said the memorandum.

"The steady reduction of its share of State expenditure and the gross domestic product during the past decade is evidence of this fact.

"The SADF has therefore made every endeavour to curtail the real increase in expenditure required to meet its long-postponed modernisation and re-equipment programmes to between five and six per cent per annum only, during the next five years."



The memorandum noted that that greatest single increase in any of the SADF's programmes was in air defence, with a R925,9 million or 54,9 percent increase over 1986/87 due to modernisation and replacement programmes and inflation.

The second largest increase, of R450 million or 22,5 percent in landward defence, was due to modernisation and replacement programmes, inflation and "the transfer of responsibility for border protection to the SADF and increased aid to the SA Police".

"The trend of investing an increasing percentage of the budget in modernisation and replacement programmes has been continued," said the memorandum.

The arm of the service receiving the largest portion of the budget was the army, with 39,2 percent, while the air force followed closely with 38,6 percent.

Provisional figures indicated that defence spending constituted 14,7 percent of total State expenditure in 1986 — up from the 13,7 percent of 1985, but down from the 18,4 percent of 1977 — and four percent of the gross domestic product.

This compared with West Germany's figure of 3,1 percent for defence spending as a percentage of 1986 GDP, France's four, the UK's 5,1, the USA's 6,8 percent and Israel (which was "involved in a war situation like the RSA") with 19,2 percent.

Highlights

Major features of yesterday's Budget were:

- No increase in tax rates.
- Government spending on education, defence and police up sharply.
- Public service salaries to cost R1,2 billion more.
- Deficit before borrowing R8,6 billion, up by R2,9 billion.
- More than R1 billion in aid for agriculture.
- Companies are expected to pay an extra R776million from higher profits.
- Gold mines likely to pay less tax this year.
- Sales tax to rake in R10,7 billion, up 20 per cent.
- New fuel levy replacing third party and road fund levies are part of the clamp.

Job creation now 'in hands of private sector'

THE temporary support programmes for job-creation and training of the unemployed during the past two years could unfortunately not become a permanent feature of Government's spending, the Minister of Finance, Mr Barend du Plessis, said.

Introducing the 1987/88 Budget, he said the total aid had been reduced from R281 million in 1986/87 to R181,4 million.

This would consist of R100 million for employment creation and R81,4 million for training.

"The creation of permanent job opportunities over the medium- and longer-term lies primarily with the private sector," Mr du Plessis said.

The Government job creation and training programmes had gathered momentum last year because of the large amounts set aside for them.

"Although there are still considerable numbers of unemployed and an endeavour is being made to help them with their most pressing necessities, temporary support programmes on the same scale as in the past two years could unfortunately not become a permanent feature of our expenditure pattern.

"In the light of the upturn in the economy the total assistance has in this year's Budget been reduced."

Turning to public service remuneration, the Minister said the amount of R1 224 million included in the Budget for the improvement of service benefits was the maximum that could be provided for this "deserving" matter, "in the light of the particular problems surrounding exchequer financing this year".

"The whole question of salary adjustments has recently received wide coverage and therefore calls for no further elucidation," he said — Sapa.

R1-bn allocated to aid farming sector

Support programmes for agriculture amounting to more than R1 billion are included in this year's Budget.

The Minister of Finance, Mr Barend du Plessis, said this included R117 million for the reconstruction of agriculture in the drought-stricken areas.

To avoid too large a fall in the net producer prices of white and yellow maize, R134 million was being provided to support these prices. Announcements on this had already been made.

A further amount of R400 million would be allocated to help those farmers facing sequestration.

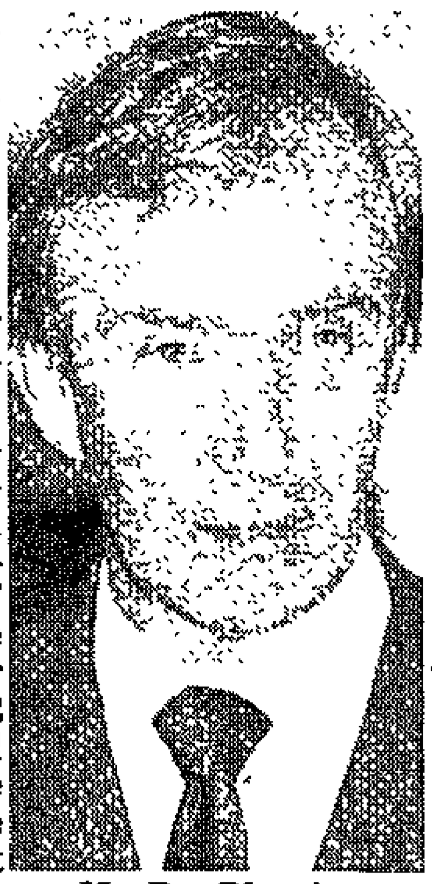
This formed part of a broader programme involving changes in the structure of farming systems.

The Minister said it should also make an important contribution to the stabilisation of the rural areas, the preservation of job opportunities and regional development as elements of a longterm strategy.

The protracted and disastrous drought in the summer rainfall areas and the failure of crops led to serious financial problems for many farmers.

Business enterprises, the labour force and the longterm economic viability of these areas were also affected.

Barend: growth with due caution



Mr Du Plessis

The Minister of Finance, Mr Barend du Plessis yesterday introduced a Budget which, he said, should promote real economic growth without leading to excessive money creation or spending.

Total expenditure for the 1987-88 financial year would be R46,868 billion — an increase of 24,7 per cent on the main Budget for 1986-87 and of 16,2 per cent on the total actual expenditure for that year, he said in his Budget speech.

If the stimulatory package introduced in the course of the year was left out of account, the latter increase rose to 18 per cent — "suggesting that the budgeted expenditures are not an unrealistic reflection of the real requirements of departments in 1987-88."

Mr Du Plessis said the deficit before borrowing was now more than R8 600 million, which was clearly very high.

"But in the present economic climate, and with due regard to the liquid position of the capital market, it is not considered advisable to propose any significant tax changes to reduce the deficit."

Total revenue for 1987-88 was estimated at R38 443 million.

"As the adjusted expenditure total is R46 868 million, the deficit before borrowing will be R8 425 million, or 4,7 per cent of estimated gross domestic product; loan redemptions are estimated at R2 465 million, and the total financing requirement is thus R10 890 million."

Introducing his Budget at a joint sitting of Parliament, he said that without doubt, there was scope for faster growth at present. "This budget creates the opportunity to exploit that scope in the national interest."

Increased expenditure would be financed through increases in revenue as a result of normal growth and no additional taxation would be necessary.

Income tax on individuals would bring in an additional 24,1 per cent above that of the previous year. This increase stemmed largely from the growth in the number of taxpayers and from improvements expected in the profits of partnerships and non-incorporated business enterprises.

Average salary increases would also help to increase the yield.

The most important increases in expenditure are:

- Education receives 19,6 per cent of the entire Budget which is almost 20 per cent higher than last year. This includes an increase of about 40 per cent in expenditure on black education;
- A 22,4 per cent increase in Development Planning to cater for normal growth in provincial expenditure, welfare promotion and the absorption of the functions of development boards and local authority services and provision for black local authorities.
- An increase of 60 per cent in the funds available to Foreign Affairs to be used mainly for increased aid to the TBVC countries.
- Defence spending rises by 30 per cent and the amount allocated to the South African Police rises by 42,8 per cent.

Mr Du Plessis said the economic circumstances were very propitious for a continuation of the upswing now under way. Total economic activity stabilised at a low level in 1985 and then began a gradual upward movement, and enough room had now been created for a forward movement at a higher tempo and from a sound base.

"The sacrifices of the past few years, when the average growth rate was very low, have therefore not been in vain." In these circumstances the greater momentum that the upswing acquired in the second half of last year was to be welcomed.

"It is particularly encouraging that it rests on a reasonably wide base and that both production and spending is now rising on a fairly wide front.

"Positive signs are increasingly emerging. For example, a whole series of large projects in the private sector has recently been announced, which underlines the improvement in business confidence."

In framing the Budget an attempt had been made to handle the upswing with due caution.

"On the one hand there is the danger that it can be such as to call for the re-introduc tion of restrictive measures — and in th connection it should be remembered tha large-scale operations such as the Mosse Bay gas conversion project and the Leso tho-Highlands water scheme, or any furthe increases in the gold price, have stimu latory potential.

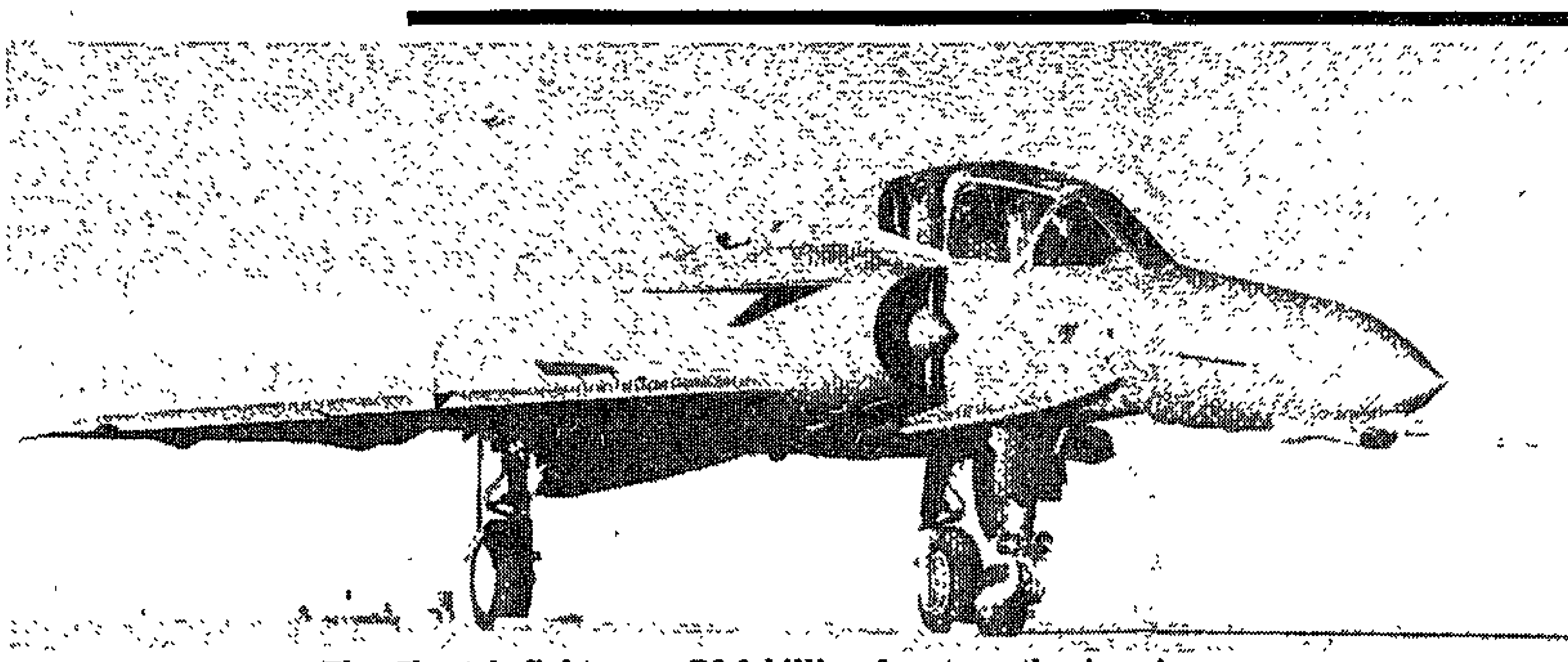
"On the other hand the upswing may fai to gather the necessary momentum an have to be supported once again.

"At the same time room exists for expan sion, as is reflected in such things as the massive surplus on the current account of the balance of payments, the comparatively high level of unemployment, low interest rates and spare production capacity."

Mr Du Plessis said the Budget as framed, coupled with the measures already announced in the speech on the Part Appropriation Bill in February, could be regarded, and rightly so, as expansionary. Taken together they should succeed in stimulating the economy.

The stimulation would be brought about along the following inter-related paths:

- An increase in total expenditure of 16,2 per cent;
- Various tax concessions that had already been made;
- Provision for an increase in the deficit before borrowing;
- A proposal that this deficit be partly financed by a more effective use of foreign funds so that the Exchequer's demands on the capital market would be considerably reduced. — Sapa



The Cheetah fighter ... R2,6 billion for strengthening air power.

Security spending soars 39 per cent

Dispatch Correspondent

Security spending has rocketed in this year's budget — by R2 826 million, or 39 per cent — to total R10 070 million.

The Defence vote is increased by 30 per cent and the police vote is up by 42,8 per cent.

The budgeted cost for detained people will increase by R3,9 million — 73,8 per cent — to total R9,2 million during the 1987-8 financial year.

Spending on secret services also reflects a substantial increase: up R29,2 million — 17,3 per cent — to total R198,2 million.

The increasing spending on security was emphasised in his budget speech by the Minister of Finance, Mr Barend du Plessis.

Mr Du Plessis said it was "extremely important" for the budget to provide "for the maintenance of law and order in the face of an unprecedented escalation of the risk of violence, and where possible act pre-emptively in this regard."

During the past decade the Defence Force had to operate with allocations that "in real terms showed no increase of even fell, despite increased responsibilities and the arms embargo.

"This meant, however, that necessary renewal and replacement programmes had sometimes to be delayed.

"To continue over the long term in this fashion would, of course, be shortsighted."

The Defence Force could simply no longer defer certain programmes, while others — such as the new Cheetah jet fighter, the combat support helicopter and the G6 mechanised gun already announced by the Minister of Defence — had to be initiated.

The Defence vote is R6 683 million, but with items to be spent on defence, including those under the Public Works vote, the total expenditure will be R7 017 million, compared to R5 257 million in the 1986-7 financial year.

In his speech, Mr Du Plessis said: "The control of unrest and intimidation must continue to enjoy high priority and it is thus necessary that the South African Police be placed in a position effectively to perform their task in this respect."

The police vote shows an increase of R459 million to total R1 530 million, but other budgeted items mean the total expenditure on the police will be R1 846 million.

According to an appendix to the Estimates of Expenditure, custody and administration of justice will cost R917 million, compared to R688 million in the previous budget, and 'other' will cost R288 million compared to R169 million.

The total expenditure on protective services will be R10 070 092 000 compared to R7 243 187 000 in 1986-7.

Control of security measures within the Department of Development Aid will double from R1 million to R2 million.

In the Defence Budget, the largest single total allocation of R2,6 billion goes to strengthening South Africa's air power.

The big concentration on the Air Force indicates a significant shift in emphasis in defence strategy.

Undwer the heading, Shifts in Emphasis, an explanatory memorandum says: The trend of investing an increasing percentage of the budget in modernisation and replacement programmes has been continued.

"The increased allocation to Air Defence reflects the high cost of modernisation — replacing aircraft and related air defence systems."

Though no details are given in the budget it is understood that most of the money will be spent on the acquisition of South Africa's own new "gunship" choppers, and the recently redeveloped and upgraded Mirage strike aircraft, the Cheetha.

Attack helicopters have been a priority need in the continuing bush war in SWA/Namibia and the new South African craft were badly needed to take over from the SAAF's aging fleet of imported models which are no longer available because of the international arms boycott.

Nearly half — 48 percent — of the Defence Forces R4,2 billion bill for "stores and equipment" will be spent on the SAAF.

An explanatory memorandum makes it clear that the defence budget can be expected to increase annually for the next five years by between five and six percent.

The memorandum points out that 10 years ago the SADF budget represented 18,4 percent of state expenditure compared with 14,7 percent in the current budget.

Investment rates boost for elderly

The government is to introduce Senior Citizens Savings Bonds carrying an interest rate of 15 per cent in a move to resolve problems faced by those elderly people for whom interest on investments is their only or major source of income.

Mr Du Plessis, said the government was "deeply concerned" at the problems faced by many senior citizens in this field.

The bonds, which would be available from July 1, were not aimed at offering a higher rate than was available in the private sector, but rather to provide senior citizens with a safe form of protection against falls in market rates to exceptionally low levels.

Mr Du Plessis also announced a two per cent drop in the 14 per cent interest rate paid on government's National Defence Bonds.

Mr Du Plessis said a dilemma that continually faced any economic policy-maker arose from the fact short-term measures aimed at certain economic goals could often impact adversely on other goals.

"A current example of this will be found in the area of interest rates, where lower rates, which normally serve to stimulate economic growth and particularly investment, simultaneously have the disadvantage of reducing income from savings."

Various steps had been taken to promote saving in general by means of the taxation system.

Although the State did not wish to compete with financial institutions, for historical reasons a few savings instruments were provided in which the ordinary man could invest.

"One of these is National Defence Bonds, which pay 14 per cent per annum, fully taxable.

"This rate is now significantly higher than the market rate for similar instruments of the same term, and to avoid the accusation that the authorities are unfairly competing with the private sector, it has been decided to reduce this rate to 12 per cent."

The lower rate applied immediately to new investors and to existing investors from July 15 this year, Mr Du Plessis said.

The new indefinite-period Senior Citizen Savings Bond would be available only to those aged 60 or over and would carry a rate of 15 per cent per annum.

This interest would be payable quarterly and would be taxable, but would enjoy the general tax concession whereby the first R1 000 of interest income per taxpayer was exempt from tax.

Investments could be made in multiples of R100 with a minimum of R500 and a maximum of R200 000 per individual.

The investment could be withdrawn at any time after 12 months from the date of deposit.

"It is not intended that this new savings bond will invariably offer a higher rate than is available in the private sector.

"Rather, it aims to provide our senior citizens with a safe form of protection against falls in market rates to exceptionally low levels," the Minister said.

The bonds would be available at post offices, commercial banks, stock brokers and direct from the Treasury from July 1. — Sapa

Finance for farmers

An amount of R400 million is to be allocated to help farmers facing sequestration as part of support programmes for agriculture in general which total more than R1 000 million in this year's Budget.

Mr Du Plessis said allocations of R117 million for the reconstruction of agriculture in drought-stricken areas and about R120 million for various other aid programmes had already been announced.

The "protracted and ruinous" drought in the summer rainfall sowing areas, together with accompanying crop failure, had led to serious financial problems for many farmers.

The drought had also affected businesses in these areas, the use of infrastructure in the towns, the number of workers employed in agriculture and local businesses and the long-term economic viability of these areas.

In these circumstances the Government had decided to provide an additional R134 million to support net producer prices of maize — which had also already been announced — and the R400 million for farmers facing sequestration.

"This aid programme forms part of the broader programme involving changes in the structure of farming systems and the reconstruction of agriculture in the areas concerned," said Mr Du Plessis. — Sapa

Fuel levies move plugs diesel scam

Dispatch Correspondent

Tax inspectors have uncovered a huge diesel "scam" which has been costing the state hundreds of millions of rands a year.

But, the Finance Minister, Mr Barend du Plessis, yesterday closed the loophole by consolidating certain levies built into the fuel price which he estimates will bring an extra R300 million into state coffers.

It is understood that certain diesel consumers, such as commercial fishing boats and farmers, who pay significantly less for their fuel than ordinary consumers, have been selling their supplies on the sly.

By charging only slightly more per litre than they paid for the diesel, they were making a handsome profit while the buyer was showing a handsome saving on normal prices.

Long-distance hauliers with heavy fuel bills to face, are understood to have been buying cut price fuel under-the-lap from farmers only slightly off their normal routes.

Some fishing vessels are also believed to have been transferring diesel into road tankers and selling it ashore.

Mr Du Plessis moved in on the operation yesterday and announced that "as a result of increasing evasion of duty, levies and sales tax on fuels, it has been decided to consolidate the levies for the Road Fund, the Central Energy Fund, the Motor Vehicle Assurance Fund (third party) and sales tax in a single fuel levy.

"The consolidated levy, which will be collected by Customs and Excise direct from the oil companies, will however have no impact on pump prices.

"Consumers that presently enjoy a rebate on fuel will in future have to pay the full duty at the time of purchase. Provision will however be made for a refund of a portion of the duty and fuel levy to consumers who qualify."

P. W. earns R135 000

Dispatch Correspondent

President P. W. Botha now earns R135 000 a year, including a R27 344 domestic allowance, and cabinet ministers are paid R121 500 a year, including a reimbursive allowance of R28 300.

There are also 33 civil servants who earn between R90 001 and R120 000 a year, but none are paid more than that.

The details of the salaries and allowances paid to South Africa's top political leaders and civil servants are contained in the Estimates in Expenditure, which were tabled in Parliament yesterday.

The Estimates show that deputy ministers are paid R85 182 a year, including a reimbursive allowance of R21 730.

The administration of Parliament is up by R4,3 million and is expected to cost R25,6 million and MPs' salaries and allowances will cost R16 million compared to R11,9 million in the previous budget.

The total expenditure on Parliament will be R41,6 million compared to R33,2 million.

The President's Council will cost R6,6 million compared to R4,8 million in the 1986-7 financial year.

A table in the Estimates shows that 46 302 civil servants earn between R22 001 and R30 000; 20 122 earn between R30 001 and R40 000; 8 320 between R40 001 and R50 000, 537 between R50 001 and R65 000, and 14 between R65 001 and R90 000.

Altogether, 10,1 per cent of civil servants earn more R22 001 a year and 0,07 per cent earn more than R50 001 a year.

Budget aimed at full participation

Dispatch Correspondent

Economic growth that ensured the participation in the ensuing benefits by the greatest number of people was the highest priority in the government's economic goals, the Minister of Finance, Mr Barend du Plessis, said yesterday.

While he saw the promotion of private initiative and effective competition as a national goal, he also said "the authorities and the private sector must join forces continually to prove that this choice of an economic system is to the benefit of all.

"But the choice made by the less-privileged is naturally influenced by their need for results now and by the prospects for the future."

"Appropriate financial and economic policies, upliftment in the social and educational spheres, and the provision of equal opportunities for training, work and the accumulation of assets and wealth by such means as the present imaginative promotion of home ownership, are thus not only right and just in themselves but also underpin the system.

"In several ways the budget contributes to this.

"It must, while showing the compassion due by a Christian Government to the less privileged and the needy, remain true to the conviction that it lies with the individual to strive for the greatest possible self-sufficiency, including provision for old age."

Entrepreneurs should not only enjoy the frequently considerable rewards but they also had to accept the risks.

"It must — finally, but extremely importantly — provide for maintenance of law and order in the face of an unprecedented escalation of the risk of violence, and where possible act pre-emptively in this regard."

The budget was "decivisively influenced by certain overarching and inescapable realities" of South Africa asa developing country with a high rate of population growth.

This not only imposed great claims on the country's economic capability but also contributed to unacceptably high levels of unemployment; with an unbalanced distribution of wealth and income between the several population groups, without a social welfare net of the sort found in most developed countries.

There was a very high demand for spending to uplift less-developed communities and regions, against the background of a changing constitutional dispensation.

Cape budget increases by 29 per cent

Dispatch Correspondent

A R2,398 billion budget for the Cape Province for the 1987-88 year was tabled in Parliament yesterday — 28,29 per cent higher than last year.

The main source of revenue indicated in the estimates is the Treasury which contributes R2,012 billion budgeted for by the Department of Development and Planning.

A further R142 million comes from the Provincial Revolving Loan Fund.

Province also estimates it will receive R115 million from taxation — R94 million from motor vehicle licences and more than R21 million from betting and totalisator tax.

A total of R82 million is budgeted for in hospital receipts and R26 million from community service receipts, mainly agents fees.

The two major areas of expanditure are hospital services and public health for which R1,143 billion is budgeted and community services for which R424 million has been earmarked.

An amount of R329 million has been allocated for roads, R162 million for miscellaneous services and R111 million for capital works.

The major items under miscellaneous expenditure are forestry and marine control taken over from the Department of Environment Affairs.

Margo in August

Dispatch Correspondent

The long-awaited, Margo Commission report on the country's tax system will finally be unveiled to the public in August, the Finance Minister, Mr Barend du Plessis, promised yesterday.

Mr du Plessis told Parliament that the report contained several recommendations that could have a "drastic impact" in several spheres of economic life.

The job of translating the voluminous report — a draft of the English version was completed some time ago — was almost done.

Another reason for the perceived delay in the report, Mr du Plessis said, was the government's determination to give clear guidelines on its stand on a number of the 300-plus recommendations in the report. This could not be done properly before August.

The practical effects of the report would be only be really felt after next year's budget, he said.

X

Big lift for black sports facilities

Dispatch Correspondent

Government spending on the provision of sports facilities for whites is to decrease substantially during the current financial year — but it will considerably increase spending on sports facilities for blacks.

Under the sport and recreation promotion programme under the vote for the Department of National Education, R255 000 has been budgeted for facilities and apparatus compared to R1 865 000 in the previous financial year.

Overall, the sport and recreation promotion programme will drop from R9,7 million to R8,2 million.

However, the promotion of sport and recreation programme under the Education and Training vote will increase from R20,5 million to R32,2 million.

Most of this increase will go to "facilities and apparatus" which is to go up by R11,1 million to R31,1 million.

The 1987 Budget

Millions to be spent on new schools

Dispatch Correspondent

A total of 51 new schools will be constructed by the Department of Education during the 1987-8 financial year.

The Finance Minister, Mr Barend du Plessis, yesterday tabled estimated expenditure of R1 487 billion for the department for the next financial year — an increase of R355 million.

An explanatory memorandum issued by the department indicates that it is planned to build 24 new primary schools — 1 030 classrooms — while provision is also made for the erection of classrooms for career education and for subsidies for the erection of farm schools.

Expenditure on these capital works is pinned at R64 million out of a total of R594 million allocated for pre-primary and primary education.

Provision is also made in the budget for the creation of a further 3 543 teaching posts and the further extension of computer-assisted education.

As far as secondary schools are concerned, provision is made in a capital budget of R96,9 million for the completion of 27 new schools with 1 197 instruction rooms and the completion of additions to 26 existing schools which include 491 instruction rooms.

In addition construction will start this year on a further 21 schools.

The total budget for secondary education is R594,9 million.

An increase of 181 per cent in spending on teacher training — R84 million — has also been budgeted for.

The memorandum says the department aims to implement new in-service and continuing training programmes "on a large scale" to enable teachers to improve their qualifications which in turn would result in improved education standards.

Capital expenditure on teacher training is pinned at R15,7 million which includes the planning and erection of six new colleges at Port Elizabeth Springs, Katlehong, Vereeniging, Kimberley and Bloemfontein.

Efforts to hold rand steady

Parliamentary Reporter

If new demand inflation or wage inflation could be avoided, the inflation rate should come down, Mr Du Plessis said yesterday.

The Reserve Bank would continue buying dollars to prevent the rand rising to the extent that it undermined exports, employment creation and growth.

He welcomed the 40 per cent rise of the rand against the dollar since June 12 last year insofar as it served to reduce the inflation rate.

But the Budget's short term fiscal and monetary strategy remained expansionary with the aim of raising production through boosting consumption and investment.

The minister said this did not mean that the fight against inflation was not a high priority, but "the further reduction of the inflation rate is not the only objective of official economic policy".

He said the control of inflation had to be slotted into the government's overall economic strategy.

The Reserve Bank would continue to accomodate "any reasonable extension of bank credit and increase in the money supply".

While this strategy was already reflected in the new money supply target recently set out by the Reserve Bank, the target had been reduced from a range of 16 to 20 per cent to one of 14 to 18 per cent in order to "avoid excessive money creation and the reappearance of demand inflation".

However, this range has been set high enough to support a real growth rate of about 3 per cent for 1987.

While he expected no significant upward or downward tendency in interest rates in the near future, interest rates would be allowed to rise in response to normal market forces if the economic upswing developed a greater momentum and was accompanied by a large increase in the demand for loanable funds.

Mr Du Plessis said an increase of this kind would "in fact be a symptom of meaningful economic advance."

He said, however, that at the moment there was no sign of an excessive monetary demand and the latest money supply growth rate was still below the new target range.

The exchange rate depreciation was caused by the outward movement of capital caused by a deterioration in overseas perceptions of domestic economic and political prospects and not by excessive money creation or spending.

Barend spends for economic upswing

49 DD 4/6/87


MR DU PLESSIS

JOHANNESBURG — Sharply higher deficit financing in yesterday's Budget is evidence of the Finance Minister, Mr Barend du Plessis' intention to government-spend the economy into a stronger upturn.

Individual taxpayers and companies emerged unscathed as Mr Du Plessis opted for a course which precluded any form of increased taxation.

Instead, he is to rely on natural increases in all forms of revenue to finance the 16,5 per cent additional expenditure aimed at.

To most taxpayers the Budget was a non-event, described by OK Bazaars' managing director, Mr Gordon Hood, as "about as exciting as Miss South Africa in a Victorian swimsuit." It had been forestalled by the pre-election Part Appropriation Bill and by the overhang of the soon-to-be-published Margo Commission report.

Apart from the new 15 per cent savings bonds for senior citizens, there were no handouts other than R534 million to farmers.

With revenue estimated at R35,4 billion, the total deficit before borrowing is R10,9 billion.

State spending will soar to at least R46,8 billion in the current fiscal year to March 1988 in what amounts to a mildly stimulatory package.

The Budget provides for a large increase of R1,5 billion in education which at R9,1 billion is now taking the largest single allocation, making up 19,6 per cent of the total Budget. About 40 per cent of this expenditure will go to black education.

The government's approach to urbanisation allows for greater "inward industrialisation" — growth generated by increasing demand for goods and services from a larger urban population — but Mr Du Plessis said this was not a substitute for regional development.

The PFP spokesman on Finance, Mr Harry Schwarz, described the Budget as "a great non-event" and as being unimaginative and containing "nothing of major consequence to encourage business to invest more and create much needed new employment opportunities."

The government's history of inaccurate budgeting, which was continued last year, gave little credibility to this year's budget, he said.

Mr Schwarz welcomed the increase in the appropriation for education but said it had to be borne in mind that the educated and trained, as well as the unskilled, needed jobs. The absence of an imaginative job creation programme and the cutback on the amount voted for job creation and training was foolish and regrettable.

The methods of financing the deficit before borrowing were open to debate and it was clear that the private taxpayer continued to shoulder the major tax burden, he said.

The Federated Chamber of Industries (FCI) was disappointed that a bolder approach was not adopted to stimulation, the executive director, Mr Steve Anderson, said.

The FCI welcomed the reduction in import surcharges which should ease the rising cost burden in industry and the large increase in spending, especially on black education.

Also welcomed was a more disciplined approach to the government's spending program.

The Association of Chambers of Commerce (Assocom) said it continued to be concerned at the high level of state spending and regretted there had not been more scope for further tax cuts.

Banks and building societies reacted with surprise and distress to the introduction of senior citizen savings bonds at 5 per cent above market rates.

The NBS financial director, Mr John Gafney, said the bonds would seriously affect building societies which could in no way match the 15 per cent offered while mortgage lending was at 14 per cent.

The SA Perm's deputy general manager, Mr Brian Kenmey, said the bonds were a "gross distortion of the marketplace" and the Allied's deputy managing director, Mr Ian Fraser, said they appeared to be a signal for mortgage rates to rise.

The Afrikaanse Handelsinstituut president, Mr Pierre Steyn, said stimulation through tax deductions would have been psychologically preferable to higher expenditure.

The deficit before borrowing of about R10,9 billion would apparently be financed without upward pressure on interest rates and also without creating money and would therefore not contribute to inflation.

The AHI believed, however, the extent of the deficit at just above 20 per cent of budgeted income was dangerously high.

Mr Hood said the Budget was meaningless to consumers who were suffering terribly amid endemic inflation. "From a consumer point of view, the budget was about as exciting as Miss South Africa in a Victorian swimsuit." — DDC-Sapa

Border roads: R24,6m to be spent

Parliamentary Reporter

CAPE TOWN — Border roads are to get a R24,6-million slice of the Cape provincial budget for the coming financial year.

Contract trunk road construction is to receive R13,6 million, financed from the revolving loan fund.

This includes R12 million for the Bailey-Jamestown road (for which a balance of R6 million will be needed in April next year), R1 million for the Jamestown-Aliwal North road (for which R21 million will be needed next April) and R300 000 for the Kei to Stutterheim road.

Departmentally constructed roads will receive R4,1 million from the revolving loan fund.

This includes R3,9 million scheduled for the Beacon Bay-McLeantown and Kei-Stutterheim road (for which R7,1 million will be needed next April) and R200 000 for the Wilsonia-Highgate

Increase in financial aid for Transkei and Ciskei

CAPE TOWN — Government spending on the homelands is to be drastically increased by R1 732 million during the current financial year.

In the Estimates for Expenditure, which were tabled in Parliament yesterday, R4 1?? million has been budgeted for the independent and non-independent homelands.

In the previous financial year R2 450 million was budgeted for the homelands.

Under the Foreign Affairs vote, R1 694 503 000 has been provided in budgetary aid.

The estimates do not specify which amounts are to be transferred to Transkei, Bophuthatswana, Venda and Ciskei.

Under the Development Aid vote, R2 488 361 has been budgeted for the six non-independent homelands. In the 1986/87 financial year, R1 635 091 000 was provided for this purpose.

A further R68,1 million has been provided for the development of townships and infrastructure in the independent homelands and R39,6 million for the purchase of land for consolidation purposes.

However, spending on the resettlement of black people is to drop during the current financial year by R85,9 million.

Budget at a glance

- Individual and company taxes unchanged.
- New "Granny Bonds" for senior citizens, offering an interest rate of 15 per cent.
- Education receives 19,6 per cent of total budget — a 40 per cent increase for black education.
- Spending on job creation schemes and training the unemployed cut by more than a third to R181,4 million because of the economic upturn.
- Increased aid to the TBVC states.
- Security spending up 39 per cent to R10 070 million — Police voté up 42 per cent, Defence up 30 per cent, including R2,6 billion for improved air power.
- Cheap diesel fuel racket stopped.
- Less for white sports facilities, more for black sport.
- R400 million for farmers facing bankruptcy.
- Another R68 million to be spent on the Orange/Fish River Scheme during 1987-88.
- Extended concessions on import surcharges on imported raw materials and intermediate products to to cover certain textiles, plastics and chemicals.

Defence
7 017 000 000 +1 760 000 000

Community Services
424 000 000 +291 000 000

Senior Citizens
Investments rates boost

Education
1 487 000 000 +355 000 000

Law and Order
1 530 000 000 +459 000 000

- A estimate of R567 000 was also allocated to the East London Library, up from R500 000 in the previous financial year.
- R650 000 is scheduled to be spent on converting the old Vincent Primary School into an ambulance station.

A number of projects and institutes in Grahamstown will also receive greater financial assistance.

From the Department of Public Works, the South African Library for the Blind in Grahamstown is to receive R6 million as opposed to the R1 million received in the previous financial year.

The J.L.B. Institute for Icthyology is to receive R2 million — double the amount it received last year — while the National English Literary Museum is to be given R2 million. It had no allocation last year.

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Making big bucks in bad times

FOCUS

By SY MAKARINGE

When the country was plunged into one of the worst economic crises in history about two years ago, a way was paved for unscrupulous individuals and bogus companies to make fast bucks from the unsuspecting and unsophisticated black consumer.

This culminated in untold misery for many black families who were frantically and desperately fighting to keep their heads above the water as the rand continued to shrink and the country's economic crisis deepened.

The sharks took advantage of the economic climate, critical unemployment and wide-scale retrenchments that followed it, and abused advertisement pages of newspapers to reach their prey.

Sharks

Looking absolutely genuine, these sharks — who more often than not are white people — promise jobs to the unemployed, to lend money to the desperate and to give assistance where it is needed. But all for a fee.

What happens next is that the company closes shop without leaving a forwarding address, or opens the same business under another name.

It is a case of the fatter cows eating the thinner ones as the owners of these bogus companies make more money from people who are politically and socially deprived.

Consumer organisations, advice offices, legal firms and newspapers are always inundated with pleas for help from members of the public who were left in the lurch by these companies and individuals.

These organisations have painstakingly tried to trace companies which were closed down or individuals who have vanished, but with a poor success rate.

These sharks came in the form of employment agencies, estate agents, money-lending institutions and financial consultants. They get away with murder, so to speak, because there are very few laws in South Africa which protect the consumer.

Even in cases where laws exist, the penalties are not harsh enough to end these unscrupulous practices.

A man raked in thousands of rands when he advertised jobs in a widely-read black Johannesburg newspaper. He asked applicants to enclose R10 with their applications so that he could arrange identity cards for them.

They were also asked to send in passport photographs, giving many desperate job-seekers hope. But a few days before the man was supposed to open his "new business", he disappeared, leaving a trail of anger, frustration and misery behind him.

Rip-off

This is just one example of how bogus employment agencies rip off the black consumer. They get away with it because they do not furnish their full names, street addresses and other important particulars when they place their adverts in the papers.

Recently, an unemployed Hammanskraal man, Mr Joel Mthethwa, responded to a newspaper advert in which a security firm at Empangeni offered to train people as security guards. After a few days Mr Mthethwa received a reply in which he was told to send R30 for training equipment.

He did so and that was the last he heard from the "security firm".

Angry

"I wrote many letters to them, but I received no response. I now have reason to believe that these people are conmen who are out to make money from poor blacks," the irate Mr Mthethwa said.

A spokesman for the Empangeni Post Office, where the owner of the bogus firm was renting a post box, said he had received numerous complaints from angry people who wanted to know the street address of the company so they could go there personally.

It was found that the man had not provided the Post Office with this information when he made an application for the box number.

Another area that has been the centre of controversy is the "business" run by fly-by-night financial institutions. These money-lending companies are mushrooming at an alarming rate, particularly in the densely populated Johannesburg area.

They promise would-be clients loans ranging from R500 to R5 000 without the guarantee of security or fixed assets. Prospective clients have to pay non-refundable administration fees of between R10 and R50 before their applications are considered.

More often than not, applicants forfeit their fees because of their "unsatisfactory" trade references.

Where loans are advanced and granted, the interest rates are very high when compared to those of reputable financial institutions.

Experts say that these companies are making a lot of money from the non-refundable administration fees although the companies themselves maintain that they charge the fees to cover costs, including stationery, office rent, labour and telephone bills.

Mr Amon Motlhamme of Pretoria, for example, wanted to improve his home but did not have the money to do it. When he saw an advert in a newspaper, he thought his dreams would be realised.

"I phoned the financial institution immediately after seeing the advert. They told me to call at their offices to make an application. I gave them my trade references, which I believe are excellent, as well as R75 administration fee," Mr Motlhamme said.

A few days later the application was rejected and his money forfeited. Mr Motlhamme claimed that the company did not even bother to check his references.

The controversy surrounding these institutions got so serious that the Department of Financial Institutions in Pretoria launched a high-level investigation into their activities. Two of the companies now face possible prosecution.

Bogus estate agents also take advantage of the critical shortage of houses in the townships. Always immaculately dressed, they approach their victims at random and promise to sell them "vacant" houses. Prospective homebuyers are then asked to pay a deposit of between R100 and R200 before the deal is concluded.

House

When the homebuyer goes to inspect the house, he finds, to his dismay, that the house that was on sale had never been vacant.

One of the people who jumped at one of these "offers" was Mr Isaac Mabila, a Soweto father of four, who has been on the housing waiting list since 1973.

He was offered a "vacant" house in Dube for only R8 000 by a man who looked like an estate agent.

"The well-dressed gentleman, whom I met in town, said he would need a R5 000 deposit. The balance, he said, would be paid over a period of three years.

"The gentleman said he needed R100 urgently so that he could organise transport to take my belongings to my new home.

Warning

"He took the money and my lodger's permit and left. That was the last I saw of him," Mr Mabila said.

Consumer organisations have warned people to be careful not to enter into unfair contracts, but the message always fails to filter down to the man-in-the-street. Newspapers have also been requested to withdraw suspicious adverts placed in their classified columns.

A spokesperson for the Newspaper Press Union said in cases where an advertiser asked for money to be sent to him, he must give a 14-day or money-back guarantee.

She said advertisers must also give their full physical addresses and full particulars of their companies, especially in cases where money must be sent to them.

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BUDGET '87

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SYFRETS

As mentioned in our pre-Budget outlook for 1987-88, a budget has two main purposes: redistribution of resources, and direction-control of the economy.

In terms of this, the Budget which the minister presented yesterday must be seen against the following background:

● South Africa is a dual economy with both First World and Third World characteristics. To obtain an equitable balance between these two, the budget should strive to create employment opportunities, promote inward industrialisation, improve education and health facilities, and provide a long-term infrastructure for industrial activities.

● The need to finance the existing tricameral system which absorbed 31 per cent of total expenditure during the 1986-87 fiscal year. In addition the Budget must provide for further constitutional reform and development which, despite past expenditure, has not been that meaningful.

● The need to maintain internal stability and secure the country's borders. Expenditure on defence and police absorbed 19 per cent of total expenditure in the 1986-87 fiscal year.

● The need to finance the 12,5 per cent increase in civil servants' salaries, with effect from 1 July 1987.

The above-mentioned demands on the government's coffers should be seen against the following constraints on revenue:

● The exclusion of South Africa from international capital markets has to a large extent removed a historic source of funding.

● South Africa is already a highly taxed rate of increase in current government expenditure exceeded the rate of increase in revenue, resulting in current expenditure being financed by borrowings.

Tax revenue

Direct taxation Individuals

The Part Appropriation Bill (February's Mini Budget) allowed a number of tax concessions aimed at placing more funds in the hands of consumers. These were: reduction in personal income tax rates to a 15 per cent minimum and a 45 per cent maximum (cost R545 million); an increase in the deduction for working wives to R2 250 or 22,5 per cent of earnings (whichever is higher), at a cost of R95 million; a further doubling of the tax free amount of interest to R1 000 (cost R119 million); an early repayment of the 1983 loan levy.

As a result of the rather onerous demands placed on the exchequer by demands for increased expenditure, the minister had limited ability to grant any further tax concessions. As a result no changes to individual tax rates were announced in the main Budget. Although largely expected, no excise and customs increases were announced on wine, spirits, beer and cigarettes. This is in line with the goverment's commitment to economic expansion through increased consumer spending. Again no changes were proposed to the rate or structure of GST. There will be continued disappointment at the lack of further exemptions on basic foodstuffs from lower income earners.

A significant development which will bring relief to pensioners who rely on savings for their

Part of the investment team of Syfrets Managed Assets Limited. From the left are Elmien de Kock, Ian Hamilton, Leon Campher and Tony Gibson. Their analysis of the Budget is contained in the accompanying article.

ness development support. The two major items which were not mentioned in the minister's speech were the cost of the civil service and debt servicing. A salient feature of the expenditure vote was the R1 billion support programme for the agricultural sector.

The foreign affairs vote has increased significantly due to the inclusion of transfers to the TBVC countries. An alarming aspect of the expenditure vote is the substantial increase in the allocation to Defence and Police.

The minister seems to have conveniently discarded the 3 per cent guideline of deficit before borrowing relative to GDP.

The deficit before borrowing for the 87-88 fiscal year of R8,425 billion is 4,7 per cent of estimated GDP.

Effects on financial markets

Interest rates

The theme of the budget continues to be one of controlled stimulation. In line with this overall strategy the minister's message is clear in that no significant change is expected in the level of short-term interest rates for the balance of 1987. It was indicated (implicitly rather than explicitly) that reducing inflation remains a secondary consideration, with economic growth and reducing unemployment being of primary concern. To this end the monetary policy of the country will remain accommodative. This was reinforced by the Reserve Bank's satisfaction with the level of money supply growth which is comfortably within the laid down targets.

The minister did, however, onerous relative to institutional cash flows, especially as R2 billion has already been raised in the first quarter of the fiscal year and R1,9 billion in respect of roll-overs. If, however, government expenditure increases by a more realistic 20 per cent, the funding requirement from the domestic market increases to over R6 billion. Assuming short-term interest rates begin to rise in the fourth quarter of the year, a borrowing requirement of this magnitude could exert upward pressure on capital market rates.

Share market

The Budget has not introduced any significant new factors which might influence the stock market's well established bull trend.

The minister in his preamble indicated that the Reserve Bank will exercise control on the exchange rate expecially as a higher rand is detrimental to exports. This could be good news to the mining sector which has seen profits diminished through lower rand receipts. A Reserve Bank policy with a bias to a lower rand could prevent the further erosion of profits due to increased costs.

It was pleasing that the minister did not increase the excise duty on beer and cigarettes. The recovery in the beer industry seen over the past 12 months must have been a tempting source of additional revenue and it is welcomed that he did not choose to single out one industry for punitive taxation as in previous years.

The consolidation of the various fuel levies and GST on petrol into a single levy to be collected from the oil companies could put some cash flow pressure on

Even a 1 per cent reduction in GST would have a significant effect on consumer spending and confidence particularly in the lower income groups and consequently the retail sector of the market.

The growth in company tax revenue is probably similar to that already discounted by investors on the stock exchange and lends support to the perception that the market is not over-valued at present.

Although the minister acknowledged the unacceptably high level of inflation, his Budget does nothing to curb a further rise. Investors conscious that the inflation rate could rise sharply again later this year and during 1988 will probably continue to seek shelter through stock exchange investment.

Conclusion

Within the constraints of maintaining a stable political and economic environment, the minister has addressed the following:

● 18,40 per cent of total expenditure on Police and Defence;

● R1 billion to support agriculture and thereby rural development;

● Increased spending on black education;

● Maintenance of a mildly stimulatory economic environment;

● Recognition of senior citizen plight through the creation of 15 per cent Senior Citizen savings bonds;

● Exemption from import surcharge of certain raw materials and intermediate products.

However, the following issues have not been adequately addressed:

● Private enterprise has been given no new incentive to create jobs or commit funds to fixed

percentage of GNP increased from 19,2 per cent in 1970 to 25,2 per cent in 1986.

● Personal taxation has increased (as a percentage of total revenue) from 24 per cent in 1970 to 29 per cent in 1986, whereas company taxation decreased from 29 per cent in 1970 to 15 per cent in 1986. In addition to the overloaded personal tax burden there is also GST and other indirect taxes.

Furthermore, a disturbing trend in government spending patterns in recent years has been the decline in capital expenditure relative to current expenditure. The [illegible] zen Bond. This bond will offer an initial interest rate of 15 per cent, payable quarterly, on amounts of between R500 and R200 000 and will be fixed for a year. It is only available to citizens over the age of 60. This new investment instrument reflects the government's recognition of the dilemma caused on the one hand by stimulating business activity through lower interest rates, and on the other offering fixed interest earners a return which at least approaches the rate of inflation. This development, plus the increase in the tax-free amount of interest to R1 000, should go some way to easing the burden of fixed income earning pensioners.

Tax on mining companies

The surcharge on gold and diamond mining companies remains unchanged at 25 per cent and that on all other mining companies at 15 per cent. The minister expects revenue from this source to be slightly lower at R3,15 billion as higher costs and large capital projects have eroded profits despite the higher rand/gold price.

Tax on non-mining companies

The basic company tax rate remains unaltered at 50 per cent. However, the minister is looking at increasing the contribution from this sector as a result of an improvement in the economy which should boost company profits.

Indirect taxation
GST

As has already been mentioned, no changes have been made to the rate or structure of GST.

On the back of the expected economic recovery and higher consumer expenditure, revenue from GST is estimated at R10,7 billion, an increase of 20 per cent on the actual receipts during the 1986-87 fiscal year.

Other indirect taxation
Transfer payments

The minister is budgeting for R6,7 billion in revenue from this source which is an increase of 20 per cent over the actual receipts for the 1986-87 fiscal year.

One concession has been made: imported raw materials and intermediate products required by the manufacturing sector which are cleared after June 3, 1987, are exempt from import charges.

A consolidated fuel levy has been introduced. This will be levied on the oil companies by Customs and Excise and will not increase the pump price of petrol. The levy is merely a consolidation of the levies for the Road Fund, the Central Energy Fund, the Motor Vehicle Assurance Fund and GST and has been instituted in order to circumvent evasion. This will result in additional revenue of R300 million.

Expenditure

Part Appropriation Bill of 1987

● Early repayment of the 1983 loan levy was announced.

● Increases in social service payments of R200 million.

● R117 million as the first instalment of a five-year programme for the reconstruction of agriculture in drought areas plus R120 million for further assistance to agriculture.

Further major expenditure estimates were given by the minister.

● Included in "other" is support for agriculture, commerce and industry, public sector remuneration, public works, job creation and training and small business allowed to rise in the event of increasing demand pressures in the economy but he emphasised that this would imply a robust level of economic activity — certainly not evident at present.

The government's budgeted deficit before borrowing at 4,7 per cent of GDP does cause some concern for capital market rates. If expenditure is held within budgeted levels (a most unlikely event) the borrowing requirement will be R10,9 billion. After a large slice is met by the PIC (R5,3 billion), the R4,4 billion borrowing requirement from the domestic market is not too [no] other impact is expected.

The removal of the 10 per cent or R100 million of import surcharges on raw materials and intermediate products used in manufacture should help stimulate sectors such as chemicals, paper and pulp, pharmaceuticals and the motor industries. While this reduction could result in some price reductions or at least price constraint, the impact on consumer expenditure will be limited.

Unfortunately there has been no reduction in GST, although no change had been expected other than selected food stuffs.

● Deregulation and privatisation has not been aggressively pursued;

● No details of capital development expenditure;

● Unacceptably high inflation;

● No relief is offered to lower income groups through a reduction in GST.

Again the Budget failed in its primary task of lending direction to the economy and has left the impression of maintaining the status quo at a time when the country and economy needed real support to the cautious upswing in confidence.

Budget speech by the Minister of Finance

Introduction

General

The last few years were among the most difficult we have experienced, and called for sacrifices by one and all. But that those sacrifices were worth it is now clear: the economic tide has turned towards growth and development, and we can justifiably look forward in new confidence.

This Budget is in important respects unique, and it also operates within certain general and specific parameters:

In view of the recent election for the House of Assembly, it is being delivered in the third month of the current financial year; it nonetheless forms a unity with the Part Appropriation earlier this year, which included substantial tax concessions.

It stands foursquare with recent Budgets and measures designed as a stimulus towards bringing the economy out of recession and putting it back on the path of sound growth. Successive tax concessions and target-related additional government expenditure have already achieved much in this regard.

It deals with government expenditure that for the first time rests on approaches and priorities laid down by the State President's Committee on National Priorities and which form part of a five-year plan for such expenditure. In this, the first attempt to implement the plan, allowance has naturally had to be made for the present exceptional circumstances. The plan will be re-evaluated later this year and adjusted where necessary.

It relates to state revenue collected under a tax system that stands on the threshold of renewal. Important choices on taxation will shortly have to be made on the basis of the recommendations of the Margo Commission, and in anticipation of this the government has over the past two years refrained from changing the tax system in any significant way.

It reflects the mandate given by the majority of white voters to their representatives in both the House of Assembly and the government to embark on far-reaching further steps towards the broadening of democracy. In his address at the recent opening of Parliament, the State President referred succinctly to the need for economic growth as a requirement in this process:

"Constitutional development cannot take place in isolation, but has to be preceded and accompanied by economic and social processes to create the conditions in which renewal may be continued on the basis of security."

It will contribute to answering the question whether our economic system can deliver what the country and its people want. Various socialist approaches in Africa have been unable to offer hope of escape from hunger, poverty and misery. For its part the South African Constitution sees the promotion of private initiative and effective competition as a national goal; consequently, the authorities and the private sector must join forces continually to prove that this choice of an economic system is to the benefit of all. But the choice made by the less privileged is naturally influenced by their need for results now and by the prospects for the future.

Appropriate financial and economic policies, upliftment in the social and educational spheres, and the provision of equal opportunities for training, work and the accumulation of assets and wealth by such means as the present imaginative promotion of home ownership, are thus not only right and just in themselves but also underpin the system. In several ways the Budget contributes to this.

It must, while showing the compassion due by a Christian government to the less privileged and the needy, remain true to the conviction that it lies with the individual to strive for the greatest possible self-sufficiency, including provision for old age. The continuation of direct and indirect concessions and measures to promote thrift and provision both for one's working life and for retirement is again reflected in this Budget.

It must, while certainly promoting new jobs and ensuring the continuance of existing ones by way of grants and other measures, always take as a sound point of departure the fact that employment creation belongs primarily with the private sector. The entrepreneur should not only enjoy the frequently considerable rewards of private initiative but also accept that he must bear its risks. The state cannot, and nor should it, protect him from or compensate him for the risks and losses inseparable from economic life. State assistance can thus be justified only in exceptional circumstances.

It must — finally, but extremely importantly — provide for the maintenance of law and order in the face of an unprecedented escalation of the risk of violence, and where possible act pre-emptively in this regard. Efforts towards optimal economic development, the meaningful development both of leadership and of negotiation in all spheres, including the constitutional one, are otherwise doomed to fail or to progress at an unacceptably slow pace.

Furthermore, the Budget is decisively influenced by certain overarching and inescapable realities of our country.

South Africa is a developing country:

● With a high rate of population growth, which not only imposes great claims on the country's economic capability but also contributes to unacceptably high levels of unemployment;

● With an unbalanced distribution of wealth and income between the several population groups, without a social welfare net of the sort found in most developed countries;

● With a very high demand for spending to uplift less-developed communities and regions, against the background of a changing constitutional dispensation;

● With a very open economy, vulnerable to overseas developments such as fluctuations in the gold price, exchange rates and the demand for raw materials, as well as to trade sanctions and disinvestment.

The fiscal policy instruments of public expenditure and taxation can thus be meaningfully structured only by taking the particular characteristics, shortcomings, problem areas, needs and possibilities of this country fully into account.

Long-term economic strategy

General

Against this background, the highest priority in determining economic goals must be given to a growth process that above all generates work, and in such a way that ensures participation in the ensuing benefits by the greatest number of people. This can be best achieved by increasing individual involvement in the economic development process and by continually improving every individual's opportunity and ability so to participate. This approach is also manifest in the long-term economic strategy of the Economic Advisory Council presented to the conference of business leaders convened by the State President on November 7, 1986. This strategy, with adaptations by that conference, envisages that the further development of the South African economy will be of a three-fold nature.

Firstly, the strengthening and development of the modern sector is imperative as a basis for the country's economic development. The income- and work-generating role of the modern sector and its role as creator of surplus funds and supplier of expertise for the development of the conomy as a whole will have to be the pivot of economic progress.

Secondly, the government's political reform process and new approach to urbanisation (as set out in the relative White Paper) allows for greater inward industrialisation — that is, a process of economic growth generated internally as a result of the increasing demand for basic goods and services from a burgeoning urban population.

Inward industrialisation should not, however, be seen as a substitute for a third essential element in the development process, namely regional development. The latter does not clash with a simultaneous urbanisation programme or the consequential process of inward industrialisation. More than 40 per cent of the South African population is still to be found in the rural areas, including the national states: this means that a real need exists in these areas for the optimal utilisation of the development potential they offer. The government thus has an ongoing duty to promote rural development and to create and maintain job opportunities in those areas.

Fiscal strategy

In determining financial policy it remains the policy stance that any possible room for growth in the short to middle-term should be fully exploited. Under present circumstances fiscal policy has a key role to play in this regard.

The long-term planning done by the State President's Committee on National Priorities in respect of government expenditure and its financing is now being employed as the basis for the annual Budget. At the end of last year the cabinet approved, for the first time, a five-year expenditure plan: one that covers the period 1987-88 to 1991-92. As is always the case with a new departure, this plan requires further refinement, and it will be revised annually so as to achieve the goal of setting realistic public sector expenditure on a moving five-year basis.

The plan has been developed so as to give shape to the government's declared aim of allowing greater room for private sector activity. The plan envisages a relative reduction in total public sector expenditure, namely from almost 38 per cent of gross domestic product in 1985-86 to approximately 34,5 per cent in 1991-92. The process of privatisation and deregulation already launched is bound up with the attainment of this objective.

Monetary strategy

As to monetary policy, the monetary authorities have now for two successive years set targets for the increase in the money supply. It is also accepted that interest and exchange rates must be sufficiently flexible to adapt to changes in the business cycle and so exercise a stabilising influence on cyclical fluctuations.

In the light of this long-term perspective against which this year's Budget ought to be judged, we can now proceed to a discussion of the present economic position.

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by all three ministers' councils and by the cabinet. The financing requirements of education have in fact been determined with the assistance of formulae in the past two years. In co-operation with the administrations for own affairs these formulae will continually be refined and will be used in arriving at the transfers concerned.

Senior Citizen Savings Bonds

A dilemma that continually faces any economic policy-maker arises from the fact that short-term measures aimed at certain economic goals can often impact adversely on other goals. A current example of this will be found in the area of interest rates, where lower rates, which normally serve to stimulate economic growth and particularly investment, simultaneously have the disadvantage of reducing income from savings.

Various steps have been taken to promote saving in general by means of the taxation system. Although the state does not wish to compete with financial insitutions, for historical reasons a few savings instruments are provided in which the ordinary man can invest. One of these is National Defence Bonds, which pay 14 per cent per annum, fully taxable. This rate is presently significantly higher than the market rate for similar instruments of the same term, and, to avoid the accusation that the authorities are unfairly com-

cover for lengthy terms was ended on December 31, 1986. The bank however continues, for the Treasury's account, to provide the market with cover for up to one year. The risks attaching to these short-term transactions are less than in the case of long-term contracts, and the potential exposure of the Treasury has therefore been reduced.

Further net losses amounting to R1,529 billion were incurred last year on the Gold and Foreign Exchange Contingency Reserve Account, which brought the total balance on this account on March 31, 1987, to R3,469 billion. No provision has been made in this Budget for any transfer to the Reserve Bank in respect of this loss.

Since the end of March this year, however, the course of both the gold price and the exchange rate of the rand resulted in net profits on the bank's gold and foreign exchange transactions, which served considerably to reduce this balance again. The balance will fall further during the course of the year if this trend continues.

In accordance with the South African Reserve Bank Act, the timing and the means of settlement of this balance will be such as may be arranged between the Minister of Finance and the governor of the bank. It has now been decided that for the time being the Reserve Bank will continue to bear the accumulated loss, as a claim against the Treasury.

Central Energy Fund (CEF) to finance the stimulatory package brings total income to R34,130 billion, an increase of 16,4 per cent on the previous financial year.

The most important deviations from the initial budgeted figures appear in higher tax revenue from gold and other mines, chiefly on account of increases in the rand earnings of certain mining products. On the other hand, income tax payments by non-mining companies were substantially lower than budgeted; this applies also to income tax on individuals, sales tax and excise duties, and can be attributed largely to a lower-than-expected level of economic activity in 1986.

As is customary, a schedule giving particulars of the revised revenue estimates will be tabled.

Financing of the 1986-87 deficit

With revised expenditure of R40,321 billion and preliminary revenue of R34,130 billion, the deficit before borrowing for 1986-87 amounts to R6,191 billion, or about 4,1 per cent of gross domestic product. Loan redemptions, at R2,326 billion, were also higher than budgeted, chiefly by reason of the repayment of R433 million of the IMF loan (which was financed by a corresponding transfer from the IMF Deposit Account at the South African Reserve Bank a d t... [illegible]

nancial year announced in the speech of the Part Appropriation Bill. The estimate shows total revenue as R38,594 billion. For technical reasons, however, this includes a transfer of R352 million from the IMF Deposit Account to finance a corresponding loan redemption. Furthermore, R258 million will be transferred from the CEF to the State Revenue Account, representing the balance of R193 million for the financing of the stimulatory package and R65 million in respect of that portion of stockpiled inventories taken over by the CEF from the state.

If the transfers from the CEF and the IMF Deposit Account are left aside, the contribution by Inland Revenue is estimated at R35,365 billion — an increase of 15,6 per cent. Total net Customs and Excise collections are expected to rise by only 4 per cent, to R2,620 billion. The total normal revenue of R37,985 billion is 14,7 per cent above the comparable revenue for the previous year.

As to specific sources of revenue, R12,1 billion is expected from income tax on individuals, 24,1 per cent above the collections for 1986-87. This increase stems largely from the growth in the number of taxpayers and from improvements expected in the profits of partnerships and non-incorporated business enterprises, while the average salary increases in the economy are also expected to be higher than in the previous financial year.

In the light of the improvement that has already taken place in the profits of non-mining companies, and also the expected further upswing in the economy, revenue from this source is estimated at R5,8 billion, compared with the preliminary collections of R5,034 billion for 1986-87.

Although the average rand price of gold is ex-

analysis is made in accordance with the internationally accepted manual of the United Nations on national accounts, does not, however, reflect the substantial investment in human capital that is taking place in such fields as education and training, for all population groups. Similarly, all defence spending is classified as current expenditure irrespective of its nature. It must further be pointed out that the budgetary assistance to the TBVC countries, which takes place by means of a fiscal transfer, is classified in total as current expenditure, in spite of the fact that part of it goes to capital projects.

Main increases in budget allocations

The most important increases are in:

Education

When the relevant portion of the package for the improvement of service conditions is included, the allocation to education amounts to R9,1 billion — by far the largest single allocation, comprising 19,6 per cent of the entire Budget.

This amount represents an increase of R1,542 billion, or almost 20 per cent, on the comparable expenditure of the previous year, and includes an increase of about 40 per cent in the expenditure on black education — emphasising the government's commitment to the optimal development of the country's human potential and to the goal of equal educational opportunities for all population groups. It is significant that, in contrast with many other countries and in spite of South Africa's specific

defence — an increase of 30 per cent over the vote for 1986-87. During the past decade the Defence Force has had to operate with allocations that in real terms showed no increase or even fell, in spite of increased responsibilities and the arms embargo. This meant, however, that necessary renewal and replacement programmes had sometimes to be delayed. To continue over the long term in this fashion would of course be shortsighted. The Defence Force could simply no longer defer certain programmes, while others — such as the Cheetah, the combat support helicopter and the G6 mechanised gun already announced by the Minister of Defence — have had to be initiated.

South African Police

The control of unrest and intimidation must continue to enjoy high priority and it is thus necessary that the South African Police be placed in a position effectively to perform their task in this respect. This budget vote shows an increase of R459 million, or 42,8 per cent above the vote for 1986-87. The transfer of the railway police and the appointment of special constables and municipal police, together with the growth of the fixed establishment, are the chief reasons for the increase.

Other activities

Other activities provided for in the Budget and which on account of their importance warrant special mention include:

Work creation and training of the unemployed

These programmes gathered momentum last year by virtue of the large amounts they were voted. Although there are still considerable numbers of unemployed and an endeavour is being made to help them with regard to their most pressing necessities, temporary support programmes on the same scale as in the past two years can unfortunately not become a permanent feature of our expenditure pattern. In the light of the upturn in the economy the total assistance has in this year's Budget been reduced from R281 million in 1986-87 to R181,4 million, comprising R100 million for employment creation and R81,4 million for training. As already remarked, the creation of permanent job opportunities over the medium and longer term lies primarily with the private sector.

Pensions

The pension improvements already announced, amounting to R206 million, are included in the printed Estimate under the votes concerned.

Public service remuneration

In the light of the particular problems surrounding Exchequer financing this year, the sum of R1,224 billion included in the Budget for the improvement of service benefits is the maximum that could be provided for this deserving matter. The whole question of salary adjustments has recently received wide coverage and therefore calls for no further elucidation.

Supplementary expenditure proposals

The following two sup-

plementary proposals are submitted:

Assistance to agriculture

The printed Estimate already includes R117 million for the reconstruction of agriculture in the drought-stricken areas and about R120 million for various other aid programmes for agriculture. The protracted and disastrous drought in the summer rainfall sowing areas, together with the accompanying failure of crops, led to serious financial problems for many farmers. Regard must also be had to the drought's effect on business enterprises in the areas concerned, the utilisation of the infrastructure in the towns, the labour force employed by agriculture and local business undertakings and the long-term economic viability of those areas. In these circumstances and in order to provide an opportunity for agriculture to recover financially, the government has decided to provide the following additional assistance by way of the Budget.

Firstly, to avoid too large a fall in the net producer prices of white and yellow maize, R134 million is being provided to support these prices. Announcements in this regard have already been made. Secondly: a further amount of R400 million will be allocated to help those farmers facing sequestration. This aid programme forms part of the broader programme involving changes in the structure of farming systems and the reconstruction of agriculture in the areas concerned; it should also make a noteworthy contribution to the stabilisation of the rural areas, the preservation of job opportunities and regional development, as elements of the broader long-term strategy to which reference has already been made.

The support programmes for agriculture in general included in this year's budget amount to more than R1 billion, which of course places a heavy burden on the taxpayer. But it shows the government's disposition towards the agricultural sector, and one can only hope that more favourable climatic conditions from now on will provide the opportunity of financial recovery, which in turn will reduce the quantum of state aid going to that sector.

Small Business Development Corporation

It is extremely encouraging to note the progress made by the SBDC since its establishment in 1981 in developing small businesses and creating job opportunities. Some R350 million has already been granted by way of loans while some 80 000 new job opportunities have been created and 64 000 jobs preserved. The printed Estimate includes R5 million for the SBDC, of which R2 million represents the government's contribution to a proposed bank indemnity scheme by which bank loans to small businesses will be facilitated and the position of the SBDC better secured. The remaining R3 million is for an interest rate subsidy on the loans of some R60 million that the SBDC intends to raise in the capital market.

Insofar as neither the state nor the SBDC's private sector shareholders can now provide the long-term funds the SBDC requires, it will to a greater degree than anticipated have to rely on the capital market to meet its needs and this calls for additional funds for the interest subsidy. It is proposed that a further R10 million be voted for this purpose. It has also become customary for the state to contribute to the SBDC's Pioneer Projects Fund and it is therefore further proposed that R5 million be specially voted for this purpose. A total of R15 million will thus be included in the Supplementary Estimate for the SBDC.

Adjusted expenditure and tax proposals

Total expenditure, including the supplementary expenditure proposals, will be R46,868 billion, which is an increase of 24,7 per cent on the Main Budget for 1986-87 and of 16,2 per cent on the total actual expenditure for that cided to reduce this rate to 12 per cent. The lower rate applies immediately to new investors, and to existing investors from July 15, 1987.

However, the government is deeply concerned at the problems faced by those senior citizens for whom interest is the only or the major source of income, and it has therefore been decided to introduce an indefinite period savings instrument known as a Senior Citizen Savings Bond, available only to those aged 60 or over, which will carry a rate of 15 per cent per annum. This interest will be payable quarterly and will be taxable, but will of course enjoy the general tax concession whereby the first R1 000 of interest income per taxpayer is exempt from tax. Investments can be made in multiples of R100 with a minimum of R500 and a maximum of R200 000 per individual, and the investment can be withdrawn at any time after 12 months from the date of deposit.

It is not intended that this new savings bond will invariably offer a higher rate than is available in the private sector; rather, it aims to provide our senior citizens with a safe form of protection against falls in market rates to exceptionally low levels. The bonds will be available at post offices, commercial banks, stock brokers or direct from the Treasury, from July 1, 1987.

Gold and Foreign Exchange Contingency Reserve Account

The scheme whereby the Treasury, via the Reserve bank, provided public sector bodies with forward exchange

Financial year 1986-87

Expenditure

The revised estimate of expenditure for 1986-87 is R40 321 billion. This is an increase of R2,750 billion (7,3 per cent) on the Main Budget for 1986-87 of R37,571 billion and an increase of 22,5 per cent on the actual expenditure of R32,908 billion for 1985-6; but if the expenditure connected with the stimulatory package is left aside, the increase is 20,2 per cent.

The total stimulatory package of R1,205 billion announced in June 1986 provided for additional expenditure of R955 million; of this, R762 million was spent in the 1986-87 financial year, including the transfer of R400 million to the South African Housing Trust. The balance of R193 million will be used for employment creation and housing in 1987-88.

The 1986-87 expenditure also includes an advance of R190 million to the Special Defence Account. Particulars of other additional expenditures for 1986-87 were given, at the introduction of the Additional Appropriation Bill, 1987, earlier this year.

Revenue

The preliminary collections indicate that for 1986-87 total normal tax revenue rose by 13 per cent to R33,118 billion — R509 million less than budgeted. The R1,012 billion transferred to the Exchequer from the 1983 loan levy, which was repaid in March 1987.

The financing requirement was thus R13,517 billion, some R3 billion more than provided for in last year's Budget. The difference was financed through the sale of government stock of R3,3 billion — R1,2 billion more than budgeted. The lack of demand on the capital market by both private and public sector borrowers was, however, such that these loans exerted no pressure on capital market rates; on the contrary, the yield on long-term government stock fell from 17,4 per cent in April 1986 to 15 per cent in March of this year.

The deficit was further financed by way of an increased contribution by the Public Investment Commissioners (PIC) and larger sales of both Treasury and National Defence Bonds. In 1986-87, furthermore, some R1 billion of the funds invested with the PIC in terms of the Debt Standstill Arrangements was utilised as short-term foreign loans for Exchequer financing — a subject that will be dealt with more fully later. Total loan financing therefore amounted to R8,919 billion.

After making provision for payments of R31 million to the International Development Association and the World Bank, the estimated surplus in the State Revenue Account at the close of the 1986-87 financial year is R371 million. It is proposed that this be applied in part financing of the 1987-88 Budget.

Financial year 1987-88

Revenue

As is usual, the printed Estimate of Revenue to be tabled today is based on the present tax scales and takes into account the amendments for the 1987-88 fi- pected to be higher than in the previous financial year, gold mining costs continue to rise, while the high capital expenditures of the mines also reduce taxation from that source. The gold mines' contribution in the form of income tax and mining leases is thus estimated at R3,150 billion, slightly lower than the collections for 1986-87.

In the light both of the expected improvement in domestic expenditure and of more effective control measures, revenue from sales tax is estimated at R10,7 billion, 20,1 per cent above the previous financial year. Customs duty plus the import surcharge is expected to rise by 12 per cent, while excise duty, which is levied mostly on consumption volumes, is expected to rise by 6,5 per cent. Transfer payments under the Customs Union Agreements with the BLS and TBVC countries, however, will rise by 22,6 per cent.

Expenditure

The Estimate of Expenditure for the 1987-88 financial year provides for expenditure of R46,319 billion made up as follows:

(See Table 1.)

TABLE 1

	R Billion
(a) Votes for the expenditure of Departments for General Affairs	32 511
(b) Transfers under Section 84 of the Constitution Act to Administration for own affairs	7 965
(c) Statutory payments to the Provinces	5 843
Total	46 319

Economic classification

An economic classification of expenditures for 1987-88 is shown in Annexure 6 to the printed Estimate; it gives capital expenditure as R4,636 billion, slightly lower than the revised figure of R5,086 billion in the previous financial year. This classification of capital expenditure, which for the sake of international and local financial

c.se.y ... that we are making our largest single investment in the future.

Development Planning

The increase of R1,194 billion (22,4 per cent) to R6,514 billion is attributable chiefly to the following: normal growth in provincial expenditure, increases in welfare promotion, the absorption of the functions of development boards and local authority services. It includes a provision of R636 million for black local authority purposes.

Foreign Affairs

R2,176 billion is provided for this department, as against R1,363 billion in 1986-87. This represents an increase of about 60 per cent, which arises chiefly from an increase in aid to the TBVC countries.

Commerce and Industry

Previously a portion of the assistance to exporters took place via tax rebates, which did not appear in the Estimates of Expenditure. So as to make this form of assistance visible and bring it under Parliamentary scrutiny, a system of deferred payments by means of the issue of promissory notes with a maturity of two years was introduced. The first redemption of these takes place in 1987-88, and R443 million is provided for this purpose. The vote thus shows a large increase of 73,6 per cent, from R594 million to R1,031 billion.

Defence

A sum of R6,683 billion is being allocated to year. If the stimulatory package is left out of account, the latter increase rises to 18 per cent — suggesting that the budgeted expenditures are a not unrealistic reflection of the real requirements of departments in 1987-88.

At this stage the deficit before borrowing is already more than R8,6 billion; this is clearly very high, but in the present economic climate and with due regard to the liquid position of the capital

market, it is not considered advisable to propose any significant tax changes to reduce the deficit. There are nonetheless two matters that warrant attention, involving on the one hand a small tax concession promising large benefits and on the other the prevention of tax evasion.

Import surcharge

In June last year further exemptions from the import surcharge on certain imported raw materials for use in manufacturing were announced. It has now been decided to extend this concession by similarly exempting other raw materials and intermediate products subject to customs duty. The concession will apply only to imported raw materials and intermediate products used in manufacturing and which are cleared after June 3, 1987. Motivated applications for this exemption should be submitted to the Interdepartmental Import Surcharge Committee.

This concession is estimated to involve a loss of revenue of about R100 million, but it should have a cost reducing effect on certain goods and should also serve both as a further stimulus to the industrial sector and to promote job creation.

Consolidated fuel levy

As a result of the increasing evasion of duty, levies and sales tax on fuels, it has been decided to consolidate the levies for the Road Fund, the Central Energy Fund, the Motor Vehicle Assurance Fund (third party) and sales tax in a single fuel levy. The consolidated levy, which will be collected by Customs and Excise direct from the oil companies, will, however, have no impact on pump prices of fuel. Consumers that presently enjoy a rebate on fuel will in future have to pay the full duty at the time of purchase.

Provision will, however, be made in the Customs and Excise Act for a refund of a portion of the duty and fuel levy to those consumers who qualify. My colleague, the Minister of Economic Affairs and Technology, who is responsible for fuel matters, will shortly supply further particulars in this regard. Additional revenue of some R300 million is estimated for the remainder of the financial year as a result of this change and of improved collection procedures.

Deficit before borrowing and financing

When these tax proposals are taken into account the total revenue for the 1987-88 financial year is estimated at R38,443 billion. As the adjusted expenditure total is R46,868 billion, the deficit before borrowing will be R8,425 billion, or 4,7 per cent of estimated gross domestic product; loan redemptions are estimated at R2,465 billion, and the total financing requirement is thus R10,890 billion.

The use of foreign loan funds

Following the introduction of the debt standstill on the redemption of foreign loans on September 1, 1985, provision had to be made for foreign creditors who were no longer able or prepared to lend on normal market terms to borrowers in South Africa, but who in the nature of the case could not remove their funds from the country, to deposit them with the Public Investment Commissioners (PIC). This arrangement was embodied in the first, and now in the second, interim debt arrangements.

About R2,5 billion of such funds has subsequently found its way to the PIC; but the latter sometimes finds it difficult to have these funds placed with private money market institutions, and the money is then invested temporarily in treasury bills specially issued for this purpose. The Treasury is therefore involved not only in paying interest on a large portion of these funds but also in carrying the full exchange rate risk, inasmuch as the deposits with the PIC are denominated in foreign currency.

In accordance with the second interim debt arrangements that come into force on July 1, 1987, South Africa will over the next three years repay only 13 per cent of these funds. It can therefore be accepted that a large portion of these funds will remain with the PIC for a good while yet. As already mentioned, about R1 billion of these funds — which should be regarded as short term foreign loans —was used in March 1987 in the financing of the 1986-87 Budget. It is proposed that further such funds be utilised by the state in the 1987-88 financial year by way of short-term loans.

The second interim debt arrangements also provide that foreign creditors can from July 1, 1987, convert their short-term claims now included in the net into medium-term loans. After five years the latter loans will be repaid in ten equal half-yearly instalments over a further five years. Foreign creditors have shown much interest in this possibility and the Department of Finance has already entered into negotiations with certain of them in this regard.

It is intended to apply R1,2 billion of the funds referred to above for Exchequer financing in 1987-88 by way of short and medium-term loans, but preferably medium-term for the most part. In this manner the foreign funds that by virtue of balance of payments considerations cannot immediately be repaid to foreign creditors will be utilised more effectively in the South African economy.

Other financing

In addition to this foreign finance, the PIC is expected to invest R4,1 billion of its normal funds in government stock in 1987-88: about R400 million more than in the previous financial year. Total stock sales of R4,350 billion are proposed, of which R1,850 billion represents rollovers and R2,5 billion new issues. In the first two months of the current financial year the Reserve Bank has garnered some R2 billion from the markets via tap issues. Considering the limited further demand for capital market loans, there is no reason for the sale of government securities in the rest of this financial year to exert upward pressure on interest rates.

Sales of bonds are estimated to yield R520 million, while the redemption of R352 million of the IMF loan will be financed by a transfer from the IMF deposit account. Taking into account the surplus from the previous financial year of R371 million, the total financing proposed is R10,893 billion, which leaves a small surplus, estimated at R3 million.

Comparative statement of State Revenue Account

As usual a summary of the State Revenue Account is subjoined in the printed version of the Budget Speech.

(See Table 2.)

Concluding remarks

Economic circumstances in South Africa are presently very propitious for a continuation of the upswing now under way. Total economic activity established at a low level in 1985 and then began a gradual upward movement, and enough room has now been created for a forward movement at a higher tempo and from a sound base.

The sacrifices of the past few years, when the average growth rate was very low, have therefore not been in vain.

In these circumstances the greater momentum that the upswing acquired in the second half of last year is to be welcomed. It is particularly encouraging that it rests on a reasonably wide base and that both production and spending are now rising on a fairly wide front. Positive signs are increasingly emerging: for example, a whole series of large projects in the private sector has recently been announced, which underlines the improvement in business confidence.

In the framing of this Budget an attempt has been made to handle the upswing with due caution. On the one hand there is the danger that it can be such as to call for the re-introduction of restrictive measures, and in this connection it should be remembered that large-scale operations such as the Mossel Bay gas conversion project and the Lesotho-Highlands water scheme, or any further increases in the gold price, have stimulatory potential.

On the other hand the upswing may fail to gather the necessary momentum and have to be supported once again. At the same time room exists for expansion, as is reflected in such things as the massive surplus on the current account of the balance of payments, the comparatively high level of unemployment, low interest rates and spare production capacity. As now framed this Budget, coupled with the measures already announced in the speech on the Part Appropriation Bill in February, can be regarded — and rightly so — as expansionary. Taken together they should succeed in stimulating the economy, and chiefly along the following inter-related paths:

Firstly, an increase in total expenditure of 16,2 percent is contemplated, including some R1 billion as assistance to agriculture.

Secondly, various tax concessions have been made, such as the reduction in personal income tax, the concessions for working wives and in respect of interest income — all of which were announced in the Part Appropriation Speech — and the reduction in the import surcharge included in today's Budget. These concessions total over R850 million.

Thirdly, provision is made for an increase in the deficit, before borrowing, from R6,2 billion to R8,4 billion, the equivalent of 4,1 per cent and 4,7 per cent respectively of gross domestic product.

Fourthly, it is proposed that this deficit be partly financed by a more effective utilisation of foreign funds that by virtue of the Debt Arrangements are invested inter alia with the Public Investment Commissioners. In this way the Exchequer's demands on the capital market will be considerably reduced.

In these circumstances the Budget should promote real economic growth without leading to excessive money creation or spending. There is at present without doubt scope for faster growth, and this Budget creates the opportunity to exploit that scope in the national interest.

Finally, I should like once again to express my appreciation to the State President for the understanding he always shows of the difficult financial and economic decisions that so often have to be taken in this country. I should also like to thank my cabinet colleagues for their co-operation in difficult circumstances, and the two deputy ministers of finance, each of whom has made a great contribution to the handling of the finance portfolio. The director general of finance and the heads and staff of all the branches of this large department deserve both praise and sincere thanks for the manner in which they acquit themselves of their manifold duties; in particular, I should like to thank all those who worked to prepare today's Budget.

I next express my thanks to the governor and deputy governors of the Reserve Bank and the general manager of the Land Bank and their personnel for the good co-operation we always receive from them.

I also take this opportunity to thank Mr Charlie Simkin, who recently retired as chairman of the Standing Committee on Finance, and also other colleagues who served with him on this important committee and have now retired. At the same time I wish to welcome the new chairman, Mr J. H. Heyns, and the new members of his committee: we look forward to working heartily together with you.

TABLE 2

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Business Day

0c (45c + 5c tax) For other prices, see Back Page

BUDGET SPECIAL

THE VITAL VIEWPOINT

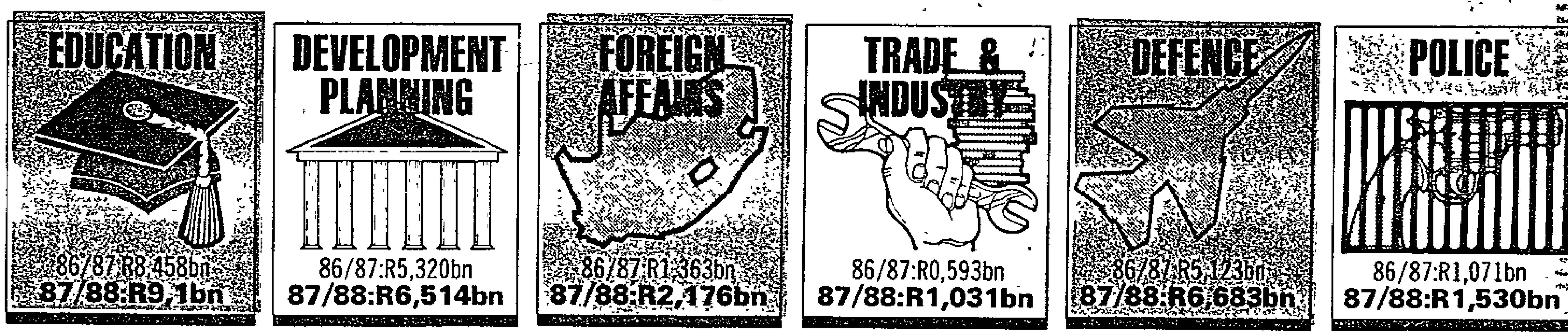
4/6/87 (49) B/Day

Where the money's going: Budget in a nutshell

☐ **REVENUE:** Total revenue for 1987/88 is estimated at R38,594bn (which includes transfers from Central Energy Fund and IMF Deposit Account). Excluding these items, total revenue is estimated at R35,365bn, an increase of 15,6% on the previous year.

☐ **EXPENDITURE:** Total expenditure for the year, including supplementary expenditure proposals, is estimated at R46,868bn, an increase of 24,7% on last year's main Budget, and of 16,2% on the total actual expenditure last year.

☐ **FINANCING:** This leaves an estimated deficit before borrowing of R8,425bn, or 4,7% of estimated GDP. Loan redemptions are estimated at R2,465bn; making the total financing requirement R10,890bn.



☐ **EDUCATION:** Total allocation to education, including improvement to service conditions, amounts to R9,1bn, the largest single allocation, amounting to 19,6% of the entire Budget. The increase of R1,542bn is almost 20% more than last year, and includes an increase of about 40% in the expenditure on black education.

☐ **DEVELOPMENT PLANNING:** An increase of R1,194bn (22,4%) to R6,514bn in expenditure on provincial affairs, welfare promotion and the absorption of the functions of development boards and local authority services. Included in this amount is a provision of R636m for black local authority purposes.

☐ **FOREIGN AFFAIRS:** A total of R2,176bn is provided for this department, as against R1,363bn last year. This increase of 60% is mainly accounted for by stepped-up aid to independent black homelands (the TBVC states).

☐ **DEFENCE:** A total of R6,682bn is allocated to defence, an increase of 40% on the previous year. This pegs defence spending at around 4% of GDP.

☐ **POLICE:** Expenditure is increased by R459m, or 42,8%, to R1,530bn. This is because of the need to control unrest, the growth of the fixed establishment, the transfer of the railway police and the appointment of special and municipal police.

4/6/87 B/Day

49

A 'non-event' for taxpayers

Du Plessis spends for better days

HAROLD FRIDJHON and GERALD PROSALENDIS

SHARPLY higher deficit financing in yesterday's Budget is evidence of Finance Minister Barend du Plessis's intention to "government-spend" the economy into a stronger upturn.

● DU PLESSIS

But to most taxpayers the Budget was a non-event. It had been forestalled by the pre-election Part Appropriation Bill which had distributed largesse before the white electorate went to the polls on May 6, and by the overhang of the soon-to-be-published Margo Commission report.

There were no handouts, other than R534m to farmers to support the maize price and assist those in financial distress.

With revenue estimated at R35,4bn the total deficit before borrowing is R10,9bn. To balance a lopsided set of accounts, Du Plessis's total financing requirements

□ **Budget details and reaction: Pages 4 and 5.**
□ **Budget Comment: Page 6.**
□ **Full Budget speech in a special eight-page pull-out supplement in all editions of Business Day today.**

will rise by 22,1% from last year's R8,9bn and the previous Budget estimate of R5,5bn. In an economy just starting to gather momentum this deficit-budgeting is not critical.

Individual taxpayers are expected to contribute R12,1bn to Inland Revenue. This increase of 24,1% above collections for the past fiscal year "stems largely from the growth in the number of taxpayers and improvements expected in the profits of partnerships and non-incorporated businesses."

Du Plessis expects average salary increases this year to be higher than last year but he sidesteps the effect of fiscal drag on individual taxpayers.

State spending will soar to at least R46,8bn in the current fiscal year to March 1988 in what amounts to a mildly stimulatory package. Spending is 16% up on last year's total outlays but 24,8% higher than Du Plessis had estimated in his March 1986 Budget speech.

Hopefully this pattern of past Budget over-runs will not be repeated this year. Du Plessis said that for the first time a five-year expenditure plan had been implemented. It was aimed at reducing government's offtake of 38% of GDP in 1985/86 to 34,5% in 1991/92. He added the processes of privatisation and deregulation, already launched, were closely bound up with the attainment of this objective.

Du Plessis said that "in several ways" the Budget contributed to the upliftment of less privileged people by providing equal opportunities for training, work and the accumulation of assets, particularly by promoting home ownership.

The Budget provides for a large increase of R1,5bn in education, which at

● To Page 2

Government spending is aimed at upturn

49 B/Day 4/6/87

● From Page 1

R9,1bn is now taking the largest single allocation and makes up 19,6% of the Budget. An increase of about 40% in spending on black education should be seen as a move towards "equal educational opportunities for all population groups".

Du Plessis regarded his highest priority as the stimulation of growth in order to generate employment. "The strengthening and development of the modern sector is imperative as the basis of the country's economic development."

Government's approach to urbanisation allowed for greater "inward industrialisation" — growth generated by increasing demand for goods and services from a larger urban population, he said.

But this was not a substitute for regional development. More than 40% of the SA population lived in rural areas where job opportunities had to be stimulated.

The recent strength in the exchange rate of the rand was, he said, an important factor in the downward tendency of the inflation rate, with the CPI dropping to 15,1% in the first quarter of 1987.

"It will be evident that, if new demand inflation or wage inflation can be avoided, the rate of inflation should gradually fall still further."

● See Page 6

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Cautious and realistic but . . .

(49)

Business Day Reporter

CAUTIOUS and realistic, but marked by an unfortunate preference for increasing government expenditure, rather than cutting taxes — that was the reaction to yesterday's Budget from a wide range of bodies and spokesmen.

☐ Afrikaanse Handelsinstituut (AHI) President Pierre Steyn said stimulation through tax deductions would have been psychologically preferable to higher expenditure.

The deficit before borrowing of about R10,9-bn would apparently be financed without upward pressure on interest rates and without creating money and would therefore not contribute to inflation.

The AHI believed, however, the extent of the deficit of just above 20% of budgeted income was dangerously high.

☐ The Federated Chamber of Industries was disappointed that a bolder approach to stimulation had not been adopted, said executive director Steve Anderson. The cautious stimulation built into the budget had been widely expected. In current conditions of still-hesitant growth and low investor confidence, a substantial case could be made for stronger stimula-

● To Page 2

4/6/87

BDay 4/6/87

Budget seen as cautious

(49)

● From Page 1

tion through tax cuts and a larger deficit before borrowing.

☐ Assocom shared the realistic overall assessment of the economy in the Budget speech, including the renewed emphasis on the need for growth. Although Assocom appreciated factors which had made the Budget mainly a holding operation, it remained doubtful whether fiscal decisions embodied in it would guarantee a growth rate of 3% in 1987.

Assocom was still concerned over the high level of state spending and regretted there had not been more scope for further tax cuts.

☐ The Budget was meaningless to consumers who were suffering terribly amid endemic inflation, said OK Bazaars MD Gordon Hood. "From a consumer point of view, it was about as exciting as Miss South Africa in a Victorian swimsuit."

☐ Government was financing its running expenses from loans and was, in fact, taxing future generations, said CP finance spokesman Cas Uys. The CP supported the increased expenditure on security services and aid to agriculture, but thought it was too little, too late.

☐ The Budget was a great non-event, said PFP finance spokesman Harry Schwarz. It was unimaginative and contained "nothing of major consequence to encourage business to invest more and create much-needed new employment opportunities".

☐ The Labour Party was dismayed at the small number of concessions granted to the man in the street, but welcomed the provision of additional funds for housing.

☐ The Institute of Chartered Accountants said the expansionary Budget was to be welcomed, especially the emphasis on expenditure for black education and housing.

It welcomed the announcement of a five-year strategy to bring down government expenditure. But government's inability to contain its expenditure within Budget remained of concern, said president Rick Cottrell.

☐ The proposals should sustain the moderate upswing in the economy, said National Association of Automobile Manufacturers, said vice-president Spencer Sterling. Overall fiscal and monetary policies were consistant with the attainment of the 3% growth rate.

☐ Organised agriculture was generally happy with the Budget, said Agricultural Union vice-president Nico Kotzer. The additional R400m aimed at saving farmers from sequestration was particularly welcome because of the growing number of those with financial problems. The money could make a significant contribution to the stabilisation of rural problem areas.

☐ The Minister had presented a good, balanced recovery budget, but there was still no indication of the importance of exports, said Wim Holtes, chief executive of the Foreign Trade Organisation.

☐ Asata (Association of Southern African Travel Agents) was generally pleased with the Budget and hoped the massive increase in government spending would have the desired expansionary, rather than inflationary, effect.

☐ The Consumer Council welcomed the Budget as an exercise in moderation and stimulation.

Budget dismay: 'A non-event'

By ANTHONY JOHNSON
Political Correspondent

OPPOSITION political parties reacted with disappointment and dismay to yesterday's budget, calling it an unimaginative non-event unlikely to stimulate business investment or growth and with little to relieve the hardships of the man-in-the-street.

However, parties generally welcomed the increases in spending for education and concessions for senior citizens.

PFP finance spokesman Mr Harry Schwarz described the budget as "a dead loss, a great non-event" providing little encouragement for the hoped-for growth period and according only lip-service to the combating of inflation.

"The budget is unimaginative and contains nothing of major consequence to encourage business to invest more and create much-needed new employment opportunities," he said. "The February pre-election action in handing out tax concessions apparently left the minister with an empty bag for the budget — the import levy reduction being the single somewhat small gesture he felt able or willing to make.

"Taking the budget together with that of the Post Office and the Transport Services, the fiscal picture is unattractive."

Mr Schwarz said there had to be "serious doubts" about whether the modest target of 3% growth in Gross Domestic Product would be reached without further stimulatory measures. Even if this target were reached the real growth rate would be minimal, bearing in mind the 2,5% population growth rate.

"The increase in the appropriation for education is welcome. It should be borne in mind that the educated and trained as well as the unskilled need jobs and the absence of an imaginative job-creation programme and the cut-back on the amount voted for job creation and training is foolish."

Conservative Party finance spokesman Mr Casper Uys said the government had produced "a standstill budget with no imagination". He said the budget would not stimulate the economy as Mr Du Plessis had predicted.

Individual taxpayers would in future be paying 24% more and GST had been effectively increased by 20%. Money was being taken away from the private sector and the individual taxpayer to finance the government's plans, he said.

Labour Party finance spokesman Mr John Douw said his party was "dismayed" at the small number of concessions offered to the man-in-the-street "who lacks consumer confidence because of socio-political and recessionary conditions".

"Further salary increases for the public sector would have been far more welcome than the hefty provisions for defence and law and order," he said. "Greater fairness and the recognition of the dignity of all South Africans would serve to defuse a potentially explosive situation." He said the increase to 19,6% of the budget for education was welcome.

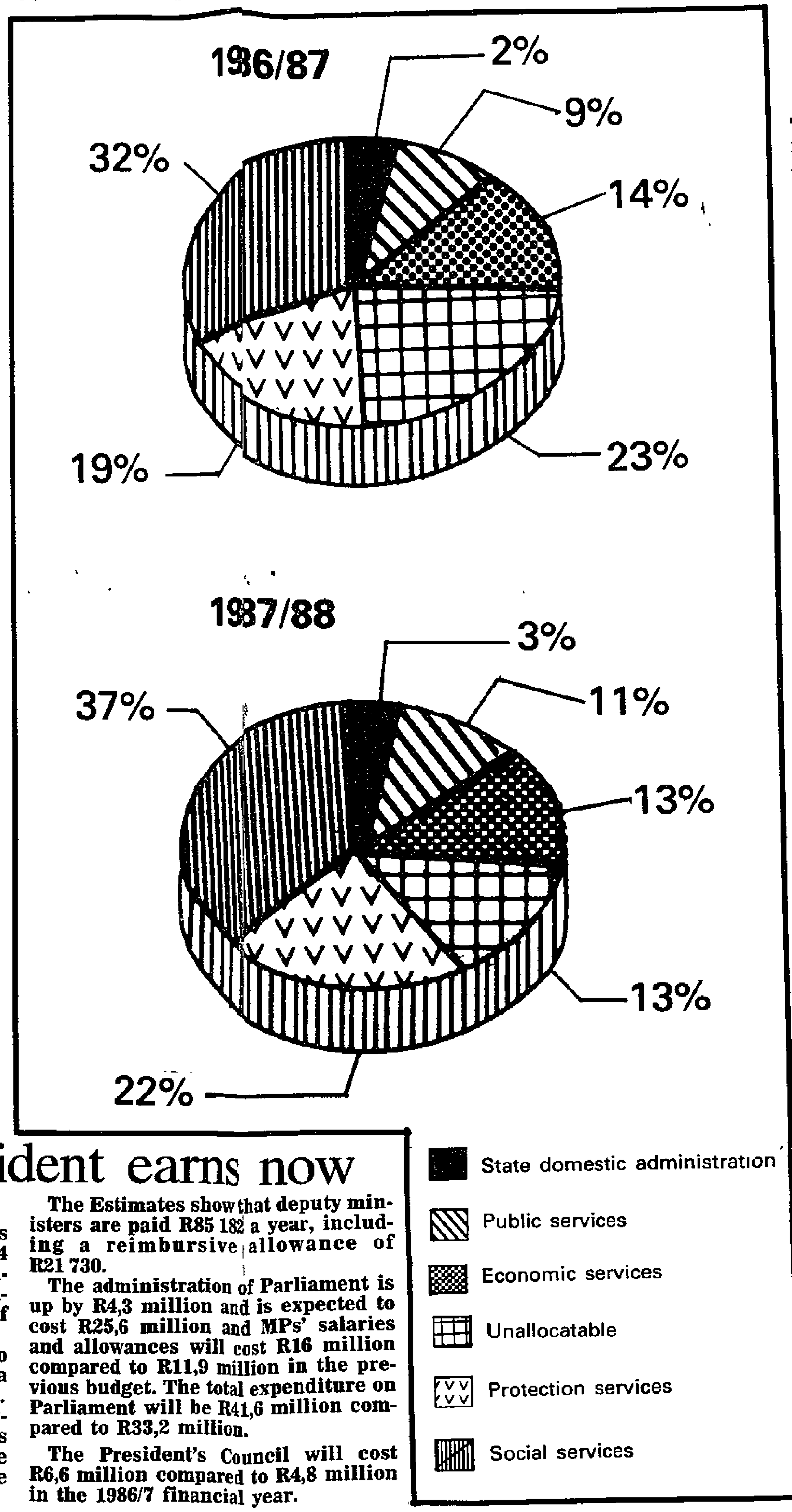
The leader and finance spokesman of the Democratic Party, Mr Charles Redcliffe, said the budget was an "utter disappointment".

"It offers nothing to the vast majority of the country's people in alleviating their hardship in the face of continual rises in the prices of foodstuffs, rentals and transport costs," he said.

"We regret that no further relief could have been given to pensioners, apart from the R20 increase announced during the Part Appropriation Bill earlier this year.

"The budget, generally, is a very conservative one and unlikely to lead to the necessary stimulation of the economy aimed at by the minister.

"Imaginative measures are required to restore both consumer and business confidence and I believe that this budget failed in this respect," he said.



Groote Schuur: R267m to be spent

Political Staff

THE new Groote Schuur Hospital and renovations to the existing buildings are now expected to cost R267,2 million.

The new building and parking decks are expected to cost R216,3 million, of which R54,1 million is to be spent during this financial year.

The new nurses' home is expected to cost R17,5 million, of which R10,1 million is to be spent during the 1987/8 financial year.

Redevelopment of the old hospital building is expected to cost R27,2 million. The first expenditure on this project, R642 000, is to take place during this financial year.

The upgrading of boilers is expected to cost R1,9 million, of which R1,2 million is to be spent during this financial year.

Professional fees on Groote Schuur Hospital during this financial year are expected to total R4,4 million.

Defence budget gives more teeth to Air Force

Defence Correspondent

LOTS more teeth for the Air Force — and fast.

That is the theme of this year's military spending estimates, which were tabled in Parliament yesterday and featured an allocation which spoke loudly in terms of rands and cents but softly in terms of actual increased spending.

From remarks made by the Minister of Finance, Mr Barend du Plessis, it is obvious that most of the large extra slice devoted to air defence — R925,9 million — will be spent on converting Mirage IIIs into Cheetah ground-attack fighters and maximizing the drive to produce a combat transport helicopter based on the existing Puma.

He also mentioned "certain programmes" (unnamed) which could not be deferred — possibly a reference to the development of new surface-to-air and surface-to-surface missiles hinted at last year by the chairman of the Armaments Corporation, Commandant P G Marais.

In addition, he made it clear that the G-6 self-propelled 155mm gun is now in production. This will fill an important gap in the land forces' ability to fight mobile, aggressive campaigns.

Mr Du Plessis estimated defence expenditure at R6 685 million, which, if public works spending on military installations and certain other items are included, comes to R7 017 million, or just under 4,7% of the GDP — up a modest 0,7% on last year.

At the same time it is the highest percentage of the GDP to be spent on defence since 1978 (4,5%), when Armscor was also involved in various high-tech development and production programmes.

By world standards it remains fairly low — well below Britain and the United States, and in the same general bracket as Turkey (4,4% in 1984/5), Zimbabwe (4,8), France (4,0) and Czechoslovakia (4), but well below [illegible] expenditure.

Funds spent on military involvement in the townships or along the borders are paid by the SADF and probably do not represent any great extra sum, as the troops used are either full-time national servicemen who are being paid anyway, or part-time troops due to be called up for normal training or service.

The South African Army, by far the largest employer and deployer of men, weapons and vehicles in the SADF, still gets the major slice of the defence pie with 39,2%, but the SAAF is now close behind with 38,6%, while the Navy gets no more than 7,5%.

According to Mr Du Plessis, the increased sums are to be spent as follows:

● **Command and control (up by R18,8 million):** Catching up with inflation.

● **Landward defence (up by R450,8 million):** Modernization and replacement programmes and "transfer of responsibility for border protection to the SADF and increased aid to the South African Police".

● **Air defence (up by R925,9 million):** Modernization and replacement programmes and catching up with inflation.

● **Maritime defence (up by R76,2 million):** Commencement of "certain essential modernization and replacement programmes".

● **Medical support (up by R21,3 million):** Replacement of obsolete equipment and catching up with inflation.

● **General support (up by R7,8 million):** Catching up with inflation.

A memorandum included with the estimates makes it clear, however, that defence spending is set to rise to new heights — between 5% and 6% of the GDP — in the next five years.

The steady reduction in defence spending as a percentage of State expenditure and GDP in the past decade proved the SADF was "very much aware" of the vital need for a stable [illegible] healthy economy. "The SADF [illegible]

Provincial spending R6 922m

Political Staff

BUDGETS for the four provincial administrations, with an estimated expenditure of R6 922 million — an increase of R2 051 million on the 1986/7 financial year, were tabled in Parliament yesterday.

The budgeted expenditures are:

● Cape Province: R2 398 million, an increase of R529 million.

● Transvaal: R2 683 million, an increase of R970 million.

● Natal: R1 094 million, an increase of R264 million.

● Free State: R745 million, an increase of R287 million.


Mr Botha

What the President earns now

Political Staff

PRESIDENT P W Botha now earns R135 000 a year, including a R27 344 domestic allowance, and cabinet ministers are paid R121 500 a year, including a reimbursive allowance of R28 300.

There are also 33 civil servants who earn between R90 001 and R120 000 a year, but none are paid more than that.

The details of the salaries and allowances paid to SA's top political leaders and civil servants are contained in the Estimates in Expenditure, which were tabled in Parliament yesterday.

The Estimates show that deputy ministers are paid R85 182 a year, including a reimbursive allowance of R21 730.

The administration of Parliament is up by R4,3 million and is expected to cost R25,6 million and MPs' salaries and allowances will cost R16 million compared to R11,9 million in the previous budget. The total expenditure on Parliament will be R41,6 million compared to R33,2 million.

The President's Council will cost R6,6 million compared to R4,8 million in the 1986/7 financial year.

Mixed reaction from commerce, industry

Financial Staff

[illegible] the high current inflation rate and [illegible] al aid for the agricultural [illegible]

Plans made for 51 new schools

Senior citizens 'deserved much more'

Today's business

House of Representatives

Second Reading Post Office Appropriation try.

The Cape Town Chamber of Commerce and the Afrikaanse Handelsinstituut were concerned that too little had been done to stimulate growth in the private sector.

But the Cape Chamber of Industries welcomed the import surcharge concessions and the SA Agricultural Union said it was "generally happy with the budget".

Cape Town Chamber of Commerce president Mr Michael Boyes said the government had plumped for expansion by way of increased spending in the public sector, whereas it had been proved that the private sector and small business in particular held out the greatest prospect for job-creation.

"A lower tax burden rather than higher government spending is a surer route to stronger economic growth. If we are to get the economy going, we need to divert more resources away from the public sector toward the private sector.

"The import surcharge was introduced as a temporary impost and has a seriously cost-raising effect on a wide range of commodities. Instead of a token extension of the exemptions, the chamber would have preferred to have seen this removed altogether."

However, the Cape Chamber of Industries welcomed the extension of the import surcharge exemptions to other raw materials and intermediate products for use in manufacture.

Chamber president Mr Otto von G Scholtz said the move could have "a significant bearing" on keeping production costs down and in turn act as a deflationary measure.

"The increased expenditure on education, particularly the 40% on black education, is welcomed as well. The government's reaffirmed commitment to creating equal education is seen as a positive move in the overall reform process.

"Other welcome areas are in respect of financial assistance for senior citizens, who it is accepted suffer under tance of a social responsibility for the platteland.

"The government's recognition of the role of the small-business sector with its ability to create jobs is also a move, although a small one, in the right direction.

"However, the chamber believes company tax should have been adjusted in line with maximum personal taxes in terms of previously stated objectives, as no further inducement has been given to company investment. The personal maximum rate at R60 000 a year should have been increased to offset the effect of fiscal drag.

"Finally, we would like to restate our view that Regional Service Council funding requirements should have been met from central revenue until the Margo Report has been considered."

Afrikaanse Handelsinstituut (AHI) president Mr Pierre Steyn said stimulation through tax deductions would have been psychologically preferable to higher expenditure.

The deficit before borrowing of about R10,9 billion would apparently be financed without upward pressure on interest rates and also without creating money, and would therefore not contribute to inflation.

However, the AHI believed the extent of the deficit just above 20% of budgeted income was dangerously high.

Next to the earlier tax concessions, the AHI welcomed the further surcharge concessions, and hoped this anti-inflationary move would be passed on.

Although the senior citizens' savings bonds could mean competition with private-sector financial institutions, the extent was not so great that it was worrying.

The 40% increase in spending on black education was welcomed. It was hoped the R400 million locked in the housing trust would be used as soon as possible.

FIFTY-ONE new schools will be built by the Department of Education during the 1987/8 financial year.

Estimated expenditure of R1 487 billion for the department was tabled yesterday — an increase of R355 million.

Twenty-four new primary schools — 1 030 classrooms — are planned.

Expenditure on capital works is pinned at R64 million out of a total of R594 million for pre-primary and primary education.

Provision has been made for a further 3 543 teaching posts.

Provision is made in a capital budget of R96,9 million for the completion of 27 new secondary schools.

In addition, construction will start this year on a further 21 schools.

An increase of 181% in spending on teacher training — R84 million — has also been budgeted for. Capital expenditure is pinned at R15,7 million, which includes the planning and erection of six new colleges.

The PFP spokesman on black education, Mr Ken Andrew, said the increases in expenditure on black education were to be "welcomed", but "we should also not forget the massive wastage of teachers and educational facilities that continue to occur as a result of segregated education".

IT looks nice — but there's no vast improvement to the lot of most senior citizens.

That about sums up the reaction by the SA National Council for the Aged to the "positive gesture" by Finance Minister Mr Barend du Plessis in announcing senior citizens' saving bonds, or "granny bonds", in his Budget yesterday.

In a bid to protect over-60s from the ravages of inflation, the government plans to introduce senior citizens' saving bonds with a 15% interest rate.

The bonds, to be introduced from July 1, would be issued to people over 60 and would carry an interest rate of 15% a year.

Interest would be payable quarterly and would be taxable above the first R1 000.

Reacting to the announcements by Mr Du Plessis, a director of the Council for the Aged, Mr Sid Eckley, said his organization had asked for similar concessions "for years".

"Overall, I'm very pleased with the gesture from the Minister in announcing this saving scheme for senior citizens," Mr Eckley said.

"It would help them to stay longer in the community and maintain their independence in the community — especially the middle income group.

"But Mr Du Plessis has only given half of what we've been pleading for," he said.

"For a start, there should be no age limit. It should be open to everybody — to motivate the younger people to prepare for old age."

The ceiling on tax-free interest — R1 000 — was "very low" and should be raised to at least R5 000, Mr Eckley said.

There were other areas where Mr Du Plessis could have considered the aged, he said.

"He has done nothing to limit the disparity between pensioners of different race groups. He could have given the under-privileged more there. I'm very disappointed about that. It's high time the government attacked this problem."

Mr Eckley added that GST on prescriptive medicine could have been abolished. "It's becoming impossible for older people to afford the medication they need."

Investments on the "granny bonds" could be made in multiples of R100 with a minimum of R500 and a maximum of R200 000 per individual and could be withdrawn at any time after 12 months from the date of deposit.

The bonds will be available at post offices, commercial banks and stockbrokers or direct from the Treasury.

A... Appropriation Bill (third reading). Legislation.

(...)

The figure does not include sums allocated to police or detainees, both of which have risen sharply but are not regarded as part of defence expen- curta... ... ... expenditure required to meet its long-postponed modernization and re-equipment programme to between only 5% and 6% in the next five years."

Budget briefs

Margo Report

THE Margo Commission report on tax will be unveiled in August, Mr Barend du Plessis said. One reason for the delay has been the need to formulate a new vocabulary for technical terms.

Less spent on vehicles

THERE was a drop in the percentage of private consumption expenditure on motor vehicles from 5,8% in 1981 to 2,3% last year. At constant 1980 prices this meant a drop from R1,914 billion to R799 million.

Costs of jobless

A 25% INCREASE in government spending on unemployment insurance has been provided for in the budget. Although the government's contribution to the Unemployment Insurance Fund has been kept at R7 million, the administration costs are expected to increase by R4,2 million to R14,1 million.

Locust plague costs

THE government has launched an attack on locusts, with spending on fighting the plague to increase by R11,1 million.

Cutting publicity

A 4,7% CUT in the Bureau for Information's was mainly due to a "drastic decrease" in the bureau's publicity budget, according to an explanatory memorandum. The total budget for 1986/87 came to R32,572 million, but for the current financial year was R31,029 million.

Less on resettlement

GOVERNMENT spending on resettlement of black people is to drop by R85,9 million. Although R179,9 million has been budgeted under the Development Aid vote for the consolidation of black areas, this is a sharp decrease on the R269,9 million for last year.

More for homelands

SPENDING on the homelands is to be increased by R1 732 million to R4 182 million, compared with R2 450 million last year. R1 694 503 000 has been provided in budgetary aid, the incentive scheme for industries, the flour subsidy, the action programme for job creation, ad hoc grants, tax compensation and the salaries and allowances of judges.

More for black sport

GOVERNMENT spending on sports facilities for whites is to decrease — but it will increase for blacks. Spending on white facilities will drop from R9,7 million to R8,2 million; for blacks it will increase from R20,5 million to R32,2 million.

Artisan pay demands

FURTHER pay demands are to be made on the Minister of Transport, Mr Eli Louw, by the Artisan Staff Association, the ASA executive decided at an extraordinary meeting in Johannesburg yesterday. The association's secretary, Mr Willie van der Merwe, said the executive was disgusted at the way Louw dealt with the union's demand for a 15% pay increase. "Trade union principles of collective bargaining were ignored," he said. Demands would now be made for an additional 2,5% and for the increases to be backdated to April.

Security-first budget

Cape Times 4/6/87.

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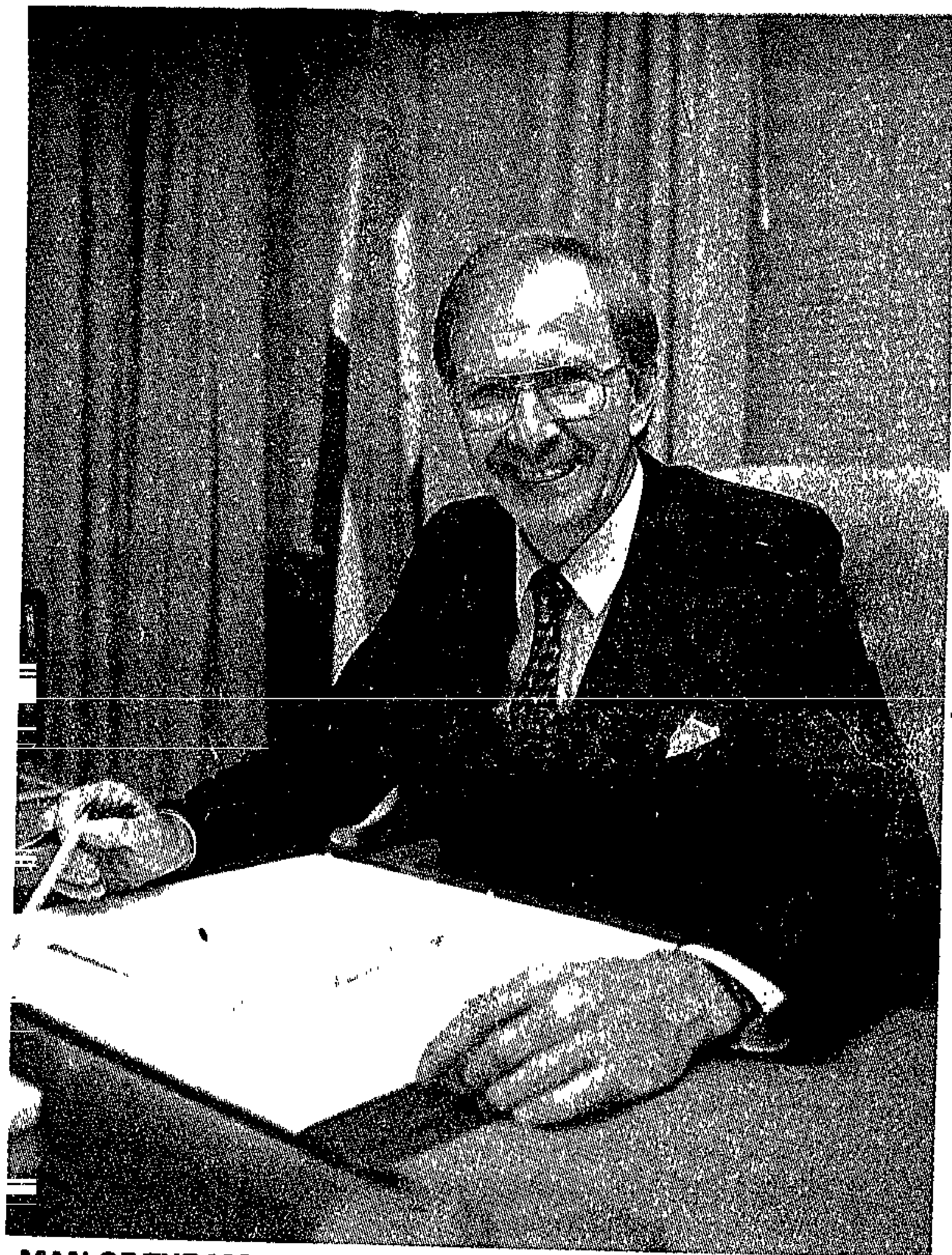

MAN OF THE MOMENT . . . The Minister of Finance, Mr Barend du Plessis, in his office yesterday shortly before delivering his budget speech in Parliament.

Financial Staff

INCREASES in spending on police, defence and, to a lesser extent, education yesterday set the tone for a national budget that was essentially an accounting exercise for expenditure totalling nearly R47 billion.

Gone was limited excitement over thin hopes for tax relief and stricter control over State spending.

Instead, Finance Minster Mr Barend du Plessis presented accounts to a joint sitting of Parliament that lived up to expectations of no-change on measures directly affecting the financial position of most individuals, and

More on the budget — Pages 5 and 6

imposed a hefty 16,2% hike in the government's actual expenditure last year, or nearly 25% ahead of its budgeted figure for the same period.

Senior citizens over 60 gained a bonus from the announcement of new savings bonds paying 15%, but the interest rate-distorting move raised eyebrows in the building society movement where alarm was evident over the implied loss of property bond finance. Holders of National Defence Bonds, however, face a decline in interest from 14% to 12%.

Main points are:

- □ Education spending is up 20% at R9,1 billion, including a 40% increase in black education and comprising the largest single item of the entire budget at 19,6% of expenditure.
- □ Defence has been allocated R6,683 billion, 30% ahead of last year.
- □ Police get 43% more at R1,530 billion due to additional establishment and absorption of the railway police.
- □ The Foreign Affairs vote is up almost 60% to R2,176 billion, largely because of more funds to Transkei, Botswana, Venda and Ciskei.
- □ Constitutional Development and Planning expenditure rises 22% to R6,514 billion after increases for the Provinces, welfare, and absorption of the development boards and local authority services.
- □ In addition to R134 million previously announced for the support of maize prices, another R400 million is provided for farmers facing sequestration.

The budget is regarded as mildly stimulatory, entailing an increase in the deficit before borrowing from R6,2 billion last year to R8,4 billion. Part of the deficit is to be financed through foreign loans held in South Africa by the Public Investment Commissioners in terms of the debt standstill introduced after the State

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P.T.O.

Higher consumer spending unlikely

More income tax from individuals — economists

CAPE TIMES 4/6/87.

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By AUDREY D'ANGELO
Financial Editor

ECONOMISTS and accountants pointed out last night that, in spite of its declared intent to stimulate the economy, the government will in fact take 24,1% more in income tax from individuals.

This, they suggested, was hardly likely to give the desired boost to consumer spending.

And, on the basis of past performance, few of them believed that the government would keep its own spending within the promised R40,321 billion.

Brian Kantor, professor of economics at the University of Cape Town, said: "This will not be a popular Budget.

"It fails to address the perception of the man in the street that he is paying too much tax."

Kantor said he thought the minister should have eliminated bracket creep.

"In fact he has budgeted for a large increase in income tax receipts."

He considered the increase in government spending quite moderate "and I am pleased that they have allowed the deficit to increase — the last thing they should have done was to increase taxes. It is disappointing that no reductions have come through."

Mike Daly, chief economist of Southern Life, said: "Individuals are going to be hit very heavily by the increase in takings from tax.

"It is not going to help the fledgling upturn."

Daly said that although there had been little likelihood of actual tax cuts, he had hoped that the minister would raise the tax allowances for such expenses as medical aid and retirement annuities.

Volkskas Bank economist Adam Jacobs said: "The financial position of the man in the street will remain under pressure for the rest of the year."

"I expect the deficit to be R10 billion rather than R8,4 billion."

Luke Barlow, a partner at Pim Goldby, said: "In the case of individuals, fiscal drag continues to play its part in raising the overall tax burden.

"This means that individuals will be paying considerably more tax this year. This is in spite of the concessions noted in the mini budget."

Roland Hudson-Bennett, managing partner in Cape Town of Peat Marwick Mitchell, pointed out that although increased government spending would provide some stimulation for the economy there would be no motivation for any increase in consumer spending.

Sanlam chief economist Johan Louw said that in view of the sluggish course of general economic recovery, steps announced in the Budget to stimulate the economy moderately were certainly justified.

It was a pity the minister did not see his way clear to grant further tax reductions to individuals, who were carrying such a heavy tax burden, he said.

"The continuing poor financial position of the man in the street will no doubt hamper the recovery of the economy."

Mike Kovensky, President of the Federated Hotels, Liquor and Catering Association of SA (Fedhasa), said: "This was an unimaginative Budget. The man in the street needs confidence to go out and spend and the only way to build that is to give him more money in his pocket."

Govt 'spending its way out of trouble'

Political Correspondent

CAPE TOWN — The Government had chosen the wrong method to revive the economy with a Budget that was trying to spend its way out of trouble, the Progressive Federal Party spokesman on finance, Mr Harry Schwarz, warned today.

He was reacting to the substantial increases across the board to Government departments in the new financial year.

Mr Schwarz said Mr du Plessis should rather have left the economic recovery to the private sector by creating incentives that would encourage the opening of new businesses and the creation of more jobs.

"With this Budget the Minister is in a Catch-22 situation.

"He is trying to spend his way out of trouble, but in fact he does not have those kind of resources available.

"All he can manage is to keep up in real terms (after taking inflation into account) with the high base of spending established last year."

Mr Schwarz said Mr du Plessis should have cut Goverment spending, and reduced the tax rate and the deficit before borrowing.

For Oom Schalk, Budget time is party time

By Joe Openshaw

(With apologies to Herman Charles Bosman)

In Groot Marico, Oom Schalk Lourens said, Budget night is party night whichever way it goes for the taxpayer and the farmers.

If, like yesterday, there are no tax increases and the farmers can still get a rebate on diesel oil even if they now have to reclaim it later, this is cause for celebration.

If the taxes go up and the farmers get a raw deal, it's reason to drown our sorrows.

Naturally everybody seized on the fact there was no increase in tax on tobacco, beer and brandy so last night the mampoer flowed freely.

And eventually Fanie Steyn, at whose house we had gathered as he is the best at explaining budgets, had to bring out his best mampoer because the stuff we brought was finished.

It was perhaps this that turned him sour later in the night and made him put a damper on things by saying the Government did not increase the price of cigarettes and liquor because of the hefty increases in January and February this year.

He reminded us that in February beer drinkers had to pay an extra five to six cents on a can in bottle stores.

One or two people even said "skande" as they do in Parliament, but Basjan Bekker, who was once elected to Parliament, said the main thing is that the Government did not put up the price. The people responsible were the breweries, wine farmers and tobacco manufactures.

But Fanie Steyn would not be sidetracked and said the way the price of cigarettes keeps going up, they may as well do away with the health warning and replace it with the warning: "Cigarettes burn a hole in your pocket."

Fanie Steyn had a lot more to say but it was drowned out because by then everyone was singing "Brandewyn and baby's clothes, that's where all our money goes."

Delimitation move thrown out by House of Delegates

The House of Delegates yesterday refused assent to a Government motion calling for the appointment of a joint select committee of the three Houses of Parliament to look into the possible amendment of the constitution to re-allocate the number of parliamentary representatives for each province.

The motion, introduced by the Minister of Constitutional Development and Planning, Mr Chris Heunis, has already been approved by the House of Assembly and the House of Representatives without debate.

It calls for a select committee of each House to be appointed to form part of a joint committee to inquire into and report on an amendment to the constitution "in regard to the allocation and number of members of each House in respect of the respective provinces and the division of provinces into electoral divisions".

In contrast to the House of Assembly, where the motion was passed as a mere formality, a debate of about an hour preceded a division in the House of Delegates.

The motion, if approved, would be the first move towards a redelimitation of parliamentary seats in South Africa.

An amendment, moved by the leader of the Progressive Reform Party, Mr Pat Poovalingam, and supported by the official opposition Solidarity Party, was carried by 21 votes to 20.

The fact that three quarters of the South African population were not represented in Parliament because of their race revealed a gross inadequacy in the constitution, he said.

The constitution was almost universally condemned as "grotesquely inadequate" to meet the problems and all the aspirations of all South Africa's people.

He proposed that the select committee should look at amending the constitution to elimate apartheid "and the grave injustice involved in the exclusion of blacks from Parliament".

He said the President's Council was presently investigating the possibility of including blacks in the council, but the issue was whether blacks should be in Parliament.

This issue should be decided by the joint committee, Mr Poovalingham said. — Sapa.

Massive 56 percent increase in spending

Record Transvaal budget is tabled

By David Braun
Political Correspondent

PARLIAMENT — A record R2 683 million budget for the Transvaal Provincial Administration — 56 percent more than was allocated last year under the old system of provincial government — was tabled in Parliament yesterday.

Under the new system, in which the provinces are governed by appointed executives answerable to Parliament and not to provincial councils, the massive increase in spending may be attributed primarily to the takeover of several functions from the central government.

These include those taken over from the Department of Constitutional Development and Planning — local authorities development (the former development boards, community housing, social development and land allocation) and social pensions for blacks.

They exclude spending on education which has been largely transferred to the white "own affairs" administration of the House of Assembly.

Provision is made for R646 million in respect of the functions transferred to the province. This is 85 percent of the increase of R970 million over last year.

SOURCES OF REVENUE

Apart from R2 166 million paid to the Transvaal from the central government plus R68 million for improvement of conditions of service, the main sources of revenue for the province in the new year (with the previous year's income in brackets) are:

- Admission to racecources R140 000 (R120 000).
- Betting tax, bookmakers R17,7 million (R19 million).
- Totalisator tax R35,5 million (R38 million).
- Fines and forfeitures R18 million (R14 million).
- Motor vehicle licences R201 million (R195 million)
- Dog licences R120 000 (R120 000).
- Fish and game licences R865 000 (R850 000).
- Bookmakers licences R68 000 (R68 000).
- Trading licences R600 000 (R600 000).

The main divisions of expenditure in the Budget are:

- General administration R117 million (up R105 million on the previous year).
- Library and museum services R10,8 million (R9,4 million).
- Works R172 million (R159 million).
- Hospital services R1 139 million (R956 million).
- Nature conservation R16,9 million (R13,4 million).
- Roads and bridges R492 million (R450 million).
- Community development: Head office R516 million (R17,6 million) and regional offices R132 million (no vote last year).

This vote was formerly known as local government.

- Improvement in conditions of service R68 million.

This is a new vote created at the request of the Treasury.

Transvaal roads, bridges will take bulk of R300-m

Political Correspondent

PARLIAMENT — More than R300 million has been allocated in this financial year on Transvaal Provincial Administration capital projects which will ultimately cost R900 million.

The Estimates of Expenditure for the Transvaal in the year ending March 1988, tabled in Parliament yesterday, showed the bulk of spending on capital projects will be on roads and bridges.

Included in the R319,9 million allocated for roads and bridges is R80 million for tarred roads and R24 million for gravel roads.

Major contracts for roads in include R2,7 million for access to Sebokeng, R5 million for an interchange at Lenasia and R4 million for a road between Verwoerdburg and Eldoraigne.

A total of R12 million has been budgeted for throughways, including R1,2 million for a structure over Hartbeespoort Dam and R6 million for a road between Atteridgeville and Elandsfontein.

Capital projects for provincial hospital services will total R55,8 million.

Most of the major projects involve provision or extension of medical facilities for black communities.

These include construction of community health centres in black townships, including Atteridgeville, Daveyton, Dobsonville, Emba lenhle, Kagiso, Meadowlands and Mofolo.

More than R1 million has been allocated of an eventual R8 million for extensions and services at Baragwanath, including building wards G and H.

A total of R2 million is to be spent on phase one of facilities at Far East Rand Hospital in Springs.

Bigger slice for small business

PARLIAMENT — Government aid to the Small Business Development Corporation has been increased to R5 million.

Minister of Finance Mr **Barend du Plessis** pointed out that, since the corporation was started in 1981, about R350 million had been granted by way of loans while about 80 000 new job opportunities had been created and 64 000 jobs preserved.

PARLIAMENT '87

Innocent workers are used: Louw

PARLIAMENT — There were forces in the country which were using innocent workers to further their political aims, **Minister of Transport Mr Eli Louw** said in the House of Delegates yesterday.

Speaking in the Second Reading debate on the Transport budget, he said the reasons for the strike by South African Transport Services workers had nothing to do with a dispute between Sats and its workers.

He was satisfied with the wa, his staff handled the matter.

He quoted from a Cosatu publication, *Workers' Unity*, which stated that its chief aim was to break the resistance of the enemy, which Mr Louw said was later identified in the publication as "racists and multi-nationals".

He said it appeared that employers were the targets of forces which sought to use innocent workers to achieve their political aims.

Referring to parity of salaries between the race groups, he said Sats had made great progress in achieving this.

Salaries were now based on job content, training and qualifications. — Sapa.

Blunder cost R750 000

Political Staff

The Transvaal Provincial hospital service lost R750 000 last year because it allowed two cheques to go stale.

The blunder is described in the estimates of expenditure and revenue for the financial year ending March 31 1988.

The two cheques that went stale were mainly responsible for a R502 000 decrease in revenue from hospital services over the year before.

This was a "unique" incident which "will not occur again" a memorandum to the budget said.

Hospital services revenue came from patients' fees (R106 127 million); board and lodging (R7,8 million); and other receipts (R7,29 million).

Barend's Budget draws fire as 'a great non-event'

Political Staff

PARLIAMENT — The R46 800 million Budget tabled by Finance Minister Mr Barend du Plessis has been criticised as a "great non-event" and a "bookkeeping exercise" containing little to encourage business investment or address the urgent problem of unemployment.

"It is an unexciting and unimaginative Budget at a time when the very opposite is needed said **Mr Harry Schwarz, PFP spokesman on finance.**

"The increase in the appropriation for education is welcome but it should be borne in mind that the educated and trained as well as the unskilled need jobs. The absence of an imaginative job creation programme and the cutback on the amount voted for job creation and training is foolish and regrettable."

In his Budget speech at a joint sitting of Parliament yesterday Mr du Plessis announced extra relief for struggling farmers and large boosts in government spending on education, defence and the police. He announced no tax changes.

Mr Cas Uys, Opposition spokesman on finance, said the Budget was "no more than a bookkeeping exercise".

"The Minister has not succeeded in curtailing State expenditure to expected levels and the individual taxpayer, by way of income tax and general sales tax, is saddled with an increased burden."

But the Conservative Party supported the increased expenditure on security services and agriculture.

Labour Party finance spokesman Mr J Douw expressed dismay at the small number of concessions granted to the man-in-the-street.

"Further salary increases for the public sector would have been far more welcome than the hefty provisions for defence and law and order," he said.

Mr Charles Redcliffe, Leader of the Opposition in the House of Representatives, said the Budget failed to to find those imaginative measures required to restore consumer and business confidence.

It was a conservative offering and, as last year, a stimulatory package would probably have to be introduced to the economy at a later stage.

Mr Schwarz also foresaw the need for additional stimulatory measures.

The history of inaccurate budgeting gave little credibility to this year's Budget, he said.

He criticised the "belated recognition of the plight of the elderly". The introduction of senior citizens' savings bonds at a 15 percent earning rate was appreciated but this measure still offered returns below the inflation rate and was no substitute for an indexed inflation-proof investment.

Info bureau budget cut back

PARLIAMENT — A 4,7 percent cut in the Bureau for Information's 1987/88 budget was mainly because of a "drastic decrease" in its publicity budget as a result of the economic climate, according to an explanatory memorandum tabled yesterday after the Budget speech by **Minister of Finance Mr Barend du Plessis.**

The total budget for 1986/87, including the additional appropriation, came to R32,572 million.

The bureau's cut appeared in the allocation to the planning programme, which totalled R11,682 million last year, but is now set at R7,053 million.

The bureau's other four programmes, administration, internal liaison services, media liaison and media production, showed increases in their estimates — R971 million to R6,211 million, R1,741 million to R9,798 million, R141 million to R921 million, and R233 million to R7,046 million.

According to the memorandum, the "rent and services", as well as the "Together We Will Build a Brighter Future" campaigns were largely complete by the end of March. — Sapa.

Four post offices not enough for Soweto, claims Suzman

Political Staff

PARLIAMENT — The four post offices provided to serve the 1,5 million people in Greater Soweto were clearly inadequate for the task, **Mrs Helen Suzman (PFP, Houghton)** said in the Assembly yesterday.

She said too that there were probably closer to two million people in the area and not 1,5 million as the Minister of Constitutional Development and Planning, Mr Chris Heunis, claimed last week in reply to a question.

In the committee stage of the debate on the Post Office budget, Mrs Suzman asked the Minister of Internal Affairs and Communications, Mr Stoffel Botha, what he intended to do about the shortage of Post Office facilities in Soweto.

Mr Botha replied that there was careful monitoring of the situation in the townships and additional facilities would be provided if necessary.

Mrs Suzman also called on Mr Botha to consider the plight of black pensioners who had to wait in queues for up to eight hours "for their meagre payouts of R194 every two months".

Mulder warns on beer privatisation

PARLIAMENT — The Government was depriving the black community of a large source of income by privatising the sorghum beer industry, **Dr Connie Mulder (CP Randfontein),** said in the Assembly yesterday.

Speaking in the second-reading debate on the Sorghum Beer Amendment Bill, he said he knew from his experience as former Minister of Co-operation and Development that the sorghum beer had contributed to the upliftment of the black community.

The beer had brought in large profits which were used for providing facilities in black areas.

By privatising the industry, the Government would remove this source of income and place it in the hands of businesses such as "liquor monopolies".

He said the Government was not acting in the interests of blacks.

Mr Koos van der Merwe (CP Overvaal) interjected: "Yes you are racists." — Sapa.

X

Barend's Budget leaves tax on the backburner

4/6/87 B/Day (49)

GERALD PROSALENDIS/ Financial Editor

RATHER THAN being a "non-event", yesterday's Budget encapsulates many problems facing the SA economy, with government spending rising inexorably and individual taxpayers increasingly footing the bill.

However, it cannot be viewed in isolation from SA's unusual situation, both politically and economically.

An added complication is that the Budget was sandwiched between a larger than usual mini-Budget, now behind with its tax cuts used as a sweetener prior to the election, and the eagerly awaited Margo Report due to be made public shortly.

Obviously, many changes in the tax structure that might have been incorporated have been left on the backburner until Margo has been digested.

Margo, we are led to believe, contains far-reaching, even revolutionary, suggestions, which if adopted would change SA's economic system fundamentally, edging it more towards indirect taxes.

Treasury, therefore, was loath to introduce any changes in taxation in the Budget that would have to be reversed at a later date on implementation of Margo's recommendations.

But this should not obscure the fact that what has been presented is economic stimulation via government spending, a trend, which if continued, could lead to a conflict between government and the private sector for the wealth of the country.

At the same time wealth continues to be transferred from the individual into government hands.

And is unlikely that the recommendations of the Margo Commission, if accepted, will be sufficient to reverse this trend and prevent government from becoming the major player in the SA economy.

Yesterday Finance Minister Barend du Plessis said that the Cabinet had approved a five-year expenditure plan which aimed at a relative reduction in total public expenditure from almost 38% of GDP in 1985/86 to approximately 34,5% in 1991/92.

Until this bears fruit, there would appear to be an inherent contradiction in a policy that attempts to privatise the arms of state, while simultaneously upping its spending.

The inescapable conclusion is that a large and growing proportion of the net wealth of the country is being invested in non-productive assets which in the long term will fail to produce wealth.

Granted, higher government spending this year is inconsequential, given large unemployment and surplus capacity in the economy.

But in the event of a strong economic upturn, government could find itself crowding out the private sector.

A more traditional warning also holds true. High government spending and deficits before borrowing both contain the seeds of renewed inflation and currency depreciation.

Fortunately, at this stage there is little chance of the economy overheating despite negative interest rates and an ample supply of funds. The banking system remains willing and able to lend should the opportunity present itself.

The central debate surrounding this Budget should be, given political and economic realities, whether it has done enough to stimulate growth.

The almost inescapable conclusion is that it is unlikely to do much to raise GDP growth despite a higher deficit before borrowing.

Higher GDP growth in 1988 would alleviate concerns about tax revenues. Low growth, on the other hand, raises the the prospect of low tax revenues and the need for large deficits.

Without a reduction in taxes the SA economy will continue to be bogged down. A way has to be found to provide tax relief beyond that given in March Part Appropriation Bill after years of declining real standards of living and income after taxation.

Whether analysed from a Keynesian or supply-side point of view the inevitable conclusion reached is that tax cuts are essential to the future growth prospects of the SA economy.

But at present government spending is so enormous, and growing, as to make a cut in taxes irresponsible.

In the government's defence, no matter how the authorities view monetary and fiscal policy, they have to be formulated and applied in an abnormal society.

The situation at present is such that it probably does not matter how much the budget deficit rises.

The inducement to invest and the propensity to consume remain low. Money supply continues to languish, despite numeric gymnastics explaining this phenomenon in terms of increased velocity of circulation. Bank credit extension has stalled.

The rise in real consumption at this stage of the business cycle remains negligible.

Real fixed investment remains in the doldrums. Real GDP growth may top only 3% for the year from a low base, even with a sharply higher gold price.

SA continues to produce large trade surpluses with imports, a surefire indicator of growth, stagnating below their level of five years ago.

The need to produce current account surpluses to repay debt and rebuild reserves has exacted a high cost in increased unemployment, lower growth and declining fixed investment.

Certainly monetary and fiscal policy have won a battle or two in the past few years, but the war is not yet over.

Further adjustments will continue to be necessary. Not least of these in state spending with the public sector continuing to grow willy nilly.

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DAIL

Angolan air power reason for SAAF's massive budget?

Dispatch Correspondent

JOHANNESBURG — The massive 54 percent or R925 900 000 increase for the air force could reflect concern about the build-up of air power in Angola — in the opinion of Mr Mike Hough of the Institute of Strategic Studies of the University of Pretoria.

South Africa's exclusion from international arms markets meant it had to develop costly indigenous projects as it had recently in air defence, he said.

Mr Hough also said the whole defence budget indicated that the emphasis had to some extent been shifted to internal security.

This was reflected in the large increase in the Police Vote (42,8 percent) which was in line with announcements last year that the police force was to be doubled to cope with the internal strife and escalating crime and to bring the unfavourable police-population ratio into line with other countries, he said.

The End Conscription Campaign (EEC) said the government's tendency towards arming to the teeth would have to be paid for by ordinary South Africans.

The EEC said that Despite the government's boast that defence expenditure remained constant as a percentage of the budget, this year the defence vote has risen at more than twice the rate of inflation.

The 1985 Defence Vote constituted 13,6 percent of the budget; this year it has gone up to 14,4 percent.

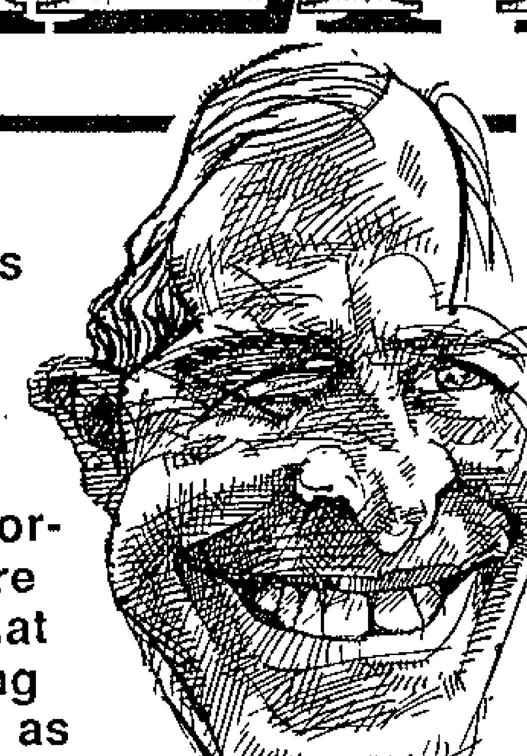
The EEC said the defence budget represented only an estimate of defence expenditure and that defence spending invariably exceeded the defence vote.

The weighting towards guns, soldiers and policemen rather than education, housing and social services would contribute to the poverty and hence the anger of millions of South Africans, and could contribute to keeping the inflation rate unacceptably high the ECC said.

More reaction to Budget on P 11

FOCUS ON THE BUDGET

BETWEEN PROMISE AND REALITY



Barend du Plessis' budget was full of promises: social upliftment, equal opportunity, more jobs. All that was missing was a hint as to how this might happen

By HILARY JOFFE

THE most striking thing about the main budget tabled in parliament on Wednesday was the gap between rhetoric and reality.

Minister of Finance Barend du Plessis said he was giving high priority to stimulating economic growth and generating jobs. He said his budget would contribute to social upliftment and the provision of equal opportunities. But the figures didn't seem to indicate how these ideas would translate into action.

On the surface it looked like a budget which would stimulate the economy, with estimated government spending exceeding revenue by R8,4-billion in 1987/88. But while government spending estimates for the coming year look much higher than last year's, at R46,8-billion, this is an increase of only 16,2 percent up on the previous year. So the increase will hardly keep pace with inflation, likely to be between 16 and 17 percent.

More to the point, much of the rise in spending appears to be "non-productive" in that it will not provide much stimulus to economic growth nor will it create many jobs.

As expected, government's priorities are strongly evident in the expenditure side of the budget, with the defence vote up 30 percent to over R7-billion and that for police up by almost 43 percent to R1,8-billion. These two items together account for 19 percent of total spending and the figures on the budget may not reflect the real amounts which go into financing them.

The constitutional maze of apartheid structures will cost more too. The "independent homelands" are to be rescued from financial problems via the Foreign Affairs vote, which rises by 60 percent.

Further chunks of expenditure go towards the three houses of parliament, the self-governing "homelands" and black local authorities.

And the government will look after the farmers, with more than R1-billion voted for support programmes for agriculture.

On the other hand the allocation to education is to rise by 20 percent: "Our largest single investment in the future," as the minister called it. Education is the biggest single item in the budget, taking 19,6 percent of total expenditure in the coming year. The important figure is the 40 percent increase in spending on black education.

South Africa now allocates a higher proportion of its budget to education than do most industrially developed or developing countries. Government spending on education has increased steadily over the last decade and is partly reflected in the huge growth in the number of black pupils and students.

Du Plessis' stated aim of "equality of opportunity" in schooling remains far off though — especially given the costs of three different educational authorities.

Like the increases in defence and policing votes, the education vote reflects an attempt by the government to respond to the mass scale resistance and opposition of the past few years — two sides of the State of Emergency.

Search the budget though for significant job-creating investment and it's hard to find. The only item clearly directed towards employment is a vote of R15-million for the Small Business Development Corporation. It is intended mainly to make it easier for the SBDC to acquire investment capital, so that it can assist development of small businesses and so create work. The amount voted is tiny, relative to the magnitude of the problem.

There are other items of government expenditure which clearly involve creation of jobs or retention of existing ones but the budget estimates are not very revealing about what money is being spent on what and where.

Transfers to homelands, black local authorities, provinces and Namibia would include some investment spending as would, for example, the education and defence votes. But the budget doesn't offer detailed breakdowns.

What is revealing, however, is that proportion of total government spending classified as capital, rather than current expenditure is only about 18 percent.

The government spending issue is a thorny one among economists, especially when it comes to strategies of economic growth and job creation.

There are those economists who believe that government expenditure is already much too high in South Africa and have responded to Wednesday's budget with concern. They point to the government's stated aim of reducing the public sector's share of the economy and argue that there is no sign of any attempt at this in the budget. Their argument is that the private sector is far more effective as an engine of growth and job creation in South Africa and the budget does little to promote these goals. The budget, they have argued, will stimulate the economy in the short term but could have undesirable longer term effects.

Against this are those economists who see the government as having a major role to play in investing to stimulate employment. But this budget will not promote that goal, they argue.

It's a bland budget and its effect on the economy will be neutral — a mere accounting exercise.

"I'm not so sure the economy can gather momentum without additional stimulus," says Dr Ockie Stuart, director of Stellenbosch University's Bureau for Economic Research. "The private sector can only boost the economy by investment and at the moment they have no need to invest because they are running at overcapacity. So government should have budgeted more for capital expenditure."

"The budget speech opened up with some splendid statements," says Nedbank economist Edward Osborn. "But it did not relate this to actual spending or revenue."

On the revenue side of the budget, it was a case of waiting for the Margo Commission. The commission's report on the South African tax system has been submitted to the State President but will not be published before August, together with government's response. It could, according to Du Plessis, "have a drastic impact in several spheres of economic life".

Tax rates are unchanged in the budget although Du Plessis emphasised that this budget should be read with the "mini-budget" in Febuary in which various tax concessions were announced with the object of stimulating the economy. Thus those who hoped for a reduction in general sales tax or personal income tax would have been disappointed but not surprised on Wednesday.

Government income from personal income tax is expected to amount to R12,1-billion in the coming year, while company tax will be R5,8-billion and taxes from gold mining R3,2-billion. General sales tax should bring in R10,7-billion. Figures published with the budget show that the proportion of tax revenue contributed by individuals has increased markedly in the last 10 years, and the Margo Commission's "drastic" proposals should be interesting.

Tax monies and income collected through customs and excise duties together should bring the government 14,7 percent more money than it collected last year.

With increases in estimated revenue less than those in expenditure, the budget deficit before borrowing amounts to 4,7 percent of gross domestic product, higher than it has been for some years in South Africa.

The size of this year's deficit is not unexpected: Most commentators predicted that expenditure would exceed revenue by up to five percent. Nor is it necessarily undesirable in the present economic climate. It makes sense for the finance minister to budget for government stimulation of the economy in the form of increased spending and/or reduced taxes, to support the economic upturn which he anticipates.

In a booming economy a budget deficit might raise interest rates, causing inflation and damping down private sector investment. But the South African economy is not booming and the financing of the deficit is not expected to push interest rates up.

What worries budget analysts about the deficit is its nature. The figures suggest that a substantial proportion of government borrowing will be covering current spending, for example on salaries, rather than investment spending.

"The very large deficit before borrowing is well in excess of capital formation so a significant element of borrowing will be required to finance recurrent expenditure," argues Nedbank's Osborn. "This is a bad sort of principle in fiscal policy."

"Expenditure has grown and we won't have anything tangible to show for it: The deficit is not increasing growth," says Gill Raine, economist at stockbrokers Frankel Kruger. "Deficits don't necessarily matter but they do if they are going to finance consumption expenditure." Raine also expresses concern about the government's ability to finance its accumulating debts in the future, with government spending going towards non-productive items rather than promoting future economic growth.

NONE OF THAT 'QUO

IT is, I suppose, unfair to carp at young Barend du Plessis for the dullness with which he delivered his budget speech. After all, it must have been hard enough for him to learn the language in which money talks without expecting the fine rolling phrases, larded with quotations from the classics, with which former ministers of finance saved their audiences from creeping slumber.

But the budget was dull, dull, like a menu you've been handed before and on which you know that everything you may fancy is "off".

Harry Schwarz, the Progs' perspicacious spokesman on finance, found it equally unexciting.

The budget was "a great non-event", he said within minutes of Du Plessis stepping off the rostrum.

"It's unimaginative: there's nothing in it that will encourage businessmen to create more jobs or invest more money.

"Clearly, we can expect another stimulatory package later in the year. This one is clearly not going to take off."

Once again, Du Plessis' worst enemies in his yet-unrealised aim of producing a credible budget

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First, compassion. Then, out with the switchblade

There's a point in the budget speech which alludes to the need for 'Christian compassion'. It's a point the Minister may perhaps have forgotten later on ...

Comment by

DUNCAN INNES

"THE last few years were among the most difficult we have experienced, and called for sacrifices by one and all. But that those sacrifices were worth it is now clear: The economic tide has turned towards growth and development and we can justifiably look forward in new confidence."

With these optimistic words Barend du Plessis began his long-awaited 1987 budget speech. No doubt there were many South Africans, especially the 3,3 million unemployed black workers, who hoped that his optimism was justified.

But the good news was just beginning. The budget, according to Du Plessis, "reflects the mandate given by the majority of white voters to their representatives in both the House of Assembly and the Government to embark on far-reaching further steps towards the broadening of democracy".

To those of us who were not aware that there had already been any steps towards broadening democracy this came as a bit of a surprise.

"Various socialist approaches in Africa," continued the minister, "have been unable to offer hope of escape from hunger and misery."

This is no doubt a point which the aforementioned 3,3 million workers and their families, who have lost jobs under capitalism and have no proper social security benefits to support them, will appreciate.

But then, via an interesting religious allusion, the minister introduced a rather clever idea that the budget "must, while showing the compassion due by a Christian government to the less privileged and the needy, remain true to the conviction that it lies with the individual to strive for the greatest possible self-sufficiency ... to promote thrift and provision both for one's working life and for retirement".

In a rare moment of cynicism I wondered whether the minister wasn't perhaps suggesting here that, having thrust the economy into deep recession a few years back and destroying numerous jobs and livelihoods in the process, this Christian government wasn't now telling "the less privileged and the needy" that they were on their own.

No, I thought, a Christian government would never do such a thing — until I heard the minister say that he was slashing the unemployment support programmes by 35 percent or R100-million (from R281-million to R181,4-million).

But the final disillusionment came when Du Plessis announced that the budget "must — extremely importantly — provide for the maintenance of law and order in the face of an unprecedented escalation of the risk of violence, and where possible act pre-emptively in this regard".

In other words, we could expect a budget which sought to deal with our social problems, not by alleviating the plight of the underprivileged, but by arming the state against them.

One does feel a certain sympathy for the minister in having to prepare a budget under extremely stressful conditions. Not only does he have to cope with problems of sanctions, disinvestment and repayment of foreign loans, but he also has to stimulate the economy to promote growth and alleviate unemployment, without stimulating inflation and always remembering to meet the expanding needs of the forces of "law and order".

Of course, it is only fair to point out that most of Du Plessis' problems arise from the fact that his government persists in clinging to apartheid in its various guises. For instance, on the tricky issue of inflation the minister links the rise in inflation over the last two years "to a great degree" to the depreciation of the rand.

However, what he fails to mention is that the depreciation of the rand itself arose from State President PW Botha's disastrous Rubicon speech and the subsequent states of emergency.

This tendency to refuse to locate the real source of the country's problems emerges again in Du Plessis' speech when he claims that our "unacceptably high levels of unemployment" arise from "a high rate of population growth", which itself is a product of the fact that "South Africa is a developing country".

The fact that it was the policies of his government which drove blacks off land they had occupied productively for generations and now cannot provide jobs for them seems to have escaped the minister.

Again, for Du Plessis, the problem of "an unbalanced distribution of wealth and income between the several population groups" has nothing to do with apartheid but arises, instead, from the fact that "South Africa is a developing country".

Having failed to identify the real sources of our social and economic problems, the minister cannot offer any meaningful solution to them in his budget: All he offers is more of the same bitter apartheid medicine.

In addressing the education crisis Du Plessis proclaims that "in contrast with many other countries it is precisely through education that we are making our largest single investment in the future

The minister is here referring to the fact that the budget allocation of R9,1-billion to education is "by far the largest single allocation, comprising 19,6 percent of the entire budget"

The education crisis cannot be resolved by simply increasing the quantity of education; what is more urgently required is to improve the quality — and that means dropping Bantu education and its white twin sister, Christian national education.

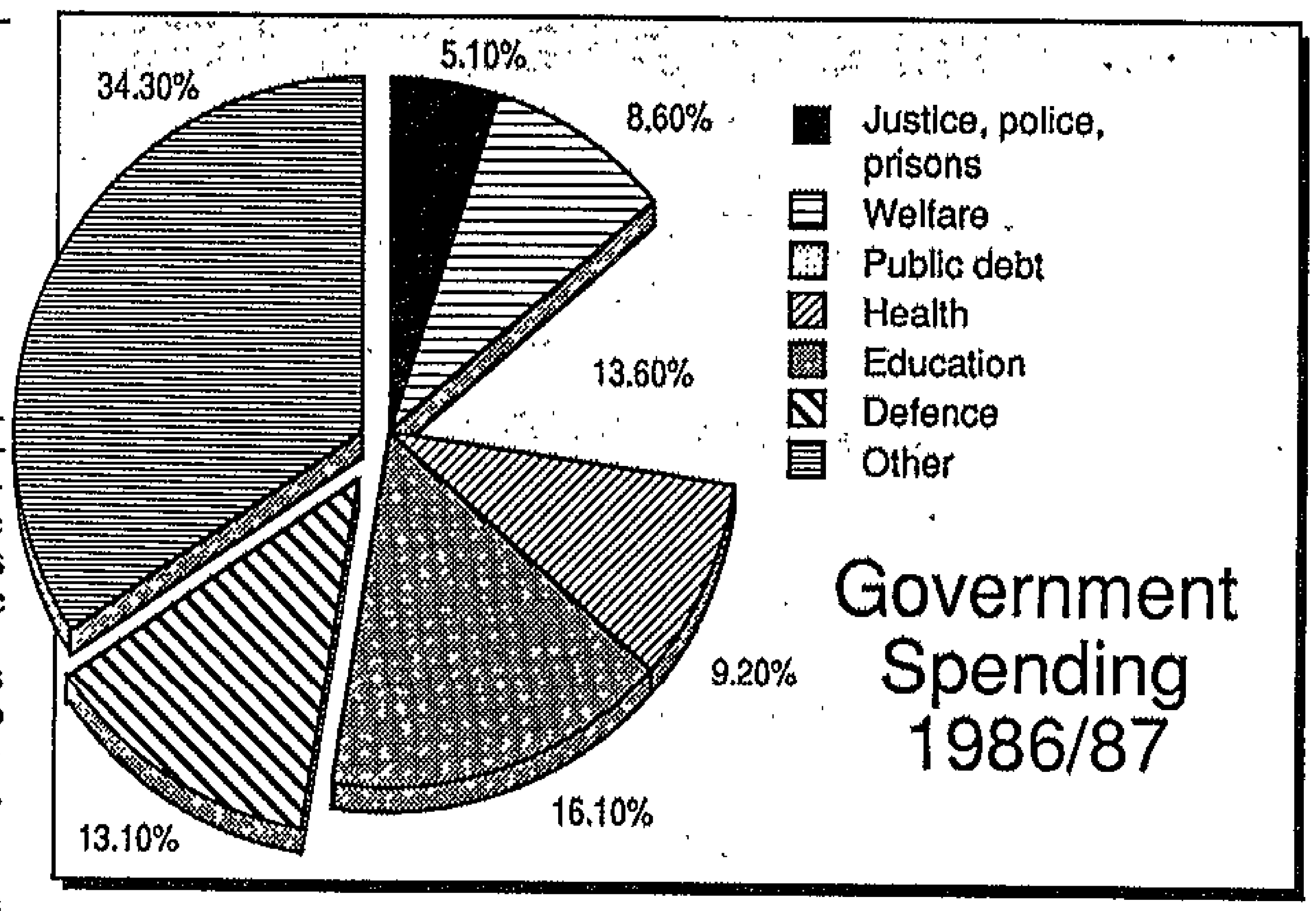
A similar area of wasteful expenditure may be identified under the heading of "Foreign Affairs" which shows a 60 percent increase over last year (up to R2,176-billion). The minister points out that this increase "arises chiefly from an increase in aid to the TBVC countries".

Having declared these "independent" states in deprived areas where the populations could not possibly support themselves the government is now forced to spend a fortune on bolstering their economies and maintaining the regimes in power.

Finally, there is the issue of the 30 percent increase in the allocation to defence and the 43 percent increase to the South African Police.

The South African Defence Force itself put out an explanatory memorandum on its budget vote in which it argued that "the Defence Force is very much aware of the fact that a stable and healthy economy is just as much a prerequisite for a strong Defence Force as a strong Defence Force is a prerequisite for a healthy economy".

Whichever way you look at it, defence expenditure is mostly a drain on any economy's resources in terms of both manpower and finance. But more than this, the continued presence of troops in the townships, coupled with escalating cross-border raids against our neighbours, can only further fuel the disinvestment and sanctions campaign abroad. And that is not healthy for the economy.



How the pie was sliced

A guns-first budget, say the unions

By HILARY JOFFE

THE two major trade union federations and the End Conscription Campaign have condemned the budgets for its emphasis on guns, soldiers and policemen rather than housing, unemployment and poverty.

The Congress of South African Trade Unions said the increase in the expenditure on the defence and the police showed the government was incapable of a budget seriously addressing the country's problems, Sapa reports.

Warning that increased defence and the police budget did not bode well for South Africa and the rest of the sub-continent, Cosatu said "the most telling indictment of the budget is the fact that these items can increase by such large amounts when the expenditure on social services appears to have increased by a mere five percent".

"Heavy state borrowing will be inflationary and, as we have seen with the South African Transport Services and the post office, will be financed by price increases, (which) will keep the rate of inflation high to the detriment of workers and the poor," said Cosatu.

Phiroshaw Camay, general secretary of the National Council of Trade Unions said the budget indicated that the government "wants to continue to protect white voters.

"There is no tax increase at the upper end of the tax bracket ... yet black workers with lower earnings will pay general sales tax at the same 12 percent rate."

The increase in the police and defence budget meant the State of Emergency would continue and repression would escalate at a level of totalitarian dictatorship, he said.

"There is still no parity in the education expenditure between black and white school children."

He said the government's intention to continue the farcical constitutional development plan by another R1 194-million was a blatant waste of taxpayers money.

ECC national secretary Adele Kirsten said the government "has chosen the path of war and is budgeting for bombs rather than bread.

The 1985 defence vote constituted 13,6 percent of the budget; this year it had risen to 14,4 percent. The defence budget had increased by 22 times since 1972, she said.

"A recent United Nations report stated that real expenditure on South African security forces was about 30 to 35 percent more than the official security force vote. This would bring total security force expenditure in 1987 to about R11-billion."

NG THE CLASSICS' STUFF FOR BAREND

seem to be his cabinet colleagues.

It is no comfort at all to pensioners to learn that they can now buy "granny" bonds carrying 15 percent (taxable) interest when they learn from the estimates that the state president's pay is to be upped to a taxfree R135 000 a year from R109 000.

Ministers, deputy ministers and MPs will get handsome increases as well, according to the estimates.

The Railways and Post Office budgets showed that government departments react to loss-making by milking the consumer of more money for rail fares (air fares went up earlier, remember?), telephones, telegrams, the cost of posting a letter and so on.

And the estimates have an equally sorry tale to tell: there are some massive increases over last year — defence up 30 percent, police up 50 percent (mainly on increased personnel costs), secret services up 17 percent and budgetary aid to the independent homelands" almost doubled.

That this is a fair comment on exactly where the government's priorities lie was (possibly unwittingly) let slip by the minister himself, who kicked off his speech by saying that for the first time the budget was based on "approaches and priorities laid down by the President's Committee on National Priorities".

"Allowance has had to be made for the present exceptional circumstances and the plan will be re-evaluated later this year and adjusted if necessary.

"It relates to state revenue collected under a tax system which stands on the threshhold of renewal."

What was not quite clear, however, was how the minister justified his next remark, that the budget "reflects the mandate given by the majority of white voters to embark on far-reaching steps towards the broadening of democracy."

Nobody I have spoken to up to now has been able to throw any light on this remarkable piece of gobbledygook. Maybe it will become clearer during the budget debate — if anyone can stay awake long enough to listen to it.

Jean Le May

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Budget

THE Automobile Association yesterday welcomed the consolidation of the National Road Fund (NRF), Central Energy Fund (CEF) and Motor Vehicle Accidents Fund (MVA), levies and GST in the fuel price announced in Wednesday's budget.

AA director-general Mr Peter Elliott said rationalisation should "ensure receipt of monies presently lost through evasion of duty . . ."

Concern over bread subsidy

THE Housewives League of South Africa yesterday welcomed several aspects of Wednesday's Budget, but added tax relief and an increased bread subsidy would have been welcomed:

In particular, the league welcomed:

- The surcharge concessions on certain imported raw materials.

"We trust this measure will be used towards containing consumer prices of the relevant manufactured products."

- The increase in education funds.

"This is an investment in our country's future."

- The R134 million for the maize industry (announced earlier).

"To prop the producer price and maintain an un-changed consumer price."

- Assistance to senior citizens in the creation of savings bonds at 15 percent.

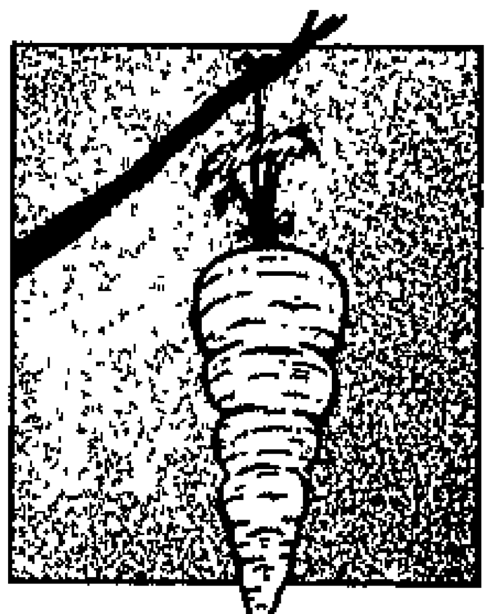
"But we hope this won't cause an imbalance of savings sector."

The league was "very concerned, indeed extremely disappointed," that the Finance Minister Mr Barend du Plessis could not see his way to increasing the bread subsidy "at least for a further year until our economic upturn has stabilised and consumers are more able to withstand the inevitable increase in the price of bread."

The league added: "We would have liked to have seen some form of tax relief and hope that when the Margo Report is eventually published, the Minister will implement some relief recommendations immediately and not wait until his 1988/89 Budget."— Sapa.

THE BUDGET

Small earthquake in Chile



This is Barend du Plessis' third major Budget, and must now be judged on its own merits rather than as largely inheriting the legacy of the Horwood era. Yet so much is unchanged. In 1985, we headed our Budget first leader: *Waiting for Margo*. We're still waiting, even if at last we have a (tentative) date for publication of the Margo report.

That year, we also quoted Joop de Loor as saying it was necessary that Budget figures be believed, that government must show that it can stick to its own spending forecasts. Yet economists whose views we have reported in recent weeks are virtually at one that credibility remains a basic budgetary problem.

The slowness with which the mills of government grind are shown also by the sluggish progress of privatisation and the news that the task group on zero-based budgeting, appointed last year, has so far submitted one report which is still "receiving attention."

There is still a sense of dejá vu about Barend du Plessis' third Budget. But truth to tell, it shows little evidence of original thought, and apart from the new Granny Bonds there is little to enthuse about.

Then, of the June 1986 stimulatory package of R955m, only R762m had been spent by the end of the fiscal year. The balance is included in the 1987-1988 Budget.

It is a common criticism that recent Budgets have been pro- rather than counter-cyclical. That the deficit before borrowing (PSBR) fell from 5,9% in 1976-1977 to 4,2% last year confirms this.

This year's increase is a welcome admission that the deficit should not be a straitjacket at times when there are substantial unused resources in the economy. During a recession — or even the early stages of a tentative recovery — fiscal "discipline" is actually counter-cyclical and counter-productive.

And make no mistake, this recovery is still tentative. Du Plessis tells us that the growth rate in GDP in the first quarter was only 3,2%, less than in the second half of last year. While growth must slacken when an economy nears full resource-utilisation, there is no question that, after only three quarters, we are anywhere near that.

While the official growth target for this year remains 3%, and the general tenor of the Budget makes the right stimulatory noises, it actually does little to achieve this end. And what it does do is passive or negative — the higher PSBR, to be financed in ways which will not crowd the private sector out of the capital market, yet more aid to farmers and further real increases in state spending.

But to be fair, any sins in this Budget are sins of omission rather than commission. If Du Plessis has done little, he can say that — like W S Gilbert's House of Peers — he has done it very well.

The reaffirmed commitment to the private

Continued on page 30

STATE OF THE ECONOMY

Government's short-term fiscal and monetary strategy remains expansionary, says Finance Minister Barend du Plessis. The object is to boost consumption and investment so as to increase production, employment and real economic growth.

This doesn't imply that the fight against inflation is not a high priority, but that further reduction in inflation must be slotted into overall economic strategy.

The Reserve Bank will continue to accommodate any reasonable extension of bank credit and increase in the money supply. It remains policy to prevent the rand rising to an extent that undermines exports.

Interest rates are not expected to move significantly either way in the near future. If the upswing develops much greater momentum and is accompanied by greatly increased demand for loans, interest rates will have to be allowed to rise. But "there is still a good deal of room for the money supply and total expenditure to rise before exerting any significant upward pressure on interest rates."

In setting out long-term economic strategy, Du Plessis says "highest priority" must be given to a growth process which, above all, generates work and ensures participation by the greatest number of people. This can be achieved by increasing individual involvement in economic development.

The strategy, as adopted by the conference of business leaders last November, envisages threefold development:

- ☐ Strengthening and developing the income- and work-creating modern sector as a basis for economic development;
- ☐ Government's political reform process and new approach to urbanisation, which allows greater inward industrialisation;
- ☐ Regional development, including job-creation in rural areas.

Du Plessis says government's stance remains that any possible room for short- to middle-term growth should be fully exploited. Fiscal policy has a key role.

Long-term planning by the State President's Committee on National Priorities on government spending and its financing is now a basis for the Budget. At the end of last year for the first time Cabinet approved a five-year spending plan covering the period 1987-1988 to 1991-1992.

The plan will be revised annually to achieve "realistic" public sector spending. It includes allowing greater room for private-sector activity, and envisages cutting public-sector spending from nearly 38% of GDP in 1985-1986 to 34,5% in 1991-1992. Privatisation and deregulation are closely linked to the plan.

In the third and fourth quarters of last year, real GDP rose at an annual 4,5% before declining, according to preliminary estimates, to 3,2% in the first quarter of this year. Revival should continue through 1987 and 1988 and real GDP grow by about 3% this year.

Du Plessis expects an increase of about 2% a year in real consumer spending, a moderate recovery in real fixed investment, and real inventory accumulation.

Du Plessis accepts that inflation in the past two years was not due to excess demand. It was also not the "wage-push" variety: though wages and salaries have risen faster than productivity, increases have still been below the inflation rates. Real remuneration per worker in the fourth quarter of last year was as much as 9% lower than in the first quarter of 1984.

Inflation is linked to fluctuations in the exchange rate. As the rand appreciates inflation shows a downward tendency.

In spite of an expected increase in the real growth rate and thus an increase in imports, the balance of payments current account surplus for 1987 is expected to be about R5 billion.

In the first quarter of 1987 there was a net capital inflow of about R500m and the banking sector and government reduced reserve-related short-term foreign liabilities by R677m.

Looking back at short-term strategy for 1986-1987, Du Plessis is satisfied that the moderately expansionary monetary and fiscal strategy set out in last year's Budget was successfully implemented.

(49)

BUDGET IN A NUTSHELL

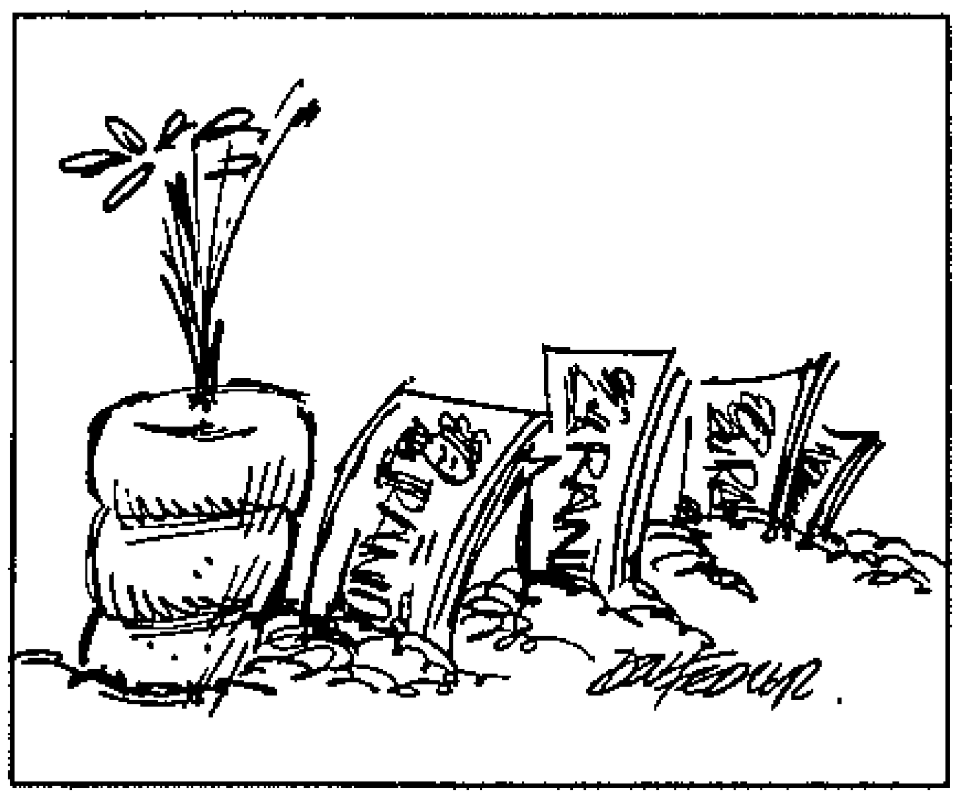
Revenue: Actual revenue is estimated at R38,6 billion, 12,6% up from 1986-1987's adjusted revenue, including a R352m transfer from the IMF Deposit Account and a R258m transfer from the Central Energy Fund to the State Revenue Account.

Inland revenue is estimated to contribute R35,4 billion (16,6% up) and Customs and Excise R2,6 billion (4% up). Individuals' income tax is expected to yield R12,1 billion (24,1% up), non-mining companies R5,8 billion (a preliminary R5,03 billion was collected in 1986-1987), gold mines (tax and lease payments) R3,15 billion ("slightly lower" than 1986-1987), sales tax (GST) R10,7 billion (20,1% up). Customs duty plus the import surcharge is budgeted to rise 12%, excise duty by 6,5%, and transfer payments with the BLS and TBVC countries by 22,6%.

Expenditure: Estimated at R46,87 billion, 16,2% up on actual expenditure over 1986-1987 and 24,7% up on the 1986-1987 Budget.

Financing: A R8,4 billion (4,7% of estimated GDP) deficit before borrowing is budgeted for. This is 36,1% up from 1986-1987's R6,2 billion deficit. The deficit for this financial year already exceeds R8,6 billion. Loan redemptions are estimated at R2,465 billion bringing the total financing requirement to R10,89 billion, 27,8% up from the previous financial year (R8,5 billion).

Agriculture assistance: Support programmes for agriculture in general will exceed R1 billion.



Public Investment Commissioners: Expected to invest R4,1 billion of its normal funds in government stock, some R400m more than in the previous year. A total R4,35 billion of stock sales is proposed, R1,85 billion of which represents rollovers and R2,5 billion new issues. Already in the first two months of the 1987-1988 financial year the Reserve Bank has raised some R2 billion from tap issues.

Bond sales are estimated to yield R520m, while the redemption of R352m of the IMF loan will be financed by a transfer from the IMF Deposit Account. Including the R371m surplus from the 1986-1987 financial year brings total financing to R10,89 billion, leaving a small R3m surplus.

Capital expenditure: R4,64 billion, down from 1986-1987's revised figure of R5,1 billion.

Education: R9,1 billion (19,6% of the total Budget), almost 20% up from the previous year and 40% up in the case of black education.

Job creation and employment: Reduced from R281m in 1986-1987 to R181,4m. Of this R100m goes for job creation and the rest for training.

Pensions: R206m improvement.

Public service remuneration: R1,2 billion for the improvement of service benefits.

Small Business Development Corporation: R5m, of which R2m is government's contribution to a proposed bank indemnity scheme. The remainder is for an interest rate subsidy. A further R10m is proposed for the interest subsidy on capital market loans and R5m for the SBDC's Pioneer Projects Fund.

Import surcharge: Concessions are extended to other imported raw materials and intermediate products. However, applications for such exemptions must be motivated. The concession is estimated to cost some R100m.

Fuel levy: The levies for the Road Fund, Central Energy Fund, Motor Vehicle Assurance Fund, and sales tax are to be combined into a "consolidated fuel levy" to be collected by Customs and Excise directly from oil companies. An additional R300m revenue is estimated as a result of this change. However, pump prices will not be affected.

Foreign loan funds: About R2,5 billion of money held in the debt standstill net found its way to the Public Investment Commissioners. Some R1 billion was used in March 1987 in the financing of the 1986-1987 Budget. Further use of such funds are proposed by way of short-term loans.

Of the funds provided for foreign claims to be converted from short-term to medium-term loans (in terms of the second foreign debt arrangement) R1,2 billion will be applied for Exchequer financing by way of short- and medium-term loans (preferably medium).

Five-year plan: For the first time the Budget rests on a long-term plan carried out by the State President's Committee on National Priorities. This forms part of a five-year expenditure plan which envisages a cut in public-sector expenditure from almost 38% of GDP in 1985-1986 to 34,5% in 1991-1992.

Senior citizen savings bonds: A new savings instrument available from July 1 to anyone aged 60 and over. Annual interest is 15% payable quarterly and taxable (not the first R1 000 of interest income). Investments can be made in multiples of R100, with a R500 minimum and R200 000 maximum per person and can be withdrawn any time after 12 months from deposit. Du Plessis warns that this new savings bond may not always offer a higher rate than is available in the private sector, which suggests that the coupon should be considered adjustable.

National defence bonds: Reduced from 14% to 12%.

Gold and Foreign Exchange Contingency Reserve Account: Lost R1,53 billion last year, bringing the total balance at March 31 to R3,469 billion. No provision has been made to the Bank in respect of this loss. The Bank will continue to bear the accumulated loss as a claim against Treasury. Subsequent appreciation of the gold price and the rand has "considerably" reduced this loss, which should fall further during the rest of this year. The scheme whereby Treasury, via the Bank, covered public-sector bodies against forex losses for periods in excess of one year was ended on December 31.

Defence: R6,7 billion, a 30% increase over the vote for 1986-1987.

Police: Up 42,8% (R459m) to R1,85 billion.

GST, personal tax, company tax, perks tax: All unchanged. In February the maximum marginal tax rate for individuals was reduced from 47,5% to 45%. Exemption in terms of interest earnings was raised from R500 to R1 000.

(49)

given the healthy profit growth now being recorded by JSE-listed companies, which is showing no sign of abating.

The two items that raise the eyebrows are personal tax and sales tax (GST). The estimates, prepared on existing tax scales, look for an increase in personal tax receipts of 24%, from R9,75 billion to R12,10 billion; and in GST of 20%, from R8,9 billion to R10,7 billion.

And the personal tax increase, remember, is after the mini-Budget "concessions."

It is not easy to square these figures with an expected lower rate of inflation and 3% GDP growth.

Last year, GST receipts rose only about 10%; personal tax by about 16,5%. True, the economy is much healthier now; but the discrepancy remains notable.

True, too, Margo is now coming into sight, rather than looming somewhere over the horizon. But that should not affect figures nominally drawn up on the old basis; and it is to be hoped that Margo will *lighten* the direct tax burden on individuals (now almost as heavy as it was before GST was introduced) rather than add to it.

The nation's wage bill is unlikely to rise as much as 24% in the next 12 months, so this suggests that — contrary to good intentions — fiscal drag is alive and well and living in SA. If anything, this simply underlines the urgency for implementing whatever Margo recommends; but this is likely to suffer a fiscal drag of its own.

The August publication target has yet to be met; even if it is, major changes are unlikely to come into effect before the 1988 Budget.

A Department of Finance working group has reached provisional conclusions on the more than 300 recommendations. Many are far-reaching and require thorough consideration and consultation. The commission has recommended that some of its more important proposals be further investigated.

Du Plessis says a major consideration in timing publication is that the report contains several recommendations which, as components of various options, could have a "dras-

TESTING THE FIGURES

How accurate were Revenue estimates in 1986-1987?

Revenue was 13% up, but R500m below estimates. However, receipts were swelled by the transfer of R1 billion sterilised in the Central Energy Fund, giving an overall Revenue increase of 16,4%.

Gold mine tax was R274m above estimates. Du Plessis attributed this, and non-gold mining companies' 90%-plus increase, to enhanced rand earnings. But lower than expected economic growth meant that receipts from GST, excise duties and personal income tax, were over-estimated.

WHERE IT COMES FROM

Source of Revenue	Rm 1986/87*	1987/88[1] Estimates
Customs and Excise:		
Customs duty	1 367,7	1 540,0
Surcharge	837,8	930,0
Excise duty	1 802,2	1 920,0
Miscellaneous	110,3	110,0
	4 118,0	4 500,0
Less: SWA, Central Revenue Fund	350,0	350,0
Customs Union Agreement	1 248,2	1 530,0
Total: Customs and Excise	**2 519,8**	**2 620,0**
Inland Revenue:		
Income Tax		
Companies (other than mining)[2]	5 033,7	5 800,0
Individuals[2]	9 746,5	12 100,0
Gold mines	2 523,5	2 500,0
Other mines	926,7	950,0
Sales tax[2]	8 912,7	10 700,0
Gold mining leases	655,4	650,0
Non-resident shareholders tax	404,5	450,0
Stamp duties and fees	317,6	360,0
Transfer duty	288,7	330,0
Estate duty	147,3	130,0
Interest and dividends	300,6	213,3
Other[3]	1 341,4[4]	1 181,7[4]
Total: Inland Revenue	**30 598,6**	**35 365,0**
Total Ordinary Revenue[5]	**33 118,4**	**37 985,0**
Direct taxes	18 739,5	21 908,0
Indirect taxes	12 247,3	14 188,5
Miscellaneous	2 131,6	1 888,5

Source: Department of Finance.
[1]Prior to Budget proposals
[2]Excluding amounts payable to TBVC and self-governing National States.
[3]Excluding transfers from reserve accounts.
[4]Excluding transfers from Central Energy Fund
[5]Excluding standing allocations of revenue and loan levy.

HOW IT'S FINANCED

Source of Revenue	Rm 1986/87*	1987/88[1] Estimates
Customs and Excise[2]	2 519,8	2 820
Inland Revenue[2]	30 598,6	35 365
Transfer from Central Energy Fund	1 012,0	258
Total ordinary revenue	34 130,4	38 443
Total expenditure: State Revenue Account[3]	40 321,1	46 868
Deficit before borrowing	6 190,7	8 425
Redemption of loans:		
Short-term (net)[2]	—	—
Internal	1 349,5	2 030
Loan Levy	527,1	—
External	449,9	433
Other	—	2
Total: financing requirement	8 919,0	10 893
Financing:		
Decrease of balance of previous year	399,2	
Loan raised: Short-term (net)	1 031,1	
Internal[3]	7 453,8	
Loan levy	—	
External	1,3	
Transfer from Reserve Accounts	433,5[6]	
	9 318,9	
Balance	801,7	
Less: Transfer to SWA	—	
Transfer to other accounts	430,3[9]	
Transfer to Stabilisation Account	—	
Surplus at end of year	371,4	

[1]As tabled by the minister
[2]Loan levy, income set aside for standing allocations and transfers from reserve accounts excluded.
[3]Excluding discount on sale of new stock.
[4]Transfers from the Stabilisation Account These amounts are excluded from the total ordinary revenue in the financial years concerned
[5]Transfers from the Tax Reserve Account of R89,4m and the IMF Deposit Account of R93,8m (for repayment of IMF loan) These amounts are excluded from the total revenue in 1985/86
[6]Transfer from IMF Deposit Account (for repayment of IMF loan)
[7]Until 1978/79 transfers were made to the SWA Account; thereafter to the Central Revenue Fund.
[8]Transfer to the Gold and Foreign Exchange Contingency Reserve Account (R654,7m) and other accounts (R32,3 million).
[9]Transfer of the 1985/86 surplus to the Special Defence Account (R399,2m) and transfers to other accounts (R31,1m)

(49) STAR 5/6/87.

Budget is 'an extension of election'

By Jo-Anne Collinge

The Buget is a natural extension of the election last month in which white voters endorsed the Government's tough line on security and its intention to break fundamental opposition to apartheid, according to several extra-parliamentary opposition groups.

The Five Freedoms Forum, an alliance of anti-apartheid and human rights organisations, observed that the Budget "truly reflects what the white voter asked for — a massive increase in the forces of repression".

"Propaganda, in the guise of the Bureau for Information, now costs an astonishing R31 million."

The Forum, which includes freedom from want as one of its fundamental aims, reckoned that an equivalent amount to the bureau's budget could build about 5 000 sub-economic homes for at least 25 000 people.

Apartheid structures alone were costing the country billions of rands, the FFF calcuated.

"The high costs of defence and 15 education departments (including those in various homelands) would also dramatically diminish in a society free of apartheid.

"We can't keep paying for the demolition of South Africa. We have to build a non-racial future now," the forum's statement concluded.

Azanian People's Organisation president Mr Nkosi Molala said the Budget was no surprise.

"It reflects the depth of frustration in the apartheid system and the determination of the Botha regime to truncate legitimate extra-parliamentary opposition."

Mr Molala labelled the increased spending on the police and military as "obscene". He said it represented the first step in the implementation of Mr Botha's threat to crush resistance.

The Transvaal Indian Congress declared that only in a country with a profoundly unjust political and social system would the need arise to spend such enormous sums of the people's money on the police and defence forces.

"This ... is a Budget tha[t] makes the oppressed pay fo[r] their own repression," the TI[C] said.

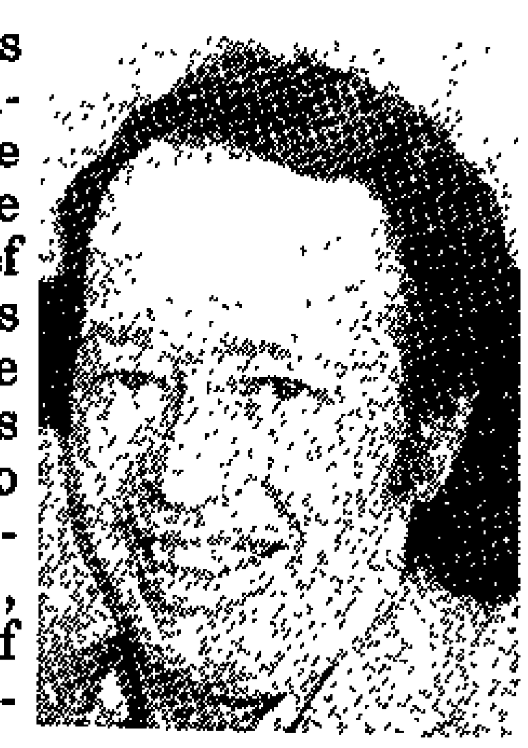
Black Sash nationa[l] vice-president Dr Margare[t] Nash said the proliferation o[f] civil servants and the amoun[t] of resources spent on defence and security undermined the ability of the Budget to revitalise the economy.

"There is an enormous amount of expenditure that is not productive," she said.

(49) Cape Times 6/6/87

Budget 'will push taxpayer to CP court'

By AUDREY D'ANGELO
Financial Editor



Brian Kantor

THE Budget was "politically dangerous" because its failure to give income tax relief to individuals might cause more working class Afrikaaners to switch to the Conservative Party, University of Cape Town economics professor Brian Kantor warned yesterday.

He told the SA German Chamber of Commerce and Industry, at a lunch in a city hotel, that he did not think the Budget had "gone down well in Bethel or Brits".

He considered the Conservative Party had been helped in the last election by an economic protest vote from the working class Afrikaaner who had "suffered in economic strength" and believed he was paying too much tax.

But a colleague at UCT, Andrew Prior, professor of political studies, said he thought the Conservative Party had "probably reached the point of maximum growth".

Its supporters were farmers and blue collar workers "in marginal economic conditions". This sector was in decline with little prospect of growth.

Both professors were speaking to the chamber on prospects in SA following the election and the Budget.

Kantor said that the government could have afforded to cut income tax because, "just as the business cycle is recovering, so the government's revenue is beginning to recover".

Tax cuts would have boosted the recovery and stimulated revenue growth — "that is a supply-side opportunity missed".

But Kantor said the recovery was undoubtedly under way and was very impressive to foreign watchers.

He thought the Reserve Bank should put to the test soon whether SA could obtain more foreign loans to finance its recovery. "There is no sense in holding our economy back for the sake of maintaining the balance of payments."

Kantor also urged more privatization of "cash-rich" parastatals which, he said, would be even more profitable for the government in this country than it had been in Britain.

He urged the private sector to take advantage of any move by the government to make more room for it in the economy.

☐ Prior said the country was definitely not in a pre-Revolutionary phase. Given the strength of the police and the army, there was no possibility that a revolution could succeed.

Discussing sanctions and the call to disinvest, he said these could not be justified on logical grounds and businessmen did not like being preached at.

Local clergy who had called for sanctions and advised whites to abstain from voting in the election had in fact aided and abetted the swing to the Right.

Prior said he expected the state of emergency to continue since its purpose was to create a vacuum in which a new political structure could be put in place, but without popular support there was no chance that it could succeed.

Offers would be made to buy black leaders to take part in it. Some would be found to do so, but it was unlikely that anyone of stature would come forward. If any did they would find themselves discredited.

Prior said there was now "a clash of nationalisms" between the National Party and the ANC.

But the time would come when they would have to speak to each other — he believed some NP supporters already realized this.

He hoped all political parties now excluded would be allowed to speak for themselves in SA so that voters could judge them.

SA private debt eases off

Cape Times 6/6/87

49

South Africans, for so long way over their heads in debt, are adjusting to reality, as ROGER WILLIAMS found out . . .

THE disastrous overall South African civil debt situation of the past few years is showing signs of improving, according to a leading credit-monitoring expert.

Private individuals as well as companies are beginning to recover, in many cases through changed lifestyles, from the situation in 1986 when SA had an astronomical overall debt figure of R879,5 million.

This represented a staggering seven-fold increase on the 1981 figure, of R124m.

Recovery is reflected in official figures for the number of civil judgments for debt, against private individuals and firms, in the first quarter of 1987.

These show that the number of judgments against businesses has dropped by 25% and the value involved, in ordinary rand terms, by 26% compared with the 1986 figures.

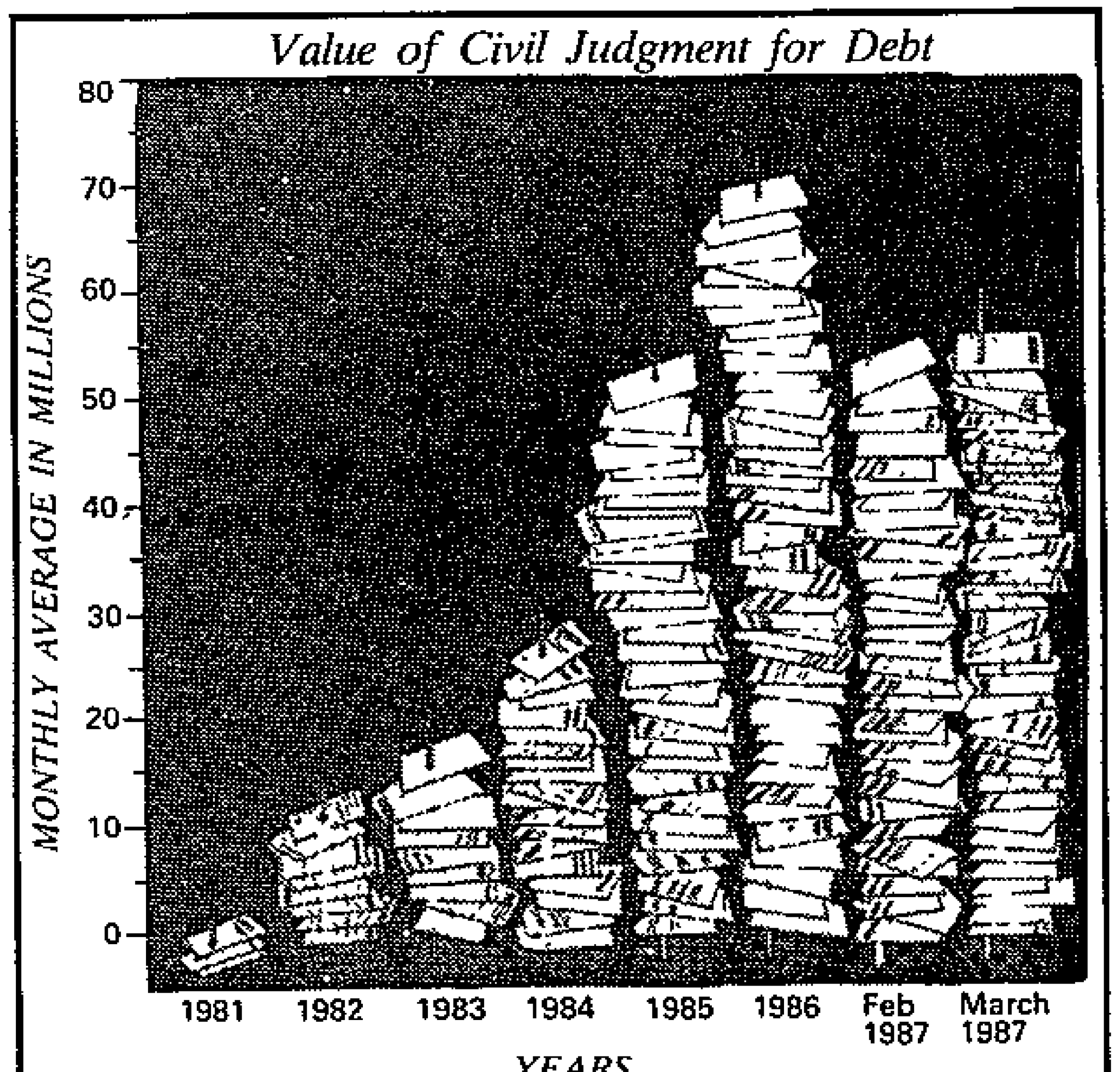
Where individuals are concerned the figures are not quite as impressive — 6% down in the number of civil debt cases, and 15% down on value.

Paul Edwards, MD of Information Trust Corporation (previously Dun and Bradstreet), the country's leading credit-monitoring and debt-collecting agency, told Top of the Times from Johannesburg yesterday:

"The dramatic increase in the overall debt situation in SA can be ascribed to a number of factors, one of the main ones being a substantial shrinkage of disposable income, which has not matched inflation. A consequence has been inability among many individuals and companies to service their debts.

"We have had an artificially high standard of living in this country with a heavy dependence on gold, when there has been a pressing need to redistribute our wealth.

"Individuals have been trying, in too many cases unsuccessfully, to maintain their living-standards of the early 80s. And what we are seeing now, in the debt figures for the first quarter of this year, is a realization among South Africans that the days of plenty are no more.



The extent to which South Africans — individuals as well as firms — have run themselves into debt over the past six years. But latest official figures show some improvement in the overall debt situation.

"What we are really experiencing is a sort of one-off adjustment of living standards, to what will eventually be something more in line with the lifestyles of Europe and elsewhere."

Edwards said many of those who had run up debts had clearly learned the lessons of the recession, and signs were that people were now taking their credit-responsbilities more seriously.

"We believe that if the economy continues to strengthen, salary levels are bound to improve, and the general position of the individual will improve as well.

"But there will be no going back to the heady days of high-living."

The extent to which civil debt has soared is shown in the monthly averages for the six-year period 1981/86, which have risen from R1m to R73,2m, outstripping the inflation rate by far.

And in only five years, the overall number of debt cases shot up by nearly 125 000, from 320 000 in 1982 to 444 872 last year, reflecting a depressed national economy, with sharply rising living costs and large-scale unemployment.

Where the monthly average for overall civil debt for 1986 was R73,2m, the average figure for the first three months of this year was down to R60,4m.

And the overall number of civil summonses issued for debt in the first quarter of 1987 (71 224), was 4 469 fewer than the monthly average for 1986.

In March this year SA firms and private individuals were involved in civil debt cases amounting to R66,3m, but this is well below the record overall figure of R84,4m set in July last year.

The value as well as the number of private-individual debt cases exceeds by far the number of cases involving businesses.

While there have in the first quarter of 1987 been nearly 94 000 private-individual cases dealt with, involving R154,7m, there have been just over 9 000 civil judgments involving companies, with a total debt value of R26,5m.

Battered PE eases slowly out of slump

W/E ARGUS 6/6/87 (69)

SOMEONE SPECIAL: A woman bodyguard is helping to protect Mrs Margaret Thatcher during the general election campaign. Rosemary, a 38-year-old officer whose full name has been withheld for security reasons, is in the Special Branch. She is the first woman to be assigned to protect a British Prime Minister during an election campaign. Beneath the smart outfit she wears each day she carries a Smith and Wesson 0,38 snub-nosed revolver. She is one of 70 Special Branch officers normally responsible for the protection of key political figures.

from PAT CANDIDO
Weekend Argus Bureau

PORT ELIZABETH. — This recession-battered city is slowly emerging from the doldrums.

The moderate upswing in the economy has done much to boost confidence in the Eastern Cape, hit more than most in the economic slump.

Property prices have risen, transport companies said people were returning after a huge exodus in the past five years, industries were starting to expand and a slight upsurge in car sales with a resultant spin-off in the component sector had generated a mood of optimism.

Volkswagen in Uitenhage said it was recruiting 400 to 500 workers for production-related positions to meet increased vehicle demand.

Mr Peter Searle, managing director of Volkswagen, said there were also plans for a R1-million plant extension.

The recruitment drive followed indications that the increased vehicle demand would be sustained in 1988.

Security

Mr Searle said the company's market share had doubled since 1984 and sales in 1987 were running 30 percent ahead of those last year.

Delta is holding its own and the fact that the company has decided to stay in Port Elizabeth has led to a feeling of security.

A spokesman for a transport company said there had been a sudden increase in bookings for household goods to be transported to Port Elizabeth.

This indicated that people were returning to the city and the Eastern Cape.

House prices in the Eastern Cape in the first three months of this year rose by 10 percent over the fourth quarter of last year, according to the United Building Society.

By contrast prices in the Western Cape rose by only two percent over the same period.

Boycotts

Mr Tony Gillson, director of the Port Elizabeth Chamber of Commerce, said 1985 and 1986 were bad years generally but had been worse for Port Elizabeth than for other areas.

The volatile motor industry, reliance on the manufacturing sector and boycotts had taken their toll.

"What has been encouraging this year is the greater confidence which is being shown by businessmen," he said.

Contributing factors were the lifting of boycotts, prospects of the Mosgas development, the Delta takeover and the company's decision to stay in Port Elizabeth.

However, unemployment was still unacceptably high.

Clothing companies have also reported a steady improvement in sales.

We are growing . . . but we are not benefiting

SOUTH AFRICA'S single biggest growth industry is government — and individuals are not sharing in it.

The country's national budget for the coming year, presented in Parliament this week, drew a picture of a Government growing fatter and sleeker every year — while private citizens keep notching their belts as they pare back their living standards.

They are saving less, are more in debt, pay more tax, buy less and have smaller disposable incomes than before.

By LESTER VENTER: Political Correspondent

By now, Government plays an enormous role in the country's economy. Total public expenditure accounts for 38 percent of the country's gross domestic product (GDP).

Government plans to peg this down to 34,5 percent by the book year 1991/92.

Along the way to this weighty economic role, the country's national budget has ballooned by more than 500 percent in the last 10 years, going from R8 961-million in 1977/78 to an estimated R46 319-million for 1987/88.

The coming year's estimate is a 22,5 percent increase on the last book year's actual expenditure of R32 908-million.

Of particular concern to many economists is that this growth of the public sector's spending is taking place in a sluggish economy. Real GDP grew by 5,1 percent in 1984, then fell by 1,5 percent in 1985 and rose by only 0,7 percent last year.

■ ■ ■

The coming year's budget of Finance Minister Mr Barend du Plessis contains stimulatory provisions to provoke a growth of an estimated 3 percent.

Several private sector commentators think the estimate may prove too ambitious — and point out that South Africa needs a GDP growth of 5-6 percent just to stand still, taking into account the growing population the economy has to cater for.

Statistics provided by Mr du Plessis' department show that central government had greater employment growth than any other sector. With a 1980 base of 100, the central government employment index has risen from 83,8 in 1976 to 124,4 last year.

That growth is matched in the private sector only by gold mining, for which the figures over the same period were 83,8 to 118,4. The total non-agricultural private sector went from 94,1 to 103,8.

The rise in gold mining's employment index, however, went along with a profit bonanza from gold over that period. Due to the plunging Rand combining with gold sales — conducted in dollars — favourable exchange rates converted into a Rands avalanche.

Gold mining's profits as a percentage of capital employed increased from an already high 42,7 percent in 1982 to 50,1 percent in 1986.

■ ■ ■

In all other sectors the profit/capital percentage ratio fell over the same period. In manufacturing it was down from 16,4 percent to 10,4 percent; in commerce from 10,9 percent to 6,9 percent; and in coal mines from 36,1 percent to 23,1 percent.

Government growth and declining private sector performance reflected in the position of individuals.

Personal savings, as a percentage of disposable income, went from a 1979 high of more than 12 percent down to nearly 2 percent last year.

And individuals moved much deeper into debt as they found themselves unwilling or unable to live within their means. Personal expenditures were significantly more than incomes last year, after some years of comfortable containment and even positive ratios between income and expenditure.

At the same time the country's public debt more than quadrupled from R10 094-million in 1976 to R47 482-million at the end of last year.

Apart from confirming that a modest economic upswing is under way, Mr du Plessis's budgetary medicine this week promised little hope for meaningful recovery.

ANOTHER VOICE  HARALD PAKENDORF

THERE ARE NO MORE JOKES, BUT ARE YOUR PRIORITIES RIGHT YET, BAREND?

(49)

5/11

11/6/87

Mr Dear Barend,

CONGRATULATIONS on the Budget, the great non-event of the year.

That is how everbody described it, I suspect because you did not increase or decrease taxes. Maybe you should have, so that you could have had a different kind of Press!

No, seriously, I think you did a good job in the light of the circumstances within which you had to work.

I think back to the days when you took over from Owen Horwood.

You were the first to admit the technicalities of the job were new and strange to you.

But you have been going through a steep learning curve and today there are no Barend jokes left in the financial and business communities.

The past years have taken their toll, though. You often look like somebody who is working very hard and who is determined to get on top of the job.

Heavyweight

In a way, you have had a remarkable jump from being, if I may say so, a rather over-enthusiastic deputy Minister with responsibility for the SABC to one of the top jobs in the Cabinet — where nobody can deny that in a matter of three years you have become one of the heavyweights in a political sense.

We all know the present troubles our country faces — sanctions, lack of foreign investment, war in SWA/Namibia, unrest within the country, the arms and oil embargoes, the need to uplift the Third World segment of our population without overtaxing the First World part, job creation through a stimulated economy without sending inflation even higher than it is.

They were not easy circumstances in which you had to work. And I think you did a good job.

It is particularly gratifying that education is top of the list.

One could have said it should have been there long ago, but let's not quibble. We have to give the very best in education to all our children because in the new world of technology they who do not spend on quality education are left behind.

Remarkable

The main message of the Budget lies elsewhere, though. And it is bad news for revolutionaries.

For a country as embattled as ours is to be able to keep expenditure on security (defence and police) as low as it is, is remarkable. Defence in particular is almost too low if one compares it with other countries.

We have the wars in SWA/Namibia and southern Angola, the need to develop and produce our own weapons systems and to act as a deterrent against the massive build-up of arms in countries close to us.

Naturally, there are increases, but seen as a proportion of the total Budget, the defence bite is small.

For the police, too. That the sharp rise in money going to the SAP comes at a time when unrest has been dampened is a clear indication that this has to do more with increasing the establishment (more policemen, taking over the fellows from the Railway Police, etc) than with the need to control unrest.

Again, we should have increased the number of our policemen some years back. We really do have a very small police force. But, again, let's not quibble.

What these figures tell one is that any escalation in violence or unrest can easily be handled — there is a long way to go before the burden becomes anywhere near too much to bear.

Message

To be able to spend more on education than on security says it all — the State is not about to crumble.

That message has, hopefully, been received — in Lusaka, Washington, London, Bonn and Paris, and also in Soweto, Mamelodi, Kwanobuhle and Langa.

Yet, we should not fool ourselves.

Dampening the unrest, controlling the security situation — that's a physical thing.

But what is happening in the minds of our people, that section of our people which does not have the full rights of a citizen?

I have no doubt that the expectation and the insistence on full and equal rights, of the complete demolition of apartheid in law and in mind, is still there and is still growing.

And quite rightly, too. You and I would not have taken what we are handing out. Think back to our emotions when we were still in the Nationalist Party — that is, before it became the National Party — how strongly we felt about getting our full place in the sun.

And we had all the rights in the world!

Before we change the circumstances within which you have to draw up your Budget, you won't be able to substantially alter the one you presented us with.

The need is to free our people from constraints, to let the individual find his feet, to grow strong, to move as he wishes, to remove all inhibitions.

If we don't do that — that which we can only do if we see people as people first and then realise that they may belong to this or that group — we will have to keep on spending too much on administration and not enough on development.

Justice

Clearly, this is not the road the Government has decided on. We are still looking at groups as defined by law, and through that definition determining what an individual may or may not do.

True, there are attempts to broaden the representative base for all people by the inclusion of blacks in the National Council. But you know and I know that this is not the answer, because it smells too much of another way of protecting white interests and not like an attempt to bring justice to all the people of the country.

Yet, I did want to tell you that, within the constraints upon you, you did a creditable job on the Budget.

And, I repeat, you can only do it brilliantly once we change the circumstances within which you draw up the Budget.

It won't happen immediately, I agree. But you can be sure that a growing number of people, white voters, too, are beginning to believe that we have to change the fundamentals to be able to become a secure, just and well-off country.

By the way — if I stop pontificating for a bit — I trust Margo is telling you to cut back on my tax. You really are throttling me, you know!

Till we get a chance to talk this over — all the best for the next Budget.

Harald Pakendorf

CAPE TIMES 8/6/87

Recovery drive needs training fuel — Westcott

From MICK COLLINS

JOHANNESBURG. — Not enough is being done to educate all races in order to help fuel an economy teetering on the brink of recovery, says SA's largest management consulting group.

A return to boom times is in the offing, it says, but can only be achieved with skilled and entrepreneurial manpower.

Commenting on training and job creation in the wake of last week's budget, PE Corporate Services MD Martin Westcott says if programmes for these sectors begin to lag even more, SA can look forward to serious economic constraints on growth.

This would mean shelving the eagerly awaited recovery which is regarded as one means of salvation for SA's present stagnation. Labour-intensive industries, job creation and training programmes may be adversely affected by the budget, he says.

"Interest rates may be expected to rise over the next 12 to 18 months as a result of government deficit being funded out of shrinking savings and investors backing capital-intensive industries as opposed to labour-intensive ones.

"Labour-intensive industries are currently being struck by stay-aways, labour disputes and union controversies — and therefore seen as too volatile for investors who wish to hedge their bets."

This, he says, would be a sad trend for the country as a whole, for it would mean that these industries will achieve a slower growth, could stagnate and be forced to implement continuing short-term and easily perpetuated cuts — such as expenditure on much needed training programmes.

'Passed the buck'

"This in turn will adversely affect the development of labour-intensive industries leading to even more industrial strife."

The whole trend would be to the detriment of job creation, with skills shortages, unemployment and political unrest reaching new highs.

"It is well accepted that one of government's main priorities is the achievement of political and social security. It is debatable whether or not this objective is better achieved through expenditure on defence in preference to job creation, education and training."

Westcott says Finance Minister Barend du Plessis also warned that the temporary support programmes for job creation and training of the unemployed of the past two years could unfortunately not become a permanent feature of government spending.

"The minister has passed the buck to the private sector by calling upon it to create permanent job opportunities over the medium and long term. This will only be viable if government is able to ensure that funds allocated to primary and secondary schooling create, as a minimum, a literate pool of workers that are suitable for further job training."

For many years too little attention has been paid to uplifting the unskilled labour force into semi-skilled categories, and to improving the expertize of the semi-skilled to skilled artisan and operative classes, he says.

rette, he said. — Sapa.

R759-m budget presented for the House of Delegates

PARLIAMENT — A R759 million budget for the House of Delegates was presented yesterday by the **Minister of the Budget, Mr Ismail Kathrada.**

He said the estimated expenditure was R48,5 million more than last year, an increase of about seven percent.

The breakdown of estimated expenditure was:

- Budget and Auxiliary Services R11 419 000.
- Local Government, Housing and Agriculture R165 197 000.
- Education and Culture R403 299 000.
- Health Services and Welfare R152 007 000.
- Improvement of Conditions of Service R28 000 000.

Mr Kathrada said that while he would do his utmost to curtail government expenditure to the minimum, he was not prepared to do an "injustice".

"Should the amount allocated for education prove to be inadequate, I will have no option but to request this House for additional funds during the 1988 Parliamentary session," he said.

Referring to a decrease in the sum for Local Government, Housing and Agriculture, he said money which could be used for housing was flowing back into the National Housing Fund.

"Although the provisioning of housing is regarded to be of high priority, the Ministers' Council has decided to allocate a larger slice of the cake to education and culture due to the fact that sufficient funds for the year 1987/8 would be available in the Housing Development Fund".

The increase in the amount allocated to Health Services and Welfare was "well above the inflation rate", Mr Kathrada said.

An estimated R28 million budgeted for Improvement of Conditions of Service took into account the 12,5 percent salary increase. — Sapa.

(49) Star 2/6/87

Labour Party warning on Sats budget for 1988

PARLIAMENT — The Labour Party would refuse to pass the Transport budget next year if the Government did not take steps to remove all discriminatory signboards and to establish parity in the payment of salaries, **Mr Anthony Reeves (LP Klipspruit West)**, said yesterday.

Speaking in second-reading debate on the SA Transport Services budget, he said that during the debate on last year's Transport the Minister of Transport had promised steps would be taken to bring about parity.

Mr Chris Wyngaard (LP Wuppertal) said Sats was the most discriminatory of all government departments.

Mr Nick Isaacs (LP Bishop Lavis) said the amendment proposed by Mr Rabie "sounded pleasant" but did not take account of the realities of the political situation.

ECONOMY

AK645 10/6/87 49

Taxes, taxes and more taxes

By MAGGIE ROWLEY

THE Government's "fiscal incontinence" will continue and Government spending, and consequently taxes, will carry on increasing, tax specialist Mr Costa Divaris predicts.

Addressing a post-Budget seminar in Cape Town yesterday, Mr Divaris said that far from being a "non-event", this year's Budget was one of the most significant and interesting budgets in many years.

The lack of the "usual, distracting fripperies" which were inevitably blown up out of proportion but were essentially unimportant, had this year allowed the Budget's many tax messages to be clearly read by taxpayers.

PRE-ELECTION PLOY

"One of its messages was that the February 'mini-Budget' was nothing more than a pre-election ploy since it included all of the tax concessions available this year, apart from the controversial 'granny bonds'.

"And, at last, taxpayers are coming to learn that 'tax concessions' do not necessarily mean tax reductions, because in spite of the mini-Budget's R759-million concessions for the individual, income tax collections from individuals are expected to go up by more than 24 perent this year, after rising by 17 percent last fiscal year," he said.

Dismissing, on the basis of Government's past peroformance, its "dismayingly familiar professions of future frugality", he predicted its "continued fiscal incontinence" and claimed that one of the Budget's main messages was that State spending would continue to rise and that taxes would therefore also continue to go up.

Mr Divaris questioned the significance of the growth in the number of taxpayers, which was given by Finance Minister Mr Barend du Plessis as one of the reasons for the huge increase in expected income tax collections from individuals.

"No sign of any such trend substantial enough to have such a result is apparent in figures available to the public."

The only significant reason, he said, was inflation and its attendant fiscal drag.

The Budget indicated that there was tremendous pressure on the Government effectively to increase taxes in the future unless another "trick, confiscation or art of the bookkeeper" can be found or an economic miracle occurs.

MARGO COMMISSION

Further messages from the Budget included:

- The impoverishment of the small group of white, individual taxpayers who had in recent years been made to bear an increasing disproportionate part of the tax burden would continue.
- The Margo Commission would fail if it was expected to change a system of spending and taxation that had taken place for powerful political reasons.

(49) (88) DD 12/6/87

Businessmen urged to reach out to workers

DURBAN — Business had to reach out to workers, understanding their needs, fears and grievances and demonstrating that their best hope for the future lay in the successful functioning of a free enterprise economy, Dr Zach de Beer told businessmen here last night.

Dr De Beer is chairman of the Southern Life Association and Anglo American Property Services.

He said there was a danger of estrangement, frustration and alienation among the country's black people and, therefore, the industrial workers.

It was easy enough for business to wash its hands and blame the government and apartheid for this situation but this attitude would not get business far — it was more important for management to make the bridging of the gap part of its system.

"Business must be prepared to devote real resources to this task, to give it real priority. South Africa's future may in the end depend on this issue as much as upon any other."

Dr De Beer called on businessmen to make their companies "places where men and women of equal dignity and worth work together in mutual trust to achieve more for themselves for the companies and, ultimately, for society as a whole."

On other points he said:

- Economic integration had reached a point which whites had come to accept but there was a danger that blacks might now start rejecting the possibility because they were confined to the bottom of the pyramid.
- Colour bars had to go and intensive training for black workers had to be provided so that black people would become part of the planning and production process.
- Housing was a national priority, with the provision of suitable land a pressing need.
- A healthy property market required that the Group Areas Act should go.
- In the industrial relations sphere, the granting of workers' rights without parallel political rights put management in an "excruciatingly difficult position" because it had to deal almost daily with matters that should not be part of its agenda, Dr De Beer said. — DDC

Defence budget bigger than we think

(49)

Star 12/6/87

READERS' VIEWS

In your article "Defence spending increase modest — SADF document" (The Star, June 4) you quote the Department of Defence as arguing that this year's 30 percent increase in the defence budget is not unreasonable.

The SADF mentions the high inflation rate and notes that Britain, the US and Israel spend a greater proportion of their gross national products on defence.

In trying to justify the "guns not butter" budget the SADF has resorted to selecting statistics which suit its conclusions. There are several facts they neglected to mention which give a very different picture.

The current inflation rate is around 15 percent, yet the "official" defence budget rose by twice that figure to R6,683 billion (more than 22 times the 1972 defence budget). This amounts to 14,7 percent of the budget compared with 13,7 percent in 1986 and 13,2 percent in 1985.

In South Africa today the distinctions between the different arms of the security forces are becoming increasingly blurred.

The total security force budget must include the R1,53 billion police vote (43 percent increase), the R198,2 million secret services vote (17,3 percent increase), the R9,2 million allocated for detained people (73,8 percent increase), the R2 million control of security measures within the Department of Development Aid (100 percent increase), as well as the R334 million allocated to defence housing and buildings under the Public Works vote.

This brings the total to R8,76 billion.

But it should be borne in mind that defence expenditure always exceeds the estimate contained in the defence budget (last year by over seven percent), and the same applies to the police vote. Official security force expenditure should be around R9,5 billion by the end of the financial year.

Furthermore, the defence and police votes do not include certain "hidden" items of security force expenditure such as the amount placed in the Special Defence Account, the "independent homelands" defence and police budgets (Foreign Affairs vote), the budget for the South West Africa Territorial Force (Finance Vote), and the foreign exchange received from overseas sales of South African arms.

Add these amounts to the official security force budget and you arrive at a total of between R11 and 12-billion — 25 percent of the budget and over eight percent of the GNP — more than that in Britain or America.

Finally, it needs to be asked what all this money is being used for. To defend South Africa against foreign invaders, or to defend a white minority government against its own people?

Gavin Evans
ECC Publicity Secretary
Johannesburg

(49) ?

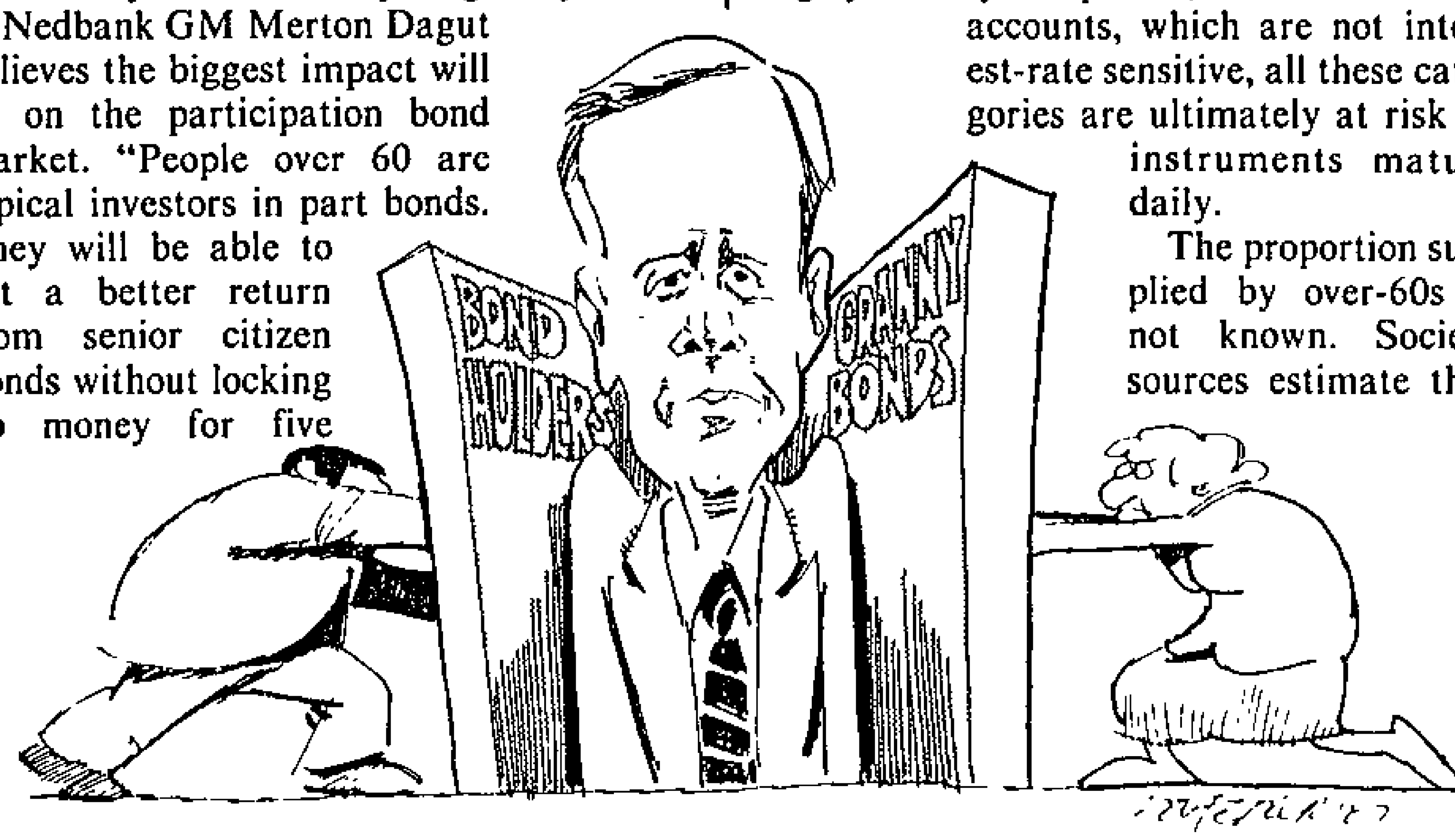
GRANNY BONDS

Money-go-round

Whatever happens, building societies will come out of the row over senior citizen savings bonds looking like the bad guys. Last week's Budget announcement of an indefinite period instrument, yielding a 15% interest return, put them squarely in the middle of two interest groups.

On the one hand, mortgage bondholders suspect them of using the issue as an excuse to raise lending rates. On the other, over-60s may lose out if the authorities decide to reconsider in the face of pressure from the societies.

Of course, they are not the only institutions likely to lose money to granny bonds. Nedbank GM Merton Dagut believes the biggest impact will be on the participation bond market. "People over 60 are typical investors in part bonds. They will be able to get a better return from senior citizen bonds without locking up money for five years."



Banks too will lose funding.

Dagut believes the authorities will limit the amount they are prepared to accept from senior citizens — "in which case this will all be a storm in a teacup." However, for the moment, building societies are at the eye of the storm.

Perm MD Bob Tucker claims about R8 billion-R9 billion building society money will be affected, which will hit mortgage bond rates. As the Perm has already hiked its bond rate by 0,5% to 14,5%, he is clearly sensitive on the issue.

The crux of the matter is how much money will be rerouted into the new form of saving, which offers a return at least 4% more than the rate paid by building societies on 12-month fixed deposits.

What the societies fear most is that everyone who can will borrow a grandmother, with every mother's son and every granny's nephew cashing in on the relationship. There is also the possibility that people will borrow money at less than 15% to put it into granny bonds. Societies themselves are prepared to lend at 14%, for unspecified purposes, against the security of a home.

Just what this will mean in numbers will depend on whether the authorities limit the intake to R300m, as finance CE (policy) Gerhard Croeser indicated at a post-Budget conference in Cape Town, or whether the scheme is open-ended.

The size of the total pool of deposits is indicated by the latest available figures from the Association of Building Societies (ABS) — as at March 1986. Between them, the societies then held R7,5 billion fixed deposits, R5,4 billion savings and transmission accounts, R1,3 billion NCDs and R7,9 billion shares. Apart from NCDs, which are largely held by companies, and transmission accounts, which are not interest-rate sensitive, all these categories are ultimately at risk as instruments mature daily.

The proportion supplied by over-60s is not known. Society sources estimate that it is well over 50% of their retail deposits. Fixed-interest saving appeals to people who depend largely on it for income, while the tax-free component of some investments is an added attraction.

So the flow into an unlimited number of granny bonds is bound to distort the market. Already interest rates on 24-month and 36-month NCDs have moved up 10-20 points to 12,5% and 13% respectively, against the present downward trend in market rates.

The other side of the story is that some form of inflation linking would iron out the distortion created for investors by negative interest rates. And it could be argued that elderly investors who are partly or entirely dependent on interest rates are entitled to the same sort of relief the old age pension affords to those without resources.

However, as Wits economist Tony Marais points out: "If they place a R300m limit on the scheme it won't help much."

Moreover, there are better ways to help the elderly.

Says Allied deputy GM Ian Fraser: "We welcome relief but the minister might have achieved the same objectives by subsidising the sale of these bonds through the financial institutions, which would not affect their cash flows."

This view is supported by Trust Bank senior GM Kobus Roetz, who points out that an upward spiral of interest rates would be "particularly inopportune at this stage."

The route the authorities are proposing seems to indicate that the real motive is to raise a quick few hundred million.

Building society executives believe that, if that is the case, the authorities are totally underestimating demand. They will have their funds in an embarrassingly short time and will then have to eliminate the interest rate perk for the elderly. ■

FIRST NATIONAL — 1

Benoni bash

The resolution of the Benoni Town Council calling on First National Bank (FNB) "to distance itself" from MD Chris Ball in regard to the ANC advertisement has had unexpected repercussions.

The Benoni Chamber of Commerce and Industries is in possession of reliable information that local blacks, inter alia, could implement a consumer boycott if the resolution is not rescinded. The chamber is urging the council to reconsider its attitude, while a meeting between the council and FNB is being arranged.

Leo Bröker, president of the chamber, says: "We are business people representing businessmen of the area." The chamber "is worried" about the consequences the council's resolution could have "for the town of Benoni as a whole" as well as for businessmen.

He emphasises that he heads a "non-political" organisation concerning itself with "the business effects" only. And it is strictly from this viewpoint, after receiving strong reactions from blacks, that the chamber will send a letter to the council urging that the resolution be withdrawn.

FNB senior GM Jimmy McKenzie says the bank has written to the council "giving it some information which may help with this problem."

The letter incorporates a request for a meeting "at the first opportunity."

He says that FNB has been "a part of the growth of Benoni for a very long time." The bank should be judged on the quality of the service rendered, its level of efficiency "and the contribution it has made."

As for FNB's possible redress against *Beeld*, McKenzie says the bank is still considering its position. ■

FM 12/6/86

Own affairs budget up R395-m on last year

PARLIAMENT — The budget of the Administration of the House of Assembly had increased by 125 percent over the past two financial years, the Minister of the Budget, Dr Dawie de Villiers, said yesterday.

BUDGET BREAKDOWN

Introducing an own affairs budget of R5 277 million, he said this was up R395 million on last year.

It included R835 million for Health Services and Welfare (12,3 percent up on 1986/87), R591 million for Agriculture and Water Supply (9,6 percent up), R3 339 million for Education and Culture (8,8 percent up).

It also included R294 million for Local Government Housing and Works (5,3 percent up), and R20 million for Budgetary and Auxiliary Services (R5 million down on last year).

It also included R198 million to pay for the public servants' salary hikes which would come into effect on July 1.

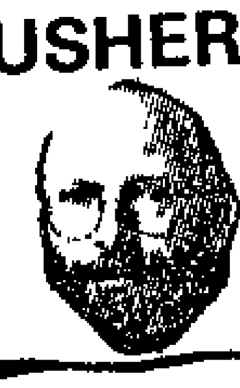
The allocation of R29,9 million for the improvement of social pensions would come into effect on October 1.

The allocation for Agriculture and Water Supply did not include the R400 million which had recently been allocated for further financial help to farmers. Provision for this would be made in the supplementary estimate later this session.

The 9,6 percent increase included various measures aimed at restructuring agriculture and consisted mainly of the consolidation of debt, schemes for debt carried forward, current production credits, susidisation of the means of production and structural adjustments for the promotion of farming practice. — Sapa.

LABOUR AFFAIRS

DICK USHER



Privatisation not grounds for paying lower wages

W/E ARGUS 13/6/87

PRIVATISATION, sometimes billed as the great road to efficiency and economy, can have major drawbacks for the workers concerned.

The arguments for privatisation, in the public mind, probably run on the lines of seeing State and municipal bodies as large, inefficient bureaucracies in which the workers have a high degree of job security and are therefore not strongly motivated to work hard and productively.

Private enterprise, still thinking with the public mind, is run on efficient business principles and therefore the workers are more highly motivated and therefore can more cheaply perform services carried out by public bodies.

Ergo, take functions away from inefficient public bodies and let them out to private businesses and the public saves money. Possibly.

That the private business may perform these functions at lower cost than the public body is probably undeniable, and it's often argued that this is due to economies of scale.

However, some instances I've come across recently seem to indicate that this is not because of superior efficiency and better business methods but because private companies are paying workers the lowest wage they think they can get away with.

In one instance workers were being paid about R280 a month for a privatised service, while the minimum wage in the public body is about R500 a month. The public body is unionised while the private concern is not.

It's not that the workers involved were taken from one concern at one rate of pay and then found themselves working for someone else at a lower rate. Ructions would have been more than likely over a move like that.

But through work being turned over to a private non-union concern, a service previously performed by a group of workers protected against exploitation is now being done by workers without any protection.

With privatisation having become something of a buzz-word with all the talk about selling off bits of Sats and other parastatals or contracting services out, it's quite likely that unions will be taking a hard look at conditions of pay and service in the private companies when discussions about the process take place.

Sandton rates and service fees go up and national malaise gets the blame

By Toni Younghusband

Sandton's R109 million budget for 1987/88, which includes rises in assessment rates and service charges, was last night accepted by all councillors after minimal debate.

Management committee chairman Mr Ricky Valente said South Africa's current instability had an adverse effect on Sandton's budget.

He added: "We live in a society where common justice and basic dignity is not the norm and the economic effects are evident at every level of government, even ours.

"An unjust society and its maintenance has dire economic consequences and directly affects our budget."

Said Mr Valente: "With regard to devolution of power, we at the third tier of government are totally restricted with regard to our budget and the salaries we are able to offer.

"There are also certain increases over which we have absolutely no control, have perforce to be included in our budget and included in the controlled increase.

"We have had to budget for increase in bulk purchases of electricity, water and sewerage treatments of some R6 million, plus salary increases of R3 million, plus Regional Services Councils levies of R1,3 million, giving a total of R10,5 million in extra charges or lost income."

* * *

Sandton's assessment rates go up by 9,7 percent overall on July 1 — water, sewerage and refuse removal tariffs will also be increased, Mr Valente announced.

He said residents had enjoyed comparitively low assessment rates for three years "despite rampant inflation and demands for better services".

Water tariffs in Sandton will go up from 40c a kilolitre to 48,9c, sewerage services from R11,50 to R13,50 and refuse removal from R4,75 to R5,75 a month.

* * *

Sandton's homes have dropped 28 percent in value in three years because of the enforcement of the Group Areas Act, Mr Valente said.

He said if people were allowed to live where they could afford to live, the free-enterprise market would ensure assets retained their value.

He added: "Total rateable value of our land three years ago was R1 870 222 980. Taking an extremely conservative annual growth of five percent it would be expected that in 1984 Rands today, value would be about R2 165 016 877. Our actual value in 1987 Rands is R2 108 967 645.

"Thus, ignoring inflation, we are, as a town, R56 million worse off than in 1984."

* * *

Sandton council employees can look forward to 12,5 percent salary increases in the new financial year.

* * *

Membership of a Regional Services Council will cost Sandton R1,3 million in the first year.

Mr Valente said that although a sister municipality had stated there would be a direct financial benefit in belonging to an RSC, Sandton could not see one.

* * *

More than R15 million of Sandton's R24 million capital budget is to be spent on roads and stormwater drainage.

Roads affected will be Katherine Street, Amalinda Street to South Road and Rivonia Road.

Cape Times 17/6/87

People 'voting against SA — by not spending money'

(49)

HOUSE OF ASSEMBLY. — The government had won the election but the country was losing a second election in which people voted with their money, their savings and their jobs, Mr Harry Schwarz, the PFP's chief spokesman on finance, said yesterday.

Speaking in the Budget debate, he said the State President, Mr P W Botha, had won one election on the issue of security and he accepted that outcome.

"But there is another election which is going on all the time and in which we have a chance to determine the outcome, in which the winner will not be the National Party but South Africa.

"It is an election in which everybody votes with their money, with their labour and their actions but they are voting against South Africa by not spending their money and by not investing it."

Revolutionaries rejoice

Consumer spending was at an all-time low, together with private investment.

Unemployment was higher than three years ago despite the economic upswing and the revolutionaries were rejoicing.

Mr Schwarz said he was saddened when the Minister of Finance reduced money available for job creation.

"We have people living in poverty and unemployed and prone to turning towards revolution. I would prefer to see the government help us win this election."

There were two ways to stimulate the economy — by increased government spending or to give the private sector a chance by way of tax concessions.

"The minister chose State spending and made the wrong choice."

Mr Harry Schwarz

He did not do the relatively easy things which could have created a positive psychological climate — which would have created a consumer-led recovery.

The minister could, relatively cheaply, have given tax rebates which would have led people to spend.

"In short, we must persuade the consumer to buy so manufacturers will employ in order to produce more."

Mr Schwarz then said the budget contained "many secrets".

A major secret item was R620 million in hidden spending on the TBVC countries which had been told to take out loans, guaranteed by South Africa, for their budget shortfalls which South Africa could not meet with direct aid.

"A crazy way to balance budgets and we know they cannot afford to repay."

In addition, the Minister of Foreign Affairs, Mr Pik Botha, had admitted that these countries had spent five percent of their budgets on prestige and other unjustified projects.

Mr Botha had also said his department could not vet spending by these states as this was incompatible with independence.

Other secrets included a five-year plan, of which details were being withheld, although it was in its second year.

There was the secret formula for determining own affairs budgeting and finally the Margo Commission report (on taxation), which was being withheld till the government devised a policy.

"The difficulty in looking at life in this secretive way is that it goes to the very root of this government. Is it not better to have more open government?"

'More police needed'

The country needed more police and the Minister of Law and Order agreed.

There were more applicants than he could employ but he could say nothing while the Minister of Finance refused the necessary funds.

In the same way, health services were allocated a 1,2 percent annual growth in real terms by the five-year plan. This was utterly unacceptable.

"This is why the Minister of Finance doesn't want the plan to come out. It must be debated in public," he said.

Mr Schwarz moved an amendment declining to pass the second reading of the Budget as the government had failed to address the serious problems facing the country. — Sapa

(49) Star 17/6/87.

PARLIA

'Toy gun threats offered nothing'

Budget under fire from PFP

Political Staff

Minister of Finance Mr Barend du Plessis had drawn a "popgun and a waterpistol" from his gunbelt when he presented the 1987/88 Budget, said Progressive Federal Party Finance spokesman Mr Harry Schwarz.

In a sharp attack on the Budget during debate in the House of Assembly yesterday, Mr Schwarz said Mr du Plessis had failed to address adequately the serious economic problems facing South Africa, which needed crucial solutions if political stability was to be achieved.

"The Minister described our problems as a "culmination of processes" which were leading to a "showdown". And to this great showdown at the OK Coral comes Cowboy Barend with his sixguns. He draws them and one's a waterpistol, the other a popgun. At a time when he's talking about the country in crisis, he offers nothing,' said Mr Schwarz.

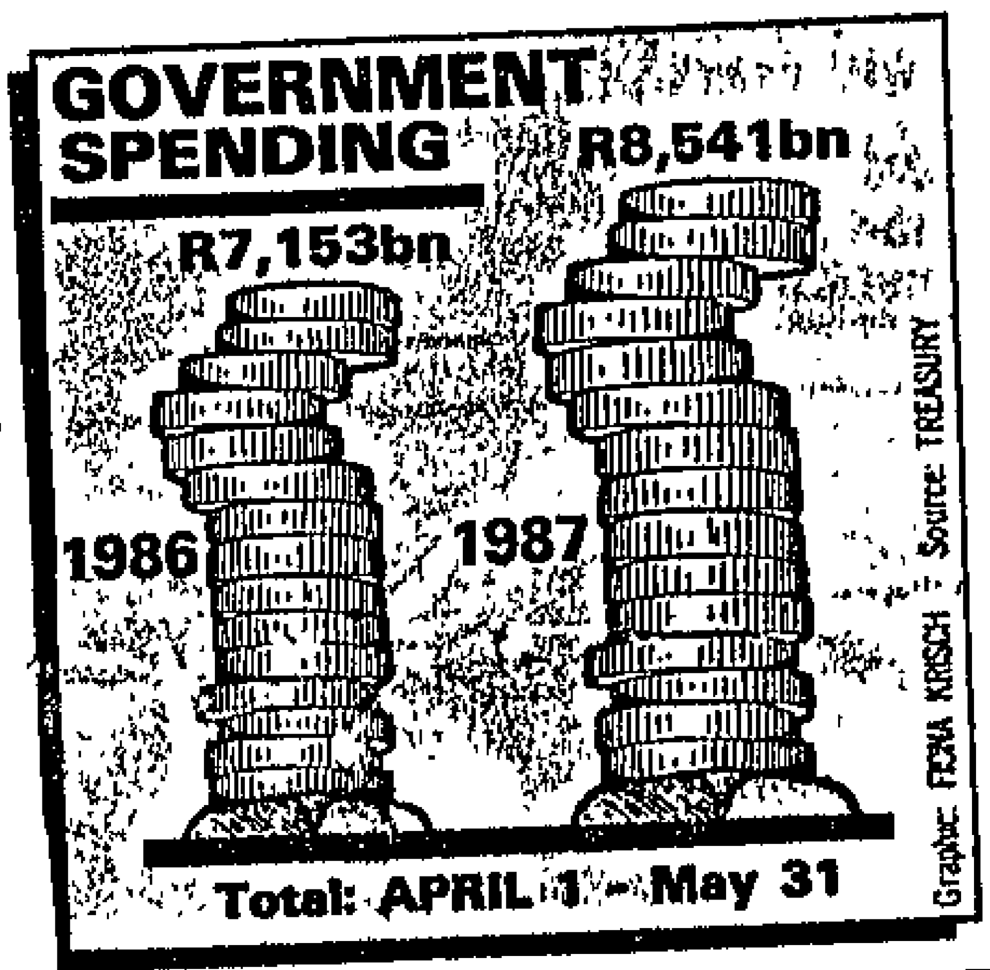
There was laughter in the House and Mr Schwarz withdrew his description as a member of the National Party rose to take him to task.

"Alright, I withdraw because the Honourable Minister can't be a cowboy. Cowboys don't cry."

Mr du Plessis's choice of Government spending as the way to boost the economy was wrong, he said. Instead the Minister could have increased certain tax rebates.

He also attacked the Budget as "a budget of secrets", in which he and others were being called upon to support "this five-year plan" without the contents of that plan being revealed.

8/6/87



Govt spending soars by 19,4%

B/Day

HELENA PATTEN

GOVERNMENT spending during the first two months of this fiscal year was R1,39bn up on the comparable period last year to R8,54bn — an increase of 19,4%.

During May, [illegible] from the Exchequer Account were R[illegible],86bn, just off the monthly budgeted average of R3,9bn, and down from expenditure of R4,94bn

49

● To Page 2

Govt spending up 19,4% for first two months

● From Page 1

in April, which is traditionally a month of heavy spending.

Revenue receipts, on the other hand, are behind budget at a total collection of R4,61bn for April and May, and R2,46bn for May. This compares with a budgeted average of R3,20bn per month.

The difference between expenditure and revenue results in a deficit of R3,93bn in the two-month period. Adding loans and other repayments, the total financing requirement to date is R9,41bn.

Borrowings so far exceed this amount at R9,79bn, including the issue of stock which has raised R2,33bn this fiscal year. Thus little scope remains for more borrowing on the part of the state, if it is to remain within budget. Only R2,5bn was budgeted to be raised from the issue of RSA stock. May's issues raised R660m for the account.

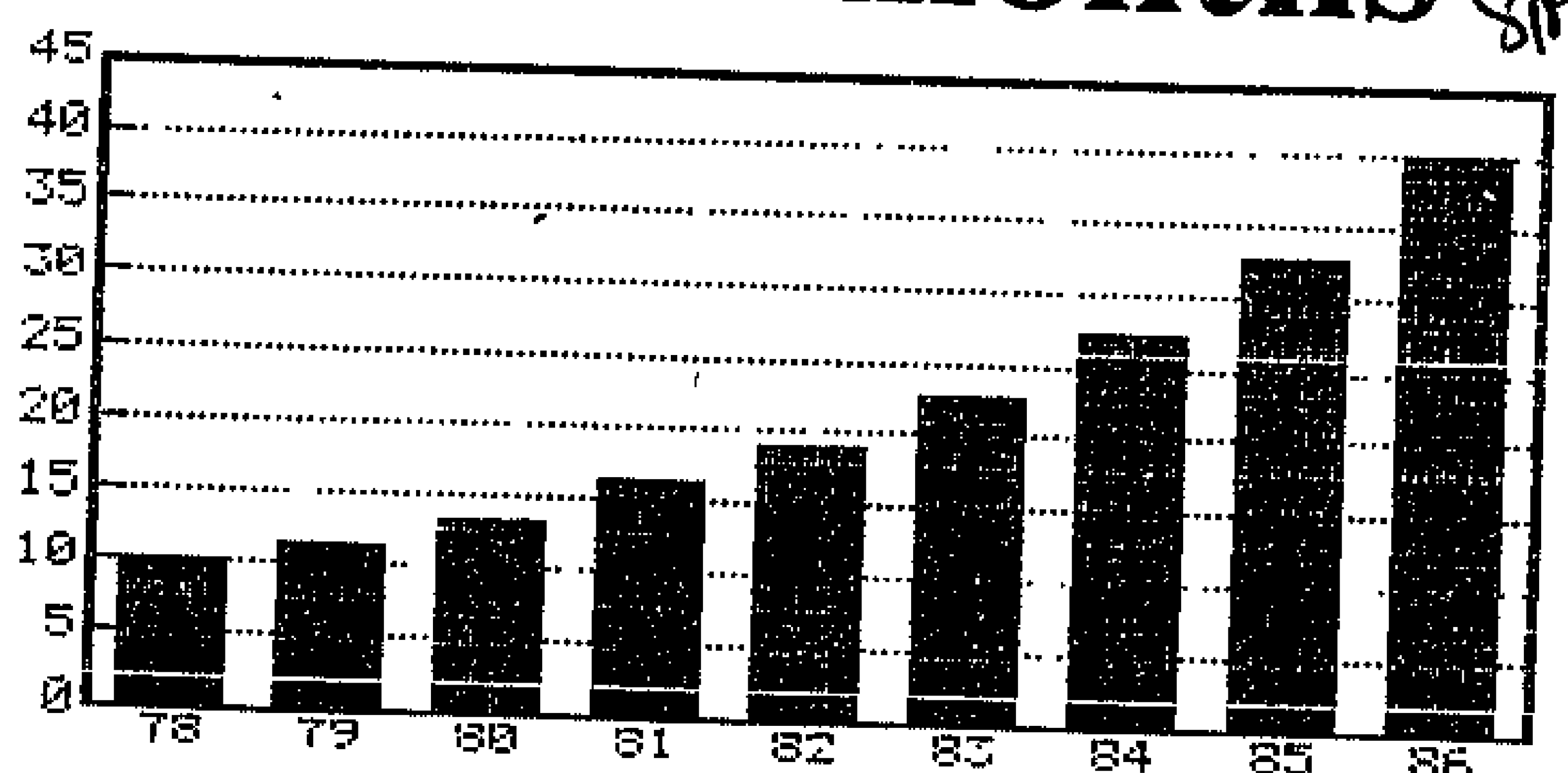
Stock issued during May included R303m of 13%, 2008 (probably to the Public Investment Commissioners), R100m of 14%, 1992, R200m of 9%, 1988, R100m of 11,5%, 1990 and R10m of 14%, 1993.

Govt spends 18,2 pc of total budget in first two months

(49)

STAR 18/6/87

By Magnus Heystek, Finance Editor



Actual Government expenditure (R-billions).

Government expenditure in the first two months of the current financial year is roughly following the same pattern as in the preceding years with 18,2 percent of the total budget already spent.

According to the latest Government Gazette total spending in April and May this year amounted to R8,541 billion, an increase of 19,4 percent when compared with the corresponding period last year.

In the June 3 Budget the Minister of Finance, Mr Barend du Plessis, indicated that total Government spending in the 1987/88 financial year will be R46,868 billion, an increase of 16,4 percent on actual expenditure last year but an increase of more than 20 percent on last year's Budget forecast.

Government spending in May this year amounted to R3,808 billion, which is only 7,8 percent higher than May last year. Cynics suggest that with all the long-weekends, government departments did not have much time to spend taxpayer's money — and that they will make up for this in the following month.

Government expenditure normally follows a seasonal trend. April, the first month in the financial year, normally sees above-normal expenditure due to government departments holding back some payments so as not to exceed budgets in the previous financial year. This is usually followed by a drop in the rate of expenditure in May, whereafter the rate picks up again.

Economists are expecting government expenditure to once again exceed the budget forecast, as has happened in six of the last seven financial years. Senior government officials have already admitted as much, saying that an overrun of at least 2 percent can again be expected.

Any sign of the economic revival faltering will also have to be counter-acted by further stimulatory measures which will put further pressure on government expenditure.

Government income in the first two months of the financial year amounted to R4,605 billion, which is only 8,5 percent higher than last year. Although the deficit between income and expenditure is more than R4 billion at this stage, it is not causing concern as income also follows a seasonal pattern with large inflows in August and February.

Cape Times 18/6/87

State spending up by 19,4%

(49)

Own Correspondent

JOHANNESBURG. — Government spending in the first two months of the current fiscal year was R1,39 billion up on the comparable period last year to R8,54 billion — an increase of 19,4%.

In the month of May, outlays from the Exchequer Account amounted to R3,86 billion, just off the monthly budgeted average of R3,9 billion, and down from expenditure of R4,94 billion in April, which is traditionally a month of heavy spending.

Revenue receipts, on the other hand, are behind budget at a total collection of R4,61 billion for April and May, and R2,46 billion for May. This compares with a budgeted average of R3,20 billion per month.

The difference between expenditure and revenue results in a deficit of R3,93 billion in the two-month period. Adding loan and other repayments the total financing requirement to date is R9,41 billion.

Borrowings so far exceed this amount at R9,79 billion, including the issue of stock which has raised R2,33 billion in the current fiscal year. Thus little scope remains for further borrowing on the part of the state, if it is to remain within budget. Only R2,5 billion was budgeted to be raised from the issue of RSA stock. May's issues raised R660m for the Account.

Stock issued in May included R303m of 13%, 2008 (probably to the Public Investment Commissioners), R100m of 14%, 1992; R200m of 9%, 1988; R100m of 11,5%; 1990 and R10m of 14%, 1993.

Banks back Leyland

Own Correspondent

JOHANNESBURG. — Two SA banks are to bankroll the Leyland (SA) management buyout which is expected to be completed at the end of this month.

Leyland (SA) MD Brian Fuller yesterday would not disclose the identity of the banks but said "very comfortable" credit lines had been offered to relaunch the Anglo-Dutch company's truck and bus operation in SA.

"There are still are a few minor loose ends to be tied up before the buyout is scheduled for completion at the end of June," he said.

Fuller also disclosed the local operations of British-owned parts and accessories producer Unipart,

Profit handouts won't solve labour vs capital disputes

CMT Times 18/6/87 (49)

From MONTAGU P PLANT (Clifton):

IN RESPONSE to Dr Jack Penn (Letters, June 13):

The world was built by certain principles, made up of courage, thrift, enterprise and endeavour, all spurred by pride, ambition, competition, and even avarice, but not by enforced handouts of someone else's money.

We in business, commerce and industry, the lifeblood of the land, are striving to cut back a monster of slow, arrogant, political, inefficient and unwilling bureaucracy.

This bureaucracy is almost devoid of cost discipline and urgency, the employees of which cannot be fired until they are aged, and who receive very special treatment to the dire cost of every taxpayer.

They are drugged by security; they take no risks of venture, and they are constantly favoured by increases. The productivity of all this is low, and the cost very high, and the entire bureaucracy is increasing from day to day.

Consider these indelible facts. The reward for labour is the wage. For use of land, rent. For use of capital, interest. For entrepreneurship, profit. These are the laws of economics being part and parcel of this planet, and we cannot change them.

It has long been commonplace for employers to provide prerequisites complimentary to the wage, i.e. low-interest loans, assisted medical aid, assisted pension schemes, low-cost housing and lastly the bonus. The word is described as "something to the good into the bargain, especially dividends to shareholders of a company: Distribution of profits to insurance policy holders, gratuity to workmen beyond their wages".

Note well: Not a right payable to the workmen beyond their wages, but a gratuity. Dr Penn must search for another word.

The worker receives his wage, and oftimes a gratuitous bonus. If the law enforced a payment to him from his employer's profits, would the law enforce a contribution from him to make good his employer's losses? No, it would not, and this is the acid test. A worker's bonus is a gratuity and cannot be turned into a legal stipulation. The concept is ridiculous.

The worker must have protection and Trade Unions there must be. They have particularly since 1945, irresponsibly, and selfishly, ravaged the economy of the British Isles. Could it happen here? Yes it could, and the annual bonus will not prevent the fury of the emotion and outcome of strikes.

The worker, by and large, works for the market price, in the workplace.

Governments often stipulate certain minimum rates. Exploitation is a trait of the world. Nature is the best at it. It can only be curbed, it canot be eradicated.

The average executive of a business does not wittingly exploit, but rather he hires and fires according to the market conditions. One may ask why the medical profession, the ordained healers, with power of life and death, are charging such exhorbitant fees world wide? Would Dr Penn like to see a complete nationalization of the profession in South Africa?

The annual bonus does not ensure loyalty from employee to employee. I know of many large organizations who give excellent working conditions, and handsome bonuses, and the staff turnover is alarming.

Why? For the reason that the employees flit from job to job for selfish betterment. The word loyalty in the business sense has gone with the wind, like the beautiful word gay. It is a sad fact, even laughable: A wag will say, with the mime of an eyelid: "He is the loyal employee type, you know."

We do not want or require any more bureaucracy in South Africa and Dr Penn must know that commerce and industry shall from henceforth use all their muscle to cut it back, to its very minimum.

One only has to look at the labour pattern of the last 40 years of trade unions in Britain, and the declining volume and quality of production, and Britain is the land of the free, without a doubt, with bonuses aplenty, and strikes similarly.

The workers were recently encouraged to take up shares to the Post Office authority: Many did. The strikes continue.

Dr Penn should refer to the work of the Margo Commission, which has long been sitting and deliberating. Our tax laws have become so complicated and profuse, that very few can understand them, or keep abreast of them.

No, Dr Penn, the suggested legal handout of the entrepreneur's profits will not solve the eternal problem of dispute by and between labour and capital. Tight disciplines, faith, education, thrift, pride in person, family, nation, ambition, hard work, dedication, self-sacrifice, and last but not least, birth control. These will pale the problem.

Economy on course to achieve growth target

19/6/87

By Sven Lünsche

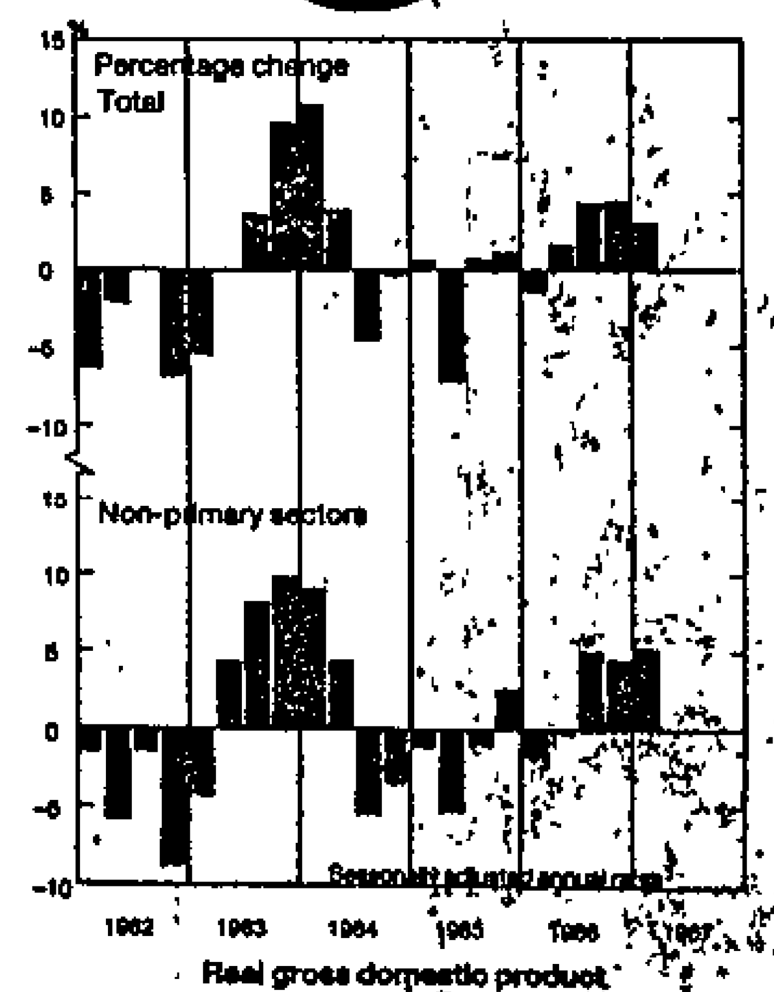
The South African economy is well on its way to achieving the anticipated three percent Gross Domestic Product (GDP) growth rate in 1987, according to the June edition of the Reserve Bank's *Quarterly Bulletin.*

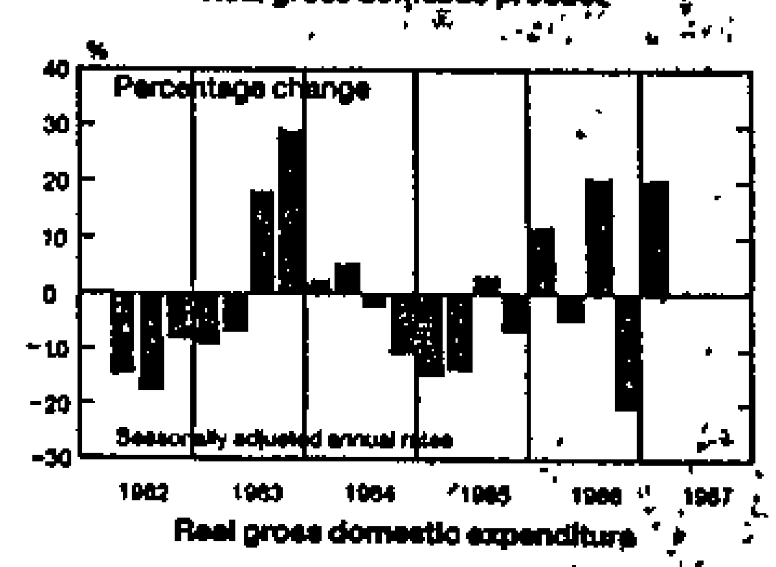
Statistics released by the bank show that the impressive advance in GDP recorded in the second half of 1986, was continued in the first quarter of 1987, but at a somewhat lower rate.

Provisional estimates of 3,25 percent growth compares with slightly more than 4,5 percent in both the third and fourth quarters of 1986 but well up on the negative 2,5 percent in the first quarter.

"Domestic data from the middle of 1985 therefore now present a picture of an economy that, after an early period of vacillation, has been on a decisive, moderately vigorous, upward course," the bank's economists write.

"Notable contributions to higher real output levels during these three quarters were made by the manufacturing industry and by the wholesale, retail and motor trades, accounting for about 45 percent of total real gross domestic output in 1986."





More good news on the economic front is that real gross domestic expenditure, which fell back sharply in the fourth quarter last year, recovered strongly during the first quarter.

According to the bulletin, however, the rebound in spending was accounted for primarily by increases in so-called real "final demand", the total of real private and government consumption expenditure and fixed investment.

Private consumption expenditure grew at a rate of 4,5 percent during the period, deriving considerable support from an annualised 3,5 percent rise in real disposable income.

"However, major leeway remained to be made up in regaining earlier levels of expenditure on consumer durables, as total real durable consumption expenditure in the first quarter of 1987 actually was no higher than in the second quarter of 1985," the Bulletin adds.

The major contribution to consumption expenditure came from the government and the public sector, a development which some economists regard as detrimental to long-term growth, but others consider it to be the right tonic for the economy at present.

"Real government expenditure rose sharply during the reporting period. Declines in this kind of expenditure during the preceding three quarters therefore now appear to have represented postponements of such expenditures rather than a shift to durably lower levels," the Reserve Bank says.

Against the overall trend in the economy, spending on domestic fixed investment could not sustain the encouraging recovery of the second half of 1986.

While the outlook for the next five years is still positive, the moderate decline over the three months was largely accounted for by substantial reductions in fixed capital spending by public corporations.

Generally, however, there was a substantial rise in the levels of real output and expenditure, which also saw the volume of merchandise imports rise by 10,5 percent from the fourth quarter last year to the first quarter of 1987.

There was also an overall decrease in the value of merchandise export, which the bank largely attributed to continued weaknesses in the international commodity markets and to a further strengthening of the rand.

A very considerable R7,4 billion surplus was nevertheless recorded on the balance of payments — the ninth consecutive quarterly surplus since the beginning of 1985 — but lower exports and higher imports caused this figure to be substantially down on the previous quarters record R12,9 billion.

THE BUDGET

Cutting up the pie

"Own affairs" budgets worth R8 billion have been tabled in parliament by the three "own affairs" budget ministers. Allocations are:

- R5,27 billion for whites;
- R2,05 billion for coloureds; and
- R759m for Indians.

49

FINANCIAL MAIL JUNE 19 1987

White budget Minister Dawie de Villiers says the allocation for the administration of the House of Assembly has increased by 125% over the past two financial years.

This year's allocation, provision for which is made in the main Budget, includes R835m for Health Services and Welfare (12% up on 1986/87), R591m for Agriculture and Water Supply (9,6% up), R3,3 billion for Education and Culture (8,8% up), R294m for Local Government Housing and Works (5,3% up), and R20m for Budgetary and Auxiliary Services (R5m down on last year). The allocation also includes R198m for public servants salary hikes which will come into effect on July 1.

De Villiers says while it is not government's duty to supply housing to all people, the "own affairs" administration has an important supportive role to play in providing houses for people who are "not in a position to fulfil their needs."

Official policy is that the individual should provide as far as possible for his own and his family's housing needs. The private sector should accept extensive responsibility for the provision of housing, but should be helped by the State to solve problems "impeding the realisation of a sufficient housing supply."

De Villiers has also budgeted R2,18m for the Huguenot, Dias and Great Trek festivals next year.

The Indian budget Minister, Ismail Kathrada, says his allocation will be divided between: Budget and Auxiliary Services (R11,4m), Local Government Housing and Agriculture (R165m), Education and Culture (R403,299m), Health Services and Welfare (R152m) and Improvement of Conditions of Service (R28m).

Kathrada says while he will do his utmost to cut spending, he is not prepared to do an "injustice" to the Indian community.

"Should the amount allocated for education prove to be inadequate, I will have no option but to request this house for additional funds during the 1988 parliamentary session," he says.

Coloured budget Minister Andrew Julies says he tried to get more money, but his demands had to be tempered by what the country can afford. He says any reasonable person will agree that the backlogs which have developed over centuries can't be wiped out overnight.

However, it remains the aim of the Labour Party to strive for the upliftment of coloured people and funds will have to be found.

His allocation will include spending on Education and Culture (R1 billion), Local Government, Housing and Agriculture (R394m) and Health Services and Welfare (R550m).

- Progressive Federal Party finance spokesman Harry Schwarz says the white "own affairs" budget is a "fiasco" and contains "nothing of any consequence" and will do nothing for the economy.

"It highlights the already announced creation of unnecessary ministerial representatives and the continuing problems arising from the division between general and own affairs," he says. ■

Bank spotlights major problems

(49) B/Day 19/6/87

TWO MAJOR economic dilemmas now face the country's economic and financial policy-makers, says Volkskas in the latest issue of its Economic Spotlight.

Firstly, Finance Minister Barend du Plessis, has the problem "of having to pay attention to ways of assisting economic growth, in particular via fiscal policy but also via monetary policy, while also awarding high priority to the fight against inflation and to protecting the balance of payments.

Secondly, there is only only one alternative, short of import control, and that is to stimulate domestic expenditure.

"The problem here, however, is that an increase in government expenditure could lead to an inceased volume of imports which, unless there is a sharp rise in the gold price, will put pressure on the net gold and other foreign reserves.

"This in turn will have unavoidable conseqences such as a weaker exchange rate for the rand and higher inflation, which will undermine economic growth.

The Minister has been faced with a choice: either to promote one objective at the cost of one or more of the others, or to reach a compromise.

"In this year's Budget, economic realities probably exercised a much more powerful influence than in previous years.

"The effects of the Minister's actions in the Budget will probably be all too evident in the longer term insofar as they relate to social and political matters.

"The performance of the economy will become increasingly crucial for South Africa in other aspects of the society," the report says. — Sapa.

 ARGUS 19/6/87

Major rethink on economy needed: Spies

From MAGGIE ROWLEY
Finance Staff

CERES. — The economy had serious structural problems which could negatively affect almost every aspect of society, Professor P H Spies, director of the Institute for Futures Research at the University of Stellenbosch, warned today.

Opening the regional congress of the Chambers of Commerce of the Western Cape, Professor Spies said if the performance of the economy over the past 13 years was to be repeated in the next 13 years, only 45 percent of the economically active population would be able to find work by the year 2000.

"An even more serious consideration is that about 67 percent of the economically active black population will then be without employment in the formal economy. Most of them will live in and around urban areas.

"This prognosis is clearly not acceptable and it only serves to emphasise the need for a major rethink of options and action programmes," he said.

Four trends

There were four trends which were set to dominate the conditions for socio-economic and political development over the next two decades. These were the demographic transformation, urbanisation, growing unemployment with a simultaneous shortage of skilled manpower and the educational challenge.

All would have to be addressed if South Africa was to experience stable economic growth in coming years.

Economic growth presupposed a greater professional, technical and entrepreneurial contribution from the "other-than-white" communities. The shortage of highly skilled labour and entrepreneurs was so pervasive that it was one of the most important bottlenecks in the country's economic development, he said.

Underlying strength

Professor Spies said that the underlying strength and resilience of the country's economy could provide a strong base for well co-ordinated and creative programmes in economic development, which could support relative stability over the shorter term and provide sufficient time for economic reconstruction.

"However, over the longer term, we may erode our economic power base through the neglect of the main driving force of economic development in all modern societies, namely human potential.

"In my view, the main focus of economic development programmes over the next 10 years should be on human development.

"If we can change the patterns of economic development then it is possible to be optimistic about the longer-term economic potential of South Africa."

Employment, salaries show improvement

49

20/6/87

SVEN LUNSCHE

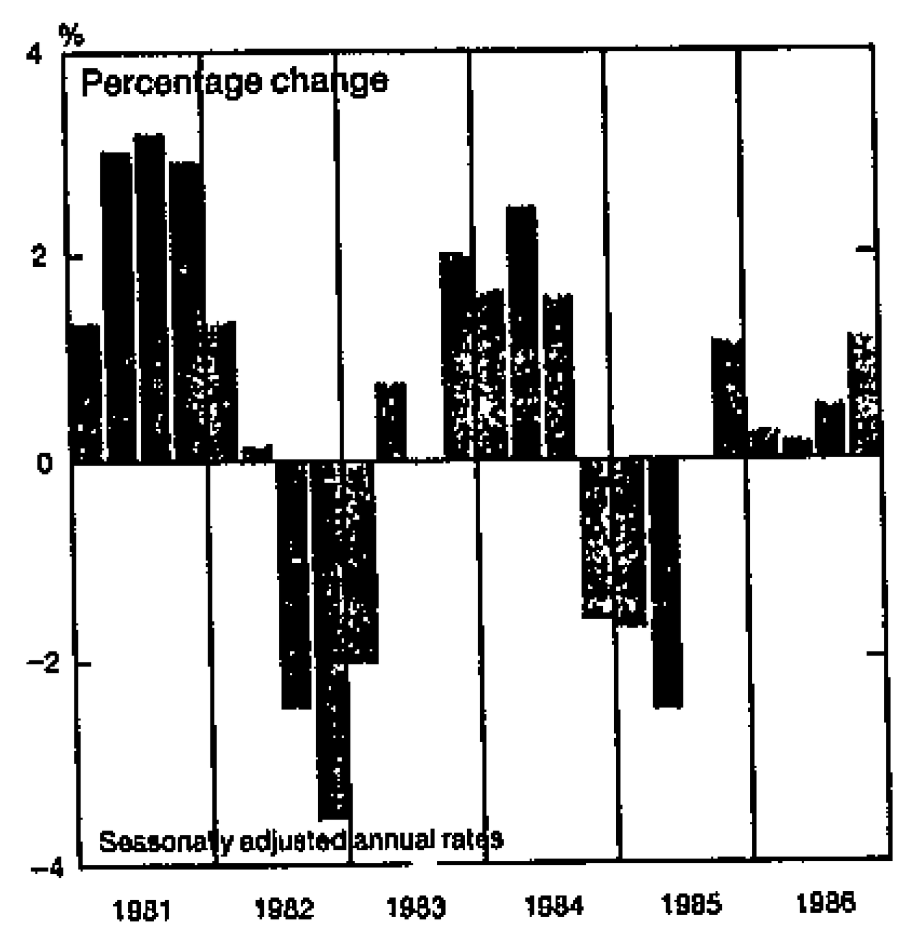
The upturn in the economy is finally having a positive impact on the financial position of individuals.

Statistics provided by the Reserve Bank in the June edition of its *Quarterly Bulletin*, show that aggregate nominal renumeration of employees contined to rise at a rate that exceeded the inflation rate in the first quarter of 1987.

"The resultant improvement in aggregate household incomes could be attributed mainly to the higher average level of nominal wage settlements in 1986 than in 1985 and to somewhat higher levels of employment during the course of the year," the bank comments.

The bank notes, however, that the average real wage per worker is still on the decline, a fact which economists have ascribed to the continued high inflation rate, but also to the heavier burden placed on individuals by the Receiver of Revenue.

The average salary per worker rose by 11,2 percent in 1985 and by 14,4 percent in 1986. Taking fiscal drag into account real renumeration declined by 3,6 percent from 1985 to 1986, and by two percent between the fourth quarters of these years.



Non-agricultural employment

This is in direct contrast to a rise in productivity during the second half of 1986.

Labour productivity, as measured by GDP per worker, showed increases of 2,9 percent and 3,4 percent in the third and fourth quarter respectively, although it declined by 0,6 percent over the year as a result of the rising number of industrial disputes and work stoppages — man-days lost rose from 678 000 in 1985 to 1,31 million in 1986.

As a result of the decrease in real earnings, the savings level of individuals remained largely unchanged. Accordingly the ratio of personal savings to disposable income showed little change from its very low level of 1,5 percent in the second half of 1986.

The domestic savings ratio, however, decreased to 22 percent, following on substantial "dissaving" by the public sector.

On the employment situation the bank notes that the degree of utilisation of production capacity in the economy rose moderately in the second half of 1986, followed by "an apparent rise in non-agricultural employment and some decline in the numbers of unemployed."

The employment figures remained virtually static in the first half of 1986, but rose at annualised rates of 0,6 percent and 1,2 percent in the third and fourth quarters respectively.

Black unemployment was shown by the revised Current Population Survey to have declined from 1,18 million in July 1986 to 1,05 million in January 1987. Among others this figure declined from 83 000 to 69 000 over the same period.

Economy picks up

(49) BDay 22/6/87

CONFIDENCE and the general business mood are improving as the public loosens its purse strings and increased government spending contributed to a GDP growth of 3,25% in the first quarter of this year.

The Reserve Bank's June issue of the Quarterly Bulletin says business confidence is influenced by the rise in the foreign reserves, the stronger rand and the foreign debt settlement. But the business mood is stimulated by consumption demand emanating from the public and private sectors.

Employees' earnings have increased by 20,6% to R19,04bn from R15,78bn in the first quarter of this year compared with the first quarter of 1986. Personal disposable income is up 17,8% to R20,20bn from R17,05bn during the same period. Savings, however, have declined. Private purchases of durables (largely motor cars and furniture) increased to R1,73bn from R1,44bn. Spending on semi-durables (clothing, footwear, fur-

HAROLD FRIDJHON

nishings) rose by 20% to R3,17bn — and on food and other consumables, the improvement from the first quarter of 1986 to the first quarter of this year was nearly 21% to R10,4bn.

Government consumption expenditure rose from R5,79bn to R7,23bn — an increase of 24,7%.

Growth in the economy has been consumption-led; exports are flagging. Excluding gold, they have dropped sharply from the annualised, seasonally adjusted R27,3bn achieved in the third and

● To Page 2

Economy begins to take off

(49) ● From Page BDay 22/6/87

fourth quarters of 1986 to R24,9bn in the first quarter of this year. While imports are rising, which is to be expected as demand in the economy picks up

On an annualised seasonally adjusted basis, imports were R26,1bn in the first quarter compared with R23,7bn for the same period last year. But the balance of payments surplus on the current account is holding steady at an annualised R7,4bn, with a small gain on the capital account replacing torrid withdrawals as in the past few years.

Some fundamental weaknesses still need to be redressed if the relatively strong growth recorded in the past three quarters is to be maintained.

There are still no signs of the rebuilding of inventories; they are still running down. Production capacity is still under used, particularly in the durable industries and, in consequence, fixed investment in industry is still wanting.

Investment in housing, however, is showing a favourable turnaround. This is reflected in the building societies' advances on mortgage increasing to R23bn from R19,3bn during the year ended April 1987.

Indeed, loans for home building are showing the strongest growth in advances to the public from the financial institutions.

Since the start of the year demand for hire purchase facilities has been static around R5,9bn. Because of changed reporting procedures which have eliminated unearned finance charges, current figures cannot be compared with those of previous years.

Total advances by the commercial banks appear to be pegged to the R30bn level. But this figure gives no indication of the extent of borrowing within the corporate sector of the economy.

A corporate banker said "billions of rand" were being lent on a short-term basis in the so-called grey market. Most of this lending was off balance sheet, known in banking as disintermediation.

It could take the form of inter-company lending; merchant banks matching private lenders with borrowers on an agency basis. And banks were giving overnight facilities to major clients.

These transactions were at interest rates between 8,25% and 9%. In the fierce competition to lend under-used funds, banks' prime rate of 12,5% was a meaningless token.

Unemployment set to grow (49)

'Major rethink of economic options needed'

SA 22/6/88

By Maggie Rowley

The economy had serious structural problems which, if allowed to continue, could negatively affect almost every aspect of society, says Professor P H Spies, director of the Institute for Futures Research at the University of Stellenbosch.

Opening the regional congress of the Chambers of Commerce of the Western Cape in Ceres recently, Professor Spies said that if the performance of the South African economy over the past 13 years was to be repeated in the next 13 years, only 45 percent of the economically active population would be able to find work by the year 2000.

"An even more serious consideration is that, under these conditions, about 67 percent of the economically active black population will then be without employment in the formal economy.

"Most of them will live in and around urban areas.

"This prognosis is clearly not acceptable and it only serves to emphasise the need for a major rethink of South Africa's options and action programmes," he said.

There were four trends which were set to dominate the conditions for socio-economic and political development in South Africa over the next two decades. These were the demographic transformation, urbanisation, growing unemployment with a simultaneous shortage of skilled manpower and the educational challenge. All would have to be addressed if South Africa was to experience stable economic growth in coming years.

Any favourable economic growth scenaria presupposed a greater professional, technical and entrepreneurial contribution from the "other-than-white" communities. The shortage of highly skilled labour and entrepeneurs was so pervasive that it was one of the most important bottlenecks in the country's economic development, he said.

Professor Spies said that the underlying strength and resilience of the country's economy could provide a strong base for well-co-ordinated and creative programmes in economic development, which could support relative stability over the shorter term and provide sufficient time for economic reconstruction.

"However, over the longer term, we may erode our economic power base through the neglect of the main driving force of economic development in all modern societies, namely human potential.

"South Africa's economic future is threatened by the current level of human development — not only in terms of technological and managerial capabilities but also in terms of the quality of life of a large proportion of its society, the world views of all of its peoples and the lack of constructive vision over a broad spectrum of its leadership.

"In my view, the main focus of economic development programmes in South Africa over the next 10 years should be on human development."

He said it was inevitable that the structure of South Africa's economy would change in years to come. The question was whether it was possible to steer economic transformation in a desired direction.

This, he argued, could be done by, among other things, addressing limitations resulting from capital restrictions, growing unemployment and limitations resulting from the high propensity to import in the South African economy.

"If we can change the patterns of economic development then it is possible to be optimistic about the longer term economic potential of South Africa. In fact the performance of the economy during the 1960s, when a 5,8 percent gross domestic product growth a year was achieved, should and can be our target from 1992. But if we want to achieve that level of economic growth, we will have to start with imaginative human development programmes today."

Budgets to the fore this week

22/6/87

By David Braun, Political Correspondent

CAPE TOWN — In this the last week of Parliament before the month-long winter recess the three Houses will deal mainly with budgets.

Three Private Members' motions have also been scheduled.

● In the Assembly the Conservative Party will move that the Government counteract certain consequences of National Party labour policy which have "ousted whites from their traditional jobs, impoverished whites by closing the wage gap and forced integration in labour".

● In the House of Representatives a motion calling for the immediate lifting of the state of emergency has been tabled.

● In the House of Delegates a motion calling for the "accommodation" of dentists and doctors who have qualified abroad was scheduled.

In the Assembly debate was scheduled for the main Budget in principle and the individual votes of the white own affairs budget, with legislation taking up Thursday and Friday.

In the House of Representatives, debate started on the general affairs budget in principle and certain votes of the coloured own affairs budget.

The House of Delegates has a similar programme, with legislation scheduled for Wednesday and Thursday, and no sitting on Friday.

Gold's role unsure

VENICE — Gold could never again be cast in a monetary role, the director general of the Bank of Italy, Mr Lamberto Dini, said yesterday at the Financial Times gold conference.

However, while gold had no power to restore exchange rate stability or regulate international liquidity, it would be premature to relegate official holdings to a bit part on the international monetary stage.

The major obstacle to the establishment of fixed exchange rates and a more managed system of liquidity creation was the conflict between internal and external objectives of industrialised countries.

Gold could not resolve this conflict and its use would involve serious technical difficulties.

Mr Dini said any attempt to restore an official gold price would hamper the expansion of trade if the price were fixed irrevocably and lead to speculative crises if it could be changed according to circumstances.

Despite these objections monetary authorities could not simply ignore the existence of gold. — DDC

SA into an economic upturn says Stals

49 23/6/87 DD

From MIKE ROBERTSON, Daily Dispatch man at the Venice conference

VENICE — The South African economy was experiencing an upturn and would show a steady growth of between three per cent and four per cent in the next few years, the Director-general of Finance, Dr Chris Stals, said here yesterday.

Dr Stals was addressing delegates at the Financial Times gold conference.

In an upbeat assesment of the South African economy, he said the country would continue to remain the major producer of gold for "many years to come".

Users of the metal should have no fear and speculators no expectation that an imminent collapse of the system in South Africa might disrupt the supply of gold to world markets.

Defending South Africa against criticism that not enough was being invested in new industries and infrastructure, Dr Stals said: "The large amounts that are at present being invested in the people of South Africa do not yield immediate and visible returns. But they create exciting propects for the future."

Dr Stals said the indications were that the increase in fixed investment in private sector manufacturing, which occured in the fourth quarter of last year for the first time in five years, was continuing.

Favourable developments had enabled South Africa to increase gold and foreign exchange reserves to \$3,7 billion at the end of March 1987.

Physical holdings of gold were increased from 3,7 million ounces at the end of July 1986 to 5,8 million ounces at the end of April this year.

This was done mainly by the undoing of gold swap transactions entered into at an earlier time when the available foreign cash resources of the country came under severe pressure.

Dr Stals said projections indicated that the surplus on the current account would continue for at least the next two-and-a-half years.

It could be expected that the Reserve Bank would add to its gold holdings in the immediate future.

He said the present exchange rate of the rand was regarded as appropriate and in line with the medium-term economic strategy of the country.

Responding to a question, Dr Stals said there was no indication yet tnat long term investment in the South African economy was taking place.

The three to four per cent expected growth would be based on domestic resources and domestic savings.

He said the financial rand system, while not perfect, was acting as a financial shock absorber and would remain in place for the forseeable future.

The discount of 40 per cent indicated there was more pressure for money leaving the country than coming in.

LORD CHALFONT

Chalfont: threat to SA not serious

Dispatch Correspondent

VENICE — South Africa would for some time be subject to violent disruption, but the threat to its basic stability was not a serious one.

This was the opinion of Lord Chalfont, the chairman of the House of Lords All-party Defence Committee, who was speaking at the Financial Times gold conference here yesterday.

Lord Chalfont said that while South Africa would continue to be ostracised by much of the international community, it was capable of containing the internal security situation almost indefinitely.

It was also capable of posing a deterrent against any serious intervention from outside.

International sanctions were simply not working, except in the sense that they were causing hardship to the people they were supposed to help.

Apartheid was irrelevant to the question of security and stability in South Africa, he said.

What was threatening the stability of the country was an attempt by an armed revolutionary force dedicated to the overthrow by violence of the present regime.

However to combat them the South African Police was being heavily reinforced.

Anyone who had seen it in action could not fail to conlude that its measures against demonstrators and protestors were "ruthless and draconian".

The African National Congress had recently admitted it could not forsee a situation where it could mount military operations inside South Africa.

Behind the police stood the South African Defence Force — the most powerful military operation on the African continent, Lord Chalfont said.

to be processed to make the electronic

Gold key to growth — Stals

MIKE ROBERTSON

VENICE — The South African economy was experiencing an upturn and would show a steady growth of between 3% and 4% in the next few years, Director General of Finanace, Dr Chris Stals, said in Venice yesterday.

Stals was addressing delegates at the Finanacial Times gold conference.

Assesing the SA economy, he said the country would remain the major producer of gold for many years.

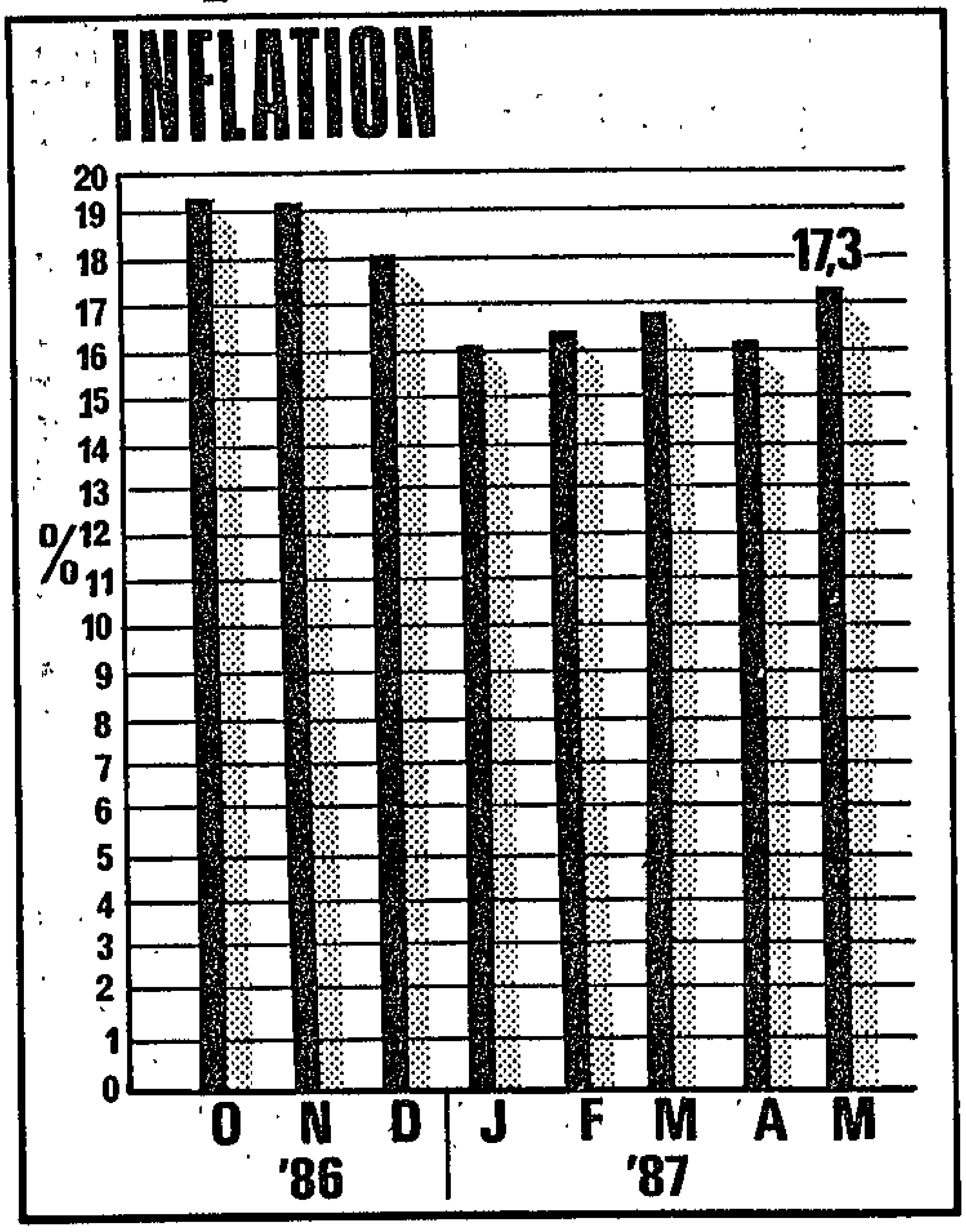
Users of gold should have no fear and speculators no expectation that an imminent collapse of the system in SA may disrupt the supply of gold.

In reply to criticism that not enough was being invested in new industries and infrastructure, Stals said: "The large amounts that are at present being invested in the people of SA do not yield immediate and visible returns. But they create exciting propects for the future."

● See page 2

Inflation hits 17,3

Jump in inflation rate worries economists



Staff Reporters Star 23/6/87 (V80)49

South Africa's inflation rate as measured by the consumer price index (CPI) last month rose sharply to an annualised rate of 17,3 percent — up from 16,2 percent in April — and economists are concerned about the underlying inflationary pressures and warn of even higher inflation to come.

According to the Central Statistical Services (CSS), people in the lower income groups were hardest hit by increased costs last month with prices increasing at an annualised rate of 18,7 percent.

The sharp increase of 25,8 percent in the price of food was the highest since April 1981 and contributed largely to the inflation rate not dropping to lower levels as forecast in some economic circles.

People in middle-income groups experienced an inflation rate of 17,9 percent with high income-earners having an inflation rate of "only" 16,6 percent.

Commenting on these figures the head of the CSS, Dr Treurnicht du Toit, expressed his concern at the inflationary forces prevalent in the economy.

"Although increases in foodstuffs are playing a major role in forcing the CPI higher, the last couple of months have seen the prices of other goods and services increasing steadily across a broad spectrum."

Mr Adam Jacobs, economist for Volkskas, warned that inflation could be heading higher in the months to come as the economy moves into higher gear with consumer demand for goods and services increasing.

Consumer spokesmen have expressed dismay at the jump in the inflation rate. Past chairman of the Consumer Union, Mrs Betty Hirzel, said: "We cannot accept that the Government is taking the problem of inflation seriously."

Consumer Council spokesman Mr Paul Roos said: "The increase is disconcerting for all consumers."

E P GUSH

Business has vital role in securing SA's future

49 BD 24/6/87

This is an abridged version of the address given by Mr E P Gush at the 97th Annual General Meeting of the Chamber of Mines held in Johannesburg on June 23, 1987.

In the wake of more than two years of township violence, the results of the recent general election, and the general polarisation of attitudes in the country doubts have been voiced at the prospects for political reform and therefore long-term stability.

Although the private sector has minimal direct influence on Government, this does not mean we should simply stand by and wring our hands: business is a key activity with enormous potential influence in many areas affecting the hopes, aspirations and perceptions of all South Africans. We as businessmen therefore can and should do many things to keep alive the prospects for a secure future for our country.

In this context our first duty is to continue to invest and to generate wealth, without which the economic needs of South Africa cannot be met.

Our second objective as employers must be to pursue good employment practices, provide proper training, appoint and promote people on the basis of their ability, pay fair wages, deal equitably with employees' elected representatives, do the utmost to provide a safe and healthy working environment and, where applicable, also, congenial living conditions, and implement effective social responsibility programmes.

Thirdly, as leaders with responsibility in the wider community we have a duty to continue to press and encourage Government to implement the socio-political changes necessary for an environment in which individuals can realise their optimum potential and business can operate with maximum efficiency.

Perhaps the most important contribution we can make, by action and example, is to ensure the future of the free enterprise system in an economically viable South Africa. This requires firstly that any perceived connection between capitalism and apartheid be dispelled, and indeed that they be identified as incompatible. It needs to be communicated convincingly that free enterprise is not an exploitative system, as some have come to believe, but is in fact the most effective means to wealth and job creation yet devised. Secondly, for the free enterprise system to work effectively all the constraints must be removed. We seek not only deregulation and privatisation but also clearer evidence of government understanding of and commitment to the total concept of free enterprise.

THE WORKFORCE

With mining revenue up by 13,9 per cent to R29,5 billion in 1986, capital investment up by 28,8 per cent to a record R3,3 billion, and a workforce of more than 756 000 – an all-time high – the mining industry continues to fulfil its two vital functions, namely generation of wealth and employment.

A remarkable feature of our economic history over the last 15 years has been the increase in the incomes of partially skilled black mineworkers. Between 1971 and 1986 the real cash earnings of this segment of the workforce rose by 285 per cent. It is important to point out that the increase in wages of these employees was not achieved at the expense of skilled employees who have remained competitive with skilled workers in other sectors of the economy and are among the highest paid in their class in the country.

A factor now beginning to make an impact is the opening up to all races of the whole range of skilled artisan trades and officials' occupations at the same wage rates as their white counterparts which the Chamber negotiated with the relevant trade unions and Government in the early 1980s. The increasing move by other races into these occupations is illustrated by the fact that by the end of August last year there were 3 194 blacks, coloureds and Asians in jobs previously reserved for whites only. Of these, 2 629 were employed as officials, 444 as apprentices and 121 as artisans.

Another factor is undoubtedly the emergence of the National Union of Mineworkers (NUM) which has built up considerable bargaining power in the few years of its existence.

NUM is now the largest trade union in South Africa and is still growing. Some of its policies and utterances are seen by employers to be irrational – such as calling for economic sanctions which could close down mines, and in the same breath threatening strikes if workers are retrenched because of such closures.

It has become increasingly political, its members, adherents, supporters and sometimes its shaft stewards have resorted to widespread illegal strike action, physical intimidation and even murder which the union leadership has refused to condemn. There must be some doubt, too, as to whether NUM really represents the views of the majority of its members on certain issues, as evidenced at times by resentment and resistance among black workers on the mines to some of the unions policies and methods, even to the extent of counter-violence. What in fact appears to be occuring is a maturation process as the union's members and its leaders and officials sort out their own relationships and priorities.

On the positive side many negotiations have been concluded with NUM, it has some highly capable leaders, its officials have intervened constructively in numerous disputes at mine level and it is serving to sharpen the industry's attention to a range of issues, most notably wages, safety and the future of the migrant labour system. For their part mine managements are having to revise their attitudes and personnel practices and get to understand and communicate with their black employees in a way never attempted in the past. A total adjustment in relationships is therefore occurring.

We firmly believe in the value of the current labour relations system and it would be a tragedy if this were to be jeopardised by irresponsible behaviour by individuals associated with any of the parties involved, and here I include the State whose role should be constructive and supportive of the industrial relations system. To ensure reasonable behaviour some kind of code of conduct must be established which should be applicable to all parties and which if adhered to will prevent violence and intimidation which is in danger of bringing South Africa's otherwise sound system of industrial relations into discredit.

South African mines house over one million people and the mining industry in fact provides more accommodation than any other agency except the State.

The most noticeable results of the industry's efforts are to be seen on the coal mines, some of which have housing for married and single employees, recreation clubs, schools and other social facilities which I think I can say with absolute confidence are equal to any mine anywhere in the world.

Growth in the gold mining industry has been somewhat less than in coal. The gold mines have nevertheless also improved living conditions for black mineworkers who enjoy high standards of food and accommodation, and have access to virtually every conceivable sporting and recreational facility. The deprivations flowing from the migrant labour system as well as other considerations, demand of us as employers that we do the utmost to provide our employees with comfortable and congenial living conditions, and above all conditions in which they can exercise a maximum choice between accommodation options.

Foreign workers who for many years have provided valuable service acquired considerable skills and attained positions of some seniority are constrained not only by this country but by their own countries from bringing their families into South Africa.

Programmes are being initiated to allow black South African employees to own married accommodation in proclaimed townships near the mines, but there is a limited amount of serviced land available and not more than 3 per cent of the labour force can legally be accommodated on mine property. This will become an increasing problem as the skills profile of black workers changes.

Legislation such as the Group Areas Act needs to be removed. Nevertheless considerable progress is being made in some instances to enable black employees to become home owners in established townships.

The industry will continue to pursue this matter with Government and depending on the degree of success achieved and the economics of individual mining companies, mining groups will take steps to accommodate a greater percentage of employees with their families on or near the mines.

SAFETY

There have been three tragic accidents of disaster proportions in recent years – at Hlobane colliery in 1983, at Kinross gold mine in 1986 and at Ermelo colliery in April this year which was followed almost immediately in successive weeks by a series of further accidents on other mines involving multiple loss of lives.

The accidents have occurred at a time when the South African mining industry has conducted its greatest drive yet to make mining safer, both in terms of financial expenditure and in human effort – and in which it has succeeded.

In respect of both fatalities and injuries the statistics show that the trends are clearly downwards, with gold mines achieving their best ever results in 1985 when the fatality rate fell to 1,03 per 1 000 people in service and the coal mines recording their best performance last year with a fatality rate of 0,33.

I find it difficult therefore to reconcile the recent spate of multiple fatality accidents with the demonstrable positive safety trend in the industry, and can only see them as what are technically known as random chance events, attributable to human error or other coincident factors, hopefully not to recur.

In coal mining the safety performance of our mines is similar to that of West Germany, better than the United States and worse than the coal mines of the United Kingdom with recent fatality rates of 0,30, 0,60 amd 0,17 respectively.

There are differences in the kinds of mining technology employed in these countries. In geological conditions, in productivity and in the profiles of the workforces, all of which can impact on and influence safety performance.

In the case of gold mining the factors are very different. In a way, South African gold mines are in a similar position to the British coal mines before they mechanised. Their high fatality rate – which approximates ours now – was significantly reduced when mechanised mining methods were developed. Thus any technical breakthrough in this area will not only lower the fatality rate but will also reduce the size of the workforce.

The South African mining industry is without a doubt a world leader in its endeavour to find and introduce innovative techniques to improve mine safety. The Chamber of Mines Research Organisation is not only involved in safety-oriented research, but is spending large amounts on new systems and designs that will have a major impact on safety.

JOB RESERVATION

The imminent repeal by Parliament of the "scheduled person" definition in the Mines and Works Act will be an historic development since this is the last remaining piece of racially discriminatory legislation affecting employment in South Africa. This will enable blacks and Asians to qualify for the 13 certificates of competency relating to certain types of skilled work and previously restricted to whites and Cape coloureds.

It is up to Government, for its part, to show that the controversial new enabling clauses in the legislation to abolish the discriminatory "scheduled person" definition are related only to health and safety requirements, and will not be used to block black advancement.

OUTLOOK

To turn now to the economy. Although the long-awaited signs of revival are unmistakably there, it is too early to see how sustained or robust this recovery will be. Last year the economic upswing began to run out of steam in the first quarter.

Growth during the first quarter of 1987 was, however, considerably above that for the comparable period of 1986, even if it was below the vigorous expansion of the second half of the year.

This levelling off should not be seen as a reason for pessimism. The three per cent growth rate for 1987 anticipated by the Minister of Finance in his budget speech may still be obtained, but it does suggest that it will depend crucially on the return of business confidence.

The most promising recent sign of hope for the South African economy has, of course, been the sharp upturn in the gold price, and I do believe that the outlook for gold over the next year appears more favourable than it has for a long time.

But our problems must still be solved at home. The recent budget provided for much enlarged Government spending. The record of such spending in South Africa belies the dictum that everything that goes up must go down. Not only has it made tax reductions impossible, but the scope of the private sector has been further restricted. Comprehensive privatisation seems more distant than ever, at a time when the economy needs all the flexibility which greater exposure to market forces will bring.

It is also unfortunate that the pace of reform has slowed down to a mere crawl. The general election appears to have confirmed that the country is now less willing to accept reform but this is confused with the issue of national security. I believe that the country's white population is more willing to accept greater changes to abolish discrimination than our rulers believe. This is the only way we can go if the country is to prosper.

The full text of this address is available from:
The General Manager
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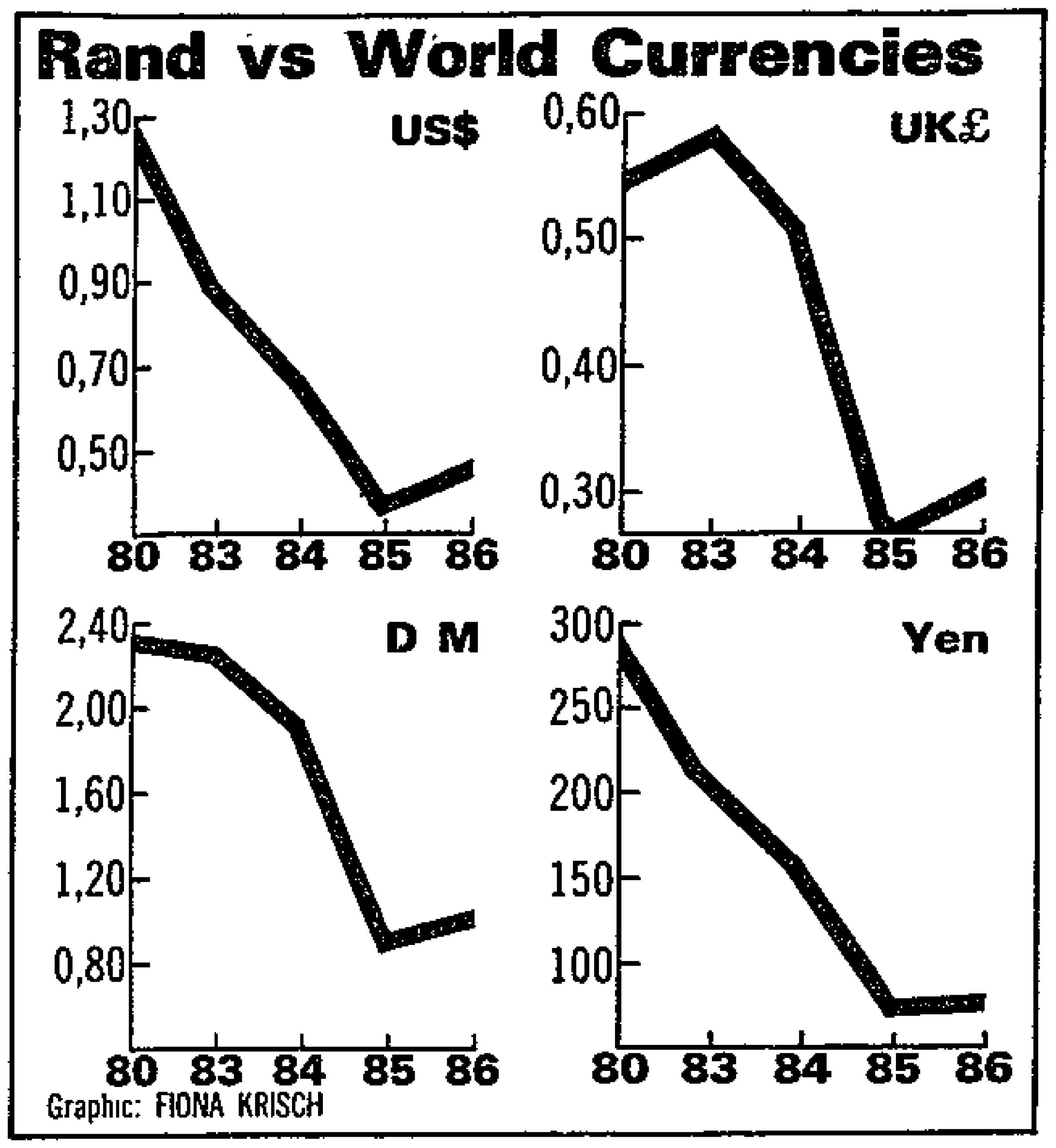
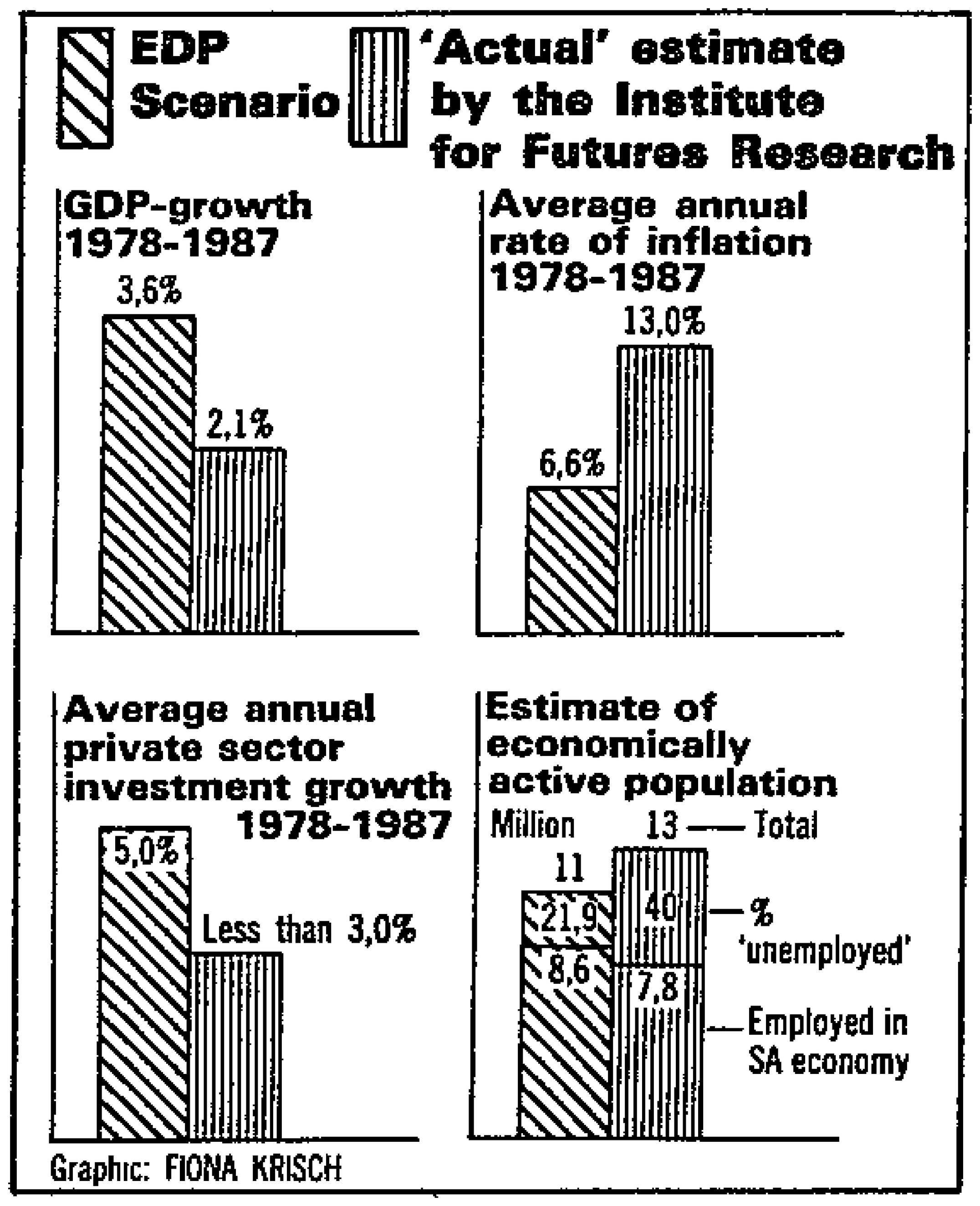
How the economy could grow by 4%

BDay 25/6/87 (49)

The SA economy is in serious structural downturn. Yet instead of disinvestment bringing the country to its knees over the next five years, the economy could be steered into growth of 4% a year over that period. This is an excerpt from the address by Professor P H Spies, director of Stellenbosch University's Institute for Futures Research, to the regional Assocom congress in Ceres





THE RECENT wave of socio-political unrest started in September 1984. Since then we have experienced pervasive unrest which has touched the community life of the smallest rural communities in SA.

SA has also had to cope with a systematic erosion in international relations, a moratorium on SA's foreign debt, sanctions of various degrees and scope, divestment and a rapid decline in the exchange rate value of the rand.

Since 1980 the exchange rate value of the rand decreased, as shown in the graph top left.

Associated with these trends is the general unhealthy state of the South African economy.

The long-term average real rate of growth in SA's GDP was about 4% per year for the 40 years between 1946 and 1986. During the Sixties, average GDP growth was 5,8% per year, in the Seventies 3,1% per year and an average of 1% per year between 1980 and 1986.

The expectations of business and government concerning the growth potential of the South African economy also appear to have drifted downwards in line with this trend over the last 10 years.

This can be deduced from, amongst others, the investment behaviour of the private sector, and also from some tacit (and not so tacit) official positions on what is expected from the South African economy.

Personal savings as a percentage of disposable income decreased from about 12% in the late Sixties to about 5% to 6% in recent years. The contribution of corporate savings to total domestic savings in SA increased from about 12% in the late Sixties to about 36% in recent years.

The average annual real growth in fixed investment in the private sector, nevertheless, decreased from 4,5% per year before 1970 to 3% per year in the Seventies and early Eighties.

The real growth in fixed investment by public authorities decreased from 6,3% to 0,3% over the same period, but that of public corporations increased from 8,7% to 9,9% per year, mostly because of investments in the electricity, gas and water sectors.

Real domestic fixed investment decreased even more rapidly in recent years and was 29% lower in 1986 than in 1981 — the main reason for this decline being a sharp drop in Eskom's capital outlay during 1986.

The absence of a longer-term perspective in the Review of Economic Conditions of the 1987/88 Budget proposals is an example of what seems to be a tacit acceptance in government circles that we should not expect much from the South African economy over the next 13 years (i.e., towards the year 2000).

Not that this point of view is stated in so many words, but by now the fact that the South African economy is in a serious structural downturn should be central concern in the recent Budget proposals.

To explain, let us consider some of the perspectives in the Economic Development Programme (EDP) of 1979 (Economic Adviser to the Prime Minister, 1979).

A "lower case" scenario was discussed in the EDP under the assumption of an average of 3,6% GDP growth per year between 1978 and 1987, an average rate of inflation of 6,6% per year, private sector investment growth of 5% per year and lower gross investment of 3,3% per year, due to an assumed decline in public sector investment over this period.

Under the assumption of this EDP scenario, the rate of unemployment was expected to be 21,9% in 1987 — i.e., 2,4-million members of the workforce would not be able to find employment in the South African economy.

When we compare the EDP scenario with the actual situation in 1987 it is clear that even the "lower case" scenario did not come close to capturing what happened over the last 10 years (see graph top right).

SA's economy is clearly confronted with serious structural problems which, if allowed to continue, could have a negative effect on almost every aspect of South African society in years to come.

For example, if the performance of the South African economy of the last 13 years is to be repeated over the next 13 years, then only 45% of the economically active population of SA would be able to find employment by the year 2 000.

An even more serious consideration is that, under these conditions, about 67% of the economically active black population will then be without employment in the formal economy — most of them will live in and around SA's urban areas.

This prognosis is clearly not acceptable, and it only serves to emphasise the need for a major rethink of SA's options and action programmes.

When we look at the current depressing economic scene, we tend to ignore the broader reality of the South African socio-economic situation — namely, the underlying strength and resilience of the country's economy.

However, over the longer-term we may erode our economic power base through the neglect of the main driving force of economic development in all modern societies — human potential.

In my view, the main focus of economic development programmes in SA over the next 10 years should be on human development.

SA's long-term economic potential can be much higher than what is commonly accepted by analysts.

The current structure of the economy and the patterns of the past 15 years suggest a progressively worsening economic situation. Some recent research reports also support this prognosis.

For example, applying their carefully-researched model of the South African economic structure, economists of the Reserve Bank, De Jager and Smal (1984), calculated that the long-term growth potential of the South African economy is about 3,6% per year.

In their calculation they used the crucial assumptions that past patterns of industrial development, technological innovation, productivity increases and savings will continue into the future.

Moreover, other commentators list the lack of foreign capital and the South African economy's high propensity to import (with its associated current account problems during an economic boom) as further limiting factors to economic growth in this country.

Such a prognosis of SA's economic future is clearly untenable — if only because such a pattern of economic development implies that labour will be absorbed at a maximum average rate of employment of 1,3% per year, while the economically active population is increasing at 2,8% per year.

It is therefore not a question of whether the structure of the South African economy will change in the years to come; it will be forced to change by changing circumstances, and that again will imply a totally different economic development path than that of the past.

The real question is whether it is possible to steer economic transformation in a more preferable direction. My proposition is that it is possible.

The long-term economic growth potential is dependent on the potential of the economy to produce goods and services, as well as on the rate of growth in its demand.

If SA can develop a more appropriate approach to technological obsolescence (Armscor's "Cheetah strategy"), and thereby succeed in increasing the average lifetime of industrial capital by only 10% (i.e., one year), then, given the current economic structure and relative socio-political stability, the economic growth potential of SA could increase by as much as 19% over the medium-term — i.e., using De Jager and Smal's calculation, an economic growth of 4,3% per year can be supported with historical investment patterns over, say, the next five years (Roukens de Lange, 1986).

Similarly, if investment should decline by 20%, and if it is possible to protect the country's existing economic and industrial infrastructure while expanding its lifetime by three years, then SA's economy would still be capable of growing at about 4% per year over the next five years, given that aggregate demand follows aggregate supply.

In other words, it is not necessarily true that divestment can bring this country to its knees over the next five years. This should give us sufficient time to plan for a greater economic future by the turn of this century.

Can we buy off revolution for R120 a month?

B Day 29/6/87

(49)

KEN OWEN

AS THE tide of revolutionary expectations recedes — hardly anybody still cries "liberation before education" — it may be useful to focus attention on more realistic expectations. Like overcoming poverty, perhaps.

Let's start with some basic, child's-guide observations. SA's output of wealth — the gross domestic product — is, say, about R160bn, or an average of R445 a month for each of its 30-million people. There is surely no need to argue the futility of trying to eliminate poverty by sharing out this wealth. Those who have it will fight to keep it, and the entire place might well grind to a halt while the have-nots go around killing the haves in order to take their wealth.

Even it it did not come to a fight — assume the rich simply handed over their wallets to anybody who brandished an AK-47 or struck a match — the place might still grind to a halt through the loss of productive people.

White doctors with two children tend to emigrate when their income falls below R60 000 a year; so do engineers and accountants. University lecturers emigrate at R40 000 a year, and complain endlessly if they don't emigrate. Any attempt to limit these people to, say, R2 000 a month for a family of four would simply jam the air terminals. Even the school teachers would flee under the threat of equal incomes. The more equal the incomes, the greater the flight.

The loss of these people would self-evidently reduce the wealth available for redistribution in the second year, exacerbating the exodus, and the final result would be to duplicate the conditions that prevail in Mozambique, whence even the peasants are now fleeing.

This is rather a laborious way of saying that overcoming poverty is not the same thing as achieving equality, and is likely to be antithetical to it.

Only one way, in fact, is known to man to overcome the sort of poverty which exists in SA. It is to ensure that the rate of economic growth exceeds the rate of population growth by a wide margin.

Herman Kahn, the American think-tanker, used to say that Britain in the 19th Century could achieve a growth rate of only 2,7% a year on average. The result at the end of the century, however, was dramatic: Britons, on average, were to times as wealthy in 1900 as in 1800.

Technology has meanwhile made it possible to achieve much more rapid growth. Japan, of course, is the most obvious example, having grown at 10% a year, or even 12%, year after year in the Sixties and Seventies. In 1960, the average Japanese was poorer than the average South African; in 1985, he was wealthier than the average Briton, and today he is catching the Americans.

A glance at a compound interest table will show the awesome power of constant economic growth to eliminate poverty. A country which grows at 10% a year doubles the available wealth in less than eight years. But who, other than the workaholic Japanese, can possible achieve that rate of advance?

Well, the Brazilians did it for quite a few years before mismanagement, corruption and a growing addiction to debt brought them to disaster; the Koreans have been beating the Japanese at their own game lately; the Taiwanese and the Singaporeans have done almost as well.

Besides, lower levels of growth will suffice. At 7% a year, available wealth doubles in 10 years; and at 6% it doubles in 12 years. If SA could achieve 6% a year, then by the year 2000 the country would be producing annually about R320bn (in constant rands), to be divided among 40-million people. That would give each person an average of R665 a month.

In other words, if you planned a revolution, and thought you could carry it off without driving all the engineers and other wealth-producers to Australia, you might be wise to postpone it for 12 years or so. As any capitalist would tell you, it pays to invest (which is another way of saying it's not necessarily wise to squander everything now, not even on good ideas like equality).

Sadly, the best SA can hope for is a growth rate of 4% a year, which puts off the doubling of our wealth until 2005, by which time the population will be 47-million and the average income will be only R565 a month. That, I suspect, is why people are so impatient for revolution; they want it to come before they have to share the loot with too many new babies.

People who want to confiscate other people's wealth and share it among themselves like to say that capitalism in SA has "failed to deliver". That is not true. Capitalism has raised living standards for a century, first for English immigrants, then for Afrikaners and from the early Seventies for millions of black people.

Capitalism would have been far more effective (and less discriminatory in its benefits) but for the intervention of (national) socialist bureaucrats in Pretoria who have been confiscating a growing share of the wealth produced by capitalism in order to redistribute it as they think best.

Like all forms of socialism, our government's social engineering has progressively burdened the economy to the point where it can no longer produce the wealth required to lift people out of poverty.

If the economy grew at 10% a year, the poor could look forward to easier lives in a few years; at 6% they might promise their children better lives.

But at 4%, well, you can't blame the poor if they plot revolution. What difference does it make if the best alternative is, say, R120 a month extra in your pay packet — by 2005?

We had better get back to real capitalism, and real growth, fast.

De Kock on reinforcing business confidence

'Tax cuts priority for real growth'

Cape Times 29/6/87 (49)

From HAROLD FRIDJHON

JOHANNESBURG. — Cuts in taxes in coming years are a top priority if real growth in the economy is to be achieved and business confidence is to be positively reinforced, Reserve Bank governor Gerhard de Kock said in a wide-ranging interview.

If the GDP could be firmly placed on a sustained growth path the Treasury would receive more revenue from reduced rates of taxation, because demand would be stimulated, leading to a revival in fixed investment. This in turn would give the private sector the confidence which was now wavering.

De Kock emphasized that fiscal drag was a debilitating factor which weakened initiative.

Government expenditure, too, must be reduced in terms of the public sector's share of GDP. This year's high levels of state spending were tolerable because the private sector was not making demands on resources, but if growth — 3% this year and hopefully 3% next year — was to be maintained, the public sector must not crowd out entrepreneurial requirements.

Financially SA had emerged stronger from a difficult period of readjustment than De Kock had thought possible three years ago.

The balance of payments was in a surplus, the gold and foreign exchange reserves of the Reserve Bank and the other banks was in excess of R7 billion. And this after paying $4 billion (about R8 billion) to foreign creditors since 1985 and losing $7 billion (R15 billion) in short and long-term capital outflows.

"Because the world was critical of SA's political situation, we had become a capital exporting country instead of being a net importer of capital, so essential to a developing economy.

"At the time I asked myself: 'Can we survive?' But we adopted stringent policies which have led to a lowering of standards of living. We imposed foreign exchange controls and a standstill on foreign debts. And we have survived. We are poised for growth."

De Kock said that in world banking circles SA's reputation stands high. At the Bank of International Settlements' recent meeting in Basle, central bankers, reviewing the growing mountain of what appears to be irrecoverable debt, said the international banking system was suffering from "debt fatigue" as debtors reneged in one form or another.

"But SA is a notable exception," said De Kock. "We have maintained interest and dividend payments to the world which knows that these will continue, as they absorb only about 10% to 12% of export earnings.

"We are repaying capital."

The Reserve Bank had repaid $1 billion (R2 billion) of $1,3 billion (R2,6 billion) owing to bankers.

In the next two weeks $300m (R600m) would be paid on the debt caught in the net, with a further $200m (R400m) payment in December. Only two more instalments were due on the International Monetary Fund (IMF) loan. Representatives of the IMF who visited SA routinely last week said SA was one of the few debtors to repay and not try to roll over their obligations.

Bankers, who believe that sanctions and disinvestment are not the right levers to effect rapid change, were now eager to re-open credit lines to SA for trade purposes. Politics prevented their lending capital to state and quasi-State organizations.

At present SA did not need these credit lines, said De Kock. It was cheaper for importers to finance their trade through SA banks. However, De Kock asked whether the facilities would be available next year or the year after, when hoped-for growth would strain domestic resources. They replied: "Yes, provided there are no new shocks."

Asked what was needed to get the economy moving, De Kock said: "We must be positive, economically and politically. We must know where we are going. We can't turn our back on the world."

49

ECONOMIC RECOVERY

Up, but not running

In its June *Quarterly Bulletin* the Reserve Bank reckons the economy, "after an earlier period of vacillation, has been on a decisive, moderately vigorous, upward course from approximately the middle of 1986."

Perhaps. The trouble is that there is considerable evidence that this trend is neither sustainable, nor sufficient. One only needs to read any economic commentary to realise our economic troubles are by no means over.

Standard Bank's June *Review* says the "economy has a built-in growth limitation," while Sanlam's June *Economic Survey* highlights factors that "can seriously limit long-term growth potential" — to quote but two recent reports from two large economic units.

There are certainly positive signs — the *Bulletin* cites the foreign reserves; firming of the rand; higher average dollar gold price; second foreign debt arrangement; firming of demand for labour since the second half of 1986; improving retail and motor sales; lower inflation; further share price rises; enhanced foreign interest in local fixed-interest stock and gold mining shares; strengthening of mortgage demand; firming property prices; and fewer insolvencies, liquidations and debt summonses.

But statistics can be interpreted in many ways.

Inflation is down, but remains miles ahead of SA's main trading partners (some have negative inflation), and this limits the authorities' hand in stimulating the economy. Retail and motor sales, mortgages and property prices are all up, but off very low bases and still nowhere near record levels.

The rand has firmed, but at US50c it can be argued the currency is weak and even weaker against major non-dollar currencies; more relevantly, SA can no longer afford a much higher currency. The Bank might be restricting the rand's dollar appreciation, but the underlying position remains weak.

Higher share prices, it is often argued, are a sign of weakness, partly reflecting lack of confidence to make structural investments. While demand for labour might be up, against the enormity of chronic unemployment this is insignificant, as the *Bulletin* acknowledges.

So it is easy to portray a vastly different picture. But more to the point is whether the modest emergence of improved economic activity is sustainable, and will the ultimate level be adequate?

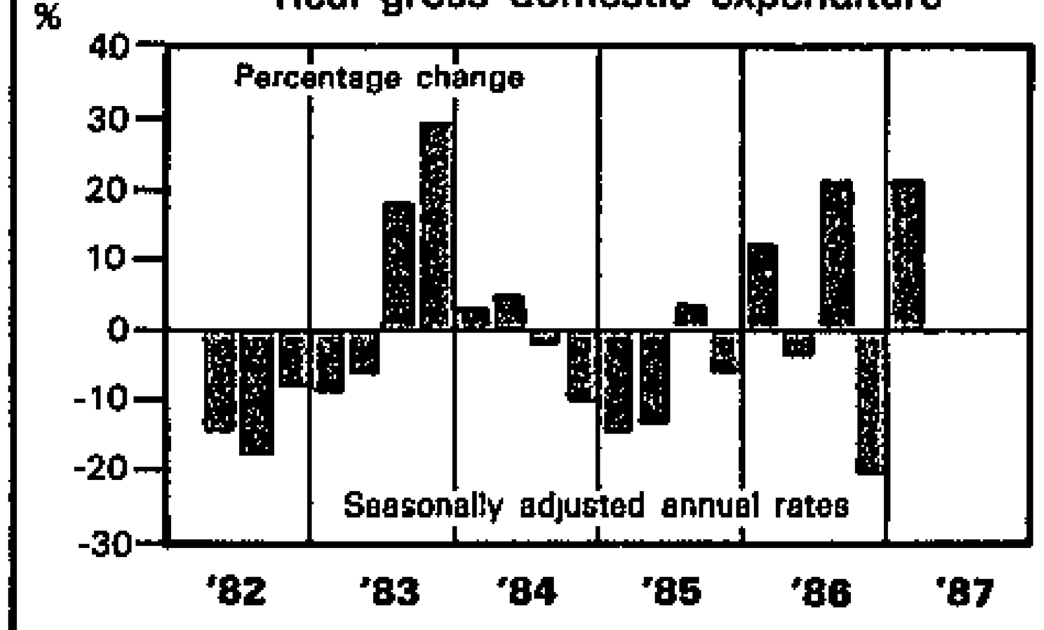
Certainly it won't be plain sailing. For instance, the "encouraging recovery in aggregate real gross domestic fixed investment (GDFI) in the second half of 1986 was not sustained" as public corporations and manufacturing industry further cut back capex (see page 42). No economy can generate sound and sustainable activity while its base is constantly being eroded.

Production capacity in private manufacture shrank further to levels as at the beginning of 1983. Mining and, to a lesser degree, residential building, recorded the major fixed investment increases.

Overall, growth has slowed from over an annualised 4,5% in the last half of 1986 to an annualised 3,25% in the first quarter of 1987. The non-primary producing sectors grew at an annual 5%. Output gains from four sectors (manufacturing, wholesale, retail, and motor trade), which accounted for some 45% of GDP in 1986, were partly offset by declines in agriculture and mining in the first quarter.

Slowly up

Real gross domestic expenditure



Source Reserve Bank Quarterly Bulletin

More starkly, Volkskas economist Adam Jacobs says that if government expenditure was removed from GDP, the 3,25% first quarter growth would be negative. "It is very serious when only government is contributing to real growth." He adds that for the first time government expenditure exceeded 30% of GDP. In 1981 the proportion was 21%.

After declining from 1986's first quarter R10,8 billion to R9,4 billion in the fourth quarter on an annualised basis, real government consumption expenditure rose sharply in the first quarter to R11,3 billion. This R2 billion increase is alarming, by any standards. The Bank says the drops in the previous three quarters "now appear to have represented postponements of such expenditure, rather than a shift to durably lower levels."

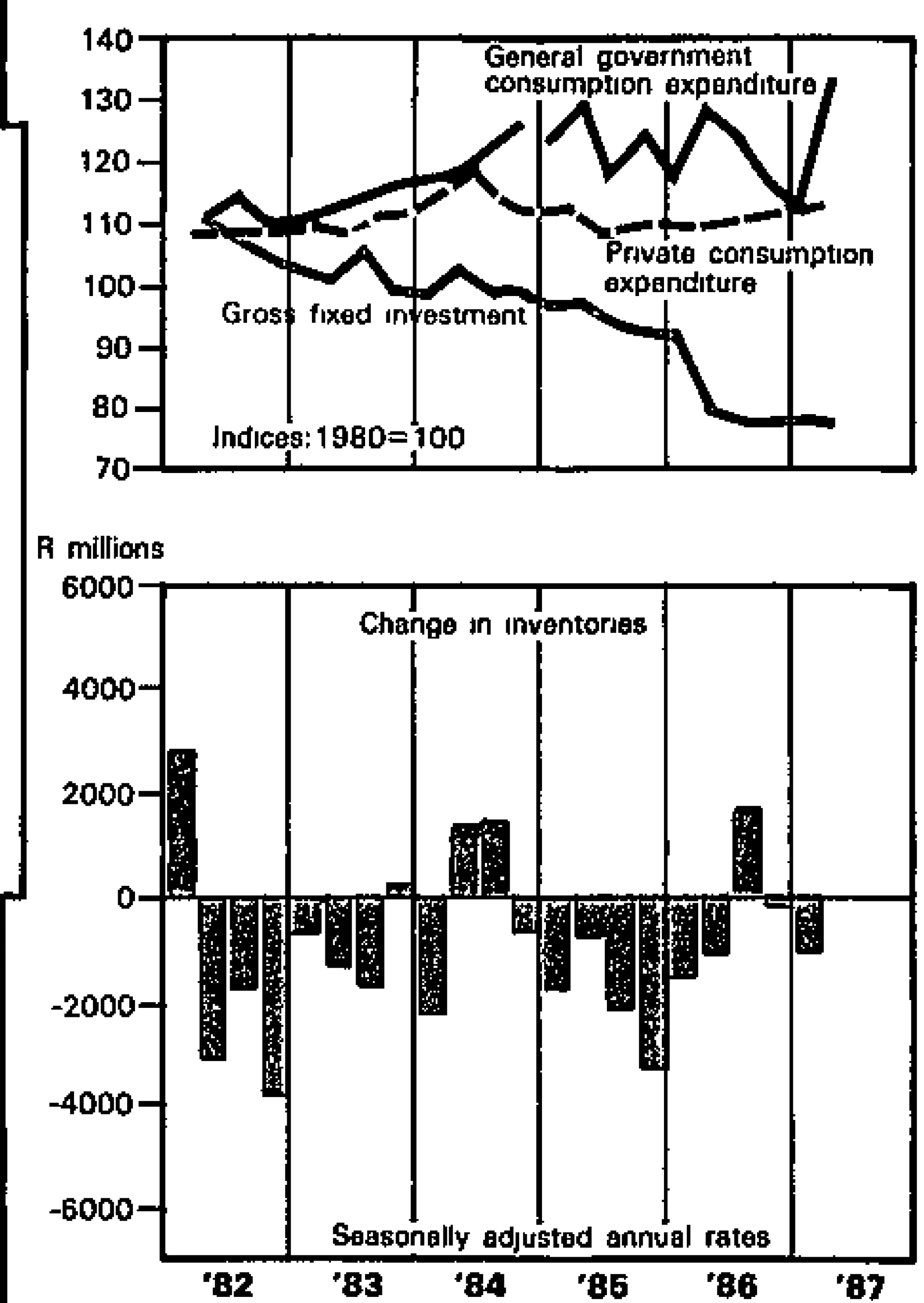
Nedbank economist Ted Osborne finds this "unacceptable. Something is wrong with such unadjusted figures on government spending. This has distorted GDP figures completely. One might say the estimates are statistical codswallop and patently unreliable."

On the other hand, private consumers felt natural market constraints on spending power. For example, the average real wage per worker dropped by 3,6% from 1985 to 1986; the fourth quarter on fourth quarter decline was 2%.

And the personal savings ratio is still "uncommonly" low. At 1,5% it is little changed from the latter half of 1986. The total gross domestic savings ratio fell to 22%. The Bank attributes this to government dissaving, limited rises in corporate and personal net savings, and small increases in allowances for capital consumption.

The 4,5% annualised increase in real private consumpton expenditure (PCE) stemmed from strong increases in spending on consumer durables, mainly cars, and to a lesser extent on semi-durables. This was facilitated by an annualised 3,5% rise in personal disposable income.

Main components of gross domestic expenditure



In 1986, PCE grew only 2% annualised in the fourth quarter. Its most recent peak was 4,5% in the second quarter of 1984.

In total, after falling sharply in the fourth quarter to an annualised R55,3 billion, real GDE (PCE, government consumption expenditure, GDFI, inventories and residual items) recovered to R58 billion (see graphs).

Inventory changes "did not make a positive contribution" to GDE with major cutbacks in the industrial and commercial sectors for the seventh consecutive quarter. ■

26/6/87

Sanlam warns about economy

(49) 6 Day

HELENA PATTEN

HIGH inflation and a shortage of qualified manpower and capital could seriously limit SA's long-term growth potential, says Sanlam in its latest economic survey.

It says if agricultural conditions do not deteriorate substantially, growth in real gross domestic product in 1987 is estimated to be 2,5% to 3%, compared with 0,7% in 1986.

Although, acknowledging an improvement in general economic activity since mid-1986, it says: "In our opinion the sustainability and firming of the upswing are being hampered by slow growth in foreign economies, leading to sluggish demand for SA's exports, higher spending by consumers unbolstered by an increase in real disposable income, and the fact that a considerable portion of the funds set aside during the past financial year for public sector capital projects, has not yet been spent."

Sanlam expects SA's import account to increase markedly in the next 12 to 18 months as the economic revival gains momentum. But owing to gold's good performance, the current account of the balance of payments is expected to continue to show relatively large surpluses during the rest of the year.

Predictions are cautious

(49)

WEEKLY MAIL REPORTER

THERE'S a cautious tone to the monthly economic reviews published by some of the financial institutions this week. The economic recovery which economists were hailing earlier this year is clearly rather fragile.

Sanlam's June *Economic Survey* says there has been an encouraging improvement in general economic activity since the middle of last year, but the economic recovery has not really got off the ground.

Sanlam forecasts a growth rate of between 2,5 and three percent for this year, and the Standard Bank's prediction is three percent.

But a three percent growth rate would hardly be cause for celebration, according to the June *Standard Bank Review*: "A background rate of economic growth which is lower than the rate of growth of the population inevitably produces rising unemployment, increasing poverty and steadily broadening economic misery."

26/6 – 2/7/87 W/Mail

PROFITS BENEFIT PEOPLE. A CORPORATE RESPONSIBILITY

Throughout the world, the International Freedom Foundation promotes and defends the concept of freedom.

We believe that peace and prosperity for all South Africans can only be achieved through the Free Market System.

Profit maximisation is an indispensible component of a free society, and is the key not only to the success of your company, but also to the economic success of South Africa and her people.

It is this economic fact of life that South African companies should seize upon with renewed enthusiasm. In order to achieve this, they must seriously consider the principles upon which a post-apartheid society should be built.

The Free Market System excludes both racial discrimination and revolutionary dictatorship, and is based on:

1. *universal franchise, giving every South African a say in deciding his own future;*
2. *the principle of limited government and the maximum decentralisation of political power, to reduce the tensions inherent in a power struggle between ethnic and racial groups;*
3. *constitutional guarantees to the right of life, liberty and property, protected by an independent judiciary;*
4. *a system which guarantees freedom of association and disassociation, ensuring neither domination of individuals nor groups of individuals;*
5. *privatisation and deregulation of the South African economy, to create prosperity, and equal opportunities for all;*
6. *a system of security which safeguards the individual's right to life, liberty and property;*
7. *an adequate defence capability to guarantee that the process of change in South Africa does not become the victim of violent revolution;*
8. *an independent foreign policy in which South Africa's interests are put first.*

(49) SIT 28/6/87

It is because profits benefit people, that South African companies must launch a Free Market crusade to put South Africa on the road to increased freedom and prosperity, thereby breaking out of the syndrome of "inevitable capitulation" to socialism and terrorism.
This is the most realistic strategy for peaceful and prosperous long term survival.

ISSUED IN THE INTEREST OF FREEDOM IN SOUTH AFRICA

LIBERTY SECURITY PROSPERITY

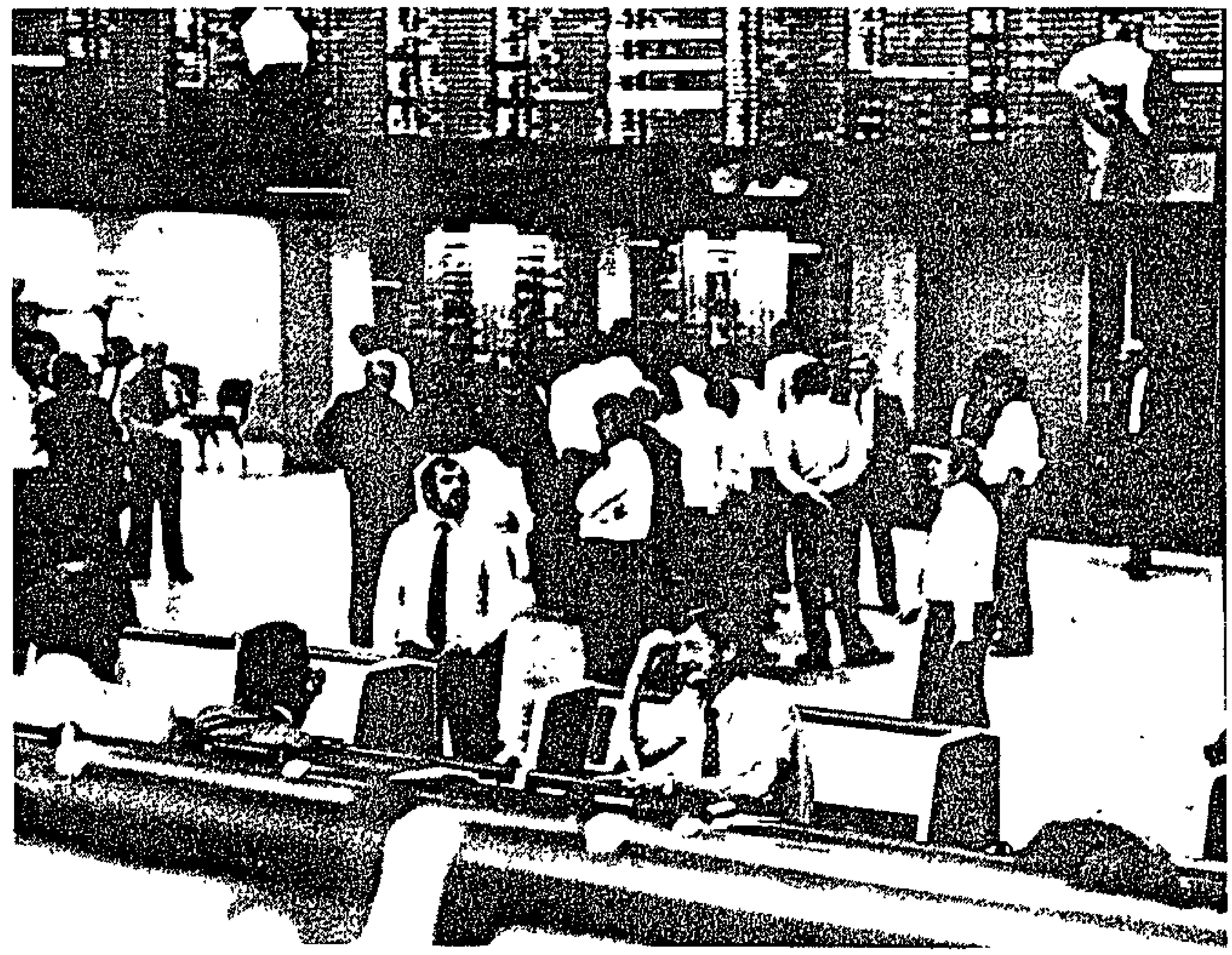
International Freedom Foundation

INTERNATIONAL FREEDOM FOUNDATION (SOUTHERN AFRICAN BRANCH), P.O. BOX 67926, BRYANSTON 2021.

The desirable face of capitalism and profit

(49) ST 28/6/87

By WARWICK DAVIES-WEBB, projects and research director, International Freedom Foundation (RSA)



Johannesburg Stock Exchange ... at the heart of free enterprise

THE concept of "corporate social responsibility" conjures up all sorts of moral obligations, suggesting that corporations, for some reason, owe it to society to involve themselves in a range of social welfare programmes.

It is a notion reinforced by the belief that redistributive policies, in whatever form, are the panacea for all of South Africa's socio-economic problems.

This welfare mentality, which is becoming increasingly prevalent and which is being increasingly reflected both in corporate thinking and action, is apparently symptomatic of a guilt complex to "soften" the "ugly face of capitalism" which their often misguided detractors accuse companies of representing.

Apartheid

Both on the left and the right of the political spectrum, companies are viewed with suspicion and hostility. The protagonists of welfare-socialism have been successful to some extent in instilling in companies a "guilt complex" that free-market capitalism is a vice to be equated with greed and every other form of venality.

The guilt complex is reinforced by the notion that "capitalism is synonymous with apartheid", a favourite cliche of Marxists. They try to label everyone to the right of themselves as collaborators with "the system of apartheid".

This idea persists despite the fact that free-market capitalism and apartheid by definition contradict each other, the former demanding a free and open society, and the latter a centralised form of bureaucratic control.

This emotional opinion, given publicity by certain sectors of the national media, has tended to confuse corporate thinking to such an extent that certain companies almost apologise for existing, and advocate greater Government intervention in what little open market SA enjoys in order to solve economic inequalities.

Moral basis

Some basic points should be stressed. Concerning the moral basis of capitalism, Paul Johnson, one of Britain's foremost historians, poses the question: "What social system is most conducive to developing the informed conscience which enables man's free will to make the right choice?"

The answer lies in free, capitalist societies where the individual, not than some higher authority, makes decisions as to what is in his or her best interests.

This form of economic emancipation, historically, according to Adam Smith, has allowed the individual to escape the grip of hierarchal society to one in which rewards depend on a freely negotiated contract, enabling the individual to realise the value of the only freehold property he possesses — his energy and his skills.

The manifestation of this system is the existence of profit, which is the reward received for satisfying the needs/demands of others.

Innovation

Profits are an indispensable component of a free society, the outcome of mutual transactions upon which both the buyers and sellers have agreed. They are also the reward for risk taking, encouraging innovation and progress.

More important, profit enables companies to continue expanding. It is a wealth-creating mechanism which helps to provide more jobs, increase standards of living and give consumers a greater range of products from which to choose. Profits have an effect far beyond the confines of the company, filtering through society and generating economic growth and prosperity for all.

In this way companies are providing for the well-being of society and should not be made to feel obliged to provide social-welfare orientated handouts. Naturally, this does not preclude companies from donating money to welfare charities or to community service organisations.

Implications

What should be avoided, however, are attempts to turn into coercive legislation codes of conduct such as the Sullivan Principles, as well as any other attempts that endeavour to legislate "employment standards" for companies.

Although this type of intervention in the open market may have limited success, it holds major long-term implications for both the economy and for employment opportunities. Were, for example, the Sullivan Principles to be turned into legislation, they would then be similar to other forms of legislation, such as minimum wage regulations, and would help to artificially cushion employees from individuals outside of companies who would be willing to provide their services at a lower remuneration.

Profit maximisation is the key not only to the success of a company, but to the economic success of a nation and its people. It is this economic fact of life that SA companies should size upon with renewed enthusiasm and sell to their employees and to the people.

If companies do have a social responsibility, it should be making conditions here conducive to ensuring their own long-term survival.

Collectivist

The key responsibility of SA companies should be to inculcate in their employees a sense of individualism to counter the collectivist mentality so prevalent in SA industry — and which is being fostered largely by a politicised trade-union movement. The radicalisation of the trade unions poses a serious threat to the continued operational stability of companies in SA, a threat which requires a vigorous counter-strategy.

Voluntary trade-union membership should be encouraged, as should the existence of many competing trade unions.

Furthermore, the privatisation and deregulation revolution which has caught on worldwide must be vigorously promoted by companies in SA. The Government must be lobbied to enhance the concept of "popular capitalism" that has been so successfully achieved in Britain.

As important, however, SA corporations should be supporting the concept of the "third option" for this country — a free-market capitalist society based on a system of individual rights which recognises freedom of association and dissociation. It is an option which precludes both statutory apartheid and the socialist totalitarian alternative.

Although the business community generally has rejected apartheid legislation, some corporate sectors show an unwillingness to reject another form of oppression — that represented by the ANC. It appears to be caused by a belief that one can "buy off" the revolution.

This dangerous and essentially naive view plays into the hands of hard-line ideologues who will only temporarily embrace business' overtures, offering vague promises of a "mixed economy" solution for SA as part of the transitional strategy in implementing a totalitarian Utopia.

Ironically, both apartheid purists and totalitarian Marxists are collectivist twins on opposite sides of the same coin. Both demand government intervention to entrench and protect a self-appointed elite under the pretext of enhacing the "common good". Both should be conclusively and vigorously rejected.

Two paths

SA companies owe it to themselves and the nation to break out of this syndrome of "inevitable capitulation" and should begin to boldly chart a new course.

SA must choose between one of two paths. The one promotes individual liberties (the third option); the other follows in the footsteps of the failed socialist economic policies that have trapped so many nations in a web of poverty and human degradation.

Will SA follow the trend sweeping South-East Asia, the United States and Western Europe — a phenomenon which is helping to make the Pacific Basin countries the new economic and financial power hub of the world; which has caused unemployment in the US to drop to its lowest this century; and which has poised Britain on the edge of an economic boom?

The answer lies, in many respects, in the hands of SA companies. It is up to them to help decide on which course SA will ultimately head.

The IFF is an organisation dedicated to the promotion of free-market capitalism and individual liberty throughout the world. In SA the IFF is encouraging the privatisation and deregulation of the economy based on the concept of limited government.

Domestic demand 'a major problem'

HELENA PATTEN

ONE of the major short-term economic problems in SA is a lack of domestic demand, says Federale chairman C J F Human in the company's annual report.

This was partly because of high levels of unemployment and inflation, and the authorities needed to stimulate the economy further to give it real momentum.

"The government has often in the past been accused of claiming too many resources for itself — resources which could be utilised more productively by the private sector.

"However, it is encouraging to observe that real consumer spending by the government declined generally for the second year in succession. The composition of the decline was of particular importance."

He says purchasing of goods and services declined by 8% in real terms, although the real wage and salary account for the first nine months of the fiscal year 1986/7 rose by 4%.

"Substantial reductions in government contracts adversely affected certain sectors in the economy, but the short-term disruption should be set off against the longer term tendency of saving on taxation."

● See Page 10

B Day 1/7/87 (49)

(49) B Day 2/7/87

Marc Swanepoel (right) who received the Free market Award from Reserve Bank Deputy Governor Jan Lombard

Picture: SUE FLOOD

Marxism 'will lead to conflict'

HELENA PATTEN

IF THE language of Marxism became the firmly held ideology of the masses in SA, a disastrous conflict situation would arise, Reserve Bank Deputy Governor Jan Lombard said yesterday at a function at which Marc Swanepoel received the annual Free Market award.

The award was in recognition of the video-aided training course he wrote to give blue-collar workers a better understanding of the function of business within a market economy.

Lombard said inward industrialisation could redistribute income more equally than anything the socialist theories of fiscal confiscation could come up with.

It could also save the SA economy from the secular stagnation that had beset its First World productive engine in the past decade or longer.

"The most important battlefields of the ideological war are not in Parliament but in the ghettos of South Africa. If the protagonists of the open society can somehow keep public opinion in the ghettos sufficiently interested in non-socialist ideas about the organisation of society and the role of government in it, a harmonious scenario for fiscal policy can emerge."

However, the pure free-market approach was probably not a practical proposition in SA for at least the next decade or two. The remaining alternative was pro-active involvement of government in a market-oriented strategy towards rapid inward industrialisation.

A wobbly route to economic recovery

WEEKLY MAIL REPORTER

THE latest Assocom Business Confidence Index indicates clearly that the economic recovery hailed at the beginning of this year is not a very strong one and that economic growth rates for this year may not even reach the three percent which economists have been predicting.

The Assocom index declined in June for the first time this year, although it was still substantially higher than a year ago.

The index reflects what businessmen are doing and experiencing in the marketplace. It is a composite of key economic indicators including the gold price and foreign exchange rates, imports, inflation, the Stock Exchange, interest rates, sales, insolvencies, unemployment, new companies and emigration.

Things looked particularly good for business, as reflected in the BCI, between February and April this year. The index went up by over four percent in the month of March, making it almost 13 percent higher than in the same month last year. Since then the index has not been improving very fast and in June it declined by almost four percent.

This "could be a strong signal that the three percent target economic growth rate for 1987 is in jeopardy", say Assocom's economists, adding that current trends imply a growth rate of two to 2,5 percent for the year as a whole.

The basic problem, they argue, is that real personal income is not growing. The average consumer is still in a difficult financial position, so that retail sales are not really rising. On the investment side, last year's increase in new capital spending has slowed down.

Assocom criticises government fiscal policy which, it argues, is partly to blame for the lack of sustained economic growth. Budgeted tax cuts have not been large enough and state spending has not been effective.

3-9/7 WMail 35 (49)

B/Day 3/7/87

De Kock praises economy

(44)

GRETA STEYN

THE SA economy had achieved remarkable balance of payments and foreign debt adjustment in the past two years, Reserve Bank Governor Gerhard de Kock said at an economic forum in Durban yesterday.

De Kock discussed possible reasons for the foreign debt crisis of 1985, as well as the economic performance after the dilemma.

Referring to the role played by commercial banks, he said though they could not be blamed for the crisis, "the facts now indicate clearly that there were serious deficiencies in the offshore operations of some banks".

"When the banks were suddenly denied adequate access to foreign credits, these cracks in the wall were exposed and complicated the handling of the overall debt situation."

The abolition of the financial rand and the Reserve Bank's "attractive" forward exchange rates at the time could also not be blamed. Rather, the problems were "rooted in deteriorating overseas perceptions of socio-political developments in SA, and were not caused by overborrowing."

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THE ECONOMY

The FCI wags a finger at damaging ideology

A document pointing to social reasons for our economic woes is no big deal. Unless the authors happen to be FCI economists

PROFESSOR P Haasbroek, chief economist of the Federated Chamber of Industries, calls himself a structural economist. He looks to the structure of the economy and at the actors in it for explanations of economic problems such as inflation.

The analysis is not a new one — Haasbroek acknowledges influences from Marx to Galbraith. But — coming from the FCI — it makes interesting reading.

In a recent FCI paper prepared at the request of the Economic Advisory Committee of the President's Council, Haasbroek argues the ultimate contribution the government could make to counteract the forces underlying inflation would be to scrap policies which serve political or ideological ends but waste scarce resources.

Other economic actors also feature in the FCI's analysis: large oligopolistic corporations which keep prices up by preventing free competition, businesses which demand protective tariffs or excessive returns on investments, workers and trade unions who demand wage increases which exceed productivity levels, white communities which expect greater welfare provision, and wasteful government bureaucrats.

The FCI document points to conflicting claims on the country's scarce resources as the basic cause of inflation in South Africa, although cyclical factors such as the exchange rate also have an effect on prices.

According to this analysis, inflation happens in an economy in which demands for resources are greater than production. South Africa is seen as having a "dualistic economic system" in which most of the wealth is produced in the "small but highly developed and prosperous core" which exists alongside a poverty-stricken periphery.

Such an economy is not peculiarly South African, but the FCI's analysis pinpoints the government/economy relationship as unique, noting "the tremendous claims on the country's wealth exerted by the military and police forces" and "the demand generated by an expansion of the public bureaucracy in terms of the policy of separate development".

It also points to wage and salary demands, the claims of the electorate for collective welfare services and of blacks for similar services, "the development needs of the backward communities" and the demands of farmers, industrialists and consumers as claims on the country's limited resources.

In a politically polarised society, the FCI's economists argue, "it would be extremely difficult to persuade the various interest groups to curb their demands. They all perceive that their competition for scarce resources amounts to a zero-sum game; what is gained by one group is lost by another".

All of this makes solutions to the inflation problem hard to find.

"Due to the conflict between different claims, a monetarist policy of control over the money supply would not be adequate to stop inflation," they argue.

The FCI calls on the government to act against inflation with a medium-term financial strategy but says it must also have a more general and long-term development strategy.

The government is restricted in its efforts to find a solution to inflation, in that some anti-inflationary strategies could result in increased unemployment and socio-political unrest. But the FCI says the government must act, and it must act in a credible way.

There is a widely-held perception that the government gains from inflation. A credible anti-inflationary strategy would involve tax adjustments and positive interest rates on government loans from the public.

The government should publish an anti-inflation strategy with clear objectives, and government departments should stick to expenditure guidelines or be taken to task, the FCI says. Wage and salary increases in the public sector should not be greater than the inflation rate and should be linked to productivity increases.

Increases in prices administered by government departments should not be greater than inflation.

These are some of the medium-term proposals. For the longer term, the FCI favours privatisation and deregulation as strategies for industrialisation. Costs and prices would be kept down by the increased free market competition which would result.

FCI director Steve Anderson acknowledges that the deregulation strategy does have problems for workers and for business (see Business in Profile, this page). But he feels these can be resolved by negotiation.

The FCI also calls on the government to diminish protection, "to ensure that businesses do not misuse the power they gain in the RSA's limited marketplace to distort the outcome of the free interplay of market forces". And it says the government should promote the growth of the productivity of the labour force by speeding up education and training programmes.

Business should be attacking the inflation problem too, says the FCI: "The shifting of costs on to consumers should be seen as anti-social behaviour." Business should save on costs and look for improved productivity and innovation.

Solving the inflation problem is vital if wealth is to be increased, the paper argues. If inflation decreased, funds for investment would go into building, construction and equipment instead of into unproductive "inflation hedges". There would be an incentive to save, so there would be more funds for investment in the economy. And inflation's effects in making the poor poorer while the rich get very rich would be minimised.

SA slides in world wealth stakes

South Africa drops in world wealth stakes

By DEREK TOMMEY
Finance Editor

THE World Bank had distressing news for all South Africans this week.

Its World Development Report published on Wednesday shows that South Africa, already a poor country by Western standards, is becoming even poorer.

The bank, the biggest international organisation concerned with economic development and progress, estimates that South Africa's wealth generation in 1985 was a mere $2 010 a head of the population.

The most shocking aspect of this figure is that it is 25 percent less than the $2 670 a head generated three years earlier.

While this sharp drop in South Africa's income reflects to some extent the change in the rand-dollar exchange rate, it none-the-less reflects a real and substantial reduction in living standards in this country, as many people are beginning to realise.

LARGE QUANTITIES

South Africa has to buy large quantities of manufactured goods and raw materials from overseas which have to be paid for in dollars.

The drop in the dollar income a head has meant that this country has had to cut its imports.

One dramatic effect of the drop in the country's income a head has been to reduce South Africans from 29th (in 1982) to 36th in the personal wealth stakes.

There are now 36 countries which, on average, have higher living standards — some substantially so — than South Africa.

This is intensifying the brain drain and making it difficult for South African companies to recruit ~~essential~~ staff from abroad.

The World Bank's figures also show that individual living standards in South Africa are being depressed by a strong increase in the amount of the country's resources being diverted to the Government.

It estimates that the Government's share of gross domestic product has risen from 9 percent in 1960 and 11 percent in 1965 and to 17 percent in 1985.

In contrast, the individual's share of the cake fell from 64 percent in 1960, and 62 percent in 1965 to 52 percent in 1985.

In Britain and Australia 60 percent of those two countries' GDP goes in private consumption, and in France and United States the figure is 65 percent.

This switch in resources in South Africa from the private sector to the Government reflects the increasing need to provide housing, health care and education for the country's rapidly growing black population.

It also seems that the problem is not too high a level of public spending, but too small a cake.

The World Bank's figures show there was one area where South Africa did well in 1985.

This was its generation of a current account surplus on the balance of payments of $2 615-million.

Only eight other countries — Venezuela, Spain, Britain, the Netherlands, West Germany, Japan, Norway and Switzerland — did as well or better.

In contrast, the United States ran up trade deficit of $117 750-million.

Overall, the figures show that South Africa has been far-

To Page 2.

World Wealth League

Income a head 1985 US dollars

South Africa	2 010
Poland	2 050
Yugoslavia	2 070
Mexico	2 080
Panama	2 100
Argentina	2 130
South Korea	2 150
Algeria	2 130
Venezuela	3 080
Greece	3 550
Israel	4 990
Trinidad	6 020
Hong Kong	6 320
Oman	6 730
Singapore	7 420
Spain	4 290
Ireland	4 850
Italy	6 520
New Zealand	7 010
Belgium	8 280
Britain	8 460
Austria	9 120
Netherlands	9 290
France	9 540
Australia	10 830
Finland	10 890
West Germany	10 940
Denmark	11 200
Japan	11 300
Sweden	11 890
Canada	13 680
Norway	14 370
Switzerland	16 370
United States	16 690
OIL PRODUCERS	
Libya	7 170
Saudi Arabia	8 850
Kuwait	14 480
UAE states	19 270

(49) Bday 6/7/87

EDUCATING THE MASSES

ECONOMIST Marc Swanepoel, winner of this year's Free Market Foundation award, said SA's future lies in educating the masses about the vital role of a free enterprise system.

The solution to SA's problems lies in diminishing the role of government in the lives of individuals. Deregulation, privitisation and devolution of power are all roads leading to such a solution, he said.

Swanepoel won for his efforts in developing "Justice for All," a programme available in five languages that explains the operation of a business within a market economy. It highlights the restraints under which businesses operate and gives employees new perspectives on their value as participants in the whole process. More than 500 000 people are expected to have completed the course by 1988.

In accepting the award last week, Swanepoel said: "South Africans are presently adrift in a sea of conflicting visions — all aimed at a new freedom. One of these visions — socialism — is luring a large part of our population into a dead-end street which can only result in false expectations and escalating violence."

Black South Africans cannot be blamed for despising free enterprise and for aspiring to socialism, because their experience of free enterprise in SA leaves them wanting, he said.

"For any black who has suffered the indiginities and insurmountable barriers of the present system, socialism is a very rational conclusion. It is important to realise that we do not have a free enterprise system in SA. At best, we have a system that selectively and arbitrarily distributes economic liberties to some fortunate individuals."

Most people see government as a gigantic provider of concessions, favours and benefits. The result is an enormous incentive to be in control of government. Hence, SA's political dilemma, said Swanepoel. "True free enterprise is a system where the citizens of a country can go about their business without fear of government intrusion in their lives. It is a just system that minimises conflict."

Bus. Day 8/7/87

Volkskas says inflation is increasing

49

A gloomy view of SA economy

GERALD REILLY

PRETORIA — Economic growth appears to be floundering and "incredibly" inflation seems to be on the increase, say Volkskas economists.

In the bank's Economic Spotlight, they say official economic policy and action has been geared to growth promotion.

There were natural forces at work which traditionally had a favourable impact on a high growth rate such as low interest rates.

Latest indications were that inflation was accelerating.

Inflation may dip

With the sluggish growth performance, the current absence of demand-pull, the weakness of fundamental cost-push forces, and the stronger rand, the expectation is that inflation will decrease.

But it appears that the CPI rise for May, seasonally adjusted and expressed at an annual rate, amounted to R18,7% — 15,2% in April — and excluding food and beverages, to 17,4% — 9% in April.

"In fact, it appears the inflation rate is accelerating over a wide range of products leading to the suspicion that the lowest point in the rise in the rate might already have been reached," they say.

Businessmen warned

The economists add that the troublesome question is the cause of the accelerating price spiral.

"In our present economic situation, we can come to no other conclusion than that increased profit margins in trade and industry are probably the major explanation," they say.

The economists warn trade and industry and businessmen to apply sustained growth in profit margins with extreme caution "in this climate of shaky economic recovery".

It appears the real gross domestic product could tend to lower levels, they add.

If this happens, it is doubtful whether the official growth target for 1987 will be attainable despite the expansionary character of the budget.

Profits greed hits economy

W/C ARGUS 11/7/87

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by TOM HOOD, Business Editor

PROFITEERING by businessmen could kill the country's economic recovery, say a major bank's economists.

Companies are already causing spiralling price-rises of most products and services by raising their profit margins, according to Volkskas's economists in the monthly review.

These companies were trying to recover profits lost in the recession by raising prices rather than going for higher productivity.

"We wish to issue a warning to trade and industry and to other businessmen to apply the sustained growth in profit margins with extreme caution, since this could further adversely affect business activities in this prevailing climate of shaky economic recovery," the economists said.

The review said this development came "at a most inopportune time and runs the risk of thwarting the entire momentum of the economic upswing".

Growth floundering

Latest trends indicated that economic growth was already floundering and the the country's growth rate would probably be only two percent, instead of the three percent target set by the Government.

Profit increases also raised the possibility of serving as an incentive to organised labour to bargain for higher wages.

"They would probably also succeed in obtaining higher wage increases, but we fear that in the prevailing climate this will only result in greater unemployment since businessmen will attempt to place severe restrictions on the increase in the total wage bill."

The inflation rate (18,7 percent for May) was accelerating over a wide range of products "leading to the suspicion that the lowest point in the rise of the inflation rate might already have been reached".

"In our present economic situation we can come to no other conclusion than that the increased profit margins in trade and industry are probably the major explanation for this phenomenon," the review said.

"Two ways"

Profit margins — profit as a percentage of capital — in industry plunged from 16,4 percent in 1982 to 8,2 percent in 1985 before recovering to 10,4 percent last year, Volkskas estimated. Profit margins in trade dropped from 10,9 to 6,9 percent last year.

"There are two ways in which profits can be increased. One is by price recovery and the other is to investigate and implement methods to step up productivity.

"Needless to say, much more can and must be achieved in the way of increased productivity. This matter will have to be addressed in earnest — now more than ever before."

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Sound world economy is vital

Relly: SA can't rely on gold to pull it through

LIZ ROUSE

A HIGH gold price cannot keep the South African ship afloat for long in a sea of economic troubles, says Anglo American Corp chairman Gavin Relly in his annual review.

A sound and prosperous world economy is vital to SA's long-term interests. Current international uncertainties are therefore of grave concern to SA.

Exports have declined in volume, although somewhat higher prices will help sustain SA's current-account surplus at a satisfactory figure.

A renewed gain in the gold price can be expected if international conditions worsen, but that would prove a mixed blessing for SA in time, warns Relly.

The sacrifices made since mid-1984 to effect the present turnaround on the current account more than justify the adoption of a growth-oriented policy.

Relly says the potential stimulus of the Budget, however, is not easy to assess, partly because the economy's response to the levers of policy — lower interest rates and increased government spending — has been impaired by the uncertainty that still hangs like a pall over the business scene.

Against this scenario, Relly argues that the mormal multiplier process will reassert itself once fiscal stimulation, "which will doubtless be larger than appears on the surface", begins to be felt.

Ultimately, long-term growth will depend on restoration of domestic and foreign confidence in SA, based on socio-economic and political factors.

Reviewing the past year's performance of Anglo group companies, Relly is satisfied with record profits achieved by some divisions and is optimistic about prospects in general.

Progress made in rationalising the operations of Freegold has fully justified the decision to create a single gold mining entity in the Free State.

Efforts have been concentrated on obtaining the most effective allocation of ore reserves among the 28 shafts and utilisation of plant capacity, resulting in an impressive containment of unit costs.

Anglo's exploration for gold has again been expanded and a number of interesting prospects, related to replacement of reserves for existing mines, are being investigated.

De Beers' prospects look good, seen against buoyant diamond sales in the first half of 1987. Substantially higher coal sales for power generation should partially offset Amcoal's lower exports.

Anglo's major industrial interests — Highveld Steel, Mondi Paper and AECI, achieved record results last year and Amic's overall results were satisfactory.

See Pages 8 and 15

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Socio-political factors aside ...

SA looks set for 'vigorous growth'

GRETA STEYN

THE impediments to vigorous economic growth in SA were socio-political, Stellenbosch University's Bureau for Economic Research said in its latest Economic Prospects.

It said all the traditional determinants of growth were in place.

"The picture which we now expect to emerge during the next 18 months differs substantially from the pattern in the earlier part of the 1980s."

It also stressed that "confidence levels" were of the utmost importance in keeping the economy going.

The BER said the outlook for gold was bullish and the metal should average $445 this year and $490 during 1988.

This would result in an average dollar/rand exchange rate of 48,5c for this year, as "the exchange rate has been shadowing the gold price".

Thus net gold exports were expected to increase. By contrast, merchandise export growth would be constrained by sanctions and a probable slow-down in OECD trade. However, exports should still perform satisfactorily because of the envisaged higher net gold exports.

Imports should grow faster than exports over the next 15 months, mainly because of strong growth in domestic expenditure. This would exert downward pressure on the current account, which should show an annualised R4,7bn surplus during the first half of 1988.

In 1988, the rand was expected to be allowed continued depreciation against the dollar to protect the current account.

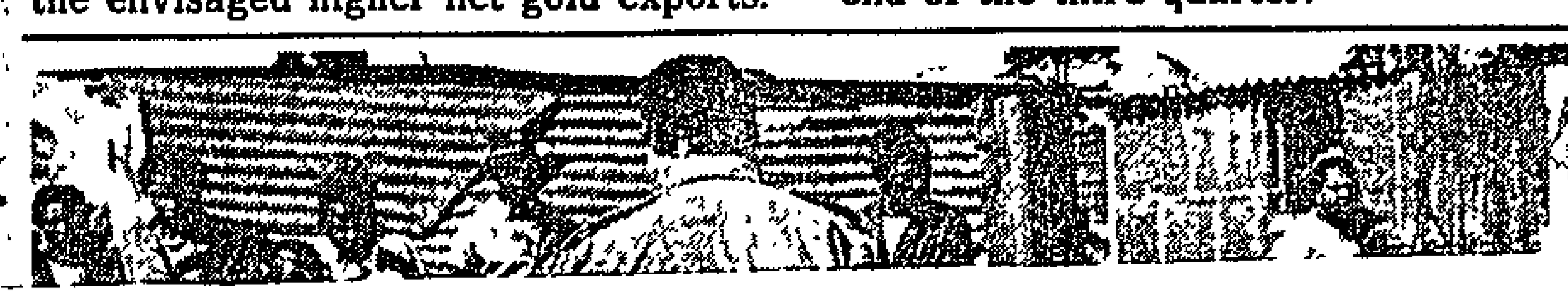
The BER warned that if export volumes remained low while imports increased sharply, the duration of the upswing could be short-lived. However, projections indicated that the upswing should last until the early part of 1989.

An increase in private consumption expenditure was also forecast, provided confidence levels were satisfactory.

Other developments envisaged by the BER were:

☐ A drop in the inflation rate to 14,4% at the end of this year and 13,2% at the end of the third quarter of 1988.

☐ An increase in short-term interest rates next year with prime at 13% by the end of the third quarter.



ARGUS 16/7/87 (49)

Economic reform first, says Sanlam chairman

Staff Reporter

ECONOMIC reform should be given priority over political reform and the only way this could be done was for the business sector and the Government to join forces, according to Dr Fred du Plessis, chairman of Sanlam.

Opening the annual meeting of the Federasie van Afrikaanse Kultuurverenigings (FAK) in Cape Town yesterday, Dr du Plessis said it was essential to give black South Africans a fair chance to help themselves to a larger part of the wealth of South Africa.

He said freedom meant nothing if the material position of those who aspired to freedom did not improve.

The alternative was the redistribution of wealth by taking from those who had and giving it to those who did not have, which would lead to revolution and a dictatorship.

Need for initiative

South Africa was unique in the sense that it contained two dominant civilisations, both of which had a historic right to exist, but sought to survive by striving to dominate the other.

The solution was for Afrikaans businessmen to take the initiative in finding a way to adapt the economic system to suit a multicultural society, to shape the various cultures and to influence the basic systems of value.

New civilisation

This should be done to make the third and first-world elements overlap as much as possible without letting the first-world element degenerate into the poverty of the third-world element.

A new civilisation would then be created.

Dr du Plessis said Afrikaans businessmen were in the position to take the initiative because they had a long, intense exposure to the multicultural society which started when their ancestors created a society of their own. They realised their success would depend on their own initiative and creativity and history had shown Afrikaners could unite at a time of crisis, and Afrikaners were in power.

ARGUS 16/7/87 (49)

Will 'new capitalism' eclipse the ANC?

PERHAPS the most important message conveyed to the ANC this week came not from the 54 white South Africans who have been talking to the organisation for the past few days — useful as their endeavour undoubtedly has been — but from a bespectacled businessman in Johannesburg.

The message, simply, was that the socialist (some would say Marxist) ideological outlook of the ANC is either going to have to change in the direction of an accommodation with capitalism, or the organisation is going to run the very real risk of being outmanouevred and eclipsed inside South Africa.

The very idea is startling, even revolutionary, though it was not conveyed in such terms by Gavin Relly, chairman of Anglo American, when he explained almost blandly why the country's largest company had decided to give shares to its workers — more than 250 000 of whom are black.

"In South Africa," he said, "the wealth-creating processes of the First World must arrive at a durable synthesis with the needs and aspirations of the Third World."

He added: "This view is surely consistent with the world trend away from centralist socialism on the one hand and rigorous capitalism on the other, to something in-between, founded not on ideology but on pragmatism and deriving its strength from the fact that it seems to work."

As Mikhail Gorbachev has shown in the Soviet Union, (and his counterparts in China even more enthusiastically) there is a fundamental move away from the sort of socialist and Marxist dogma of the 1950s, which was the ideological midwife of the modern ANC and in which the movement (and so many other African liberation movements) remain mired.

And as the United States, Western Europe and Japan have shown, the trend towards giving workers a major (sometimes even a majority) stake in the enterprises they work for, has created anew economic phenomenon, loosely termed "participatory capitalism", in which the shop stewards of yesteryear have been replaced by workers in the board rooms.

Unavoidable lead

No doubt some would argue that simply giving 230 000 people out of 27-million a few shares in Anglo is not going to deflect the ANC (and PAC) from sticking inflexibly to the doctrines which seemed eternal truths when the Freedom Charter was drawn up.

But the fact is that Anglo was far from being the first South African company to move in this direction. Pik 'n-Pay, for instance, and several others, did so a while ago. Many more are known to be thinking along these lines and Anglo's lead will make the same sort of move unavoidable for many others.

Several multi-nationals,

ISSUES

By Hugh Roberton

like Ford, which have pulled out as a result of sanctions pressure, ironically have made the sale of shares to black workers a feature of their withdrawal.

So, we are looking at a potential black middle class of many millions who would be shareholders, homeowners, car owners, company directors and managers — many millions who would not look benignly upon an ideology which everywhere else in the world has failed.

But will it ever be possible for the "haves" of the black community to outweight the "have-nots"; will the "have-nots" not always be in the majority and, therefore, be more likely to support the 1950s socialism still purveyed by the ANC?

Dynamic changes

Very probably, but assuming that an ANC government came to power on the wings of such a "have-not" majority, could it afford the risk of a showdown with the "haves", who would have the wealth, expertise, and the power to make or break their rule?

Would it not make a lot more sense for the ANC to recognise the dynamic changes taking place within socialism and capitalism, and seek an alliance with the "haves" — including, perhaps, a far greater number of influential white "haves" who might then feel less threatened than they do by the concept of black majority government?

Knowing a number of the ANC's decision-makers, I would hazard a guess that their response to the "new capitalism" will be flexible, more especially when the "new capitalism" itself comes into conflict — as inevitably it must — with apartheid.

Apartheid, in fact, is the grand loser in the economic strategy outlined by Mr Relly because, ironically, it is rooted in an economy with many of the embellishments of old-style Marxism, such as centralised and official price fixing and production controls, state ownership of key industries, state control over industrial development and planning, a bureaucracy which is comically obese and inefficient, and many other features which Mikhail Gorbachev is trying so hard to eliminate from his economy.

What seems most likely to evolve as blacks climb the "new capitalism" ladder of wealth (and, therefore, power), is a society whose unity is found on levels never previously explored in South Africa; a society where race will not be the deciding factor in drawing people together, where other shared interests will predominate.

(49)

THE ECONOMY

From a burst of steam to a puffing and wheezing

The bad economic news is that the figures are tailing off. The good news is that things are better than last year. By DUNCAN INNES

A RECENT spate of figures suggests that the mild economic upswing which we have been experiencing over the past year may be losing some of its steam.

The Business Confidence Index fell for the first time this year; fixed investment remains in the doldrums; some economic sectors are experiencing little, if any, real growth; interest rates may be rising; export volumes are falling while imports are rising and inflation remains high.

However, on the plus side there are the following points to consider: The BCI is still 16 percent above the figure for this time last year; the motor industry — which is considered an important barometer of the economy — produced record sales in June, reaching a 19-month high; export prices, as opposed to volumes, have been rising which means there is still a substantial surplus on the current account of the balance of payments; inflation looks set to decline slightly; and increased wage and salary payments in the private and public sectors are likely to provide some stimulus to consumer spending.

All this means, despite the recent splutter, the economy remains on course to reach the two to three percent annual growth rate target which I forecast at the end of last year.

While a growth rate of this small size, coming as it does on top of an even smaller rate of 0,7 percent for 1986, is nowhere near sufficient to provide new jobs for our growing population, it does imply that the economy is clambering out of the trough of the recession it has been locked in since 1984. If the Stellenbosch Bureau for Economic Research is to be believed we can expect the current upswing to last through 1988 and into the early part of 1989.

But the important question is: How successful is this upswing likely to be in generating the wealth and opportunities which are so necessary to improve living standards?

Since 1975 the economy has grown at an average annual rate of just two percent, while the average annual population growth rate has been about 2,8 percent. You don't need to be a mathematical genius to know that under these conditions the economy cannot meet the job needs of the population. In order to even begin to meet such needs the economy will have to grow substantially faster than its current rate. But can it do so?

The main problem the economy faces is of a structural kind which is not uncommon among other Third World countries. In order to expand, our economy needs to develop a substantial surplus on the current account of the balance of payments. This is done primarily by increasing our export earnings and by attracting foreign investment.

The reason we need this is, as our economy picks up so our import bill rises due partly to an increase in consumer buying of imported commodities and, more important, increased investment spending. This latter phenomenon has its origins in the relative technological backwardness which characterises our economy along with those of most other Third World countries.

As a result of that backwardness we have to import a substantial proportion of both the capital and intermediate goods upon which the economy relies to expand. With imports of these goods constituting between them about 80 percent of our total imports it is easy to see how any major increase in investment spending will send our import bill soaring.

If we do not have — and are not continuing to generate — large export earnings, then our import bill rapidly overtakes our exports and the authorities have to put the brakes on to prevent the economy going bankrupt. This in turn forces us into recession.

As far as the present upswing is concerned a number of factors are pertinent. First, the tendency towards disinvestment is restricting the volume of capital which is entering the country, while trade sanctions are reducing the volume of our exports. Both these factors inhibit our foreign exchange earnings.

Secondly, although we do currently have a large surplus on our balance of payments, not all of that is available to finance growth: A portion has to go on servicing our foreign debt.

Thus, given these limitations, if investment picks up significantly and imports soar our surplus on the balance of payments will disappear even more rapidly than usual, which means we will be back in recession before you can say "sanctions can't hurt us".

However, the "good" news is that the form of investment described above is unlikely to materialise, partly because foreign companies are investing less and partly because of political uncertainty. Instead, local companies are either investing on the stock exchange or pouring money into taking over the foreign companiew which are heading off into the sunset. Over the last couple of weeks Anglo America got Citicorp and most of Ford; Rembrandt got part of Consolidated Gold Fields; and South African Breweries got Lion Match.

But while all this may be very nice for the companies concerned it is cold comfort for the economy as a whole. These takeovers do nothing to promote economic growth and create new jobs, though they do prevent huge job losses. But so long as the trough in fixed investment persists the economy cannot enter into a significant upswing.

All this means unemployment levels can be expected to continue to rise well beyond their present levels of 3,3 million.

THE ECONOMY (49)

Brighter outlook

Since the start of the Eighties, personal income (adjusted for inflation, direct taxes and population growth) has declined 3% annually, according to the latest *Economic Prospects* by the University of Stellenbosch's Bureau for Economic Research (BER).

Real private consumption expenditure (PCE) grew 6,5% in 1981 but fell 3,8% in 1985, with average yearly growth of 1,75%.

FM 17/7/87

"On a per capita basis, consumer spending thus declined in real terms at about 0,7% a year."

What is the outlook for consumption?

Spending in recent months has been financed mainly out of personal savings, reducing the ratio of savings and potential for future spending. Despite this, BER predicts an immediate improvement in consumer confidence, bolstered by an increase in real disposable income in the second half-year, as well as lower inflation.

As long as no political developments "have a negative effect on confidence", BER forecasts that 0,3% growth in PCE during 1986 will increase to 3,2% in 1987 and 4,2% in the first three quarters of 1988. But, while immediate prospects are reasonable, BER is concerned at the level of fixed investment.

"Without new investment, few jobs will be created and 3,6% growth (in the first quarter) in GDP has little long-term meaning to the man in the street."

Since the start of the Eighties, aggregate new fixed investment has declined an average 4% a year, while unemployment increased 30,4% a year. However, decline may have been arrested at the end of 1986. On the first-quarter figures, BER forecasts growth in the second half of 1987 of 5,2%, followed by 6,6% in the first half of 1988.

But this has to be seen in perspective. BER points out that gross domestic fixed investment at end-1986 was 27% below its 1981 peak. Even a relatively small absolute change will show up as a large percentage. ■

Economic upswing comes under pressure

SVEN LUNSCHE

Is the economic upswing running out of steam already?

Certainly the euphoric predictions made by economists and government spokesmen towards the end of last year have made way for more reserved judgements about the potential for economic growth this year.

"The mild upturn experienced in the second half of 1986 and early 1987 already appears to be faltering, and a three percent growth rate looks unattainable," is the typical guarded statement emerging from analysts, in this case the economists at the Econometrix research unit.

While it is certainly too early to talk of a renewed downward trend, it is obvious that the rapid growth rates achieved in the second half of 1986 will not be repeated in 1987.

The statistics tell the story. Revised estimates by the Central Statistical Service show that real Gross Domestic Product (GDP) at factor costs increased at an annual rate of only two percent in the first quarter of 1987.

Translated into real market prices this makes for GDP growth of at most 2,7 percent.

NO EVIDENCE

Only last month the Reserve Bank estimated this figure to have advanced at an annual rate of about 3,25 percent, a difference of more than 0,5 percent.

The head of Central Statistics, Dr Treurnicht du Toit, explains: "We did our calculations at a later date and our estimates are therefore more detailed. From a purely statistical point of view, however, there is no evidence that the economic upswing is about to be reverted."

The Reserve Bank towed the same line. A spokesman said: "Our estimates were just provisional. Central Statistics have more sources available and they issue their figures at a much later stage then we do. The difference is quite normal and does not indicate a change in the economic scenario."

But both sources admitted that the decline in GDP is evidence of slightly slower growth.

In a comment accompanying the release of the GDP figures, Central Statistics wrote: "The revised estimates confirm that the upward trend in the economy has slackened notably in the first quarter of 1987, eased over the last year, has intensified slightly during the second quarter of 1987."

But the decrease in production activities in the manufacturing industry, as witnessed by the sharp depletion in inventory levels and the slowdown in fixed investments, has one positive feature — namely that there is still scope for major improvement in this sector.

Many economists feel that against the background of high taxation rates and soaring inflation, consumer demand cannot improve much further and that the initiative must now be taken by the industrial sector.

"The problem is no longer one of deficiency of demand, but one of structural factors which inhibit individuals' and the economy's ability to respond to opportunities in productive ways," said Standard Bank in a recent economic review.

"Removing such constraints cannot happen overnight, but action which is urgently needed involves the lowering of tax rates, introducing a simpler and fairer tax system, and removing the red tape inhibiting entrepreneurship," the bank added.

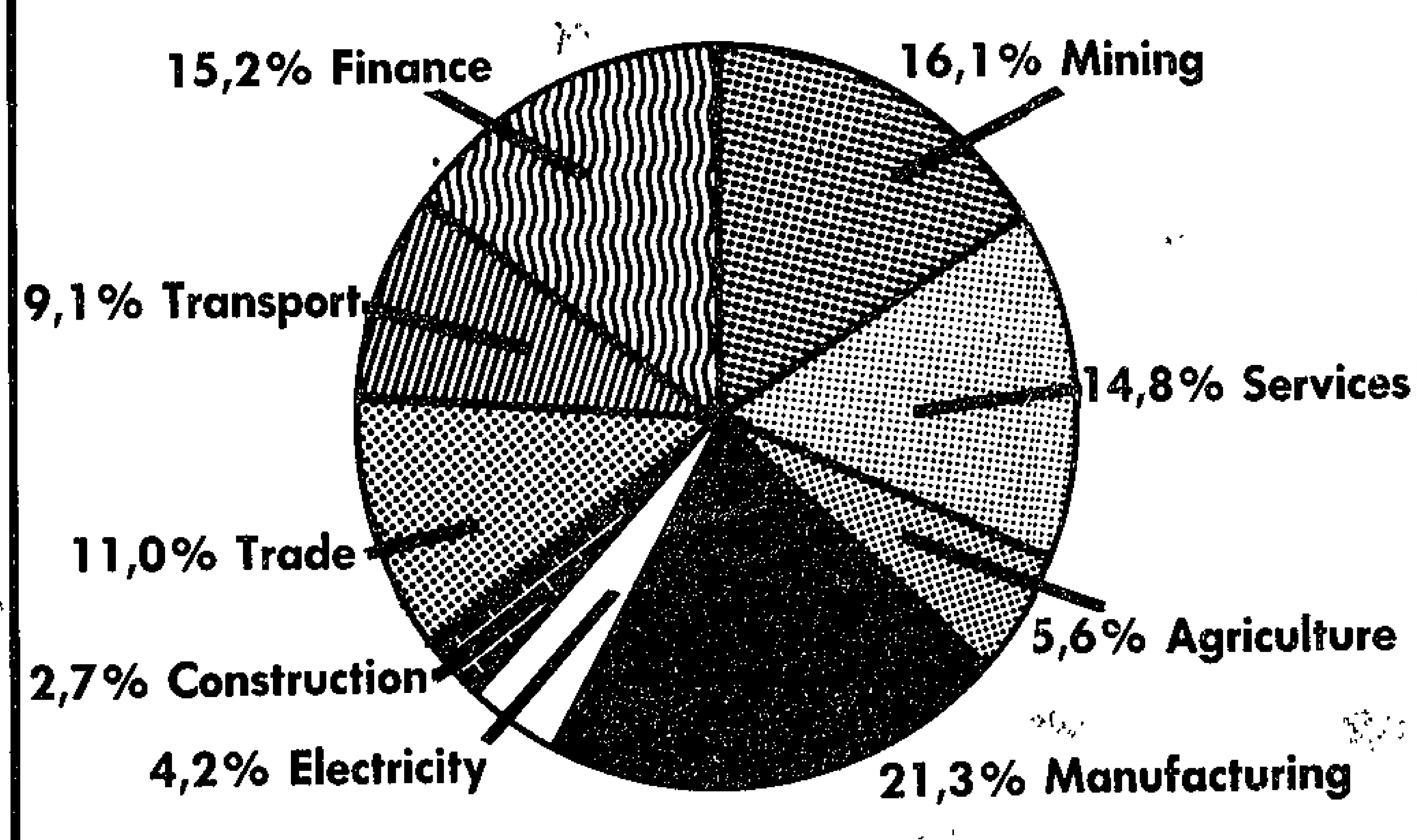
This might seem like a tall order, but most analysts believe that the economy, with the necessary backing of the monetary authorities, can overcome these problems.

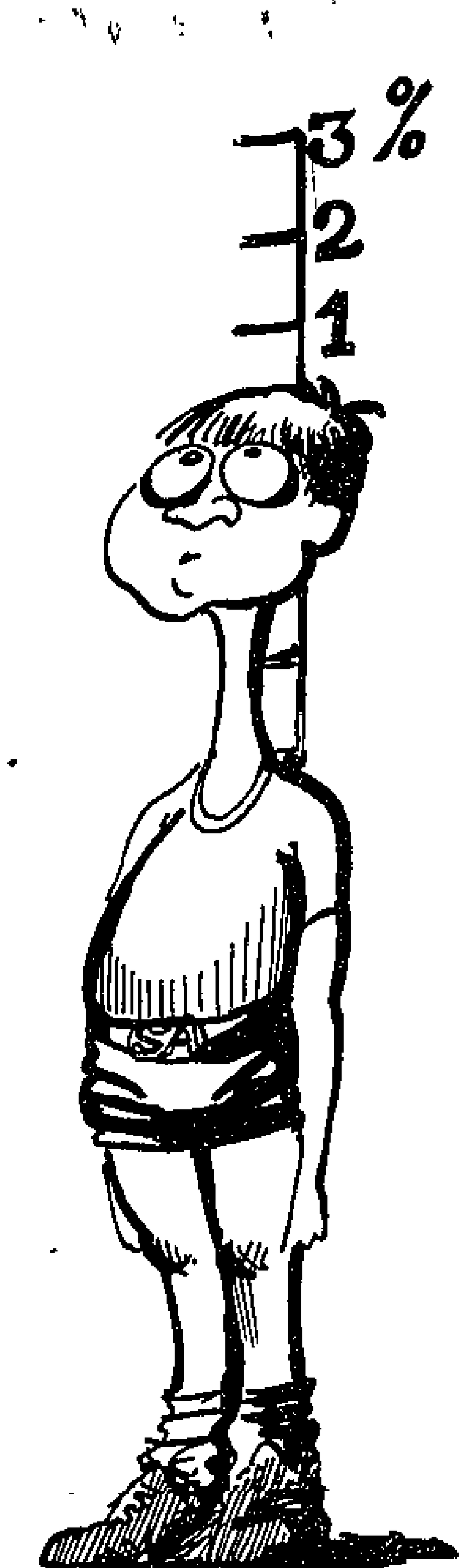
"An upturn in both inventory levels and fixed investment is possible, and this could boost emploment levels substantially," says Simpson McKie's economist John Banos.

Others point to the turnaround in the current account of the balance of payments, now in its tenth consecutive quarterly surplus, and the stong level of gold and foreign exchange reserves, both of which allow the government greater leeway in boosting the local infrastructure.

But, as Liberty Life points out in a recent review: "Unless a serious attempt is made to tackle the structural problems — high inflation, unfair taxation structure and the rising share of public sector spending — the true growth potential of the country will not be realised."

Sectoral contribution to GDP 1986





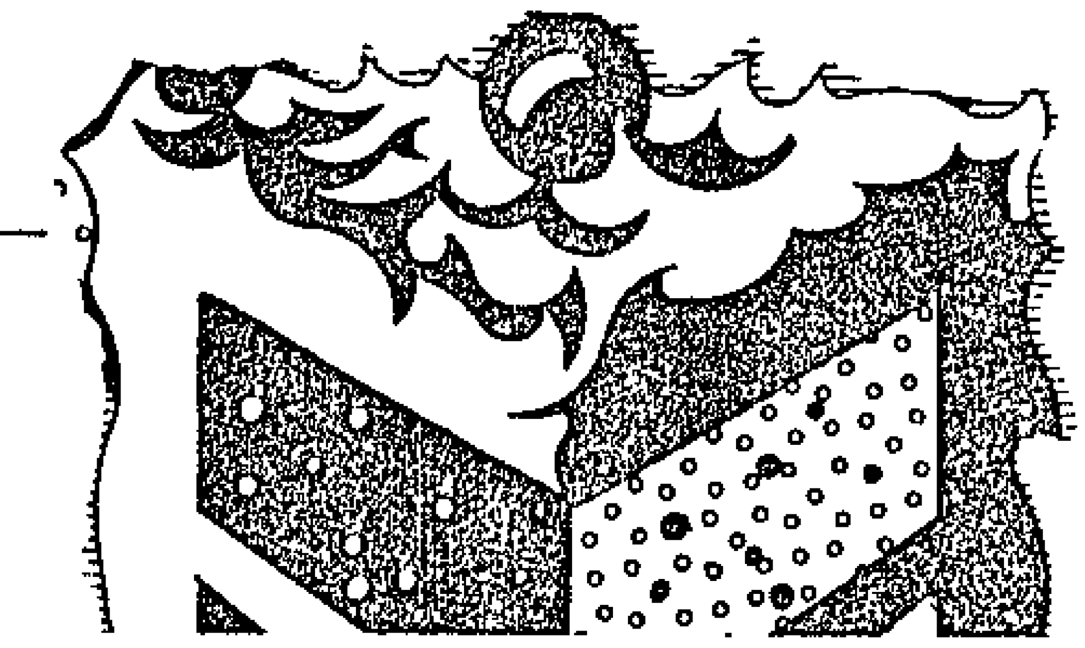
NEGATIVE GROWTH

An analysis of the GDP figures shows that the primary sectors of the economy are the only ones still showing negative growth. The sectoral contribution of the mining sector to GDP declined from 22 percent in 1980 to 16,1 percent last year, while the effect of the drought is clearly seen in agriculture's sharp 1,4 percent decline to 5,6 percent last year.

But the most worrisome feature has been the negative growth rate of the manufacturing industry. It had been the mainstay of the upswing last year, as witnessed by a 9,3 percent increase in its GDP growth rate. However, according to the Central Statistics, this figure dropped to two percent in the first quarter of 1987.

The Bureau for Economic Research at Stellenbosch University (BER) in a recent study on the manufacturing sector summarised these developments: "Insufficient demand is a major constraint and, after having

FOR BLACKS — A slice of the WEALTH CAKE



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THE people who bake the South African economic cake have long known they cannot keep most of it for whites indefinitely. Unless blacks get a fair slice there will be no cake at all. Now the giants of the business community are initiating a mini-revolution to ensure wealth is spread more evenly... thereby enlisting support for a system which pays dividends to everybody.

by JOHN MacLENNAN, Political Staff

MANY blacks are being offered a dip into a bonanza of profits which has so far — with few exceptions — eluded them. And when they do (there's seems to be no "if" about this) they will gain an economic stake to match the predicted rewards of the political reform efforts now being pushed by the Government.

The new deal mooted this week by leaders of both the English and Afrikaans business establishments would see blacks acquiring cash clout, corporate loyalty and homes. Blacks have mainly been barred from our well of wealth before, but those interviewed are now all convinced that sharing is one of the main ways to ensure not only survival in a stable country, but unknown prosperity in the future.

In developments of the past few days:

- Mr Gavin Relly, of Anglo American, has announced plans to offer shares to black mineworkers;
- Dr Fred Du Plessis, of Sanlam, has called for new opportunities so blacks can improve their economic lot;
- And Mr Raymond Ackerman, of Pick 'n Pay, whose group is already operating a staff profit-sharing scheme, has said he sees the sharing of wealth as one of the prime factors to ensure the country does not collapse into chaos.

At the same time, the massive Putco bus company, long a target for stones and petrol bombs in township unrest as a symbol of capitalist oppression, is now subject of a takeover bid by black taxi owners.

So far there is no indication how the taxi drivers hope to pay for the vast enterprise other than one report which said they would be backed by "private enterprise". The offer only needs Government approval and already industry analysts are pointing to the obvious: blacks are unlikely to burn buses belonging to blacks.

Anglo is refusing to say another word since the announcement in Chairman Relly's annual report because the nuts and bolts of the scheme for worker shares are still being adjusted. Nor will the conglomerate even say anything in general about the wisdom of such a move, possibly in view of the hard fact that it is going to cost investors money in the short term.

Mr Relly's views made headlines with the assertion that workers should not only own homes but have a direct stake in the businesses in which they are employed.

"This view is surely consistent with the world trend away from centralist socialism on the one hand and rigorous capitalism on the other, to something in between, founded not on ideology but on pragmatism and deriving its strength from the fact that it is seen to work."

THE idea of a new society is shared by Sanlam's Dr Du Plessis, who this week spoke of a "new civilisation" binding all to loyalty to a society which held out the reward — among others — of commonly shared lucre.

"We must find a way," he told the Federation of Afrikaans Cultural Organisations, "for the people of the Third World in our community to find and exploit, through their own efforts, the opportunity to enjoy a larger slice of the wealth-cake

"It will mean that the economic system will have to be adapted to the multi-cultural society in which we live... it will also mean there will have to be modifications to the various cultures in order to influence the basic value systems in such a manner that the possibility of enlarging the welfare of the community, and thus to share more equally, really will exist."

He told Weekend Argus a primary responsibility and opportunity for this lay with the Afrikaner businessman because of his experience in forming a new culture and closer connections with Government than his English-speaking colleague.

"If the Government will accept the Afrikaner businessman's bona fides it will lead to more fundamental reforms and a better economic system"

He has in mind a compromise in First and Third World standards and traditions. In the immediate future this will mean whites will have to drop their standards for the greater good (for example more money will be spent on projects benefiting blacks than on what he terms our luxury road system, and hospitals will not be built to become white elephants because there is nobody to fill them).

The bottom line, however, is that blacks must enabled to generate risk capital for own use - he sees the Government and the private sector . operating on this

THE Economic Advisory Council has alr- made submissions and he expects the Gover ment to provide a response in the very near fu:

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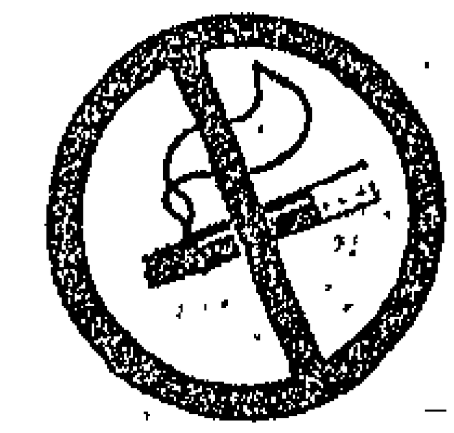
He said such a scheme could only be success if workers were paid good salaries. "If they're - . . forget it" After that stage it was imperative offer a share in both the wealth of the comp and the country

For these schemes to work it was vitally im- tant for the Government to change the perks re- lations, which taxes both the loans made avail- to workers to buy "in" and the benefits which - crue to them

Smoking out the sign-sticker . . Or the man who hides his light under a bureaucratic bushel



by BRUCE CAMERON, Political Staff

SOUTH Africa has come some way in sign language since the days of "Moenie Spoeg Nie" and "Whites Only."

In lift foyers of the 18-story H F Verwoerd ministerial building in Cape Town very diplomatic signs have been put up asking people not to smoke.

Instead of saying "Don't smoke or you will go up in smoke" they read "Your contribution towards a smoke-free environment will be appreciated."

But the person responsible is keeping a low profile — either because he knows almost half the Cabinet smoke or because the language is just too polite to be acceptable.

Or maybe he was just a militant anti-smoker with money to spend and who knows how bureaucracy works or in this case doesn't work.

Minister of Health Dr Willie van Niekerk is firmly opposed to smoking but a spokesman his Department although, clearly pleased, de nied responsibility.

He suggested Public Works. "They are re sponsible for the building."

A spokesman for Public Works said: "We don't like signs in the building. We think per mission was given for this sign, but the whom we think gave permission is away - leave.

"I think it was the Department of Environ mental Affairs."

"Oh no," said Environmental Affairs, "It wasn't us, try National Health."

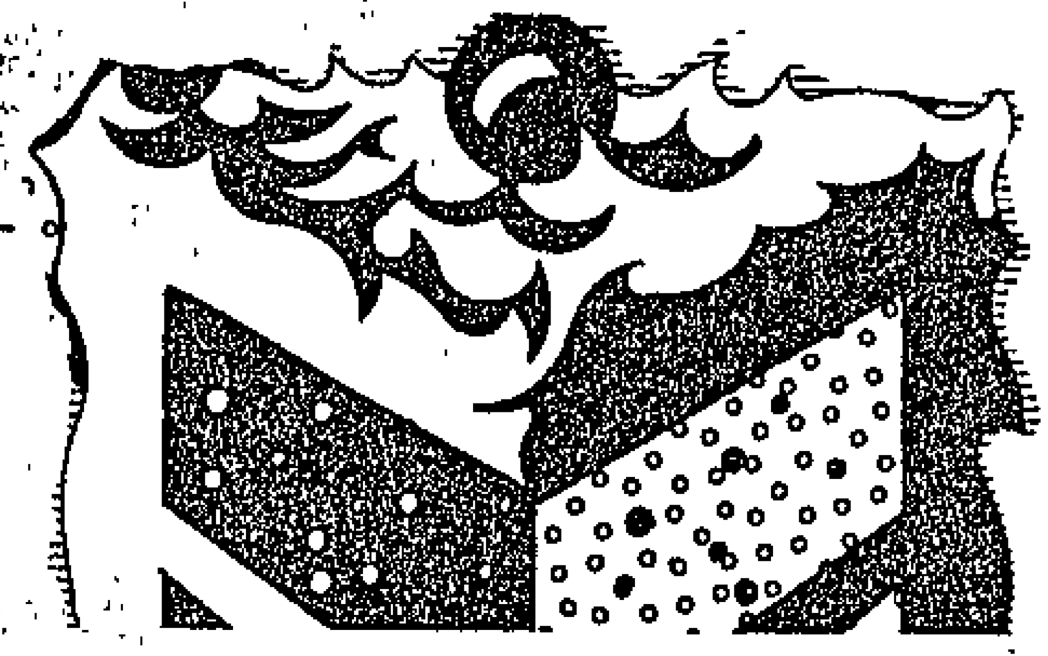
Talk about bureaucracy.

And finally a wag on the Environmental fl has given up sticking cigarettes with a small sign on the wall, saying "In case of emergency.

Some hard-up smoker keeps stealing the cigarette

WEEKEND FOCUS

A slice



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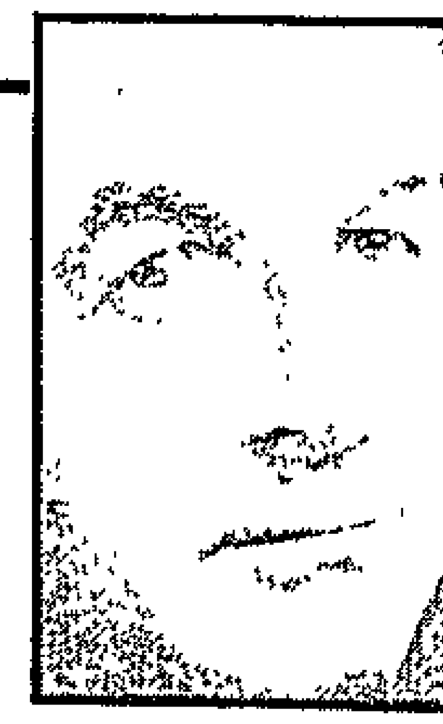
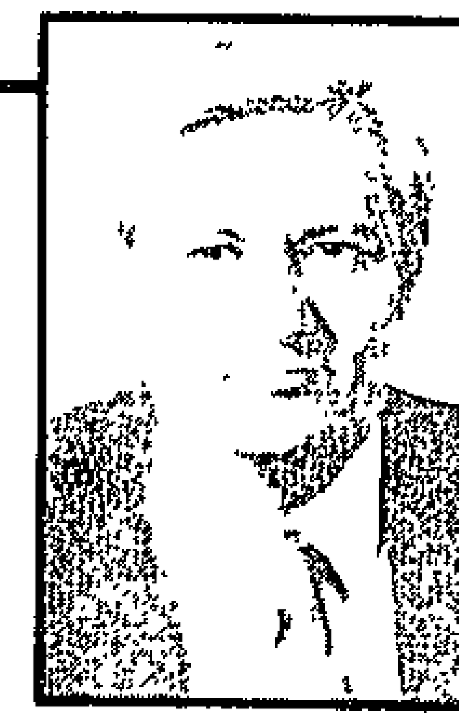
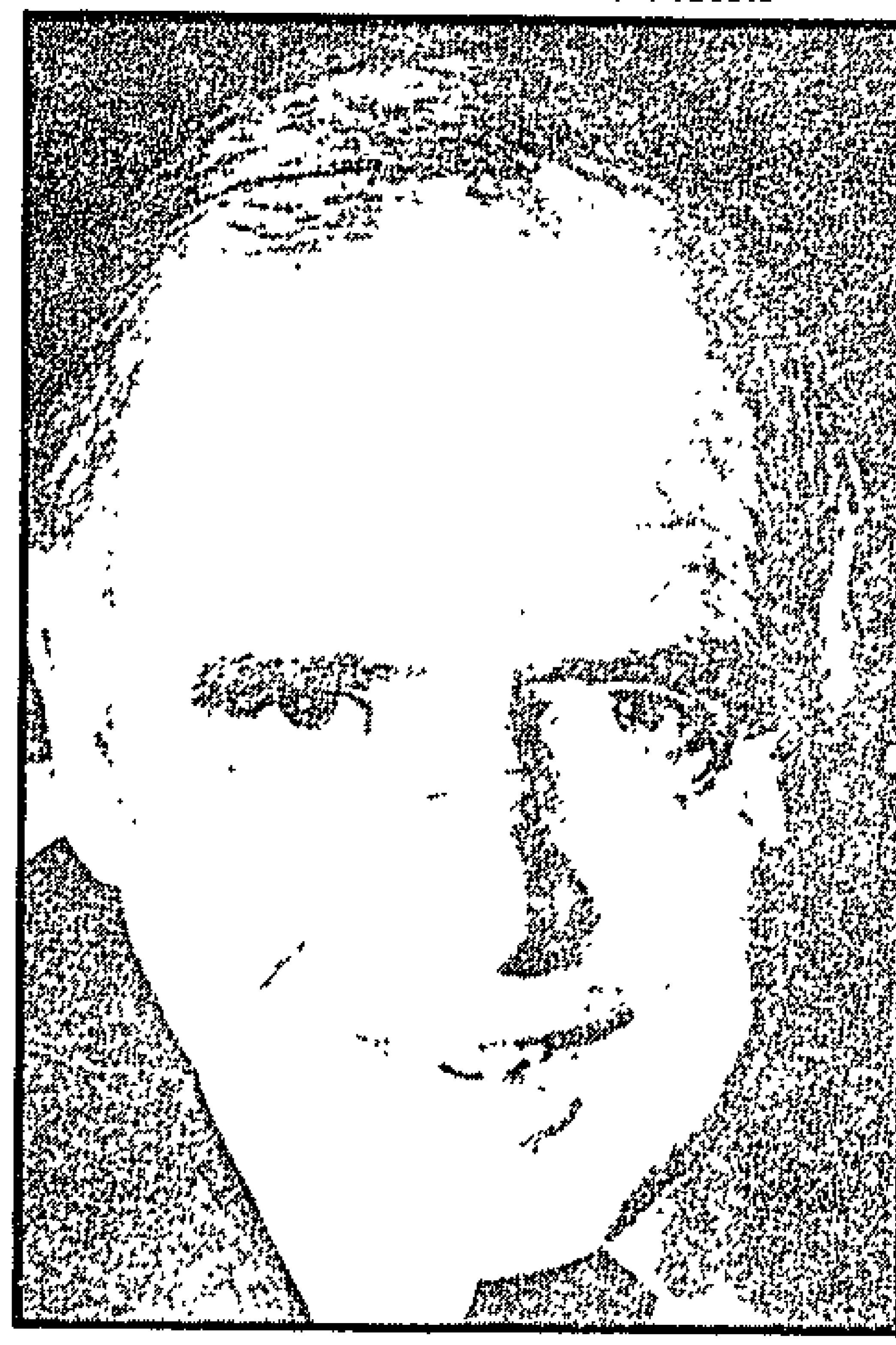


Relly



Du Plessis



Ackerman

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He said such a scheme could only be successful if workers were paid good salaries. "If they're not... forget it." After that stage it was imperative to offer a share in both the wealth of the company and the country.

For these schemes to work it was vitally important for the Government to change the perks regulations, which taxes both the loans made available to workers to buy "in" and the benefits which accrue to them.

He conceded that such schemes were costly, but he and others believed the benefits were obvious "People know they are not just wage earners ... they are part owners They feel the company is theirs and there is more loyalty and dedication Make no mistake, the company gets the benefit We are not just doing it to be nice guys

"This country needs this more than any country in the Western world because of the huge unrest boiling under the surface Most of the wealth has been in the hands of white, privileged people There has to be more of a shared society and that doesn't just mean politics Sharing means sharing wealth

"We businessmen can change the face of this country. We are not powerless to change the future We are talking now about the gates of the future"

MR Gaby Magomola, managing director of the African Bank, welcomed the wealth creation schemes for blacks "It is very encouraging to notice that corporate South Africa is moving away from the rhetoric on the merits and demerits of the free enterprise system and translating these merits into actual participation You don't tell people how good a free market economy is It is something to experience through participation"

He warned that if blacks were prevented indefinitely from plucking the fruits of the free enterprise system the majority of the population would react with "rejection and hostility" He said exclusion of blacks would lead to the "ultimate demise of the system ... it will self destruct"

The benefit of including blacks was that "it makes them players, not spectators For the first time they will have a piece of the action and feel what it is like to have a stake in the business This will perhaps assist in getting black people who are beginning to reject this system to have another look at it"

The African Bank has embarked on its own scheme to involve blacks in its shareholding and is appealing to employers to assist workers to invest

"The people who buy these shares, which are going for a song, will be very wealthy men and women tomorrow."

Smoking out the sign-sticker... ...the man who hides his light under a bureaucratic bushel

By BRUCE CAMERON, Political Staff

...TH Africa has come some way in sign language since the days of "Moenie Spoeg" and "Whites Only."

...lift foyers of the 18-story H F Verwoerd ... building in Cape Town very diplo- signs have been put up asking people not ...

... of saying "Don't smoke or you will go ... smoke", they read "Your contribution to- ... a smoke-free environment will be appre- ...

The person responsible is keeping a low ... — either because he knows almost half ...abinet smoke or because the language is too polite to be acceptable.

Maybe he was just a militant anti-smoker ... money to spend and who knows how bu- ...ecy works or in this case doesn't work.

...of Health Dr Willie van Niekerk is firmly opposed to smoking but a spokesman for his Department although, clearly pleased, denied responsibility.

He suggested Public Works. "They are responsible for the building."

A spokesman for Public Works said: "We don't like signs in the building. We think permission was given for this sign, but the person whom we think gave permission is away on leave.

"I think it was the Department of Environmental Affairs."

"Oh no," said Environmental Affairs, "It wasn't us, try National Health."

Talk about bureaucracy.

And finally a wag on the Environmental floor has given up sticking cigarettes with a smaller sign on the wall, saying "In case of emergency."

Some hard-up smoker keeps stealing the cigarette.

(49) SMM 20/7/87

SA's standard of living getting lower

The World Bank has distressing news for all South Africans.

Its latest World Development Report shows that South Africa, already a poor country by Western standards, is becoming even poorer.

The bank, the biggest international organisation concerned with economic development and progress, estimates that South Africa's wealth generation in 1985 was a mere $2 010 per head of the population.

The most shocking aspect of this figure is that it is 25 percent less than the $2 670 per head generated three years earlier.

While this sharp drop in South Africa's income reflects to some extent the change in the rand-dollar exchange rate, it also reflects a real and substantial reduction in living standards in this country, as many people are beginning to realise.

South Africa has to buy large quantities of manufactured goods and raw materials from overseas which have to be paid for in dollars.

The drop in the dollar income per head has meant that this country has had to cut its imports.

One dramatic effect of the drop in the country's income per head has been to reduce South Africans from 29th (in 1982) to 36th in the personal wealth stakes.

There are now 36 countries which, on average, have higher living standards — some substantially so — than South Africa.

This is intensifying the brain drain and making it difficult for South African companies to recruit essential staff from abroad.

The World Bank's figures also show that individual living standards in South Africa are being depressed by the big increase in the amount of the country's resources being diverted to the Government.

World Wealth League
Income a head 1985

	US dollars
South Africa	2 010
Poland	2050
Yugoslavia	2070
Mexico	2080
Panama	2100
Argentina	2130
South Korea	2150
Algeria	2130
Venezuela	3080
Greece	3550
Spain	4290
Ireland	4850
Israel	4990
Trinidad	6020
Hong Kong	6320
Italy	6520
Oman	6730
New Zealand	7010
Singapore	7420
Belgium	8280
Britain	8460
Austria	9120
Netherlands	9290
France	9540
Australia	10830
Finland	10890
West Germany	10940
Denmark	11200
Japan	11300
Sweden	11890
Canada	13680
Norway	14370
Switzerland	16370
United States	16690
OIL PRODUCERS	
Libya	7170
Saudi Arabia	8850
Kuwait	14480
UAE states	19270

It estimates that the Government's share of gross domestic product has risen from 9 percent in 1960 and 11 percent in 1965 and to 17 percent in 1985.

In contrast, the individual's share of the cake fell from 65 percent in 1960, and 62 percent in 1965 to 52 percent in 1985.

In Britain and Australia 60 percent of those two countries' GDP goes in private consumption, and in France and United States the figure is 65 percent.

This switch in resources in South Africa from the private sector to the Government reflects the increasing need to provide housing, health care and education for the country's rapidly growing black population.

It also seems that the problem is not too high a level of public spending, but too small a cake.

The World Bank's figures show there was one area where South Africa did well in 1985.

This was its generation of a current account surplus on the balance of payments of $2 615 million.

Only eight other countries — Venezuela, Spain, Britain the Netherlands, West Germany, Japan, Norway and Switzerland — did as well or better.

In contrast, the United States ran up trade deficit of $117,75 billion.

Overall, the figures show that South Africa has been faring poorly economically, and is desperately in need of a policy which will give the economy a strong boost — not only for the next few years but for the next few decades.

For this reason this week's World Development Report should be read by those administering this country and defining policy, for in it they will find the answer to many of this country's problems.

The World Bank is intensely interested in how to stimulate economic growth and has spent considerable time and effort trying to determine what causes rapid economic growth.

The Bank found that a country's economic policies usually fell in one of four categories: Strongly outward oriented; mildly inward oriented; and strongly inward oriented.

It also found that the countries which have achieved the best performance in the past quarter century were those with strongly outward-oriented economic policies, such as Hong Kong, South Korea and Singapore.

Economic performance steadily declined as countries become more inward oriented with those most "strongly inward oriented" such as Bangladesh, India, Zambia and Argentina, showing a significant drop in real income in recent years.

A feature of the strongly outward-oriented countries is that trade controls are either non-existent or low with any disincentives to export resulting from import barriers being more or less counter-balanced by export incentives.

This results in the more efficient uses of resources, the more rapid adoption of new technology, greatly increased foreign investment, rapid productivity growth and strong employment growth, especially in labour-intensive industries.

This suggests that the "Fortress South Africa" idea of building up the country's wealth has no hope of succeeding.

Instead, it indicates that this country's import tariffs deserve a hard look to determine whether they are stifling the development of export products.

ARGUS 2/7/87 (49)

ECONOMY

R4 000m rise in inflow of capital

By TOM HOOD, Business Editor

A BIGHTER overseas image of South Africa helped to achieve a more than R4 000-million improvement in the country's capital account of the balance of payments in the March quarter, according to Sanlam's latest economic survey.

A net capital inflow of R533-million was recorded after the large outflow of more than R3 500 in the fourth quarter of 1986.

The most important reason for the turnaround in the net inflow of foreign long-term capital was the increased loan activity of public corporations.

Against this, however, there were sustained net sales by foreigners of shares quoted on the Johannesburg Stock Ezxchange.

Shares to the value of almost R1 200-million were sold on a net basis in the past 12 months, says Sanlam.

"The renewed net inflow of short-term capital in the first three months of 1987 is undoutedly related to the more favourable perception of foreigners of the prospects of the South African economy and the resultant turnaround in the large-scale leads and lags in international payments and receipts."

A large surplus on the current account of the balance of payments and the net inflow of foreign capital in the first three months of this year enabled the Reserve Bank, among other things, to reduce South Africa's reserve-ralated foreign short-term liabilities by almost R700-million.

About R3 1000-million has been repaid to overseas countries in this way in the past 15 months, Sanlam says.

The country could also increase its gross gold and other foreign reserves by about R1 800-million to R7 500-million in this period. This figure exceeds that of April 1986 by R3 600-million and is about equal to two months' worth of goods and services.

Looking at the country's prposects, Sanlam's economists say: "Despite the benefits that the recent slightly expansionary Budget may bring, we doubt at this stage if the real final demand for goods and services will improve sufficiently in the last six months of 1987 for an average economic growth rate of 3 percent to be realised this year."

The continued low level of personal savings in the March quarter — barely higher than the record low of 1,2 percent of personal disposable income in the last six months of 1986 — and the reluctance of individuals to use credit at current low interest rates "do not augur well for an expansion in total effective demand for the rest of the year."

The consumer price index, currently at 17,3 percent for May, the highest inflation rate this year, should start falling from the third quarter, says the survey. The average inflation rate for this year is expected to be about 16,5 percent

The continued "fairly sturdy performance" of the external value of the rand and the "restrained adjustments" to administered prices such as postal rates, transport costs and the price of electricity should contribute greatly to bringing the inflation rate down to lower levels in the next six to 12 months.

ECONOMIC OUTLOOK

Case of emphasis

Perhaps the most interesting aspect of Old Mutual's July *Economic Monitor* is that its optimism is based on not too dissimilar an understanding and projection from other units' pessimism. The picture, all agree, is of a growing economy — off a low base — bedevilled by structural constraints.

But whereas Old Mutual highlights the improvements, other units — particularly Standard Bank — emphasise structural constraints and inadequacies. Yet, just as others agree that things are improving, Old Mutual's chief economist Rob Lee admits that structural constraints are serious. It's a case of emphasis.

With the state of the upturn in doubt, Lee reassures: "Fears that nascent economic recovery may have stalled again are misplaced."

Evidence, the *Monitor* concedes, is patchy. But Lee asserts that "in spite of obstacles we still expect growth of 3% or more in both 1987 and 1988." This is partly based on the expectation of a "reasonable increase in consumption spending by both the individual and government."

The financial position of consumers is improving, thanks to significant debt repayments and lower interest costs. Also, real salaries have improved by 4,8% between the first quarters of 1986 and 1987 — after falling by 8% between 1984 and 1986. Lee nevertheless admits that "the scope for an extended upswing in personal consumption expenditure is limited."

Lee notes that new capacity should be created this year as utilisation nears capacity. The healthy balance of payments provides scope for a rise in fixed investment. He does not consider sanctions a problem for imports.

While acknowledging that large companies (including government) are not projecting big increases in fixed investment, cuts are not expected to be as severe as in the past year.

Almost R4 billion of government borrowing is to finance current expenditure. Lee notes that this "dissaving gap" is the largest yet. In any event, Mutual estimates a deficit before borrowing 6% of GDP, or R10 billion, as opposed to the budgeted R8,4 billion or 4,7%.

Lee thinks the first quarter's net capital inflow continued in the second, but will return to deficit in the second half-year. Over the next 12 months some $740m within the standstill net is expected to be repaid.

The current account surplus should narrow as the economy recovers, reducing the impact that liquidity has had on interest rates this year so far. This "could place mild upward pressure on short-term rates towards the year-end." Long-term rates will remain in an upward trend, thanks to higher short-term rates, greater demand for capital, and lack of foreign capital. ■

49 SM 28/7/87

Town councils

Ex-Prog calls for new look at budget

By Toni Younghusband

Sandton's 1987/88 budget, passed unanimously last month, was the centre of heated debate last night as former PFP councillor Mr Willem Hefer called for a portion of the budget to be re-examined.

Mr Hefer, who has crossed the floor to join the Independents, asked the management committee to re-examine rate assessment rebates which were approved and adopted at the council's budget meeting on June 15.

He said that the budget speech tabled by management committee chairman Mr Ricky Valente had been misleading and that ratepayers were in fact being asked to pay much more than they had been led to believe.

Mr Hefer referred in particular to a 15 percent rebate which in the past had been granted to owners of property zoned Residential 3 and 4. This rebate no longer existed — a fact that the budget speech did not highlight, he said.

NO LONGER ALLOWED REBATES

People living on properties zoned Residential 3 and 4 were being asked to pay at least 40 percent more than those living in Residential 1 or 2 because they were no longer allowed rebates.

"No notice was given of the ommission of the Residential 3 and 4 rebate and the budget report is therefore defective," Mr Hefer said.

"Increases in expenditure matter to these people (ratepayers) more than anything else. It is important that they know about these things," he said.

The chairman of the Management Committee, Mr Ricky Valente, said: "You knew exactly what you were voting for, you helped in the preparation (of the budget), you had done your homework and you voted on merit. It is not my budget nor a management committee's budget it is your budget."

Properties zoned Residential 3 and 4 had uniformly reduced in value while those zoned Residential 1 had increased their value. "To have kept the 15 percent rebate would have meant that Residential 1 homeowners would have been subsidising townhouses to a very large extent," Mr Valente said.

Mr Hefer's proposal was defeated by seven votes to four.

Mr Ricky Valente . . . "You knew what you were voting for.

Sandton Town Council will give 10 indigenous trees or shrubs to each school or religious organisation in the town wishing to take part in Arbor Day on August 14.

★ ★ ★

Sandton homeowners who neglect to pay their water bills will be faced with a final notice delivery fee of R8 in future.

Final notices are delivered by meter readers and, in the past, consumers were charged a R3 delivery fee. They will now pay R8.

★ ★ ★

Plot owners in Sandton, previously restricted to town residential water quotas, may be allowed more water.

Complaints have been received from consumers on large stands or agricultural holdings who keep livestock on their stands that they are unable to manage on the water quotas allocated to them.

The council decided that it was not equitable to limit these consumers to the same quota as single residence consumers on smaller properties and, should they require a higher quota, they could apply in writing to the council.

★ ★ ★

The council will make a grant-in-aid of R1 000 to the Montrose Primary School in Parkmore for use by their drum majorette squad.

The school's A League drum majorette squad has been selected to represent the Transvaal in the national championships which will be held in Cape Town in October.

★ ★ ★

The second National conference of the Civil Defence Association of South Africa will take place in Bloemfontein on September 8 and 9.

The preliminary programme includes papers on:

- The establishment of a national weather alert service for the country.
- Control measures at aircraft crash sites.
- The role of the media in educating the public in matters relating to civil defence.
- The importance of civil defence in the national security context.
- The legal responsibilities of government and the public during disasters.

A delegate from Sandton council will attend the conference.

Manufacturers sceptical about recovery

28/7/87

MANUFACTURERS are still not convinced the economic recovery will continue, Stellenbosch University's Bureau for Economic Research (BER) says.

It expects the "sluggish" economic recovery to pick up in the second half of this year after most salary increases — particularly those of the public sector — become effective.

But, it says, the fact that manufacturers have not started to build up inventories or increase spending on fixed investment "is an indication that they are still not confident of the sustainability of the recovery".

Of the economy generally, it predicts a 3,2% increase in real disposable income this year and 2,7% growth in GDP.

The increase in disposable incomes is based on the expectation that private sector salary increases will outstrip the public sector by at least 3%.

B/Day

● See Page 6

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Trust Bank foresees sustained recovery

B/Day 30/7/87 (49)

HELENA PATTEN

PROSPECTS for sustained economic recovery remain favourable, says Trust Bank in its latest economic report.

Supporting the recovery are the surplus on the current account and more positive trends on the capital account of the balance of payments, the rebound of the total gold and foreign currency reserves and improved foreign perceptions of the South African financial situation.

It says a current account surplus of about R5bn can be expected for 1987, while the outflow of capital will continue, although not to the same extent as last year.

"As perceptions of the SA financial situation improve, supported by conscientious repayments of our foreign liabilities, the drag exercised on the country's economy by the capital account should become progressively less."

The report says despite real private consumption bouncing back vigorously in the first quarter, it is doubtful the trend will continue because after-tax personal income will not easily keep abreast of the spiralling inflation rate.

"Government policy will therefore need to be reshaped, keeping the current economic upswing from faltering."

On inflation, it says if the rand exchange rate remains stable, imported merchandise prices should rise only moderately in the months ahead, and if food prices stabilise, a modest decline in the inflation rate can be expected during the second half of the year.

The report says liquidity in the money market is expected to remain high because of continued strong increases in government spending, accommodative monetary policy and mild rises in the demand for bank credit.

No meaningful changes in short-term interest rates are expected until the end of the year, and the Reserve Bank will intervene to keep rates very stable over the short term, it says.

W Mail 31/7-6/8/87

THE ECONOMY (49)

Black managers swipe at 'ja baas' syndrome

By HILARY JOFFE

DISCUSSION at a Black Management Forum conference on "Affirmative Action in an Apartheid Society" centred on whether such action was possible — or desirable.

"Affirmative action in an apartheid society is a contradiction in terms," argued Jo Moloto, of the Black Lawyers Association, at the conference in Johannesburg this week.

The conference opened with a video and talk by United States Peace Corps director Dr S Moten on the American experience of affirmative action.

Moloto was one of those who pointed to the contrasts between the two countries. He noted the lack of constitutional backing for such a strategy in South Africa given the lack of a Bill of Rights, the fact that black South Africans were a majority, and the higher literacy rates and educational opportunities for American blacks. In South Africa affirmative action strategies could only be sporadic, he said.

But other speakers argued strongly for affirmative action, although they were scornful of business attempts at tokenism — and of black managers who played "Uncle Tom" roles.

Tim Modise, industrial relations and housing advisor to Highveld Steel, said that BMF's role was not primarily a political one but it could provide support for political organisations. "When the time comes the guys will come to us and say: 'What have you guys been doing? Have you got the managers ready for us?'," he said.

And a Sage manager argued that "in whatever manner we can accelerate blacks acquiring skills, that's part of the liberation struggle".

There was strong feeling in the conference against black advancement strategies which involved going "cap in hand" to business corporations: "If you find a 'Ja Baas' in your organisation, rehabilitate him or throw him out," said Afrox's LM Ndlovu, chairing the conference. "We don't need them in our society."

Wits University lecturer V Maphai was particularly scathing about the black advancement strategies of some multinationals, "looking for as many blacks as possible to boost their Sullivan ratings and to have dinner with visiting directors from the parent company".

The BMF is discussing ways of promoting and of monitoring black advancement strategies in business. It was clear that the organisation's members don't favour such strategies indiscriminately.

But, as some of the speakers pointed out, few South African businesses are doing much about advancing black managers anyway.

So the question was raised of what kind of leverage blacks could wield to put pressure on companies to advance black employees and promote them into managerial positions.

One answer which was suggested was the formidable economic muscle of black consumers.

Another was the shortage of skills and of managers in South African business. As one of the few white managers present argued: "It's a survival issue for companies, not a moral issue."

The issue of black women in management was briefly raised — and some rather tense discussion ensued. "As black women in the commercial world we've got to fight the guys besides fighting our way up the ladder," was one of the comments. "Our brothers should learn to accept us as equals in the commerical world and not just as daughters, wives or mothers."

W Mail 31/7-6/8/87

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Economy slowing down — Jacobs

5/8/87

(49)

Star

Finance Staff

Official confirmation of the slowdown in the economy in the second quarter of the year was given for the first time last night by Dr Japie Jacobs, senior vice-president of the SA Reserve Bank.

Speaking at a function of W&A Corporation he said that if the present sluggishness in the economy persists it would make a three percent growth rate this year unattainable.

Economists have warned in recent weeks that the upturn is in danger of faltering and that urgent steps are necessary to keep the growth momentum on an even keel.

Thus far government officials have been reluctant to admit that the economic upturn is slowing to a halt, steadfastly sticking to their predictions of real growth of three percent for 1987.

Most economists have toned down their initial optimistic forecasts and the consensus forecast is now between 2 and 2,5 percent with very few economists, including Mr Rob Lee still holding out hopes for growth of more than 3 percent.

After growing at annualised rates of 4,5 percent in the third and fourth quarter of last year respectively, the growth rate slowed down to an annualised rate of 3,25 percent in the first quarter of this year. Present indicators, like manufacturing output, retail and wholesale trade figures, point to a further slowdown of real economic activity in the second quarter.

Dr Japie Jacobs

Too many business people, said Dr Jacobs, were still adopting a wait-and-see attitude and were reluctant to look more than two to three years ahead.

"If you are confident about the future of South Africa, you should put your money where your mouth is and invest in the future of the country," he told the 200-plus guests, who included representatives from virtually every major company.

The Reserve Bank would like to see the revival in the economy stepping up , he added, but it appeared to have slowed down to some extent in the second quarter. "If this sluggishness continued, the country's economic targets were not going to be met," he said.

Dr Jacobs said that while there had been a marginal drop in personal disposable incomes over the 1980-1986 period, there had been a marked fall of almost 29 percent in real terms in personal savings over that period.

"That is quite substantial and indicates to what extent people have been going into their savings in an effort to mantain their standard of living," he added.

A lot of savings were going into the stock exchange at the moment, but not into the real economy, and this was one of the problems the authorities had to tackle.

The Reserve Bank was doing what it could at the moment to encourage an expansionist economy, "even to the extent of penalising people who where saving".

It had to try and stimulate the economy and foster economic growth, and was doing that through such factors as low interest rates and budgetary action. Tax cuts had been suggested, but such action would have to await the publication of the Margo Commission's report, widely expected soon.

AGRICULTURE'S GREATER SHARE OF BUDGET IS JUSTIFIED — ECONOMIST

GERALD REILLY

PRETORIA — The substantial increase in agriculture's share of the Budget gives the wrong impression that agriculture is a drag on SA and the taxpayer, says SA Agricultural Union economist Johan Pienaar.

In a Budget review he says the total agricultural budget for the current financial year increased by about 76%, compared with the previous year — from R966m to R1,7bn.

This huge increase was caused mainly by the R400m set aside to slow down sequestrations in the farming community, and R134m to support the maize price. The R400m, however, was a loan to farmers.

Included, too, in the agricultural budget was R385m to subsidise bread and maize product prices. The agricultural budget was about 3,7% of the total Budget in the current financial year, compared with 2,5% in the previous year.

The direct contribution of agriculture to the GDP was about 5%. The indirect contribution was greater than generally believed.

About 25% of all SA industries are dependent on agriculture for their most important inputs. This indicates the economic and strategic worth of the industry, says Pienaar.

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B/Day 5/8/87

Put money into jobs

Cape Times 5/8/87 (49) 183

By AUDREY D'ANGELO
Financial Editor

SEEFF PROPERTY ORGANISATION BREAKFAST CLUB
IN ASSOCIATION WITH THE CAPE TIMES

BUSINESSMEN who intend to stay in SA should invest money without delay in creating new jobs, PFP spokesman on economic affairs Harry Schwarz said yesterday.

Pointing out that although paper profits were being made on the Johannesburg Stock Exchange the real economy was not yet doing well, Schwarz said money raised by listing firms should be used to create more employment.

And owners of firms about to be listed should make shares available to all their work force — and ensure that their employees "fully understand what this means".

Schwarz was speaking at the inaugural meeting of the Seeff/Cape Times breakfast club for executives, at the Rosenfontein restaurant.

He told more than 80 leading businessmen and women that the real issue facing SA now, with its high rate of inflation and high population growth, was not politics but the differing economic philosophies of capitalism and nationalization.

It was clear from the White Paper on privatization that the government saw capitalism as the answer, and was planning to cut public services to the minimum. It was all in line with capitalist thinking in the Western world.

Harry Schwarz

City's slice of GGP is declining

CAPE TIMES 6/8/87 49

Municipal Reporter

CAPE TOWN'S proportion of total production in South Africa is still declining, according to a report tabled at the city council's town planning committee yesterday.

The report, by the city planner's department, compares the contributions of the major cities through their respective shares of the gross geographic product (GGP), a measure similar to gross domestic product except that the homelands are excluded.

Latest figures indicate that Cape Town is the country's second largest centre but it has less than 10,6% of GGP.

Cape Town had a negative growth rate between 1975 and 1980, which was largely attributable to a structural shift away from the secondary sector.

Manufacturing was the most important component of Cape Town's GGP, but there had been little or no real growth in this sector since 1970, according to the report.

Performance of the commerce sector in Cape Town had also been poor since 1970. Government was the fastest growing sector in Cape Town, though it had also grown in all the other regions.

Cape Town's finance sector had performed favourably relative to the Pretoria-Witwatersrand-Vereeniging complex, but it had grown as much as finance had in Durban and even Port Elizabeth.

$300m for foreign debt payment

SA reserves rise by R596m

CAPE TIMES 6/8/87

(49)

PRETORIA. — The SA Reserve Bank's gold and foreign currency reserves increased by R596m in July to R7 102m, the bank said in its monthly statement yesterday.

"Of this increase, R225m stemmed from gold valuation adjustments," said the president of the bank, Gerhard de Kock.

Gold reserves were valued at R851,59 a fine ounce at the end of July compared with R818,00 at the end of June.

The increase was recorded in spite of the repayment of $300m (more than R600m) in foreign debt "inside the net" in terms of the second interim debt standstill arrangement reached in March this year.

SA's total gold and foreign exchange reserves, including foreign currency held by the rest of the banking system and the government, increased from R3,9 billion ($1,9 billion) at the end of April last year to about R8 billion ($3,9 billion), De Kock said.

He added that the Reserve Bank had increased its physical gold holdings from a low of 3,7m fine ounces at the end of July 1986 to 6,2m fine ounces at the end of July 1987.

"This partially reflects a gradual elimination of existing gold exchange agreements, that is to say the buying back by the Reserve Bank of gold it previously sold in terms of exchange agreements," De Kock said.

According to the bank's statement, gold holdings totalled R5,3 billion at the end of July, up from R4,95 billion at the end of June.

Foreign investments increased by R3m to R114m, while other foreign assets totalled R1,69 billion, up from R1,45 billion.

Notes in circulation increased to R5,23 billion from R5,04 billion.

Government deposits stood at R2,9 billion at the end of July, up from R2,4 billion at end-June.

Provincial administration deposits increased to R282m from R237m, while deposits by banks decreased to R526m from R548m.

The ratio of gold reserves to liabilities to the public, less foreign assets stood at 73% compared with 70,7% at the end of June. — Sapa

SATURDAY AUGUST 8 1987

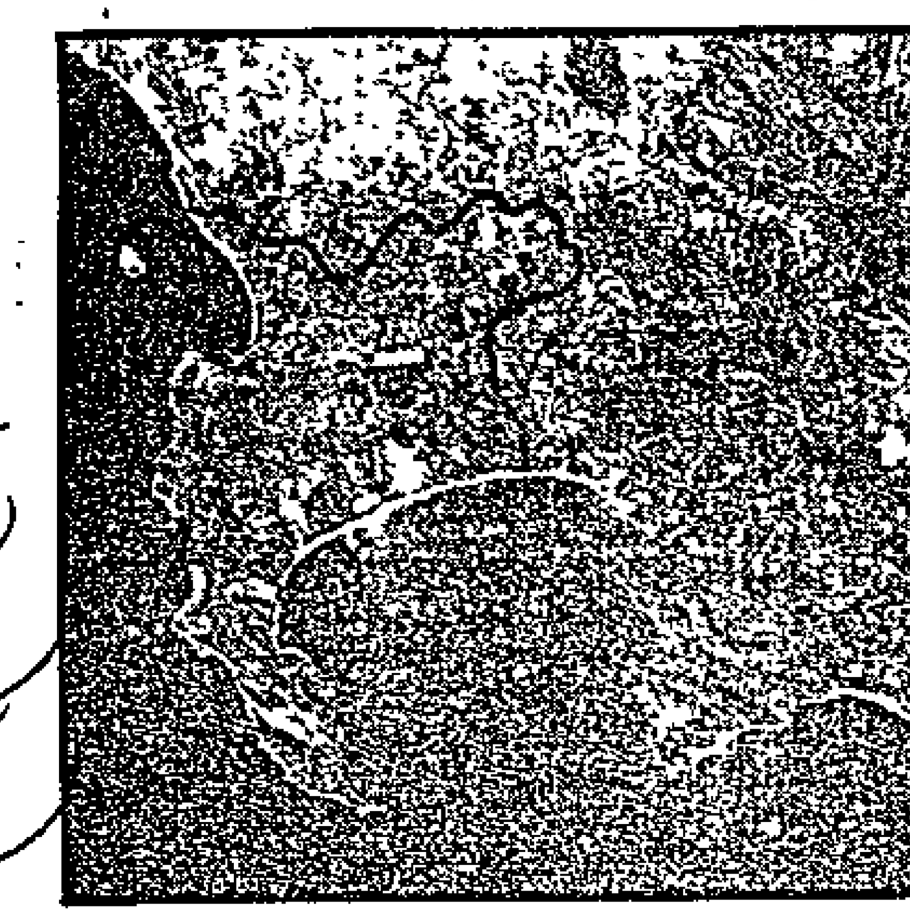
WEEKEND FOCUS

CRISIS CITY!

EXCLUSIVE REPORT by IRVING STEYN, Weekend Argus News Editor

'Fewer jobs, houses — poor living standards'

W/E Argus 8/8/87



This satellite photograph shows the Western Cape with the borders of Greater Cape town added.

A CITY in crisis and fighting for survival. This is the alarming situation that Greater Cape Town is facing — with the prospect, in just over a decade, of a population double its present size.

The grim scenario has been drawn up by the Cape Town Municipality. It paints a picture of a city, based on present trends, which will consist of a poorer, younger population, declining employment and falling living standards.

It has been calculated that a minimum unemployment level of 400 000 people, or at least 30 percent of the workforce, can be expected in three years.

If Greater Cape Town had to provide housing for its projected 3,5-million population by the year 2000 it would need 195 square kilometres of land — roughly equivalent to the existing built-up area.

Influx of migrants

In a document prepared for a United Nations agency which is conducting a survey of giant cities of the world, planners say that Greater Cape Town will need about 220 000 additional homes by the end of the century if all new residents are to be housed.

And if Greater Cape Town continues to hold about 10 percent of the national population, an ultimate population of about 10-million can be expected.

The document says the combined effects of the [illegible] some aspects of Government influx

standards

Western Cape with the ... Greater Cape town ...

A CITY in crisis and fighting for survival. This is the alarming situation that Greater Cape Town is facing — with the prospect, in just over a decade, of a population double its present size.

The grim scenario has been drawn up by the Cape Town Municipality. It paints a picture of a city, based on present trends, which will consist of a poorer, younger population, declining employment and falling living standards.

It has been calculated that a minimum unemployment level of 400 000 people, or at least 30 percent of the workforce, can be expected in three years.

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The document says the combined effects of the relaxation of some aspects of Government influx control, as well as serious unemployment, drought and over-population in the homelands have resulted in a "considerable" influx of black migrants.

"The metropolitan area will therefore be expected to continue to absorb and accommodate a large number of relatively young and unskilled African people in a short period of time."

And, say the planners, the result will be a "very high" 6,1-percent annual population growth rate for black people up to the year 2000.

"Considerable improvement"

The conclusion is that Cape Town's population is expected to consist of rapidly rising numbers of young, unskilled and poor people. However, for many of these, their existence will be a "considerable improvement" on conditions in rural areas.

In calculating Cape Town's housing needs by the end of the century, the town planners worked on a figure of six people to a household.

They point out that in 1979 there was a backlog of 106 315 housing units for coloured people in the Greater Cape Town region which has never been reduced and it is estimated that 60 percent of all coloured housing is overcrowded.

The housing backlog for black people was estimated in 1985 to be 65 200 units. About 47 percent of the black population lives in squatter settlements and 18 percent in shacks in backyards.

"Consequently, a total of about 391 000 homes, almost double the existing 200 000, will be needeed in Greater Cape Town by the year 2000 if everyone is to be satisfactorily housed."

The report says that huge resources will be needed to solve the problem and would require extensive State housing finance.

It adds that there is a danger that unless higher densities in and around existing built-up areas can be achieved, new housing areas will be distant from the existing urban concentrations.

Urbanising city edges

This means that extensive social and physical services infrastructures will be required for urbanisation on the city's edges.

The productive grape, fruit and wheat farms which are situated near urban areas "should not be sacrificed lightly if the region is to be able to feed and provide employment opportunities for its own population in the future".

■ THE SOLUTION — see page 3

(49)

THE UNDERGROUND ECONOMY

How long's a string?

The underground economy is creating unprecedented interest, mostly in association with the tendency of a high tax burden to drive (or keep) people out of the formal sector. But nobody knows what size it is, nor what it could be contributing to GNP.

Reserve Bank Governor Gerhard de Kock, for one, believes the importance of the underground economy is under-rated.

Studies in Italy a couple of years ago suggested that as much as 10% of economic activity could pass unnoticed by statisticians and tax collectors. And if — as many suspect — the informal sector expands during recessions, the whole concept of analysing cyclical trends and applying counter-cyclical policies becomes dubious.

Traditional economic tools and methodology necessarily concentrate on things that can be measured, including: inflation, money supply, output, registered unemployment. The logistics of the underground (or informal, unrecorded, unmeasured) sector do not allow such easy quantification.

Informal workers ... crucial to growth

Nevertheless, some estimate of the size of the underground economy would help everyone involved in planning. It may also help explain the inconsistent economic indicators the *FM* has explored over the past two weeks.

So far, the nearest attempt to official estimates is a committee set up between Central Statistical Service (CSS), the Reserve Bank, and Central Economic Advisory Services.

Economists such as George Huysamer's Louis Geldenhuys agree that the underground economy is "important, perhaps crucial, and viable." But he cautions that the apparent importance given it in recent times should be seen with circumspection.

The underground economy is parasitic, or at least, closely linked with the formal economy. Its importance, as CSS's Treurnicht Du Toit stresses, is the value it adds to the economy.

The size of the informal sector is expressed as a percentage of formal GDP. To incorporate it statistically would mean revising all previous GDP and growth figures.

Empirical problems include particularly the services sector; barter; and "backyard" activities. Some believe methods of calculating, for example, retail sales, also do not accord with modern reality.

Debate about the size of the underground economy will continue. Current feelings are that it's worth at least 5% of formal GDP, or say R8,5 billion. This could be conservative; but possibly more important is how fast it's growing, and what muscle it could add to this year's 2%-3% growth in formal GDP.

A good grasp of how more accurate account could be made of the underground economy was given by US economist Edgar Feige in 1984: "Systematic biases, unwittingly introduced into official data bases, distort perceptions of economic realities."

To Feige, the underground economy comprises: "All economic activity which, because of accounting conventions, non-reporting or under-reporting, escapes the social measurement apparatus, most notably the GNP system of accounts." ■

SASWITCH-MULTINET

Merging but apart

Are Saswitch and Multinet merging? Yes and no.

Since May two of Multinet's four members — United Building Society (UBS) and Volkskas — have been linked into Saswitch. In a month or so customers of the other two — Standard Bank and the Post Office — will be able to use Saswitch terminals.

Eastern Province Building Society will also connect its systems to Saswitch, bringing the institutions participating to 15. Multinet and Saswitch member customers will have access to more than 3 000 terminals throughout SA.

Complete overlap

But there is no complete overlap, so the two bodies will remain. At the moment Saswitch offers cash withdrawals, balance enquiries and fast-cash withdrawals. Multinet offers, in addition, mini-statements (recording the last six transactions) and account transfer facilities — for example, a credit card account can be paid off by direct transfer from the cheque account.

Saswitch may phase these products in. "But," says business manager Bruce Pollock, "no decision has yet been taken."

He is confident that Saswitch's capacity, which recently doubled, can be tripled almost immediately. Saswitch processes around 2m transactions a month, almost double those recorded in October 1985 when the service commenced. Multinet's monthly transactions have grown to around 1,1m.

Further dramatic growth is expected.

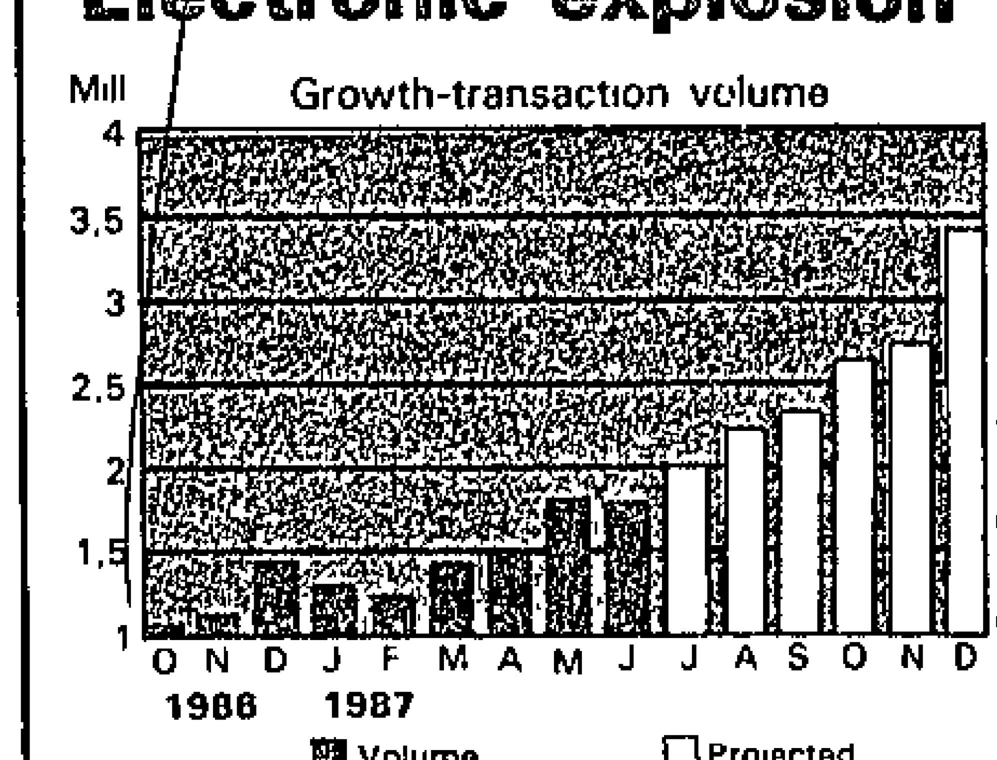
Multinet's other advantage, according to chairman Jan du Plessis, is that it has a higher rate of successfully completed transactions.

Pollock says Saswitch intends improving its success rate.

Any expansion must be through Saswitch, which has one connection through centralised switching. Multinet relies on three connections. This makes Saswitch more expensive to operate, since it needs 30 full-time employees.

Du Plessis says Multinet "will still exist as a separate entity. We will not fade away."

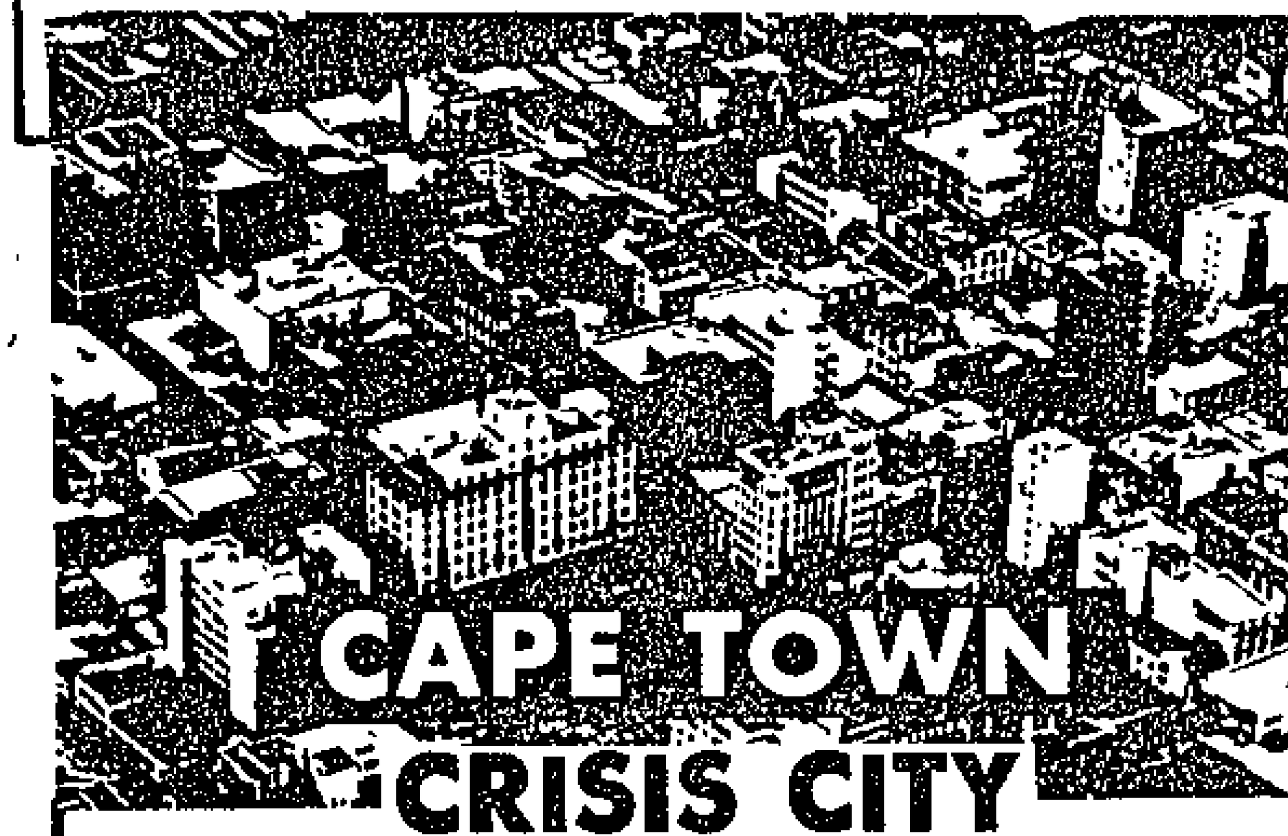
Electronic explosion



(49) 8/8/87

WEEKEND

The solut



EVERY citizen of Greater Cape Town must be motivated to save it from disaster. This is the message the authorities and the planners for its future have to get across. And fast.

So fast that an expert — probably an urban sociologist who is yet to be appointed — will have only until the end of the year to identify the whole spectrum of problems before a plan of action is launched at the beginning of next year.

"We have abandoned the conference-style idea of resolving the crisis. It will be in the hands of a single researcher who will investigate and compile a single document for the future of Cape Town," the chairman of the town planning committee, Mr Clive Keegan, told me this week.

"His findings will be used as a basis for action. He has three to four months to do it but, as a result, the year 1988 is probably going to be the most exciting in the entire history of the city of Cape Town."

Already the Municipality has drawn up a programme for planning which identifies the causes for the present crisis, is condemning in its conclusions and is insistant that only the community as a whole can avert disaster.

As things stand, said Mr Peter De Tolly, the Municipality's director of planning, "the whole fabric of the city is wobbly".

"The lack of civic-mindedness by the people

EVERY CITIZEN MUST HELP

of Cape Town is quite remarkable. We desperately need the involvement of critics and facilitators."

The basic causes for the dilemma are compounded by other reasons contributing to the overall recipe for disaster:

■ Since 1940 the value of rateable land a person has declined by nearly a third, which reflects an increase in demand for services exceeding the growth in sources of revenue.

■ The business sector's reticence to invest in the face of escalating social and political unrest.

■ ith the introduction of the Regional Services Council the resources of wealthier local authorities will support the poorer ones. Cape Town is an obvious candidate.

The solution — the involvement of the public at large — has already been addressed by the City Council with an opinion survey to electricity users and the City Council's call for dialogue, both in 1985.

But, says the Programme for Planning report, the basic criticism that has to be faced is:

■ The lack of overall corporate strategic planning or effective means for co-ordinating activities;

WHAT T

■ 'Government ists because o refusal to face cognise the ine quences of ignc until they beco that something to prevent b

■ 'If ever there the history of t demands a str vival it is, s

■ 'The year 19 going to be the in the entire hist of Cape

■ There is little co-o nicipal departments;

■ Each department tify and develop respon

However, this critic fied because there are ward planning. Yet, ac "Cape Town City Council authorities in South Afr to maske decisions in a described as government

It quotes a noted An sor Mellville C Branch: exists because of a pers ality, to recognise the of ignoring problems ur cal that something breakdown."

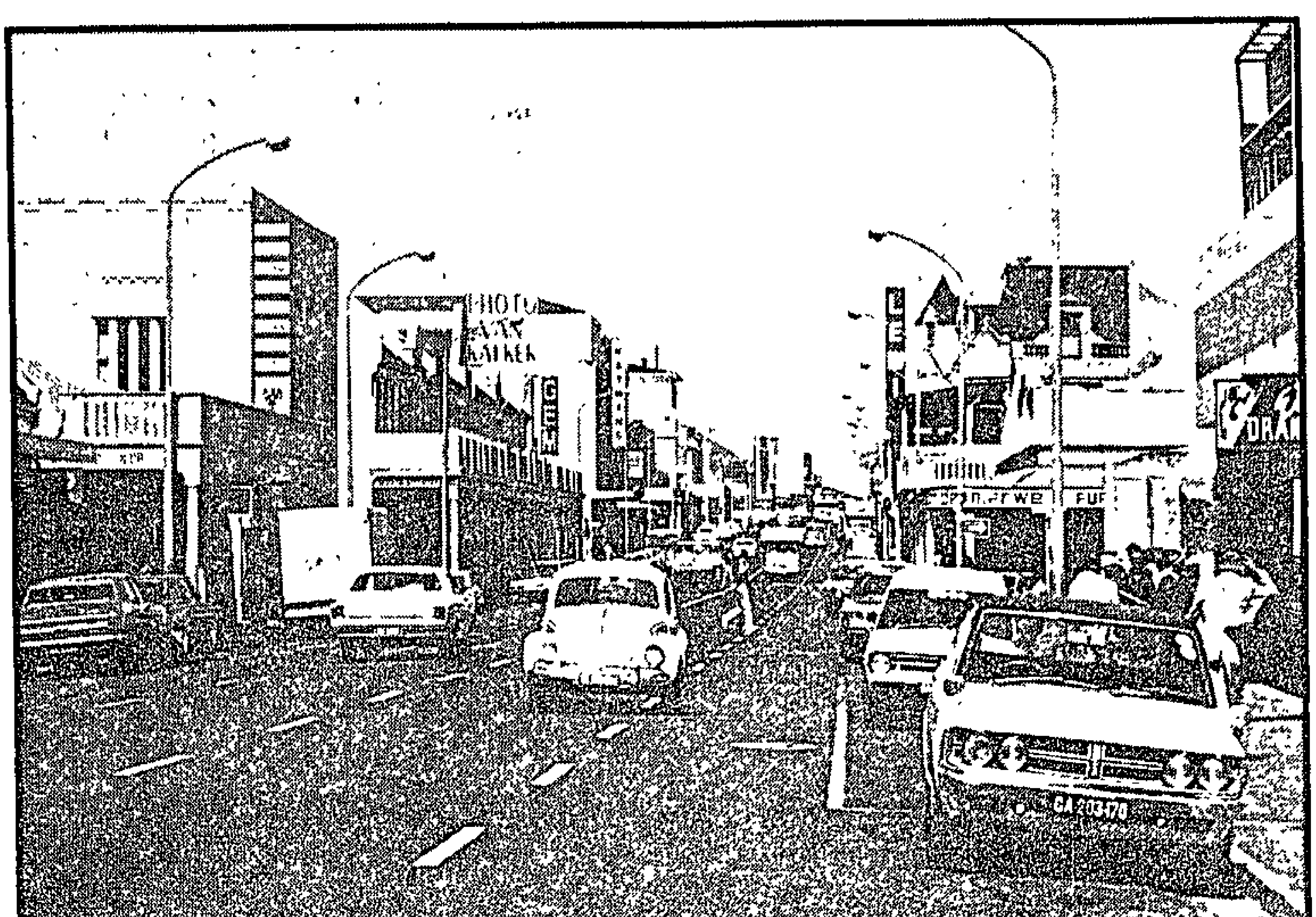
The report concludes: time in the history of th strategy for survival it

Offering a guideline fo the report says the key ning which involves the cracy and the public at

Its intention is to m cy and action in the City coherent co-operatively for future planning, de ment.

Emphasis is placed which, the report says, to succeed.

"While obtaining this ly to be easy in a conte



A busy street scene in Woodstock.

ND FOCUS

...ion ...

by IRVING STEYN, Weekend Argus News Editor

...THEY SAY

...nt by crisis ex- ... of a persistent ...ce realitiy, to re- inevitable conse- ...gnoring problems ...come so critical ...ng must be done ...it breakdown.'

...re was a time in ...of this city which strategy for sur- surely, now.'

...1988 is probably the most exciting history of the city ...pe Town.'

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...iticism is not entirely justi- ...are many examples of for- ..., according to the report, ...ouncil, like most other local ... Africa, has tended to have in a manner which could be ...ment by crisis".

... American planner, Profes- ...nch: "Government by crisis persistent refusal to face re- the inevitable consequences ... until they become so criti- ... must be done to prevent

...udes: "If there ever was a of this city which demands a ... it is, surely, now."

... for a corporate city plan key is comprehensive plan- ... the councillors, the bureau- ... at large.

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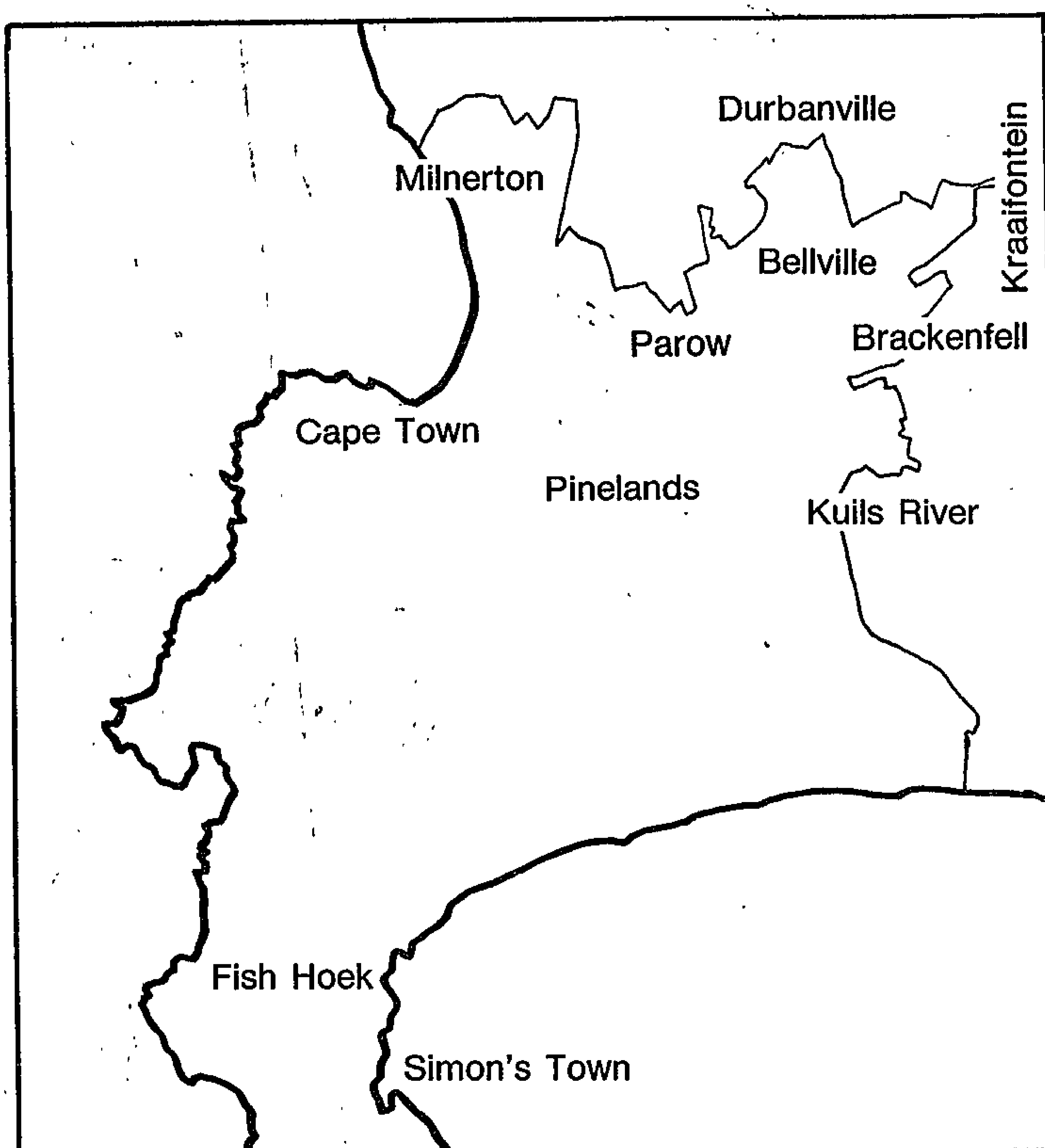
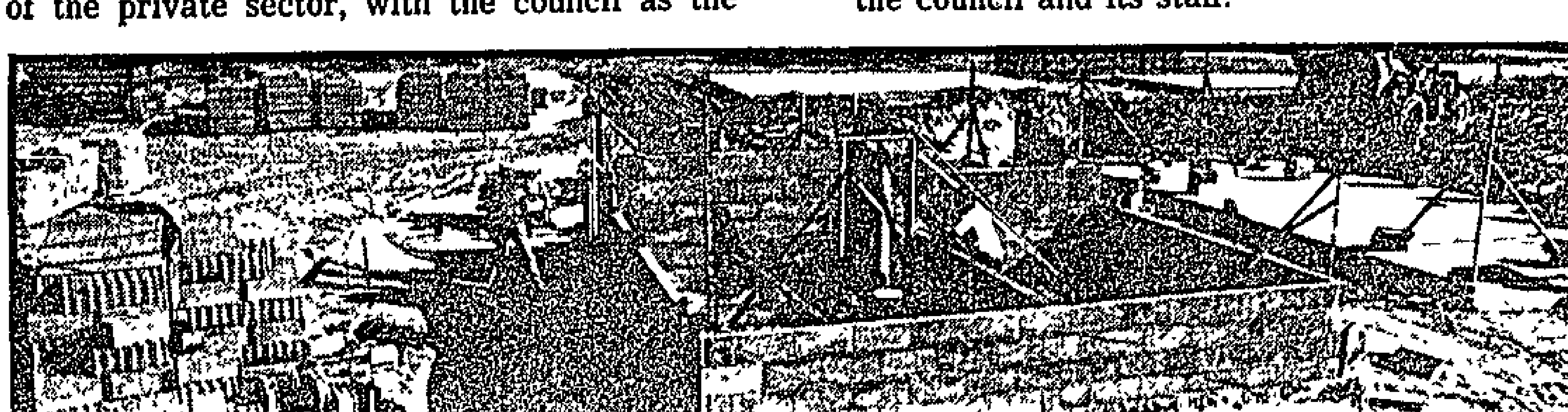


cal concerns are overriding, it is essential that an effective framework for public involvement be established."

The City Council will bring this about by a process of community goal-setting it calls "Goals for Cape Town".

This is intended as primarily a responsibility of the private sector, with the council as the catalyst for its inception and with the business community and service organisations funding the programme.

Its management should be undertaken by a group of organisations and individuals, including ratepayer and civic associations and others such as organised labour in co-operation with the council and its staff.



Houses going up on the New Crossroads site at Nyanga.

Studies warn of economic disaster in SA

Star 11/8/87 (49)

By Michael Chester

New warning bells about economic trends were rung today by studies showing that real fixed investment in key industrial sectors has been on a downward slide for six years on the run.

Dr Azar Jammine, director of the Econometrix research unit, which carried out the studies, said unless trends were reversed South Africa was pointed in the direction of economic disaster in the longer term.

Worst of all, the volume of new fixed investment in the manufacturing sector — perhaps the most crucial sector of all — has toppled by nearly 60 percent compared with 1980 levels.

ANNUAL FLOWS SLUMP

Tracking fixed investment trends by constant 1980 prices, to ascertain the level of fixed investment in real terms by leaving the distortions of inflation and a shrinking rand aside, the studies find overall annual flows have slumped from R16 378 million seven years ago to no more than R12 594 million.

The share ploughed into the manufacturing sector is down from R4 334 million to R1 776 million.

Fixed investment in agriculture has been slashed by more than half — from R897 million to R372 million in a critical five-year slide.

And the total for construction, which rose to R302 million in 1981, has crumbled to R187 million.

The only two sectors showing gains are the wholesale/retail sector and finance/insurance/real estate/business services.

"The alarm bells should be ringing," says Dr Jammine, "because unless South Africa takes a U-turn in investment patterns, and ploughs far more into the productive sectors, we shall soon start sliding downhill to join the rock bottom in Third World status.

"Somehow we need to find new mechanisms to steer investment cash flows into vital new industrial expansion and modernisation, with a new concentration on production resources — rather than continue with a mindless chase after paper profits.

ECONOMIC CHAOS

"Unless we equip ourselves to deal with developments in high technology and expand our industrial base to cope with chronic unemployment we will encounter economic chaos inside a few years.

"While real fixed investment and personal disposable incomes have kept declining, investment in financial assets has been booming.

"The paper money raised on the stock exchange has been used primarily for acquisitions — instead of new investment in key sectors to expand the industrial base and create new jobs.

"What is needed to instil confidence in the business community is a clearly spelled out economic strategy, not the kind of piecemeal policy approach with which we have been inundated in recent years.

"A strategy incorporating not only the recommendations of the President's Economic Advisory Council, but also action on privatisation, monetary reform and tax reform would at least provide a sound platform from which to attempt to embark on a new path of growth."

Problems for future growth

11/8/87 (49) B/Day

HELENA PATTEN

SERIOUS structural problems in SA's economy will continue to impede long-term growth, says the United Building Society's latest Economic Monitor.

Listed among such problems are the heavy individual tax load, rising labour unrest, the growing relative share of government spending in the economy and the limited access to foreign capital resources.

Overall, the Monitor foresees real GDP increasing by about 2,5% in both 1987 and 1988, while it forecasts inflation to hit 19% in 1988.

"Private consumption expenditure, responsible for nearly 60% of GDE, may well exceed 2,5% in real terms during this period, while real consumption expenditure by the government may even rise by some 4%. Total government expenditure will probably rise by about 20% in nominal terms during fiscal 1987/88, compared to the 16,2% rise provided for in the budget."

The Monitor says inflation is likely to fluctuate around 16% in 1987, compared with the 18,6% in 1986.

However, the easier inflation trend is not likely to be sustained in 1988. "Food prices will probably continue to climb at a rate of some 25%, while we expect that trade unions will increasingly succeed in enforcing real wage increases (without a matching increase in productivity). We expect inflation to stand at 19% by the end of 1988."

It says no significant improvement in the overall unemployment picture can be expected in the foreseeable future, because most producers will aim at higher output levels with their existing labour force.

WEDNESDAY, 12 AUGUST 1987

†Indicates translated version.

For written reply:

General Affairs:

12/8/87

State budget: percentage spent on agriculture

190. Mr A GERBER asked the Minister of Agriculture:†

What was the average annual percentage of the total State budget spent on agriculture in the years (a) 1951 to 1960, (b) 1961 to 1970, (c) 1971 to 1980 and (d) 1981 to 1986?

The MINISTER OF AGRICULTURE:

(a) 9,36 per cent.

(b) 6,87 per cent.

(c) 4,36 per cent.

(d) 3,25 per cent.

Other expenditure in respect of agriculture, eg from statutory levy funds, is not included in these percentages.

Hansard

Rent/levies in arrears

267. Mr J H VAN DER MERWE asked the Minister of Constitutional Development and Planning:†

With reference to his reply to Question No 15 on 26 May 1987, (a) what total amounts were owing to organizations under his control in respect of arrear (i) rent and (ii) levies for (aa) water supply, (bb) electricity supply and (cc) other specified services as at 30 April 1987 or the latest specified date for which figures are available and (b) what steps are being taken to collect these amounts?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

Provincial Administration of Natal

(a) (i) As house rent and service fees are levied as a single amount, separate figures can unfortunately not be furnished.

(ii) The total amount outstanding in respect of house rent and service fees due to all Black local authorities in Natal as at 30 April 1987 amounted to R2 822 284,03.

(aa), (bb) and (cc) Fall away.

(b) All possible administrative steps are taken, including negotiations with large employers to collect outstanding and current rentals from the lessees concerned on a voluntary basis by means of a stop order.
In an attempt to combat the unrest situation in the country no legal steps have as yet been taken against the lessees concerned.

Provincial Administration of Transvaal

(a) (i) Separate figures for rent and service charges are not available for the Province of Transvaal.

(ii) As at 30 April 1987 the total amount outstanding in respect of rent and service charges was R231 569 523.
(aa), (bb) and (cc) Fall away.

(b) The most important steps taken by the Province of Transvaal to collect these amounts, are shortly as follows:

— Members of the public who are in arrears with their rent and service charges are called in to discuss arrangements how to pay off the arrears. Tenants who are unemployed as a result of circumstances beyond their control are assisted with partial or total remission of rent and service charges.

During yearly estimate meetings with Black Councils the necessity that estimated revenue be collected, are strongly emphasized.

In certain areas the system whereby residents voluntarily approach their employers to deduct rent and service charges from their salaries and to forward it to the Councils, is bearing fruit.

12/8/87 Hansard

— A manual to institute civil action against defaulters has been compiled for Transvaal and made available to the local authorities.

— Black Councils undertake legal action (civil action) against defaulters.

— In certain cases services are suspended.

— Defaulters are sometimes threatened with ejection and in certain cases ejected.

— In certain areas newsletters are circulated under residents to emphasize the importance that payments be made.

— The Municipal Police are used to remind defaulters to comply with their obligations. (Monies are not collected by the Municipal Police).

12/8/87

Provincial Administration of the Orange Free State

(a) The total amount in arrears on 30 April 1987 in the Orange Free State regarding (i) rent and (ii) levies for (aa) water supply; (bb) electricity supply and (cc) other specified services amounts to R10 929 839,00.

(b) — The effect of money in arrears is constantly emphasized during the preparation and consideration of budgets.

— Black local authorities take civil action against inhabitants where payments are in arrears.

— Services are in some cases suspended.

— Information actions are continuously launched in order to improve communication between inhabitants and the Council and to emphasize the necessity for the payment of rent and service charges

Provincial Administration of the Cape Province

(a) (i) R21 703 524.

(ii) (aa), (bb) and (cc) R21 519 927 (are not kept separately)

as on 30 April 1987.

Hansard

(b) Action taken to recover arrears in respect of (a) above, are as follows:

— Personal interviews with rent and service charge defaulters.

— Letters to residents notifying them of arrears and requesting them to make arrangements for the settlement thereof.

— Negotiations with employers/employees regarding voluntary deduction orders.

— Action in terms of the Housing Act (Act 4 of 1966).

— Civil action in terms of Regulation 18 (1) of government notice R1036 of 14 June 1968.

Supplementary reply to Question No 18 on Monday, 15 June 1987, put by Mr S S van der Merwe (col 145).

Regional services councils

18. Mr S S VAN DER MERWE asked the Minister of Constitutional Development and Planning:

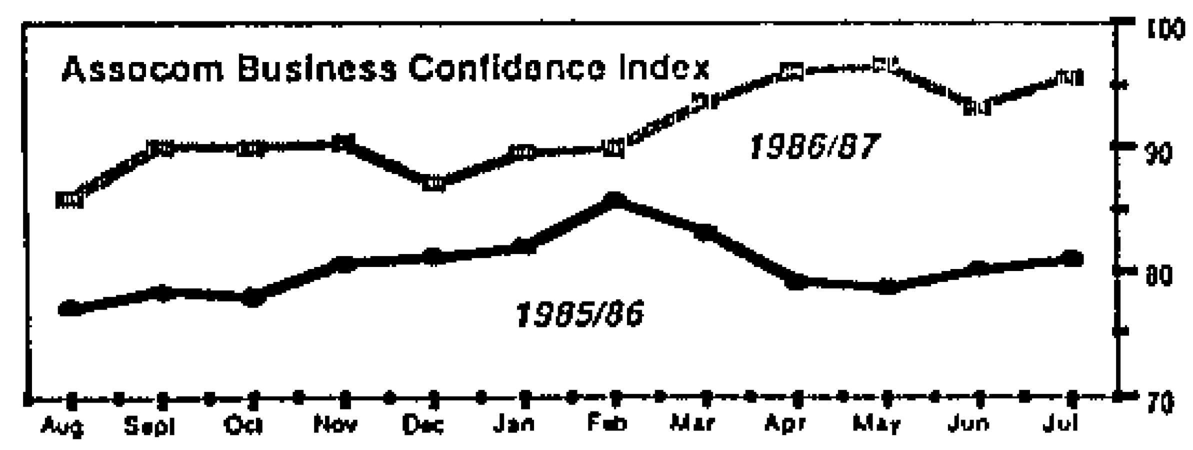
(1) Whether any persons have been appointed as chairmen of any regional services councils; if not, when will such chairmen be appointed; if so, (a) in respect of which councils, (b) what are their names in each case and (c) (i) what remuneration package will they receive and (ii) how will this package be made up;

(2) whether these chairmen will receive any fringe benefits; if so, (a) what

Hansard

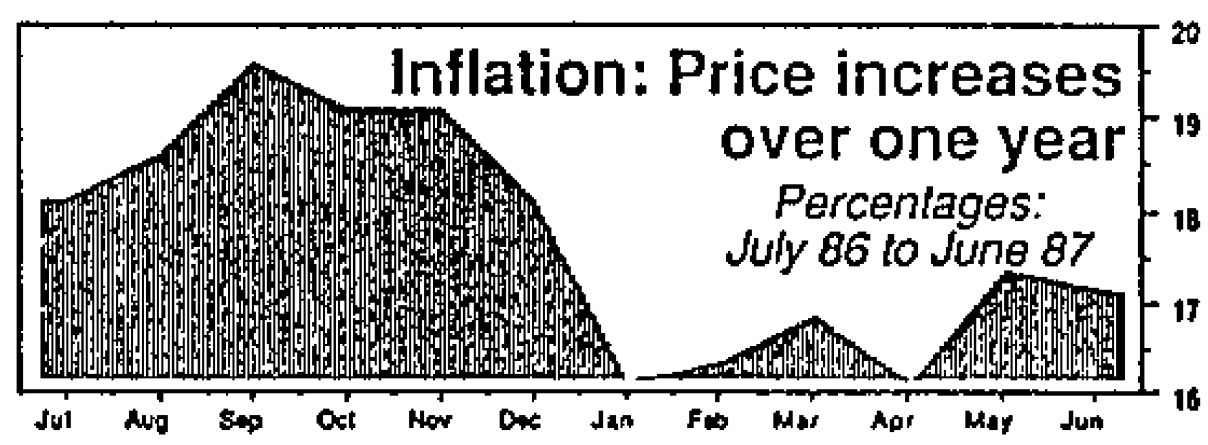
BUSINESS BAROMETER

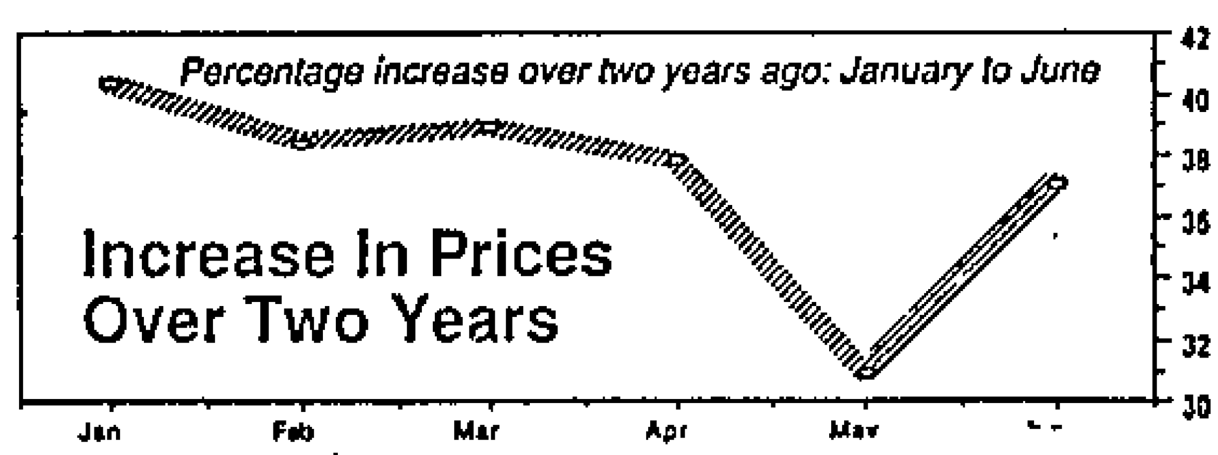
GENERAL INDICATORS



BUSINESS CONFIDENCE

Assocom's business confidence index increased by 2,5 points to 95,5 in June, after falling by 3,5 points in May. The BCI is not a survey of the confidence of business people. Rather, it measures the performance of major economic indicators, such as the stock exchange, exchange and interest rates, foreign trade and local sales. As the graph shows, the BCI has tended upwards for most of the past year.





INFLATION

June's inflation rate as measured by the consumer price index was 17,2 percent — only marginally lower than the rate for May. As the graphs show, the inflation rate has gone up in the last couple of months after dropping earlier this year from last year's 18 percent plus levels. But compared with two years ago, prices are 30 to 40 percent higher. Once again, the poor suffered highest inflation rates in June: The rate for the lower income group was 19,2 percent, compared with 16,3 percent for the higher income group.

MONEY SUPPLY

The amount of money in the economy continues to grow but is still below the Reserve Bank's target range. M3, the broadest definition of money, grew by 11,17 percent in the year to June, whereas the Reserve Bank would like to see growth rates of 14 to 18 percent. Money, as narrowly defined by M1 which includes cash plus cheque and demand deposits in banks, increased 25,6 percent in May, indicating higher demand for credit and thus reflecting some improvement in the economy.

FINANCIAL INDICATORS

Johannesburg Stock Exchange Indices

JSE Indexes	4/8/87	WEEK AGO	% CHANGE
All Market Index	2689	2561	+5
All Gold Index	2459	2312	+6,4
Industrial Index	2205	2111	+4,5

Short-term interest rates

	4/8/87	WEEK AGO	YEAR AGO
Three-month bankers acceptances	8,8%	8,95%	11,5%
Prime overdraft rate	12,5%	12,5%	14,5%

Gold Price

5/8/87	WEEK AGO	% CHANGE
$470,60	$457,9	+2,8

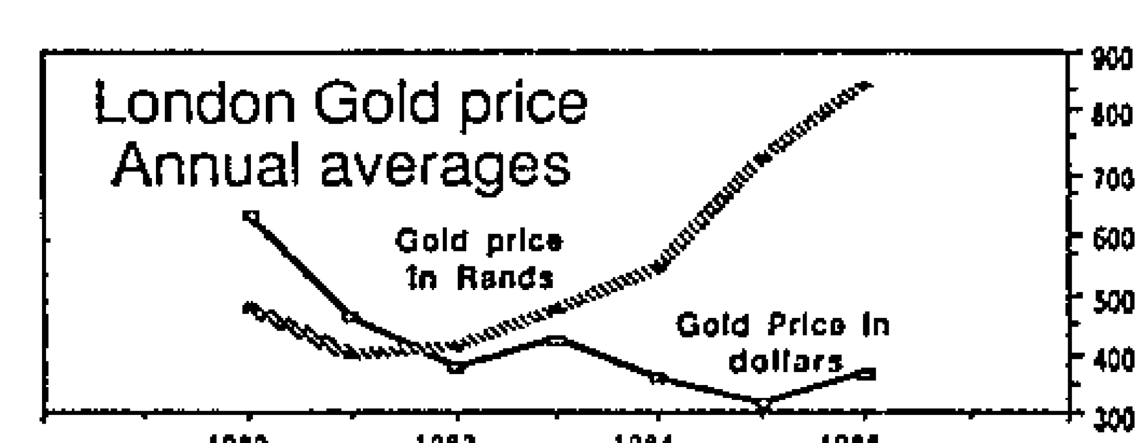
Selling price: Major currencies against rand

	5/8/87	WEEK AGO	% CHANGE
US dollars	48,13	48,30	-0,4
Pounds Sterling	328,07	331,41	-1
Deutsche Mark	0,9036	0,8972	+0,7
Yen	72,48	72,76	-0,4
Swiss Franc	0,7491	0,7431	+0,8
Financial Rand	0,3038	0,3088	-1,6

US Dollar against major currencies

	5/8/87	WEEK AGO	% CHANGE
Dm	1,8785	1,8576	+1,1
Sterling	1,5790	1,6007	-1,4
Yen	150,60	150,65	-0,03
SwFr	1,5565	1,5385	+1,2

Source: First National Bank



49

(49) B|Day 14/8/87

Kantor bemoans govt's lack of economic talent

GRETA STEYN

THERE appears to be no politician with the necessary economic knowledge, intuition and vision to shake up the South African status quo, UCT Professor of Economics Brian Kantor said yesterday

Speaking yesterday at the annual convention of the SA Property Owners Association in Cape Town, he said: "There is too much economic policy made by a consensus of comfortable, secure and risk-averse officials trained in the wrong school of economics."

Referring to the White Paper on privatisation and deregulation, Kantor said he found it "deeply disappointing".

"It lacks enthusiasm and commitment and is full of tired and invalid objections."

He said he feared government's response to the possibility of tax reform may be equally disappointing.

Privatisation, deregulation and tax reform offered enormous scope for driving the economy forward. In his view, the abandonment of exhcange control would also be "very good for the economy", though highly threatening to financial markets.

On the subject of a recovery in total spending, Kantor said this would bring higher interest rates as well as monetary growth. Trade surpluses would shrink, putting downward pressure on exchange rates and upward pressure on inflation rates.

This could only be delayed by a very strong gold price, though much depended on how well the monetary authorities managed the recovery.

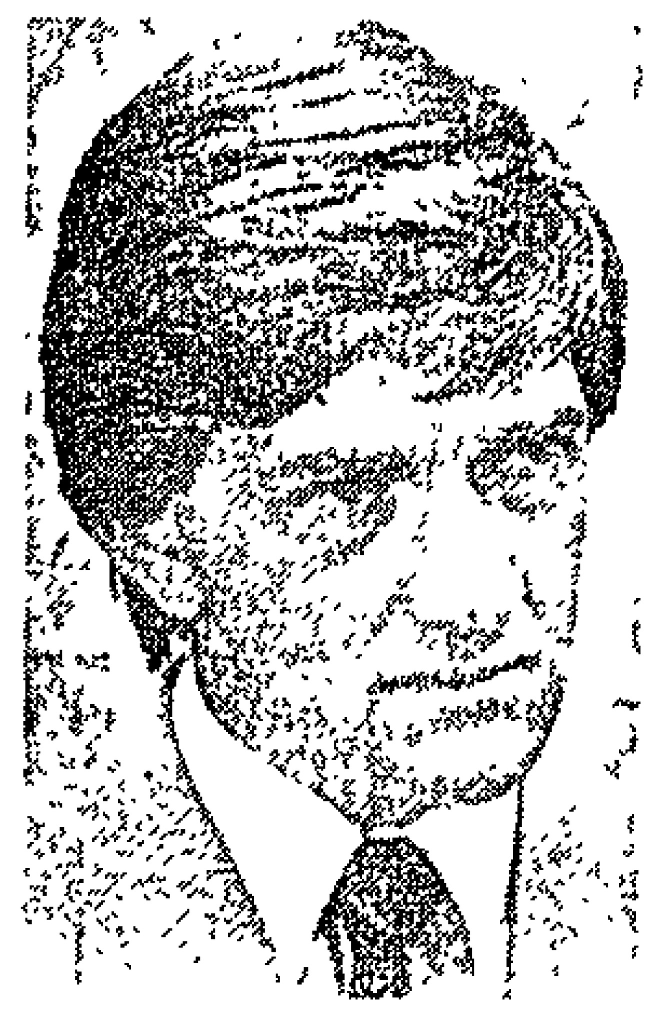
Kantor said: "I remain sceptical of the ability of the aurhorities, given their preference for an undervalued exchange rate and given also their operating procedures to prevent money supply from growing too rapidly, once the recovery gathers momentum."

□ See Page 13

Economics the key to region's future

14/8/87.

EAST LONDON — It was hoped that the future of the region would be determined by economic realities rather than political terms, the president of the East London Chamber of Commerce, Mr Nico Cloete, said yesterday.



MR CLOETE

"If we believe that, then we must acknowledge that original commerce and industry have a vital responsibility to the people of this region.

"Unfortunately, business or politics cannot survive independently and are compelled to form a partnership where one does not necessarily agree with the other all the time. But they agree to a common goal," Mr Cloete said.

Politics, economics both have vital role — Cloete

He said sustained economic recovery and growth could not be achieved without tangible political adjustment, ensuring that the majority of the people became economically active.

Mr Cloete said privatisation was a "buzz" word and could not become a reality unless tackled carefully and with discretion.

"One cannot privatise at all costs and it is in this area that the Chamber of Commerce can play a constructive role in assisting authorities to identify those functions most suitable for private activity," Mr Cloete said.

He said the chamber acted as the watchdog for its members without always being on the attack and gave credit when credit was due.

"Through constructive dialogue we endeavour to assist the city council to achieve these goals."

Speaking on total interaction and development, Mr Tony Trowbridge, of the Johannesburg CBD Association, said the Westminister system was an unqualified failure everywhere.

"It is a medieval system which has not progressed and does not meet the modern-day complexities," he said and declared that there were no political solutions to South Africa's problems.

Mr Trowbridge said the reality was that all problems were local, no matter what government was in power.

The real challenge facing South Africa was to change the nature of power through a system which was development and future orientated and which sought to reconcile differences instead of institutionalising them, he said.

"It is therefore not the superficiality of "change" that is required, but a transformation in our thinking and approaches to ourselves so that a shared vision of the future is possible," Mr Trowbridge said.

He said the objectives of a new system would involve a transformation from a conflict to a co-operative model; from a "winner takes all" to a "win-win" situation; from majority rule to the accommodation of all minorites; from public and private sector alienation to co-creativity; from pressure groups to supportive special interest groups; from a past to a future orientation and development; from wealth distribution to wealth creation; from centralised planning to regional economic self-sufficiency; and from multi-racial fears to an ecology of cultures.

Mr Trowbridge said consitutional designers invariably worked down from the power position and focused their attention on systems and proportions of representation.

"Voting as such is only a small part of the democratic process, and one that is open to considerable distortion and corruption," he said.

"It matters far more than any new system should identify the qualities and competence of the votee rather than the voter.

"The real fear of the average person is that they will not be governed competently, and that their effect on important decisions affecting their lives are limited to a voice once every four or five years.

"When people find that they are unable to comment, communicate or contribute effectively to the decision-making process, it is inevitable that they should resort to bypassing, criticising and subverting the system instead of supporting it.

"The best place to begin a process of transformation of society is where the greatest problems are — but where the greatest opportunities exist for meeting and solving them — at local government level.

"The linking agency for developing a co-creative community is a local citizens assocation," Mr Trowbridge said.

PE on road back to better times

(49) 15/8/87 W POST.

By RAYMOND HILL

AFTER four years of deep recession, Port Elizabeth's economy seems to be well on the road to recovery.

This is borne out by year-on-year statistics.

They show that hotel income in PE is up by 24,6%, registered unemployment is down by 57,5%, new vehicle sales are up by 31% and vehicle registrations increased by 16% in one month.

General sales tax returns increased by 10% in the first six months of the year and the value of building plans passed is up by 93,6%.

Local vehicle sales as well as national sales by the two locally based motor manufacturers are probably the most important indicators of the state of the PE-Uitenhage economy, and both are showing substantial improvements.

The chairman of the Eastern Province division of the National Automobile Dealers' Association, Mr Syd Lippstreu, said motor vehicle sales in PE and Uitenhage had gone up to 784 in July, an increase of 100 or 14,6% over June, or 31,7% over last July's figure of 595 units.

Mr Lippstreu said the increase was significant and could be due to an upswing in the economy or new confidence in PE.

Volkswagen has increased production by 22% — from 21 576 vehicles in 1986 to 26 393 this year. It is taking on between 400 and 500 more workers.

Delta Motor Corporation has taken on a further 200 people and is working full shifts again.

Delta's sales in the first seven months of the year were 22% up on 1986 — from last year's 14 025 to 17 070 so far.

Mr Andy Augustyn, Port Elizabeth's chief traffic officer, said the number of vehicles that were registered by his department increased by 16,74% in July after there was a drop of 21% during April and May.

The building industry is another key sector where conditions are improving markedly. The value of new buildings started in the city in the first seven months this year rose by 37,3% and the value of building plans passed increased by 93,6%, offering a promise of much more work for the city's builders.

The property market in the city has also shown a sustained improvement and the Bureau for Economic Research at the University of Stellenbosch has found that house prices in Port Elizabeth and Cape Town in February this year showed the highest annual increases of the major centres.

Latest figures released by the Institute for Planning Research at the University of Port Elizabeth show that house prices have now recovered after dropping in 1985.

Although official unemployment statistics reflect only a small proportion of the actual number of unemployed, they do indicate changed trends and again the indications are positive.

The number of unemployed whites and coloureds registered with the Department of Manpower in the Eastern Cape in July was 57,6% lower than in July last year and 9% lower than in June this year. Only 4 849 unemployed coloureds and whites were registered compared with 11 432 in July, 1986.

Registration of unemployed blacks in the region also dropped, although by only 0,3%, from 4 722 in June to 4 709 last month.

Port Elizabeth's tourist industry also seems to be picking up.

The latest figures released by the Central Statistical Services show that the income of Port Elizabeth and Uitenhage hotels in June was R2 298 758, up by 24,5% on last June's R1 844 538.

In spite of these positive indicators, however, consumer confidence in the city seems to be lagging to some extent. According to the Stellenbosch's Bureau for Econo[illegible] R[illegible]search the retail ind[illegible] in March was down [illegible] compared to 930 in March last year, a drop of 7,4%.

However, general sales tax returns in the first half of the year indicate that in

● To Page 2

this crucial sector things might be changing. A spokesman for the Receiver of Revenue said the GST figures for the Eastern Cape, which had increased by 10% from January to June, were encouraging.

The volume of cargo handled by the Port Elizabeth harbour in April was 28,4% down on April, 1986.

In East London the retail sales index shows a substantial improvement. The index figure for retail goods sold rose to 517 in March, compared to 382 in March last year, an improvement of 35,3%.

Hoteliers in East London are also showing improved figures. Income for hotels in East London increased to R1 362 124 in June, compared to R1 148 602 at the same time last year — an increase of 18,6%.

And hotels in the country towns are also getting their share with a 19,4% increase in revenue.

B/Day 17/8/87

B/Day 17/8/87

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Changes to labour relations legislation

CHRIS CAIRNCROSS

CAPE TOWN — Fundamental changes to existing labour laws, which could materially influence industrial relations, are to be tabled in Parliament later this year.

The purpose is to fine-tune existing legislation and tackle those pressure points in labour relations which are still creating problems, says Manpower director-general Piet van der Merwe.

The changes to be introduced are mainly the result of submissions made by employer and employee organisations on the draft Labour Relations Amendment Bill, published for comment in the Government Gazette last December.

Van der Merwe said a large number of organisations submitted their views, and there was a remarkable degree of consensus.

The main changes to legislation envisaged, but by no means finalised, concern the appointment of a special labour court; a court of appeal; changes in the numbers and streamlining of conciliation board procedures; and refinements to the definition of an unfair labour practice.

The legislation is expected to signal a mucher harder government line against "illegal" union strike action.

New provisions will make it far simpler/easier for employers to seek recompense from unions who take action outside agreed procedures.

Restructure SA's economy — Cosatu

ALAN FINE

A 90-page booklet, Political Economy — SA in Crisis, published by Cosatu last week, criticises solutions put forward by SA's big business establishment as being unable to solve the country's deep-seated economic problems.

It calls for the economy to be restructured, but warns that to merely talk of socialism as if it were a "magic formula" also fails to answer key questions.

The booklet, produced by Cosatu's Durban-based education division, is aimed at union membership.

It argues privatisation will mean a hand over of parastatals to large monopolies. This process, it says, will not constitute new investment or create jobs.

A more likely outcome will be higher levels of retrenchment as the new owners rationalise the corporations to make them more profitable.

And profits from these new private ventures are unlikely to be invested in the creation of new jobs, because of a lack of business confidence and shrinking local markets.

It further argues privatisation of areas of "social consumption" like housing, health care and education will be counterproductive, in that these products and services cannot be made available to the mass black market at affordable prices.

The final chapter of the booklet raises a number of issues which Cosatu believes need to be addressed. These include the nature of political structures for a future democracy and protection of individual rights.

Access to archives denied

DIANNA GAMES

THE Department of Foreign Affairs says that, but for some exceptions, documents from its archives are not made available to the public.

Use of its documents for research has long been a matter of confusion for researchers and academics.

The matter came to light again with the recent launch of a book by Sara Pienaar, history lecturer at Unisa, in which she says she was denied access to certain documents — but only in the past few years.

Several prominent SA academics say they have experienced difficulties in getting access to the records.

In the preface to her new book, South African and International Relations Between the Two World Wars — The League of Nations Dimension, Pienaar writes the department appears to have placed a blanket ban on all documents in the State Archives dealing with SA's foreign relations since 1910.

In 1979 she used Foreign Affairs documents without any obstruction from Archives officials but four years later, when needing to check them for another project, she was told she could not do so. A letter to her from the State Archives in 1983 said the department was not willing to allow any research into its archives.

Confidence missing factor in economy

HELEN WISHART

CONFIDENCE was the missing factor which had led to 10 years of inadequate economic performance, former Finance Minister and now Nedbank Group chairman Owen Horwood said.

He told the SA Institute of International Affairs other factors which inhibited economic growth were the static international market and a downward trend in gold production.

But the most significant factor was the "long downward trend of capital formation". This had a ripple effect in the economy, pulling down activity and employment in the related supply industries.

Further constraints imposed on the market — though not immutable — were sanctions, consumer boycotts and labour unrest. A concerted effort would have to be made to achieve "constitutional accord" and improve the social and labour climate in order to "soften the severity of sanctions".

Horwood said to inspire confidence, a comprehensive industrial strategy should be implemented "which embodies a clear identification of the opportunities confronting the country".

Horwood said: "Government should also undertake a commitment to deregulation and maintaining progress towards a free market economy."

Economy determined by ability of leaders — speaker

GRAHAMSTOWN — The South African business environment faced a new order of challenges which were both problematic and opportunistic, Mr Nick Binedell, from the University of the Witwatersrand Business Graduate School, told the Aiesec commerce week at Rhodes University.

He said: "There is opportunity for adaption and realignment in the business sector."

Leadership was responding to pressures to determine the role of business in a society facing socio-political upheaval and transition.

"The long term future of the political economy in South Africa will be determined by the vision and ability of its business leaders," Mr Binedell said.

The key challenge to business was the legitimacy of capitalism.

Mr Binedell said: "This crisis of legitimacy is of major concern for the long term viability of South African industry. If in a future power dispensation, political leaders are strongly socialist, they are unlikely to create favourable fiscal and investment opportunities in society."

The other problem was socio-political intrusion into the busines area.

He said: "The mass mobilisation of black political anger at current conditions has meant that the work force has sought to embroil the busines community in these issues."

Managers were being forced to deal with multi-cultural situations, affirmative action progrmames, strikes, labour disputs, wage settlements, boycotts and security problems, among others.

This placed new stresses on management and diverted them from the basic business of producing products and selling them.

International economic isolation was likely to influence the basic nature, infrastructure and development of the economy.

Mr Binedell said: "In South Africa, a key element of leadership strategy is the contending political and economic ideologies that are vying for support."

South Africa was in a long term period of transition in which power was going to shift to a broader base. This would place particular demands on the economic infrastructure to implement its agenda.

South Africa's was a low-productivity, low technology, isolated economy. There was an enormous requirement for the provision of education and management development.

Mr Binedell said: "In my view these issues create the demand for a new form of South African business leadership."

To begin this process, the role of management needed to be redefined and placed in the broader context of socio-political change.

GROWTH RATE

Not the magic 3%

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When he delivers his annual address next Tuesday do not be surprised if Reserve Bank Governor Gerhard de Kock finally concedes that economic growth is unlikely to reach 3% for 1987, but rather a modest 2,5%, despite activity having picked up in the present quarter — car sales being the most notable sign. Moreover, official figures for recent growth have been revised downwards.

Central Statistical Service (CSS) figures confirm the economy grew by a measly real 1,6% in the second quarter (seasonally adjusted, annualised) to R67,1 billion (constant 1980 prices). They also show some major revisions: the first quarter's 3,25% growth estimate has been cut to 2,2%, the fourth quarter of 1986 to 3,5% (from an initial 4,5%), the third quarter to 3,6% (4,5%), the second quarter an upgrading to 2,8% (2%), and 1986's first quarter decline to a sharper 2% (1,5%).

For the whole year, the growth rate has been revised downwards to 0,5%, from the "not quite 1%" reported in the March *Quarterly Bulletin.*

CSS calculates for the *FM* that for 3% to be realised this year the economy needs to grow 3,2% in the second half compared to the same half in 1986, or 4,2% on the first half of this year. So, as in 1986, the more pessimistic forecasters are likely to be nearer the mark.

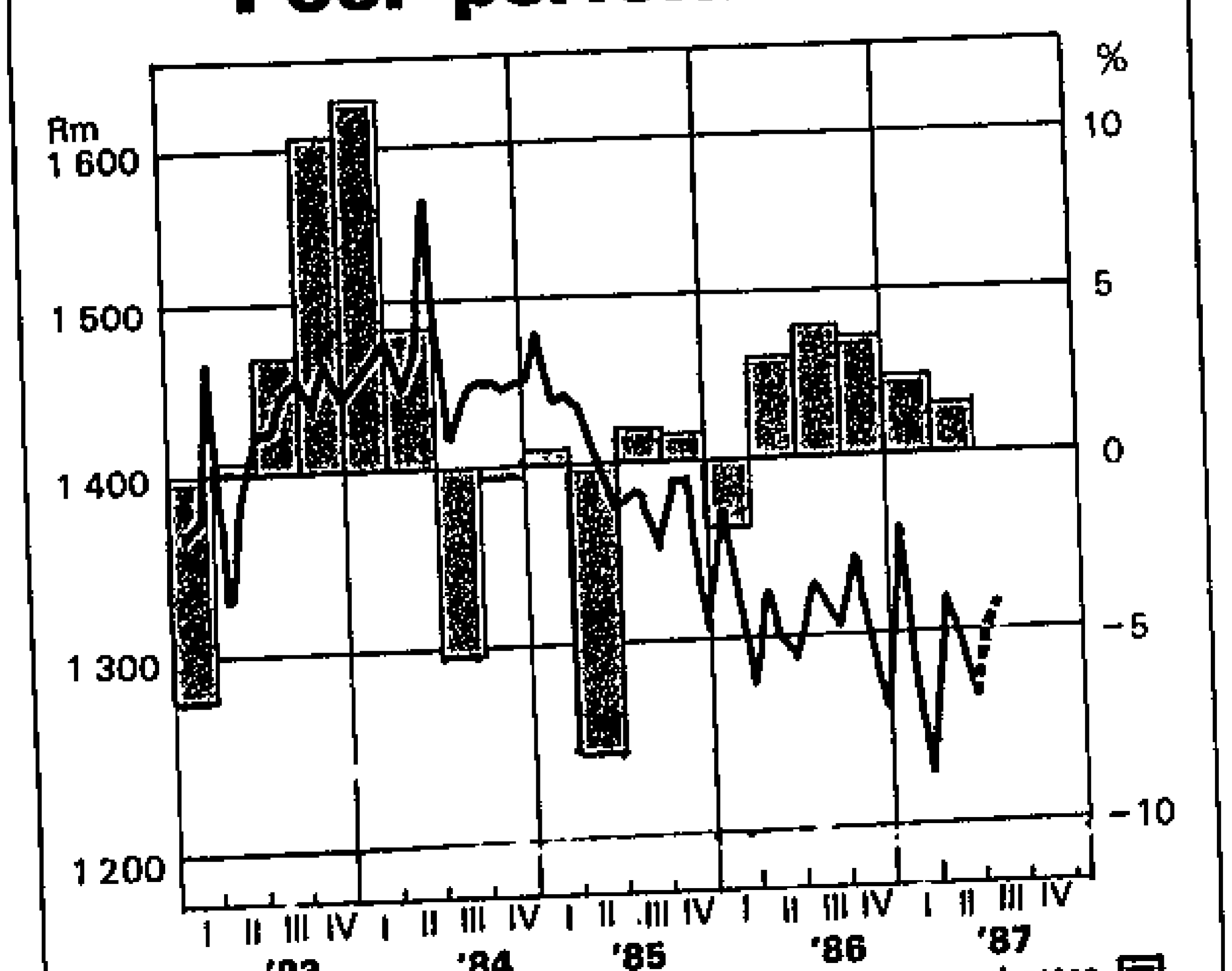
But one of the more optimistic is still holding on to 3%. Old Mutual's David Mohr reckons that exports could improve as major foreign economies pick up, while domestic spending may be boosted by the civil servants' salary increase, lower inflation, and improved conditions in the labour market.

Another optimist, Davis Borkum Hare's Mike Brown, has lowered his growth estimate from 3,6% to around 3%. Noting the upturn in private consumption, he adds that the decelerating CPI means the lower deflator should statistically push real GDP up while the downward trend in fixed investment and inventory build-up is turning around.

Major reasons for the slowdown are poorer export and consumer spending growth. This, the governor will probably explain, is largely a consequence of numerous public holidays, strikes and unofficial holidays in the second quarter. Higher than expected inflation also eroded expected real GDP.

CSS's preliminary retail trade sales figures for June — out within six weeks for the first time — confirm no real increase in April-June from the first quarter (R3,87 billion in both quarters at constant 1980 prices). Compared to the second quarter of 1986 retail trade sales declined 0,8% in the second quarter.

Poor performance



GDP at constant 1980 prices seasonally adjusted at annual rates
Retail sales at 1980 prices —— Expected ----
Source CSS

In June itself, retail sales (real, seasonally adjusted) of R1,26 billion are 1,5% down on June 1986 and 2,2% down on May (itself 2,2% lower than in April). Of the six business categories, furniture and household dealers, general dealers and "other dealers" had better sales than in June 1986. Of the seven merchandise categories food, clothing, footwear and textiles, and "all other merchandise" sales are lower than in June 1986.

Expected figures for July and August back up the improved motor sales. Expected August real trade sales are almost 4% above June's.

These are the first CSS GDP estimates at market prices. Previously, it only provided figures at factor incomes. The market price includes factor income plus indirect tax less subsidies. While the figures differ, CSS notes that the rates of change are roughly similar.

CSS calculated market prices from factor incomes on data furnished by the Reserve Bank. CSS's Treurnicht du Toit says there has been "close collaboration" with the Bank but CSS has compiled its own basic data. "We will still liaise closely."

It now provides both estimates 45 days after quarter-end but only gives a detailed GDP breakdown at factor incomes. These show that the second-quarter picture would be far worse were it not for agriculture, which increased by 15,5% from the first quarter. Non-agricultural production increased by a "slight and insignificant" 0,2% (both annualised). The worst decline was transport and communication (down 6,2%). The largest sectors, mining and quarrying and manufacturing, rose only 0,6% and 0,9% respectively.

The main difference between CSS and Bank GDP figures is that whereas the Bank bases GDP on expenditure, CSS calculates total production. Thus the Bank's figure — called expenditure on GDP — comprises private consumption expenditure (63% of GDP at the latest estimate); general government consumption expenditure (21%); gross domestic fixed investment (24%); inventory changes (a negative 7%) and a residual item (a negative 1%). This "residual item" is the balancing variable, ensuring that CSS's market prices estimate and the Bank's figures correspond even though they are collected and collated independently.

CSS breaks production down into agriculture, forestry, and fishing (7,3%); mining and quarrying (19,7%); manufacturing (19,7%); electricity and water (4,3%); construction (3%); trade and catering (12,9%); transport and communication (8%); finance and real estate (12,5%); community services (1,7%); general government (10,5%); other producers (2,3%); less imports (2%).

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THE ECONOMY

World Bank puts SA in the top thirty. But that's only half of it

By PUNDY PILLAY, Cape Town

WITH an average per capita income of \$2 340 South Africa ranks as the 27th wealthiest nation (excluding the East European socialist economies and the high income oil exporting countries) in the world according to the latest development report of the World Bank.

South Africa looks good in terms of both per capita income and inflation, from the World Bank's international comparisons. But the bank's report does not give figures on income distribution in South Africa and without these, per capita income does not tell us much about levels of economic welfare or poverty.

South Africa is classified by the bank as an upper middle income country, in the same category as Argentina, Venezuela, Hong Kong, Brazil, Singapore, Chile, South Korea and Israel.

According to the report, living levels, in 1984, were highest in Switzerland and the United States with respective per capita incomes of \$16 330 and \$15 390. Countries with the lowest per capita incomes were Ethiopia (\$110) and Bangladesh (\$130).

Among middle income countries South Africa ranked as the eighth wealthiest after Singapore, Trinidad and Tobago, Hong Kong, Israel, Greece, Venezuela and Algeria.

South Africa's per capita income declined from \$2 670 in 1982 to its present R2 340. In fact, the average annual rate of growth in gross national product per capita between 1960 and 1978 was 2,5 percent while for the period 1965-1984 it had slumped to 1,4 percent, a clear reflection of both the poor performance of the economy in recent times and the high population growth rate.

The report also shows that most of the middle and high income countries have failed to contain inflation during the Seventies and Eighties.

Although the average annual rate of inflation in South Africa more than doubled from 6,0 percent during 1965-1973 to 13,2 percent for the period 1973-1984, this still compares favourably with the "galloping inflation" of such middle income countries as Israel, Argentina, Uruguay, Chile, Brazil and Portugal (see table below).

Only a handful of nations managed to achieve single digit inflation rates during the Seventies and early Eighties, most notably Hong Kong, Singapore, Japan, Switzerland, West Germany and the United States

Average annual rate of inflation

	1965-73	1973-84
South Africa	6,0	13,2
Chile	50,3	75,4
Brazil	23,2	71,4
Portugal	4,9	20,5
Malaysia	1,2	6,2
Uruguay	51,7	50,0
Mexico	4,8	31,5
South Korea	15,5	17,6
Yugoslavia	10,9	24,6
Argentina	24,1	180,8
Venezuela	3,3	11,7
Israel	8,2	84,4
Hong Kong	6,4	9,8
Singapore	3,1	4,4
Japan	6,0	4,5
West Germany	4,7	4,1
Switzerland	5,5	3,9
USA	4,7	7,4

In terms of the relatively high per capita income ranking of South Africa it might be easy to conclude that development is not an issue. However, while the rate of growth of the per capita income of an economy is one of the factors which is important in determining trends in the level of economic welfare, information is also needed about the distribution of income and the incidence of poverty.

Income distribution figures produced by researchers at the universities of Cape Town and Natal suggest that South Africa is "at the very top of the inequality league". For instance, in 1980, the top 20 percent of earners received 60 percent of all income while the bottom 40 percent took home only eight percent. Furthermore, this inequality is structured along racial lines with blacks, comprising more than 70 percent of the population, receiving only 40 percent of earned income.

While the South African per capita income is in excess of \$2 000, it has been estimated that African per capita incomes in this country in 1985 were about R280, declining from R292 in 1980. Countries with this level of per capita income include the "poorest of the poor", such as Bangladesh, Malawi and Zaire.

The R280 per capita figure is considerably lower than those for Southern African countries such as Botswana, Lesotho, Zambia, Zimbabwe and Swaziland.

There is also evidence to suggest that urban-rural inequalities have increased with per capita incomes for Africans in metropolitan areas being as much as five times greater than in rural areas and homelands.

The problem of unequal income distribution has been compounded by the fact that during the last decade and a half, this country has had to contend with "stagflation" — the simultaneous occurrence of high rates of inflation and unemployment.

Independent researchers estimate unemployment as being in excess of three million in 1987, increasing from about two million in 1980. The result is increasing impoverishment for black South Africans, with the dependency ratio (the number of individuals dependent on an employed person), for example, for Africans at 5,3 compared to a white dependency ratio of 3,3.

Those who have jobs are faced with declining real incomes; since 1984 real wages have been declining in all sectors of formal employment except transport and services.

The overriding conclusion then is that while South Africa is one of the wealthiest nations in the world in terms of per capita income, the actual level of development places her much lower in the international development stakes.

"Our dear Amanda, I
understand that Thami's ulcers
have worsened, so much so that
he has been hospitalised. Perhaps
you will be able to assure me
that he is responding well to
the treatment, that he is on his
feet again.
He is a young man of promise and
the one we like very much. He has
a lot of vigour and drive which
we all, particularly you, can help
him to develop to the fullest.
I sincerely hope that the knowledge
that our admiration for him is
still as high and attachment
so strong, and that we think of
him at this very moment, will
cheer and strengthen him. Do tell
him this."
I hope you will now get
Madiba clear.
Hoping to see you again in the
near future.
Yours Amanda.

Mkhwanazi's fiancée, Amanda Kwadi, copied these excerpts from a letter sent to her by Mandela

There was harmony between the PAC and the Freedom Charter camp, but we had to work at it. Kwedi Mkhalipe, who completed his 20-year sentence last year, was very good at maintaining peace. Mkhalipe, a thorough Africanist, was the most likeable man in the PAC camp.

We were in the same cleaning span in B-Section. As we swept the sprawling combined dining room and movie hall, our brooms moved forward in unison, and so did our discussion.

We often found ourselves trapped in opposing political views. For the sake of peace, Mkhalipe would subtly turn the subject to the Organisation of African Unity. The importance of the OAU was a subject on which all camps agreed.

Very different was my good friend Jeoff Masemola, a PAC lifer who foreswore PW Botha's "foreswear violence" offer of release. Bra Jeoff and I were bound by the principle of telling the prison authorities where to get off.

He had declared a one-man war against the authorities. To him, careful plans and lengthy debates by inmates before action could be taken was a waste of time. He staged one-man hunger strikes, winning a lot of rights and privileges for himself — and also losing many battles, ending up behind bars within bars, gaining nothing at the end of a lengthy and painful hunger strike.

Armed with a BA degree which he earned in prison, he argued intelligently in his letters to the prison top brass. His letters were like declarations of war or indictments. He called a spade a spade.

Bra Jeoff was an agitator. Perhaps I was one too. He called me "fighter" and I called him "soldier". For some reason we were constantly having brushes with the authorities. Like me, he was transferred from section to section and eventually from prison to prison. (In the seven years I was jailed, from April 1980 to March this year, I was moved around the country between seven different prisons. The longest stretch, three years, was spent on the Island.)

We met in A-Section, shortly after my arrival on the Island. I was his "home boy" — we both came from Atteridgeville, near Pretoria, where he had been a schoolteacher at the time of his conviction in 1963. Inmates are always anxious to learn of events back home and I promised to inform him about Pheli, as Atteridgeville is called.

It took me two weeks to revisit his cell, and he was so angry he told me to get out. He told me he believed I was being inducted into the Freedom Charter camp and that whatever I would tell him would be censored by the Charterists, playing down any PAC gains.

A week later we were laughing together. I understood his problem. Many prisoners had to vent their anger from time to time on someone. We saw it as therapy when anger was vented on us by fellow inmates on the Island and we didn't take it hard. Also one had to consider the fact that the man was a lifer.

Masemola was a skilled artisan — a carpenter, builder, plumber. In the early Seventies he made all the cupboards in the cells in his section out of scrap wood. That was not all he made. In the Sixties, I was told, he made a jail key which was offered free to anyone who cared to try the daredevil swim to freedom. No-one took up the offer.

No-one did in the Sixties and it is not likely anyone would today, if the offer were still in force. The inmates made adaptable codes that changed to meet changing situations — and eventually it became part of the code of conduct that there should be no escape attempts. We felt it would retard the struggle. Any attempted escape could lead to a death — and the only ones to benefit would be the state.

Elias Motsoaledi, 63, another Rivonia trialist, was the haircut man. He would set up a chair in the courtyard and give you any style of haircut you needed, especially for special occasions such as a visit, or a pending release. But he was a very busy man — one had to make an appointment to get a haircut.

He was also the handyman — and always had this or that to do. For example, he made rubber plugs for all the sinks. The sink plugs provided by the prison were always too loose and light and they would often come out while one was using the sink. Motsoaledi had a huge piece of rubber that had been washed up on the shore. It was so hard and tough — he needed a hacksaw to cut it — that he would joke that it came from Inner Mongolia. He used it to cut sink plugs.

He would store lots of things like this in one of the empty cells. When the prison authorities would raid and one of the warders would want to confiscate it, he would resist and argue and eventually they would say, "Leave the old man alone."

But his real love was his garden.

For years he had cultivated the area around the courtyard. He had planted grass and flowers — over the years he had managed to acquire seeds — and cared for them every day. He collected rain water by placing plastic drums under the drainpipes, carting them around to the flower beds when they were full and reserving some for dry days. He treasured soft water for his garden and when inmates had finished bathing he would collect the leftover soapy water for his flowers.

It was an unofficial garden — not sanctioned by the prison officials. However, it was really beautiful and they turned a blind eye to it. In the end, the prison officials themselves were proud of it and would show it off to visitors.

At first, everyone would pick flowers from the garden and put them in their cells. But this spoiled the garden, so a rule was made that only Motsoaledi himself could pick them. Every week, he would take a few flowers, put them in a tin or similiar container and place them in the corridor or the dining room.

Motsoaledi was concerned at one stage that mice were destroying his garden. So Jeoff Masemola made him traps from scraps of wood and metal, and he put them around the courtyard. When in the early morning he would find a successful "catch", he would cheer and chortle and show it off to everyone.

The Red Cross delegation that visited the Island last year included a woman for the first time, Francine Fass-Regrosio. Motsoaledi picked some of his freshest flowers and gave her a large bunch as a token of our appreciation for their work.

(49) B/Day 24/8/87

Growth of 2,5% predicted

Sanlam sees a better outlook for rest of '87

CHRIS CAIRNCROSS

SANLAM is convinced that the marked slackening in economic expansion which occurred in the second quarter of the year is temporary, and that there will be a further acceleration in the remainder of 1987.

In its latest economic survey it forecasts average growth of 2,5% for the year, and predicts that this could be further repeated in 1988.

It goes so far as to suggest next year's forecast could well be an underestimation, if the ever-increasing impact of the informal sector on overall economic growth is taken into consideration.

Sanlam lists various factors which it believes should give new impetus to the upswing over the next six to 12 months. They include:

- Marked increases in salaries and wages in both the public and private sectors which will translate into increases in private consumption expenditure;
- More favourable employment prospects, which could have a beneficial effect on total purchasing power;
- Indications that the inflation rate will decelerate further next year;
- A continued firm trend in the gold price;

Sanlam's confidence that inflation will slow in coming months is based on the following factors:

- The expected moderate expansion in general economic activity;
- The sustained, relatively strong performance of the external value of the rand, which should help keep rises in the cost of imported goods in check;
- A fairly slow increase in the money supply;
- Continued low interest rates.

Sanlam estimates that these factors will combine to depress the inflation rate from the 16,6% average during the first six months of the year to an average of 15,5% over the second half of 1987.

Plea for action on farming

CHRIS CAIRNCROSS

CAPE TOWN — The plight of the agricultural sector can no longer be left unattended and timely action must and can be taken to at least slow down its further deteroration, Sanlam says in its latest economic survey.

It calls for serious efforts to rebuild the sector, but concedes that it has no quick-fix solutions to tackle the deep-rooted structural problems that exist.

Sanlam does, however, outline several actions which it believes could have beneficial results for the industry. These include:

- Positive steps to materially reduce the rate of inflation;
- Efforts to rectify the imbalance between producer and input prices, thereby making the farming community less dependent on government aid, including subsidies;
- Action to try and prevent excessive fluctuations in interest rates;
- Improvement of farming management;
- Consolidation of the debts of those farmers who will be able to recover if given aid;
- The prevention of undue increases in the price of agricultural land.

Dealing with the desperate financial position of the farming community, Sanlam observes that this sector could well have been able to redeem its debt with about 18 months' farming income in 1977.

Since then, however, the position deteriorated to the extent that farming debt last year was five times more than farming income.

JSE boom continues, but...

(49)

Economy not likely to meet growth target

B|Day 24/8/87

Business Day Reporter

THE economy was unlikely to achieve a projected real growth rate of 3% for 1987 — but conditions still existed which were "friendly" for vigorous growth in consumer spending and increased fixed investment spending, the SA Reserve Bank said today in its annual economic report.

The Bank also detailed the record growth of investment on the JSE during the past year. The value of shares traded rose from R6,4bn in 1985 to R11,5bn in 1986, to R9bn in the first half of 1987, and amounted to R1,9bn in July alone.

The report in detail: Page 4.

The value of public-sector stock traded more than doubled from R51,2bn in 1985 to R108,1bn in 1986. It subsequently rose to R80,4bn in the first half of 1987, followed by another R17bn in July.

The report is background to the annual address to be made tomorrow by Governor Gerhard de Kock at the Bank's ordinary general meeting. After the budget speech, this is the most important official economic statement of the year.

It highlights the continued weakness of real gross domestic fixed expenditure as a major factor underscoring SA's economic problems. Despite an encouraging recovery in the third and fourth quarter of 1986, fixed investment failed to respond to earlier increases in export volumes and to increases in domestic demand in 1986 and the first half of 1987.

The report said by the third quarter of 1987, the prospects were the economy in the quarters ahead would continue to show real growth "at modest to moderate rates".

Particularly, large declines had been recorded in gross fixed-capital formation in the manufacturing sector and total production capacity in manufacturing in early 1987 had shrunk to a level equivalent to the start of 1983.

Household savings relative to personal disposable income had shrunk to exceptionally low levels which amounted to an estimated average of only about 1,6% in the first half of 1987.

The report said the bulk of domestic savings, therefore, was contributed by the corporate sector and "some 64% of gross corporate savings is needed, however, for the replacement of worn-out or obsolete capital goods".

Also detailed was the "remarkable" turnaround in SA's balance of payments position and how the country, despite various restraints, had meticulously kept up its foreign debt repayments while various developing countries had succumbed to "debt fatigue".

BLACK SECRETARIES TO PLAY IMPORTANT ROLE

BLACK secretaries are going to play an important role as the economy of South Africa becomes "indigenised", the president of the Southern Transvaal African Chamber or Commerce said.

Mr Willie McBain-Charles was addressing a function in Johannesburg at which 25 students, were graduating on a secretarial course in typing and word processing from the Afri-Type College and Blackseed Communication Systems.

Mr McBain-Charles said many more black business organisations were coming to the fore. It was important, he said, that black secretaries' ensure their survival.

Efforts

"Your graduating is important in that it was from a black venture. As black people we should not be discouraged because it is from the townships that we will take our roles. Know that there are many black organisations that are concerned about your situation Our efforts are not in vain because one day we will rise to be in front," he said

Speaking on the importance of education in the commercial world, Mr Reggie Veldman, principal of Bosmont High School, said black secretaries must develop competitiveness He said in most cases "we are not competitive enough"

He said the graduands were now entering into a world of computers which people used to take for granted. In South Africa, he said, it was also a world where the privileged had ruled for a long time.

"It is sad that in South Africa the different groups had been polarised. It is going to take a long time to get to know one another.

"It is a pity that the commerce world is where whites are regarded as important people. For you, you are entering a world where people have to appreciate your skills.

Troubled

"I urge you not to be apologetic. You are entering a world of a troubled human scenario and you must develop competitiveness. The most important stage of your development will be self education because ultimately success depend on yourself," he said.

Mr Phil Khumalo, director of Blackseed, said one of the National African Federated Chamber of Commerce (Nafcoc) tasks was to train businessmen. It was important therefore that they had black secretaries. He told the graduands that they will be expected to perform twice as well as their white counterparts

SOME of the students who this week graduated from a secretarial course in typing and word processing. Also in the picture at the back is Mr Willie McBrain-Charles and on the far right, Ms Irene Summers, director of Afri-Type College.

CP lambasts 'integration propaganda' on SABC

HOUSE OF ASSEMBLY — **The SABC was promoting an integration process in South Africa in its advertisements and programmes, Prof Chris Jacobs (CP Losberg), said on Monday.**

Speaking in the SABC vote of the budget, he said the film called *The Imposter* on Saturday night was an example of how integration was being imposed on the public.

The film had included a love affair between a white girl and a black boy.

When his children asked him what he thought about the matter, he would have to lay the blame with the SABC.

He said an "Americanisation process" was taking place by the broadcast of film after film, programme after programme and advertisement after advertisement showing integration

The Government was only able to stay in power by the efforts of the SABC which acted as a propaganda arm.

He said he resented having his licence money used by the Government to fight his point of view on the television screen.

"Does the Government fear that if the CP's message gets through to the public, it might come to power."

Prof Jacobs said that unless the SABC began fulfilling the terms of its licence, the CP would take action.

Asked later what he meant by "action" Prof Jacobs, said the matter would be taken to court — Sapa.

Zambia on a spy alert

LUSAKA — **Zambia on Monday warned its citizens to be alert for spies and foreign agents it said might attempt to gather information and recruit accomplices to carry out attacks and acts of destabilisation within its borders.**

The warnings were broadcast on national radio

"The enemy is desperate and has resorted to attacking Zambians," the radio said in one bulletin.

"Please bear in mind that some persons you mix with in bars, hotels, at football matches, on the streets, in shops and indeed in your own homes may be enemy soldiers," it added.

The bulletins urged Zambians to be vigilant and to report any suspicious persons to the security forces.

No explanation was given for the broadcast.

However, officials said such security announcements had been made on a regular basis in the past and were part of a campaign to make the public aware of the need for vigilance

Zambia, with other frontline states, has been the target of attacks by South African armed forces. Pretoria says the attacks are aimed at guerillas of the African National Congress (ANC) which is fighting to end white domination in South Africa

Before Zimbabwe's independence in 1980, Zambia had also suffered attacks by Rhodesian security forces hunting nationalist guerillas based in Zambian Territory. — Sapa-Reuter.

Dog shoots his master

PARIS — Man's best friend shot dead his master on Sunday in central France.

Roger Surroca (37) of Piuet went hunting on Sunday as usual with his four-year-old Alsatian Napoleon, in the nearby Herault woods.

At the end of the day, Napoleon jumped into his usual place on the front passenger seat, triggering off a loaded shotgun which blasted Surroca in the driver's seat.

He managed to get out of his car to call for help, but then collapsed on the ground.

Napoleon, realising something was wrong, firmly placed his front paws on the car horn, bringing fellow hunters to the scene within minutes.

But it was too late.

Police said Napoleon, aged four, will not be put down as the accident was due to his master's imprudence.

A friend said: "Napoleon had no fear of guns, and used to carry his master's in his mouth for long distances. It was as though he was handling a bone."

STA indaba

THE Soweto Taverners Association is to hold a general meeting at the Club Pelican tomorrow.

The meeting, which starts at 2pm, will report back on licensing and also discuss a number of other important issues.

Members of the association, interested parties and people willing to join the association are welcome.

Civil Service pay is one third of Budget

49
SMN 26/8/87

Political Staff

Civil servants' salaries and benefits cost nearly one third of the national Budget in 1986.

The total spending on salaries and all benefits was about R12 000 million in 1986, the Government's Commission for Administration disclosed in a booklet issued yesterday.

This is 31,4 percent of the R38,2 000 million Budget for the year.

The booklet was issued because of the many "erroneous impressions and insufficient information" about public servants' salaries. The total 1986 salary bill had increased 19,5 percent on the 1985 bill or 16,5 percent per capita.

Of this, 10 percent was for the general salary increase of April 1987 and 6,5 percent for improving the pay for certain jobs, such as nurses, paramedics and teachers with lower qualifications.

The commission denied that since 1980 public servants' pay had increased faster than pay in the private sector. Their pay still lagged behind and was "moderately competitive" at best.

The "relatively high" pay increases between 1981 and 1984 were necessary because they had "fallen behind seriously", it said.

Government policy was that total pay packages for public servants should be equivalent to those in the private sector — but scaled down by between 5 and 15 percent to compensate for such factors as greater job security.

Exchequer Personnel Corps

The 1986 bill of "about" R12 000 million applied to the "exchequer personnel corps" — those paid out of the National Budget.

This excluded the employees of the SA Transport Services and the Department of Posts and Telecommunications.

It included employees of government departments and provincial administrations, the self-governing National States, parastatal institutions such as scientific councils, cultural institutions, the Consumer Council, Parliament, and universities and technikons.

There were 865 385 people in the exchequer personnel corps on September 30, 1986, of a total of 1,6 million in the public sector.

The R12 000 million included basic salaries, employers' contributions to the pension and stabilisation funds, service bonuses, employers' contributions to the medical aid funds, housing subsidies, car benefits for about 1 320 managers, overtime and danger pay.

● The exchequer corps represents 8,4 percent of the economically-active population. It comprises 54,1 percent of the public sector. The rest is SATS staff, 14,5 percent; Post and Telcomunications, 5,9 percent; control boards, 0,2 percent; Local authorities, 14,8 percent; Escom, 4,1 percent; Iscor, 3,4 percent; Others, 3 percent.

(69) DD 26/8/87

Economy take off due to politics?

EAST LONDON — Politics had to make it possible for the economy to take off and every businessman had a role to play in driving the government toward reform, the national president of the Association of Chambers of Commerce (Assocom), Mr Harold Groom, said here last night.

He told the quarterly meeting of the East London Chamber of Commerce: "The future is what we as businessmen make of it. We cannot be the vicitms of change. We must be the protagonists for change."

Mr Groom said Assocom had made it clear to the State President, Mr P. W. Botha, that economic and social reform must come just before political reform.

"We told the State President that if he negotiates a political dispensation based on democratic freedom and free enterprise, it must be done correctly and the disenfranchised must have all the prohibitions of discriminatory legislation removed if he is to enter the free enterprise system.

"The Group Areas Act will have to go. Communities will have to make their own decisions on whether to open their areas. This is what we told the State President and he told us that he did not have a problem with that."

Mr Groom urged that businessmen must talk to blacks to eradicate the mystique and mythology associated with blacks.

"I have made a point of talking to black businessmen. It is tough talking with them as they are cynical and suspicious but in the final analysis when you hve done so, you find blacks have the same aspirations as we have.

"I had talks with people in Crossroads and found politics was only seventh on the agenda. Socio-economics matters took precedence," he said.

Black businessmen were also faced with first and Third World situations where they lived and they faced pressures in their communities which whites could never understand.

Mr Groom said businessmen should urge the government on on the road to privatisation and deregulation.

"They will not move unless we push them on," he said.

He was confident of the future despite the traumas which the country would have to face.

Mozambique, says a report in | Raikes became lovers in Hon...

ARGUS 27/8/87

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CITY/NA

Opportunities in SA are 'unlimited'

From DEREK TOMMEY
Financial Editor

STELLENBOSCH. — Dr Anton Rupert, founder and chairman of the R4-billion Rembrandt group, expressed optimism and confidence in South Africa's future at the group's annual meeting here today.

"The opportunities offered by South Africa are unlimited," he said.

"There is no country in the southern hemisphere which has managed to repay R15,5-billion of its foreign debt in two years."

"Real growth"

He quoted comments made in the 1930s by Professor C W Kiewit that "South Africa progresses by political disasters and economic windfalls".

Dr Rupert said: "This is exactly what is happening today. South Africa is showing resilience under pressure. According to acceptable norms it is credit-worthy and solvent."

Dr Rupert called for greater encouragement for the promotion of new small businesses.

"The economic growth we have to achieve is not growth only through take-overs and mergers, or growth based on consumption only, or growth bloated by inflation, but real growth — in economic capacity, in production and in job opportunities.

"Neither the established institutions nor the large business corporations alone are going to create the job opportunities on which our future security is dependent."

In the past five years the 500 biggest companies in the United States had reduced their employment figure by 1,8-million. During the same period new businesses had created 2,5-million jobs, he said.

Dr Rupert welcomed the Government's expressed intention to help the informal sector by abolishing redundant regulations. "South Africa can be saved only by this kind of emancipation," he said.

"We must free the energy bottled up in our communities so that it may create prosperity rather than friction. We must also not hesitate to demolish holy cows.

"It is better to do away in good time with obsolete control measures rather than run the risk of eventually having no control at all."

● See page 22.

(49) Sowetan 28/8/87

SA's economy: Good news and bad news

IN HER column this week, Lynn Pikholz, an economist with the First National Bank, says that suddenly people are getting optimistic about the country's economy.

FOCUS

THE general excitement following the announcement of a relatively mediocre growth rate of 3,25 percent for the first quarter of 1987 is a clear sign of a downward revision of economic prospects in South Africa.

The improvement in confidence and general business mood during the first half of this year becomes more understandable when comparing it to the very low GDP levels of 1 percent and 0,7 percent in 1985 and 1986 respectively. Suddenly people are becoming less optimistic again.

A revised estimate of the first quarter's results showed a dismal growth route of 1,6 percent. This increase is almost entirely due to an increase in agricultural production. Moreover, when the authorities themselves announce that growth may not attain the expected 3 percent level for the duration of this year, there is certainly reason to worry.

Growth

It would be fair to say that the economy bottomed out mid-1986 and has shown substantial gains since. Most of the momentum on the spending side comes from households and both retail trade volumes and to a lesser extent in manufacturing. The growth has been achieved with existing resources. Industrial capacity utilisation gained slightly but the manufacturing employment situation did not improve.

Unfortunately short-term gains in some sectors is confusing the overall long-term growth picture which is hampered by severe structural problems. The narrowness of South Africa's infrastructural base relative to the population size is becoming increasingly problematic. This is amplified by the growing population and percentage of unemployed people.

Trends

Also impeding South Africa's long-term growth is the concentration and uneven distribution of economic power, the heavy individual tax burden, the growing share of Government spending in specific sectors and the limited access we have to foreign capital. These problems are part of and accentuate the politically unstable environment in which we operate. The National Union of Mineworkers' strike of 340 000 employees, the post office, Iscor, Impala strikes and others will continue to disrupt the production processes and contribute to a lack of confidence in the economy generally.

The short-term picture itself is also confusing as trends in the various sectors do not converge into an overall consistent pattern. As usual we see the good and the bad.

The good is that the surplus on the current account is due mainly to the high price of gold exports. the surplus is estimated to reach around R5 billion for 1987. This improvement in foreign exchange reserves has allowed the repayment of a substantial portion of South Africa's foreign debt.

The short-term inflationary prospects are also promising. At worst prices do not seem to be rising. At best, prices will probably decline slightly by year end. the increase in consumption is not exerting upward pressure on rates.

Credit

Other positive factors are the increase in consumer demand and the very mild increase in the demand for bank credit. Investment in the wholesale/retail sector and the finance/insurance/real-estate and business sectors are all showing improvement.

The recovery of the stock exchange in recent years is showing strong signs of continuing its growth. It is being propped up substantially by the high price of metals particularly gold, silver and platinum.

The other side of the coin however takes on a brownish rather than a golden tint.

Investment

The bad is that the volume of real fixed investment in key industrial sectors that has been declining for the past six consecutive years. The slide has been most crucial in the manufacturing sector which the centre of job creation. When compared with the 1980 levels new fixed investment in this sector has toppled 60 percent.

The falling levels of personal disposal income and only a very slight increase in credit demand are worrying as they indicate the general slackness and lack of confidence in the economy.

Exporters are also suffering badly with a relatively higher rand (making their goods less competitive), rising sanctions and the slowing down of the economies of our major trading partners.

It is thus not surprising that the Government is playing such a prominent role in the economy. This is evidenced through increased government expenditure and negative real interest rates which are meant to stimulate investment and credit demand. Given the political and structural constraints we operate in, these measures are clearly insufficient. What is necessary for sustained growth is a committed bottom-up approach where more attention is paid to the broadening of the infrastructural and industrial bases. The fruits of such a policy are apparent not only in the result (i.e. creating a foundation for a vibrant economy with mass participation), but emanate from the process itself which should help towards eliminating unemployment.

Problems

This together with the removal of other structural problems in this country will make the possibility of a satisfactory long-term growth rate more sustainable at the same time as giving people a stake in the economic processes that affect their lives.

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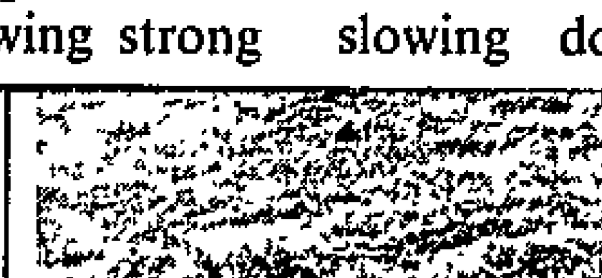
"But it's too premature to say what action they will take. In any event, the union will respect the decision of the Vaal Reefs workers."



A look at govt spending

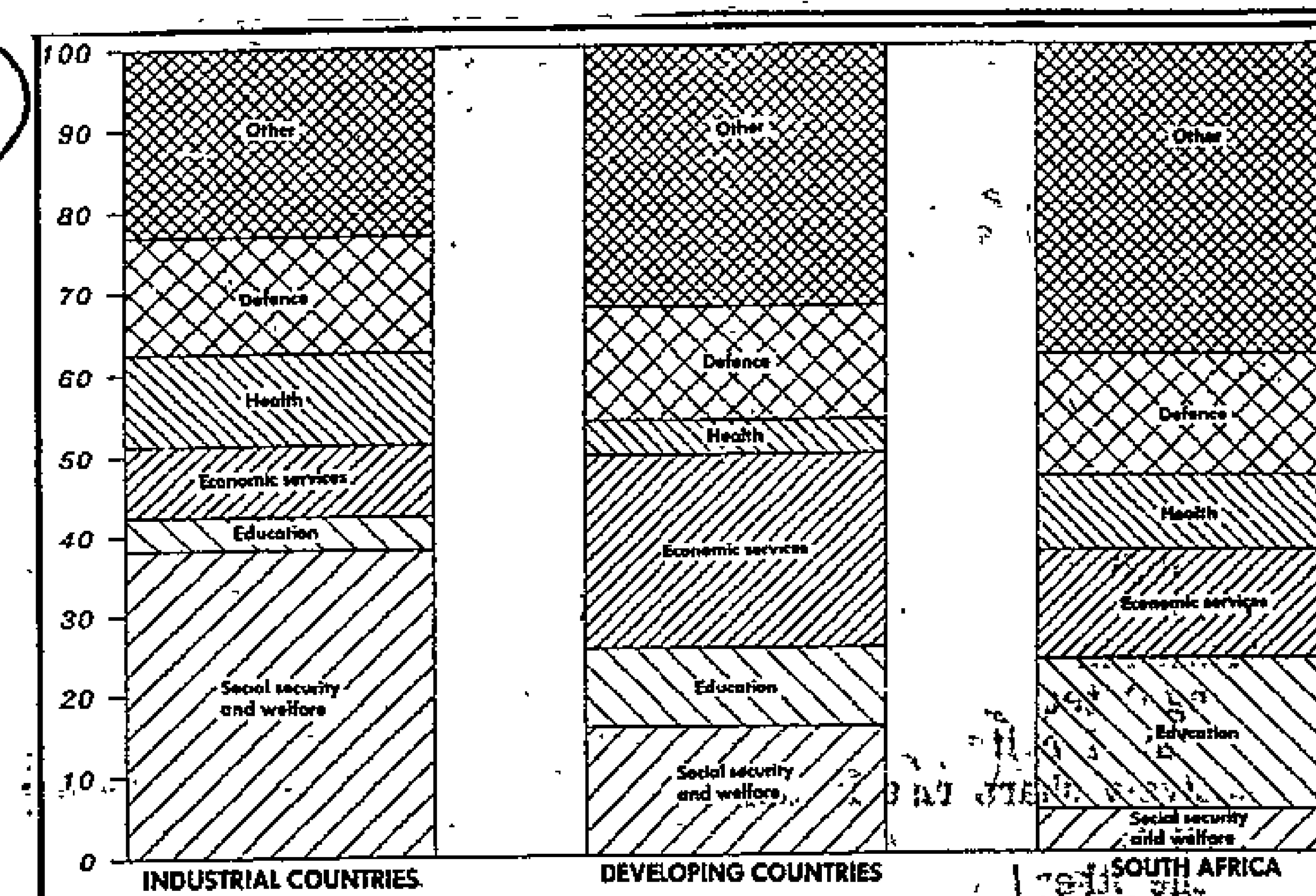
The South African Government spends proportionately more on education and proportionately less on social security than most other countries in the world.

The accompanying graph, compiled by economist Dr Gad Ariovich, shows the percentages of government expenditure applied to each of the categories indicated in developed countries, developing countries and South Africa.

Whereas the most marked differences are in the spheres of education and social security, it is interesting to note that in terms of government spending on health and economic services, South Africa is closer to the developed countries than to the developing countries.

Monday's Star Executive Forum lunch meeting will focus on these issues, with guest speaker Gerhard Croeser, Public Finance Chief, targeting in on the outlook for government spending and its implications for the economy.

Those interested in attending the lunch should telephone Belinda on (011) 633-2320.



Composition of government expenditure compared with that of industrial and developing countries.

(49) FM 28/8/87

ANNUAL ECONOMIC REVIEW

A tale of woe

SA's economic malaise in the face of optimistic indications that business activity should be rising was the central dilemma outlined by Reserve Bank Governor Gerhard de Kock in his annual address this week. He put the blame for this squarely on a political situation that had eroded confidence.

Departing from the text of his address, an obviously frustrated De Kock told the Reserve Bank's AGM how he had "never experienced a situation quite like this."

He had just reported how well SA is poised technically for rapid growth: a large current account surplus; a doubling of reserves over the year; a controlled foreign debt situation; a modestly rising money supply; negative real interest rates; institutions willing and able to extend credit; a booming JSE; expansionary fiscal policy; surplus capacity; unemployment; and a rising population.

"Yet the inducement to invest and the propensity to consume are not strong enough to lend real momentum to the economic upswing."

As the *FM* forecast last week, he is no longer looking for the previously projected 3% growth over 1987. He says present indications are that "growth will exceed 2%" — which seems a considered reluctance even to look for something as specific as 2,5%.

"Money is chasing paper in the financial markets instead of bricks, mortar and steel." "Why?" he asked, acknowledging the answer as the lack of consumer and business confidence — foreign and local. SA is a shining example for economic students as to the importance of confidence and expectations.

De Kock notes: "There is little monetary and fiscal policies can do to extricate economic decisions from the political considerations with which they are entwined."

De Kock leaves no doubt that he favours the "maintenance of law and order" and "further political reform" — no ostensible difference here with government, though in practice the first arm of this approach seems to enjoy more emphasis than the second now.

Monetary policy "will remain expansionary" in an environment where interest rates "are unlikely to show any pronounced upward tendency during the months ahead." A marked decline in rates "appears unlikely."

There is also no change in exchange rate policy. It will "remain one of managed floating." The rand's appreciation over the year, the governor noted, had an "important disinflationary influence."

After the first quarter's seasonally adjusted annualised R7,2 billion current account surplus, De Kock is looking at R5 billion-R6 billion for the year.

While he has been critical of government spending and taxation, he considers appropriate the 16,2% planned expenditure increase and associated deficit before borrowing of 4,7% of GDP. "The single most significant figure" for De Kock is the R15,5 billion net capital outflow during 1985 and 1986 (R11,5 billion after the debt standstill in August 1985) — some 6% of GDP.

In the first half of 1987 a net R500m flowed out, according to the Bank's *Annual Economic Report*. Since the end of 1984, \$4,3 billion foreign debt has been repaid, \$890m inside the net. The next major repayment will be \$200m in December; the final IMF repayment of around \$130m will be made in November. The government expects that by the end of 1987, a net \$4,8 billion will have been repaid, or 7% of exports. The interest-export ratio is down from 10,7% in 1985 to 9,5% in 1986 and 7,5% estimated in 1987. The ratio of foreign debt to exports is down from 171% in 1984 to 108% in 1986 and 90% estimated in 1987.

While economic growth slowed to a seasonally adjusted annualised 1,5% in the second quarter, the Bank prefers to quote a growth rate of 2,75% over the four quarters to June — which, again, appears to be more than will be achieved for calendar 1987.

Real remuneration per worker, after falling 4,3% in 1985, dipped a further 3,6% in 1986. The report notes this is despite more militant unions. Membership of registered unions has risen from 781 000 in 1980 to 1,7m in 1986, with the number of days lost rising from 380 000 in 1984 to 1,3m in 1986.

Even so "virtually all major sectors" recorded higher output levels since mid-1986, with above average increases coming from agriculture (thanks to rain), manufacturing (thanks to a better exchange rate), and trade and financial services. Real personal consumption expenditure rose by 4% on the first half of 1986, thanks to higher disposable incomes and easier official policy. But it's disturbing that this growth is so poor, despite real government consumption expenditure rising sharply in the first half — by an annualised 22% — after an 8% drop in the latter half of 1986. ■

COSTA DIVARIS FOR *FM* CONFERENCE

Tax specialist Costa Divaris's invitation to talk at the *FM* investment conference on November 13 is well-timed. By then the Margo Commission report, the subject of his address, will have been widely circulated. Penetrating analysis of its many recommendations will be extremely helpful to the business community in formulating its response. Few can be better qualified than Divaris for such a task. As a tax consultant and speaker on tax matters, he is held in immense esteem both by his peers and the business community at large. Delegates to the *FM* investment conference in 1982 will no doubt recall his eloquent lunchtime address on "Tax and the Businessman." Divaris is a partner in Silke Divaris Stein, and Divaris Stein Publishers, co-publisher of the Juta Tax Library and organiser of the BSP tax seminars.

He is author of *The Ned-Equity Tax Guide to Company-owned Policies* and co-author of *Silke on SA Income Tax, Old Mutual Income Tax Guide* and *In Touch with the Sixth Schedule.* Divaris is also co-editor of *Juta's Tax Service, Juta's GST, Tax Planning, Taxgram* and *Juta's RSC* and former editor-in-chief of *Businessman's Law.*

His dissection of the more salient aspects of the Margo Commission is keenly awaited. Please address booking requirements to Yvonne Courtney, promotions manager, Box 9959, Johannesburg 2000, or telephone (011) 710-2134/5.

20% better than figures suggest

S. Times 30/8/87

49

SOUTH Africa's economy is doing much better than official statistics suggest because they tend to overlook the important role played by small business, says the chairman of the Small Business Development Corporation, Anton Rupert.

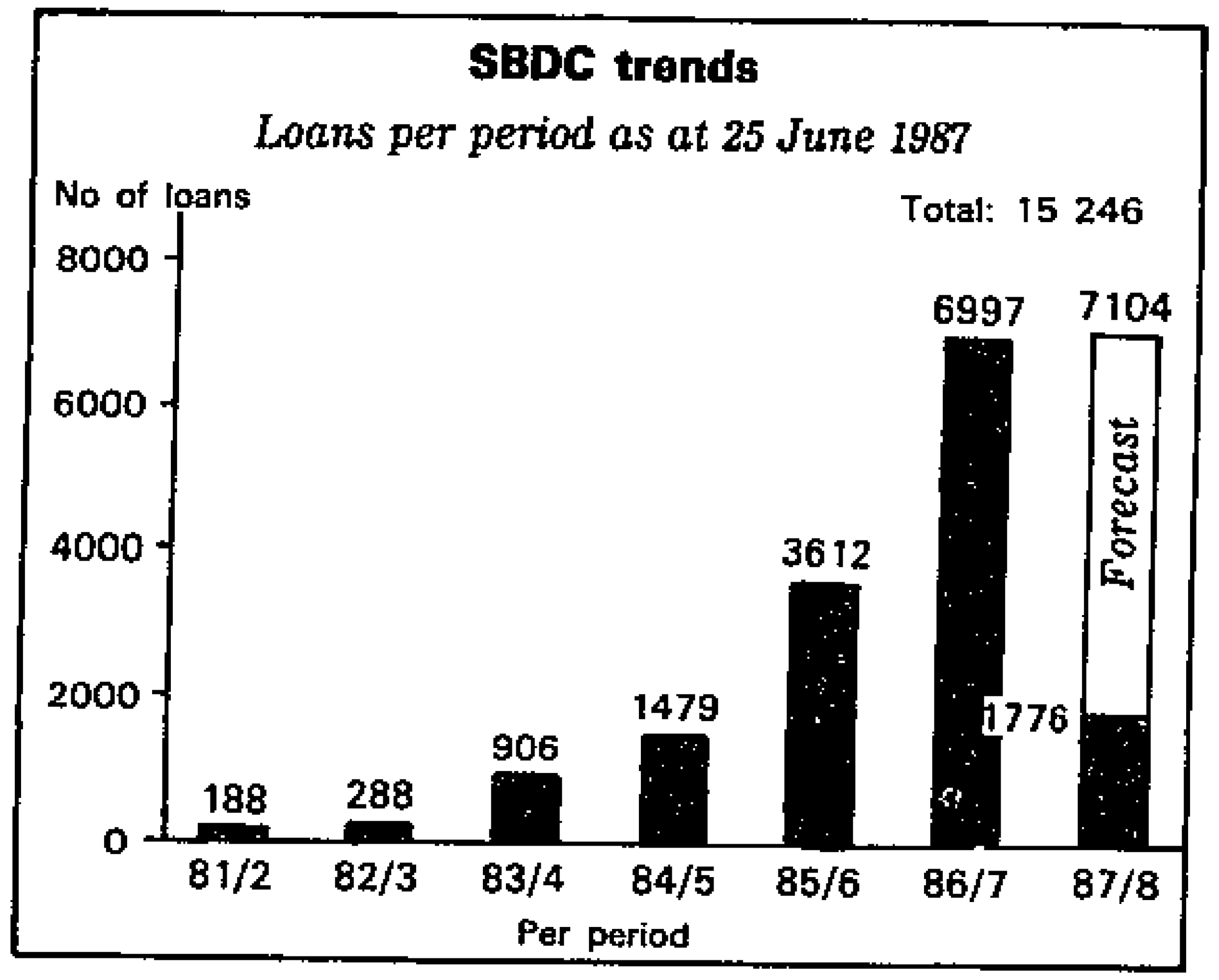
He says the economy is performing up to 20% better than official figures suggest and he uses Italy as an example.

Dr Rupert says: "The time has arrived to revise the methods used to measure growth of the gross national product and incorporate the burgeoning Third World component. Italy has set us an example. The Italians recently revised their national economic statistics upwards to account for their large underground economy.

Third largest

"As a result it was discovered that Italians actually enjoy a higher per capita income than the British and their economy is now the third largest in Europe. The informal sector has made a major contribution to Italy's economic revival.

"A similar move here will not only reflect our true economic potential but will enable policy-makers to appreciate the extent and important role of the small business sector in South African economy."



The general manager, development services of the SBDC, Mike van der B Smuts, points to the acquisition of Putco by the taxi owners' association.

Mr Smuts says: "This is a case of small business developing through the various levels until it is able to compete at the highest level. Below the surface we have a small business sector that is gaining momentum, largely without recognition.

"Reports in Time magazine and other reputable publications in recent weeks have shown that there is a remarkable similarity between South Africa and Italy in the informal business sector.

"One publication reports that 'Italy defies most attempts at generalisation. It is a country of contrasts: both an advanced, developed country and an underdeveloped one.'

"It says the Italian economy has advanced and profitable sectors which use technology second to none. But the most lively and profitable sector is that of small business.

"This part of the economy has been described as 'economia sommersa' (submerged economy) because it avoids many laws and regulations regarding taxes, social security, wage rates and regulation of working conditions."

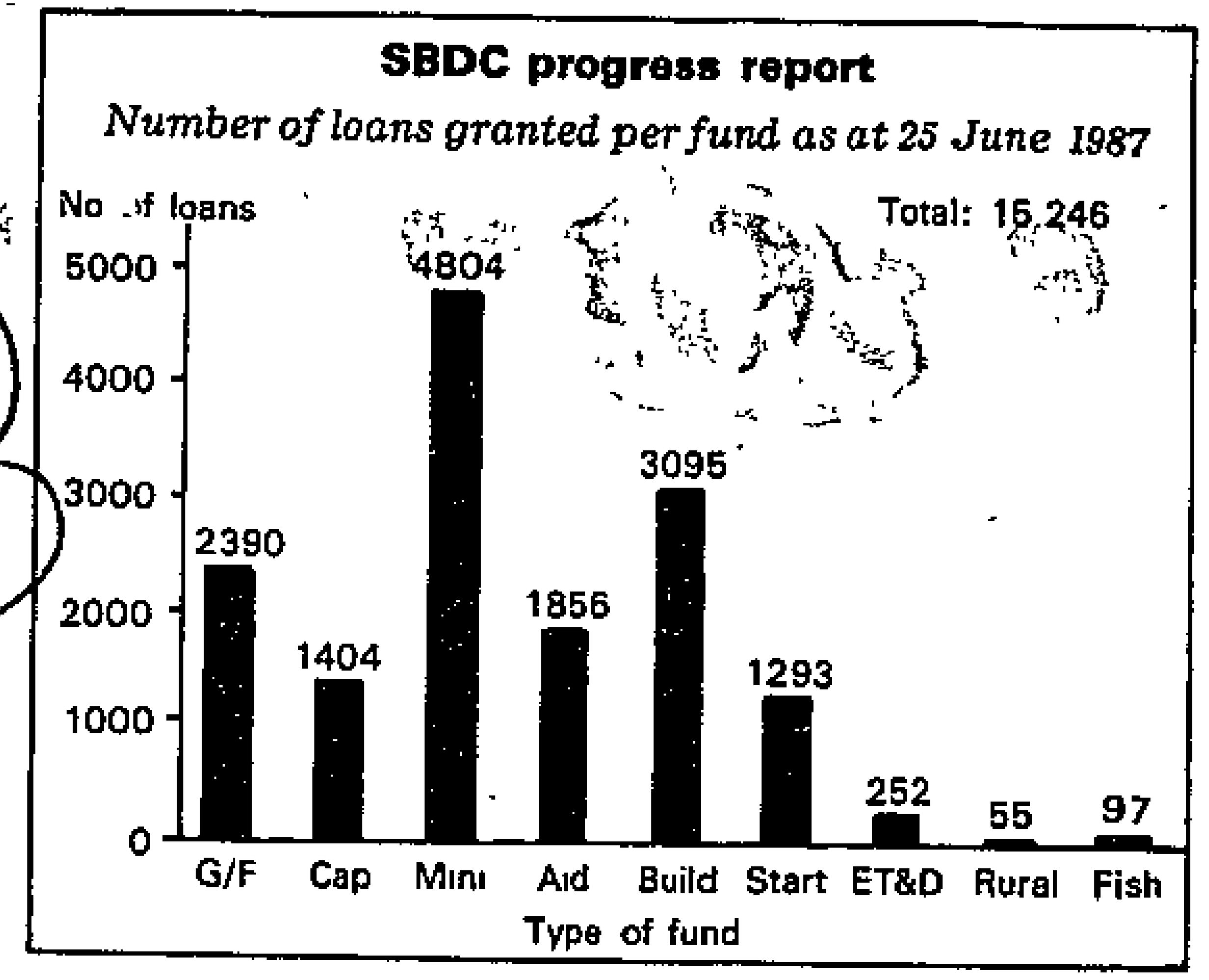
Trade-union practices in Italy also boost small business which escapes laws affecting every firm with more than 15 employees.

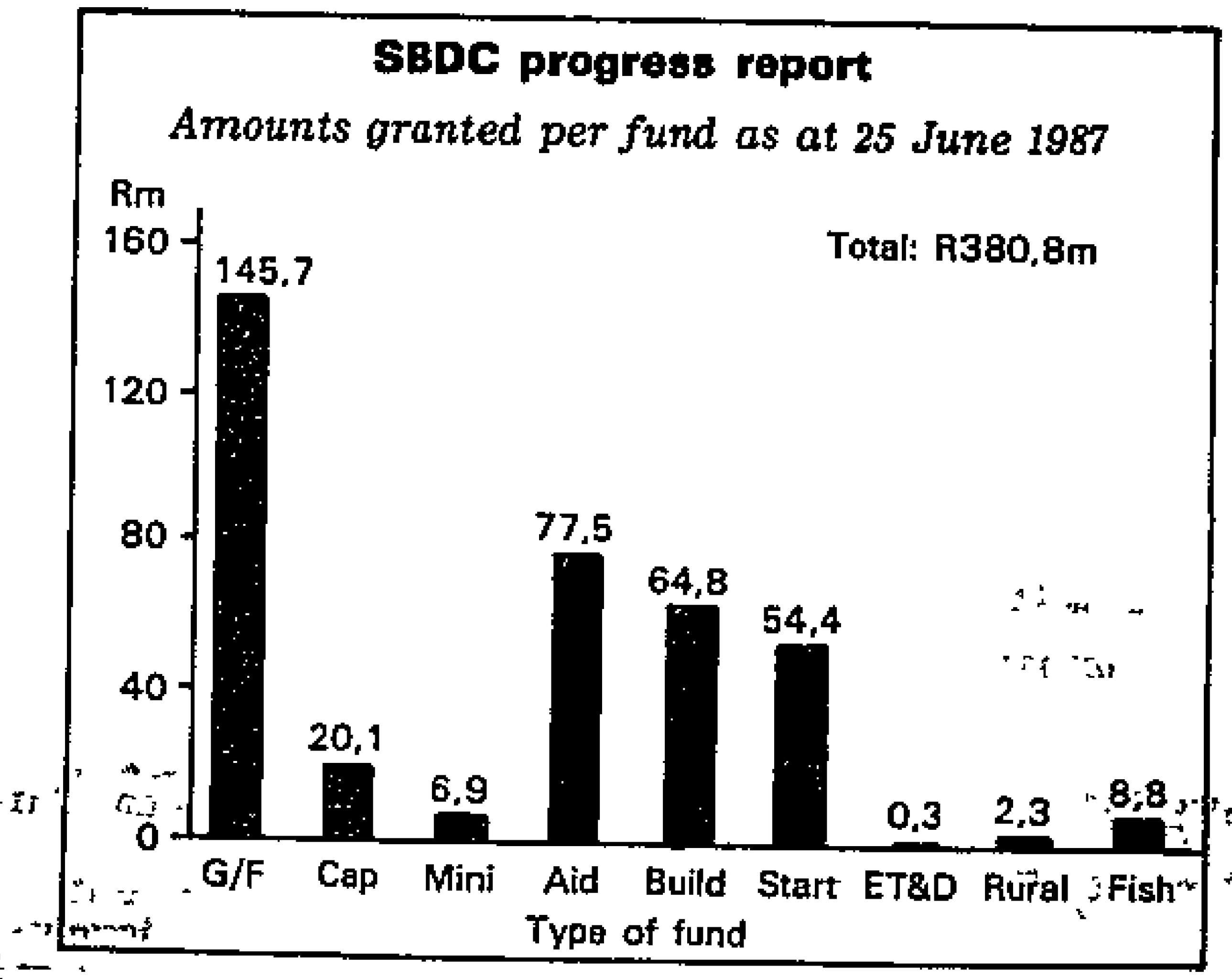
"The only phenomenon we have yet to see is that of big business decentralising production and involving small firms."

"The key to SA's informal sector lies in several measures to promote evolutionary growth. These include deregulation, small loans, low cost premises, skills acquisition, provision of raw materials, tools for manufacturing, informal apprenticeship schemes, co-operatives and backward/forward linkages with the formal sector."

He mentions some of the SBDC's successful activities in the past year.

- The granting of 6 997 direct loans totalling R177,2-million, exceeding in one year the cummulative totals for the previous five years.
- Promoting job creation and elimination of the housing backlog in less-developed areas through extension of the Small Builders Bridging Fund whereby 2 346 small builders were financed for a total amount of R49,6-million.
- A breakthrough in co-operation from the private sector in the joint development of much needed business premises in neglected areas. As a result the total lettable business space grew to more than 410 000 square metres by the end of the year. Working space for 1 400 entrepreneurs employing nearly 18 800 people has been provided.
- An exciting job creation innovation — the establishment of incubators for entrepreneurs with technical skills. During the year, entrepreneur training and development Centres became operational in Port Elizabeth, Uitenhage, Stutterheim, Athlone, Pennyville, Chatsworth, Phoenix, Maritzburg and Bloemfontein.
- Expansion of the SBDC's development services, which by the end of the year were providing information and advisory services to almost 20 000 people a month.





- Direct assistance to the informal sector through mini-loans, the building of market stalls, a nationwide shoeshine project and the hiring out of vending carts.

Mr Smuts says the SBDC seeks to promote the interests of small businessmen by lobbying for the removal of unnecessary legislative barriers.

Big squeeze on as credit checks tighten

21/8/87 B/Day

MICK COLLINS

THE great credit squeeze is on and South Africans — long accustomed to limitless, easy credit — are finally having to face tighter control.

As hard-pressed business demands greater scrutiny of resources, liquidations, summonses, judgments and bankruptcies are plummeting from the highs of a year ago.

Credit checking has become a way of life as companies grow increasingly cautious. One major credit information company, Kreditinform, reports a record number of credit inquiries (checks) in June.

MD Ivor Jones says for the first time the rand value of credit applications investigated on behalf of customers in a month exceeded R129m.

"While the number of inquiries showed a 35% increase over June 1986, it does not mean the anticipated boom in the economy has arrived.

"The value increased by at least 20% due to inflation. But, at the same time, companies are now more cautious when extending credit and ensure that potential customers are in a position to pay for goods purchased."

The decline in the value of judgments against businesses will continue, Jones says.

In January 1987, this figure was nearly 66% less that the peak of R16m in June the previous year.

Govt can do 'no more' to stimulate economy

(4a) B/day 3/9/87

HOUSE OF REPRESENTATIVES — Government could do no more by way of fiscal and monetary policy to stimulate the economy, Finance Minister Barend Du Plessis said yesterday.

● DU PLESSIS

Speaking in the committee stage debate on the Finance budget vote, Du Plessis said no government could determine an exact growth rate.

To stimulate the economy further, one would have to raise direct taxes or borrow money. He was prepared to do neither of these.

Even the targeted 3% growth rate for this year was considered "hopelessly low", he said, and if the target was not reached, less could be done about the unemployment problem.

The tragedy was also that people accepted constitutional and social change more easily when there was a high growth rate.

Replying to criticism that nothing was being done to improve the position of farm labourers, Du Plessis said one of the arguments supporting aid to farmers was that in keeping them on the farms, they in turn would be able to keep their workers on the farms.

Some would describe the money "given and loaned" to the farmers, who had debt of more than R13bn, as "a drop in the ocean", he said.

In reply to a request by Glen Rooskrans (LP Wes-Vrystaat) that the Margo commission report be referred to the standing committee, Du Plessis said this could not be allowed.

There would be ample opportunity for debate before legislation, and political parties and Members as individuals could make submissions once the white paper containing government proposals had been tabled in Parliament, he said.

A practical problem was that government could not allow NP members to determine stand points in open debate before government guidance had been given, he added. — Sapa.

YEAR	NO. OF STRIKES	EMPLOYEES	DAYS LOST
1975	274	23323	18709
1976	245	28013	59861
1977	90	15304	15471
1978	106	14160	10558
1979	101	22803	67099
1980	207	61785	174614
1981	342	92842	226554
1982	394	141571	365337
1983	336	64469	124596
1984	469	181942	379712
1985	389	239816	678273
1986	793	424390	1.30

THE ECONOMY

Between the Governor's lines

After the Budget, the annual address from the Governor of the Reserve Bank is perhaps the most important statement about economic policy during the year. It is the peg for the second meeting of the *FM*'s Economic Advisory Panel, which this time consists of Ronnie Bethlehem (economic adviser to JCI), Rob Lee (Old Mutual) and Louis Geldenhuys (of stockbroker George Huysamer). The chairman, as usual, is Assocom executive director Raymond Parsons.

Parsons: What does the panel consider the main message of Dr De Kock's address?

Lee: That there is nothing significantly more that economic policy can do to get the economy going. I agree, in that to me economic policy is already running significant risks with inflation.

Geldenhuys: Yes, it would be inflationary to lower interest rates from present levels. But I think consumers will soon be more willing to take up credit.

Bethlehem: The governor, in referring to the restoration of confidence, said that what is needed on the one hand is continued maintenance of law and order, and on the other further political reform. Confidence will not be restored without both of those, in either the long or near term.

Geldenhuys: We could easily over-emphasise the political side of confidence. There are many economic reasons for consumers' behaviour.

Parsons: Does the panel agree that the 3% target growth rate is now unlikely for this year as a whole?

Lee: Not necessarily.

Geldenhuys: I never thought we would have 3%; but what is the difference between 2,5% and 3% in any case? Our circumstances just make for a pretty low growth rate.

Bethlehem: It depends when the rate of growth for 1987 is going to be calculated. The March 1988 estimate will probably show less than 3% unless something dramatic happens. But who knows, perhaps two or three years down the line the statisticians will revise the figures — as they often do.

Parsons: There have been forecasts that the current business upturn will last till the end of 1989. Do you agree?

Bethlehem: My concern is what is happening to the world economy. As we move into 1988 the risk of a world recession becomes greater. By 1989 the world economy could be in recession and I'm worried that we won't have put our economic house into the order it needs to be in to deal with that.

Lee: Also, significant balance of payments and inflation constraints will be evident by then, so I would put a low probability on the recovery lasting as long as 1989.

Geldenhuys: I believe that we are forced by circumstances to live within our means. A low growth rate is part of that, and I would rather think we would grow for a longer period, even if only at a pedestrian pace.

Parsons: May I ask for your forecasts of real GDP growth in 1988?

Geldenhuys: 3,5%.

Lee: 3%-plus.

Bethlehem: 2%-2,5%.

Parsons: The annual inflation rate has declined by nearly 1% and the governor said that subject to certain provisos it should decline further. Do you agree?

Lee: There will be a small further decline between now and the end of the year, perhaps to around 15%.

Geldenhuys: Circumstantial, seasonal and statistical factors will make some contribution. We could end up between 14%-15% in the next six to nine months.

Bethlehem: I am encouraged by the lower rates of monthly increase we are now seeing and seduced into believing that if the rand holds its present level we might see a continuation of these lower monthly rates.

Parsons: But do you confine this better outlook on inflation to the short term?

Bethlehem: Yes, essentially.

Parsons: Is there anything else to say about inflation?

Lee: I would expect it to be on a rising trend in 1988; 15% will be the bottom.

Parsons: How long do you think the phase of negative interest rates will last?

Bethlehem: It obviously depends on what happends to domestic demand. Were there to be some trigger that sets domestic demand off, the phase could end. The most likely trigger, of course, is the gold price.

Lee: If you take as a representative figure the three-month BA rate, I would put a low probability on the real three-month BA rate being higher than the inflation rate for any sustained time in the next two or three years.

Geldenhuys: I think you have seen the maximum negative levels, but I don't see them turning positive for the next two years.

Bethlehem: It depends on what happens to inflation. If for some reason, perhaps linked to an exogenous shock, inflation suddenly goes back to 20% there will be a lot of pressure on interest rates to move back towards the level of the inflation rate and maybe above. What worries me is that one of the deputy governors said in a public meeting that they would not make the same mistake again and allow interest rates to rise as they did in 1973-1974 — if we were to see inflation surge for some reason it would be necessary for interest rates to go back up to contain the growth rate of the economy.

Parsons: Do you accept the thesis that in the long term for SA there is no trade-off between inflation and unemployment?

Geldenhuys: Yes.

Bethlehem: You can't pre-judge in circumstances where the inflation rate is 16,2% what the interest rate level might need to be if inflation goes back to 20%. If you say to people in advance that we will never go back to 20% interest rates, you could kill the situation. The way you present monetary policy is very important.

Lee: I think it must be accepted that for any country to reduce its inflationary rate from the level that SA has to, let's say, significantly below 10% on a sustained basis, there is no way you can escape imposing hard measures.

Bethlehem: Government committed itself in last November's meeting to positive real interest rates in the long run. One can make a case for negative real interest rates if domestic demand is extremely weak and you have a deflated economy; but if you get into an overheated economy you must have positive real interest rates.

Parsons: What monetary policy would you like to see until the end of the year?

Economists' panel flanked by *FM*'s Coulson (l) and Bruce: clockwise, Geldenhuys, Lee, Parsons, Bethlehem

Minister of Finance committed himself to a five-year plan to reduce the share of the State in GDP to 34,5% (currently 38%). Do you believe: (a) that that is a sufficient target? and (b) is it realistic given the pressures our politicians find themselves under?

Lee: In principle setting targets for five-year public-sector share is very good but one must set realistic targets. In my view, to reduce government share over that period is not realistic. It would be better to adopt a target of keeping the share where it is over the next five years. I think there would be a much better chance of achieving it and it would have much more credibility.

Geldenhuys: That is the second best, though it would be a start. We could be in a different phase of the business cycle five years down the line, so it is not easy to say where it should be. I am also a little afraid of setting a target. Maybe we should not have the target that clear, as long as we continuously work at it. The results must convince people.

Parsons: As a crude bottom line could you say we should reduce government's share to a point where taxes can be cut?

Geldenhuys: It depends on circumstances.

Bethlehem: It's essential to have clarity in the setting of targets and in planning. To plan vaguely is dangerous. In the world of diplomacy you define things vaguely because that is the way to make progress, but in the world of economics confidence building requires commitment and specification. I agree that it's important to distinguish between cyclical phenomena and long-term trends and goals. But you must keep long-term goals in view even in an adverse part of the cycle. We've got to see government stand up and say its goal is to get the level of public-sector spending down from 38% to 34%.

The way to do it is privatisation. We must accept that in certain areas government spending is going to expand. So we've got to contract government spending elsewhere. We must be bolder, we must sell off the family jewels, because we are not selling them to anybody but ourselves. If it is not seen to be done the government will fail and confidence will fall.

Have those who wanted tax cuts been proved right? — Raymond Parsons

Parsons: What do you think about monetary targeting?

Bethlehem: I am not arguing with the way the authorities have handled monetary policy in the past 18 months. But if you are going to target you must be clear what you are targeting. If you are targeting M3 it is no good justifying an empty target by bringing in the velocity factor and then saying, we have achieved our target of M3 growth adjusted for velocity. Once you adjust for velocity it's no longer an M3 target, it is money GDP. Now I don't disagree with targeting money GDP — but then say it is money GDP we're targeting, not M3. You cause confusion in the public mind and that doesn't contribute to confidence.

Recovery won't last as long as 1987. — Rob Lee

Lee: One could get around the velocity of M3 by targeting narrow measures of money supply. But the point I want to make is people's views on the stock market boom. People talk about rising prices on the stock exchange not doing anything to improve real investment. I think there is a dangerous misunderstanding here — a rising stock exchange makes it easier for companies to finance themselves. There has been a tremendous increase in the number of rights issues in the past two years. Enormous sums of money have been raised in the first place to repay debt and improve balance sheets, but more recently to finance capital expenditure.

Parsons: Are you saying we will see an investment boom within 12 months?

Lee: There should be a significant increase in investment over the next 12 months from the private sector. Of course, one has to bear in mind that investment as a percentage of GDP is at an incredibly low level.

Parsons: Well, gentlemen, we are on the last lap. I want to read a sentence from the governor's address: "The economy will not approach anything like its 'optimal performance' until businessmen and consumers gain a more positive vision of SA's social and political future." I want to pick up those words "optimal performance" and relate them to growth targets. The Economic Development Programme is being updated. If you were authoring that revision, taking into account all the constraints, what target growth rate for GDP in the next five years would you set?

Lee: It must be realistic, so I wouldn't choose anything higher than 3%-3,5%.

Bethlehem: I would adopt a different approach. You must put down 5%, you must put down 4%, you must put down 3%, and you must talk about scenarios. With the population growing at 2,5% you know the growth needed for improvement per capita. Whether you achieve it depends on all sorts of things, political and exogenous, but you've got to sketch scenarios and let planners choose their own picture of the future. That is the whole point of indicative planning. ■

MARGO COMMISSION

Sifting the mixed signals

The next important tax event will be when government eventually produces its White Paper on the Margo Commission's controversial tax proposals. In drawing it up, government should be guided by certain tax principles that appear to have escaped the commission.

The celebrated Margo Commission has attempted to present government with a *fait accompli*: either it accepts one of two alternatives or nothing of its main tax proposals. Whether Pretoria feels obliged to accept this will become clear when it eventually publishes its White Paper.

Certainly there is much in the report that will reduce substantially some of the tax anomalies that burden the present system. And this tends to suggest that a piecemeal approach might have some merit. But the proposals are enormously complex and this too needs to be evaluated very carefully.

More to the point is whether Pretoria's reaction, in the forthcoming White Paper (WP), will depart substantially from Margo's main recommendations. Tax reform of any kind is complex enough to permit the WP to adopt what could turn out to be a stand diametrically opposed to Margo.

The main thrust of the report is to cut unpopular taxes that are of a high visibility — those imposed directly on consumers — and to finance this reduction by the proposed new Comprehensive Business Tax (CBT). This appears to be a sleight of hand, as Margo argues it is easy to pass on — forward to consumers, and backward to various suppliers. The implication from that is CBT is not a business tax at all but a consumer tax disguised as an impost on business.

Be that as it may, in its present form the CBT is a definite disincentive to business and

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THE ECONOMY

Another giant signpost. But where, pray, does it point?

Gerhard de Kock's cheery annual address last week recalled Keynes' pithy remark: 'Bankers are the most romantic and least realistic of men'. By STEPHEN GELB

THE central conclusion which emerges from Reserve Bank Governor Gerhard de Kock's annual address, delivered last week to bank stockholders, is that economic policy in this country is rapidly approaching bankruptcy.

De Kock's review joins the June budget and the white paper on privatisation on the growing list of supposedly major policy statements which have been, at best, non-events.

The problem is not simply that De Kock offered not even a hint of a way forward for economic policy, preferring to shift the entire burden onto political "reform". He was also unable to provide any new insights into the present economic stagnation.

His analysis and prognosis were almost identical to his 1986 speech, down to many of the same phrases (another index of economic stasis, perhaps). Indeed, most of his public pronouncements since the debt crisis of August 1985 have pushed the same basic line.

This runs as follows: the essential problem at present is that political unrest during 1985-86 punctured business confidence, notwithstanding the basic soundness of the economy from late 1984. This has resulted in a capital strike (my term, not his): foreign creditors and investors withdrew, imposing *de facto* financial sanctions and precipitating the debt crisis and ongoing exclusion of South Africa from international credit markets.

The local business response has been to direct cash flows towards financial assets, causing a steep decline in investment in machinery and equipment, and what De Kock calls the "paradox" of a booming financial sector (as evidenced by the JSE boom, for example) co-existing with stagnant production (indicated by the low growth rate of gross national product).

Economic policymakers, he continues, have successfully managed these negative developments, especially in relation to the economy's international situation. This is evidenced by the current account surplus on the balance of payments and rising foreign exchange reserves, together with the repayment of significant amounts of debt and the negotiation of the very favourable deal last April with South Africa's international creditors.

But economic policy is ineffectual in terms of a resolution of the position. This depends on a reversal of depressed confidence, which in turn requires successful political intervention, in the form of "the continued maintenance of law and order and further political reform".

Would De Kock's notion of "reform" be adequate, we are left to wonder? Nonetheless, he concluded last week, "the economic omens are now so favourable that even a relatively modest improvement in confidence should be enough to initiate a period of rapid economic growth and rising standards of living for all."

De Kock being the quintessential banker, one is reminded by this of John Maynard Keynes' description of bankers as "the most romantic and least realistic of men".

"Like the honest citizens they are," Keynes continued, "they feel a proper indignation at the perils of the wicked world in which they live, when these perils mature; but they do not foresee them." This captures quite succinctly De Kock's reaction — a combination of irritation, despair and abdication of responsibility — to the abrupt and rude intrusion of political factors into the previously well-ordered world of finance.

Politics and economics are (have always been) closely linked, but it still appears thoroughly naive and inappropriate to reduce the obstacles facing economic growth to political issues. Even interpreting the argument as implying political stability to be a prerequisite for successful economic action, rather than the final piece of the puzzle, it is surely obvious that the economic difficulties in the way of "rising living standards for all" are structural, and need to be addressed in these terms.

One of these crucial structural issues is precisely the domination of the financial over the productive sector. De Kock understands this to be a "paradox", a contradictory consequence of the lack of confidence, but the true causal relation is the reverse.

Financial domination has both international and national aspects.

From the early 1970s, the growth of total production and trade became sluggish, but there was an explosion in the volume of international financial flows. As the operations of international financial institutions grew, so did their power and influence.

One aspect was the elevation to dominant economic ideology of the principles of "sound finance", which really date back to the era when the international monetary system was regulated via the gold standard.

"Sound finance" places absolute priority on maintaining creditworthiness and the ability to repay debts by not spending more than is earned.

When applied to national economies, this imposes an external orientation on economic policy: appropriate adjustments in the balance of payments becomes of overriding concern, whatever the consequences of such adjustments for production, employment and growth in the domestic economy.

Gerhard de Kock

Such criteria and assumptions have shaped South African economic policy throughout the 1980s, providing an essential continuity between the pre- and post-debt crisis periods. Part of De Kock's "proper indignation" over the debt issue has been because he felt that South Africa had been playing strictly by the rules, but the banks were no longer applying them.

Despite this "betrayal", other legitimate policy concerns have been subordinated to the management of the debt issue during the past two years. The latter has been thoroughly orthodox in financial terms, with the singular goal of reestablishing South Africa's good standing in international financial markets.

Last week, De Kock rehearsed for the umpteenth time the list of "technical" measures (read: criteria of sound finance) which indicate the solidity of South Africa's international financial position. The very good deal obtained by South Africa last April was situated firmly within the framework of financial orthodoxy, so that the international banks are still calling the shots in this broader sense.

The international domination of finance and the related policy orientation in South Africa has had the support of the domestic banks. But the banks are themselves one element, albeit important, of the huge financial empires centred on the mining finance houses and the major insurance companies, and it is these groupings which have been the major source of support for orthodox financial policies during the Eighties, and the major beneficiaries of the local domination of finance over production which has resulted.

The orthodox emphasis on restoring South Africa's external equilibrium — in response to both the declining gold price in the early Eighties and the withdrawal of credit in 1985 — has shifted the relative profitability of investment in financial assets versus investment in productive plant and equipment, decisively in favour of the former.

The exception of course has been mining, the major export sector. The massive cash flows generated both by the latter and in the financial sector itself have thus been increasingly retained in the financial system, further reinforcing its expansion and widening the disparity between production and finance.

In the process, a growing proportion of cash flows has fallen within the net of the major financial groupings, boosting their influence over production and investment decisions and economic growth.

The relation between finance and production is thus a structural problem, in this sense. Restoration of political stability will not automatically produce a reorganisation of the channels through which investment funds flow, nor a re-orientation away from the criteria of "sound finance" in national and corporate policy approaches. Continuing along the path of domination of finance over production may well make possible a resolution of the profitability crisis in the economy, but goals such as higher employment and general prosperity will then depend on a "trickle-down" effect.

There is surely another way forward for economic policy. There is discussion, of course, in official and business circles, of "inward industrialisation", and the need for job creation and housing construction. But this tends (like the moves towards privatisation) to be somewhat languid.

What is obviously needed is concerted action to re-orient the economy towards domestic objectives, which will involve also much greater direction of the investment process, rather than relying on the outlook held by a decreasing number of corporations.

The more important question which needs to be asked, however, about this alternative approach is not whether it should be pursued, but whether it can be pursued, given the power, both domestically and internationally, of those who would impose their own conceptions of "soundness" on the rest of us.

● Stephen Gelb is a researcher at the Labour and Economic Research Centre in Johannesburg.

SA ECONOMY FACES SICKNESS

7/9/87

PARLIAMENT — The South African economy faced not only sanctions and disinvestment, but an economic sickness in the international world, the Deputy Minister of Finance, Dr Org Marais, said on Friday.

He said in debate on the finance vote that there was a great deal of criticism that the real gross national product growth rate would not achieve the three percent set for 1987.

It was continually said that Government policy was responsible for this.

However, this should not be seen in isolation.

South Africa had to deal with major structural changes in the international economy which had a profound negative effect on investment, growth and inflation in this country.

It had to be remembered that the economic upswing in the First World — particularly Europe and the United States of America — was caused mainly by the growth in service industries and not by the growth in basic industries. — Sapa.

(49) Sowetan 8/9/87

FOCUS

Tax drain on SA economy

Economist LYNN PIKHOLZ today looks at the implications for the South African economy of the Margo Commission's recommendations to lower taxes.

ONE of the main reasons for the economy's decline in the past decade has been the rising tax burden.

Since the late 1960s the Government's participation in the economy, particularly its spending, has been rising sharply.

The rise in Government spending goes hand in hand with a sharp rise in taxes which is used to finance it.

There has been an especially close relationship between the upward trend in Government spending and trends in direct personal taxation.

This has contributed to a decline in personal disposable income and personal savings as well as to a very slow growth in consumer spending.

The increase in taxes means that there has been a growth in consumer spending.

The increase in taxes means that there has been a growing transfer of economic resources from the private sector to the public sector. We are completely reliant on the Government to use its discretion where the funds are to be spent.

Hampered

Spending on housing, education, infrastructure and other basic needs are very much a necessity in a developing country and is fortunately a growing Government priority.

Government expenditure (financed by taxpayers) on defence, high public servant salaries and pensions and so on are more controversial issues.

The favouring of certain vested interest groups like mines which pay relatively low taxes and farmers who receive disproportionately high subsidies (for example, controversial maize subsidy) tend to distort markets and often inflate prices.

High taxes and special allowances to various interest groups have resulted in much tax avoidance, evasion and distortion.

Our present tax system is extremely inefficient leading to an inadequate tax base and inefficient tax collection.

It has discouraged entrepreneurs and encouraged the tax-avoiding informal sector. In short it has severely hampered economic growth.

The linkage between lower taxes and higher growth rates has been validated by a study of taxes and economic growth undertaken by the World Bank.

Lower taxes have encouraged a more rapid expansion in investment and productivity as well as showing a better employment performance. Lower taxes impact on the aggregate supply of the factors of production and also affect the efficiency of resources utilisation

Already 10 industrial countries overseas have given way to tax reforms to foster econimic growth.

The Margo Commission addresses the problems in our tax system with the ultimate aim of creating tax reforms which allow economic decision-making to take place for economic reasons rather than tax reasons thereby encouraging the efficient use of resources towards growth in the economy.

Simply put, a tax system must finance expenditure adequately and fairly without stifling the creation of wealth. This induces a situation of conflict when one considers not only the active encouragement of wealth creation, but the very distribution of that wealth is crucial in South Africa.

Regressive

The Margo Commission addresses the creation of wealth rather than its distribu-tion which it leaves to Government. A clear example of this is the income tax conces-sions for individuals which aim at boosting the capacity and motivation for the entrepreneur towards economically productive activities.

The separate taxation of husband and wife is also to be welcomed by married couples and encourage economic productivity. Although not deal-ing in wealth distribution directly, the commission's recommendations do to some extent facilitate it.

An example of this is the suggested lessening of GST from 12 percent to four percent. GST is a regressive tax as it is not in accordance with one's ability to pay. It is a flat rate on consump tion and thus obviously would assume a higher proportion of a poorer person's income

GST has been the fastest growing source of revenue to Govern-ment since 1982 followed closely by personal taxation. The reduction in GST is to be welcomed although its inclusion of basic food items which were previously tax-exempt will hit the pockets of lower income groups.

The revenue collect-ed from a lower GST will be partially compensated by a broadening of its base (with food included) and hopefully less distortion.

The tax burden has been largely shifted into the business arena in the form of a comprehensive business tax (CBT). It should not be seen exclusively as a tax on business as one can be sure that business will "shift the tax" both forwards onto consumers and backwards onto the suppliers of capital and other factors of production.

Always well hidden is the effect inflation has on taxes This fiscal drag or bracket creeps as it is called causes one to land up in a higher income tax bracket and therefore pay higher taxes without a real rise in income.

It constitutes a big source of revenue to the State which is never stated This subtle source of taxation is not as harmful to economic growth as it creeps quietly along and does not alter economic perceptions of perhaps lower tax rates in other areas.

Ironical

In some ways it is ironical that lower taxes which encourage growth (and therefore inflation) push us into a higher tax bracket which eats away at the benefits of the lower taxes

Taxes now topical with the Margo Report will probably slowly fade into oblivion and remerge in a somewhat obscured and diluted form in 1989. The rate at which the recommended tax reforms are executed and to what extent they are watered down will depend on the degree of acceptance, persuasion and bargaining power between the Government and various interest groups.

The Media Council

(49) Sowetan

FOCUS

Govt role in the free market

THIS week First National Bank economist LYNN PIKHOLZ looks at the role of the government in a faltering economy.

IN a sluggish economy we usually have to rely on private investment, exports or government expenditure to get it going.

In the absence of the former two due largely to the confidence factor and lack of economic incentives, the government has stepped in extremely strongly and has been playing an increasingly important role in recent years.

Growing government involvement in the economy is by no means a South African phenomena. In 1929 the government share in the US economy was a mere 12 percent. In 1987 it stands between 40 percent and 50 percent. The United Kingdom figures show a similar story where government involvement in the economy stands today closer to the 60 percent level. The results and feelings towards growing government involvement in the twentieth century as opposed to the nineteenth century have been very mixed.

This is to be expected as government expenditure by its very nature cannot be objective. It is always inextricably linked with the political system it is trying to uphold.

With government expenditure we enter the realm of welfare economics where normative (subjective) decision making must preside. The conflict as to where the government should direct its resources centres around finding a balance between a sterile economically efficient result and one that addresses the welfare of the majority of the population.

Obviously, the ideology of the ruling party will channel government expenditure within the framework that preserves its power in the economy. The radical change in attitude towards public spending under the Labour and Tory governments in the United Kingdom emphasises this point.

Thatcher at present is attempting and succeeding in diminishing the state's role in central areas such as education as well as privatising state-controlled entities.

In South Africa government's participation in the economy has tended to develop its own momentum stretching its tentacles further and further into the private sector.

In a developing country such as South Africa, government expenditure and participation is often deemed inevitable and desirable in areas such as infrastructural development, education and housing.

Pressure

The pressure on the government to increase its role in the economy is accentuated by the process of urbanisation. The elasticity of the demand for public goods (among a growing urban population) is greater than one thus inviting the state to participate in order to meet the demand.

The pervasive and subjective nature of government expenditure in its "public choice" has often been done at the expense of private sector involvement. This can be witnessed by rising taxes which have been used to finance government expenditure.

An increase in the tax-burden implies a growing transfer of economic resources from the private sector to the public sector. Rising taxes have proved time and time again to be an economic disincentive to investment thereby hampering growth. High personal and company taxes have stifled the motivation of entrepreneurs to inject vitality and economic productivity into the economy.

Entrepreneurs who have not been stifled have largely gone "underground" and have emerged as very successful business people and tax-evaders in the informal sector.

Rising government expenditure in past years has caused a sharp rise in the size of the budget deficit (i.e. government expenditure minus government revenue). This led to a crowding out of the private sector from capital markets as the government has forced to attract funds to itself in the market place. In recent years the government was unwilling to pay the market interest rates necessary to attract sufficient savings. It therefore raised the investment ratios to direct savings to itself. This meant that financial institutions were forced to take up a larger portion of government debt.

Inflation

With the high interest rates the government made consistent use of bank credit to finance a large portion of its borrowing needs. This led to a rapid increase in the money supply due to the creation of liquid assets for the banking system. The increase in money supply brought with it inflation and inflationary expectations which had negative effects on confidence and therefore economic growth in the economy.

The fiscal crisis emerging from growing government expenditure is not surprising. Total government spending which has more than doubled every 5 years since 1975 has been accompanied by sharply rising government debt. In 1987 public sector expenditure reached 38,1 percent of gross domestic product in the economy.

Pledged to lessen its role in the economy, the government has of late been more open to privatisation and deregulation of its "parastatals". It is hoped that by lessening the government bureaucracy and encouraging a more free-market approach new incentives would be opened to the private sector who is always willing to have access to lucrative assets.

Red-tape

The white paper on privatisation was found to be disappointing by both sides. Free marketers complained that it involved too much red-tape (which is to be expected as the government obviously is not too keen to relinquish its control over strategic areas in the economy). Non-free market thinkers see little concrete difference between state and private-sector monopolies. The emphasis they feel should be on new job-creating investments rather than the occurence of take-overs and monopolies. The privatisation debate stretches far beyond the "wasted" government expenditure and inefficiency arguments".

Policies

With a faltering economy struggling to take off, the government is being forced to adjust some of its entrenched policies of participation and expenditure in the economy.

It is paying much more attention to directing expenditure towards viable ends which meet the demands of more people and are essential prerequisites for stability in the economy.

Its interest in privatisation and deregulation and its increased emphasis in areas such as educatioin and housing in its fiscal policy bear testimony to this.

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SCRAP LAND ACT - NAFCOC

BLACK businessmen want the Government to scrap the Land and Group Areas Acts for greater involvement of blacks in agriculture and future economic development of South Africa.

The information officer of the National African Federated Chamber of Commerce, Mr Gabriel Mokgoko, said the scrapping of these acts would open scope for a conducive climate of the philosophy of the free enterprise system among the black communities.

He said: "It will also create job opportunities and food production and economic development in the country.

For this purpose, he added, the chamber has called upon all regions to constitute agricultural committees so that agricultural development did not solely remain the responsibility of the Government and parastatal organisations.

"The role of this committee is to offer or arrange for expert advise for black farmers, especially in the National States.

"The committee will work very closely with the various departments of agriculture and farmers associations in various regions," he said.

He said: "The Land Act, and the Group Areas Act (1966) are an inpediment to the realisation of these ideals, and to that extent constitute a resounding negation of the free enterprise concept.

"Unless these acts are scrapped the country shall continue to see limited black involvement in a major sector of job creation. The Government has been accordingly requested to give blacks a stake in the ownership of land by scrapping those acts."

Limited

Mr Mokgoko said a delegation of Nafcoc earlier met with Government officials for the scrapping of the acts and it was given an assurance that the issue was being investigated by the President's Council.

He said poor agricultural performance in areas inhabited by blacks was largely the result of inadequate land and unsatisfactory tenure arrangements; lack of adequate credit facilities; insufficient infrastructure; poor marketing facilities and inadequate education and training on a formal non-formal basis.

The Chamber has prevailed upon the Government to provide these facilities so as to create more favourable image of agriculture and occupation or profession.


MR SAM Motsuenyane, chairman of Nafcoc.

Economy starting to struggle — Volkskas

S/day 18/9/87 (49)

HELENA PATTEN

THE ECONOMY has started to flounder, Volkskas says.

In its latest Economic Spotlight, it says: "The reasonably strong improvement in production evident in the second half of 1986 — real growth of 3,5% — has forfeited a considerable degree of its buoyancy since the beginning of 1987. In the first quarter, the figure dropped to 2%. In the following quarter, the growth rate shrank to a provisionally estimated 1,5%."

Volkskas says poor growth in the second quarter of this year is influenced by loss of production as a result of strikes and an exceptional number of official holidays.

If agriculture is left out, the rest of the economy recorded a mere 0,2% growth in the second quarter.

Volkskas says the reason for continued sluggishness in the upswing is still lack of business and consumer confidence, arising out of political uncertainty and negative foreign perceptions.

The decline in economic growth will have to be closely monitored, and the onus is on government to employ its economic management instruments timeously and in a more expansionary manner, in an effort to alter the course of the economy.

Viewed on a year-on-year basis, Volkskas says, it appears inflation in the months ahead will only tend marginally lower. So an average inflation rate of slightly more than 16% is forecast.

(49) (88)

Economy in trouble, warns Volkskas

BOB KERNOHAN
Business Editor

THE economy has "started to flounder", but could be put on course again by a boost of consumer confidence, in which reduced taxation must be the key element.

This is blunt message from Volkskas Bank in its latest economic report, issued today.

It stresses that it does not wish to be "alarmist" — but the bottom line is that its contents are cause for grave concern.

Using the annual meeting of the Reserve Bank as the source for drawing its conclusions, the Volkskas report on economic highlights states that the information released at the meeting confirms the standpoint "that the economy, on the basis of a number of economic factors, has started to flounder".

And it adds: "This trend has been particularly obvious since the first quarter of this year when business activities could no longer maintain the rate of increase of the second half of 1986.

"In reality, the economy has run out of steam to such an extent that the official projection of a 3% growth rate is probably no longer attainable."

After achieving a real growth rate of around 3,5% for both the third and fourth quarters of last year, the economy "has forfeited a considerable degree of its buoyancy since the beginning of 1987".

Growth dropped to an estimated 1,5% in the first quarter this year.

"The marginal growth in the second quarter," the report adds, "was influenced to a reasonable extent by the loss of production as a result of strikes and an exceptional number of official holidays.

"At the same time it must be borne in mind that the growth that did, in fact, take place in the second quarter was almost exclusively attributable to the significant increase in agricultural production.

"If agriculture is left out of the account the rest of the economy recorded a growth rate of a mere 0,2% in the second quarter."

Volkskas says the volume of factory production increased by only 0,9% compared with an increase of 2% in the first three months.

The reasons are "insufficient domestic expenditure together with more sluggish export volumes".

Behind the slow spending lurk several causes.

One of the most significant is that people are having to dig into their savings to balance the books from month to month.

"The moderate increase in real private consumption expenditure is still associated with with a lower tendency in personal savings," says the report.

"In the first six months of 1987, this figure amounted to a mere 1,5%.

"In its turn, this did not go hand in hand with an increase in outstanding consumer credit.

"In actual fact, the ratio of outstanding consumer credit to personal disposable income is on the decline — an average of approximately 25% was recorded in the first half of 1987 as against a figure of 33% for the corresponding period in 1985.

"The only conclusion that can be reached is that individuals are drawing on their accumulated savings to a considerable degree."

A root cause of the economy running out of steam is lack of optimism despite there being many pointers to improvement.

These include the more favourable position of the balance of payments, relatively low interest rates and the expansionary fiscal policy.

Why, asks Volkskas.

Echoing the words of Reserve Bank Governor Dr Gerhard de Kock, the economic report says:

"The answer is still to be found largely in the lack of business and consumer confidence, which in turn arises out of the uncertainty on the political front and the negative perceptions abroad about South Africa and its future."

It looks to the Government to point the way to recovery by using "its economic management instruments timeously and in a more expansionary manner, in an effort to alter the course of the economy".

"... without an acceleration in private consumer spending — preferably supported primarily by reduced tax pressure — we can hardly expect the prevailing deceleration of the economy to be checked".

Bill aims to break up monopolies

CT 2/9/87

By David Braun, Political Correspondent

PARLIAMENT — Legislation empowering the Government to break up certain monopolies controlled through foreign companies was introduced today.

The Maintenance and Promotion of Competition Amendment Bill, if passed, will be retroactive to dismantle monopolies which already exist and which, according to lawmakers, could have serious implications for the South African economy.

According to a memorandum attached to the Bill, introduced by Minister of Economic Affairs and Technology Mr Danie Steyn, the Maintenance and Promotion of Competition Act of 1979 empowers the Minister to prevent the formation of harmful economic concentrations.

FOREIGN COMPANY CONTROL

A particular acquisition usually occurs domestically and is subject to the controls of the Act. However, there have been increasing instances where domestic companies obtained control over other domestic companies by means of an interest in a foreign company.

Such a foreign company in turn exercises control via another foreign company over the domestic company over which control is eventually obtained.

Should such transactions result in harmful concentrations in the South African economy, the acquisitions concerned cannot always be dissolved.

The Bill has automatically been referred to the Joint Standing Committee on Economic Affairs and Technology for consideration.

The Government hopes it will be passed by Parliament before the end of this session.

Lack of confidence, financial position of consumers retarding progress

Growth rate unlikely to meet expectations, says Sanlam

GROWTH in real gross domestic product will almost certainly be below 3% this year, says Sanlam in its latest Economic Survey.

In the first quarter of the year, annualised growth dropped to about 2% and to an estimated 1,5% in the second quarter. Thus there would have to be an exceptional acceleration in growth for a final figure of 3% to emerge, says Sanlam.

Despite many factors which should promote growth — easy availablity of money, low interest rates, surplus capacity in many sectors of the economy, considerable surpluses on the current account of the balance of payments, and the expansionary nature of the government's fiscal policy —

HELENA PATTEN

it seems the lack of business and consumer confidence and the poor financial position of the private consumer is the cause of the struggle of the economic revival to gain momentum.

Sanlam estimates real gross domestic product will grow by about 2,5% this year.

The survey predicts inflation will gradually tend lower during the rest of the year and that the average inflation rate for 1987 will about 16% compared with 18,6% in 1986. "This deceleration in the rate of price increases is the result of technical causes rather than an improvement in the underlying tendency."

Sanlam says the generally favourable balance of payments position has made possible within the past 18 months the Reserve Bank's redemption of R3 300m in loans previously negotiated to support the reserves, as well as the payment of R1 300m on the IMF loan.

"We do not anticipate large fluctuations in the exchange rate of the rand in the next few months and estimate the average dollar/rand exchange rate for 1987 will be about $0,48."

Sanlam also points to generally liquid conditions and believes short-term interest rates will be subjected to downward pressure rather than to noticeable upward pressure in the next few months.

Confidence needed to fix SA economy

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SDOT
23/9/87

THE challenge facing South Africa is to solve the economic problem to fulfil the material aspirations of its people.

It can be done, but, says Mr André Crouse, Port Elizabeth's municipal Development Officer, it is going to take ingenuity, imagination and hard work — "but most of all confidence".

Speaking at the Property '87 conference organised by the P.E and Midlands branch of the Institute of Estate Agents of South Africa today, Mr Crouse said there was nothing wrong with South Africa's "collective national intellect".

It was a country with abundant mineral and agricultural treasures but with a population that needed training to exploit that wealth.

Though it was a mixed Third and First World economy, there was nothing wrong with the level of the First World component — only the size needed increasing.

"Let there be no doubt in your minds that the challenge which awaits us is large and complicated.

"But it's no larger than the problems of other countries.

"The solution to our problems, political and social, are going to be economic solutions because we have to fulfil the material aspirations of our people.

"If you ask me whether we can meet our challenge, I have only one answer: Of course we can!"

Mr Crouse said the economic situation today was quite different from a year ago. The economy had now recovered, the property market was improving rapidly, and South Africa was paying off her international debt.

"All resources must be used to their maximum potential. Resources we have; it is people power, the development of human resources, that needs our immediate attention.

"The Mossel Bay gas project is being tackled the right way.

"Gas will be taken from the sea and converted into an end product, in this case diesel and petrol.

"The project is to be built by South Africans and operated by South Africans.

"We don't have those people yet, so they are being trained. This is actually happening in Port Elizabeth right now, at the East Cape Training Centre. The first trainees started on August 31 and, for the next two years, qualified workers will emerge from the training centre like hot cakes."

Economic prospects 'not rosy'

FOCUS

This week economist LYNN PIKHOLZ looks at commodities and how they affect the economy.

COMMODITY prices are beginning to show some real strength after a decade of glut which shoved prices to their lowest real level since the thirties. Key metals and certain raw materials are leading the way.

The general view is that we have seen an all-round bottoming out of commodity prices. Based on technical analysis, copper and aluminium prices have revealed an impressive uptrend on the chart points.

On the fundamentals (i.e. demand and supply) the future of certain key commodities is also looking promising although excess production capacity of nearly all the important commodities will tend to temper price rises.

Historically commodity prices have tended to react in line with inflation. The reaction or overreaction of precious metal prices to inflation and inflationary fears has been noticeable once again recently. This has occurred with the realisation across markets that world inflation has bottomed out and an uptick in world prices is expected.

Traditionally the outlook for inflation has been largely bound up in the outlook for the cost of energy. The instability in the Gulf with a resultant fluctuating oil price way above the 10 dollar a barrel days of last year provides a strong impetus to inflationary fears. This is encouraging investors to hedge themselves.

The fundamentals (i.e. demand and supply for oil) point to an oil-glut and a possible downward trend in the oil price which we should witness by the year end.

Should the price of oil fall, the higher oil price of today is still significant with respect to inflation as many countries will be tied into contracts at firmer oil prices. The cost push inflationary effects will certainly filter through into overall prices in these countries.

In the precious metals market gold has performed extremely well rising steadily since 1984. This upward trend is firmly in place and extends across other precious metal markets such as platinum and silver.

Bullish

The bullish outlook for precious metals is being entrenched by increasing concerns over fundamental problems in the money markets (e.g. the US trade deficit and the Japanese and German surpluses).

These imbalances which persistently exist between the economies of the major countries are a destabilising force on world markets. The fact that the dollar is widely expected to depreciate against other major currencies is also making investors anxious about dollar investment and they are thus more willing to put their money into alternative assets.

Moreover, as most commodities are denominated in dollars, a depreciating dollar broadly means an increase in commodity prices. Investors are diversifying their portfolios to incorporate a wider spread of commodities.

Their rising demand for commodities is in turn pushing up prices and it is this trend we have been seeing lately despite downward corrections due to profit-taking.

Not all commodity prices have been rising equally. Base metals and industrial agricultural raw materials have fared far better than foodstuffs. Base metals depend mainly on industrial consumption rather than the whims of investors and speculators.

Low inventories, falling interest rates, a depreciating dollar and accelerating inflation laid the foundation for the boom in base metals. Since the beginning of the year the price of nickel has surged 49 percent, aluminium 41 percent and copper 35 percent. This compares to a 15 percent increase in the gold price. The low stock levels are ensuring that the market will be volatile on its upward trend. Prices of some footstuffs are still at their lowest level in 50 years despite a noticeable improvement in others.

Prices of many commodities outside the precious metals are still falling in real terms or at best holding their own.

Commodities sometimes follow their own cycles despite general commodity movements. Sugar has been especially hard hit in recent years.

Excessive overstocking for many consecutive years by the European Community in order to protect farmers has distorted markets and created an irreversible glut, at least in the short term.

The potential for sugar to be used as a source of fuel (by extracting ethanol) may change this picture. Copper production, on the other hand, was cut drastically in recent years due to slack industrial demand. Stocks are now so low that renewed industrial demand is driving prices up again.

Prices

On the agricultural front, products such as rubber and cocoa have seen a turnaround in their prices — albeit a modest increase. Rubber has risen approximately 5 percent and cocoa 6,5 percent in the past eight months. Cotton prices have been seeing a recovery since August last year. Wool prices have also risen strongly.

This trend has not been echoed in the coffee market as Brazil, expecting a huge coffee crop, is exporting coffee at prices far below the recommended market price.

In South Africa commodities form an essential part of our economy as we are primarily dependent on the primary sector (i.e. mining, quarrying and agriculture). Rising commodity prices thus have strong implications.

The scenario with respect to commodities on the precious metal side is far more favourable that than of agriculture where we are faced with increasing sanctions abroad and market distortions locally.

Our agricultural sector, like most others in the world, is bound up in bureaucracy. Government loans, grants and subsidies to farmers distort markets and encourage overproduction. We have been exporting maize at a loss for many years.

The government is finally trying to rectify the situation and is attempting to "buy out" the farmers in order to persuade them to reduce the number of hectares used in maize-production.

Although there has been a strong uptick in commodity prices, when one excludes the precious metals, the long-run prospects do not seem all that rosy. It is unlikely that developing countries dependent on commodity exports will see a turnaround in their terms of trade.

It would be fair to say that we have probably witnessed the end of the "big bear" in commodity markets. We must however, temper our joy as there are massive surpluses and potential production capacity in most commodities world-wide which ensures that "little bears" will be running around for some time to come — but then on the bright side again, Goldilocks is also here to stay.

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THE ECONOMY

Everyone's happy. We only lost on a TKO

South Africa's foreign debt repayments may be out of step with the rest of the world. By DUNCAN INNES

JUST before jetting off to attend the annual IMF meeting in Washington which started this week, Finance Minister Barend du Plessis said he felt more comfortable representing South Africa this year than he had done previously.

The cause of his comfort was not only that South Africa was repaying its foreign debt obligations according to schedule, but that this was being achieved at the same time as the country continued to show a surplus on the trading account.

Only a few weeks ago Governor of the Reserve Bank, Gerhard de Kock, had expressed similar sentiments. Commenting on the fact that R15,5-billion had left South Africa's shores during 1985 and 1986 (most of which was for debt repayment), De Kock found it "gratifying" that South Africa's economy "rose to the occasion" — by which he meant the economy had managed to survive this hefty capital drain.

Of course, this is a bit like saying that Bennie Knoetze was gratified to still be alive after being battered into oblivion by Johnny du Plooy recently. Alive he may be, but his boxing career is now in tatters.

And how battered and tattered is the South African economy?

According to De Kock, "technically the economy is in a cyclical upswing". However, he acknowledges that although "this recovery began somewhat hesitatingly from a low base in the middle of 1985, it then faltered noticeably in the first half of 1986 before gaining considerable new momentum during the second half of the year. Thus far in 1987, however, the promise of a more vigorous upward thrust has not been fulfilled".

In other words, the economy is stuttering and stumbling along. Real gross domestic product fell by 1,5 percent in 1985, rose by less than one percent last year and so far this year looks set to scrape a two percent rise. With the population growing about 2,5 percent a year it is difficult to see how De Kock can talk about prospects for "rising living standards for all".

port bill which would cut the surplus on our trading account. The authorities cannot allow this to happen since it would mean we had run out of foreign exchange with which to repay the debt. As soon as domestic spending does pick up significantly we can expect to see interest rates rise again — which is one reason why long term borrowing is not occurring.

Given that the authorities don't have much slack to play with at the moment we can expect the economy to stumble along for a long while yet.

While this is not the only cause of our current economic woes, it is an important one. But just how valid is the premise on which the authorities base their thinking? Given the fact that the above scenario rests on the belief that our priority is to repay our foreign debt, it is worth asking whether this should be our priority.

This question becomes even more pertinent regarding the extraordinary high levels of unemployment in the country, estimated by the President's Council to be at 3,3-million. Overcoming unemployment should perhaps be our priority and this means using export earnings to promote growth inside the country instead of using them to repay our foreign debt.

Assessing the success of the current strategy so far supports the view that the strategy itself seems misplaced. At the end of August 1985 total foreign debt stood at $23,7-billion (almost R48-billion). In the ensuing two years we paid back $4,3-billion (almost R9 billion). While, according to De Kock, this is "a remarkable achievement", the real question is: how much do we still have to repay?

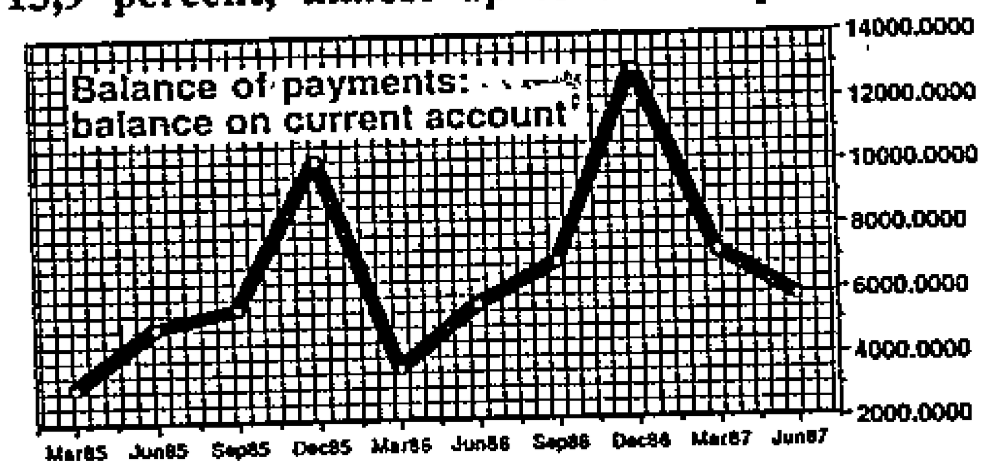
The answer is not $19,4-billion (R39-billion) but rather, because of factors like the depreciation of the US dollar, $22,6-billion (roughly R45,2-billion). After draining foreign exchange out of the country for two years we are not much better off than we were before we started.

BUSINESS BAROMETER

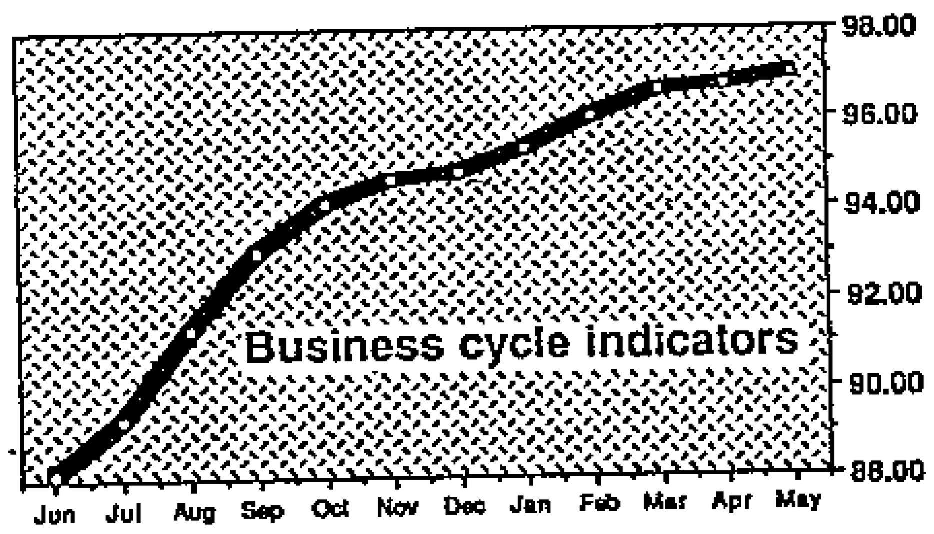
GENERAL INDICATORS

TAX AND TAXPAYERS
200 000 salaried taxpayers have failed to submit their returns for the current tax year and another 50 000 have been granted extensions, according to the Directorate of Inland Revenue. Johannesburg has the most defaulters: 40 000, while Pretoria has 20 000. Summonses for non-payment of tax are being served on 1 500 people a week.

MONEY SUPPLY
Money supply measure M3 (the broadest definition of money) grew by 11,34 percent in the year to the end of August, compared with a figure of 11,23 percent for July. The Reserve Bank's target growth rate for the year is 14 to 18 percent and annualised growth from the end of last year to August this year was 13,9 percent, almost up to the 14 percent mark.



FOREIGN DEBT
South Africa's foreign debt as a percentage of total exports goods and services fell from 171 percent in 1984 to 108 percent last year, totalling about R43-billion, according to Finance Minister Barend du Plessis. South Africa has repaid almost R9-billion of foreign debt since the debt moratorium in 1984. It still has two more major debt repayments to make this year: R420-million in terms of the renegotiated repayment agreement, due in December, and R270 to the International Monetary Fund in November.



BUSINESS CYCLE
Economists now seem agreed that the three percent economic growth rate forecast earlier this year will not be achieved. Most are predicting that the economy will grow at only two to 2,5 percent in 1987. As the graph shows, the Central Statistical Services leading business cycle indicator, a composite measure of key economic indicators, has risen but the movement is now levelling off.

FINANCIAL INDICATORS

Changes in exchange rates of the commercial rand (%)

	1 month to end of Aug. 1987	3 months to end of Aug. 1987	6 months to end of Aug. 1987	12 months to end of Aug. 1987
US dollar	1,2	-0,7	1,7	26,7
British pound	-0,7	-1,4	-3,7	14,7
German mark	-1,0	-1,3	1,1	12,0
Japanese yen	-3,4	-2,1	-5,4	15,7
Effective exchange rate*	-0,1	-0,9	-0,3	16,1

*Weighted average

Source: Sanlam

EXCHANGE RATES
The value of the rand relative to foreign currencies has been relatively stable in recent months, but has dropped against the Japanese yen. The effective exchange rate of the rand (which reflects the external value of the rand against the average of a 'basket' of foreign currencies) has been falling slightly. Sanlam's economists estimate the average dollar/rand exchange for 1987 will be about 48 American cents.

Johannesburg Stock Exchange Indices

JSE Indexes	21/9/87	WEEK AGO	% CHANGE
All Market Index	2643	2653	—0,3
All Gold Index	2245	2300	—2,4
Industrial Index	2206	2210	—0,2

Short-term interest rates

	21/9/87	WEEK AGO	YEAR AGO
Three-month bankers acceptances	8,9%	8,85%	11,5%
Prime overdraft rate	12,5%	12,5%	14,5%

Gold Price

24/9/87	WEEK AGO	% CHANGE
463,9	459	+1,07

Selling price: Major currencies against rand

	24/9/87	WEEK AGO	% CHANGE
US dollars	48,74	48,75	+0,2
Pounds Sterling	337,61	337,74	+0,1
Deutsche Mark	0,8858	0,8848	—0,3
Yen	69,92	70,11	—0,3
Swiss Franc	0,7347	0,7340	+0,1
Financial Rand	,3000	,2975	+0,8

US Dollar against major currencies

	24/9/87	WEEK AGO	% CHANGE
Dm	1,8179	1,8150	+0,2
Sterling	1,6455	1,6465	—0,06
Yen	143,57	143,82	—0,2
SwFr	1,5073	1,5055	+0,1

Source: First National Bank

There is much talk about "a lack of business and consumer confidence" being responsible for our low economic growth rate. But this simply begs the question of why such a lack of confidence exists in the first place.

Large numbers of consumers are still licking their wounds after being caught in the interest rate hike of August 1984, which left many people with debts they couldn't repay. Thousands of small businesses went to the wall for the same reason and others are still trying to make ends meet. So even with the best will in the world some people and businesses are just not in a position to run out and start a spending spree.

But what of the rest? It is at this point that the R15,5-billion we have so generously exported abroad comes into its own.

In order to continue paying back our foreign debt we need to earn foreign exchange. Since we are not attracting much foreign investment at the moment, foreign exchange comes mainly from export earnings. That is why the Finance Minister gets excited about the fact that we have a trade surplus of over R7,7-billion: we need that money for our debt repayments.

However, were domestic spending to improve substantially so as to promote a real economic recovery, the effect would be to drive up our im-

It should be noted that the South African authorities' enthusiasm for repaying our foreign debt places us out of step with thinking in the rest of the world. Elsewhere, the tendency is to write-off large portions of the foreign debt owed by the Third World.

In the United Kingdom, for instance, the five major British banks have written off £4,7-billion of their total outstanding debt of £16,5-billion (28 percent of the total). Part of the reason for this is international banks have come to realise that the foreign debts of many Third World countries are so large that either they can't pay it back or, if they did, they would destroy their economies in the process.

Consequently, alternative strategies are being discussed. One of these involves writing off a portion of the debt. Others include swopping a part of the debt for foreign investment in the debtor country.

Unfortunately, South Africa is not a party to any of these discussions. We continue to run down our economy in order to repay our debt.

The reason for this may be summed up in one word: apartheid. The original withdrawal of foreign bank credit to this country in mid-1985 was mainly politically inspired. Since then much of the government's political and economic strategy has been geared to regaining South Africa's international credit standing. Repaying a large chunk of our foreign debt is a key element in that strategy, since the government hopes that by so doing they will encourage foreign banks to lend us money again in the future. Whether this materialises while South Africa continues to promote apartheid is an open question.

So far this strategy has cost us R9-billion. No doubt it will cost us a lot more in the years ahead. Meanwhile, the unemployment queues continue to lengthen.

So near, yet so far . . .

Why isn't business booming? That is what the Economic Society met to debate last week. Diagnosis was plentiful. Answers there were some. Governor Gerhard de Kock's explanation elsewhere of how adversity is on the verge of advantage was more persuasive — if only because he is singularly comprehensible among that peculiar band of cognoscenti.

The economic upswing has now been running for over a year — at least that's what economists tell us. Most of us in the real economy — consumers, investors and businessmen — remain sceptical.

The reasons for this paradox are illuminating. They concern "structural imbalances in the economy" on the one hand, as discussed by the Economic Society at its conference last week; and lack of confidence on the other, mentioned once more by Reserve Bank Governor Gerhard de Kock, this time at the SABC's Diagonal Street party last Friday.

From a statistical point of view, our economy is undoubtedly behaving a lot better. As De Kock reiterated: "The stage is now set for real growth, both in the JSE and the real economy." Business and consumer confidence is still inadequate, however, but "only a spark of confidence is needed to trigger a strong upturn in fixed inventory investment. Without that spark the present upswing will remain sluggish."

Following our foreign debt repayment triumphs, the economy has certainly adjusted very effectively, as De Kock pointed out. We have:

☐ The achievement of large surpluses on the current account;

☐ Net repayment of US$4,3 billion of foreign debt;

☐ A dramatic improvement in SA's foreign debt ratios;

☐ More than a doubling of our gold and foreign exchange reserves to R8,5 billion; and

☐ An appreciation of the rand from US36c on June 12 1986 to its present level of around 48c.

Other favourable factors include negative real rates of interest in many cases, while "banks and building societies are ready, able and willing to expand credit." Exchange rate policy encourages exports and import substitution, share prices and stock exchange turnover have set one record after another, fiscal policy remains expansionary, and surplus capacity exists in many sectors of the economy.

So what's the problem?

The conference held last week by the Economic Society tried to shed some light on the subject. Its theme was "Structural imbalances in the South African economy," a polite way of saying the economy is in a mess. Sadly, much opportunity for insight was lost in academic and trifling expositions on the theories of personal research. Many points were also obscured in convoluted verbiage.

And as one economist wryly remarked:

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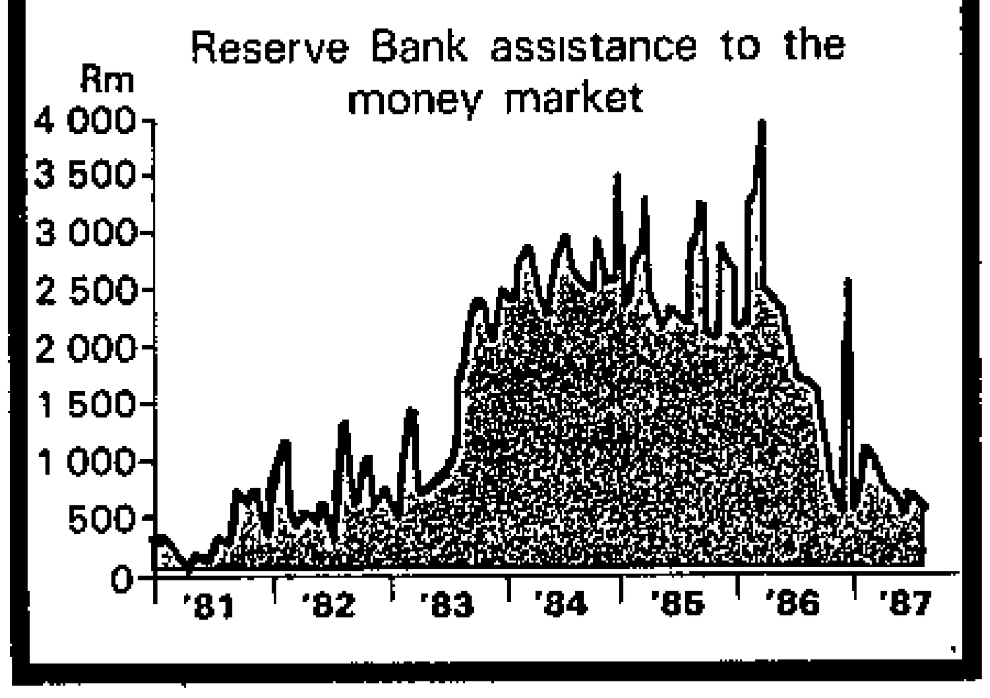
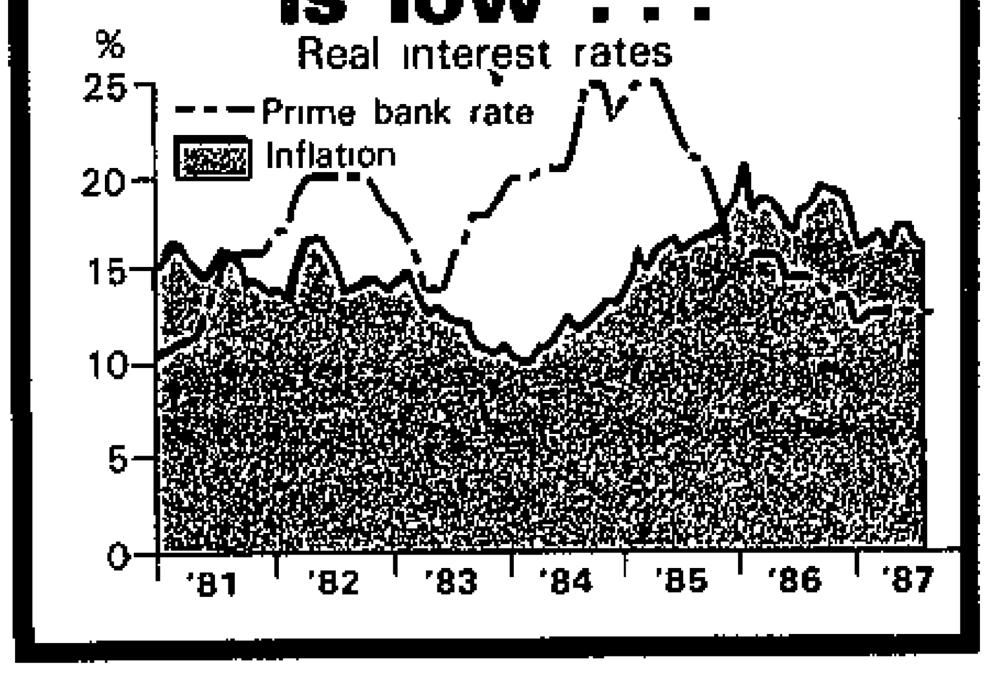
"The papers, I thought, were pretty uninspiring. Besides, my Afrikaans is not so good." The last point is not trifling — language difficulties and lack of communication across all groups is central to some of the problems facing SA today.

The cash is there . . .



. . . And the price is low . . .



Another economist complained that the profession was being cold-shouldered by government and business alike, and complained of favouritism towards the Reserve Bank. Yet another remarked that one paper "was vitriolic, personal, and as such had little genuine substance."

To be fair, there were some important points to be rescued from the conference. As Louis Geldenhuys, economic consultant to George Huysamer, noted: "I wasn't so disappointed, although I don't think one can draw any conclusion from such a broad-based conference. The views were more diverse and it appears economists are taking a much broader view than before, looking outward toward social structures, and recognising the increasing importance of politics."

One such was Raymond Parsons, addressing the conference in his private capacity. "Economic aspects of the political road ahead should receive a bigger share of attention," he said, adding that "economic development is certainly a necessary condition, though not a sufficient one, for successful political reform in SA."

As for those imbalances, Parsons discussed "apartheid itself" as a structural imbalance, and noted that the economic costs of institutionalised segregation had risen, and had "contributed to the desire for change in SA."

Group areas — a structural imbalance being hotly debated at present — was touched on by Charles Simkins of UCT. He pointed out that there were "large opportunity costs associated with long-distance commuting such as sacrifice of sleep time and other household activities." Long-distance fares were heavily subsidised.

Not surprisingly, this social tinkering has created an enormous pent-up demand for housing and education. It has probably distorted wage scales, and has certainly disrupted family life. As seriously, apartheid as a whole has created a relatively illiterate society, especially where people have been physically prevented from urbanising.

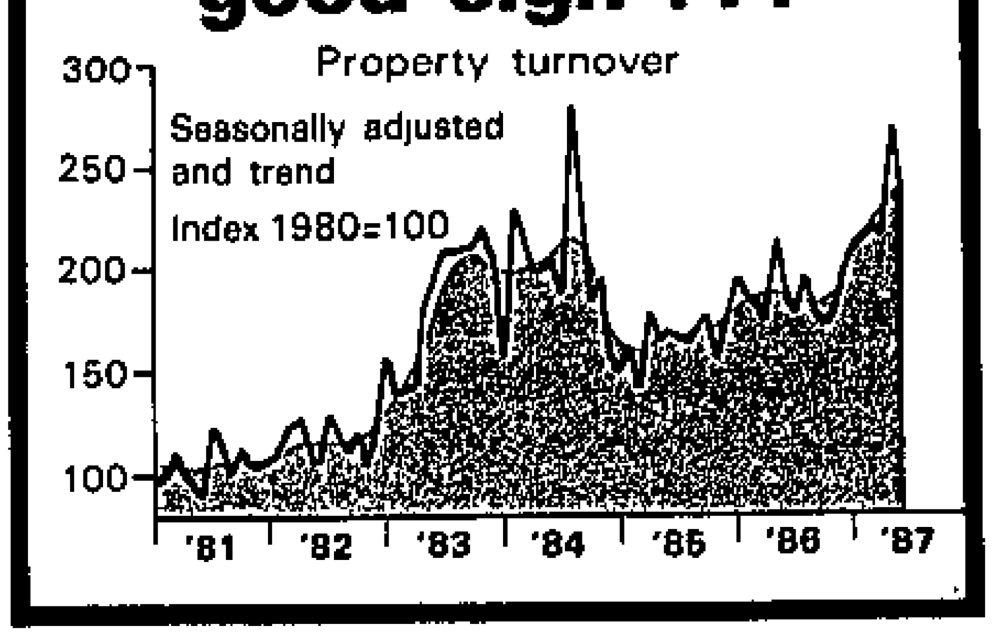
Stellenbosch University's Sampie Terreblanche believed that close co-operation between the bureaucracy and private sector had become part of the structure of the problem in SA. And though businessmen have condemned apartheid, they have not openly, as a group, used their "countervailing power" (see ***Current affairs***).

Significantly, Terreblanche said the real challenge "is to find a constitutional formula that will instal an effective minimum of power in the hands of blacks to enable them to have a satisfactory influence on fiscal decisions, but without installing that amount of, or kind of power in their hands that will empower them to overthrow the economic applecart."

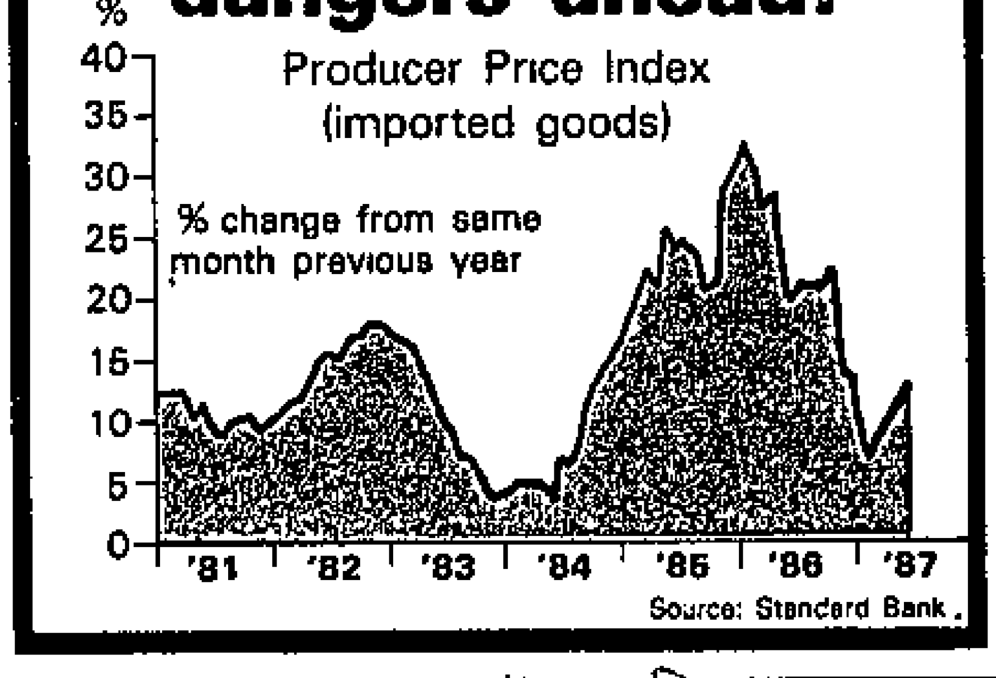
Commenting on the conference, Rudolf Gouws, group economist at Rand Merchant Bank, said that economic deregulation had to go hand in hand with political deregulation: "Group areas will remain a stumbling block if the government goes along a half-hearted route, which now seems to be the case.

"Black people who we want to pull into the real economy as soon as possible are going to doubt how serious we are about deregulation. They will see our approach as one that will only benefit white business, while not providing a medium for small business to get off the ground."

. . . Already one good sign . . .



. . . But inflation dangers ahead?



Jan Lombard, deputy governor of the Reserve Bank, told delegates that freedom of the individual was a cornerstone of development. He saw as a structural imbalance our high inflation rate coupled with high unemployment, though some economists would disagree.

In explaining this, Lombard said that the "change in the terms of trade with the fall of the rand did not flow through quickly enough towards a shift in resources." This was because we are largely a mining economy which, in contrast to a manufacturing economy, is slow to adapt.

"The lack of education of blacks and their lack of skills" was also characteristic of this imbalance.

The crucial paradox is that strong economic growth is needed to oil the wheels of reform while a consistent, clear path to reform needs to be embarked upon before economic growth can commence. Somewhere along the line this Möbius strip has to be snapped.

For, as Parsons rightly points out: "The bigger the stake in the market economy is given to blacks, the less they will see the political process as the only vehicle to redress economic imbalances, or hopefully not make impossible or self-defeating demands upon political structures."

There remain the great imponderables, which include: the RSC levies, the Margo report, rapid development in financial markets ahead of legislation, uncertainty over the evolution of group areas controls, and where and how government plans to zone various parcels of land.

On top of that we have sanctions coming up for review both in the US Congress and the EEC; trade unions as a new force; changes in law governing financial institutions; and, last but not least, the outcome of the next general election.

Tied to this is grave uncertainty about the path along which political and social reform will tread. Is it any wonder that consumers, investors and businessmen are loath to commit themselves? As De Kock said: "At present we have a problem with future vision. Entrepreneurs want to see the colour of the money first before they commit themselves."

De Kock says that with a population rising by 2% a year, and in the urban areas by probably 4%, "we should be investing like crazy — bicycles, furniture, plant and machinery, golf clubs, you name it.

"The key variable is forward-looking investment spending, and unless foreign and domestic business confidence in SA's economic future improves further in the months ahead it is unrealistic to expect more than a moderate revival in fixed investment spending."

"The fault is not in the stars, but in ourselves . . ." ■

ECONOMIC GROWTH

Consumer catch

The latest clutch of economic commentary paints a depressing picture of an economy starting to flounder in the absence of tax cuts, fixed investment and consumer spending.

In its latest *Economic Spotlight*, Volkskas, for example, believes the economy has run out of steam, pointing out that the official projection of a 3% growth rate for 1987 is probably no longer attainable.

It adds that while it is true that uncertainty about the future plays an important role in the more sluggish economic growth rate, it must similarly be borne in mind that the private consumer is hampered in his spending decisions "by his inability to spend rather than by his unwillingness to do so."

Until much happens on that front "interest rate patterns will not tend upwards at least for the rest of the year."

Indeed, Reserve Bank Governor Gerhard de Kock is his speech last week at the Diagonal Street banquet noted two important signals of a boom. For when the balance of payments current account goes down and when interest rates go up, "rejoice, rejoice. It will all mean expansion, higher employment and, better living standards for all populaton groups."

For the moment, however, as Sanlam noted in its latest *Economic Survey*, the economy still has ample liquidity and "short-term interest rates will be subject to downward pressure" over the next few months, which infers the economy will cool down further.

Standard Bank in its *Review*, while agreeing, detects "signs that the underlying factors are beginning to change."

It notes that private individuals have not recently displayed any significant tendency to increase borrowing for consumption purposes. "This is attributed to lack of confidence about the future and an unwillingness to become over-committed as happened after the 1983/1984 credit-borne boom."

However, Standard says this interpretation does not rest easily with evidence from the property market. "House prices are rising, property turnover is rising, and the one area of credit that is growing is mortgage lending. This must reflect confidence on the part of borrowers that they will be able to service their mortgages in the future (see story on Mortgage Bonds).

"This in turn implies improving job security and expectations of future income growth."

In trying to jimmy up support for the fragile upswing in his talk, De Kock noted that at present we had the paradox of "high blood pressure in the financial markets and low blood pressure in the real economy."

He discussed an optimistic scenario that proposed 4% real growth for 1988, inflation down to 12%, with a rise in real wages and salaries. But an essential requirement for this was a distinct revival in real fixed and inventory investment.

And indeed, Sanlam was "especially concerned about the poor performance" of fixed investment. After an encouraging improvement in the latter half of 1986, it declined again in the first six months of 1987, it says, "mainly as a result of cutbacks in capital outlays by the business enterprises of general government."

Sanlam, in agreeing with Volkskas, believes that the sustained sluggish trend in general economic activity should be ascribed to lack of business and consumer confidence and, significantly, to "the poor financial position of the private consumer." ■

49

28/9/87 B/day

BoP surplus to 'remain healthy'

Bank forecasts continued growth in SA economy

HELENA PATTEN

SA's economic climate remains favourable for continued growth, says Trust Bank in its latest Economic Report.

It says despite signs that this year's surplus on the current account will be smaller than that of 1986, it is still expected to be at a healthy level.

"While it was initially feared the capital account of the balance of payments would be a heavy drag on the growth prospects for the current and coming years, latest indications are that this problem would be less intense — particularly if the political situation could be controlled."

Trust Bank says it seems foreign trade credit will be more readily available if the need for such credit arises from a deficit on the current account of the BoP. It ascribes this development to the assiduous manner SA has adopted in settling its foreign liabilities.

The report says the higher average level and stability of the exchange rate should continue its positive effect on the inflation rate for the rest of 1987. "The year-on-year rate is forecast to ease lower to between 14% and 14,5% by the end of the year."

It says the latest survey of the trade sector by the Bureau for Economic Research shows credit sales have grown faster than cash sales, indicating consumers have regained confidence to such an extent they are willing to buy on credit again. "A further improvement in consumer demand is therefore envisaged for the rest of the year."

Trust Bank says the fact that money supply growth keeps falling short of the targets set for 1986 to 1987, can be attributed to the effects of various kinds of "disintermediation".

Japanese-type growth revolution needed in SA economy

(49) SMA 28/9/87

A compelling case can now be made for a "critical dialogue" between employers and unions, says Bobby Godsell, group industrial relations and public affairs consultant for the Anglo American Corporation.

The spread of collective bargaining processes throughout our land is one of the most significant and most hopeful developments of the decade. This process demonstrates that it is eminently possible for groups with different interests, and drawn from different racial and social backgrounds, to arrive at mutually tolerable resolutions to serious conflicts through negotiation.

A major and growing concern is the growth of violent and coercive behaviour, as well as the decline of "good order" in the workplace. The term "good order" is used here not in the sense of the older order, based as it often was on an unquestioned racial hierarchy.

Every management which has experienced unionisation knows that the advent of unionism changes the balance of power at the workplace and produces a new normative culture. This is expressed most clearly in the pattern and process of disciplinary action which emerges in a unionised workforce. Rather the term "good order" is used in the sense of orderly behaviour — the creation and regular use of new ways of making decisions and resolving conflicts.

As predicted

A second major concern is the growing politicisation of management/labour relationships. Many predicted that the extension of an industrial franchise in the absence of a political franchise would do just this. The evidence is now in front of us.

So what is management doing? In the first place, they are attempting to build and strengthen the institutions of collective bargaining and conflict resolution (such as mediation, disciplinary and grievance procedures, arbitration etc). It is these institutions, and the social processes they create, which will produce a new normative culture in the mines, factories and offices of South Africa. To become and remain a strong force, these institutions have to be used and their use has to result in outcomes which are fair, realistic and responsible.

There are indications that wage bargaining is becoming increasingly sophisticated. Both unions and management are using information and analysis to strengthen their claims. This can only be welcomed. It is essential that both parties speak rationally not only with each other, but also with their constituencies, union members, employees and shareholders, to ensure realistic mandating and expectations.

Secondly, employers are exploring channels for constructively addressing the political concerns now present in the workplace. Conversations between the FCI and Cosatu and Cusa (now part of Nactu) provide early examples of at least an attempt to grapple with this issue.

Attempts to discuss issues of mutual concern bilaterally, such as the issue of public holidays, present another. Employer efforts to sustain bargaining processes in the midst of a state of emergency provide another. Conversations between employers and unions about sanctions provide a third.

'Taking a tough stand on violence is a very important part of the employer's contemporary challenge.'

All such efforts are in their infancy and are very fragile. All require employers to play quite new and frankly, unusual roles. They require new skills and new information. Even in their infant form, they hold at least a glimmer of hope for growth.

Indeed a compelling case can now be made for a "critical dialogue" between employers and unions. Both have become reluctant or enthusiastic players on the political stage. Discussion can help to ensure that each play a role with conscious purpose and with a reasonable anticipation of the likely consequences of strategies adopted.

In these issues employers have interacted with the State and will continue to do so. Modern industrial societies involve a tripartite relationship between government, labour and management. Such a relationship is urgently needed in South Africa. The primordial nature of political conflict often makes only indirect contact possible between government and parts of the labour movement. This imposes both a difficult and invidious role of interlocutor on employers.

A third area of activity is the effort to create a new normative order in the workplace, combating both past discriminations and the violent, coercive and disruptive actions of the present. A prosperous and just South Africa cannot be built on racist foundations. Still less can it be wrought by the necklace.

Channels for solving conflict must be made available to all and these channels must produce fair and realistic results. Those who seek change through violence and intimidation must meet the firm response of companies and communities who respect both the dignity and freedom of the individual, and the resolution of conflict through negotiation not violence.

Taking a tough stand on violence is a very important part of the employer's contemporary challenge. The skill, courage and persistence with which employers meet this challenge will help determine not only the type of workplace, but also the society which future generations will inherit. To succeed, employers must enlist the support of union leadership. In this regard the rejection of violence by Cosatu recently, and Cusa last year, is encouraging.

Godsell . . . sees hope in collective bargaining.

In all of this a further and most fundamental challenge remains the creation of wealth. A widespread view exists that South Africa is a wealthy country and that poverty exists because wealth is concentrated in the wrong hands.

While few would dispute the desirability of a broader distribution of personal wealth, it is vital to remember that South Africa's wealth expressed in per capita terms (ie assuming completely egalitarian distribution) is one seventh of that of the US. If the aspirations of South Africans of all races to decent housing, health care and education, as well as enhanced career opportunities, are to be met, then the economy needs decades of significant growth.

Far from simple

We require a Japanese-style growth revolution. In an uncertain economic climate this, too, is far from simple. Yet it is, and must remain, the employer's first responsibility. Without it, those who inherit post-apartheid South Africa can look forward only to a more equitably shared poverty.

● *This is a shortened version of an article written for* Leadership *magazine.*

GOVERNMENT GAZETTE

OF THE REPUBLIC OF SOUTH AFRICA

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VOL. 267

CAPE TOWN, 30 SEPTEMBER 1987

KAAPSTAD, 30 SEPTEMBER 1987

No. 10954

STATE PRESIDENT'S OFFICE

No. 2175. 30 September 1987

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 77 of 1987: Appropriation Act (House of Delegates), 1987.

KANTOOR VAN DIE STAATSPRESIDENT

No. 2175. 30 September 1987

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 77 van 1987: Begrotingswet (Raad van Afgevaardigdes), 1987.

49

PTO

How US economy affects SA

FOCUS

By LYNN PIKHOLZ, an economist

UNLIKE the past, the psychology of markets is making it impossible for the US to continue increasing its budget deficit without consequence.

The mere belief that something in the system must give is causing recessionary jitters even among optimists — the pessimists are already way into the shakes.

The United States seems unable to decrease its federal budget deficit for example, a downward revision of $225 billion requirement to $175 billion was revised upward again to $200 billion in June 1987).

It has also failed to reduce the discrepancy between private sector saving and spending/investment.

Without a reduction in the budget two things can happen to narrow the discrepancy, i.e. faster inflation brought about by a further collapse in the dollar or recession brought about by higher interest rates to attract capital inflows to the United States.

On a fiscal note, President Reagan is against rectifying the situation through any broad based tax increase. The Federal budget deficit constitutes over five percent of gross national product. July saw a staggering trade deficit figure of $15,7 billion and August's hit a record figure of $16,7 billion.

The deficit is expected to grow next month due largely to the higher price of imports and oil.

It is hard to believe that as recently as 1984 the US was still a net creditor. Disinflation, however, was borrowed from abroad by pushing the dollar (and interest rates) up.

The past three years have witnessed massive capital inflows on which the interest burden is steadily building up.

The disturbed currency relationship (overvalued dollars and undervalued other currencies) encouraged foreign competition particularly from the new industrialised countries for example Taiwan, South Korea, Hong Kong and Singapore and more recently from Mexico) to the detriment of US manufacturers and exporters.

Imports

This slackening in US productivity gave rise to unemployment which in recent months is beginning to rectify itself.

Although the dollar has fallen from its peak in 1985, the adjustment has not been sufficient to correct the weakness in the US's international competition.

The process was further facilitated by US absorption of imports causing a further outflow of money through the current account.

Under Greenspan, tighter monetary policy is being evidenced. September saw a 0.5% increase in the US discount rate we will probably witness a further 0.5 increase before the year end.

The cost of raising interest rates at a time when capacity utilisation remains under 80 percent (less than the UK, Germany and Japan), economic growth is expected to be 2,5% and the world economy needs a boost is clear.

Yet, unable to treat the cause (i.e. US overspending and undersaving) the US is being forced to treat the symptoms.

Yet treating the symptoms has major problems as it relies on committed action from third parties and the Third World (e.g. Japan and German to stimulate their economies and import from the US and encourage capital inflows to the US due to attractive interest rate differentials).

The rising interest rate is making debt servicing for Third World countries far more difficult.

The fundamentals in the US economy have been pointing to a further decline in the dollar for some time. Yet the world's leading finance ministers have agreed, since February 1986 (Louvre Accord) to promote stability in the currency markets.

Both Japan's and Germany's exports were suffering against a weaker dollar as it made their products far more expensive and less competitive.

The system of promoting stability in currency markets worked well during the first half of 1987. The central banks bought up dollars and occasionally sold dollars to maintain exchange-rate stability.

PRESIDENT Ronald Reagan . . . against increasing taxes.

In particular the US authorities showed that they were more than willing to allow speculators to take the dollar up on the receipt of positive trade figures.

But on the other hand they indicated firm reluctance to allow dollar depreciation should the figures be unfavourable.

Position

The position now has somewhat changed. Players in markets are concentrating more on the reality of the US economy with its burgeoning trade deficit.

Most economists are predicting a further five to ten percent depreciation of the dollar against other major currencies.

Moreover, some of the $70 billion or so central banks spent in the first half of 1987 in support of the dollar has impacted in their domestic money markets causing nervousness about money supply and inflation thus putting upward pressure on rates.

Domestically, there is much talk of a healthier glow in the US economy with the unemployment position improving retail sales, manufacturing and industrial production slightly up and inventories slowly beginning to be stocked.

The confidence indicator on generally higher but this flow is not mirrored on the international front.

We can therefore expect to see a slow decline of the dollar against other major currencies during the fourth quarter of 1987 extending through 1988.

The decline will, to a large extent, be predetermined and controlled by central banks.

For us in South Africa this means a steady dollar/rand exchange rate, at least for the while that the dollar is declining.

When the US dollar steadies and strengthens again, our rand will begin to show its more realistic lower levels.

Barend: SA will keep up economic relations

(49)
DD

WASHINGTON — Despite provocative actions from the outside world, South Africa was convinced it should continue its unremitting efforts to maintain normal economic relations with other countries, the Minister of Finance, Mr Barend du Plessis, said here yesterday.

In a speech prepared for delivery at the joint annual meeting of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, Mr Du Plessis said that during the past few years, South Africa had had to contend with adverse influences.

He said, it had also coped with its own international debt redemption problem.

The debt problem arose from a temporary liquidity crunch and not from an over-extended debt-servicing commitment, he said.

"In the situation of South Africa in the world context, we had to enforce a drastic adjustment on the domestic economy.

"By the end of 1987 South Africa will have no outstanding commitment on any IMF facilities and will be in a better position to consolidate its remaining commitments to its private sector creditors."

He said South Africa had met its obligations, to the IMF and other creditors, at great economic sacrifice.

"The required large surpluses on the current account of the balance of payments could only be generated by restricting the domestic absorption of goods and services.

"After three years of low economic growth, we have now consolidated a situation that at times was extremely challenging.

MR DU PLESSIS

On the subject of the economic problems of sub-Saharan Africa, he said it was ironical that the one country which was most favourably placed to alleviate the needs of other countries should at the same time be the target of a concerted international effort to depress its own development.

These "misguided attempts" adversely affected the whole region, he said.

"The tragic reality is that disinvestment from South Africa has proven also to be a disinvestment from sub-Saharan Africa."

As far as the increasing debt problem of Third World countries was concerned, only limited progress seemed to have been made in the many efforts to find a solution.

Because there were no quick fixes, he said, South Africa endorsed the initiative of the managing director in seeking an extension of the fund's structural adjustment facility.

Although this was a move in the right direction, implementation needed careful consideration, he said.

1/10/87

It was imperative to provide management, skills and finance in any restructuring programme.

Mr Du Plessis said he wished to "reconfirm South Africa's commitment to co-operate with the IMF and the bank in their endeavours to achieve their laudible objectives".

● Meanwhile, in Johannesburg, the Industrial Development Corporation (IDC) said industrial activity and investment remained depressingly low in South Africa.

It called on the government to make a clear statement on exchange rate policies if industrial exports growth was to be maintained.

Manufacturing production had increased 3 per cent, which was still well short of levels needed to stimulate new capacity and capital investment.

The IDC said the government must give urgent attention to three particular factors inhibiting economic growth: tax burden imbalances, exchange rate policies and cutbacks in public sector capital expenditure programmes.

It blamed tax burden imbalances for most of the reduction in disposable income levels and dampening of consumer spending.

Without tax relief, consumer spending, already showing signs of weakening, may again go into decline.

The IDC said the stronger rand and the high inflation rate had largely eliminated the benefits to exporters of an under-valued currency, and the growth in exports of manufactured goods has begun to slow.

(49) 5/1/ 4/10/87

Figures no cause for optimism

By Stephen Rogers

ECONOMIC growth is declining and the recovery so far has been supported mainly by public sector spending. This is the message from the latest Reserve Bank bulletin.

The bank has estimated a growth rate of only 1,5% in real gross domestic product for the second quarter of this year. Furthermore growth in the first quarter has been revised downwards to 2%.

The bank's initial estimate of growth in the first quarter was as high as 4%. However, the first published figure was 3,2%, which was widely expected to be revised to about 2,5%.

The revised figure of 2% must throw doubt on future preliminary growth estimates. The bank has estimated growth of 2,5% this year but even this now sounds overly optimistic.

And economic growth has been stimulated by the public rather than the private sector. Real government consumption expenditure increased at an annualised rate of 36,5% in the first quarter of this year and 5,5% in the second quarter.

Public spending increases at the beginning of the year as the government departments rush to spend their budgeted funds before the end of the fiscal year in March.

But the reliance on the public sector for growth will take a heavy toll on government finances. Once again the government looks set to exceed the budgeted deficit for the year.

In the first four months of the current fiscal year the deficit stood at R4,98-billion, almost 60% of the budgeted deficit of R8,4-billion for the current fiscal year.

Furthermore the increase in public sector expenditure continues to go into consumption spending rather than capital. In the second quarter of this year government consumption expenditure rose, on an annualised basis, by 5,5% while capital spending by public authorities fell 42%.

Private consumption expenditure increased by 3,5% and 2,5% in the first and second quarter respectively. In industry terms this was perhaps best reflected in the motor industry which benefited from pent-up replacement demand.

However, personal disposable income declined by 2% in the first half of this year. With the savings to disposable income ratio still at a low 2% and bank credit growth weak, this suggests that the increased expenditure came from a larger workforce.

But the best indication of low confidence in the economy is gross domestic fixed investment which continued to decline, falling at an annual rate of 10% in the second quarter.

Declines

And the fall in fixed investment was not limited to the public sector, with capital formation in the private sector also decreasing.

The biggest declines came in the agriculture, mining and finance sectors. However, in the manufacturing sector fixed investment improved and capacity utilisation rose from 77,4% in the second quarter of 1 986 to 79,7% in the second quarter of this year.

The Reserve Bank shows its frustration at the lack of strength in the present recovery. It suggests that the abnormal number of holidays in April and May and work stoppages adversely affected output figures for the second quarter.

Upswings

Yet they admit that the upswing seems to have broken down with "the recovery in domestic production from the middle of 1985 unable to gather momentum in the manner of upswings in the 1960s and 1970s and to assume a more cumulative and self-reinforcing character."

A strong upswing in consumer spending is needed to boost the economy into a sustained recovery. But with the consumer's ability to increase spending constrained by high personal debt and his willingness to spend restricted by lack of confidence, the necessary injection to the economy may be a long time coming.

Pressure on for scrapping of group areas

13/day 5/10/87

ROGER SMITH

THE economic, social and political pressures which brought government to reconsider the Group Areas Act are likely to increase, rather than diminish.

Its reluctance in the face of rightwing opposition to do anything more than tinker with this apartheid cornerstone is likely to be shown again when the President's Council report on the Group Areas Act is debated in Parliament this week.

Government will not find it easy in the long term to escape the pressures to do away with it altogether, regardless of the right's determination that it should stay and be enforced.

The PC report itself highlighted the problems of enforcing the Act. Since the Govender judgment in the Rand Supreme Court it has the difficulty of showing there is alternative accommodation before it can evict people.

PFP MP Tiaan van der Merwe says experience has shown government does not move to bring about reform until the situation is completely out of their control.

"Legal reform has always followed large-scale contraventions (of apartheid legislation)".

He points to government reform on labour relations only after black trade unions had established themselves, and repeal of influx control only after it had already become impossible to enforce.

5/10/87
Eve Post

Dramatic rise in PE assaults

Officials attribute increase to upturn in the economy

By DEBBIE MARCH

THE upturn in the economy is thought to be a factor in a dramatic increase in the number of assaults in the Port Elizabeth area.

On Saturday 122 were reported to the ambulance service, three of them were fatal.

Yesterday another 63 were reported. Again three proved fatal.

Accidents, too, have shown a steep rise.

Assault cases have risen by about 30% in the past year and the total number of calls received by the Algoa Regional Services Council Ambulance and Rescue Service is increasing at the rate of 10% to 15% a month.

This means the regional service can now expect to cover four million kilometres and receive 130 000 calls in the coming financial year, Mr Des Heuer, head of the service, said today.

Both he and Mr Arthur Lee, deputy chief of the municipal service, put the increase down to a revival in the economy.

"An increase in the economy has meant more money for liquor and petrol, and subsequently this means more accidents and assaults," Mr Heuer said.

In what was described as "quiet weekend", 865 calls were received from 6pm on Friday till Sunday night by the municipal ambulance service.

Of the 423 calls received on Saturday, 122 alone were for assaults. On Sunday 348 calls were monitored, 63 for assaults.

Mr Lee said the number of assaults over the past year had increased by as much as 30%.

He said unofficial figures taken over a three-month period this year, compared with the same period last year, showed a rise in calls from 2 248 to 3 173.

This amounted to an average of 34 assault cases a day, he said.

Mr Heuer said regional numbers were similarly awesome, but more astounding was the increase in the number of calls.

"Over the past four months the number of calls have increased by between 10% and 15% every month," he said.

He said although the area under their jurisdication had increased to 38 000 square kilometres since the Algoa Regional Services Council came into operation, this could not be the reason for the increase.

"It's a revival in the economy," he said.

The MINISTER OF FINANCE:

No: (a), (b), (c) and (d) fall away.

Aircraft registered in USA

462. Mr C B SCHOEMAN asked the Minister of Transport Affairs:†

(a) What is the monthly average number of aircraft registered in the United States of America that make use of facilities at airports falling under his Department, (b) for what purposes are the flights concerned undertaken and (c) in respect of what period is this information furnished?

The MINISTER OF TRANSPORT AFFAIRS:

(a), (b) and (c). It is not in the interest of the Republic of South Africa to divulge information of this nature.

SABC: meetings of Board

514. Mr S C JACOBS asked the Minister in the State President's Office entrusted with Administration and Broadcasting Services:†

(1) Whether he is notified of meetings of the Board of the SABC; if not, why not; if so,

(2) whether he was notified of a meeting of this Board about the continued employment of the present incumbent of the post of director-general of the SABC; if so, (a) by whom, (b) (i) when and (ii) where did the meeting take place or will it take place and (c) (i) who called the meeting and (ii) why was it called;

(3) whether he will make a statement on the matter?

The MINISTER IN THE STATE PRESIDENT'S OFFICE ENTRUSTED WITH ADMINISTRATION AND BROADCASTING SERVICES:

(1) No. Because I don't require to be notified.

(2) During the discussion of my budget vote, the Chairman of the SABC informed me in passing that an ordinary meeting of the Board was to take place on 2 September 1987 in Johannesburg. This was a routine meeting and was not specially convened for a specific matter.

(a), (b) and (c) fall away.

(3) No.

Economic summit conference

531. Mr C J DERBY-LEWIS asked the State President:

(1) Whether he intends holding an economic summit conference; if so, (a) when and (b) where;

(2) whether he intends inviting representatives of small and medium businesses to this conference; if not, who will be representing the interests of such businesses; if so,

(3) whether these representatives have been requested to obtain a specific mandate from the businesses concerned; if so, what are the relevant particulars;

(4) whether it is the intention to invite representatives of the agricultural sector to this conference; if not, why not?

The STATE PRESIDENT:

(1) Yes. I refer the honourable member to my address in the House of Assembly on 13 August 1987 and my press release of 10 September 1987.

(2) Yes.

(3) No.

(4) Yes.

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Contact with ANC

586. Mr C J DERBY-LEWIS asked the State President:

(1) Whether any members of the Cabinet have been authorized or instructed to make any direct or indirect contact with officials or members of the ANC and/or their intermediaries; if so, (a) when and (b) for what purpose; if not,

(2) whether any members of the Cabinet have made such contact without their having been authorized or instructed to do so; if so,

(3) whether he supports the action taken by the Cabinet members concerned in this regard;

(4) whether he will make a statement on the matter?

The STATE PRESIDENT:

(1), (2) and (4) No.

(3) Falls away.

HoA

Own Affairs:

Funds to certain company

106. Mr M J ELLIS asked the Minister of Education and Culture:

(1) Whether his Department has made any funds available to a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply; if so, (a) what total amount, (b) when, (c) for what purpose and (d) what is the name of this company;

(2) whether this company is still operating; if not, (a) when and (b) why did it cease operations;

(3) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND CULTURE:

(1) No, not according to available records.

(a), (b), (c) and (d) Fall away.

(2) Has no knowledge about the firm's present position.

(a) and (b) Fall away;

(3) No.

HoA

WEDNESDAY, 7 OCTOBER 1987

†Indicates translated version.

*For oral reply:

Written reply to question set down for oral reply on Tuesday, 13 October 1987:

General Affairs:

U 308: transportation by road

*1. Mr P C CRONJÉ asked the Minister of Economic Affairs and Technology:

(1) Whether the Nuclear Fuels Corporation (Nufcor) has a licence to transport U 308 by road; if not, why not; if so, (a) when was the licence granted, (b) what is the licence number and (c) what are the conditions of this licence;

(2) whether the vehicle transporting the U 308 which was involved in an accident at the Majuba Pass displayed this licence information as required by sections 30 (1) and 37 (2) of the Nuclear Energy Act, No 92 of 1982, as amended; if not, why not;

(3) whether any approaches were made to the Atomic Energy Corporation, Nufcor or the Council for Scientific and Industrial Research by any fire or traffic departments regarding the properties and hazards of U 308 and the action to be taken in the event of spillage thereof; if so, (a) when and (b) what was the response to these approaches;

(4) whether he will make a statement on the matter?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1) Bearing in mind the relatively low hazard potential of this material, the AEC did not issue a licence in terms of section 30 of the Act. NUFCOR was granted an authority to export uranium oxide in terms of section 49 of the Nuclear Energy Act (No 92 of 1982).

Declining power of the Rand

FOCUS

By an economist

PRICES are once again causing a stir with the release of August's year-on-year consumer price inflation figure of 16,3 percent.

The market was expecting a decline in inflation following the trend set in the past two months. June's consumer price inflation was 17.2 percent (marginally down from May's 17.3 percent) and July's consumer price inflation saw a further drop to 16.3 percent. An additional factor causing people to believe prices would decline was the drop in August's producer price inflations (PPI) to 14.1 percent from July's 14,8 percent.

However, it is important to note that the relationship between PPI and CPI is not a direct one and that there is usually a two-month lagged effect before producer prices feed into consumer prices. All the same, we are left with an inflation rate of 16.3 percent which is only 2.3 percent lower than our "record" inflation rate for 1986 of 18.6 percent.

What worries many people is the speculation that an inadequate and outdated sample of goods is used in the computation of CPI and that inflation in South Africa is a very much understated phenomena.

Inflation has steadily been creeping up over the decades, eroding the buying power of our rand domestically and internationally. Domestically, as goods become more expensive our rand becomes relatively more worthless. Internationally we have become a lot less competitive as our higher priced exports have to compete with the exports of our trading partners whose inflation rates are substantially lower.

Power

Around 1960, one rand had the purchasing power of over R9 today. In 1970 one rand was worth R7 of goods. In 1980, the purchasing power of the rand declined further due to a higher rate of inflation making R1 today R2,70 worth of buying power. Said in another way, one rand today would be worth 10.5 cents in 1960, 13,3 cents in 1970 and 37 cents in 1980.

Following the sharp uptrend in inflation in past years, it is thus not surprising that labour has been striving to keep wage increases at least in line with inflation. Moreover, the annual inflation figures always tend to understate the cost of living for the lower income groups.

Whereas the annualised CPI figure for August 1987 for the highest income group was 15,7 percent, the lower income group suffered an inflation rate of 17,8 percent. Thus wages which keep pace with the overall inflation figures announced each month are really not keeping up with the true cost of living for lower income groups.

Food

The food component of inflation, although slightly reduced from June's 25,7 percent still contributes substantially to price rises. In August the food component contributed 22 percent overall. It is not expected to decline much further.

Much controversy surrounds the fact of why inflation should decline at all. Despite assurances by the Reserve Bank that inflation is declining, the private sector is having its doubts. Obviously blowing the whistle that inflation is under control will boost confidence in the economy and make investors less reluctant to put their confidence into real potential growth areas of the economy.

Many economists see the one percent decline in inflation since May 1987 as temporary and mostly technical. Cost pressures resulting from higher salary and wage increases, low (perhaps even declining productivity) and an inherently weak currency (especially against the pound, Deutschmark and yen) will become more severe in 1988.

The liquidity in the market due mainly to funds flowing in from gold exports and the expected increase in credit demand will be an added pressure.

Lower imports have been contributing to a lessening of the CPI but that is just a temporary phenomena. Basically lower imports today (and lower inflation) mean delaying imports for later. We are not self-sufficient and rely heavily on imports, especially on some capital replacement goods. Ultimately when demand picks up as the economy improves, imports will also rise thus bringing the imported goods component strongly back into the PPI, which will filter through to the CPI.

Moreover, the average rand for 1986 was 44 US cents. The rand is now fluctuating between $48 and $.49. This means that we have substantially improved the international buying power of the rand, which is an added incentive to import.

Prices

The pinch of higher prices is felt while making purchases in a very direct way. A more subtle area where we do not feel the impact of inflation is through taxes. If wages and salaries just keep up with inflation, the purchasing power of the rand remains constant. But the nominal increase in salaries pushes us into a higher income tax bracket which causes us to pay a larger percentage of our income in taxes.

This process is known as fiscal drag or brakcet creep and it constitutes a large portion of the Government's overall revenue.

Inflation

On the international front prices have also bottomed out and there is a noticeable upkick in world inflation. The United Kingdom's CPI is 4,4 percent, the United States' CPI is 4,3 percent and the CPI of Japan and West Germany is 0,4 percent and 0,8 percent respectively. Inflation in South Africa has a very long way to go before it reaches anywhere near those levels. With the present state of the economy and the authorities' preference for the use of demand management to achieve growth, it is doubtful whether a decline is at all possible in the medium to long term.

FETY

'Economic growth weakens apartheid'

ADAM PAYNE

ECONOMIC growth, enhancing racial interdependence, is already weakening apartheid and will in time destroy it.

Deputy chairman of Anglo American Corporation and chairman of De Beers, Julian Ogilvie Thompson, made this point at the opening yesterday of East Daggafonteion's R148m gold-from-slimes plant.

He said that Anglo American (which lost heavily in the mine strike because of its large NUM membership) remained fully committed to trade unions and collective bargaining as a vital part of any democratic society.

"We accept the right of workers to choose to strike peacefully or to work normally." he said.

"In turn we affirm our duty to defend life and property as well as the long-term economic interests of an enterprise.

"It was the use of violence, coe[illegible]ion and intimidation experienced in [illegible]me parts of the industry that was (and still is) our greatest concern.

Nevertheless, the strike was resolved by agreement

"If both sides can learn the lessons of the dispute this settlement can lay the foundation for a pattern of industrial peace.

"And as Adolf Lundin, chairman of East Dagga, has said this will stand as an example to South Africa's politicians."

Thompson said the plant, with highly sophisticated computerised equipment, provided 370 jobs directly and contributed through its direct operating costs about R40m a year to the South African economy.

On top of that there were the effects of the multiplier. Through the recovery of an additional three tons of gold a year it would earn South Africa R87m in foreign exchange at current gold prices.

Strategy change

It was encouraging, he said, that among those groups in SA who had supported sanctions and disinvestment there was now evidence of a reconsideration of this strategy.

"The progress which is now possible through the scrapping of the racially-restrictive provisions of the Mines and Works Act will enable us to enhance the skills and significantly improve the reward of our black employees"

Chairman of East Daggafontein Adolf Lundin opened the plant, the profits from which will be shared by Ergo, which built it, and East Daggafontein, which is providing the huge tonnage of slimes that will be treated. Gold will be extracted for about 20 years.

Lundin said that the Daggafontein project was proof that sanctions and the banning of foreign investment were morally and intellectually bankrupt issues.

Commissioning the plant was completed in March. The first full production month was April, when a throughput of 638 000 tons was achieved and the first gold bars were poured.

The design throughpout of one-million tons a month was achieved for the first time in July.

In September a throughput of more than 1,1 million tons was achieved with a gold production of 250kg — well ahead of target.

Future gold production from Ergo's three divisions — Daggafontein, Simmergo and Ergo is estimated at more than 10 t[illegible] year.

49

ECONOMIC GROWTH

Uncommonly slow

Reserve Bank Governor Gerhard de Kock once said that "hindsight was an exact science." And so it usually is. But the latest *Quarterly Bulletin* for September, in its analysis of the second quarter for 1987, throws little light on what is happening in the economy. Outside economists are also finding the economic picture increasingly confusing.

One particular problem seems to be the gross domestic product (GDP) figure. A balancing, or residual, item is usually included to account for discrepancies in incomes and expenditures arising, for example, from economic activity in the informal sector, and from non-declaration of income. Given the keen focus on GDP these days, large adjustments can produce a material difference to the outlook.

The September bulletin says: "Successive quarterly increases in real GDP at seasonally adjusted annual rates amounted to 3,5% in the third and fourth quarters of 1986, 2% in the first quarter of 1987, and just 1,5% provisionally estimated for the second quarter."

It looks pretty bleak, although the bulletin is quick to suggest that output levels were adversely affected by "various work stoppages," and by the unusually large number of non-working days in April and May, and so does not "necessarily rule out a return to somewhat stronger rates of real expansion in the remainder of the year."

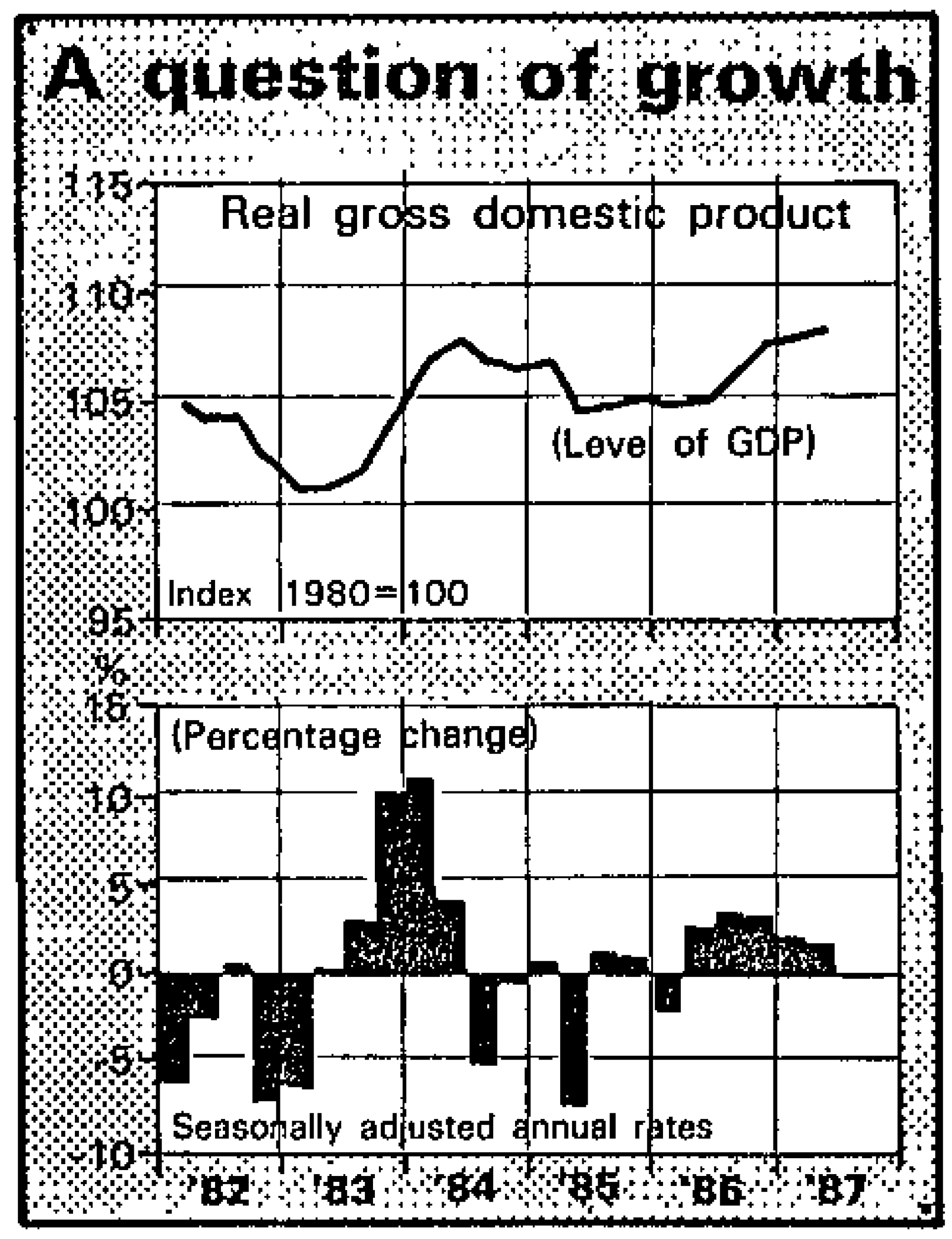
As De Kock said recently: "A lot of things fall into place if you can get GDP up to 4% for 1988."

Certainly this is wishful thinking, and certainly this cannot be ruled out. But what about that GDP figure? Compared to the previous bulletin for June, with expenditure on GDP at constant 1980 prices, at seasonally adjusted annual rates, the figure has been adjusted downwards by R669m for the first quarter of 1987, and R307m for 1986 as a whole. Without the adjustment, GDP for the second quarter annualised would be *minus* 2,4%. The new lower figure for 1986 will, of course, also put this year's GDP figures in better light.

True this is fiddling with figures, but the extent of the adjustments is worrying. Says one economist: "I find the national account figures very confusing. The second half of last year saw particularly strong growth, as did the first quarter this year. The second quarter we were expecting a weak performance.

"But this revision shows things in a different light, purporting relatively strong growth by adding a strong residual item."

Another problem he finds is with the positive change in inventories for the second

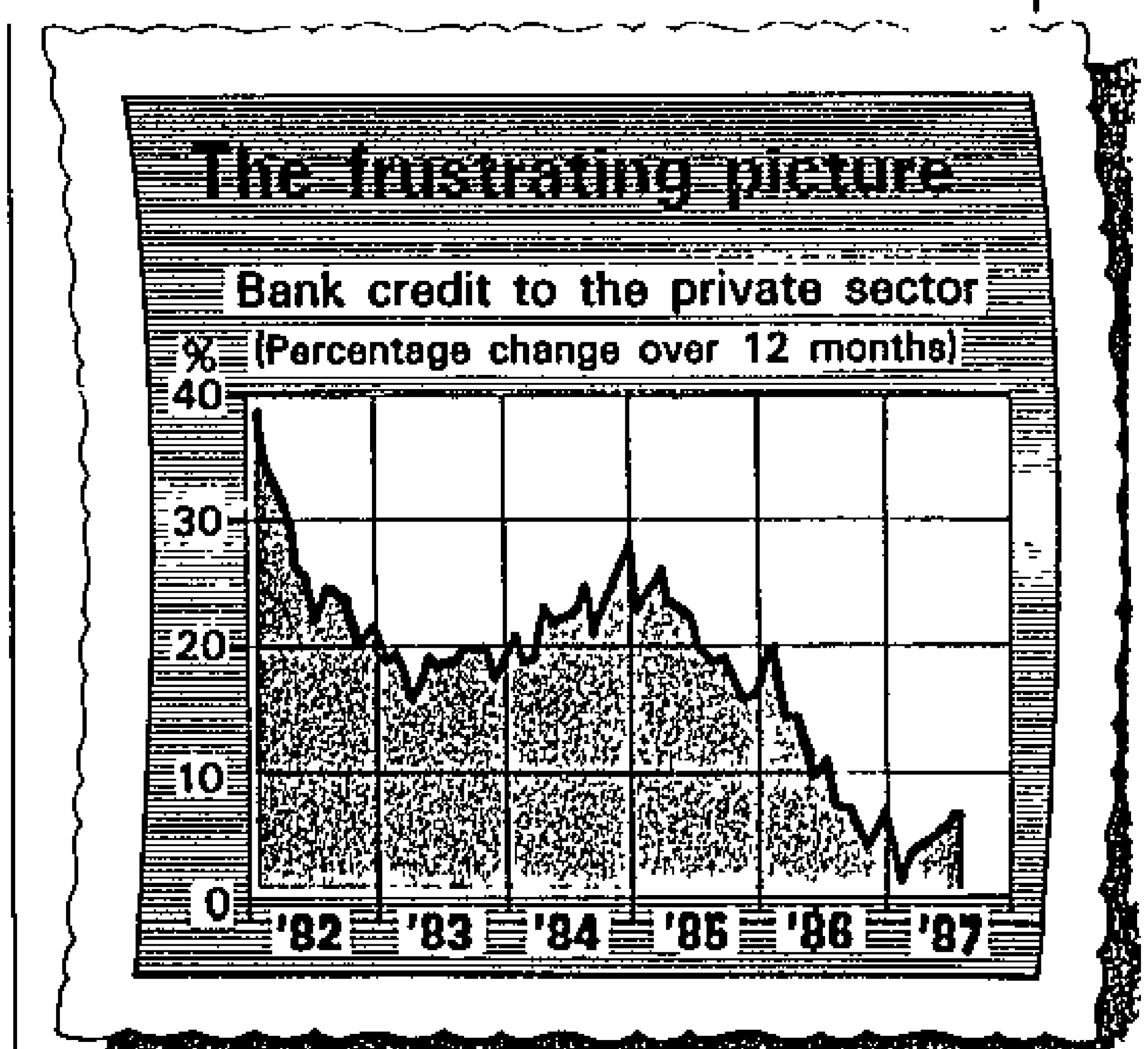


quarter. As the Bank describes it, "a small increase was recorded in aggregate real inventories." It says: "The main categories of inventories contributing to this increase were mining stocks, agricultural stocks-in-trade, and diamonds."

"But it was our impression that production was weak," notes the economist. "And we were expecting a decline in inventories for the second quarter." As it is, the 1986 figure for change in inventories "was revised downward substantially in the latest bulletin."

He believes that mining would have had little effect because, although there was reported stocking ahead of the miners' strike, it won't show in the figures because all working costs are written off as they occur.

"Then with diamonds, there's always a problem because exports are also counted as stocks until London holdings are sold. The Bank adjusts the export figure to account for changes in stocks overseas as well."



Lawrence Haar, chief economist for Rand Mines, says authorities worldwide have problems gathering statistics. "In our case absolute levels are hard to determine, for example, because of the TBVC countries and so forth. The underground economy is an important aspect for SA too, and is one large source of error. The residual item is supposed to reflect this."

In other words, growth in GDP as a statistic should not be the "be all and end all." What really counts is perceptions and responses in the real economy.

And Haar for one believes things are improving: "The economy is moving upward, but it seems only half the crew are rowing the boat. We have better consumption expenditure, while exports are looking reasonable.

"On the other hand, fixed investment and capital expenditures are letting the side down."

Another economist points out that, overall, gross domestic fixed investment (GDFI) has declined for five and a half years. "But GDFI for the third quarter for 1987 is a lot stronger than the second quarter, based on our subjective impressions."

For example, increases have been recorded in the leasing of equipment for commercial and industrial purposes. "There also seems to be a turning point in major project financing. The Lesotho Highlands Water Project will start in 1988. Mossel Bay will be under way in due course, while there will also be the new R500m brewery.

"Another positive indication is sales of commercial vehicles in the third quarter, while we also know the private property sector has picked up, a sign of an improvement in confidence."

But there are underlying problems. As the latest bulletin points out: "An unusually

BANKING SEMINAR

The Pretoria branch of the Institute of Bankers is holding a banking seminar on October 15 from 9 am to 5 pm at Pretoria's Burgerspark Hotel.

Speakers include Reserve Bank Senior Deputy Governor Japie Jacobs, Registrar of Banks Chris de Swardt, and Standard Bank GM Andre Hamersma.

People interested should contact the secretary at (012) 542-9440 extension 253. The cost is R100 per delegate.

P.T.O.

large part of the cyclical rise in domestic final demand during an uncommonly large proportion of the upswing" to date was "met from a drawing down of inventories." There was also an "uncommonly rapid rise in the first quarter of 1987" in real government consumption expenditure.

And for the second quarter, GDFI registered "another disappointing decline;" registered unemployment was up; new orders were down; capacity utilisation remained level; while, more alarmingly perhaps, the deficit before borrowing shot up to R5 billion in the first four months of the fiscal year.

Indeed, the picture is confusing and one is left with hopes and wishful thinking. As De Kock has already mentioned, he would like to see higher growth and lower inflation for 1988. Wouldn't we all?

But as he rightly suggests: "Only a spark of confidence is needed to trigger a strong upturn in fixed and inventory investment."

And that could be coming. ■

Sanctions hardening attitudes

Advancement of blacks retarded — De Kock

Cape Times 9/10/87 (49)

From GERALD PROSALENDIS

Gerhard de Kock

JOHANNESBURG — Sanctions and disinvestment had brought about a hardening of attitudes in SA and a resistance to external political pressure, Governor of the Reserve Bank Gerhard de Kock said in Zurich last night.

Speaking at a meeting of the Swiss-SA Association he made a plea for economic realism towards southern Africa.

There was a misconception that political reform in SA would be accelerated by sanctions and disinvestment.

"As a method of expediting the abolition of what remains of apartheid and accelerating socio-political reform, sanctions and disinvestment have proven completely counterproductive."

To the extent sanctions and disinvestment had slowed economic growth, they had retarded the socio-economic and political advancement of blacks.

SA was not on the brink of violent revolution and economic collapse.

"Anyone who has a modicum of understanding of the balance of power in SA knows that there is no question of any revolution or takeover of power under present circumstances.

"Far from facing collapse, the SA economy has just placed on record an almost unparalleled balance of payments and debt repayment performance, and is now growing at a steady if unspectacular rate."

He said the motives of many proponents of sanctions and disinvestment were sincere, laudable and shared by many South Africans. But the methods they had chosen to achieve their objectives were wrong.

In the long term economic isolation and a siege economy would mean lower growth and standards of living than would otherwise have been possible, particularly for blacks.

Kemp: unemployment and strikes affect local economy

49 9/10/87

Daily Dispatch Reporter

EAST LONDON — The outgoing mayor, Mrs Elsabe Kemp, said last night that she hoped that the strikes hitting "our largest and most important industrial companies" would not have a long-term detrimental effect on the local economy.

She was delivering her mayoral minute prior to the public but controversial induction of the new mayor, Mr Robert de Lange and the deputy, Mr Vossie Bezuidenhout.

"The unemployment problem continues to plague our area and production at some of our largest and most important companies has been affected by strikes."

She said during the past financial year (1986/87), the municipality had had a budgeted expenditure of R133-million and while the detailed reports of the municipal departments "give a fascinating picture of the complexity and diversity of the municipal operation" she did not propose to elaborate on them.

She said during the year there had not been any changes of members in the city council, Coloured Management Committee (CMC) and the Indian Mangament Committee (IMC).

Elections for these bodies will take place in October 1988, when the present members' terms of office expire.

"The recommendation of the National Productivity Institute that five directors be appointed, under the town clerk as chief executive officer, is still being implemented and there remains only one more director to be appointed, being that of the engineering and planning services directorate."

She said during the year, Mr J. H. Foulis had been appointed as the first director of protection services and Dr L. J. Botha had been appointed director of finance and administration.

Mrs Kemp reflected on the highlights of memorable occasions on the mayoral front.

"In February this year, we were visited by the mayor and mayoress of Keelung, our twin city, and their accompanying delegation.

"In September, the town clerk and I, paid a reciprocal visit to Keelung accompanied by a delegation comprising several councillors, the director and chairman of the Border Metropolitan Development Corporation (Bomedco) and certain East London businessmen."

Mrs Kemp said that on the positive side of things, beginning with the identification of Region D at the Good Hope Conference as an undeveloped area, there had been "numerous initiatives from central government level downwards, to seek solutions to our problems".

"Industrial development strategies are emerging from government commissioned bodies, one of the most comprehensive being the work under Professor P. Black, of Rhodes University.

"Also providing input in the area's drive to overcome the major problems of unemployment and underemployment, is the East Cape Strategic Task Force convened by the University of Port Elizabeth's Professor Charles Wait.

"The council's major responsibility is to provide an environment and an infrastructure to ensure that the city retains its function as the core of this area.

"East London's Central Business District (CBD) serves a wide area and important and exciting developments here during the year were the formation of the CBD Association by businessmen in the city, the study undertaken by the CBD Study Consortium and the proposal by the South African Transport Services (Sats) to lease the land it owns adjacent to the CBD for business and ancillary development.

"The council has approved in principle the findings of the CBD consortium and its town planning officials are co-operating with the consortium."

Co-operation with Sats on a master plan for the area had also been discussed, she said.

"The council is making its contribution to the wellbeing of the CBD by embarking on a major upgrading of the city hall at a cost of R2,5-million and on the provision of further office accommodation for municipal staff in the city administrative centre at a cost of about R700 000.

"Plans for further extensions to the city administrative and city engineering centres which will fit in with the CBD consortium's vision of Oxford Street a few years hence, have also been accepted in principle."

She said the council had held discussions with the provincial administration on the developments needed to cope with the annual influx to the city's beaches and the funding of these developments.

"A report setting out development priorities and estimates of costs has been accepted and submitted to the provincial administration.

"An aspect of the city's infrastructure which concerns our residents is the extension and maintenance of the road system.

"Two pluses here are the construction of the third phase of the Mdantsane access road being undertaken by the National Transport Commission and the grant of R7,5-million made to the council towards the cost of constructing the North West Expressway between Albany and Phoenix Streets.

"Tenders have been invited for this and work will commence as soon as the tender has been approved.

"A disturbing feature of our roads programme is the failure of the provincial administration to proceed with the balance of the first phase of the North West Expressway between Phoenix Street and Amalinda Main Road.

"The council is to pursue the whole question of the future of proclaimed main roads in the city.

"On the industrial side, a major step taken this year has been the acquisition by the council of the first phase of the North End industrial area and this land will meet some but by no means all of the demand for light industrial sites close to the city centre.

"The council is also pursuing the zoning and development of land identified by the Louw Report as suitable for industrial development.

"We hope to accommodate members of the Indian community still residing in North End and to acquire and develop phase two of the North End industrial area," she said.

'No steam' in the economy

49 Bl Day 12/10/87

GERALD REILLY

THE ECONOMY had run out of steam to such an extent that the official projection of a 3% growth rate was probably no longer attainable, according to Volkskas September economic spotlight.

The reasonably strong improvement in production in the second half of last year, a real growth of around 3,5% in the GDP in the third and fourth quarters, had forfeited buoyancy since the start of 1987.

In the first quarter GDP dropped to 2%, and in the second the growth rate shrank to an estimated 1,5%. The marginal growth rate in the second quarter was influenced by the loss of production as a result of strikes, and an exceptional number of official holidays.

The growth that did take place in the second quarter was almost exlusively attributable to the significant increase in agricultural production. If agriculture were left out the rest of the economy recorded a growth rate of a mere 0,2% in the second quarter.

In the quarter the volume of factory production increased by only 0,9% compared with an increase of 2% in the first three months of 1987. The fundamental problem was insufficient domestic expenditure and more sluggish export volumes.

16/10/87 FM

ECONOMIC POLICY (49)

Fred's folly?

Sanlam boss Fred du Plessis has boosted his credentials as top advocate of government meddling in the economy — to the continuing dismay of free marketers.

In his annual review as Trust Bank chairman, Du Plessis again calls for national economic planning, protectionism, and a partnership between Pretoria and business.

Wits Business School economist Mark Addleson is among those who find such a prescription unpalatable. "It's important for business to distance itself from government because business has nothing to gain from these partnerships."

Addleson says there is no point in expecting salvation from the people responsible for SA's economic and political woes: "Why do you want to add superstructure to policies that are difficult to justify economically?"

Du Plessis, not one to shy away from the language of State planning, last year called for a "new civilisation" in SA, including an economy modified to meet the needs of a "multi-cultural" society. Now he uses similar words to call for central planning and fine-tuning of government policies.

He says Pretoria must have a long-term strategy for economic development aimed at "directing and stabilising" the economy. There must be co-operation between government and business to foster a "partnership culture."

And, he adds, Pretoria must consider offering local industries more protection from imports so SA can rely on its own resources.

Similarly, Board of Trade and Industry chairman Lawrence McCrystal has proposed combating "disruptive competition" from imports with tariffs ranging from 1%-10% on raw materials to more than 25% on finished goods.

Sanlam chief economist Johan Louw, amplifying Du Plessis' remarks for the *FM*, said textiles and chemicals were areas where protection could be justified.

Addleson *rightly* argues that calls for protection reflect a too narrow vision. He grants that *reducing* tariffs on, say, textile imports could be a disaster for an industry that employs thousands.

But treating foreign competition as the sole problem ignores the many domestic policies that impede business. Get rid of the local policies, and getting rid of quotas and tariffs would be easy.

Keep the tariffs, and "you *promote* a weakened economy in the end."

Likewise, Addleson argues that Du Plessis' call for "fine-tuning" government policy is off the mark. What is needed is a bold revamping of the economy: tax cuts; an end to the Group Areas Act; dropping restrictive licensing requirements; eliminating guide plans that restrict industrial development; abolishing costly and ineffective industrial decentralisation plans; and ending the homelands policy and their "bottomless pit" of subsidies.

Unholy alliance

Wits Department of Business Economics economist Frank Vorhies echoes Addleson's concerns about an "unholy" alliance between business and government that harms the cause of free enterprise.

"You don't need a partnership between government and business. You just need to have government back off and let business produce."

In his review, Du Plessis — who has argued that a limited number of large companies can produce keen, effective competition — endorses "the emphasis placed on small business as a means of generating jobs and involving in the economy increasing numbers of entrepreneurs from all racial groups."

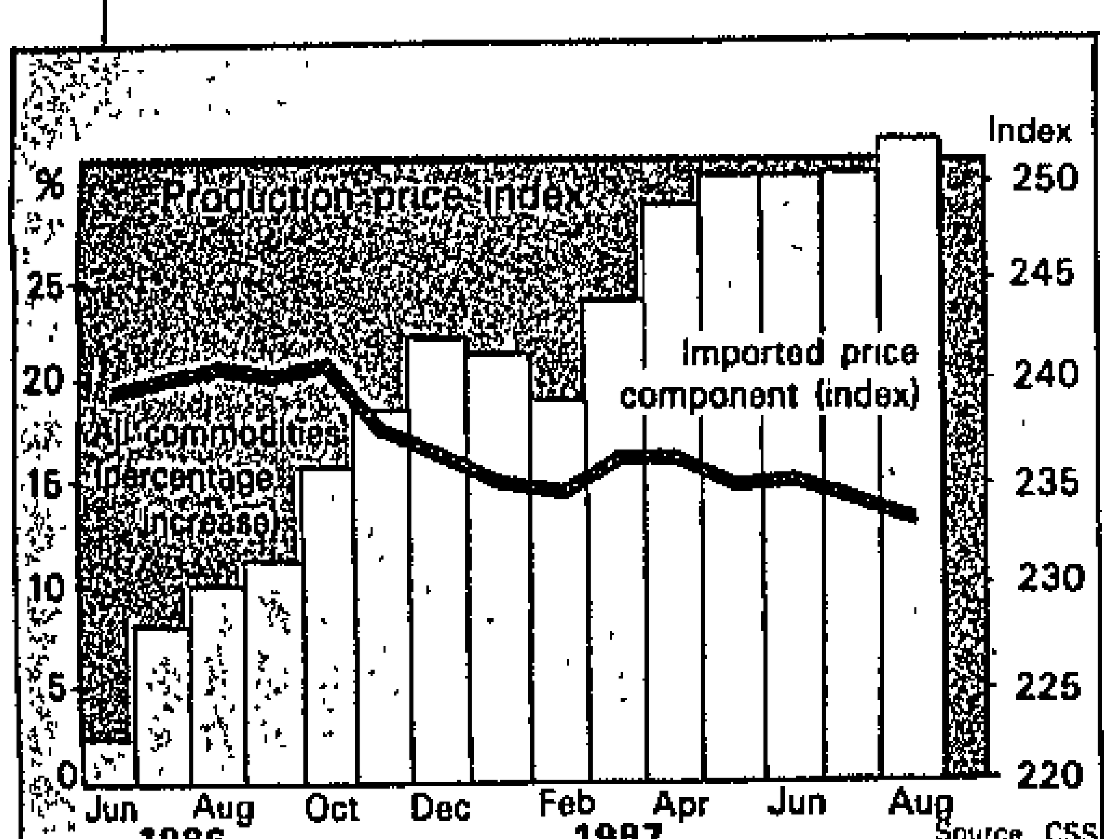
Vorhies is heartened by the remark, but he stresses that small businesses do not need government help any more than large ones. "Don't subsidise small business. Just legalise it."

Du Plessis may please free marketers on one note. He endorses privatisation — in an odd way: "Large, capital intensive enterprises have a leading role to play in acting as catalysts, to ensure the success of the privatisation policy."

Louw insists that this does not mean turning government monopolies into private sector monopolies: "Privatisation and deregulation must go hand in hand."

He adds that the role of business is to persuade Pretoria that the private sector is willing and able to take over government enterprises. He believes Iscor and parts of Eskom are top contenders for privatisation. Further possibilities include SAA and certain functions of the Post Office, such as telephone installation. ■

PRODUCER PRICE FALLS



The producer price index (PPI) increased by 13,4% in the year to August, helped by a relatively stable exchange rate. The year-on-year increase continues a downward trend: it was 14,1% in July, 14,8% in June and 14,6% in May, having peaked at 22,2% in January last year.

The index increased to 249,9 in August from a base of 100 in 1980 — a 1,3% jump from the month before.

That month-on-month figure is "still ominously high," says Leon Steenkamp, economist for stockbroker Senekal Mouton & Kitshoff. "The improved year-on-year figure should not lull us into thinking inflation has been tamed."

Locally produced commodities increased by 14,3% in the year through August, while imported commodities — which make up one-quarter of the index — rose just 10,5%.

Says Steenkamp: "Inflation increasingly has become a domestic problem." Wage increases for unionised workers, the cost of work stoppages and the need to boost wages to attract skilled workers could all mean greater increases in the PPI in the months ahead."

(49) B/day 16/10/87

Malan advocates a welfare economy

ELSABÉ WESSELS

WYNAND MALAN is not a liberal and does not believe in Western Liberal traditions. Nowhere is his stance more clear than in the economic policy of his fledgling National Democratic Movement (NDM).

Malan regards "individualism" as a concept "cherished by liberals and the touchstone of the PFP". His outright rejection of it clearly puts him outside the realm of a free market system.

While the NDM regards the PFP's economic policy as being "enshrined in individual freedom", the new movement itself takes an altruistic approach. It wants government to intervene on behalf of the needy.

What Malan is advancing seems to be a welfare rather than socialist economy. Although he wants to secure "individual initiative and participation" he sees government as having to intervene to "create equal access and to come to the assistance and aid of those in need".

His objective: a "fair and just" economy.

'Equal basis'

To attain this the NDM propagates deregulation, which coincides with long-held PFP policy, and "supports an equitable distribution of wealth (standard of living) and resources (ability, education, access to capital and the economic process), in order to equip all to participate on an equal basis".

Quite how this would work he does not say.

In many respects Malan embraces PFP policies. Both groups see themselves as being at the centre of the broad spectrum of South African politics. Both are committed to a non-racial democracy.

While the PFP believes that a federal structure is best suited to the needs of SA, the NDM shares a vision of a "single nation in an undivided country".

Inclusive

But as in his economic theory, Malan adopts an inclusive approach to constitutional matters. Whether he is exuding unrealistic optimism, only time and the tenacity of the NDM will tell.

His chivalrous approach to bridging the canyons in SA's political landscape by "embracing right and left and parliamentary and extra-parliamentary" is nothing short of idealistic.

Few politicians have dared to lunge into the political arena with nothing more than "good faith" and a multi-purpose mission statement to direct a common destiny.

Yet Malan believes flexibility and the open agenda approach to be the strength of the NDM. He rejects a "unilaterally-divised constitutional solution" and is convinced the user-model will derive from the process.

On policy matters, Malan has no qualms about rendering support to the trades union movement and recognises their political activity as "inevitable while no other political avenues are available to them".

He has reiterated his call for the release of Nelson Mandela and all political prisoners and detainees. "The process of negotiation won't get going without Mandela's release. He is the key to future negotiation. But I am very hesitant about P W Botha's ability to cope with Mandela's release," Malan said.

'Not acceptable'

While "talking" to the ANC is permissible, Malan insists he won't "negotiate" with the banned organisation unless it rejects violence.

But Malan puts violence, apartheid, sanctions and disinvestment under the same "not acceptable" banner.

He agrees that he and PFP MP Helen Suzman "see eye-to-eye" on many of these matters.

To justify the Dakar talks which NDM colleagues Peter Gastrow, Pierre Cronje and Pieter Schoeman were party to, Malan stressed that the Dakarites did not negotiate with the ANC.

Malan regards the Freedom Charter — banned until 1984 — not as an "ideological" but rather as a

☐ MALAN . . . "fair" economy

"popular" document expressing the needs in the extra-parliamentary sphere. He rejects the economic policy of the Charter calling for nationalisation. "Political progress and economic advancement go hand-in-hand", he believes.

As with the PFP, Malan subscribes to the rule of law "but it can only be applied once a truly democratic system has been established. Our effort should be directed at creating a democratic society in which the rule of law can be applied," Malan argues.

On a realistic note, Malan does not believe that any group in SA would be prepared to play follow-my-leader. "All parties take a dogmatic and rigid approach and expect others to espouse their principles. Yet they don't begin to understand the essence of the other's thinking."

It is on this level that the NDM hopes to recognise a common denominator to get their "process politics" on the road.

Malan is not proposing any specific constitutional blueprint and takes a philosophical approach — "the process will lead us to a solution".

What Malan is pleading for is a new dimension where people of all political convictions can come together to understand that they are "all right in terms of their own needs".

As far as Malan is concerned, the "PFP's focus on the individual human being as the touchstone of value in society" is his major point of difference with the party.

"Colin Eglin might see himself as an individual first. But Andries Treurnicht can never see himself first as an individual. He only becomes an individual through being an Afrikaner," Malan argues.

Essential

He does not see this as an excuse to pander to Afrikaner needs, but identifies this difference as essential in recognising the non-negotiable idiosyncrasies and psychological insecurities of all South African interest groups.

He does not believe in ensconcing minority rights; neither does he believe in black majority rule under a Westminster system. Yet he argues that a "majoritarian principle and a vote of equal value should be applied".

According to Malan, the NDM is taking a strong stand on State security and public safety, an area where he believes the PFP "has a weak image".

Tested

"Action should be taken against all forms of violence to the extent of recognising special powers on the part of the State. But any such action should be tested in a court of law," according to the NDM manifesto.

In his political lifetime Malan has pitched himself at the centre and off-centre of South African politics as National Party and Independent MP for Randburg.

Having further split the left, Malan now has to prove that he and his NDM have the staying power to make a positive contribution to inducing reform.

Indicators pointing to a strengthening economy

By Stan Kennedy

Hopes for a three percent growth in the economy this year have faded, but all is not lost, says Information Trust Corporation, a leader in business and credit information, in its October issue of Business World.

It says an acceptable growth of two percent, so badly needed after the poor showing of only 1,1 percent a year since 1981, could still be achieved this year.

Indications of a stronger economy are that personal insolvencies are falling and company liquidations are running at the lowest average monthly rate since 1981. The number of judgments for debt fell 10,26 percent in the first quarter of the year relative to 1986.

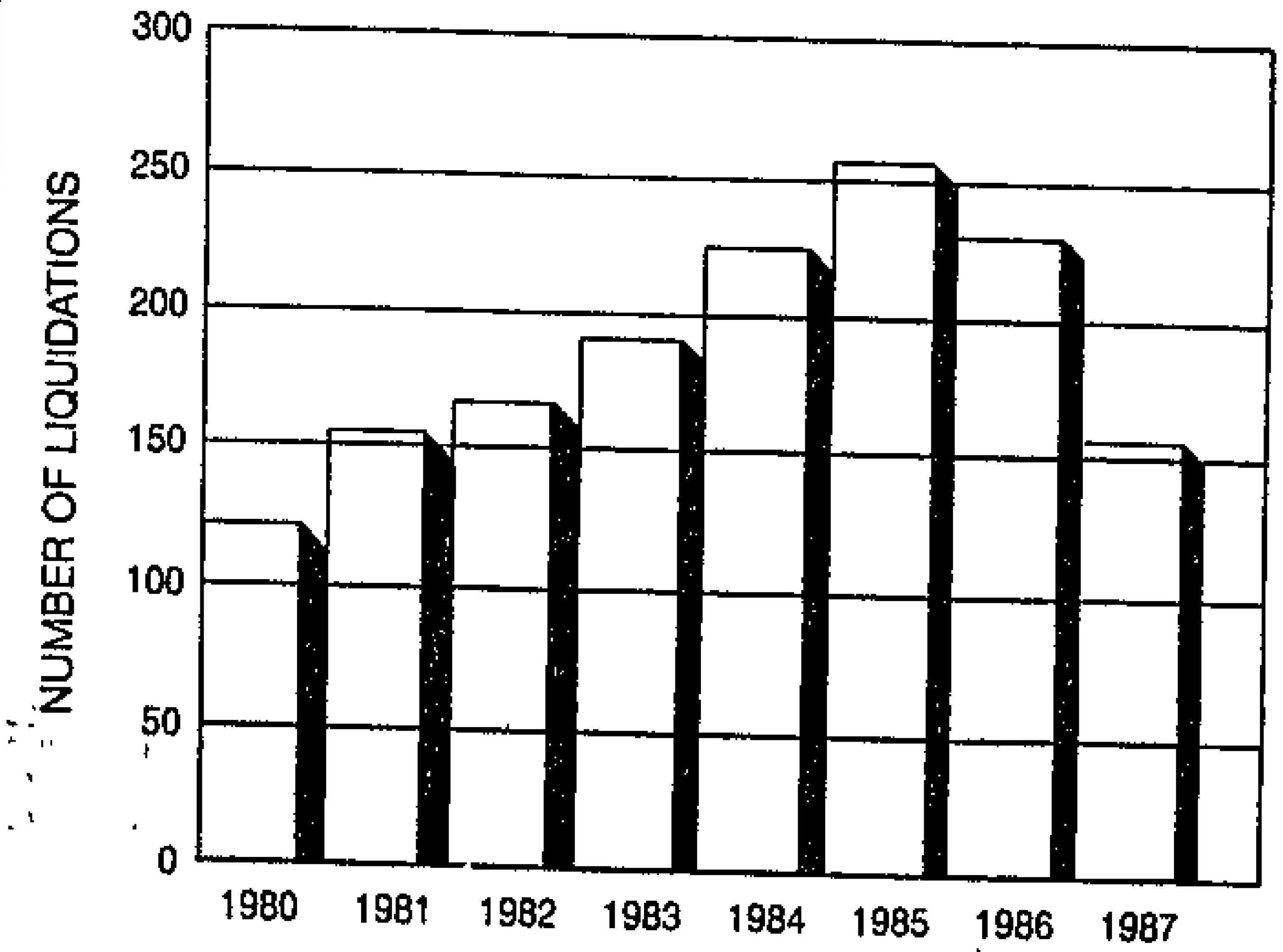
The rand value of judgments for debt fell 18,7 percent in the same period. Personal consumption spending grew by 3,5 percent annualised in the first quarter and higher-than-budgeted Government spending is having a stimulatory effect.

The surplus on the current account is expected to exceed R6 billion this year, which should allow for repayment of foreign debt without pressuring the rand. Prospects for gold look good in the face of the Gulf crisis.

"All this, however, will mean very little unless the confidence of the businessman and the consumer is restored. Two things which would help in this regard. Firstly, privatisation, which can have a stimulatory effect.

"Secondly, tax reform. As outlined by the Margo Commission, drastic action is required to prevent the steady deterioration of income through fiscal drag and to put money back into the pockets of the consumer."

Company liquidations
(Average monthly number of liquidations)



Cape Times 19/10/87 (49)

Sanctions: Call to boost reserves

PRETORIA. — SA should strengthen its gold and other foreign reserves, or at least maintain current levels, to finance strategic supplies if the sanctions campaign should gather momentum, says Volkskas Bank.

Discussing the long-term prospects for the exchange rate, the bank says in its Economic Spotlight for October that unless SA manages to drive down the inflation rate, approximating those of its trading partners, the exchange rate of the rand is bound to decline further in time.

Gold price

This would happen regardless of a sharp rise in the gold price, it added.

It was much more difficult, if not impossible, to forecast the course of the exchange rate in the short term, say over the next year or so.

It would appear that, at current levels, the exchange rate of the rand was slighly undervalued rather than overvalued, said the bank.

"We believe that this is the result of deliberate policy actions during the past year and, in the light of overall economic circumstances, this cannot be faulted."

This also meant traditional exports should still be able to compete internationally — while imports would be discouraged — even if exchange rates were to remain at the current levels for a considerable period.

There was a satisfactory surplus on the balance of payments, and the reserves had been considerably strengthened in the past year. The indications were that another surplus could be expected in 1988, unless the gold price should drop sharply for some reason.

The current exchange control measures would have to be maintained for a long period, it said. "It is essential to maintain a reasonable surplus on the current account, since a continued net outflow of capital is likely."

On the gold and other foreign reserves position, Volkskas said the key question was whether it would become official policy to use these reserves to bolster the exchange rate if the balance of payments began to show a deficit.

This question was pertinent, it said, in the light of the fact that the country would probably have to contend with more economic boycotts.

"Should these reserves not rather be strengthened further, or at least kept at their current levels, to finance strategic supplies if the sanctions campaign should gather further momentum?

Adjustment

"In our view, such a policy would be desirable. If it were to be followed, a downward adjustment in the exchange rate could be made very quickly, since the reserves will not be used to defend the exchange rate."

Volkskas concluded that the rand would remain fairly steady for the rest of the year before beginning to move slightly lower in 1988. — Sapa

BUSINESS

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(49)

ECONOMY

Growth could soar to 4,5 pc, De Vries says

Business Editor

ECONOMIC growth could soar to 4,5 percent next year, forecasts Professor Attie de Vries of the Stellenbosch University Business School.

This is far above the 2,5 percent growth rate, forecast for this year by Central Statistical Services and other economists

Professor de Vries said today his prediction of gross domestic product increasing by 4,5 percent next year was based on a number of assumptions. These included no major new international conflicts, no further sanctions but no easing of international pressure, and no major domestic political upheaval.

But this growth rate would occur virtually "at a cyclical peak" and was not going to solve South Africa's long-term economic problems, he said in a paper delivered at the Assocom conference in East London.

In a short-term analysis, he said the economy had lost some of its momentum in the second quarter of 1987 because of two factors — high inflation and a lack of confidence among businessmen and consumers.

CAR SALES

The upswing now appeared to have resumed, judging from such diverse indicators as motor car sales, retail turnovers, physical volume of manufacturing production and unemployment statistics.

"It must be stressed immediately that this upswing is still very slow and sluggish and that the absolute level of real activity in the economy is still low.

"Thus the basic long-term trend towards lower annual average growth has not yet changed." Reasons for this were:

- A redistribution of wealth from South Africa to the rest of the world owing to disinvestment, sanctions, etc.
- A redistribution of resources from the private sector to the public sector and within the public sector from investment to current spending — thereby reducing the future potential growth rate.
- An attitude favouring current spending above savings flowing from inflation, low interest rates, etc.
- Continued bad productivity performance by both capital and labour.

Action needed to avoid recession

Unless prompt action is taken to underpin stability, renewed turmoil could lead to recessionary conditions, says the Organisation for Economic Co-operation and Development. PHILIP STEPHENS of the Financial Times reports.

INDUSTRIALISED countries face a weakening in the pace of economic growth in the wake of the stock market crashes and run the risk that renewed turmoil in industrial markets could provoke a recession unless prompt policy action is taken.

In its latest outlook, the Paris-based Organisation for Economic Co-operation and Development says the slide in equity prices in October will probably reduce growth by one percentage point over the next two years.

The impact, however, could be much greater if governments do not act quickly to underpin stability on financial markets. In particular, the OECD calls for further action in the US to cut the budget deficit, for additional measures to stimulate economic growth in West Germany, and for further liberalisation in Japan.

It warns that, without such measures, efforts to stabilise exchange rates at a particular level — as in the Louvre accord in February — are likely to prove fruitless and may be counter-productive.

On the assumption of unchanged policies and exchange rates, the Outlook foresees a rise in the output of its 84 member countries of 2,25% next year, down from 2,75% in 1987. In 1989 the pace of expansion can be expected to slow further to 1,75%.

The OECD says there are positive signs that the large imbalances in the world economy — the huge US current account deficit and the surpluses in Japan and West Germany — are being gradually eroded.

Partly because of the stronger impact of the stock market slide in the US, the balance between overall growth and domestic demand in the three main economies is improving. Demand in the US is expected to grow more rapidly than the economy as a whole, while the reverse is projected for Japan and West Germany.

Although the US trade deficit has not yet shrunk in nominal terms, significant adjustment is taking place in trade flows. In volume terms US exports have risen by about 10 percentage points more than the growth rate for the country's traditional markets in 1987, and similar gains in market share can be expected for the next two years.

In parallel, Japan and West Germany have suffered losses in market share and are likely to continue to do so.

The Outlook projects a fall in the US current account deficit to just over $100bn in 1989 from $150bn this year.

It emphasises, however, that in the absence of further policy changes, market perceptions that the adjustment of the imbalances might be insufficient over the medium term could well give rise to renewed financial and exchange market turbulence.

In the coded and occasionally obscure language that often characterises OECD reports, the Outlook says the budget-cutting package agreed by the US Congress and the White House is a step in the right direction.

It adds, however, that further measures are likely to be needed because the latest package is likely to leave the deficit in 1988 and 1989 little changed from the level of 1987.

Of the surplus countries, the report singles out West Germany for special criticism. The Bonn Government, it says, needs to do more to accelerate growth in its economy, both as a contribution to reducing the US deficit and to allow faster growth in the rest of Europe.

Even taking account of the 1988 tax cuts and discounting any adverse direct effects of the stock market crash, the German economy may continue to grow below its medium-term potential over the remainder of the 1980s, it says.

While the rest of Europe can expect its current account position to move into sizeable deficit and the US trade gap begins to close, West Germany is likely to experience only a small reduction in its surplus.

In these circumstances, Bonn should employ both macro and micro-economic policies geared towards promoting faster expansion.

The organisation welcomes the recent acceleration in the pace of output growth in Japan, but says the Tokyo Government must ensure that this is maintained over the next two years. Even with faster growth, Japan's current account surplus is projected to remain at around $80bn, so the Government should use this period to promote faster progress towards structural adjustment of the economy as envisaged in the Mayekawa report last year.

In its review of monetary policies, the Outlook welcomes the response of central banks to the stock market crash in lowering interest rates. It adds, however that the banks should be cautious not to allow an upsurge of inflationary expectations in financial markets.

This in turn may mean there is less scope to be used to stabilise exchange rates. Achieving and maintaining orderly exchange market conditions may have to depend more on progress in correcting the imbalances which appear to be the fundamental source of exchange market turmoil, the Outlook says.

While central banks should continue to co-operate in promoting orderly markets, there is a limit to how far it is feasible or desirable for currencies to be held at any particular level by means of intervention and monetary policy changes alone.

Turning to prospects for the developing world and for heavily-indebted countries, the OECD says the already-weak economic situation of these countries will deteriorate further under the impact of slower growth in the industrialised countries.

The outlook for the export revenues of such countries has been adversely affected by the stock market crash and by correspondingly weaker commodity prices.

UK HAS EDGE ON NEIGHBOURS

BRITAIN'S economic growth rate should continue to outpace that of other European states in 1988, but the gap is likely to close in the second half of the year, the OECD says.

In its review of prospects for the next two years, the organisation also warns that without another depreciation in sterling, Britain faces a marked deterioration in its overseas trade position.

The unexpectedly strong rise in output seen in 1987 should carry into the first months of 1988. This will mean that year-on-year comparisons are likely to show a growth rate of 2,75% next year.

Weaker exports and some slowing in domestic demand are expected to result in a deceleration in the pace of expansion to an annual rate of 1,75% in the second half of the year and in 1989. On this basis, the recent downward trend in unemployment may continue for some months, but the jobless total could then begin to rise again.

The OECD says Britian's export performance is likely to be hit by several factors. The general slowdown in growth in the industrialised world will limit demand for British goods. At the same time, Britain's competitive position will be damaged by the recent strength of sterling and by higher inflation in the UK than in most other major industrial countries.

With imports remaining relatively buoyant, the deficit on the current account of the balance of payments is expected to double to £3,25bn in 1988 and widen further to £5,25bn in 1989. The OECD adds, however, that such a deterioration assumes the exchange rate will hold at current levels.

The inflation rate is expected to remain fairly steady, with consumer prices rising at an annual rate of 4,25% to 4,5%. Unit labour costs will accelerate as the pace of productivity expansion slows.

Gold price linked to default

Debt crisis may get worse in new year

49

30/12/87

Finance Staff

The debt crisis afflicting developing countries will not go away and could yet exert an important influence on precious metals in 1988.

Indeed, several commentators are ascribing the sagging dollar and the buoyant gold price to the potential worsening of the debt crisis rather than to the more popular United States twin deficit theory.

Default by the Latin American debtor nations has been mooted so often in recent years that most people no longer regard the threat as a serious one.

The assumption is made that the debtors' desire to retain a semblance of co-operation with their creditor banks is such that moratoria and repudiations are considered to be largely empty threats.

These beliefs could be shattered in 1988.

At the beginning of December 1987 the presidents of eight countries — Argentina, Brazil, Colombia, Mexico, Peru, Panama, Uruguay and Venezuela — met in Mexico and agreed to what is called the "Acapulco Pact".

These countries in effect have jointly demanded that interest payments on their foreign debt of almost $400 billion be cut in half.

They have threatened that if the demand is not granted, they will undertake unspecified unilateral reschedulings of their debts.

FORMATION OF CARTEL

Some analysts argue that this heralds the formation of a debtors' cartel to negotiate as a group in seeking materially improved terms for servicing their debts with creditor banks.

Precedents for unilateral reschedulings already abound. The best example is Brazil, which unilaterally stopped paying interest on its $67 billion of foreign private debts in February 1987. By November interest arrears had climbed to more than $3 billion, and American bank regulators met to decide if the banks should be requested to write down these loans by 10 percent as value impaired.

At the last moment Brazil and its creditor banks, with the support of the US Treasury, reached an understanding under which the banks agreed to lend Brazil another $3 billion towards the total of $4,5 billion in interest payments due on that country's debt.

Brazil's confrontation with its creditors is likely to be an on-going process and other Latin American debtors could now adopt a similar posture.

SPECIAL TREATMENT

The fall in oil prices, together with the flight of capital from Mexico, is already creating renewed concern about that country's debt problems. The special treatment accorded to Brazil by its creditors, when faced with the alternative of write-downs, can only encourage other debtors to think in terms of their own unilateral reschedulings.

The process of "muddling through" the crisis during the past five years is proving to be little more than a gradual process towards debt default and forced forgiveness of debts.

This is the conclusion increasingly being reached by some of the creditor banks.

The decisions of Bank of Boston and Mellon Bank, middle-ranking American banks, to increase their reserves against Third World loans to 63 percent and 40 percent respectively marks the beginning of a new phase in the response of banks to the debt crisis. It is likely to create further strains in the international banking arena.

STANDARD INSUFFICIENT

The $3 billion provisions made by Citicorp last May set a standard which other banks were obliged to match. Yet the standard is now beginning to be perceived by some banks as insufficient.

The initial rule of thumb that the establishment of reserves equivalent to between 20 percent and 33 percent of a bank's exposure to Third World debt was sufficient to reflect the decline in the value of the loan portfolios no longer holds good.

The actions of the Boston and Mellon ba ks indicate that banks are beginning to go their own way in creating loan loss provisions for developing country debt.

There is a growing feeling that banks in general will now be forced to institute another round of provisioning against Third World debts.

Some European banks have already done this but the pressures are now building up for British, and more particularly American banks, to revalue their Third World loans to more realistic levels.

It is a move which is going to create serious problems for even some major banks.

NEW EQUITY CAPITAL

Several US money centre banks would find it impossible to raise their loan loss provisions to only 40 percent of their Third World exposure without raising substantial new equity capital.

Banking analysts reckon that the equity to assets ratio of Chase Manhattan would be nearly halved to 1,6 percent if it provided for 40 percent of its $8,7 billion exposure.

Yet the raising of new share capital has been rendered exceedingly more difficult by the Wall Street crash. The rising levels of provisioning could therefore prove to be inadequate as banking strains escalate in America and Britain.

Monetary authorities are in a corner. Their scope for raising interest rates in 1988 is likely to be severly constrained by both the repercussions of the global share market collapse and the ongoing Third World debt crisis.

Such a state of affairs should at the very least be supportive for gold in coming months.

Labour relations Bill criticised

By Mike Siluma, Labour Reporter

The Congress of SA Trade Unions (Cosatu) has pledged itself to opposing the Labour Relations Amendment Bill, which it says is a threat to the entire industrial relations system.

Addressing a press conference yesterday, Cosatu general secretary Mr Jay Naidoo said Cosatu viewed the proposed legislation, expected to be passed next year, as an attack on workers by both the State and employers.

"Cosatu warns that, if passed, (the Bill) could precipitate the collapse of the entire industrial relations system.

"We have resolved to mount an international and national campaign to prevent this Bill from being passed, and our affiliates will meet in early February to work out the form of action we will take."

Mr Naidoo said the effect of the Bill would be to:

- Outlaw sympathy strikes.
- Allow employers to interdict all strikes, legal or illegal.
- Encourage "sweetheart" unions by allowing employers to recognise minority unions.
- Allow "racial" unions to register, even where they did not have a majority.
- Enable employers to re-employ workers selectively after a strike, as well as make it possible for employers to sue unions for damages caused by illegal strikes.
- Illegalise strikes or any form of industrial action on the same issue for a period of 15 months

ECONOMIC OUTLOOK

Tax, spend, regulate

Never underestimate the ability of Pretoria to tax, spend, and run up debt. According to the latest Reserve Bank *Quarterly Bulletin*:

☐ State spending continues to run over budget, with real government consumption expenditure in the first three quarters of 1987 nearly 5% higher than in the first three quarters of 1986;

☐ Pretoria collected R28,2 billion revenue in the first nine months of 1987, and for the year should easily top the R32,7 billion collected in 1986, R28 billion in 1985 and R22,7 billion in 1984;

☐ Consumers paid R7,3 billion GST in the first nine months of the year. At that pace, they'll pay nearly R10 billion in 1987, compared to R8,8 billion in 1986 — and just R2 billion in 1981;

☐ Income tax collections have risen from R7,8 billion in 1980 to R13,3 billion in the first three quarters of 1987; and

☐ Central government debt reached R54,1 billion in September, more than double what it was at the end of 1982.

Given this continuing drain of resources from the productive private sector to government, it's not surprising that the economy struggles to grow. The Reserve Bank estimates growth will be about 2% this year and 2,5% next — nowhere near what is needed to put millions of unemployed people in work.

Job growth continues to trail population growth, with the average level of non-agricultural employment in the first half of 1987 just 0,9% higher than a year earlier.

Policymakers ought to take notice of the figures the Reserve Bank compiles: in a country simmering with discontent over a stagnant economy, it's time for bold decisions. A competitive dose of deregulation, privatisation and supply-side tax cuts would do much to boost business confidence and economic growth.

Among other figures in the *Bulletin*:

☐ Real capital spending by the private sector increased markedly in the third quarter — at an annual rate of 13% — following a decline in the second. Increased outlays in manufacturing, agriculture and financial services accounted for most of the jump. The Bank says this reflects a "bottoming out of the fixed investment cycle;"

☐ SA Transport Services and Posts & Telecommunications increased their capital spending in the quarter. But government spending on low-cost housing has been much slower than projected. This may suggest that the way to promote low-cost housing is to take the task away from Pretoria, scrap zoning and building codes, and make more land available to blacks;

☐ Inventories rose in the quarter, mainly because of significant additions to industrial and commercial inventories;

☐ Average real wages in the non-agricultural sector declined by 3% in 1986 and by another 2,5% in the first half of 1987;

☐ Labour productivity (real GDP per worker) in the non-agricultural sector — which fell 1% in 1985 and 0,7% in 1986 — rose by

SHRINKING SURPLUS

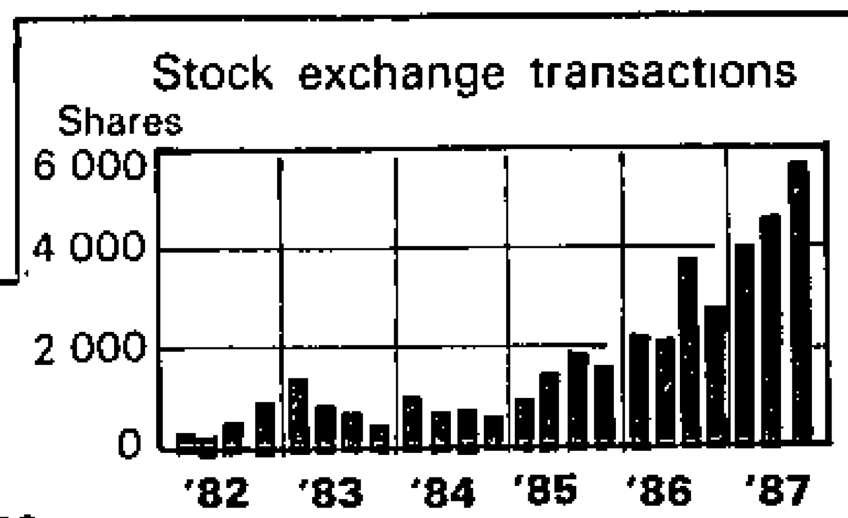
Current account of the balance of payments

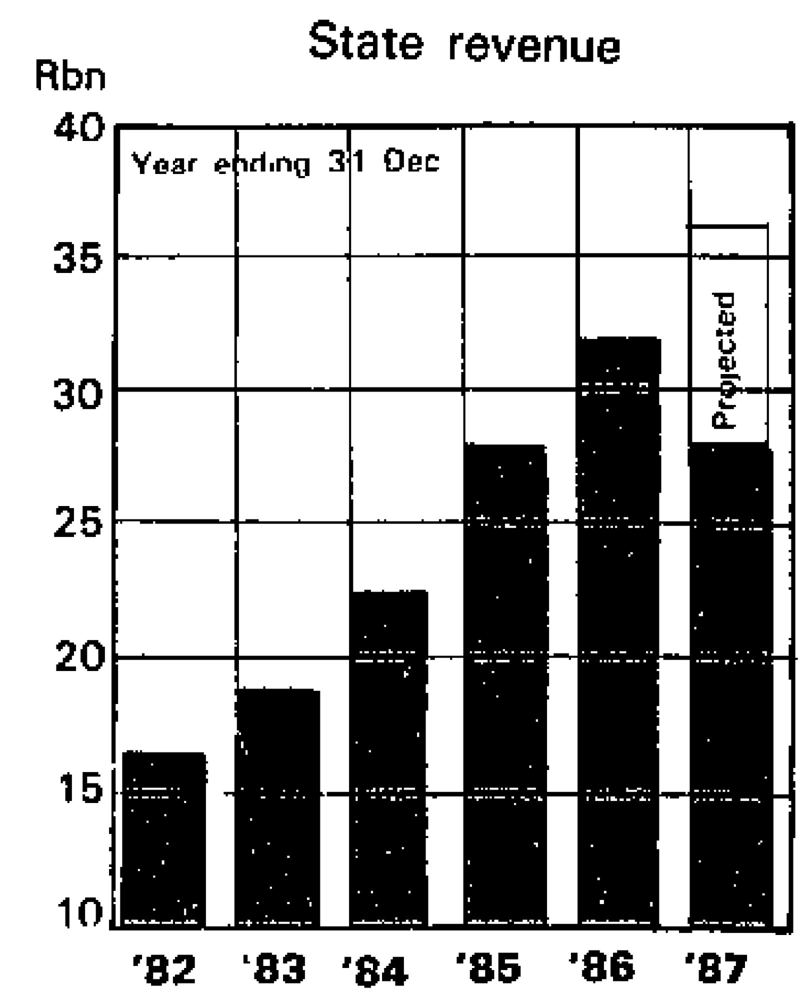
R millions* 1987	1st qr	2nd qr	3rd qr
Merchandise exports	23 850	24 430	24 770
Net gold exports	18 370	17 030	17 890
Merchandise imports	−26 410	−27 370	−28 820
Net service and transfer payments	−8 650	−8 320	−8 440
Balance on current account	7 160	5 770	5 400

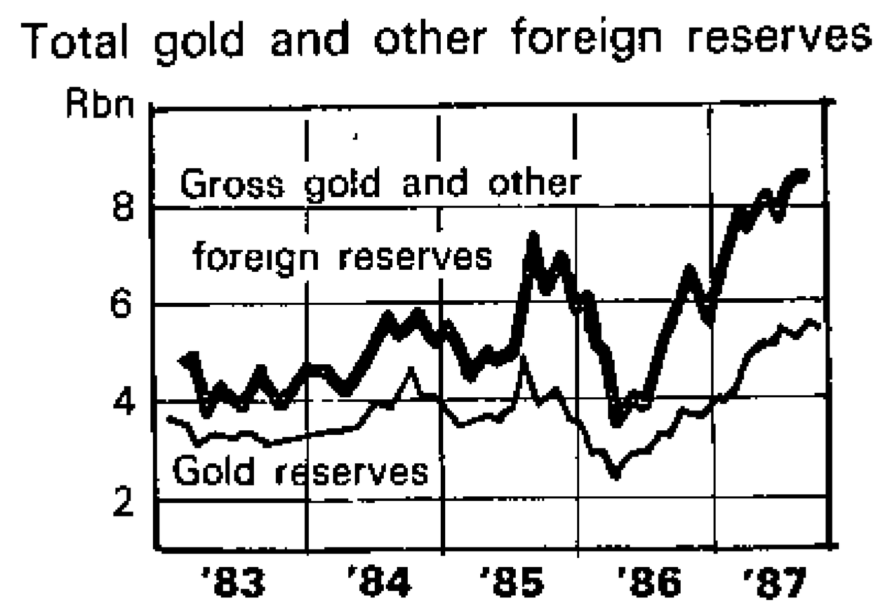
*Seasonally adjusted annual rates

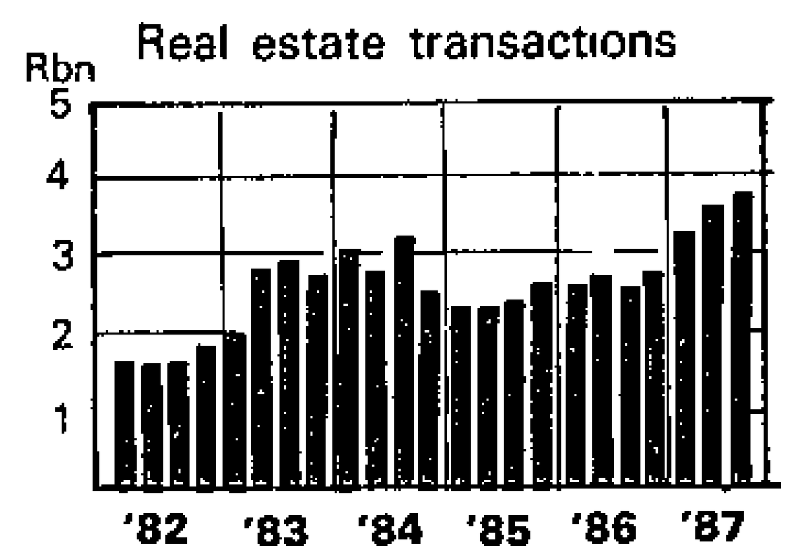
Source. Reserve Bank

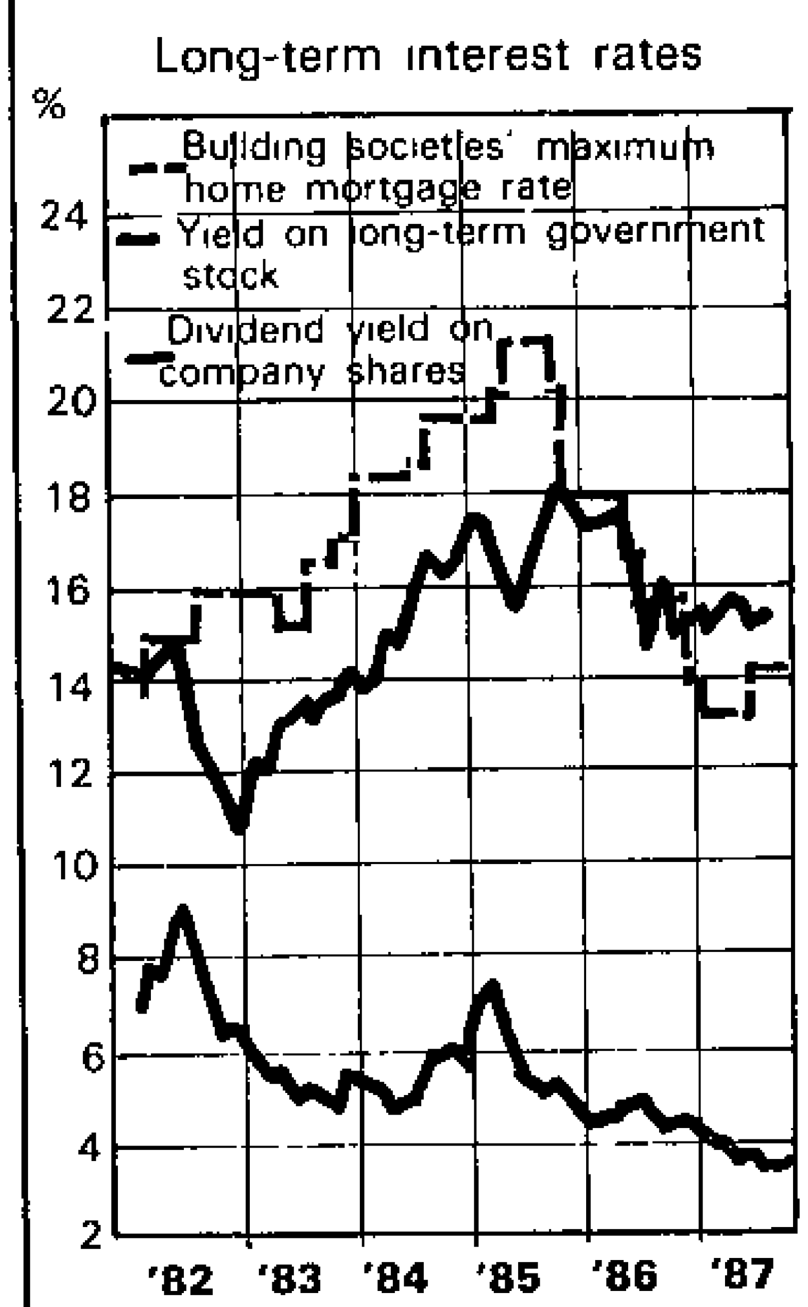
Economic update

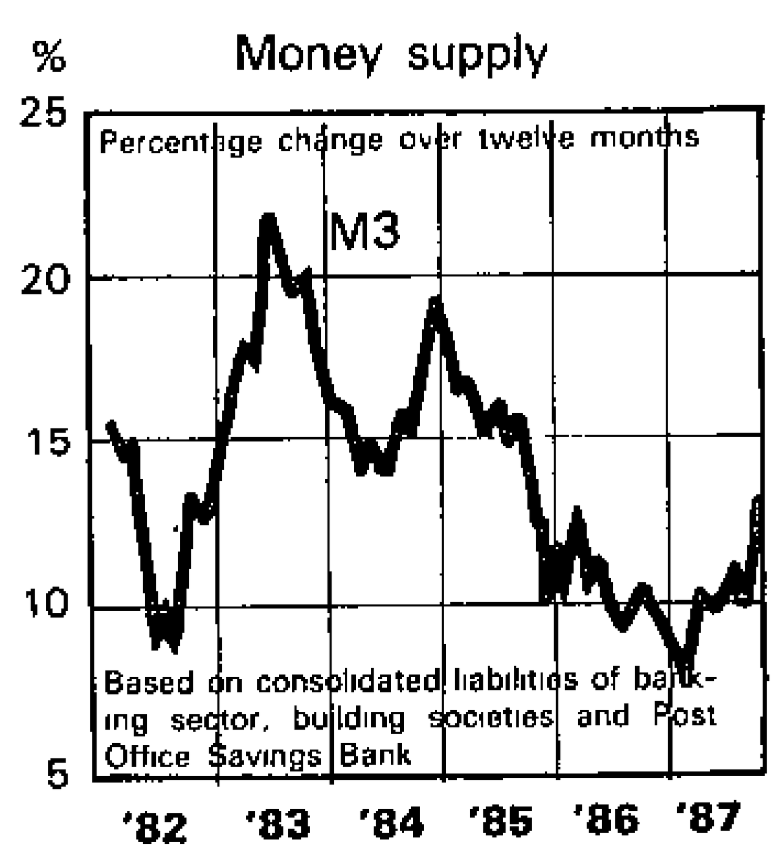


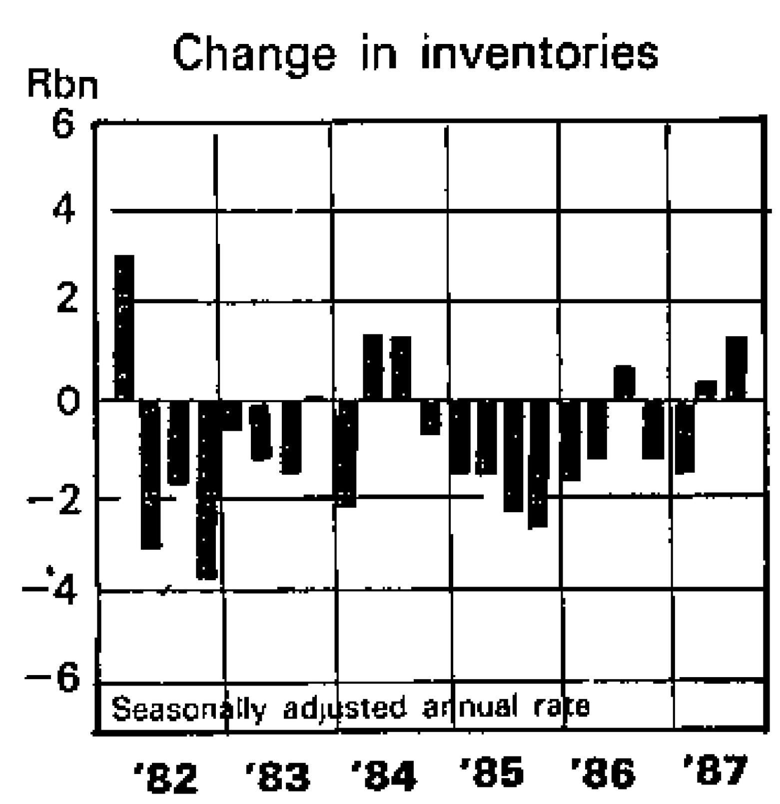


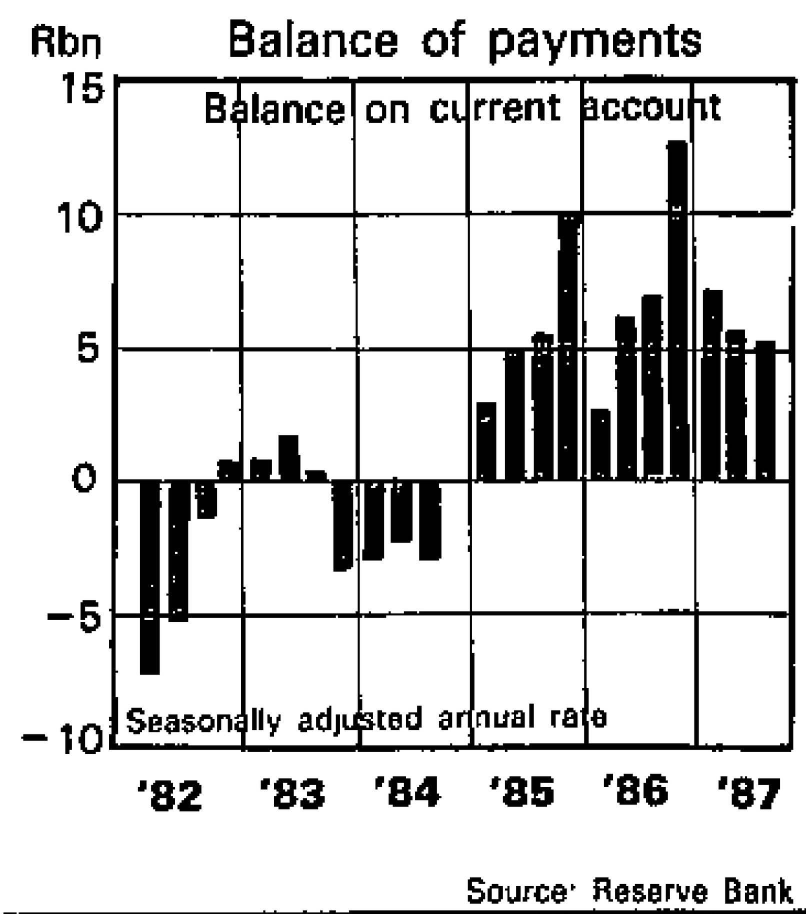












Source: Reserve Bank

1,3% in the first half of 1987. This improvement in productivity, combined with a mild slowdown in nominal wage increases, caused the rise in unit labour costs to decelerate from 15,9% in 1986 to 12,3% in the first half of 1987;

☐ The quarter-to-quarter increase in the CPI, at seasonally adjusted annual rates, rose from 15,1% and 15% in the first and second quarters to 16,9% in the third;

☐ The money supply is growing quickly. The Reserve Bank says it has taken an accommodating policy since the October stock market crash. Broad M3, which jumped sharply in September, posted quarter-to-quarter increases of 9,1% in the fourth quarter of 1986, 5% in the first quarter of 1987, 15,9% in the second and 14,1% in the third. The 12-month growth rate in the narrower M1 was a big 23,7% in September;

☐ The current account surplus continues to shrink, as demand for imports picks up and exports struggle to gain momentum. The surplus stood at a seasonally adjusted annual rate of R5,4 billion in the quarter, down from R7,2 billion in the first quarter and R5,8 billion in the second;

☐ A capital outflow of R776m unrelated to reserves — R484m long term and R292m short term — was registered in the third quarter. Most of this reflected a July 15 foreign debt payment of US$300m;

☐ Non-residents continued to be net sellers of JSE securities, with R531m flowing out through the financial rand system;

☐ Public corporations kept borrowing from overseas. Net foreign borrowing of R107m in the quarter brings their total so far this year to R802m;

☐ Gold and other foreign reserves rose in the first three quarters by R1,8 billion, R282m and R796m to reach R8,6 billion. In October they rose R83m, but fell R556m in November;

☐ From June 30 to November 30, the rand fell 7,5% against sterling, 5,6% against the D-mark, 6,5% against the Swiss franc, 5,6% against the Japanese yen, and 3,7% against the French franc. The rand moved up 5,4% against the dollar, and the financial rand was up 12,8% in the period.

The *Bulletin* concludes that the economy "has moved out of the preparatory (and) into the early expansionary stages of a fairly typical cyclical upswing." How much of a downswing will follow, of course, depends on the extent to which Pretoria takes steps to free the economy. ■

HOME LOANS

Plus plus

Potential homeowners have an exciting range of enticing financial packages to unwrap this Christmas. Wide-eyed consumers, accustomed to thinking of money as a scarce resource, can hardly believe the opportunities being pressed upon them by competing banks and building societies.

Latest is the United Building Society's Help-U-Home package, which provides *110%* financing for investment in a home.

It consists of a 90% bond and a 20% personal loan. To qualify, borrowers have to provide an extra 5% financing to ensure a total of 115% to cover the cost of buying, transferring and furnishing their new homes.

The rate on the bond is, for the present, 12,5%, while the personal loan is at negotiable interest rates — probably 15%-16% — for up to five years.

Hire purchase facilities are also available at 15%-16% interest rates, for periods of up to 60 months.

This level of financing may cap all previous offers, but as deals are highly negotiable and almost all institutions are offering additional financing with home loans it is difficult to compare offers.

First National is advancing 90% of purchase price up to R150 000 and 80% thereafter, plus 10% for structural improvements and a further sum to cover legal costs, which amounts to about 105% of the loan. Interest rate on the entire deal is 12,5% — for the moment.

Similar deals on negotiable terms are available from other institutions.

Such generous terms add a new dimension to home ownership as the benefits of deficit budgeting trickle down to household level.

The situation, the product of unprecedented liquidity and intense competition between financial institutions, is to consumers' immediate advantage. But is the opportunity to commit themselves to high debt ultimately in their best interests?

There are two schools of thought on this.

Nedbank's Merton Dagut does not believe consumers are likely to be tempted in over their heads by these packages. "The desire to borrow is driven by expectations of future income. People who are eligible for these loans have already selected themselves as able to make the repayments."

He points out also that contractual loan agreements which provide for scheduled repayments and known interest rates are sounder forms of finance than emergency loans, shop accounts or overdrafts to which many householders would otherwise resort.

Rand Merchant Bank's Rudolf Gouws also sees the development as positive. Further, he does not expect rates to rise soon. "They should remain at present levels for the first six months of next year and will probably only start to move up towards the end of the year when demand picks up and the balance of payments deteriorates."

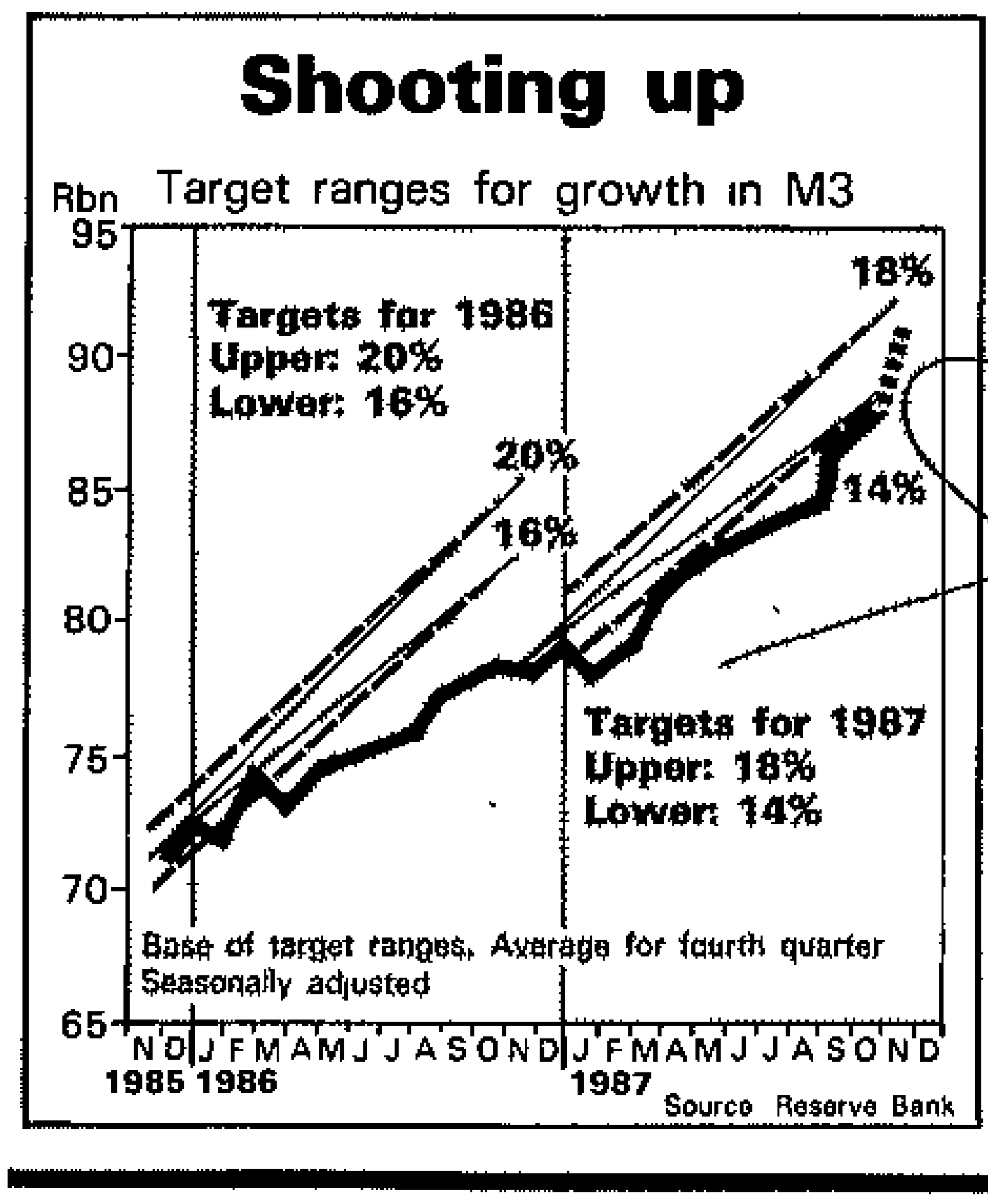
Econometrix's Azar Jammine, however, points out: "Whether rates rise next year or in three years' time, they will inevitably, at some stage, catch consumers on the wrong foot — as in 1981 and 1984. Consumers' average debt levels are still historically high — at least twice as high as 10 years ago."

And unlike governments, individuals can't resort to printing money when income and borrowing, combined, fail to keep creditors at bay. Jammine advises consumers to mix a measure of caution with a dash of optimism when making long-term financial plans.

☐ Just over a year ago, Standard Bank took the home loans market by surprise, undercutting building societies by dropping bond rates from 15% to 12,5%. Building societies, at that point charging 15%, were essentially out-manoeuvred because of their longer-term funding structure. Though they edged

MONEY ON TARGET

Money supply growth has moved firmly into the Reserve Bank's 14%-18% target range. The broad measure M3 grew at a preliminary rate of 17,4% in the year to November, up on October's 13,1% year-on-year increase (revised from 14,1%).



M3 jumped 4% in November, to R92,25 billion, according to the Bank's preliminary figures. The October figure was revised down to R88,73 billion from R89,52 billion. The seasonally adjusted preliminary figure for November is R92,16 billion.

M1(A) — which includes coins, banknotes, and cheque and transmission deposits — fell for the third month in a row. It stood at R15,24 billion in October, down from R15,29 billion in September, R15,47 billion in August and R15,77 billion in July. But it was still 13,8% higher than a year earlier.

M1 — M1(A) plus other demand deposits — slipped 0,9% to R29,76 billion in October from R30,03 billion in September. The year-on-year increase was 21,4%. M2 — M1 plus other short-term deposits and medium-term deposits — rose 2,5% to R64,10 billion in October from R62,54 billion the month before, for a year-on-year increase of 14,5%.

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Sand in the motor

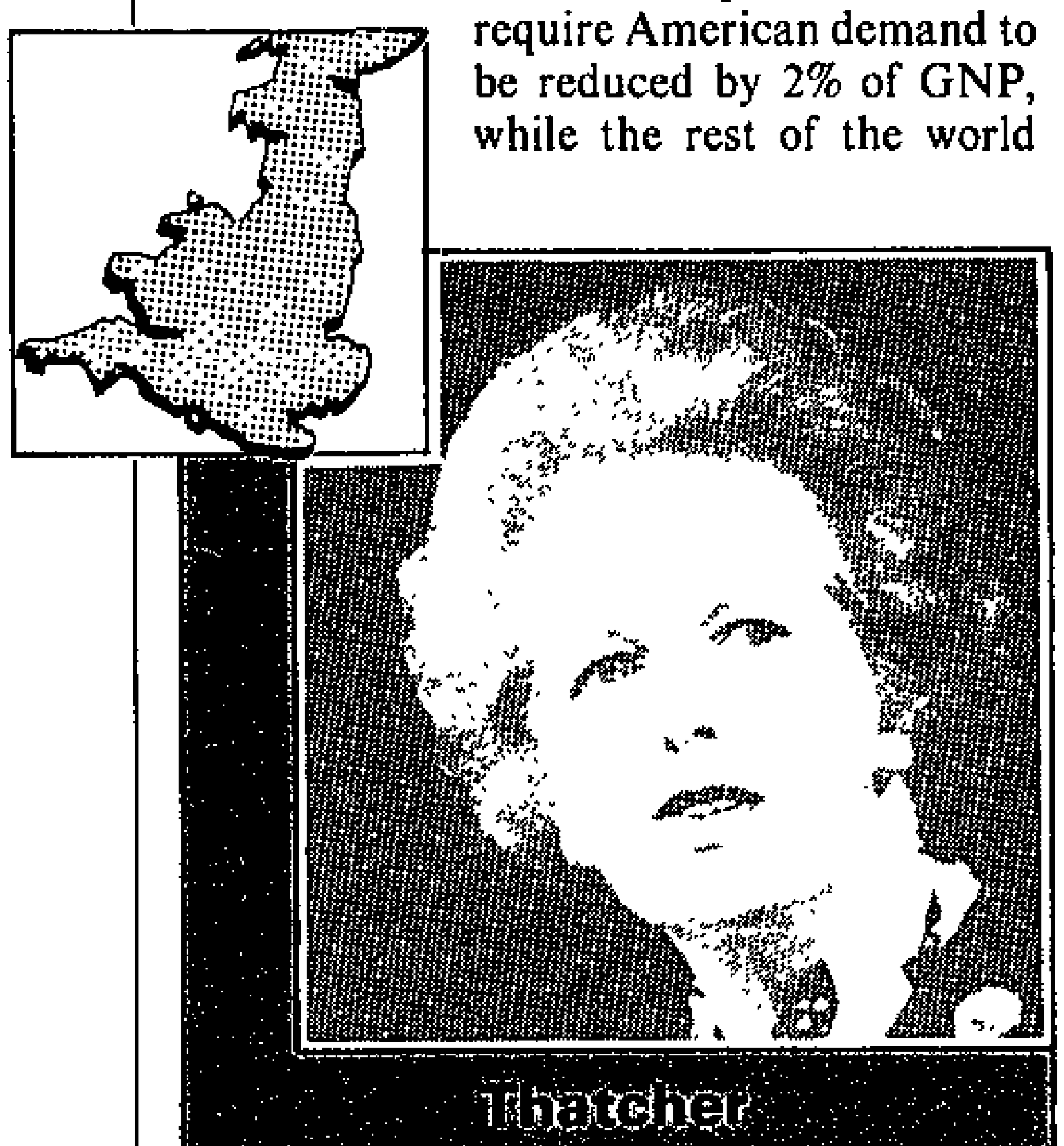
The *FM*'s European Editor, John Cavill, looks at the outlook for major world economies in 1988. Most economists — studying the US deficit figures and the drooping dollar — remain pessimistic, though the prospect of another world depression is not strictly predictable because of the imponderables of the domestic American political outlook and the effects of the October crash on the real economy.

Apart from the mixed blessing of a fall in oil prices, the world economy is moving into 1988 in an anxious frame of mind. The sixth year of recovery from the recession induced by the second oil price explosion is fraught with uncertainty and doubt caused by the massive deficits of the US and the plummeting dollar.

These factors were in the equation before the collapse of over-inflated stock markets in October. And debate focused on whether the imbalances in the international system, carrying with them the threat of protectionism, could be corrected without depressing global demand and economic activity. Now the argument is whether the loss of wealth and confidence in the US, where investors had US$1 trillion wiped off the value of their portfolios, will not willynilly deflate an economy which accounts for 25% of global output.

Without taking the Black Monday effect into account, the warning issued by 33 leading international economists after a pre-Christmas assessment in Washington was uncompromisingly bleak. "There is something seriously wrong with the world economy," they said. Unless the central problem of correcting the imbalances — by belt-tightening in the US and demand stimulation elsewhere — was tackled, the world could face "a serious recession . . . The next few years could be the most troubled since the 1930s."

Without drastic policy changes there was no point in trying to stabilise exchange rates. And if the dollar continued to fall in their absence, that would inevitably take confidence and growth with it. The magnitude of the task is daunting, on figures produced by Professor Paul Krugman of the Massachusetts Institute of Technology. In his model, to balance the US deficits at unchanged prices and exchange rates would require American demand to be reduced by 2% of GNP, while the rest of the world raised its level by 8% — a feat regarded as unthinkable.



None of the major economies outside the US, especially in Europe, can afford the inflationary risks. And haggling in Washington over the two-year $76 billion budget cuts suggested a lack of political will to get to grips with US over-consumption in a presidential election year.

That leaves the question of whether the stock market has done what the US administration has not. It will not be answered until well into the New Year and there is no consensus among economists. The gloomiest view is offered by Goldman Sachs, the New York-based international investment house: "The impact of the stock market crash on OECD economic activity in 1988 will be significant, but not catastrophic."

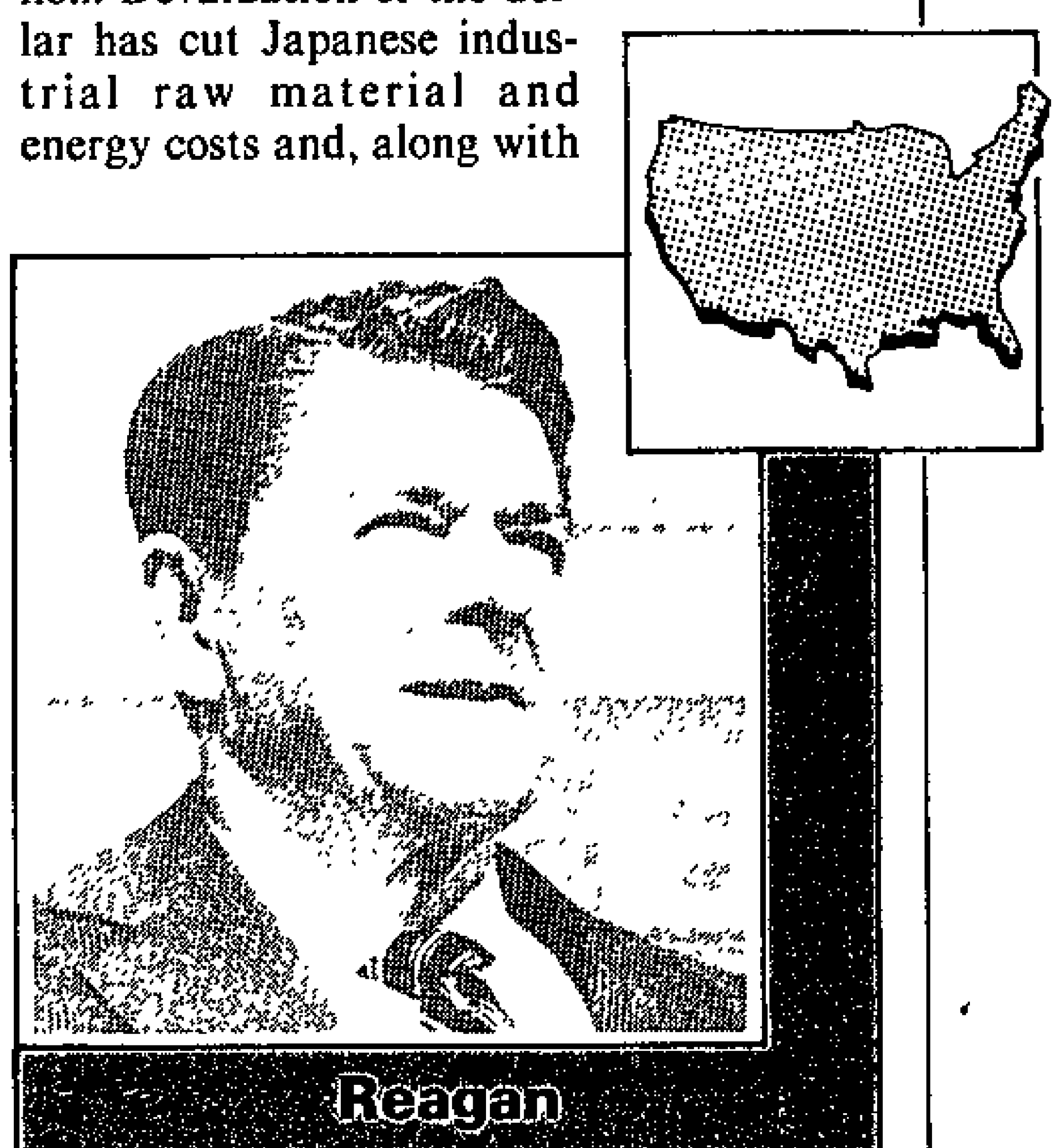
Goldman Sachs estimates the "loss of wealth effect" on US consumers could reduce domestic demand by as much as 3% of GNP and accordingly has cut its forecast of growth in 1988 to as little as 1%, even allowing for an improved export-import balance.

The effects will be less elsewhere — the personal wealth of Europeans and Japanese is less geared to equities. Even so they will not escape entirely and the Bank of Japan, for example, reckons a 20% fall in the stock market peels 0,3% off private consumption growth.

The contrary view is taken by economists such as Milton Friedman and John Galbraith — both experts on the 1929 Crash — and Paul Samuelson. The Depression of the Thirties had started well before Wall Street's collapse and all governments need to do is maintain liquidity and not repeat the errors of their predecessors. Samuelson points out that while Wall Street has predicted nine economic recessions, there have in fact been only *five*.

And "Dr Doom," Henry Kaufman, former chief economist with Salomon Brothers, while expressing concern at the amount of money pumped into the US system in the wake of October, expects American economic activity to revive after a sluggish start to 1988. With manufacturing industry running at 85% of capacity and exports up 17%, Kaufman forecasts capital investment growth of 7,5% will offset a slowdown in consumer spending. His main caveat is a rise in inflation to 5,5% and higher interest rates in the second half of 1988.

Even so, the outlook for the dollar is not optimistic — unless policies change. Few economic forecasts see the US current account deficit dropping to under $120 billion. Devaluation of the dollar has cut Japanese industrial raw material and energy costs and, along with



BOBBING, NOT CLIMBING

	'86	'87	'88
Real GNP	% change		
US	2,9	2,7	1,5
Japan	2,5	3,0	3,2
Germany	2,5	1,4	1,5
France	2,0	1,2	1,4
UK	3,1	3,8	2,2
OECD	2,6	2,5	1,8
Consumer prices			
US	1,9	3,8	4,7
Japan	0,6	0,1	1,8
Germany	-0,2	0,4	1,6
France	2,5	3,3	3,2
UK	3,4	4,1	4,0
OECD	2,5	3,2	4,0
Unemployment	% labour force		
US	7,0	6,8	6,5
Japan	2,8	3,0	3,0
Germany	8,0	8,0	8,3
France	10,5	11,3	12,0
UK	11,8	11,3	10,8
OECD	8,3	8,3	8,3
Current account balance	US$bn		
US	-141	-152	-123
Japan	86	88	80
Germany	36	40	35
France	3,5	1	0
UK	-1,4	-3	-6
OECD	-20	-23	-30
OPEC	-32	-17	-12
Non-oil LDCs	-11	-9	-11

Source: Averages of OECD and private sector forecasts

SA — a land of regional economies

By an economist

SOUTH Africa is often quoted as being a dualistic country with a well-developed westernised First World economy and a more traditional and often subsistent Third World economy.

There can be no simple dividing line between the identified two sectors as development in South Africa stretches along a continuum.

The First and Third World economies are a cause and result of one another and their existence today is completely enmeshed and intertwined in one or another dependancy relationship.

Statistically speaking, the vast majority of the population with its lifestyle, activity and quality of life fall more realistically into the realm of a Third World classification. SA is a developing country where the very essence of its productivity is based on the labour-intensive primary sector (for example, mining, quarrying and agriculture) rather than a well-developed First World country which has a very large industrial and manufacturing base.

The discrepancy in the lifestyles and quality of life between different population groups is accentuated by the concentration of people in certain geographic areas which comply with the overall homeland system which characterises politics in South Africa.

Problems

The economic, social and political inequality between groups has been a major source of the political upheaval and struggle which exists today.

The Government has begun to address the political problem through economic mechanisms in an effort to create a more stable and satisfied South African population.

The building and construction of low-income housing, a bigger budget allowance for black education, the electrification and sewage facilities installed in various locations, and infrastructural development like roads are all examples of areas which are receiving the benfits of Government expenditure.

It is important to note, however, that Government spending is not arbitrarily directed towards a cause (for example better infrastructure) *per se*. It is very clearly defined as to the favoured area which will receive the funds allocated.

This brings us closer to a different perspective of South Africa where the country is viewed on a regional basis. The development plans of South Africa have divided the country into nine regions.

Certain regions have been given government priority for development due to their potential to be economically productive and politically viable.

Other areas, despite their urgent needs, have been relatively neglected with very little fixed capital investment being channeled towards them in the near future.

These areas are relegated to "economic dumps" where people lack the resources to engineer change themselves.

An economically accountable return on investment in these areas would take a long time to filter through into the economy at large although the welfare benefits would be immediately recognisable should funds be directed towards them.

Favoured

The implications of the regional development plan with its nine separate regions, some favoured more than others, fits within the overall structure of a divided South Africa. Separatism rather than unification is at its core.

The basis of a large portion of the development plan at present is tied up in the National Physical Development Plan of 1975 which attempts to provide a basis for balanced physical development in terms of the supply of infrastructure, project priority determination and growth stimulation.

It sub-divides the country into the stated development regions and identifies specific areas and places for development.

The main objectives are the decentralisation of economic growth and a more even distribution of economic benefits.

A National Regional Development Plan is being completed by the Department of Constitutional and Development Planning in order to replace the 1975 Act.

Social, economic, physical, constitutional and spatial aspects will be taken into consideration.

Some of the development areas which have been identified as being priorities are the Eastern Cape, a portion of Natal, the Northern Transvaal and the PWV-area.

Although natural growth is not restricted by any laws, incentives make sure that growth is channeled towards the recognised decentralisation points.

The PWV-area still dominates South Africa economically. Natal, however, is growing in importance and a shift in economic activities in general is being experienced from other parts of the country to the Transvaal and Natal.

The willingness to divert resources away from the four major metropolitan areas, which together account for more than 80 percent of the total volume of industrial productivity, is in itself commendable.

Yet, because the plan is seen by some to exist within the overall political structure of South Africa with its entrenched dependency relations between the well developed towns, the homelands and independent or self-governing states, it has been a source of criticism.

The process of decentralisation began actively in 1960 with the establishment of the Permanent Committee for the Location of Industries which was later to become the Decentralisation Board.

Policy

The policy could be described as an attempt to move industry to the black homelands so as to provide employment opportunities in these areas and thus stem the flood of black work-seekers into the cities.

However, the economic realities of the population overrode the incentive system and the resultant redistribution of economic activity was negligible. Thus a more rigorous approach was adopted to regional planning.

This was embodied in the National Physical and Development Plan of 1975 which defined selected regions as metropolitan centres and planned metropolitan areas, development areas and growth poles.

The nine regions do not nullify any boundaries but rather transcend both the provincial and national boundaries which exist today.

They are in fact an additional set of boundaries created in order to simplify and speed up development as planned by the policy makers of South Africa.

The Minister of Budget in the House of Representatives, Mr A. A. J[illegible], at the Assocom meeting being held [illegible] London

Academic predicts slow economic recovery to persist

(49) 22/10/87

EAST LONDON — The present slow economic recovery may persist into 1989 and lead to a growth rate next year of between 4 and 4,5 per cent.

That was the prediction yesterday from Professor Attie de Vries, of Stellenbosch University's Business School.

He told Assocom's congress that fixed assets and inventory investment, coupled with private consumption spending, could boost growth beyond expected limits.

Of industrial investments, he said: "Capacity utilisation is still relatively low but with net capital stock shrinking in the past few years and becoming more outdated, some replacement investment can be expected as well as moderate new additions to the overall capacity.

"This process can become even more pronounced with inventory levels at an all-time low. Any upward movement in demand could and should lead to new investment and inventories, thus adding to total demand."

Private consumption spending held even more potential, Prof De Vries said. As the economic upturn continued, job opportunities would increase and improved corporate profits would add pressure for higher salaries and wages.

With consumers' financial position having already improved, spending on durable goods would rise about 12 per cent next year, after nine per cent in 1987.

Overall, consumer spending should rise to five per cent in 1988, after four per cent this year.

With gross domestic fixed investment starting to react late in 1988, the current account of the balance of payments should be able to accommodate increased demands for exports without unduly straining the reserve position or the rand exchange rate, Prof De Vries said.

Apartheid blamed for economic crisis

49 SMN 22/10/87

By Adele Baleta

The Government's repressive apartheid policies and the prevention of active black participation in the economy was the cause of South Africa's present economic crisis, speakers at a Johannesburg conference convened by the Institute for Industrial Relations, said yesterday.

Addressing the most fundamental and critical issues facing labour and management in South Africa, some speakers suggested the only way business could effect change was to become involved in the political sphere.

Congress of South African Trade Union (Cosatu) secretary Mr Alec Erwin stressed the need for a redistribution of wealth in the country if the majority were to have an acceptable standard of living.

PATERNALISTIC CAPITALISM

"Big business must stop hiding behind the idea that their contribution to change is in the realm of industrial relations. Although unions are an important poltical force they will not solve problems in the industrial sphere but in the political sphere, and the same applies to capital," he said.

Mr Bob Tucker, managing director of the South African Permanent Building Society, said the economy took the form of paternalistic capitalism.

"It is a classic developing economy with a narrowly based First World component living cheek by jowl with a broadly based, low level subsistence economy which is aggravated by racial discrimination.

"Members of the subsistence sector are denied the opportunity to become full participants with any real sense of ownership. As long as this paternalistic and dualistic system is maintained, the majority will get nowhere close to achieving their true potential in the economy."

He said underperformance by the majority caused South Africa to become increasingly dependent on exports for any real growth.

"Only by getting closer to the true potential of people can we look to the future viability of this country," he said.

Mr Fuad Cassim of the department of economics at the University of the Witwatersrand said the South African economic crisis stemmed from the pattern of capital accumulation in the 1960's — the "golden age of apartheid".

"Apartheid laid down the institutional foundation for growth with the implementation of legislation such as influx control and the homeland policy.

"Capitalism coupled with apartheid has exhausted the growth process and the problem has been intensified with the adoption of recent neo-conservative policies (privatisation and financial de-regulation).

Mrs Judy Maller of the Labour Economic Research Centre said some trade union movements condemned employee share ownership participation schemes as they were seen as an attempt by management to co-opt workers to their ideology and did not redress fundamental inequalities.

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Sowetan 22/10/87

'Apartheid caused crisis'

By THEMBA MOLEFE

APARTHEID and the "political dormancy" of South Africa's major corporate business contribute to the present economic crisis, delegates at a seminar organised by the Institute of Industrial Relations were told in Johannesburg yesterday.

Speaking at the conference on "The Most Fundamental and Critical Issues Facing Labour and Management in South Africa" were the Congress of South African Trade Unions' education secretary Mr Alec Erwin and Wits University economics lecturer Mr Fuad Cassim.

Mr Erwin said employers should no longer remain politically dormant if they are to shape South Africa's future. He said collective bargains could effect long term relationship between labour and capital but that there were substantial obstacles.

Mr Erwin said the high level of unemployment and retrenchment made collective bargaining difficult.

Mr Cassim pointed out that the exclusion of black participation in the country's economic system, especially during the growth period in the 1960s, contributed to the present economic "decay".

He described the period between 1960 and 1970 as the "cheap labour decade" when migrant labour contributed to the economic growth.

Both Mr Cassim and Mr Erwin felt the advent of collective bargaining contributed to the present period of "hard times" for South Africa's economy.

Mr Erwin observed that the free enterprise system never existed in this country and warned big business of the dangers of a confrontation between unionism and capitalists. He said this should be avoided.

MR FAAD Cassim of the University of the Witwatersrand.

Tax changes on the way, PW tells big business

0645 22/10/87

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The Argus Correspondent

PRETORIA. — President Botha today said the Government was determined to press ahead with reforming and restructuring the tax system.

Tax reform as part of the Government's economic strategy had an important and indispensable part to play in the reform process, he told South Africa's business leaders in opening the fourth State President's economic conference in Pretoria.

Opening the conference, which was otherwise closed to the media, Mr Botha said taxation and the tax system affected practically every inhabitant of the country.

"That is why we have decided to invite the widest representation that space and manageability will allow to this important conference on the report of the Margo Commission," Mr Botha said.

THIRD WORLD

"In our multi-cultural country we also have to consider the interests of the First World component and of the Third World component."

Mr Botha said it was the Government's task to reconcile the divergent reactions to the Margo report as far as possible, so that a tax system could be implemented that would be fair and balanced and so restore and strengthen confidence, and which would best serve the interests of the country and its economy.

Mr Botha said today's discussions could also make a significant contribution towards the implementation of the Government's long-term strategy regarding inflation.

(49) B/Day 23/10/87

'Govt must act on economy'

DAVID FURLONGER

EAST LONDON — Assocom yesterday called for government action on economic stimulation and urbanisation. It also appealed for an investigation into enforcing competition in the fuel retail market.

The annual congress approved a motion calling for less State meddling in industrial relations and an end to racial discrimination in business.

Delegates backed four points: that business deregulation focus on elimination of racially discriminatory laws; that State interference in the collective bargaining process be kept to a minimum; the phasing-out of tertiary education based on racial or ethnic separation; and that government ease the development of business and management skills by applying President's Council (PC) recommendations on the Group Areas Act relating to restrictions of business rights for certain racial groups.

Speakers yesterday cast doubt on the effectiveness of government's urbanisation White Paper.

While welcoming the White Paper's attempts to accommodate the irresistible population shift to urban centres, the congress asked government to support a PC call for a review of the decentralisation programme.

Government is also urged to devolve to local level its authority to plan and determine urban development priorities and allow freedom of movement — including the right to live and work permanently in urban areas — to citizens of the independent homelands.

Delegates questioned whether fuel market restrictions were in line with government attempts to deregulate the economy and encourage competition.

Support was given to a motion calling on the Competition Board to investigate whether retention of a fixed dealer profit margin in the fuel price was contrary to competition policy.

The board was also asked to examine whether rules governing new petrol stations were restrictive and to examine the impact of the Service Station Rationalisation Plan on the establishment of new retail outlets, and the extent to which it interferes with natural market forces.

EAST LONDON — Britain's biggest employer body, the Confederation of British Industry (CBI), remains opposed to sanctions against SA, its president said yesterday.

Sir David Nickson, in a satellite interview with the Assocom congress in East London, said the CBI shared the views expressed by Prime Minister Margaret Thatcher at this month's Commonwealth conference in Canada.

He said: "Our view is not a political one. We are opposed to apartheid and to violence. But we are also opposed to sanctions, which are counter-productive and harm those they are intended to help. We are in the business of wealth creation."

Sir David said this week's international stock market crash had not affected Britain's industrial confidence.

"Industry here is very optimistic and we have fuller order books than we have had for years."

HONG KONG CLOSES

While most major markets are struggling to stay open and handle the vast business flowing from the price collapse, and Frankfurt for one has actually extended trading hours, one Far Eastern market has taken the opposite view.

Hong Kong, shocked by its relatively modest 11% slide on Monday, promptly decided to close for the rest of the week, no doubt hoping that by then there will be some stability. The decision has come in for criticism by brokers, who don't see why they should lose almost a week's brokerage in what should have been big volumes (see earlier story on Hong Kong on page 119).

The only question is how long will the free fall last? Bond yields were turning as the *FM* went to press: US Treasury longs were down to 9,7% but only because of the flight from equities into a "safer" haven. The dollar was recovering. After dropping under DM 1,78 it was back over DM1,80 as the Bundesbank trimmed market interest rates and the Group of Seven reiterated commitment to the Louvre Accord.

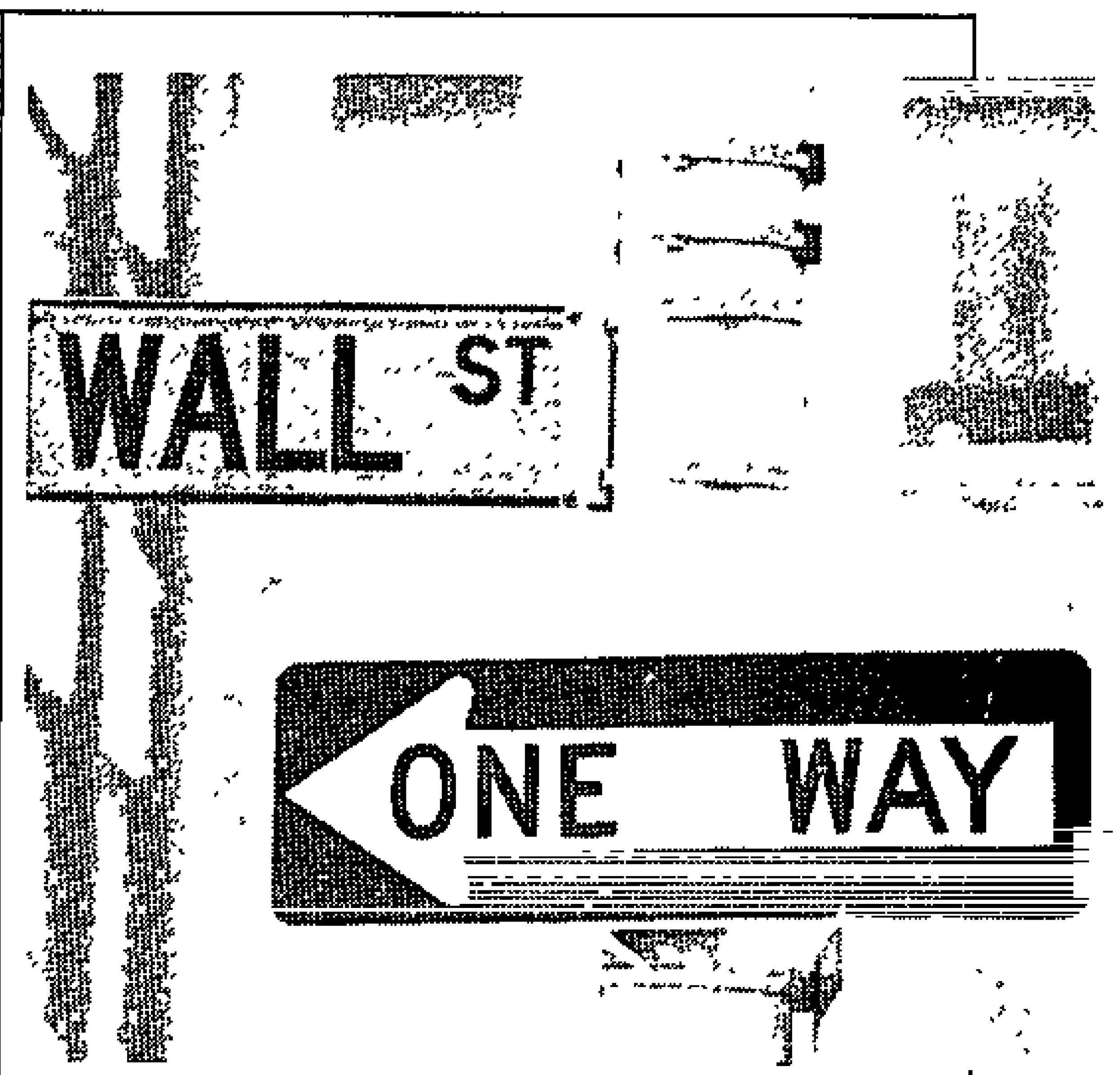
And gold — mining shares were the only light in the Stygian gloom of Monday — was in retreat. At US$471/oz in Hong Kong it was well below the $494 reached in New York. In Europe it later touched $459, but has since climbed back over $460. Some analysts say that a real panic would have driven bullion through $500.

That said, nobody knows what will happen next. Even a 500-point recovery in the Dow Jones will not restore the bull market. And as for real economic effects, the sheer violence of the storm will prove bruising.

Six million prospectuses for Britain's biggest privatisation sell-off, of 2,2 billion British Petroleum shares to raise £7,2 billion, were issued on Tuesday. It promises to be an underwriting catastrophe, priced at £3,30 (then a discount) against the latest market level of £2,74. The future of privatisation programmes in France, Japan and Germany looks equally bleak, as does that of the takeover and new issues boom around the world.

It is superfluous to say the drop has been overdone: 1 000 points off the Dow Jones in less than two months is even more absurd that the 795-point rise between January and the end of August.

After a plunge like this, at least a short-term technical rally is likely. Though there was hardly any trade in US stocks in Europe early Tuesday morning as market makers struggled to find price levels, with spreads of up to $10 (10 times normal), by lunchtime there were signs that bargain-hunters were braving the confusion.



Where it happened . . . echoes of October '29

However, this is likely to be knocked on the head by Wall Street's Tuesday performance.

But the consensus is that US interest rates will basically remain under upward pressure and the dollar weak unless and until the trade deficit turns.

The most phlegmatic comment came from Hans Baer, chairman of Bank Julius Baer in Zurich: "Markets will be unsettled for a while." But the world bull market which started to charge in August 1982 looks unlikely to run again for some time. ■

COMPETITION POLICY

The world according to Stef

Under Stef Naudé, the Competition Board has sought to promote a more open economy. But there are signs that Pretoria's political aims can easily overflow into the regulatory mechanisms. A great deal therefore depends on a sensible choice for Naudé's successor.

Next January 1, Competition Board chairman Stef Naudé completes his term of office. His impact on the economy will continue — he is to become Director-General at Trade and Industry — and the board has just released its proposals for deregulation in five different economic areas (**See *Economy***). That impact, its duration and consequences, needs to be assessed.

Just how has the board operated competition policy during Naudé's term of office? What are the issues to watch for in the future, under a new chairman whose identity has yet to be revealed? First one needs to look at the board's powers.

Section 10 (1) (c) of the enabling legislation — the Maintenance and Promotion of Competition Act, No 69 of 1979 — authorises the board to recommend to the minister of economic affairs and technology the prohibition of *any* particular business practice.

As a consequence of an investigation into collusive practices, begun in 1984, a prohibition was placed on five practices: retail price maintenance, collusion on pricing, collusion on conditions of supply, collusion on market sharing, and collusive tendering. These practices were prohibited by notice in the *Government Gazette* dated May 24 1986. Naudé terms the prohibitions the board's "cost-effective answer" to the over-arching problem of collusion.

And now, on the table, we have the major proposals for deregulation. They are of particular importance for the promotion of black small business, which everyone accepts as a pressing need. Few would quarrel with efforts to promote greater competitiveness in the South African market and to ease entry to the business arena. However, it's on the issue of structure — looming increasingly as the future priority — that competition policy could become a subject of great contention.

Naudé is balanced on the subject. He tells the *FM* that "bigness as such" is not a subject for mistrust. "We accept that you have to live with a measure of economic power concentration," stemming from the size and nature of the South African economy. And we do not start with a clean slate. Furthermore, the importance of export industries is well recognised by the board — look at the major exemptions from restrictions on collusive practices granted to exporters.

Naudé concedes that "the second stage" of the board's investigation, looking at structure, will be "a far more difficult" undertaking than its earlier labours in combating collusion. You can prohibit certain forms of economic behaviour "widely and selectively" — but structure is far more complex.

Naudé says the board is sensitive to the harm that could be done if it adopted an over-simplified approach towards concentrations of economic power. The trend towards disinvestment (which itself led inevitably to a greater measure of concentration) makes it particularly inadvisable to do anything to further damage the fabric of business. And the board has, in the past, permitted "massive acquisitions."

It seems that only the US follows the structural approach with any dedication — and America, Naudé notes, "got into trouble" over "trust-busting" attitudes in the Justice Department, resulting in marathon court hearings. It is now accepted in the US ter. At a time when blue-collar workers and farmers (the Right's main support) have taken a beating economically, the large gains in profitability achieved by export-orientated sectors like mining — and the commensurate gains in assets achieved by long-term insurers — make tempting political targets.

It suits politicians to ignore the fact that percentage increases in profitability are from very low asset bases that have been severely contracted by a serious recession. Simply put, businesses are not as big as they used to be. Inevitably, too, after a recession their ownership must be more concentrated as a natural consequence of austerity and responses to it.

Government policy, moreover, encourages concentration — exchange controls, relatively high taxation and inflation all tend to push business in that direction.

And the desire to control the economy inhibits any professed intention to deregulate.

In view of that, it would not be unreasonable to suspect a political motive behind government's request to the board to investigate concentration in the financial sector. It is equally reasonable to fear that government will be tempted to stir the waters of anti-business sentiment at convenient intervals.

A lot depends therefore on the choice of a successsor to Naudé — and it must be hoped that he will prove to be someone with equivalent credentials and sagacity. If the powers that the board has were to be vested in a megalomaniac — as could so easily happen in this country — it would destroy and not foster a free enterprise society.

Equally, the politicisation of the board is a regrettable but real contingency against which the only remedy can be constant vigilance. ■

GROWTH RATE

Better times ahead

Despite uncertainty about several indicators, economists are a good deal more optimistic about growth prospects than they were only six months ago.

For one thing, it seems the much-discussed political uncertainties are of less importance as certain fundamental improvements in spending and investment patterns emerge.

The bottom line, according to Southern Life economist Mike Daly, is that the economy can move ahead even without problems being solved short-term. "It is irresponsible to argue, as has been done in many quarters, that the economy will not get going until a satisfactory political solution is found," says his latest *Quarterly Report*.

"SA is unlikely to find a solution that will satisfy many people, so there is no option but to press ahead, at least in the medium term, with the environment as given." So it's not all gloom and doom out there. Among his reasons for a brighter picture:

☐ In the first half of 1987, the growth in personal disposable income passed the year-on-year rises in consumer prices, giving consumers a real boost in spending power;
☐ Private consumption expenditure should grow 3% in real terms this year and next;
☐ Rising house prices and increased property turnover indicate people expect rising incomes and are generally more confident;
☐ Consumer debt relative to income has fallen appreciably, easing the cash-flow pinch;
☐ Fixed investment is set to increase 5%-6% next year in response to the upswing in consumer spending;
☐ Real GDP, though it lost steam in the second quarter and will grow only about 2,5% this year, should grow at least that much in 1988;
☐ The "very frightening" p:e ratios on foreign stock markets could scare investors into the gold market, which would be "wonderful news for SA" (he was writing before the world equity slump);
☐ *The Economist's* commodity price index has risen 19% in dollar terms in the past year and 12% in a basket of major currencies, making exports more valuable; and
☐ Net reserves are the best since 1981, reflecting a slowdown in capital outflows.

But there remains some gloom. Daly also expects, for example, that export volumes will fall about 3% this year, reflecting both the effects of sanctions and slack demand in the developed countries. He also believes that unless the rand continues to firm, pressure from imported prices could fuel inflation; while the increase in investment and consumer spending will probably lead to higher inflation and interest rates in 1988.

And Daly agrees that confidence and politics do play a big part in the longer term. He tells the *FM* that the growth he projects should at least give government "breathing room" to seek solutions.

So will it seize the moment?

If SA enjoys some growth — and a higher gold price — will Pretoria take advantage of the calm to tackle long-term political problems? Or will it squander the wealth, circle the wagons, and fail to see that bold steps simply become more difficult as time drags on? One can only hope.

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New Assocom chief predicts 3pc growth

EAST LONDON — The chairman of the Beares retail chain and MD of the holding company Beares Holdings, Mr Alec Rogoff, said yesterday he would have to play a lesser role in his company to pay attention to his new full-time job as Assocom's president.

"I have been preparing for this for some time," he said in an interview. " "I have an excellent management team at Beares and I am confident they will be able to continue the company's development in my partial absence."

Mr Rogoff believes Assocom is on the right track in pressing for economic and social reform. His job as president is to keep up the pressure.

"The main challenge is to bring all sections of the community into the private enterprise system. We must continue to press for privatisation, continued reform, and we will call on the government to accept the President's Council report on opening all business areas to all races.

"We also have to promote the informal sector and try to generate a greater sense of confidence".

Mr Rogoff does not go along with Stellenbosch University Business School Professor Attie de Vries, who told the Assocom congress economic growth next year could hit 4,5 per cent.

by Daily Dispatch Business Editor, MATTHEW MOONIEYA

"We have to stimulate the economy to achieve at least three per cent growth. I think 4,5 per cent is rather optimistic but we won't see any growth if we allow the economy to stagnate."

Mr Rogoff says he will continue the attempts of his predecessor, Mr Harold Groom, to seek closer co-operation between Assocom and other organised business groups -- notably the Federated Chamber of Industries (FCI), Afrikaanse Handelsinstituut (AHI) and the SA Agricultural Union (SAAU).

"I would like to see us working together. If we can reach a stage where business works with a common approach, our representations to government would be stronger."

His first target is the FCI.

"It is the obvious first step. But it is only a question of getting together. It's not a merger. We have a tradition where the presidents of the main employer bodies meet on an informal basis. That must continue, particularly in terms of the relationship between Assocom and the FCI."

Call to boost economy

EAST LONDON -- Assocom yesterday called for government action on economic stimulation.

The annual congress approved a motion calling for less state meddling in industrial relations and an end to racial discrimination in business.

Delegates backed four points: that business deregulation focus on elimination of racially discriminatory laws; that state interference in the collective bargaining process be kept to a minimum; the phasing-out of tertiary education based on racial or ethnic separation; and that government ease the development of business and management skills through application of President's Council recommendations on the Group Areas Act relating to restrictions of business rights for certain racial groups.

Daily Dispatch Correspondent

PW tells businessmen of economic strategy

PRETORIA — The purposeful implementation of the long tern economic strategy, as well as the privatisation and deregulation initiatives, would be a milestone in the country's economic development, President P. W. Botha said here yesterday.

23/10/87 (49) DD

Speaking to 200 of the country's leading industrialists and businessmen, he said this would be done in close co-operation with the private sector.

He said he had gone out of his way to place relationships between government and the private sector on a sound footing and to create a climate of mutual trust and confidence.

Referring to the rection to the Margo report, Mr Botha said it was the governments task to reconcile the divergent points of view before implementing a tax system that would not only be as fair and balanced as possible, but which would serve the interests of the country and its developing economy.

A modern streamlined tax system would contribute significantly to endeavours to achieve the highest possible economic growth rate in the long term, price stability and to maintain equilibrium in the balance of payments.

In the strategy, the need to reduce tax pressure and to abolish aspects of existing tax system which had caused disruptions in the utilisation of resources was mentioned.

The Margo Commission's report consisted not only of changes or adaptations to existing tax system, but of proposals for the complete reform of the tax structure.

However, there were impediments which could have an adverse effect.

One of them was South Africa would have to be a capital outflow country for the foreseeable future, in contrast to times when foreign capital contributed some 20 per cent of net fixed investment.

In spite of favourable conditions of the second interim debt arrangement, the fact that certain types of foreign funds were more readily available at present, and a more positive foreign view of economic and political prospects in South Africa, "our room for movement is still smaller than before the debt standstill," Mr Botha said.

SA economy 'must not stagnate'

EAST LONDON — South Africa was going through difficult times and the economy should not be allowed to stagnate, the new president of Assocom, Mr Alec Rogoff, said in his induction speech in East London yesterday.

His mission for the year would be to strive for greater benefits for all through free enterprise.

"It is going to involve considerable commitment to training people and it is also going to involve the removal of restrictions, particularly the Group Areas Act."

He hoped the Government would expedite the legislation recommended by the President's Council to open all commercial and industrial areas.

Mr Rogoff said the informal sector would have to receive greater acceptance. — Sapa.

(49) SMN 23/10/87

Key to socio-political stability

SOUTH Africa would only enjoy real economic stability when its "first and third world" economies were effectively merged, the chief executive of a computer company Mr Jack Horton said this week.

By JOSHUA RABOROKO

In presenting a cheque of R50000 towards the Small Business Development Corporation exhibition centre at Pennyville, Johannesburg, Mr Horton said the informal sector had been lauded as the salvation of Africa. However discipline was necessary, he said.

He said: "We are pleased and proud to be associated with a project as important as this. The SBDC is to be congratulated on its sophisticated approach to the small business sector.

The Pennyville Centre existing property has been divided into units from which small businessmen have access to a pool of equipment.

Mr Horton said although the SBDC had done much towards small business development, big business could still play a vital role in assisting the small business.

Education

Employment and education were the keys to socio-political stability, and the SBDC with its ability to cut through red tape, had created employment opportunities for thousands of South Africans.

The entrepreneur, in particular small businessman, is vital in the fight against unemployment. His contribution to socio-political stability cannot be underestimated," he said.

Mr Horton added: "Large industry has in recent years created very few jobs and some sectors have shown a significant decrease in numbers employed."

Cape Times

WCTA aims for 'new morality'

By CHRIS BATEMAN

TODAY'S challenge for black traders was whether to resist succumbing to an unfair system and join in a "spree of super-profits" or to make major sacrifices by participating in the struggle for a new morality.

This was said by Mr Dullah Omar, a United Democratic Front chairman, who delivered the keynote address at the congress of the Western Cape Traders' Association last night.

He said that in a country in which 80% of the Johannesburg Stock Exchange was owned by five major companies and all sectors were dominated by huge monopolies as millions starved, the dominant value propagated was selfishness.

"That's why the WCTA's contribution is so important. We are not only trying to improve the material contributions of people but to promote a new morality," he said.

Unfortunately people were faced with a regime which was determined to maintain a system based on super-profits and black traders were encouraged to "take the coward's way out by joining this spree of super-profits".

Speaking on the state of emergency, he said one of the main reasons for its imposition was not a breakdown in law and order but that the liberation movement had been making rapid strides.

In 1983 the government produced a new constitution which resulted in "that fraud — the Tricameral Parliament".

In 1984 people had boycotted this Parliament "out of existence" — creating a political crisis in which the liberation movement had scored victory after victory.

In spite of the Bantu Education Act in 1954 launching a "gigantic attack on the minds of our youth" to accept the status quo, the "revolts" of 1976, 1985 and 1986 had turned the situation completely around.

Cape Times 29/10/87

THE ECONOMY

Riding the storm

49

It may have taken a few days for the Johannesburg Stock Exchange (JSE) to respond to the plunge in world equity markets last week, but its time came sure enough.

After rising to a record 2 804 on October 19, the overall index plunged a record 19% in four days to 2 261 last week. Monday it closed at 2 122 with some analysts expecting it to fall a further 20%.

Before the mayhem, economists were increasingly optimistic about growth prospects (see page 41). Will they now review their opinions, or are enough positive factors developing to ensure continuing improvement?

It depends, of course, on one's view as to the reasons behind the falls on the JSE and, as one economist comments, on the nature of its relationship with the "real economy."

Says another: "We really don't know what strings are being pulled. But comparisons with 1969 are premature. To begin with, the stock values of most listed companies today are backed by substantial assets. This was not the case in 1969."

It is also worth noting that though the JSE fell in line with overseas markets in 1969 — the US in particular — it was another 18 months before the South African economy went into recession. "Yet now we have only ꞉egun a modest, hesitant upswing."

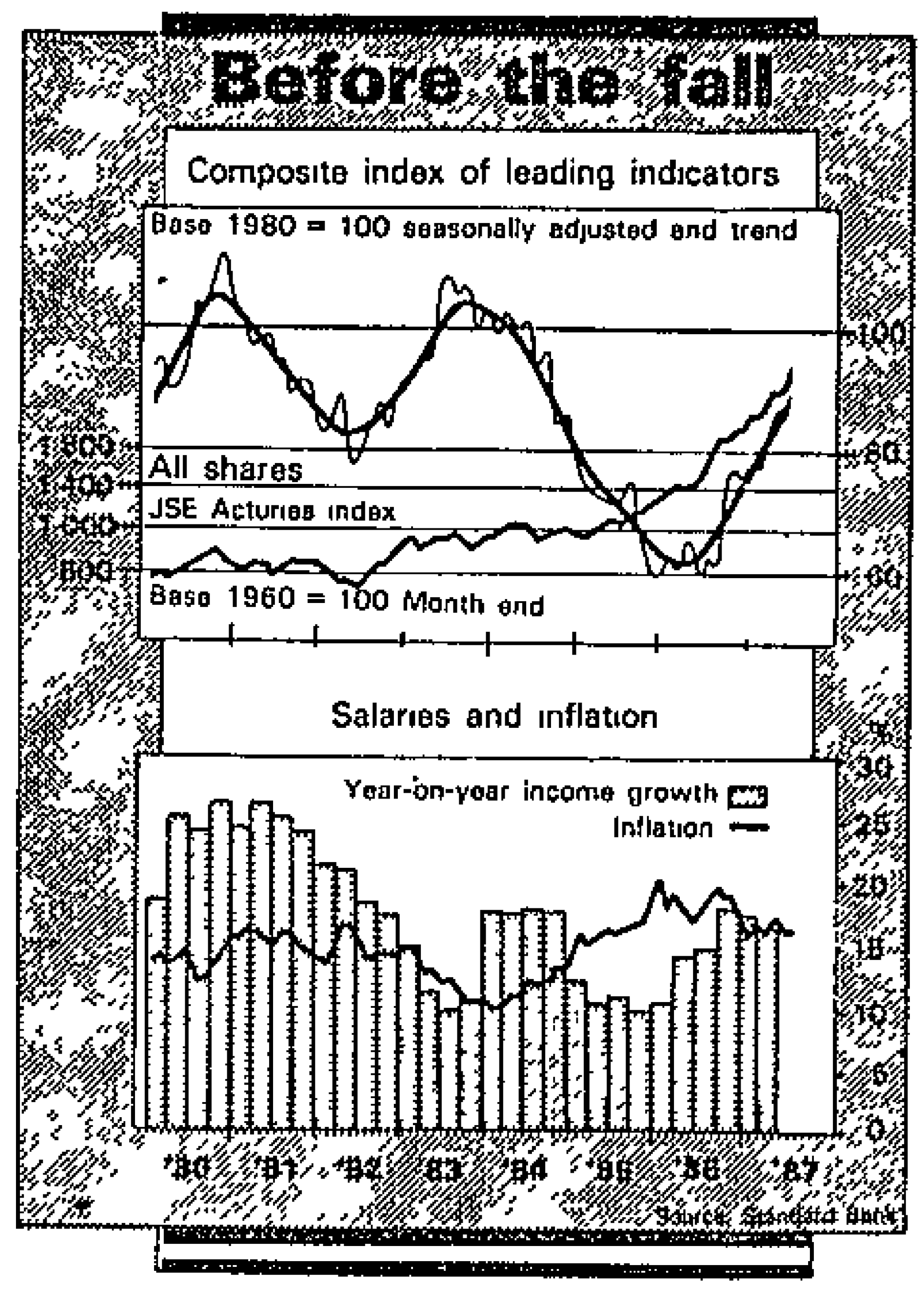
From the beginning of 1985, when the JSE index launched into a rapid growth phase, he notes: "The wealth creation of a rising stock market was not translated into consumer spending." Thus, one would conversely not expect falls on the JSE to be translated into lower spending.

Besides, as Rudolf Gouws, group economist at Rand Merchant Bank, notes: "What increase in spending there has been has not been based on consumer credit." This makes the consumer-led recovery more sustainable, fragile though it may be.

In his view the JSE was over-valued, and "took its lead from the fall in overseas markets. Barring a massive and consistent fall overseas, however, I don't foresee any further substantial falls on domestic markets.

"What has changed is sentiment," he adds. "The prospect of slower growth overseas will affect our exports. In turn this means that a balance of payments constraint will emerge sooner than later."

Meanwhile, faster growth for 1988 still seems possible. As David Mohr, Old Mutual economist, says: "Before the falls on the JSE I would have said my 3% growth forecast for 1988 might be on the low side. Now, I think 3% is at least sustainable, barring a major decline in the gold price, the introduction of effective sanctions, or a rapid deterioration on the home front.



"I would change my views on the long-term position, but not for the short term" — that is, the next 18 months.

The consumer is in a much stronger position than during 1984-1985. Inflation is coming down and real salaries are going up (see first graph). Mohr says the gold price holding up "is neutralising the JSE fall.

"We won't go with the world into a downswing next year. But I see longer-term problems." Through its reliance on exports, SA is highly sensitive to world economies, so a major constraint looms for 1989.

"If we get 3% growth next year we will get a jump in imports. Then in 1989, we probably won't get any growth in exports. And it would be very dicey to expect gold to go on rising. Indeed, the fall in world stock markets can't be good for gold in the long run."

Other constraints include the scheduled debt repayment, agreed to 1990; high taxation; and lack of skilled labour.

It is early days yet. As one economist says: "The uncertainties are now extraordinary." He mentions the international debt problem as well as the prospect of a world recession, largely on the back of US problems.

But SA looks better than many other countries. The capital account is in a good position; as one analyst reported in a weekend paper, the US banks did SA a favour when they pulled the plug. Thanks to them we are now underborrowed and relatively immune to international sell-offs.

Nor is SA without promising economic indicators. Fixed investment is at last increasing, with a number of capital project commitments in the pipeline. Capacity utilisation is improving; the numbers of job advertisements are rising; while salaries are generally catching up with, and in some cases overtaking, inflation. With house prices moving up, property developers are much more confident.

There is plenty of liquidity in the system; so, in the words of Reserve Bank Governor Gerhard de Kock, the economy is still well placed for a stronger upswing.

True, the recovery is fragile, and JSE falls may knock confidence. Matters are finely balanced. It may be fortunate that confidence improved before the market mayhem, establishing a momentum that even further JSE falls may not entirely dispel.

Of course, this assumes gold remains fairly stable. Mohr says if the metal were to fall, say, 20%, the situation would change drastically. He would then expect the authorities to stimulate the economy further, even if this meant higher inflation.

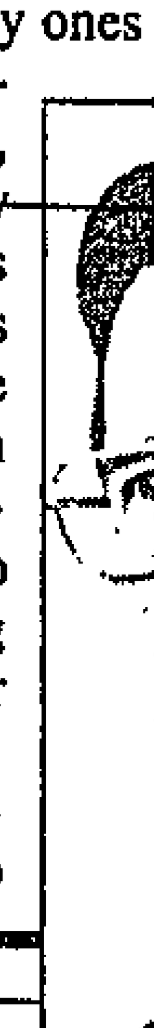
But SA is beginning to enjoy improved confidence both at home and abroad. Provided gold holds its price, the economy is well positioned to ride the storm. ■

LIEBENBERG FOR FI

Banking in SA has undergone som
cal changes in the past few year
Piet Liebenberg has been in the t
it, first as chief executive of Fina
and subsequently as MD of Nedt

But banks are not the only ones through change. South African corporations, in general, have come through a fairly traumatic year. The business climate has not been as buoyant as it might have been. And, with inflation running well into double digits, companies have had to contend with the increasing clamour from employees for a "living wage."

How business has adjusted to change and managed to



ECONOMIC PROSPECTS

Rosy predictions

In the waning days of 1987, expect no shortage of opinions on where the economy is heading in 1988. Among the latest predictions — and a generally rosy one — is Stellenbosch University's Bureau for Economic Research (BER).

BER foresees dampening inflation, higher commodities prices, increased investment spending, a stable dollar-rand exchange rate, and rising GDP.

"There can be little doubt that the economy has already entered a (cyclical) expansionary phase. The main factor which was damping growth — lack of confidence — appears to be subsiding and this could set the stage for fairly rapid growth during 1988."

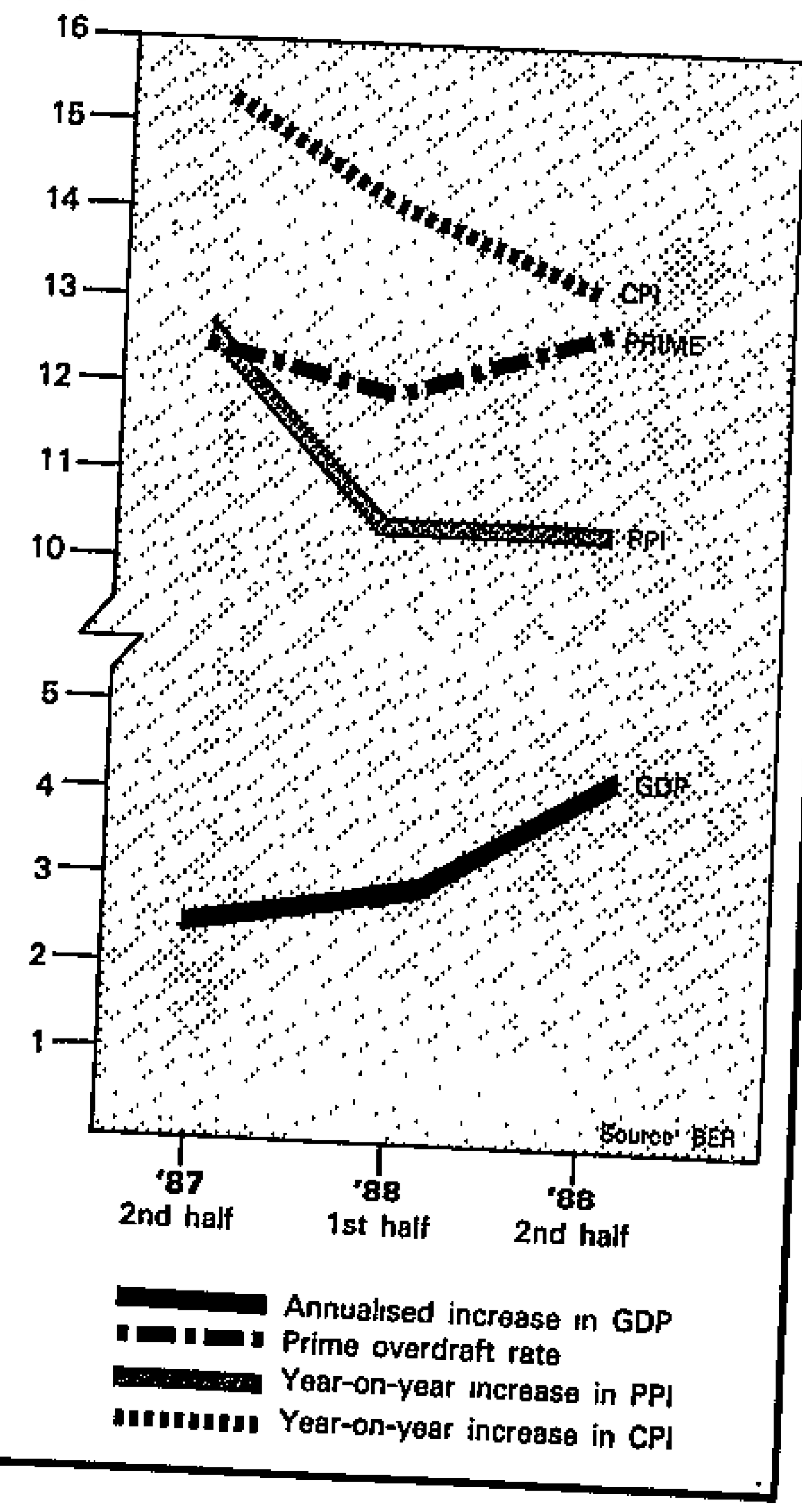
The bureau predicts GDP will grow by 2,6% this year and 3,6% next. And it believes a decline in the dollar plus a resurgence in US inflation will boost the gold price 6,6% and commodities prices 9,4% next year.

Specifically, it forecasts that, in the first and, second halves of 1988:

- ☐ The rand average will peak at US49,7c in the first half, then ease to 48c in the second;
- ☐ The consumer price index will show year-on-year increases of 14,2% and 13,2%;
- ☐ Producer prices will show year-on-year increases of 10,4% in both halves;
- ☐ The prime overdraft rate will average 12% and then rise to 12,75%;
- ☐ The long-term Eskom rate will average 14,7% and 14,9%;
- ☐ Salaries will run ahead of inflation, giving year-on-year increases in real disposable income of 3,7%, rising to 4,2%;
- ☐ The balance on current account will run down from R4,7 billion to R3,6 billion at seasonally adjusted annual rates; and
- ☐ Spending on fixed investment, led by the private sector, will grow at annualised rates of 5,7% and then 7,3%.

Old Mutual has also looked into its crystal ball and seen some good things. In its latest *Economic Monitor* chief economist Dave Mohr predicts growth will pick up enough

BER predicts



during the second half of 1987 to boost GDP nearly 3%. He expects at least another 3% increase in 1988 — barring a major decline in the gold price, effective sanctions, or a rapid deterioration on the home front.

Among the factors boosting growth, according to Mohr: increased disposable incomes; moderated import costs; a rise in private-sector fixed investment; the restocking of inventories; and improved foreign and domestic confidence.

"We do not feel that the recovery has been derailed despite the weaker batch of statistics during the second quarter. On the contrary, underlying conditions favouring a further acceleration in growth have improved."

Old Mutual, however, warns of trouble on the horizon, "Major growth restraints . . . include the commitment to repay foreign debt, the high inflation rate, the shortage of skilled labour, a heavy tax burden and a hostile international environment."

Mohr believes inflation will bottom in 1988 and cautions that the recent slowdown in consumer prices does not signal a structural move to lower inflation. He blames wage increases without a commensurate rise in productivity; the steep decline in the rand in the past few years, which has reduced competition from imports; and a government that won't curb inflationary policies. ■

Government misused gold revenue, says Wassenaar

W/E ARGUS 31/10/87 (49)

By FRANS ESTERHUYSE, Political Staff

DR Andreas Wassenaar, long-time critic of Government financial policy, is now investigating what he calls the Government's misuse of South Africa's revenue from gold.

The former head of Sanlam said in an interview this week he believed South Africa would have been in a much stronger position today to withstand economic crises in a troubled world if gold revenue had been put to better use.

It had been a big mistake to use revenue from gold to defray current expenditure and lately for paying off foreign debts.

Instead, this vital multibillion rand pillar of South Africa's economy should have been used to provide greater economic security over the years by setting it aside exclusively for capital development.

Dr Wassenaar said he was still studying this issue and would do more research on it with a view to possibly writing a book on the subject.

Recently he caused a stir with the publication of his book *En Route to Fairyland — the Fantasy World of the Government Pension Fund.*

The book told the story of his own probe into the fund and made the shock disclosure that over-generous handouts to public servants would give State employees what amounted to a staggering R30-billion free gift from taxpayers over the next 20 years. Dr Wassenaar called for a judicial inquiry and full disclosure of the affairs of the fund.

This week Dr Wassenaar warned that Government financial mismanagement made it more difficult for South Africa to withstand economic upheavals such as the share market crash and rampant inflation.

Spending cuts

Steps he recommends for greater economic security include:

- A new approach to the use of State revenue from gold;
- Drastic cuts in Government expenditure; and
- A permanent reduction in the inflation rate.

South Africa's economy was not as strong as some people believed it to be. The country was financially vulnerable — but for gold — as it was unable to obtain capital in any significant measure from anywhere in the world and had to rely on its own resources.

However, one ray of light was a possible rise in the price of gold, which could happen if there was a further decline of the US dollar.

He said that although the inflation rate had come down recently, it was still very high and South Africa remained "on the brink of becoming a banana republic like some South American countries".

A fairly drastic reduction in public spending was an essential condition for a permanent reduction in the rate of inflation.

Best policy is to 'muddle through'

SA's problems 'not unique'

Sow-Times 30/10/87

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By AUDREY D'ANGELO
Financial Editor

SOUTH AFRICA's problems are not unique and the best policy it can adopt at present is to "muddle through", Wolfgang Thomas, former economics professor at the University of the Western Cape and now regional deputy head of the Small Business Development Corporation, said yesterday.

Speaking at the Jubilee Congress of the Institute of Administration and Commerce (IAC), Thomas said it was a mistake to think there could be no improvement until "the big solution" was found.

And he thought it wrong to compare this country's economy and inflation rate with those of developed Western countries.

"When we compare ourselves with the US or Britain we seem to be doing very badly."

If the comparison were made, instead, with similar countries such as Mexico or Yugoslavia "we seem to be doing rather well".

Semi-developed

Thomas said he saw SA as "a semi-developed African country, rich but not terribly rich," with a heterogeneous population, a volatile socio-political climate and facing hostile world opinion.

There were plenty of other countries with racial problems and volatile socio-political climates to which world opinion was also hostile.

And when he compared this country's statistics with others in "the middle-income group" such as Mexico, Algeria, Korea and Yugoslavia he was struck by the similarities.

"We are muddling through. Let's be encouraged by the fact that we are able to do so."

This applied to the economic system as well as other matters. Organized business and commerce wanted a free enterprise system, and large numbers of people in SA wanted a socialist system.

It was possible that, by continuing to muddle through, it might never be necessary to choose one or the other.

Nationalization

The Third World was now moving away from centralized nationalization. And in Vietnam a mixed economy was being introduced, with foreign investment invited.

With strongly held and conflicting feelings about the Group Areas Act, muddling through was probably the most suitable policy about this, too, for the time being.

There were things happening, but nothing was definite yet. "We must muddle through because we are in a muddling through stage."

The urban population growth seen as unique at Khayelitsha had happened before at Vrygrond and had happened with whites many years ago. The strategy for urban and agricultural development would have to be a series of compromises.

It was possible that the increase in the urban population was already beginning to level off.

The unemployment problem might also not be as serious as the statistics implied. Although there was unemployment, which should not be minimized, figures suggesting that 6m people out of a total workforce of 13m were without income were clearly nonsense and could not be taking the informal sector into account.

Thomas emphasized the importance of taking opportunities to expand the informal sector. Families, for instance, could provide bed and breakfast to visitors who did not want to stay in hotels.

FM 6/11/87

ECONOMIC STATISTICS

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Note the notes

The economy may be healthier than is generally acknowledged by statistical data, says University of Cape Town economics professor Brian Kantor. He told delegates to the Institute of Administration & Commerce congress in Cape Town last week that there is "strong reason" to believe total spending is seriously underestimated.

"The economy is changing structure. More and more of the population is becoming urbanised and it would appear as if more of their activities are not being recorded in the national income statistics. Urbanisation and deregulation can have a dramatically important effect and it would appear as if we are failing to record their importance."

Kantor offers "two important bits of evidence" to support his contention:

☐ An increasingly distorted picture of actual expenditure due to the methods used by statisticians; and

☐ A significant increase in bank notes in issue, which doesn't tally with statistics on spending.

He says SA's national income accountants believe their estimates of output and income are superior to their estimates of expenditure. In Britain they believe the opposite, and rely more on surveys of expenditure.

The British view is that people, especially the self-employed, are far more likely to underestimate income for tax purposes than expenditure. So expenditure estimates always exceed output and income measures, which are adjusted upwards accordingly.

In SA, if expenditure estimates exceed those of output, expenditure is reduced. In the past this would not have mattered because the positive and negative adjustments to expenditure balanced out. However, says Kantor, since the second quarter of 1985 expenditure has been reduced by substantial amounts to bring it in line with output.

"Either there is something wrong with the sample surveys, or the economy will soon 'benefit' from a succession of upward adjustments to measured expenditure. My intuition is that the numbers are not telling the full story, partly because the sample surveys are not in touch with the new realities, and because expenditure measures are intrinsically more reliable than output or income."

With the availability of credit cards, automatic banking facilities and interest on deposit accounts, South Africans should be using relatively fewer notes to transact business, but the opposite is true.

"The notes issue has been growing much faster than other media of exchange. Where are the notes going, you may ask. The answer is obvious: to support unrecorded activities. In fact, notes in issue do very well in explaining the level of expenditure.

"In the past there has been a tight relationship between growth in notes and in spending. Recently, spending growth has lagged the spending that would be expected by the value of notes in issue.

"If the past relationship between notes and expenditure were taken as the proper measure of expenditure, spending would have been significantly higher over the past 10 quarters. The economy would still have suffered a recession, but the statistics so calculated would have made a lot more sense, especially to those actively engaged in the township economy," Kantor says. ■

BUSINESS CONFIDENCE HITS 100

Bank and insurance economists have been issuing a flurry of reports predicting an upswing in 1988. Their somewhat bullish sentiment is supported by Assocom's Business Confidence Index (BCI), which continues to rebound.

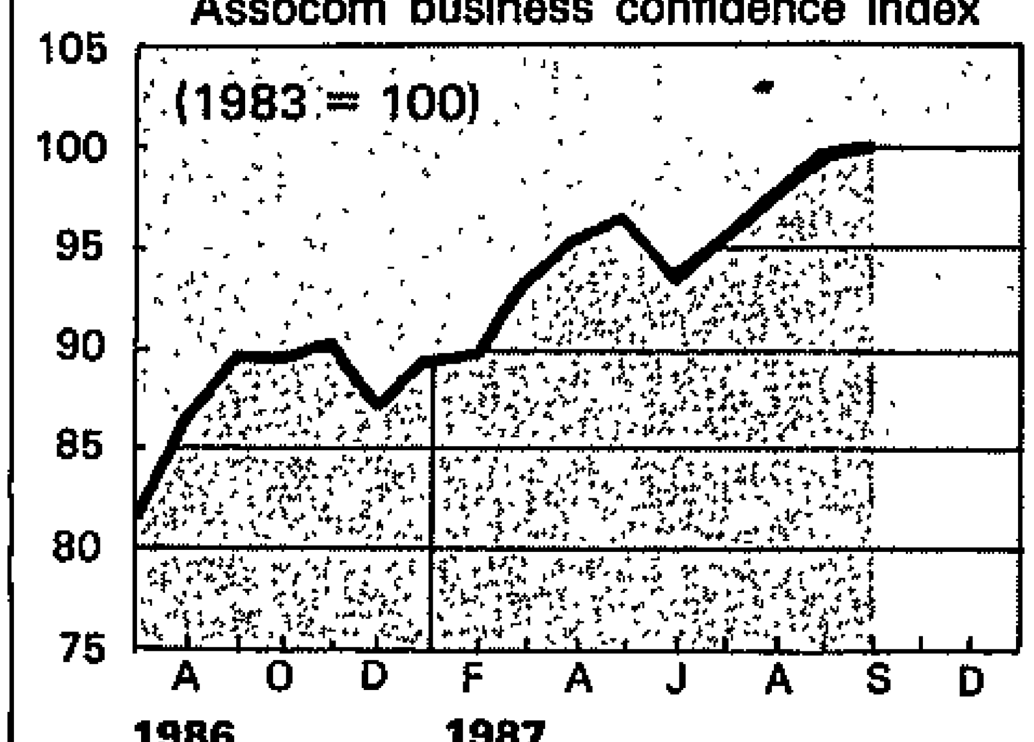
Despite the turmoil on Diagonal Street, BCI last month edged up 0,2 points to 100 — the 1983 base and far above its April 1985 low of 76,1.

The October increase was smaller than the jumps of recent months, however, something Assocom attributes to the sharp falls of the JSE.

Assocom says it's too soon to tell what effect world stock market crashes will have on SA. But it believes the economy is generally strong and predicts the BCI — which measures 13 economic indicators — will keep moving up.

Creeping up

Assocom business confidence index



Source: Assocom

In fact, it says the economy should grow at a faster rate in 1988 than this year's expected 2,5%: "The domestic economic fundamentals remain sound."

Boosting BCI last month were:

- ☐ A rise in car sales;
- ☐ A slowdown in the rate of inflation;
- ☐ An increase in the dollar price of gold;
- ☐ A drop in registered unemployment;
- ☐ Fewer insolvencies of individuals and parternships; and
- ☐ Less net emigration.

On the downside, in addition to the big drop in the JSE all-shares index, were a decrease in expected real retail sales; a slowdown in the registration of new companies; and a decline in imports.

BCI — which averaged 79,1 in 1985, its first year, and 84,3 in 1986 — has climbed from 87 to 100 this year. Unfortunately, 100 isn't a perfect score.

Assocom chose 1983 as base, because that was an average year of neither spectacular growth nor spectacular troubles. Now that the index has returned to 100 we're reminded that, by some measures at least, the economy has been able to overcome the shocks of the debt crisis, the rand collapse, disinvestment, unrest, lack of confidence, government meddling and international obloquy.

But getting back where you were in 1983 isn't great. Things will have to go much better in the next four years if SA is to meet the aspirations of blacks and quell the fears of whites.

MIXED PROSPECTS

Ask Stellenbosch economist Attie de Vries about 1988, and he's optimistic. He still figures the economy will grow by 4%-4,5% on a wave of confidence, investment and consumer spending.

But ask about 1989 and beyond, and he changes tune: "I'm fairly negative about long-term growth. There is no reason to be optimistic given current political and economic structures."

Yet long-term growth is essential. GDP must grow by 2,3% a year just to keep pace with population growth, he told a Boland Bank economics seminar last week. Plus, there are inequalities to be tackled. For example, the top 10% of the population earns 52% of household incomes, and the bottom half just 7,2%.

Political reform depends on growth, De Vries tells the *FM*. "You can't make the changes that need to be made on a stagnant economy." He is worried that Pretoria will interpret the upswing in 1988 as a sign that it can continue business as usual — a disastrous interpretation.

Instead, as it has become almost a cliché to say, "We need deregulation and privatisation. As long as we don't do that, as long as we don't change attitudes on that, we're in big trouble."

Pretoria must end licensing requirements and red tape that prevent people from employing themselves, De Vries says. And SA must diversify and stop thinking of itself just as a producer of gold and raw materials.

Government attitudes aren't the only things that need changing. De Vries says businessmen must not stall deregulation and privatisation by complaining about too much competition.

Growth in 1988 is probably the peak of the current business cycle, he says. If policies and attitudes don't change, the economy will no doubt slide from that peak. SA can't afford that. Says De Vries: "We need a longer-term outlook."

FM 6/11/87 (49)

Barend: We will beat the market

S Times 8/11/87

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Business Times Reporters

THE Government pledged this weekend that it would protect South Africa's fledgling economic recovery which is threatened by a plunging JSE and other world stock markets.

Finance Minister Barend du Plessis said: "Macro-economic policy will be used responsibly to encourage the recovery."

This suggests that any slowdown in economic activity resulting from the stock-market crash will be countered with lower interest rates, taxes and increased Government spending.

Mr du Plessis said the 40% decline in JSE prices was generally not justified and ascribed it to "psychological factors".

The upturn, won at great sacrifice, would be protected and he appealed to investors to take a long-term view and consider the economic fundamentals.

SA was lucky in that institutional investors preponderated and that relatively few shares were bought with borrowed money.

A JSE dealer said there was "blood all over the floor" on Friday as a bell was rung at the close of trading to signify 100 years of trading.

As many of its members and clients were smarting from huge losses, the JSE held a lavish banquet last night to celebrate its centenary.

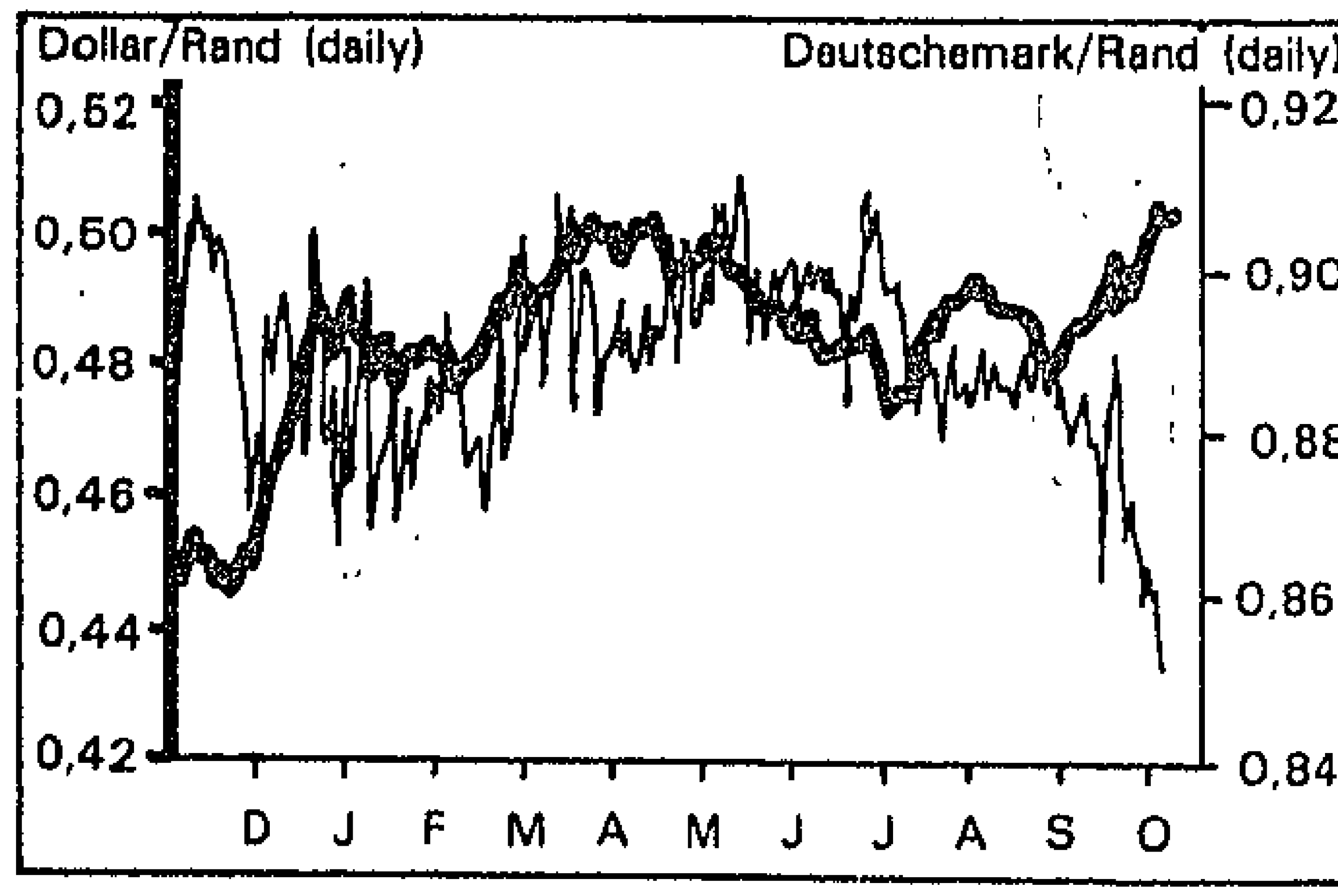
In another development on Friday, Stocks & Stocks postponed its listing, which, after that of Saambou, was scheduled to be the biggest still to be launched. The issue price valued Stocks at R135-million.

"We have not cancelled the whole thing," said managing director Reg Edwards, "We will wait for the market to settle down and think again after the builders' December holiday."

This brings to 14 the number of companies that have postponed listings. Others are Sanchem, Hyprop, Nuplate, Decor, Win Holdings, Frog Electronics, RMB Clothing, Tie Man, Embroitex, Proprop, Umgeni Foods, Seartec and Senmag.

The JSE Actuaries overall index gained 49 points on Friday after another disastrous week. The index closed at 1 721 — down 15,6% on the week and 39% on the all-time high of 2 804 on September 19

Ironically, profits of listed companies continued to soar. Thirty



If you think the rand is looking strong, look at the D-mark

☐ To Page 3

Barend's pledge

□ From Page 1

heavyweight companies reporting to September lifted earnings on average by 57%.

Some newspapers have reported that R100-billion has been wiped off the value of JSE shares. But an analyst said this was sensational claptrap.

"I can sell 500 Barlows shares at the close and pull down the price by 50c. There are 167-million shares in issue. Has my deal really wiped R80-million of value off Barlows?

"Is it really true that Altron has lost R833-million in value because a handful of shares has traded and the price has halved?

"In both cases, the assets are still there and profit prospects are unchanged. To look at market capitalisations like that is irresponsible and calculated to inspire panic."

Brian Kantor, professor of economics at the University of Cape Town said: "This is a major financial collapse and there is a real danger it will spill over into the real economy. Monetary and fiscal authorities worldwide are doing all they can to stop a financial implosion now that banks' assets are not as sound as they were.

Depressed

"Depressed sentiment worldwide has brought recession closer. We need anti-recessionary responses. It would be wrong for the Americans to raise taxes to overcome the Budget deficit. The trade deficit is more important than the budget deficit. The trade deficit will be corrected by more inhibited consumption and investment in the US.

"Like everyone else, I thought gold would benefit from the fall of the dollar, but markets see recession, not inflation, ahead."

Roy McAlpine, head of investments at Liberty Life said: "If the market has fallen by 40%, I suppose the consolation is that it can fall only 60% more. Blue chips offer exceptional value and institutions are standing behind them as wicket-keepers. There is recovery potential, but not among the rats and mice.

Impact

Basil Hersov, chairman of Anglovaal, said: "There is no way of forecasting where the crash will lead, or to assess its impact on our company."

Raymond Parsons, executive director Assocom: "Although SA's economy is in a relatively better position than many other countries to escape the collapse on stock exchanges, it would be realistic to accept that the growth scenario for 1988 has changed.

"Low interest rates, a low rand and ample liquidity will act as a shock absorber for the economy. But we cannot escape the effect of any setback in the world economy.

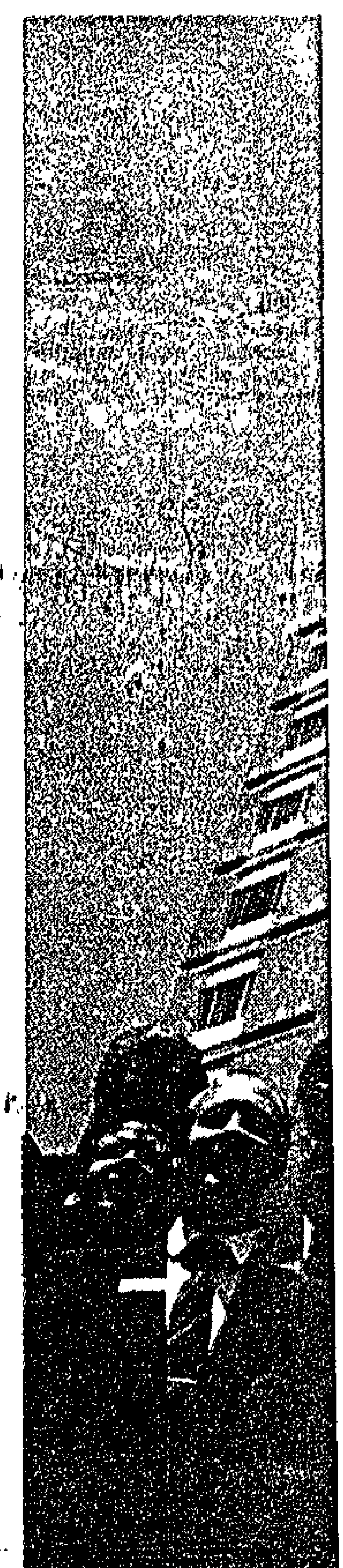
"If a serious recession does develop in the US, it could boomerang on SA's key commodity exports and affect economic growth next year.

"Much will depend on how the gold price performs in the next few months which is still above the current average price for 1987."

Pierre Steyn, managing director of Sanlam, said the fall would have a detrimental effect on consumer confidence and, possibly, business confidence.

"However, given that direct shareholders represent a small percentage of the total population the effect on total expenditure will be marginal

"The detrimental effect will be limited mainly to the durable and semi-luxury goods, such as furniture, motor vehicles and boats. Expenditure on food and clothing will hardly be affected."



(49) SAN 9/11/87

SAIRR's economic update reports:

Govt spending on black services still increasing

By Martin Challenor

The Government has continued to significantly increase its direct spending on black facilities and services, despite an intention in many areas to phase this out, the South African Institute of Race Relations' social and economic update for the third quarter has reported.

"An indication of this was the preliminary spending estimates by regional services councils, some of which were firmly committed to devoting most of their resources to township upgrading.

The Government was also subsidising the mortgage repayment of coloured homeowners, while subsidies for black passenger transport continued to rise.

"Even its spending on health, where a shortage of funds had prompted a decline in standards, has increased by a higher percentage than the inflation rate.

"There is also growing evidence that announced Government allocations for township upgrading reflect only a portion of total spending.

"Money for this purpose is being provided by provincial grants, loans to black local authorities and by the Development Bank of Southern Africa, which now finances projects in urban areas, such as the East Rand.

"The full cost of upgrading by the security system's joint management centres is also unclear. One estimate is that the Government will spend R200-m this year on Soweto alone."

Levies may have to increase

The key question, the update said, was whether this spending could generate sufficient momentum to sustain development.

"The Government will be unable to sustain the burden indefinitely without cutting into white spending. Its strategy is based on the belief that present spending will generate self-sustaining development and that the need for its contribution will steadily decrease. Evidence in the past quarter suggests this may not occur."

The update argued that RSCs were unlikely to significantly dent townships' various backlogs with their present resources. Funding levies may have to increase fivefold "to make their intended impact on township conditions".

The inherited backlogs created by decades of apartheid may be so great that substantial government spending will be needed to reduce them.

"The prospects for self-sustaining development which could significantly dent racial backlogs seem limited and high levels of government spending may still be needed if even modest progress is to be made in reducing them."

Highlights of the quarter were:

- Escom's plan which may allow electricity to be extended to black townships.
- Some RSC budgets allocated the bulk of their spending to township infrastructure.
- The President's Council report on the Group Areas Act recommended racial restrictions on the development of new areas be dropped.
- Some 11 000 ha of land was set aside for black housing — double the amount released in the previous quarter.
- A Department of Education and Training committee recommended improvements to the black rural schools system.

Education disparities highlighted in report

Education Reporter

Vast disparities remain in spending on education for the four race groups, as well as in key indicators such as teacher-pupil ratios, teacher qualifications and classrooms, says the S A Institute for Race Relations' latest *Social and Economic Update.*

The education update said it therefore remained doubtful that racial parity in education could be achieved in South Africa in the forseeable future.

It highlighted the following disparities:

- Spending on the primary and secondary education of each child for each race in 1986 was R2 746 for whites, R1 952 for Indians, R1 330 for coloureds and R395 for blacks (including the "independent" homelands).

However, the update noted that the trend to increase goverment resources for black education continued, while there was evidence that spending on white education was being cut back.

Budgeted State spending on the separate racial departments increased by 8,77 percent for whites, 16,1 percent for coloureds, 10,46 percent for Indians and 25 percent for blacks outside the homelands.

SHORTAGE

Further analysis of budgets suggested that priority was being given to the homelands, most of whose education budgets rose higher than the Department of Education and Training (DET).

- Teacher-pupil ratios for each race in 1986, including the homelands, were: 1 to 13 for whites, 1 to 18 for coloureds, 1 to 18 for Indians and 1 to 35 for blacks.

The Department of Education and Training (DET), says if a ratio of 1 to 30 was used as a norm, there was a shortage of 12 079 teachers in its schools — 11 613 in primary and 466 in secondary schools.

By contrast, 590 white teachers were made redundant in 1986 and the first quarter of 1987 and certain white teacher training colleges were earmarked for closure.

The report said that according to a senior Government education policy-maker interviewed, the authorities would not allow black students to attend white colleges despite the shortage of black teacher training facilities. They might allow white colleges which were closed to re-open for blacks only, but only if they were not situated in a white residential area.

- Teacher qualifications: About 56 percent of black teachers in DET schools had neither senior certificate nor matriculation in 1986, compared with 63 percent in 1985, said the report.
- Classroom shortages for each race in 1986, based on a norm of 40 pupils per classroom in primary and 35 in secondary schools, was 38 641 for blacks (including the homelands), 5 400 for coloureds and 587 for Indians.

The black classroom shortage was broken down into 5 384 in DET schools, 23 713 in non-independent homelands and 9 544 in independent homelands.

The report said at least R850 million would be required to eliminate this shortage. Last year, the DET built 435 new classrooms at existing schools and 1 361 at new schools.

The surplus of white classrooms in 1985, when there were 153 637 empty places, was 3 840.

Black business and race curbs

The removal of all restrictions would not ensure that black business would be able to compete with white business, the South African Institute of Race Relations says in its *Social and Economic Update* report.

GREATER MOMENTUM FOR UPSWING PREDICTED

(49)
Ev Post 9/11/87

THE current economic upswing may gather some momentum over the next 18 months, although real economic growth will remain well below its potential of some 4%, according to the United Building Society.

In its latest Economic Monitor, the society says fragile consumer and investor confidence, together with ample surplus production capacity, will continue to depress domestic spending, while adverse international conditions are likely to curtail export performance.

Post Correspondent

The Republic will, therefore, remain heavily dependent on expansionary Government spending to sustain a reasonable growth rate.

The United foresees real GDP rising by some 2,5% over the next 18 months.

Against this background the society feels monetary policy will remain stimulatory during the foreseeable future. As long as the monetary aggregate is growing below the upper target range of 18%, short-term interest rates are likely to sustain their sideways trend. However, during the second half of 1988, the bank rate may start to rise in line with increased output.

The surplus on the current account of the SA balance of payments is expected to taper off gradually over the next 18 months.

Nonetheless, higher gold exports and the relatively slow increase in imports should ensure that the current account surplus will remain substantial.

Consequently, the rand is expected to remain in the $0,48 range for the rest of 1987 although the continuous drain on the capital account and the large inflation differential with trading partners may exert downward pressure on the currency during 1988, pushing it down to around $0,46.

Finally the easier inflationary trend experienced in recent months is likely to come to an end in 1988, mainly due to higher import prices and renewed internal cost push pressures. The United expects inflation to average some 16% in 1987 and 17% in 1988.

A report from London, meanwhile, says the Chancellor of the Exchequer, Mr Nigel Lawson, Britain's top Treasury official, said yesterday he was confident a world recession "will be averted" and that the United States will agree on a package to cut its budget deficit this month.

Cape Times 12/11/87 49

Rise in personal incomes seen

By AUDREY D'ANGELO
Financial Editor

IMPROVEMENTS in real wages and salaries are expected to continue over the next 18 months, with personal disposable incomes rising by 23% in 1988, compared with an inflation rate of 17%, says the United Building Society's chief economist, Hans Falkema.

"Higher income levels will mainly result from successful trade union demands, the improved bargaining power of skilled staff owing to the massive emigration of highly qualified persons, and politically-induced wage increases," he writes in the UBS Economic Monitor.

As a result, he thinks that by the end of this year consumers will have spent 13% more on durable goods than they did in 1986. And he expects spending on such goods to rise by a further 10% in 1988.

But he expects high unemployment to continue throughout the year.

"Although the government will continue its special training and job creation programmes during the foreseeable future, we do not foresee this will have any material impact on South Africa's job situation over the next 18 months."

He thinks the country will "remain burdened by several structural employment problems".

These include high population growth, large numbers of illegal job seekers from neighbouring states, accelerating black urbanization, disruptions in the black educational system and emigration of skilled staff, which will make it harder for firms to expand.

"As long as the money supply (M3) is growing well below the top range of the money supply target of 18%, no increase in short-term interest rates must be expected, which to us seems unlikely until the second quarter of 1988.

"At that point in time credit demand may start to rise more meaningfully, supported by factors such as reduced grey market activity — and thus a lower income velocity of money — and a declining surplus on the current account.

"Real economic growth will remain the primary determinant of monetary policy over the forecast period.

"Working on an average economic growth rate of some 2,5% for the next 12 months, we foresee the bank rate rising by only some 2% to 3% to about 12% during 1988, leaving it at roughly minus 6% in real terms."

"Underlying our forecast is the expected acceleration in inflation, the possibility of higher funding requirements by the government sector in the 1988-89 fiscal year" and the pick-up in short term rates expected later in the year.

SA growth rate 1,5%

13/11/87

HELENA PATTEN

THE economy grew at an annualised rate of 1,5% in the third quarter of this year, Reserve Bank governor Gerhard de Kock said yesterday.

Speaking at the Financial Mail's annual conference, he said this as yet unpublished figure was a disappointing one, following revised annual rates of 2% in the first quarter and 1% in the second quarter.

He attributed the sluggish progress in the third quarter mostly to marked output declines in agriculture (mainly maize, sugar and citrus) and in mining (partly due to the labour strike during August).

● DE KOCK

In contrast, "in the non-primary sectors of the economy, real output growth reached the relatively high annualised rate of around 6% in the third quarter. In addition, during the first three quarters as a whole, total real gross domestic product was some 2,75% higher than in the first three quarters of 1986."

He said GDP was currently expected to grow at a rate of more than 2% in 1987 and rise further to around 2,5% in 1988. "Given the expected weakness in world economic conditions, this would be quite a reasonable achievement."

However, he said he still believed it should be possible to raise growth to 3% or more in 1988. "This would cause many other things to fall into place. It would, for example, not only generate additional savings but also more tax revenue, thereby enabling the Treasury to reduce certain tax rates."

De Kock said SA was fortunately in a better position to weather "post-crash" storms than most other countries. "Whereas many other countries now face some combination of lower growth and higher inflaion, SA has it within its grasp to achieve both a higher growth rate and lower inflation in 1988."

● See Page 4

He said the fact that the SA economy was forced to adjust to a unique combination of adverse economic and political developments after 1981 and again from 1984 onwards, had placed it in a relatively favourable position to cope wih possible adverse developments in the world economy.

On the subject of inflation, he said "unless an unexpected new politically induced capital outflow brings about another marked depreciation of the rand, it should be possible to reduce the rate of inflation to below 15% in 1988".

Ambitious privatisation phenomenon for France

PARIS — An ambitious privatisation programme has converted share-ownership into a mass phenonémon in France, making it the second-largest nation of small shareholders after the United States, a report published yesterday said.

Some 9,5-million French people — or one in six — now hold stocks or bonds, triple the number a year ago, according to estimates published by the Bourse advisory committee (COB).

The United States, with 47-million shareholders or one American out of five, heads the list. Estimates put the number of Japanese shareholders at around 8,5-million, with Britain possibly as high as nine million, although some studies have suggested a lower figure.

The French, who have traditionally shown little interest in stock trading in the past, flooded to the Bourse to take advantage of bargain issue prices when the conservative government's privatisation programme began last year.

Finance Minister Edouard Balladur said last month between five and six million people had bought shares since the programme was launched.

Prime Minister Jacques Chirac's government plans to sell to the private sector some 65 groups and insurance companies by 1992. About a third of the programme has been completed, bringing 62,5-billion francs (11-billion dollars) into the state coffers.

But the recent slump in stock markets has forced the government to rethink its privatisation strategy.

Mr Balladur said on November 10 that the planned sale of insurance group Union des Assurances de Paris (UAP), originally scheduled for next month, would not start before early next year. Mr Balladur had previously announced that the sale of the state's 51 per cent stake in defence electronics group Matra, planned for late October, would be indefinitely postponed.

A COB spokesman said the report was based on July data, well before the Bourse turmoil, but analysts said that most small investors had hung on to their holdings and that the number of small shareholders had remained basically stable despite the slump. — Sapa-RNS

FOCUS ON GROUP AREAS

THE STATE'S HOUSING MONEY GOES TO THOSE WHO DON'T NEED IT

Thousands are homeless, but the government spends on reshuffling those who have homes already. A new study calculates the costs of the group areas policy. JO-ANN BEKKER reports

MORE than three quarters of the state's housing money for Indians and coloureds is spent on people who already have homes.

In the past 15 years, more than 76 percent of state spending on Indian and coloured housing went on families who contravened the Group Areas ban on mixed residential areas.

And, in terms of the Act, the state relocated 126 000 families — about 630 000 people — and 2 771 traders between 1950 and 1984.

These are some of the indications of the cost of the group areas policy, revealed in a recently released research paper written by a South African Institute for Race Relations researcher, Claire Pickard-Cambridge.

Government ministers have told parliament "information was not available" as to the total cost of implementing group areas.

But Pickard-Cambridge said between 1960 and 1975 alone, R200-million of the R261-million state expenditure on coloured and Indian housing went on rehousing "residentially disqualified" families.

By the end of 1975 the direct cost to the taxpayer of moving 1 277 traders had amounted to R24,4-million.

In Johannesburg, 280 Indian traders were moved from the city centre to the outlying Oriental Plaza in the mid-Seventies, at a cost of R16,6-million — about R59 000 per trader.

Pickard-Cambridge said the Act also ensured valuable land in some formerly mixed areas which was allocated to whites, such as Cape Town's District Six, lay unused for years.

"In this massive programme of relocation it was the taxpayer who bore the expense of administration, surveying, land acquisition, demolition, removals, compensation and new construction," she said.

"The Group Areas Act substantially reshaped the country's urban landscape. In its attempt to unscramble racially mixed residential patterns ... it had effected the creation of 918 group areas by December 1985."

She said about 126 000 families had been moved, included 83 691 coloured, 40 067 Indian and 2 418 white families.

From 1 September 1984, the administration of Group Areas Act removals became an "own affair". Own affairs administrators maintain that removals in terms of the Act have been negligible since then.

In recent years, Pickard-Cambridge said, various pressures had forced it into retreat.

"In an attempt to stimulate the economy and to foster a black 'middle class' it has sanctioned the opening of some commercial zones to all races; while it continues to support residential segregation in principle, it has abandoned attempts to enforce the Act by removing black people from white-designated areas and indeed the Act has not been used to move black communities or individuals since 1984."

However, the evictions of black tenants from "grey areas" in recent weeks has continued under other guises — although this is not covered in the SAIRR report — as the evictions of Hillbrow tenants this month have demonstrated.

Described as the "essence of apartheid" by the then prime minister, DF Malan, the Group Areas Act was enacted in 1950, two years after the National Party came to power.

Pickard-Cambridge says the Act was partly a realisation of electoral promises to the white working class to segregate white working class districts, and partly the result of demands for protection against economic competition from Indian traders.

However, she adds, the 1950 legislation was not simply the product of Nationalist ideology but the culmination of repeated attempts by white legislators since the late 19th century to impose segregation more effectively — in response to demands by white interest groups.

On the other hand, the policy of enforcing racially segregated residential and business areas was a major focus of protest throughout the decades. It was a central concern during the African National Congress' defiance campaign in the Fifties; the state-appointed commission into the Soweto 1976 uprising found it had triggered the unrest and the Group Areas Act was singled out as a target for opposition by the United Democratic Front in 1983.

Pickard-Cambridge says the establishment of the tricameral parliament gained the National Party reluctant new allies in enforcing group segregation — from the groups which had been the victims of the Group Areas Act: "Coloured and Indian adminstrations in the tricameral parliament, although committed to opposing the Act, can meet the acute housing needs of their constituents only within the present segregated system and so are virtually compelled to accept, and sometimes even request, extensions to group areas in their attempts to secure more land for housing."

She says despite the government's clear but gradual retreat from rigorous segregation and the increasing trend away from it in major urban areas, "very substantial changes in law and policy alike are required before all South Africans can enjoy equal access to land".

There is another network of laws which touch on land and property segregation. These include the demarcation board established by the Promotion of Local Government Affairs Act of 1983, the guide plans drafted in terms of the Environment Planning Act of 1967 and the Mining Rights Act of 1967. The latter enforces residential segregation in the proclaimed gold mining districts of the Witwatersrand, Heidelberg, Klerksdorp, and the Free State.

The publication, *Land and Race*, is the third in a series of SAIRR investigations into the Group Areas Act. The first found that, far from boosting the market in areas reserved for whites, the Act obstructed the growth of the entire property market. It predicted if the Act were repealed, property prices and housing standards were sure to rise.

The second research paper analysed police crime statistics in suburbs of Johannesburg and found there was no substance in the claim that crime rates were higher in racially integrated areas. It found in some segregated areas occupied by whites rates of violent crime were higher than in racially mixed suburbs.

The research gives the lie to Malan's statement in 1950 that the Group Areas Act would "preserve Western civilisation". The races were at differing stages of cultural and political development, Malan said, and conflict between them could be prevented only by removing contact between them.

K9

Weekend Argus, November 14 1987

Govt spending to be cut back

FINANCE

Affordable limits the goal as economy slowly gathers momentum, says Barend

Finance Editor

GOVERNMENT spending is likely to be reduced next year now that the economy is showing signs of growth.

Increased government spending has played a major role in getting the economy rolling in the past three years.

In this period the government has pumped money into low cost housing and other development projects. This has created employment for thousands of people and has helped to keep the wheels of industry turning.

However, this policy has not been without cost. It led to an increase in government borrowings, which one day will have to be repaid, and also increased the burden of interest payments borne by the state — and ultimately by the taxpayer.

Limits

So, with the economy now building up its own momentum and needing less government stimulation, the government is expected shortly to reduce its expenditure and lessen its need to borrow.

The Minister of Finance, Mr Barend du Plessis, said the government should be able to bring its spending to within affordable limits following the improvement in the economy.

He was speaking at the National Party's Cape congress in Goodwood this week.

In an interview after the congress, Mr du Plessis said: "We don't need to give the economy the same kind of stimulation as we have done in the past. This will enable us to return to a smaller deficit before borrowing.

"But to cut government spending for the sake of saying you have done so is meaningless. You cut goverment spending in order to keep it within affordable limits and within the framework of your overall policy approach."

Government policy had been to stimulate the economy by a combination of tax relief and direct spending. Spending had been designed to accomplish two purposes: to stimulate the economy and to address some of the fundamental issues such as the need for low cost housing and job creation.

"Crowd out"

"I stressed at the congress that we must bring spending to within affordable limits.

"You need a large deficit before borrowing when the government is making a big contribution to stimulating the economy. You don't need either when the economy is growing or you will start to crowd out the private sector.

"This could result in an increase in interest rates which we want to avoid as far as possible," said Mr du Plessis.

The government would phase out its role as a stimulator as the private sector started to move business.

Mr du Plessis said the economy was in a better position today than it would have been if the government had not gone out of its way to stimulate the economy. There was nothing wrong with deficit spending to keep an economy going in a recession.

The Reserve Bank believed that a deficit before borrowing equal to 5,5 percent of GNP or even higher was not unhealthy in certain circumstances.

"But if the economy shows reasonable economic growth it must change its spending policy to what is affordable.

Long term policy was to keep the deficit down to an average of about three percent of GDP.

Mr du Plessis said the cabinet would decide where to make the spending cuts.

CAPE TIMES 14/11/87

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SA Govt spending 'alarming'

JOHANNESBURG. — SA's budget deficit and government expenditures are showing alarming if not potentially catastrophic trends and reflect lack of fiscal discipline, said Colin Dunn, executive chairman of Discount House of SA Ltd.

Any expenditure overruns that require private sector funding could have serious implications for medium and long-term interest rates

He forecast a deficit before borrowing of R13,7 billion for the fiscal year ending in March, 1989, up from an estimated R10,1 billion for fiscal 1988 and compared with R7,2 billion in 1987.

Dunn, addressing the financial mail investment conference, predicted government expenditure will rise 19% to R48 billion in 1988 and increase another 15% to R55,2 billion in 1989.

He said the growing budget deficit and a weak fiscal policy inhibited chances of an immediate cut in interest rates.

Dunn said the budget deficit next year should be financeable partly through use of debt-standstill funds and from the private sector, if necessary, at reasonable interest rate levels.

"But any expenditure overruns that require private sector funding could have serious implications for medium and long-term interest rates," he added.

Dunn predicted short-term rates will rise from the middle of next year if, among other things, the SA economy is affected by the decline in the equity market.

Interest rates will decline "across the entire maturity spectrum" if factors such as a worldwide recession occur, Dunn said.

Investors usually switch to bond markets when stockmarkets decline and this may happen to a limited extent in SA but won't last, Dunn said.

"It is clear that even after the present reverse, equities have proved a far better investment than gilt-edged securities in this decade."

Dunn said interest in the bond market was weak because of lack of real returns on fixed interest securities, especially in a period of high inflation.

The inflation problem will prevent any easing of monetary policy and eventually under-pin a tightening of policy

Dunn said the inflation problem will prevent any easing of monetary policy and eventually under-pin a tightening of policy.

"However, we do not anticipate that a serious attempt will be made to significantly reduce our chronically high rate of inflation," he added.

Dunn predicted that growing wage demands will contribute to inflation rising again in late 1988. — Reuter

De Kock predicts economic upswing

At the bi-annual meeting of the Development Bank of South Africa were the Minister of Foreign Affairs of Venda, Mr E. R. B. Nesengani, left, the Minister of Finance, Commerce, Industry and Tourism, Mr F. N. Ravele, the President of the DBSA, Professor Owen Horwood, the chief executive of DBSA, Dr Simon Brand, a member of the DBSA board of Govenors, Mr Tom Boya, and the Governor of the Reserve Bank, Dr G. de Kock.

(9) DD 14/11/87

Daily Dispatch Reporter

EAST LONDON — Disinvestment in South Africa has gone stale, the Governor of the Reserve Bank, Dr Gerhard De Kock, said here yesterday.

Mr de Kock was speaking at the bi-annual meeting of the Development Bank of South Africa at Mpekweni in Ciskei yesterday.

Responding to a question on the effects the current world financial crisis will have on South Africa he said the country would not emerge unscathed.

He said it was possible that the world economy could affect growth rates for "a short time" and that consumer prices might be adversely affected.

However, he said he foresaw an economic upswing in 1988.

"We took a knock for two years which was a political problem rather than a result of bad economics. We tightened our belts then, we won't have to do it again."

He said South Africa was now in a better position to cope with financial problems, because adjustments had been made and "we are now running a surplus".

"Firstly our gold and foreign exchange reserves have more than doubled and with interest rates being low, banks and building societies are extending their lending facilities.

"And secondly, gold is much higher than it was a year ago and it could well go even higher next year.

"The reason behind this is a new money creation policy in the United States presidential year," Dr De Kock said.

WEEKEND Argus / BUSINESS
SATURDAY NOVEMBER 14 1987

Economy: 4,5 pc growth forecast

W/C ARGUS 14/11/87

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By DEREK TOMMEY, Finance Editor

A STRONG rise in South Africa's growth rate next year was forecast this week by Dr John Lagarrigue, an adviser to several major companies and a director of Currex, a foreign currency consulting company.

This is a different view from that held by some of his colleagues in the economic forecasting business.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said this week he was only expecting a 2,5 percent growth rate next year.

But Dr Lagarrigue has often expressed opinions very different from those of his colleagues, and has usually been proved right.

Earlier this year when many economists were predicting a fall in the rand to 42 US cents he was forecasting the opposite.

He said the rand would firm, and that it could even reach 55 US cents by the end of this year.

This week he had the satisfaction of seeing the rand do very much what he expected.

It rose strongly to touch 51,5 US cents and it would have gone even higher had not the Reserve Bank intervened heavily to keep the rate down.

Dr Lagarrigue made his forecast of a strong growth rate next year during a visit to Cape Town this week to launch a new foreign exchange management package.

He said the economy would grow by 4,5 percent in 1988 and he expected personal consumption expenditure to grow in real terms, after adjustment for inflation, by about 3,5 percent.

Dr Lagarrigue gave several reasons for his more optimistic forecast.

An important one was that the effects of the Government's efforts in the past two years to stimulate the economy were coming through only now.

Others were :

- The firmness in the gold price.
- The growing strength of the commercial and financial rand.
- The supurb private sector results.
- The improvement in retail sales.
- The excellent foreign debt rescheduling.
- The reduction in the level of social and political unrest.

Together these had all resulted in a marked improvement in business confidence.

However, he cautioned that the reduction in social and political unrest did not mean there had been an improvement in labour conditions.

"These were still deteriorating," he said.

He said South Africa was in a fairly fortunate position. There was all the combined effects of the lagged Government spending, plus all the environmental circumstances that were changing in favour of the country.

"The shock of the Wall Street collapse has been to a large extent buffered by the economic sanctions of two years ago. In other words they did us a favour anticipating this."

Dr Lagarrigue said that the share price crisis on the Johannesburg Stock Exchange was almost over, though some brokers expected the market to take three to six months to stabilise. He said the market had been due for a correction for a long time.

Gold share prices had climbed without a corresponding increase in yields. Industrials should not have been so vulnerable because corporate sector results had been flourishing.

He thought golds would continue to ease until the average dividend yield was around 8 percent.

But, he added, that because international uncertainty associated with the Third World debt and the desire overseas to avoid a major recession, he believed that the average gold price next year could be between $480 and $700 an ounce.

He thought the gold price was being depressed by central bank selling. He also believed there had been Russian selling.

Dr Lagarrigue said if firms in the importing business wanted to remain competitive they had to actively manage their foreign currency liabilities.

Initially, when the rand first fell sharply, companies had completely ignored this aspect of their business and had suffered heavy losses.

After this they had gone to the other extreme and had insisted that all their foreign liabilities had to be covered.

The result was that though importers had protected themselves from the foreign exchange risk they were wide open to the commercial risk caused by changes in exchange rates.

Some importers who had been fully covered were now bringing in goods at 42 US cents to 45 US cents to the rand. Others who had managed their currencies were bringing in goods much more cheaply at 50 US cents to the rand, giving them a considerable commercial advantage.

Dr Lagarrigue, who was born in Buenos Aires was special economic adviser to the President of the Argentine in 1969 and 1970 and has served as economist to the Inter-American Development Bank.

y Wage at 12/85: R 63.88
Wage at 12/85: R 25.95
Wage at 12/85: R 23.07

Two sides to SA's economic debate

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SOCIAL democracy, or democratic socialism, offers a choice between two different economic systems.

Even if one is implacably opposed to both social systems, there still seem to be a number of reasons why members of the business community need to be familiar with them.

Two factors are of primary importance.

Firstly, many blacks reject capitalism because, when compared with the benefits it has bestowed on whites, it clearly has not brought blacks much joy.

Secondly, blacks perceive socialism as providing them with an opportunity, not provided by capitalism, to share in the wealth created in this country.

Consequently, a number of South Africans, including business leaders, trade unionists, intellectuals and others have begun exploring alternatives to our existing capitalist system. Most initiatives have been directed towards reforming the existing capitalist system to try and make it more equitable.

But even if this, rather than the establishment of some form of socialism, is our aim, it should not preclude the study of various brands of socialism as there may well be aspects of these systems which can be of use in constructing a new form of capitalism. As Clam Sunter, of Anglo American, put it recently:

The positive aspects of socialism and capitalism should be combined to create a new order in South Africa, said Wits University sociologist DUNCAN INNES in a recent address to local businessmen.

"We need to stop thinking of capitalism and socialism as two totally antagonistic systems in which one is all good and the other all bad, instead we need to acknowledge that there is some good and bad in each and our aim should be to draw on the good in both."

In my view, the primary difference between social democracy and democratic socialim lies in their theoretical orgins.

The roots of social democracy are firmly planted in the liberal tradition of political economy and especially, in the writings of that great English liberal, John Stuart Mill.

The roots of democratic socialism, on the other hand, are just as firmly planted in the writings of the great socialist thinker Karl Marx.

Mill argued that although capitalism was a system which had produced great social inequalities, it had also produced much of inestimable benefit to humankind.

Mill set himself the task, not of destroying capitalism, but rather of reforming it from within. He believed capitalism itself was essentially based on the concept of equality.

However, problems arose when some people were able to accumulate substantially more wealth than others, not because of efforts, but by other factors like unequal access to land, unequal educational opportunity and the unequal benefits deriving from the law of inheritance.

Mill sought to devise a means by which wealth and income could be redistributed within the existing framework of capitalist society. The theory they evolved to bring this about is social democracy.

Marx, of course, adopted a very different position.

The capitalist, he argued, could only make a profit by extracting more value from a worker's labour than he paid in wages.

He argued, although **capitalism conferred equal rights on every individual, the real inequalities lay in the class differences.**

Marx's focus on the important role classes play in our society is perhaps one of his most important contibutions to social science and Mill himself acknowledged towards the end of his life that the liberals had failed to give adequate emphasis to this concept.

But, equally, Marx's heavy emphasis on class has also proved historically to be one of the weaknesses of his theory.

Marx believed that social equality and an end to exploitation could only be achieved through a revolution which swept away the capitalist system and installed a socialist system.

However, it is not the **working class which seizes power in a socialist revolution, but organisations staffed by individuals claiming to act on behalf of the working class.**

Once in power it is, of course, an open question whether such individuals will act on behalf of the class they claim to represent or whether they will act in their own interests.

I thought it might be useful to look at the Freedom Charter, since not only does the Charter offer a vision of a future South Africa, but in so doing it clearly does borrow from some of the theoretical traditions that I have been talking about, in particular social democracy.

It would be wrong to say the Charter represents the aspirations of all black South Africans. But it certainly does represent the aspirations of a large number of South Africans and, possibly, a majority.

It is probably the best popular example that we have of a social democratic alternative for the country. This does not mean that it is perfect. Far from it.

The Charter contains a number of flaws and ommissions when viewed from a social democratic perspective.

Politically, the Freedom Charter positions itself squarely within the liberal camp.

The Charter calls for a universal franchise for South Africa, to argue that every individual shall be equal before the law, and to demand equal human rights for all.

This includes the right to speak, to organise, to meet together, to publish, to preach, to worship and to learn

While these clauses of the Charter do undoubtedly establish its liberal credentials, they are not completely satisfactory from a liberal viewpoint.

For one thing, the Charter is silent on the issue of freedom of the Press. It also, interestingly, does not mention that workers should be given the right to strike and is unclear on a multi-party or a one-party system.

Answers to these and other related questions are crucial to the proper functioning of a social democratic system.

Turning now to the Charter's economic section, there can be no doubt that this is the most contentious section of the document.

It is here that we find the Charter's famous call for nationalisation of the commanding heights of the South african economy.

"The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole."

Nor does the Charter stop there. Although the Charter does envisage the maintenance of a private sector alongside the public sector, this private sector will be subject to State regulation.

"All other industry and trade shall be controlled to assist the well-being of the people."

However, the Charter then immediately and somewhat surprisingly goes on to demand that "all people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions".

I would like to make two brief criticisms of this clause in the Charter. The first is that there does seem to be a contradiction between the demand that private industry and trade shall be controlled and the demand that all shall have equal rights to trade where they choose and to manufacture.

If all are free to manufacture and trade, then precisely what controls are envisaged and what will be their scope?

CITY PRESS Picture Power

Godfrey Moloi does it in real 'Dallas style'

Godfrey 'Louis Luyt' Moloi, well-known and respected personality and shebeen king in Soweto, was captured by *City Press* photographer Andries Mcineka roving around Soweto "Wild West" style. Godfrey was born in 1934 in Prospect township, Johannesburg, where the Kazerne railway depot is today. Godfrey, who now lives in Mapetla Extension in Soweto, is one of Soweto's most popular and respected residents. "Louis Luyt", as he is affectionately known in Soweto, is actively involved in the cultural and sporting activities of the community. Godfrey has recently released his autobiography *My Life*, in which he tells the story of the shebeen culture in Durban, gang life in the Orlando of the '50s and the evolution of South African jazz.

Picture: ANDRIES MCINEKA

49 DD 16/11/87

SA economy to face crisis says academic

Daily Dispatch Reporter

EAST LONDON — A short term recovery followed by another major crisis in the medium term is predicted for the South African economy in 1988.

An economics lecturer at Rhodes University, Mr Stephen Hosking, said at a seminar at the weekend: "This potential will fortunately not be fully realised, however, as big business and government seem to be acting in ways which will diminish crisis intensity.

The seminar was on the economic scenario in South Africa over the next five years was aimed at providing management and other interested parties with an enriched factual basis for making decisions regarding the medium term future of the economic environment.

Points of major interest which emerged during the discussion were the following:

- The economy should continue to follow a path of cautious recovery. The momentumm of recovery should become stronger during 1988.
- Sanctions are not likely to set off a crisis in the economy in the same way as they did in the 1985/86 period;
- The scope for trade unions to act as a catalyst to a major economic crisis in South Africa has already become apparent, and;
- The scope for actively modifying economic events over the next five years does exist, and recent initiatives by government and big business indicate that they are likely to utilise these opportunities.

"From a stability point of view, the first half of the 1980's were most alarming," Mr Hosking said.

"Unemployment and inflation rates remained relatively stable, but both the exchange rate and growth in the real GNP plummeted.

"Changes in these two vital stability indices have been less dramatic since 1985, however, indicating a return to normality. The overall stability of the economy in the short term does not appear to be a problem.

"The same cannot be said about the vital indices of the longer term health of the South African economy, however.

Inflation has remained persistently high, and growth in real per capita GNP has been negative in all but two of the years from 1980 to 1986 inclusive.

White average incomes have also remained high in comparison to black wages, and loss of workdays due to industrial stoppages have escalated.

"As the recovery gains momentum, the biggest turnaround can be expected in the manufacturing and construction sectors of the economy.

Agriculture should benefit from the high meat prices, while mining will remain a steady base of income generation.

"The denial of access to the international credit market and the simmering sanctions campaign will limit the cyclical boom. However, since neither the foreign debt situation nor sanctions have much capacity for injecting new restraints on our economic order, it is unlikely that a domestic economic crisis will be engineered from the outside.

"The most likely source of crisis will be the impact that the political struggle between the Black Trade Unions and Government will have on the perceptions of domestic entrepreneurs."

Cape Times 18/11/87

Mr Neil Jowell

Transport man wins our award for business

49

By ROGER WILLIAMS
Chief Reporter

MR RIMMER DE VRIES, vice-president of the Morgan Guarantee Trust in New York and a world-renowned economist, said at the annual Cape Times Businessman of the Year lunch yesterday there was no doubt the US dollar would fall further.

But he believed a world recession would be avoided.

Mr De Vries was guest speaker at the lunch, at which Mr Neil Jowell, chairman of Trencor, a group of transport-orientated companies, received the 10th Businessman of the Year award from the Executive Editor of the Cape Times, Mr Gordon Kling.

Referring to the recent Wall Street crash and the decline of the dollar he said: "If nothing more happens I don't think the US economy will suffer all that much from this. But we do need significant budget action — and I believe we'll get this."

Mr De Vries said there was an "enormous challenge" facing South Africa, from an economic point of view. There was no reason, he added, why this country should not achieve an economic growth rate of 8% — 10%, rather than the mere 2 ½% that had been officially forecast.

"You've got the capital here — and the thing is to use it here.

"With more ambitious targets, and with better use of your labour resources and a better distribution of wealth, you can do so much better."

● Mr Kling, addressing more than 120 top business executives who attended the lunch, said the Cape Times saw itself as "very much a part of the city's business community".

"Our fortunes obviously remain closely tied to yours. It's our job to help you communicate. We want to keep you informed — and to a considerable extent we want to entertain you as well."

Referring to the 1987 award-winner, Mr Kling said Mr Neil Jowell's "low-profile" Trencor had been one of the Johannesburg Stock Exchange's top performers since 1977, and last year it had been ranked ninth best performer over a five-year period in the Financial Mail's top 100 companies.

"As the FM put it recently: 'Trencor chairman Neil Jowell has become known for his conservative financial bias — and for consistently producing results that are better than his predictions.'"

● Pictures on Page 14

Spending by consumers set to grow in 1988

(49) B/day 19/11/87

GROWTH in consumer spending should accelerate next year, with uncertainty the main restraint, says Stellenbosch University's Bureau for Economic Research (BER).

DAVID FURLONGER

Spending on durable goods is expected to grow 11,6% next year, after a 10% improvement this year, semi-durables 5%, from 3,6%, and durables 2,5%, from 2,1%. Spending on services is expected to rise 4,8% this year and 4,7% in 1988.

The BER's latest trade and commerce review says the steady decline in real per capita personal income, which has lasted since 1980, has finally ended. However, inflation and personal tax are eroding much of the advantage.

"We expect the projected 18,4% increase in the remuneration of employees in 1987 will be reduced in per capita terms to a mere 0,5%," the review says.

It expects real disposable income, on an annualised basis, to rise 3% in 1987, then 3,7% and 4,2% in the first two quarters of next year.

The BER review says demand growth is expected in wholesale and retail sectors.

Most wholesalers reported better business conditions in the third quarter of this year, particularly for non-consumer goods. However, they expect a temporary slowdown in the first three months of 1988, when business is usually slacker after the Christmas break.

Retailers are even more confident, says BER, particularly about non-durable goods. Demand growth is expected to continue well into next year, but for some businesses it will not be enough. Over-optimistic expectations in recent months have resulted in many retailers holding too much stock in relation to expected demand.

"This resulted from a misreading of demand in the non-durable sector in particular," says BER.

The report says conditions are much better than they were last year: "It appears as if business confidence is returning, which augurs well for livelier investment activity in the near future."

The motor trade is also experiencing buoyant conditions, says BER. Both new and used car dealers are short of stocks. The report predicts that as demand continues to rise and manufacturing capacity utilisation improves, lower unit costs will help hold down new vehicle prices.

ECONOMIC FORECAST

The 1988 picture

By virtual consensus next year's economic landscape is one of modest growth. But beyond that the signals are ominous. There are serious doubts about a repetition of even 1988's expected modest performance.

Most forecasters see 1988 growth as consumer-led with support from a gradual rise in gross domestic fixed investment (GDFI) and inventories; a continued, though reduced, surplus on the current account; an annual inflation rate similar to this year's but rising by end-1988; largely unchanged short-term interest rates, also picking up towards year-end; and a steady reserve position.

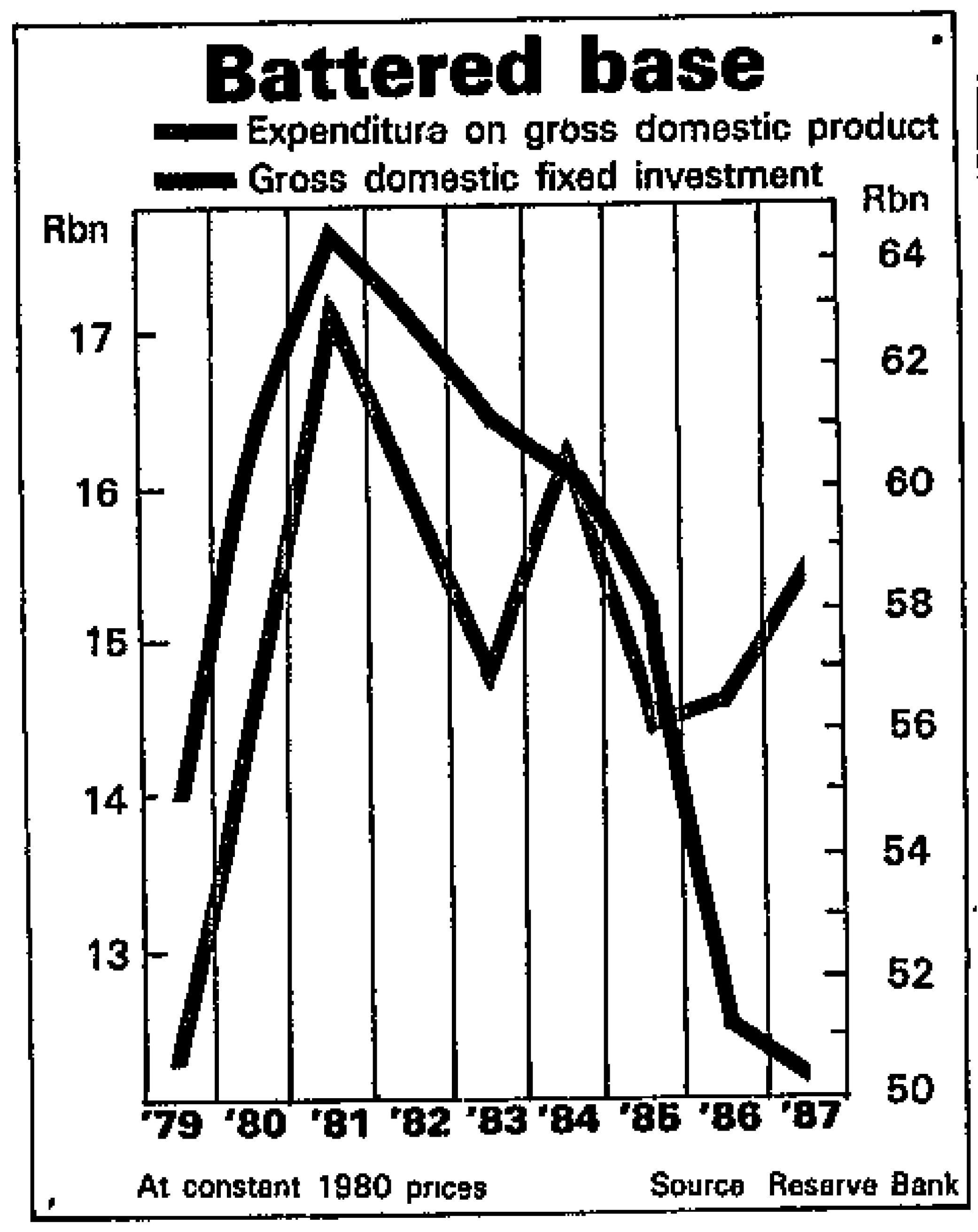
Barring Stellenbosch's Bureau for Economic Research (BER) — which sees inflation still declining at end-1988 — these are the broad predictions of 10 economic units and economists canvassed by the *FM*.

Most have downgraded growth estimates by half a percentage point as a result of the plunge in equity markets. Most point out it is still early days.

Such broad agreement is in sharp contrast to forecasts for the major internationsl economies, where it is not even agreed whether there will be a recession.

It is merely over the magnitudes of the economic indicators that differences occur when discussing the local economy in 1988.

Growth forecasts vary from around 2% by



Nedbank to BER and Old Mutual's near 4%. The current account surplus is expected to be anywhere from under R3 billion — as one bank estimates — to Nedbank's R7 billion. The average inflation rate ranges from BER's 13,7% to Nedbank's 16,5%.

At 14% Sankorp's Peet Strydom has the highest prime overdraft rate by end-1988. No one expects prime to be below the current 12,5%.

These projections are based on conservative gold price estimates — from BER's US$472/oz 1988 average to $500 by a host of forecasters. So while nobody expects gold to decline, no eccentric forecasts were found suggesting it is about to go through the roof.

Improved inventory levels and GDFI will not be confined to government investment. The private sector is also expected to make a positive contribution.

On the negative side, the contribution to growth from exports is expected to slow because of sluggish economies in major trading partners. Imports, on the other hand, are expected to increase as an expanding economy sucks in foreign goods.

The increase in imports and slower rise in exports will erode the current account surplus and exert pressure on the rand. Against this is the belief that net outflows on the capital account will slow, which should leave the vastly improved gold and forex reserve position relatively comfortable.

A declining rand will however eat into reserves should the Reserve Bank support the currency. At least the Bank, having the reserves, to a limited degree will have such an option.

The combination of an expanding economy and a rand that will no longer appreciate together with rising wage demands is inflationary.

One anonymous forecaster is looking at a year-on-year inflation rate in excess of 18% by end-1988.

The improved scenario, it is agreed, is off a weak base after years of structural decline. For example, halfway through 1987, seasonally adjusted annualised gross domestic expenditure (GDE) in real terms was 7% *below* its peak way back in 1981, at R58,7 billion. Real GDFI was 32% down over the same period, having fallen every year since 1981.

But beyond 1988 the economic picture does not look encouraging. All but three of our respondents felt next year's performance was not sustainable into 1989, let alone into the Nineties.

ECONOMIC GROWTH

Nothing spectacular

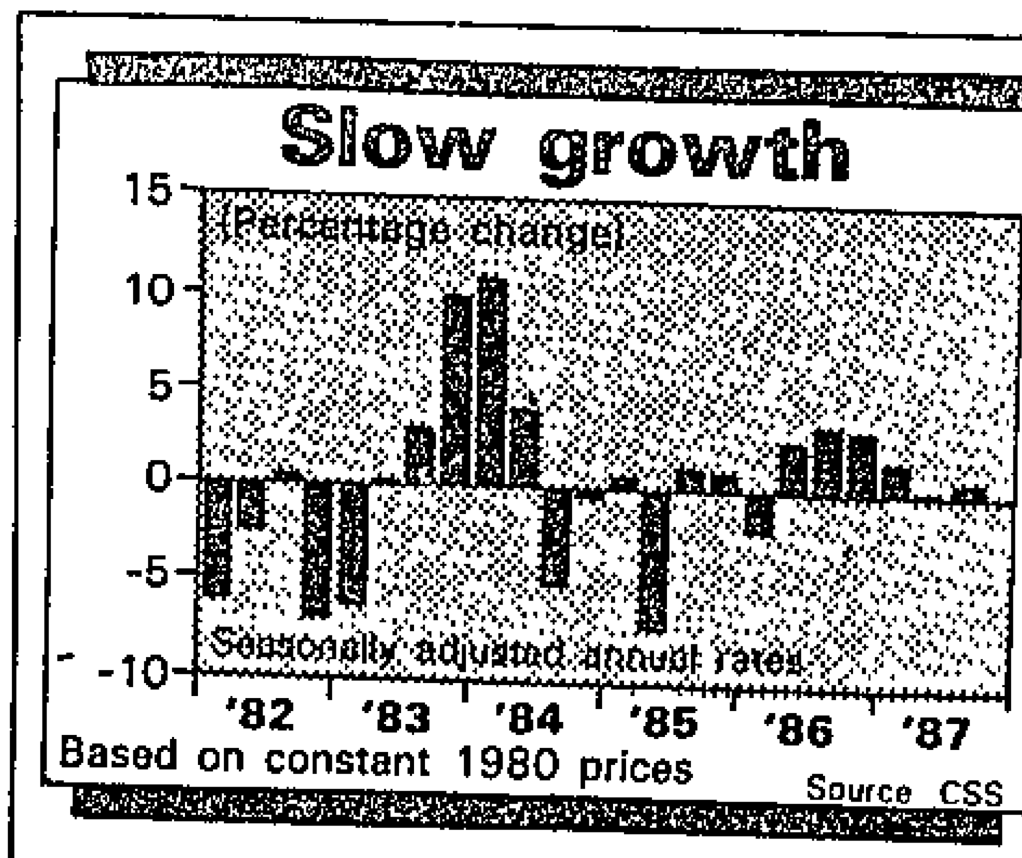
The economy exhibited a split personality in the third quarter, as manufacturing and commerce showed strength while mining and agriculture suffered.

Real GDP rose at an annual rate of just 1,5% from the second quarter, according to Reserve Bank Governor Gerhard de Kock, who called the figure "disappointing" at last week's *FM* Investment Conference. He predicted that GDP would rise no more than 2% this year — not enough to keep pace with population growth — and about 2,5% in 1988.

De Kock blames poor third-quarter performance on lower output in agriculture — mainly maize, sugar and citrus — and mining, which was hit by strikes in August. Mining production decreased by about 14% at a seasonally adjusted annual rate in the quarter. Gold production was off 22%. But manufacturing and commerce grew at an annualised 6% on the second quarter, which De Kock finds "distinctly encouraging."

He uses 1985 as his base year for calculating his third-quarter figure. The Central Statistical Service (CSS) — using a 1980 base and giving more weight to the contribution of the mining sector — says GDP was up by only an annualised 0,5% in the third quarter. It says GDP increased about 2,25% in the first nine months of the year from the same period a year earlier.

The Industrial Development Corporation agrees that there are signs of life in manufacturing. Its November *Quarterly Bulletin* says the volume of manufacturing production during the first eight months was 3,6% higher than during the same period in 1986.



And manufacturing profits jumped 25,8% in the second quarter of 1987 from the same quarter last year, according to the CSS. Manufacturers earned R2,28 billion in April-June, up from R1,81 billion in the second quarter of 1986 and R2,22 billion in the first quarter of this year. The largest increases were in textiles, industrial chemicals, machinery and equipment, and motor vehicles.

The CSS says GDP increased by 5,1% in 1984; fell by 1,5% in 1985; and rose by 0,5% in 1986. De Kock, in predicting 2,5% growth next year, says: "Given the expected weakness in world economic conditions, this would be quite a reasonable achievement."

Wits Department of Business Economics economist Dan Leach thinks otherwise: "It's only a reasonable achievement, given the shackles of State-owned monopolies in major industries and statutory restrictions on competition, such as agricultural control boards, tariffs and occupational licensing. The authorities need to step back and realise what could be achieved if they got rid of these. A growth rate of 2,5% would look trivial."

Leach says it's wrong to argue that SA can't enjoy high growth if the world is suffering a slowdown. "Internal restrictions hold back the economy independent of the rest of the world. Pretoria could deregulate and unleash growth anytime it wants. This is the best time to do it, when you need it most." ■

'Budget aims to fuel economy'

(49) B/day 23/11/87

CHRIS CAIRNCROSS

GOVERNMENT is expected to adopt a moderately expansionary approach in next year's Budget, aimed at giving added stimulus to economic activity.

According to Sanlam's latest economic bulletin, the emphasis of economic policy over the next 12 months is likely to fall on the promotion of economic growth and the creation of jobs.

At the same time, steps may be taken to ensure that inflation does not get out of hand, and that the balance of-payments will remain in surplus.

From an expenditure perspective, Sanlam believes that the year's main growth will be derived from real private and government consumption expenditure and a smaller depletion of real inventories.

The expected small increase in real fixed investment by the public corporations and the private sector is also expected to be totally neutralised by another sharp cutback in capital expenditure.

Flowing from the stock market crash, Sanlam forecasts the following growth trends during 1988:

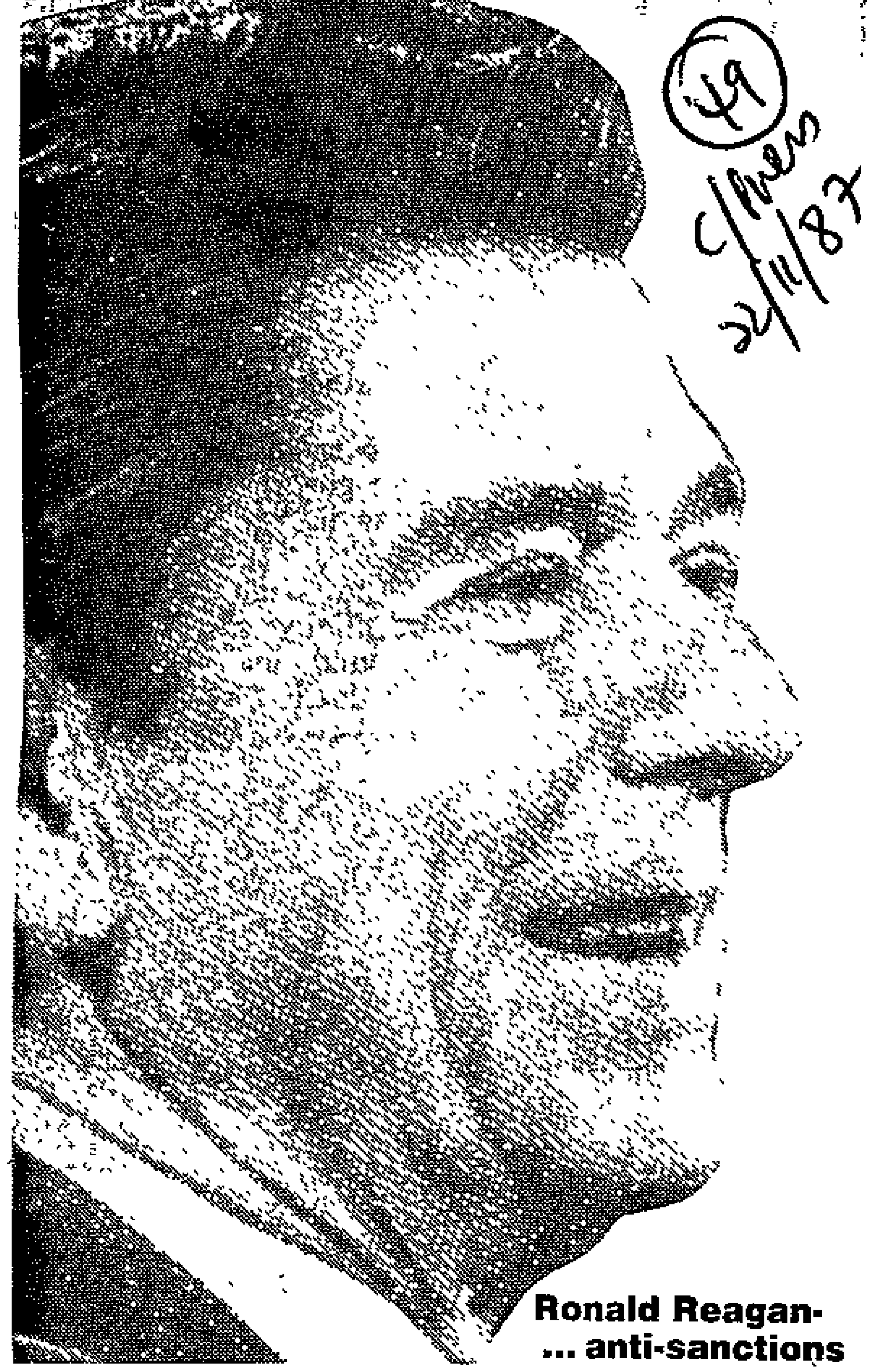
- a relatively strong rise in private consumer spending;
- a continued but somewhat slower rate of increase in current expenditure by government;
- after several years of either negative or hardly any real growth in real fixed capital expenditure, Sanlam envisages a modest increase in fixed investment — although it is still thought that total real capital expenditure will be about 25% lower than it was in 1981;
- a marked build-up of real inventories from the exceptionally lower levels of the past year.

In all, Sanlam projects that total effective demand will rise by about 5,7% next year, as against 4,4% this year.

Sanlam's economics department further believes that SA's real net trade with the rest of the world will also make a substantial negative contribution to the country's economic growth rate during 1988 — with growth now projected to reach levels of about 3% over the 12 months.

SA's current account of the balance of payments is expected to yield a possible surplus of R6,2bn during 1988, Sanlam further predicts in its latest economic news letter.

Economic development will bring democracy to SA



Ronald Reagan ... anti-sanctions

(49)

C/News 22/11/87

The president of the American Chamber of Commerce in South Africa, IW LEACH, looks at sanctions and disinvestment.

ONE only has to visit the United States to witness the remarkable similarity between our two nations. American cars and products, as well as, in many ways, American lifestyles have left indelible marks on South African society.

I beli[illegible] that it is precisely because of these similarities that it is so sad that the stage has been reached where the relationship has become so strained.

We must, however, recognise that there is still a lot of goodwill between the peoples of the two nations.

We must also be aware of the fact that Americans, because of their struggles with civil rights issues and their respect for the freedom of the individual, see in relation to the South African situation, a simple denial of human dignity.

In its strictest sense, disinvestment means the simple withdrawal of investments.

In practice it indicates not merely the withdrawal of investments by countries and institutions which have financial interests in South Africa, but also an intention to isolate the country.

To America's blacks South Africa represents the bitter memories of their own history of racial segregation.

America's blacks comprise the world's wealthiest black community. In the true tradition of democracy, they exert enormous pressure on the Democratic Party of which they represent over 20 percent of the voters.

There cannot be much argument with the view that US relations with the South African government deteriorated during the Carter years and that US credibility in the eyes of black South Africans improved.

Officials of the Carter administration had tilted too far in favour of black Africa with little to show for it.

What was called for, in the view of the Reagan administration, was a new, less moralistic, but more realistic approach.

After several months of review the strategy that finally emerged became known as "constructive engagement" with its chief architect the Assistant Secretary of State for African Affairs, Chester Crocker.

The Reagan administration believed that through patient negotiation it could bring about a Cuban withdrawal and an internationally acceptable settlement in Namibia. It also hoped that normalised relations between South Africa and its neighbours would give Pretoria greater security and a stronger platform for internal reform.

Early in 1984 both the United States and other Western governments were pleasantly surprised by the Nkomati Accord between South Africa and Mozambique and the Lusaka Accord which provided for the withdrawal of South African troops from Angola.

Regrettably, however, in a mere two years both accords have turned sour.

The failure of US initiatives produced a distinct cooling off in relations with South Africa.

President Reagan who, much against his will, was obliged to issue an executive order containing limited sanctions in late 1985, reiterated in March 1986 that these sanctions should remain in force.

Finally, on September 12, 1986 the House of Representatives approved the comprehensive Anti-Apartheid Act. Reagan fought the imposition of these sanctions, but he lost the final battle on October 2 when the Senate voted to override his veto of the Act.

One cannot conceive a more idiotic way to achieve a non-racial democratic form of government than by imposing economic sanctions.

Surely, it must be obvious to any thinking person that the only way to achieve such a goal would be to promote economic growth and development.

South African exports to the United States crashed by 45 percent from R2,6-billion in the first half of last year to R1,4-billion this year.

Some 120 US companies have already disinvested from South Africa and it is inevitable that a number of the remaining 200 will also be forced to leave.

In the United States there are now some 30 different organisations working on a variety of sanctions against South Africa.

At least 21 states, including California, New Jersey, Michigan and Massachusetts have adopted disinvestment programs.

Much damage has already been done but it is not too late to reverse the tide.

In early October President Reagan called for no further punitive sanction measures. But it is quite possible that new legislation even more severe than that in place might be proposed and approved.

There is an enormous amount of vested interest in the US keeping the issue alive and — with the next presidential elections in just over a year — South Africa, the eternal soft target, will inevitably be a major factor in the election campaign.

'Face economic reality'

Sowetan 23/11/87 49

SOWETAN Reporter

BLACK businessmen should be sensitive to the current social, political and cultural trends in South Africa, a leading business consultant said at the graduation ceremony of black traders at the University of the Witwatersrand.

Mr Reuel Khoza, director of Co-ordinated Marketing, said black entrepreneurs also have to face the economic realities in this country.

He said they should be able to translate these challenges into a profit opportunity for their businesses if they were to grow into big corporates.

About 125 black business people from the Pretoria - Witwatersrand-Vereeniging areas completed courses in retail management.

The course, sponsored by a leading engineering company and was conducted at the university, was attended by businessmen who operate butcheries, fast food outlets, confectionaries, clothing shops, general dealers and hairdressing saloons.

Change

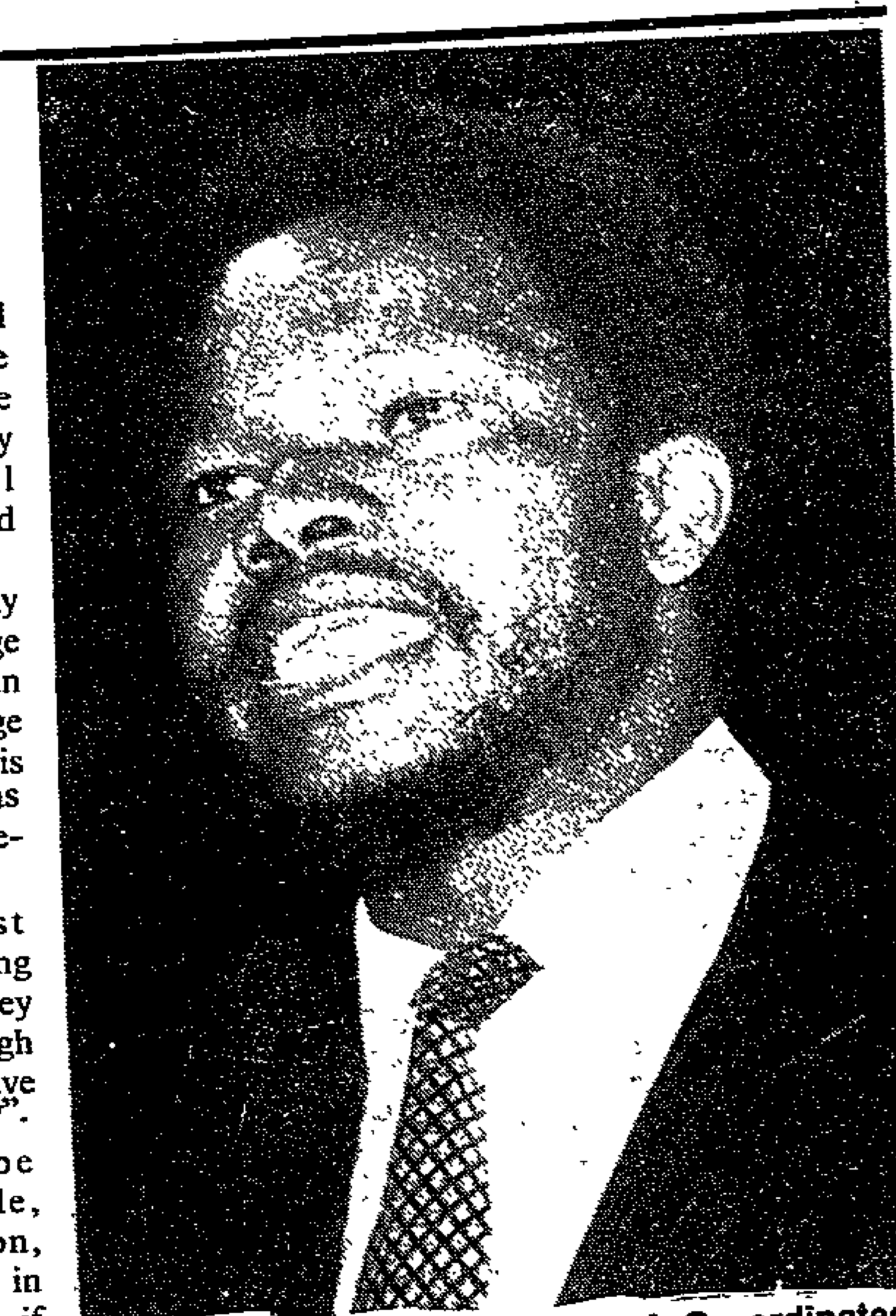
Mr Khoza said: "Successful entrepreneurs are able to rise above the thoughts and actions of others and commit themselves to the long-term perspectives of their enterprises."

He said the most important characteristic of the business environment in South Africa today was change. Until recently business people operated with the assumption that they enjoyed bountiful resources to build profitable enterprises.

The new technology and accelerating change were placing pressure in every organisation, large and small. Allied to this characteristic change was increasing competitiveness, he added.

He said: "Most businesses after learning skills forget them. They should be able to plough back what they have learnt to the community".

They should be sensitive, versatile, patient, have vision, focus and be creative in their daily operations, if they were to adapt to change".



MR REVEL Khoza, director of Co-ordinated Marketing.

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DD 24/11/87

(49)

Severity of market crash could intensify

Daily Dispatch Correspondent

JOHANNESBURG — The severity of the stock market crash, while differing from sector to sector, will be intensified if the market decline signals an impending economic slowdown, say industry spokesmen.

Telecommunications industry spokesmen say their profit forecasts will be unchanged unless there is an outright recession.

Although optimistic for 1988, Plastics Federation's chief, Mr Bill Naude, said raw material shortages, which were a worldwide problem, could affect growth.

"But most people expect the high throughput to continue despite the JSE crash."

The chief executive of the Natal Chamber of Industries, Mr John Pohl, said despite some pressure on raw materials shortages and skilled labour, he felt reasonably bullish on 1988.

"There is concern as production costs look set to rise and these in turn will pass through the system.

"But indicators from our own analysts indicate growth for the fourth quarter and early next year with no real impact from the JSE crash."

Tobacco and beverage analysts say the market collapse has not changed their positive outlook for 1988, adding sales for these companies should be strong even if the economy sours.

"These products, such as cigarettes, soft drinks and beer, are the little pleasures of life that people don't want to do without," said one.

Analysts also seem confident of prospects for the computer industry, although they say they will be looking closely in coming months for any sign of a downturn in corporate capital spending, a key economic indicator in the sector.

Many key South African industries are in much better shape now than five years ago.

They say and show more concern for the health of South Africa's export-drive if the rand strengthens further.

Seifsa's executive director, Mr Brian Angus, said it was still too early to tell the effect of stock market travails.

"Whether the recent setback on all of the world's markets will impact on the metal industries is hard to predict.

"Our surveys indicate a trend level which looks as though a moderate recovery might last throughout 1988," he said.

The Witwatersrand Chamber of Commerce and Industry (WCCI) told members the majority of executives of the top 100 companies listed on the JSE seemed "uncertain" about the outlook for 1988.

Generally speaking, the predictions seem to suggest a turbulent business environment.

The outlook is as uncertain for 1988 as it was for 1987, and much depends on how far South Africa progresses on the road to reform, both politically and economically, it says.

But the WCCI, quoting Unisa's Bureau of Market Research, says the overall economic scenario is rosier than it was for 1987 with the economy settling into a gentle upward phase.

BUSINESS

DD 25/11/87 (49)

Director: trends good

by Matthew Moonieya
business editor

EAST LONDON — Economic trends were looking up and businessmen know what it take as they had seen the worst, and executive director of Barlow Rand, Mr Derek Cooper, said here yesterday.

He delivered a wide-ranging speech at an East London Chamber of Commerce breakfast meeting in which he dealt with future economic trends, the political scenario as well as the labour field.

Some predictions Mr Cooper made were that:

- Consumer spending should increase slowly;
- Capital expenditure should increase as capacity is used up;
- Expenditure on new housing, particularly blck housing, will continue to gain momentum;
- Interest rates should remain low unless consumer spending gets out of hand;
- Small businesses should prosper but they should guard against allowing their stocks, debtors or borrowings to build up;
- A possibility of an economic slowdown in the West which could reduce world trade, encourage protectionism, reduce income from non-gold exports and possibly increase gold revenues.

Mr Cooper referred to the resilience of South African businessmen and said none of the misfortunes were permanent.

"Drought, political unrest, inflation, strikes, urban terrorism, sanctions, disinvestment, refusal by some international banks to roll over our loans, war on our borders and economic downturns — we have taken quite a buffeting.

"But despite this, we have managed to grow at a rate of about two per cent last year."

Mr Cooper said the misfortunes would be overcome "and just think how South Africa will boom when they are all behind us. We could be the next major growth point in th world".

D/D 26/11/87

Plan to reduce spending resisted

49

Daily Dispatch Correspondent

JOHANNESBURG — The government's two-pronged five-year economic plan to cut public sector spending and sell off state assets has run headlong into resistance from within the civil service.

The plan, recently announced by the Minister of Finance, Mr Barend du Plessis, limits growth in total government spending over the next five years to an average of 3 per cent, and identifies state assets which could be sold.

The funds raised would be pooled and spent on once-off projects, such as education and housing, or invested in what the government calls "human capital".

But it is understood some departments are conducting rearguard actions to protect their interests and their opposition has been described as "massive".

The plan is increasingly being seen as a concerted effort to reduce the government's percentage of total expenditure in the South African economy and to instil the discpline urged by the private sector on the public sector.

Once implemented, it will require large-scale reconstruction of certain government departments and will redefine their activities.

The Director General of Finance, Dr Chris Stals, confirmed the existence of a list identifying state assets.

"Eventually, each function of government will be subject to the programme. The plan's importance will be the contribution it makes towards controlling government spending," Dr Stals said.

ECONOMIC STRATEGY

Where are we going?

Ask economists these days what they think the two most pressing problems facing SA are and they'll tell you it's high inflation and sluggish growth. So what's new?

In its report last Friday, the Economic Advisory Council (EAC) gives all the reasons for inflation and says it has the answers. But again there's nothing new.

In a nutshell, the government is being told that to bring inflation down to the EAC's 9% target for 1990 — mentioned incidentally as "for illustrative purposes" — under its "combat plan" it must:

☐ Control government spending;
☐ Let relative prices work; and
☐ Allow interest rates to find their own level.

This much at least was reported in the EAC's long-term economic policy strategy way back in August 1986.

The latest EAC set of revelations, in response to government's request to find out what causes inflation, nevertheless amounts to a "very good document," according to one economist. It takes the "mainstream" approach in economic thinking to what causes inflation, putting aside many arguments among the more, shall we say, eccentric practitioners of the dismal science that have exasperated politicians in the past.

But in reiterating some good old-fashioned home truths it does little more than put the ball firmly back in government's court.

Simply put, there's too much government spending and too much money in the system. The EAC says it is not a simple case of monetarism, however. There are inflation biases in the economy — the Group Areas Act and growing unionisation must play a part — while, with refreshing novelty, the EAC says controls won't work.

Our inflation picture must also include the war in Angola, the costs of our political system, the depreciated rand, and lack of productivity which, says one economist, "plays a more long-term role in inflation."

Indeed, EAC chairman Cornelius Human said a few months ago that a winning strategy would have to begin with the development of a "work ethic" that meant "an emphasis on the individual, not government, responsibility to care for oneself and one's dependants through hard work, thrift and moderation.

"Such a work ethic provided much of the driving force towards the opening-up and development" of the Third World economy. "It is the underlying principle of free enterprise through which the greatest wealth for the greatest number of people has been created during the course of history. I believe such an orientation should be encouraged among all our population groups," he said.

As for the latest EAC report, it says that inflation is already largely institutionalised, feeds on itself and on expectations based on previous experience. The EAC makes continued reference to the role the private sector and individual consumers can play in co-operating with government in the fight against inflation. But the report calls on the State to lead the way.

It states that in the inflation fight, SA performs poorly in the vital area of productivity improvement. The remuneration of labour contributes substantially to the high inflation rate. In real terms remuneration is rising faster than the increase in labour productivity.

Among additional steps for reducing inflation it says that:

☐ Further increases in the tax burden should be avoided "at all costs;"
☐ State departments must adhere to budgets, while government should finance spending in a non-inflationary manner;
☐ Growth in public spending should be curtailed in the longer term;
☐ The share of the public sector in the economy should be reduced;
☐ A strict and sound balance should be maintained between monetary and fiscal discipline; and
☐ Given the Third World realities of SA, "more purposeful" deregulation covering a wide spectrum of activities, plus privatisation, and promotion of the informal and business sectors, should take place;

But, says Nico Czypionka, chief economist at Standard Bank: "You can't target inflation in isolation. Inflation is a residual of other developments in the economy." A broader economic objective, including growth targets, is needed and the economy must be shaped in a way that they are achievable; for example, by removing "excessive administrative and other over-burdens, and improving the efficiency of the economy." Add in a responsible monetary policy and discipline in government spending and "the CPI will look after itself," he says.

The EAC does remind government of the need for "purposeful implementation of Pretoria's deregulation programme." Continued over-regulation inhibits the efficient operation of the market mechanism, the most important potential anti-inflation device available.

Comments Louis Geldenhuys, economic consultant to George Huysamer: "I didn't find anything new in the report. We've had enough studies into inflation. The key now is the political will to do something about it. One must be encouraged, however, that the problems have pretty well been clearly outlined. In the broad context, it could mean sound policies in the future.

"But the report hasn't changed my short-term view of inflation, and the turnaround isn't going to be easy." He points to the frustrations engendered by talk of privatisation and tax reform, for example, but without action. "The real challenge is to get results."

Until that happens, who knows where economic strategy is taking us? ■

Solve political problems first

SMC Tribs 27/11/87

49 Econ

PRETORIA. — South Africa's difficult international position would be resolved only once its economic and political problems had been resolved, Mr Harry Oppenheimer said last night.

Speaking at the banquet marking the official opening by the State President, Mr P W Botha, of the new Reserve Bank building in Pretoria, he said South Africa's economic future lay in "free market" orientation.

South Africa at the moment was forced to conduct its economy in such a way that it could export capital every year as a result of the international sanctions and economic boycott campaign.

"The problems will not be solved until such time as the economic and political problems of South Africa, in relation to the rest of the world, are solved."

The State President, Mr Botha, said that if agriculture and mining were not taken into account, preliminary estimates indicated that the rest of the economy had increased at an annual rate of as much as six percent during the third quarter of this year. — Sapa

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'Blacks want role in economy'

By JOSHUA RABOROKO

SOUTH Africa's blacks demand the removal of all barriers that affect their full participation in the economy of their country, the president of the National African Federated Chamber of Commerce, Dr Sam Motsuenyane, has said in West Germany.

Addressing a group of businessmen in Bonn recently (a text of his speech awas made available in Johannesburg), Dr Motsuenyane said black businessmen wanted to see a true system of free enterprise implemented in South Africa.

He is in Europe to promote support for one of the Nafcoc sponsored companies — the African Business Publication (Pty), which has entered into a joint venture with the International Business Contact.

The object is to publish an International Who's Who for Southern Africa in which will feature the names of prominent black companies in the region.

He said Nafcoc had in the past maintained a somewhat irregular and low key contact with European business organisations and business leaders.

The need for the future is that close ties between the European business community and emerging black entrepreneurs in South Africa should be developed, he said.

"This closer association will enable black businessmen in South Africa to benefit directly from whatever trade, technical and financial links that Europe may have with South Africa.

"Nafcoc is accordingly exploiting the feasibility of establishing a contact office in Europe, from where information on the organisation can be easily obtained," he said.

Nafcoc was presently negotiating with the IBC to provide a representative office in Munich.

He said by supporting black business ventures such as the African Business Publications project, German companies could contribute immensely towards bringing black South Africans into the mainstream of the economy of their country.

He said: "Black businessmen are faced with a diversity of complex problem such as lack of managerial skills, and capital.

"While urgent attention is being focused, increasingly on these problems, they will not be eliminated completely in the short term. Some international assistance is needed in this regard.

"Black businessmen will like to develop and form part and parcel of the economic life of the country. They want to become meaningfully involved in all sectors of the country's commerce and industry," he added.

The envisaged Who's Who publication will enable overseas companies, aspiring to do business with blacks, to make the necessary contacts and also to provide the assistance required in the nurturing of black companies such as the African Business Publication.

DR SAM Motsuenyane

Factory output jumps 13 percent

W/C Argus 28/11/87 49

By DEREK TOMMEY,
Finance Editor

AFTER years of stagnation, economic growth in South Africa has started accelerating to raise the prospect that 1988 could be a boom year.

However, owing to a number of abnormal factors this has not yet been fully reflected in the official national income figures.

Preliminary figures, in fact, show that in the third quarter the economy grew at a depressingly low annual rate of either 0,5 percent, or 1,5 percent, depending on which price base one employs.

But Central Statistical Services, which prepared figures, admits that they do not reflect the true position.

For example, they conceal the extremely important fact that manufacturing expanded at an annual rate of 13 percent in the third quarter, and that secondary industry as a whole — which includes manufacturing, construction, fuel and power — grew at an annual rate of 11 percent in that period.

This is an improvement (or an acceleration) of almost 50 percent on last year's corresponding figures.

Further encouraging news was that the rate of increase in manufacturing output in the 12 months ended September was more than three times that in the previous 12 months.

The upturn in manufacturing will please a great many people in both the public and private sectors.

It is generally accepted that the burden of providing jobs for the country's growing black population will fall mainly on the manufacturing sector.

It will also have to produce much of the wealth that will be needed to finance the country's growing requirements.

This improvement in manufacturing activity was not reflected on the gobal national income figures for two reasons, say the officials who compiled the statistics.

One reason was the strike on the gold mines which resulted in a considerable decrease in the volume of gold produced and depressed the figures. But this negative factor was only temporary so the December growth figure should show a big improvement.

The second reason is that the statisticians are having great difficult in calculating the value of agricultural output at what they term an "adjusted seasonal rate".

As they state frankly: "The seasonally adjusted agricultural production figures for recent quarters is misleading."

This problem with agricultural figures means that the December globular national income figures could again indicate that South Africa was a low growth economy, or alternatively an overblown economy — and neither would be right.

Latest employment figures show that some acceleration in the manufacturing sector is badly needed. In the 12 months ended August, total employment in manufacturing rose by only 8 000 to 1 326 000.

The number of blacks in manufacturing grew by 6 400 to 705 700 and the number in construction grew by 4 400 to 208 400 — which does not make much of a dent in the additional 500 000 to 600 000 blacks seeking work every year.

'Now's the time for bargain buys'

Finance Editor

THE current drop in share prices has given long-term investors a major opportunity to buy high quality South African stocks at bargain basement prices, said Mr David Gleason, head of Mathison and Hollidge's research department.

During a visit to Cape Town this week he said that anyone who was prepared to buy these shares now and put them away would experience astonishing capital gains over the next five years.

Mr Gleason said he believed that industrial shares were in the second phase of a bear market.

In this phase he expected a series of upward rallies that could lift the industrial share index, now around 1430, to a peak of 1900 during 1988. But thereafter he expected it to fall, possibly to a bottom of 1200.

He said this was the way markets operated when in a bear phase."

He also did not expect the gold price to move much above $500 next year, which was not much higher than it was at the moment. The gold price powered the South African economy.

The earnings growth of companies was also likely to slow down. Earnings increases, now about 40 per-

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BUSINESSMAN OF THE WEEK

W Cape's future is hi-tech

By DEREK TOMMEY

MANUFACTURING businesses in Cape Town are highly efficient and run by really clued up people, says Mr Charles Rowe, a manufacturer himself.

They had to be, he added wryly, as they face many problems not encountered elsewhere in the country, and if they were not efficient they would not survive.

Mr Rowe is managing director of Ajax Manufacturing, which makes transformers, light fittings and aluminium castings.

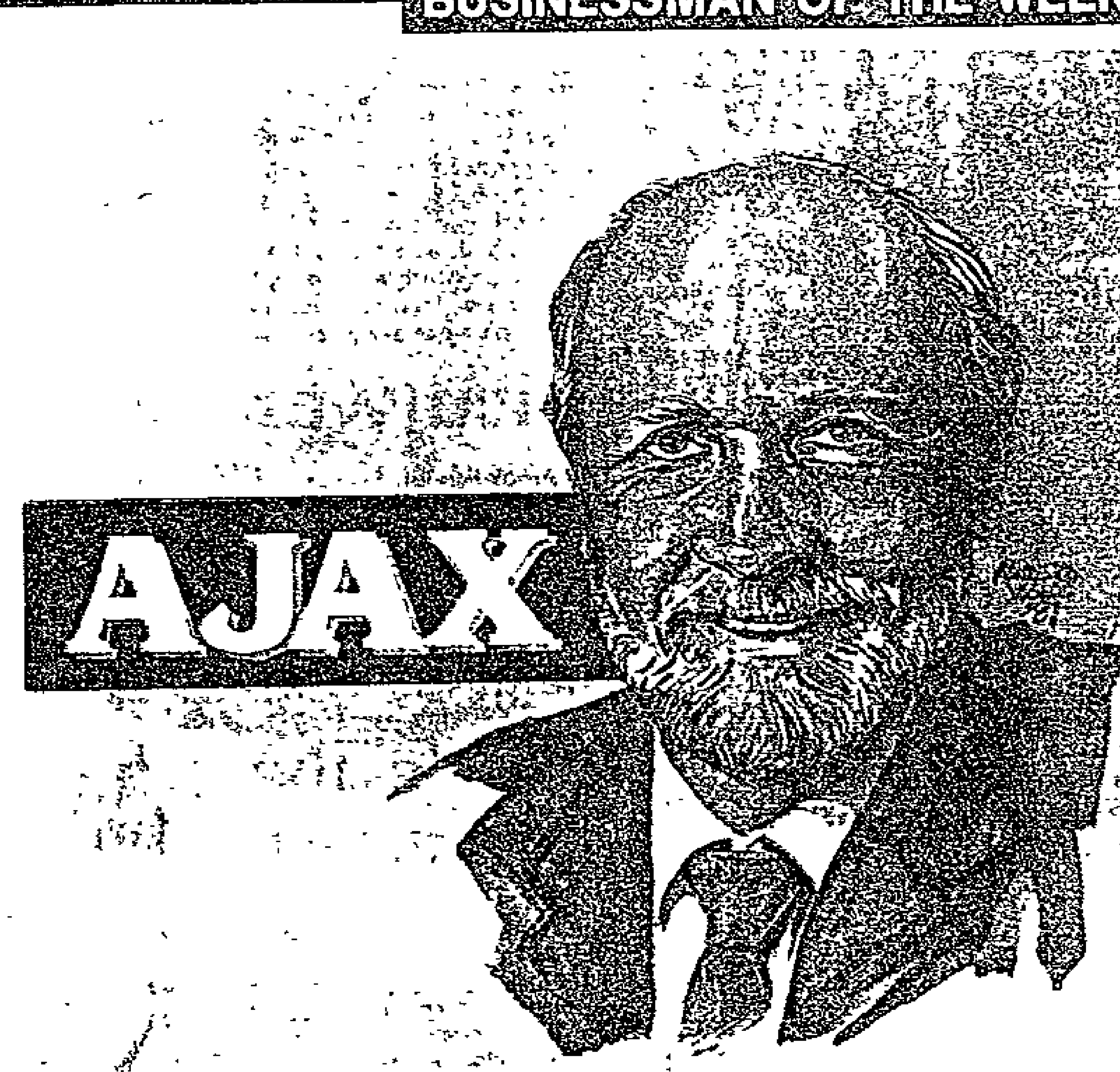
He is also well-known to an older generation as a racing driver, winner of the Western Province modified Anglia championship in 1971 and the Western Province Formula Ford championship in 1974.

But he stopped racing after that. One reason is that he married in 1974. Another was that his firm had told him that if he wanted a future in the company he would have to stop.

DANGEROUS

But motor racing is not dangerous, he maintains, and he still attends most of the meetings.

Mr Rowe is also known in Cape Town business circles for being one of the first people to arrange a management buyout of his company from its American shareholders.



Charles Rowe ... "city manufacturers clued up for survival."

His family had been associated with Ajax for many years, he said, and he joined it in 1969.

He stayed on when the business was sold to the British company, Tube Investments, in 1971 and also when General Electric became the owner in 1976 after acquiring a stake in Tube Investments.

In 1985 General Electric decided to sell the company and offered it to Mr Rowe at its net asset value.

"It was not primarily a political move," said Mr Rowe. The poltiical connotations were secondary.

General Electric was selling off its manufacturing concerns world-wide.

A factor which had possibily influenced them was a report that the company would need R5-million to R6-million spent on it to put it on its feet."

Since the buy-out Mr Rowe has been upgrading the machinery and has also adopted a more aggressive marketing policy which has resulted in a 170 percent increase in the general die-casting side of the business in the past two years.

"We have also tightened up on productivity.

"We inherited a union agreement which has put us considerably ahead of the market in benefits and hourly rates which also forced us into a productivity drive."

This brought Mr Rowe, who is on the executive committee of the Cape Chamber of Industries and senior vice-president of the Cape Institute of Industrialists, to the problems of being a manufacturer in the Western Cape.

Trade unions were active in the Western Cape and employers in the metal trade and other industries as well were having to pay more than firms in the north, which meant that the Western Cape would have to increase its labour productivity.

But while manufacturers in the Cape were becoming less competitive the main market for most goods remained in the Transvaal, he said.

"We have to compete there. You are asking someone to buy something which is 1600 km away when he can get it down the road.

"The buyer has to have real justification for ordering it, and it is difficult doing this on price so it has to be on quality and service."

Mr Rowe said he saw only slow growth ahead for manufacturing in the Western Cape, and with the influx of

(To Page 2)

BUSINESS

W Cape's future is hi-tech

(From Page 1).

blacks this could lead to serious unemployment.

"There is not enough encouragement for industry to grow and provide jobs for the influx of labour."

Mr Rowe believes that the future of manufacturing in the Western Cape lies in the 'hi-tech' field owing to the better educated class of worker.

But in view of the need for clued up employers, the innovativeness and ingenuity of businessmen, in other words new products, also seems a major factor.

A new product has helped Mr Rowe secure a substantial order from the Railways.

It is a new type of bulkhead lightfitting with special screws which make it difficult to steal and it will be fitted into all new coaches.

But it is too expensive to do your own reseach and development, he says.

So Ajax's future grow lies in using other people's research and in manufacturing new products under licence.

Plan to pour millions into SA

Cit-Times 2/12/87

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LONDON. — British industry was on the verge of pouring millions of rands into South Africa, part of a "Marshall Plan" to dismantle apartheid and improve black education, housing and job opportunities.

The aim was to maintain British investment in SA against pressure for international economic sanctions.

It was reported yesterday in the Scotsman newspaper that the initiative had been on the boil for at least two years and was expected to be announced in February.

The plan has been put together by the British Industry Committee on South Africa (Bicsa), set up in January 1986 by the Confederation of British Industry and the UK/SA Trade Association. The body represents big investors such as Rio Tinto Zinc, British Petroleum, Shell, ICI and Unilever.

Bicsa director general Mr Nick Mitchell said yesterday the plan involved setting up a multi-racial trust in SA which would have the freedom to select mostly existing projects, inside and outside townships, to receive financial backing.

It would deal primarily with non-government education in pre-schools, multi-racial private schools, pre-university courses and literacy and numeracy back-up to technical schools.

Asked if it wouldn't be viewed cynically as a self-interested attempt by British companies to maintain a business presence in SA, Mr Mitchell said: "We certainly anticipate people saying that. There is an element of self interest in it. Self-interest is more powerful when lined up with the interests involved."

He said senior ANC officials had been approached in Lusaka and London, and although no in depth discussion had taken place, they had given the plan a "greenish-amber light".

The initiative is at a stage where it needs a firm financial commitment from Bicsa members, Mr Mitchell said. He declined to reveal exactly how much money is involved except to say it would be "millions of pounds".

"The motivation is that British industry wants to be part of a post-apartheid SA. It wants a long haul as against something you leave behind when you retire," he said. — Own Correspondent and Sapa

SA will not make 3% growth — Nedbank

B/day 2/12/87

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GRETA STEYN

CONSTRAINTS on SA's economy preclude achieving even the modest growth rate of 3%, Nedbank says in its latest Guide to the Economy.

The guide says these constraints include exhaustion of the country's taxable potential — which, in turn, limits government-induced growth — and strained household finances.

The long-term growth rate for private consumption expenditure is 1,7% a year. Government consumption of goods and services has been the strongest contributor to economic growth, averaging a 3,5% increase a year, the guide says.

This average was made possible through increases in tax revenue, but is unlikely to continue as tax limits have probably been reached.

So there should be some tapering off of the rate of increase in government spending, unless fiscal deficits are allowed to rise.

The guide says: "Such fiscal adventurism should be unlikely after the experience of the problems of correcting the US federal deficit and the baleful repercussions of failing to do so in good time."

Private consumption expenditure could rise faster in the future only if there was a willingness to incur higher levels of consumer debt.

"Much of this, however, depends on household perceptions of wealth and the recent stock market crash has a bearing on this, although the increasing trend of black credit-buying should be undisturbed by events on the JSE," the guide says.

Other constraints on growth are the low ebb of entrepreneurial confidence, the tendency towards inventory leanness, the long-term decline in gold mining production, disinvestment and sanctions.

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Fighting off a recession

THE capitalistic economies are trying to fight off the spectre of "stagflation" — high unemployment coupled with high inflation.

By AN ECONOMIST

THE probability of a recession, however mild, is seeping into markets. Even the optimists and ardent believers in Reagan's "anti-recession" chatter are beginning to doubt that God is a Republican and will save them from this mess.

The economic crisis comes at a bad time politically for the American Republican Party. The next US election is due in November 1988. Politically expedient decision-making is tainting economic policy and actions. To date, the Reagan administration has enjoyed seven years of expansion. Gross National Product (GNP) has risen approximately 20 percent — an average growth rate of 2,5 percent a year. Since 1982, nearly 14 million jobs have been created. The "misery-index" (i.e. inflation and unemployment) is down to 11 percent after reaching a peak of 20.6 percent at the end of the Carter era. Average income per capita, adjusted for inflation, grew at an average annual rate of about two percent during Reagan's first six years of office.

Although the Reagan administration has been severely criticised for its multi-trillion dollar government debt and its multi-billion dollar foreign debt, its achievements are significant especially when considering that Reagan began his term of office during the deepest recession since the Second World War. Now the renewed fear of recession is threatening to wipe out some of the gains made.

Reluctant

US politicians are still reluctant to make comparisons with the 1929 depression but economists who have dusted off their "big depression" textbooks have noted the similarities as well as the differences. What is disturbing most, is not the certainty of doom, but rather the sense that we have lost control.

While political officials take comfort from the fact that history never repeats itself exactly, economists continually warn of "the coming of the false dawn". This relates directly to the 1929 crash where there was a rally in early 1930 which made up most of the lost ground. This was followed by much bigger subsequent falls in the stock market which did not hit bottom until 1932. The recession became a slump in 1930-1932 and it was then too that the most catastrophic of the falls in commodity prices occurred. The relative stability in bond, stock precious metal and currency markets at present may just be our false dawn.

The Reagan administration is taking comfort from the calm in markets and particularly from the resilience of Wall Street to discard recessionary fears as being unnecessary and premature. The underlying strength and vitality of the US economy, which grew four percent during the third quarter of 1987, together with the progress made on the 75 billion cut plan in the US federal deficit may not be enough to stave off the recession.

Threat

It is likely that the worst threat of any future slump will come between 1988 and 1991 and that before then there will be a "false dawn", perhaps associated with another US budgetary agreement and another attempt by the Group of Seven nations to stabilise exchange rates. The relative stability in bond, stock, precious metals and currency markets is entrenching this view. However, although the time pattern may be similar to 1929, the subsequent problems of such a recession would be very different.

In the early 1930s, the pressures were on output and prices alike. There was no need to coin ugly words like stagflation. Deflation was an all too accurate description. This time round, it is clear that the political leaders and central bankers are determined to avoid the errors made in the 1930s. We have thus witnessed the Federal Reserve Bank (Fed) and other central banks pledge to support the financial system and the institutions. This resulted in an aggressive easing in their monetary policy particularly in the US. The Fed pumped enormous supplies of funds into the US economy in the weeks immediately after Black Monday (October 19) and has only recently begun to cut back. However, should it deem it necessary to flood the system with funds again, it will not hesitate to do so. The result of such an easy monetary policy has been to drastically increase the money supply. This will prove inflationary at a later stage and has already awakened such fears.

The occurrence of inflation reappearing at a time when the authorities are trying to either stave off, or fight a recession introduces the dilemma of whether policy should be directed at fighting the recession or inflation.

The term "stagflation" was coined in the 1970s to describe the combination of high inflation and high unemployment occurring simultaneously. Reagan's success is often measured in the conquering of these two evils. Should stagflation characterise the potential recession, even these gains will be wiped out leaving little credit to Reagan's name at all.

John Kenneth Galbrith has gone as far as to comment on the recent events as "the debacle which marks the last chapter of Reaganomics". He characterises it as the product of supply-side economics with its irresponsible tax reduction programmes, high interest rates that bid up the dollar and subsidized imports, and the trade deficit that put a lot of unstable money in foreign hands.

The spectre of recession that has been looming over America since the stock-market collapse presents itself more as a clear and imminent danger, than as a vague and menacing fear as was initially thought. The only way, at present, to fend off a recession, and calm the markets is through co-ordinated policies of the major industrialised nations. An agreement, where the dollar is allowed to drift lower in order to encourage US manufacturing and cheaper US exports, and the concurrent stimulation of the German and Japanese economies in order to absorb these exports, would help alleviate the trade deficit problem. This strategy may be limited as Mr Baker is reluctant to use US interest rates to help manage the dollar. This means that the US would have to rely on central bank intervention alone to stop the dollar from falling too quickly and thus perhaps hastening, instead of repelling a recession.

Deficit

The budget deficit is more of a domestic issue in the US. It is of as much importance politically as it is economically. One may add that its psychological importance that it has assumed, is probably most important at this stage.

The truth is that nobody wants a recession, especially one which will be characterised by stagflation. Urgent action is required from all sides. Policy-makers know that procrastination has always been the thief of time. The problem is that time is running out and that too little is being done too late.

...w SA ...abour laws get wide approval

Weekend Post Correspondent

JOHANNESBURG — Sweeping proposals to revamp South Africa's labour laws have been widely welcomed by industrial relations experts and some said the proposals were among the most enlightened in the world.

Prof Nic Wiehahn, the father of labour reform in South Africa and head of Unisa's School of Business Leadership, told a Johannesburg newspaper today he was particularly impressed with moves to declare as unfair labour practice discrimination against employees on the grounds of race, sex or religion.

Although it was implied in the existing Labour Relations Act (LRA) that discrimination was an unfair labour practice, it was the first time in South African labour history that discrimination had been clearly and officially condemned.

"I believe the law should go even further and make this type of discrimination punishable," said Prof Wiehahn.

He also welcomed proposals to establish a labour appeal court as a division of the Supreme Court.

The new proposals governing definitions of an unfair labour practice, dismissals and the settlement of disputes were published in the Government Gazette for comment yesterday.

Labour lawyers largely welcomed the proposals but pointed out that there were now some fundamental contradictions in the country's labour laws.

"The Mines and Works Act still reserves 13 jobs for whites on the mines," said one.

Another lawyer said: "A particularly far-reaching proposal concerns the recommendation that an employer who unreasonably fails to negotiate on an industrial council, or with a representative trade union or group of employees, is guilty of an unfair labour practice."

Lawyers also said the unions' ability to mobilise broad support in disputes with employers would be limited.

Capitalism vs socialism

Cyril Ramaphosa's scathing rejection of the Anglo American and De Beers employee shareholding schemes suggests the mineworkers' (NUM) leader is confident his members will look their modest gift-horse in the mouth. More, that they overwhelmingly reject the capitalist system as well.

Describing the offer as "political and economic blackmail to try to seduce workers away from socialism," Ramaphosa asked why, so soon after the August miners' strike, the money going to purchase the shares was not instead used to pay miners "a living wage now, not in four years' time."

Anglo chairman Gavin Relly responded that the strike had nothing to do with the share scheme, which was planned long before the strike, and which "looks beyond that issue" to the concept of wealth creation. In any event, wage levels were a different matter for negotiation with unions, said Relly, and it was a moot point whether a few extra percentage points on the wage offer could have prevented the strike.

Anglo's Relly

Ramaphosa also maintains the offer fails to give workers meaningful participation in the company's affairs — which pro-capitalist black businessmen also strongly advocate, if free enterprise is to be successfully sold to blacks.

In this regard, the deal clinched a week earlier between divesting US parent Ford Motor Company, the metalworkers' union Numsa, and Anglo subsidiary Samcor (which takes over Ford) is slightly more in line with what Cosatu unions might accept. The Ford deal means that 24% of the company's shares will be placed in a workers' trust, with dividends going to community projects, and entitles them to three representatives on Samcor's board. De Beers and Anglo, however, point out their schemes have nothing to do with disinvestment and are totally unconnected with the Ford case, which had "its own imperative."

In spite of the capitalism-equals-apartheid suspicion in the minds of many blacks, it remains to be seen whether Ramaphosa's sentiments are shared by NUM members.

In January, the Anglo scheme will become available, initially to 2 600 employees at its head office, where about 800 are black. This group is likely to join the scheme and snap up their five-share allotments, which will result in the issue of 13 000 shares in the first year. De Beers is offering its 20 000 employees in SA and Namibia (75% are black) 10 shares each in the company. A De Beers share is currently worth R16.

Both schemes require two years' service to qualify, and will operate for an initial period of five years, during which further share offers will be made each January. The number of shares offered annually will be determined by the boards of participating companies, depending on their results and the prevailing share price. The companies will pay for the shares.

The real test will come later, when the scheme is extended to Anglo associate companies where the NUM claims 100 000 of its 270 000 members are employed. Anglo's scheme would be open to some 250 000 employees who are represented by 35 different unions — one of the reasons why unions were not consulted before implementing the scheme, said the company.

Assuming high levels of participation over the initial five-year period of the scheme, and depending on economic performance and the share price, Anglo could allocate a total of 7,5m shares, or 3,5% of its present issued share capital.

The extent to which ordinary black miners take up or ignore the offer will reveal how representative Ramaphosa is of his rank and file.

It's worth noting that Amalgamated Beverage Industries' (ABI, formerly Coke) employee share offer last month was shunned by workers at ABI plants where the Food and Allied Workers Union, which spurned the offer, held sway. But where the "neutral" Food and Beverage Workers Union was stronger, workers accepted the ABI offer which, overall was taken up by 60% of the largely black workforce.

Some suspect the NUM could come under pressure once the benefits of the scheme are evident to those who turned it down. But this could be a long process. The Anglo shares, amounting to R300 a year per individual at current prices, will vest in management-controlled trusts for the first four years, during which time participants may exercise their voting rights by giving written instructions to the trustees. Dividends will be paid. At last year's rate, this would mean R11,25 a year — nothing to shout about, but then it is more the concept which is being sold, and it would entitle workers to show up and have a say, for what it's worth, at the company's AGM. After four years, employees may choose to leave their shares with the trust, take direct ownership, or sell.

To the average black worker with little to set aside in savings, the amount accrued after this time will at least mean something of a nest-egg — and it will have cost him nothing.

Ramaphosa's quarrel appears to be not so much with the details or structure of the schemes (although those are also derided), but with the fact that they amount to what he calls "a manoeuvre to ensure that free enterprise is entrenched in a post-apartheid society." Relly was naturally "delighted to hear" this.

Implacably opposed as Ramaphosa seems to be to the free enterprise system, which he appears unable to separate from the horrors of apartheid, the NUM chief described the scheme as an attempt "to make every worker a capitalist." He is, of course, quite right about the intention, although Relly and De Beers' Julian Ogilvie Thompson couched it in far more urbane, if not paternalistic, terms when they announced the details last Thursday.

NUM's Ramaphosa

The scheme, they said, "is designed to give each employee the opportunity to share in the long-term growth of the company and in wealth creation by the private sector. It allows employees to experience wealth as a resource and shows how money, when wisely invested and well managed, creates wealth for the community and also earns worthwhile returns." Ogilvie Thompson explained that the primary purposes of the schemes were educational, to give workers a stake in the capitalist system, and "having people involved might change perceptions — it is a start of a process," he said.

The chairmen stressed that the schemes are voluntary and open to all employees on an equal and individual basis. Information centres have been set up at Anglo workplaces to explain the scheme. It is in no way part of remuneration, they added, nor meant to compete with "the task of trades unions to bargain for fair wages and good working conditions. The roles of the unions and of collective bargaining are as important as ever."

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Peering into the crystal ball

In its final meeting of this year, the *FM*'s Board of Economists considers the outlook for 1988. While recognising that the road ahead is not all roses, the conclusions are guardedly optimistic. The members of the board this time are Aubrey Dickman (Anglo American), Louis Geldenhuys (of stockbroker George Huysamer) and André Hamersma (Standard Bank); the chairman, as usual, is Raymond Parsons, executive director of Assocom.

Parsons: First, how would you describe our economic performance for 1987?

Geldenhuys: But for the mine strike, growth has been much in line with what we had in mind at this stage last year.

Hamersma: Consumers have started to be prepared to borrow and property markets have picked up, so there has been a fairly broadly based improvement in the third quarter. The overall figures were disappointing, but a better trend is emerging.

Dickman: The export picture is not at all encouraging. A large increase in the exchequer deficit has been a major impulse, and shows signs of spreading into employment in manufacturing. Manufacturing output has gone up. But we are still well below the peaks of five or six years ago.

Geldenhuys: I think the fiscal side has mainly been a monetary injection.

Hamersma: The key point is that economic growth was not soundly based. The ultimate engine of sustainable growth is export performance. And that has been disappointing.

'The ultimate engine of sustainable growth is export performance. And that has been disappointing.'

— André Hamersma

Parsons: How important for the rest of this year do you rate any impact of the collapse of world stock markets and in particular the JSE — psychological or real?

Hamersma: It's created a bit of uncertainty in the business sector, but that's about all.

Parsons: Would you single out any aspect of economic policy during the past year which you would have liked to be different?

Hamersma: It's not so much the direction of policy, but its implementation. We have all the right basic plans and strategies, but very little actually happens. We lack credibility.

Parsons: Why is this?

Dickman: Because there is no actual success. True, the inflation rate has been brought down. This is related to the stability of the rand, though we have to be very careful what we mean by that. But expectations are the key thing. We have talked about getting control of government spending for years, but the private sector has not been shown any tangible evidence yet.

Hamersma: A case in point is this new EAC inflation document, which is virtually the same as something we saw three years ago, which was not new either.

Parsons: What is wrong with our decision-making process? Is it a lack of political will?

Dickman: Yes, it is a question of biting the bullet and appreciating that this is a political decision. Any increase in public-sector spending means there will be less of GDP available for consumption. So taxes will have to be higher than otherwise, or expenditure must be less, or interest rates higher, otherwise inflation will do the rationing. At least in the inflation document, there is a clear recognition of the underlying cause of inflation, which is excess monetary demand.

Hamersma: There is insufficient appreciation by politicians about how our economy works and the importance of economic growth. They are so preoccupied with political reform that they do not appreciate that, if we do not perform on the economic front, all those political reforms will come to naught.

Parsons: Your growth forecasts for 1988 range from 2,5%-3,3%. That suggests that you expect performance to be at least a third better than this year. What underpins this?

Dickman: The scenario has to take into account the world situation. You must make sweeping assumptions about a fragile world situation and a South African situation which itself has been fragile for some time. The interplay between the two is very difficult.

But a marginal increase in growth is possible, based on a conservative gold price, largely reflecting an end to the fall in fixed investment, which has quite an effect. Even given nil growth in exports, a continuation of consumption growth can easily give 2,5%-3% growth. That really is not very much.

Geldenhuys: I am not looking for export growth next year. But the capacity and perceptions of the consumer are slowly improving. The rates of price and salary increases are getting closer and the gap could even go into reverse. I think we have seen the end of the dramatic cut-backs in public-sector fixed-investment spending. With the private sector already improving, fixed investment spending may show surprisingly strong growth next year — though we'll still be 15% below the levels of 1985.

Hamersma: I expect imports to rise and exports to remain static. But just looking at GDP gives a distorted picture. Gross Domestic Expenditure (GDE) — which is more important to local businessmen — is growing significantly faster than GDP.

Parsons: Do you see any danger of overheating in the economy next year?

Hamersma: In one area shortages are already emerging — skilled labour. The whole labour position is going to be tricky. Labour relations will be the key issue again.

Dickman: I cannot resolve to what extent the increased training and the whole change in the avenues open to blacks over the past few years will come through in the next upward phase as extra available skills. Has the ceiling been raised?

Geldenhuys: Though we will start to have a better utilisation of productive capacity, I wouldn't classify that as overheating.

Hamersma: We mustn't forget that some capacity isn't available. It's obsolete.

Parsons: The view was put at the *FM* Investment Conference and elsewhere that SA is too modest in setting growth targets, that we should aim for 5%-plus and gear policies accordingly.

L to R: FM's Coulson and Bruce Parsons, Hamersma

Dickman: I have the greatest admiration for Rimmer de Vries, who said that, and it's the sort of thing that should be said. But we must be realistic. It would have been great if we had accepted this challenge when the world economy was more favourable; it is not so easy to think we can do it with the world going through a difficult period.

❛ With the private sector already improving, fixed investment spending may show surprisingly strong growth next year — though we'll still be 15% below the levels of 1985. ❜

— Louis Geldenhuys

Hamersma: De Vries mentioned something like 10% real growth. I don't think it's practical to aim for that. But we must aim higher than 2,5% growth with 15%-16% inflation. We should look at the structure of the economy and adjust it to what is happening overseas. We must become internationally competitive. That is not easy, but it must be our target. A lower target will create tremendous socio-political problems. We must aim at least for 5% growth.

Geldenhuys: We need a strategy. We should build on our strengths and try to reduce our weaknesses. Policies in recent years have just been sort of muddling through from one crisis to another. But grandiose targets exceeding 6% would only bring frustration.

Dickman: There are two riders: the informal sector and what GDP growth really is. And we cannot get back to normality until we re-establish normal relations. We must be realistic. The sort of services and standards we insisted on in the past can't be afforded any more.

Hamersma: The politicians must appreciate that profits drive the economy. They must not think that we can achieve favourable growth rates if they tax profits out of existence. The role of government in the economy must be reassessed.

Parsons: How do you see interest rates?

with economists' panel, Geldenhuys, and Dickman

Dickman: This raises the question of monetary and fiscal policy in totality. I think the policy is walking over stepping stones seeing whether we can get to the other side, of continuing growth. As we go through the year it will depend on how the capital account develops, whether there is room for manoeuvre. We're not likely, on my assumptions, to see rapid increases in interest rates.

Geldenhuys: I think interest rates will harden, but we will not see the extremes of earlier years.

Parsons: One component of the interest rate outlook is the balance of payments, in particular the current account. You have all roughly knocked off between a third and a half of the surplus. Would anyone care to elaborate on any factors particularly important in that assessment?

Geldenhuys: We are basically looking at an unexciting outlook for exports. With GDE increasing, imports will start rising.

Parsons: On to the outlook for inflation, not only for next year — how feasible is the suggested target inflation rate of 9% by 1990? Roughly, that means a 40% reduction in inflation over three years.

Dickman: We must start with the exchange rate. We have seen positive results of the levelling out of the exchange rate. We have had some sharp falls in import prices, though there are now some increases again. But if you consider the international outlook and the dollar and the trade-off between keeping exports competitive and domestic inflation, and even if real inflation is below CPI, there is a problem of keeping the exchange rate stable.

Geldenhuys: The major problem we could see in 1989 or 1990 is that if we do not ensure competitiveness of the economy, the growth rate will suffer. The exchange rate will have to adjust for that, though I don't think it need fall by much more than the inflation rate.

Hamersma: We will have to run a slightly undervalued exchange rate. In the short term this is fine, but ensuring competitiveness through devaluation is disastrous in the longer term. It feeds into the inflation process.

Parsons: You are estimating 16% inflation; so do you believe we'll do slightly worse than is likely this year?

Hamersma: I'm not optimistic that we'll do much better. This inflation document is all very valid, but we really need a combined strategy that will bring inflation down and also ensure that growth will go up.

Parsons: Do you think we can set a target of 9% inflation by 1990?

Dickman: It's difficult to be confident. But what do you do about it? You'd need tremendous changes in the utilisation of resources and the wage-setting process. If there weren't these structural factors, with a tremendous supply of labour to be absorbed, and the new urbanisation policy, like other developing countries in past years, labour could be brought in without increases in wages.

Geldenhuys: Sadly, I don't think we can get down to 9%. This report is a proposal, for public comment now and then for consideration by the government. That makes me wonder again about the political will.

❛ I favour lower taxes and higher interest rates. But that doesn't give you the open sesame to a bigger Budget deficit before borrowing. ❜

— Aubrey Dickman

Dickman: There are the questions of administrative prices, the role of agriculture.

Parsons: If government was eavesdropping today, was swayed by what it heard, and next week announced implementation of the package, would you be more optimistic?

Dickman: It's a basically sensible document, so I would be more optimistic. But the implications come back to interest rates, relative prices and taxes.

Geldenhuys: What would be the implications on growth of a 9% inflation rate in 1990? There is no long-term trade-off between the two, but there is in the short term.

Parsons: Is that an unreasonable period to wind inflation down? Too short for SA?

Geldenhuys: It could well be.

Dickman: Louis has raised a very important point. Other countries, Latin American countries, grew like mad with inflation. They borrowed heavily. We cannot go that route.

Parsons: To what extent, long-term, is inflation destructive of jobs?

Geldenhuys: Very destructive.

Dickman: Earlier in the year the policymakers may well have had a scenario that

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Geldenhuys: If we want tax cuts but say the Budget should not be expansionary, I don't know how we'll balance the figures. The economy is growing at a modest pace, and growth could solve some of our problems. I certainly wouldn't give the politicians a rubber stamp for expenditure. The second most important part of the Budget must be what has been done on expenditure.

Dickman: Even a balanced Budget is expansionary, so obviously any deficit before borrowing is expansionary. To finance it in an inflationary way is even worse. We are assuming that it can be financed through the capital market. We probably are getting close to crowding out.

Geldenhuys: Wouldn't it be a good thing if interest rates were a little higher?

Dickman: I favour lower taxes and higher interest rates. But that doesn't give you the open sesame to a bigger deficit before borrowing. You must look at the expenditure side; I don't think much more can be done on the revenue side.

Parsons: What kind of economic leadership do you want next year?

Geldenhuys: Realistic.

Dickman: Strong, decisive and fearless.

Hamersma: Farsighted. ■

GROWTH RATE

Not even 2%?

It is normal practice the world over to adjust provisional economic growth figures. But the latest adjustments by Central Statistical Service (CSS) are exceptionally large.

This year's first-quarter growth rate has been cut to 1,9% from a provisional 2,2%. This itself is down from the Reserve Bank's first 3,25% estimate. More drastically, the second quarter now appears to have grown a mere 0,1% compared to a provisional 1,6%.

Initially most economists and the authorities forecast 3% growth for this year. This has been progressively downgraded and it could now be a battle to reach even 2%.

On a quarter on quarter basis CSS calculates for the *FM* that the economy will have to grow 2,4% in the fourth quarter on the third (which grew by 0,5% on the second) to attain 2% growth for 1987. Another way of looking at this is that the economy will have to grow by 1,3% compared to the fourth quarter of 1986 to attain 2% for 1987.

Either way, 2% for 1987 appears unlikely.

This said, the actual growth number is not — and should not be — of prime concern. Whether growth is 2% or 3% is not as relevant as the trend and the broader context of such an "achievement."

In SA's case 2%, 3% or even 4% growth is no big deal. It comes after years of weak growth and off a battered base. Even 4% growth for a developing economy, or NIC (newly industrialised country), is not great.

And there are serious doubts about the reliability of SA's figures. The informal sector is widely believed to be growing faster than the official economy.

Were the two growing at the same rate, the official figure would accurately reflect economic expansion. CSS, while acknowledging a degree of uncertainty on the informal sector, reckons this does not significantly affect quarter on quarter growth rates.

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And what is GDP? It is the total value of final goods and services produced in a given period, which can be measured in three ways:
- ☐ Production, adding up each industry in terms of value added (outputs less purchases);
- ☐ Income, adding up income received. The focus is on the input side of production; and
- ☐ Expenditure, adding up final demand or consumption by firms, households, government, and exports. From this imports are deducted. This is the method used by the Reserve Bank (CSS uses the other two); valuation is at market prices, whereas the others are measured at factor incomes and converted to market prices.

GDP at current prices does not reflect the real change, as it excludes price changes. Real GDP, or GDP valued at constant prices (the prices of a base year), is more accurate.

Estimating real GDP is not simply a matter of dividing the total figure (in current prices) by the average rate of price increase since a base year. It is a highly complicated process in which every item is separately revalued at its base year price.

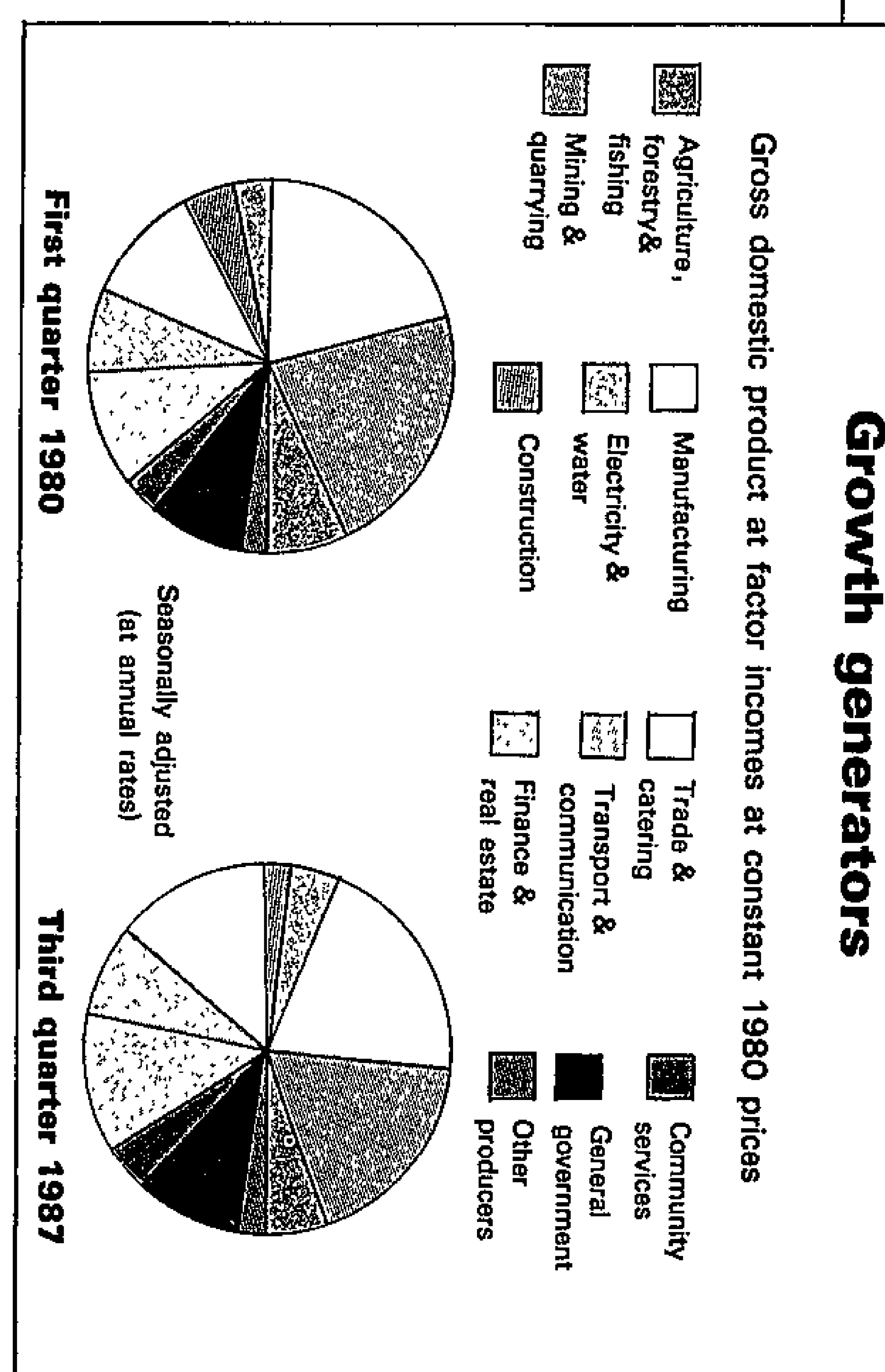
The figures quoted from CSS are at 1980 prices. CSS plans to change the base year to 1985. What difference will this make?

Usually it should not make much difference. But SA is an interesting example. Using 1980 as a base year, the first three quarters show annualised growth rates of 2%, 0%, and 0,5%. Using 1985 as a base the figures are 2%, 1%, and 1,5%.

So while the first-quarter figures do not differ, subsequent quarters do. The fall in gold production in the second and third quarters valued at 1980 prices has a greater dampening impact on total GDP than when valued at 1985 prices.

Growth generators

Gross domestic product at factor incomes at constant 1980 prices



It is also interesting to note CSS's estimate of the costs of the miners' strike. Gold production fell, in volume terms, by 22,2% in the third quarter on an annualised basis.

As the pie charts show, the contribution of agriculture and gold mining to GDP declined since 1980 (from 7% and 16,1% to 5,4% and 10,6% respectively) while those of finance and services and government have risen (from 11% and 9,3% to 15% and 12,6%). ■

Another high-handed intervention

UNION VIEW

By FRANK MEINTJIES, Publicity Secretary of the Congress of South African Trade Unions

THE new Labour Relations Bill is another high-handed and ill-advised government intervention in the labour relations system so agonisingly built up since 1979.

All of the provisions — except the simplification of the procedure for applying for a conciliation board — undermine the potential for sound labour relations and reverse gains made by the unions in the sphere of established worker rights.

Cosatu has studied the Bill and views it as a serious and massive attack on trade union rights in this country. Already there is great scepticism amongst our members about following all the procedures laid down in the Act to press home worker demands. With the new Bill, this scepticism will almost certainly turn to militant conviction.

Just look at the way employers "reward" unions following the legal procedures. The National Union of Mineworkers dutifully kept to the letter of the law in the recent strike. The result — nearly 50 000 members dismissed, and still unemployed, in the space of three weeks. If the strike had been unlawful, the chamber employers would have had immediate interdicts against the NUM — not to mention the usual turnout of the mine and/or state security forces against workers.

The stuggle workers are waging for better wages and conditions is not being dealt with — especially by the most "liberal" employers — according to moral notions of "right" or "wrong", "fair" or "unfair" or even "legal" or "illegal". For employees there is only one law — the law of profits. It seems anything, no matter how much havoc it causes to people's lives, is permissable so long as the law of profits is obeyed.

What will happen if workers elevate their needs to an unbreakable law? Workers' needs versus bosses' profits. Our law against theirs. Us against them. Where will the new Bill come in then?

If this kind of situation is to be avoided, then the new Bill should be repealed in its entirety; strike action should be decriminalised and guarantees should be built into labour legislation — which should be extended to include all workers — around things like a national minimum wage; a 40-hour week and job security. These things, which are taken for granted in democratic countries, are necessary if workers are to perceive the law as anything other than a boss' weapon against them.

But in our country the struggle for a living wage is branded a criminal communist plot. Police intervention in strikes is an almost daily activity. Bombs, bannings of our meetings, detentions, murder of our members, confiscation of our literature — these things are commonplace for Cosatu in 1987.

That the new Bill is aimed at drastically undercutting our rights in the area of the government's greatest reform is therefore no surprise after all this. We hope, against hope, that the employers and their government will come to their senses and have this Bill repealed.

As to our broad objections to some of the many aspects of the Bill itself: it is legalistic and complicated. The situation which the Wiehahn Commission envisaged of an industrial court functioning on informal and flexible lines has been severely undermined. The courts' equitable jurisdiction to determine unfair labour practices has been all but destroyed.

The new and lengthy definition of "unfair labour practice" adds no new worker rights to those established in the industrial court over the past five years and directly or indirectly undermines many rights established by the court. We expect that employers will argue that the failure to mention specific practices as unfair means that the legislature did not intend these to be unfair labour practices. The failure by an employer to deal with a representative trade union is, for example, not part of the new definition of an unfair labour practice.

The Bill completely outlaws sympathy strikes and strikes over the same issue within the previous year. This illegalises the very basis on which Cosatu stands — an injury to one is an injury to all.

Unions involved in illegal strike action could now wind up facing damages claims running into millions of rands. Successful cases could even involve seizing the assets of the union. This is because the new legislation modifies the indemnity provided for registered unions in the Act. In these cases, actions by union members or officials will be assumed as acting on behalf of the union.

The new Bill provides for a special labour court as a court of appeal which will hear appeals and review decisions of the industrial court. The special labour court is likely to be more conservative than the Supreme Court.

While employers are not obliged to deal with majority unions, any attempt to enforce collective bargaining will be regarded as an unfair labour practice. This is a direct attack on majority unions. It will also increase the power of management to deal with workers directly behind the backs of the union.

F.M. 4/12/87

ECONOMIC FORECAST

Relief in '88?

When Pretoria unveils its Budget in March, taxpayers may have something to get excited about. In Sanlam's latest *Economic Survey*, chief economist Johan Louw predicts government will cut either income taxes or GST to ease the burden on consumers and stimulate the economy.

"I think government would like to cut taxes to put money in the hands of the man-in-the-street," Louw tells the *FM*. "Because the economy is struggling to get going, it would be a good thing psychologically."

Louw says concessions — a 5% across-the-board discount on income taxes, perhaps, or a cut in GST to 10% — could be an interim measure while government considers the major overhaul recommended by Margo.

But even if government delays a decision on the radical changes suggested by Margo, Louw figures that there remains a commitment to decrease personal taxation. "If the economy is still sluggish when the Budget is released, I can see nothing wrong with cutting personal taxes to stimulate it. I hope that's what government will do."

Among Louw's other views:

- The economies of major industrial countries will grow by 2,5% this year and 2% next year;
- The gold price — helped by a weak dollar, accelerated inflation in the industrial countries, and a decline in the appeal of financial assets — will average about US$500/oz in 1988, up from $445 this year;
- The rand will average about US48c this year and next;
- A small increase in fixed investment by the private sector and public authorities will be nearly matched by another sharp cutback in capital spending by public corporations;
- Firms will build up real inventories from the exceptionally low levels reached in the past year;
- Real GDP will grow by less than 2,5% this year and by around 3% in 1988;
- Private consumption expenditure, which rose just 0,3% in 1986, will increase 3,4% this year and 3,7% next, following big jumps in durable purchases;
- A limited rise in volume of exports will combine with a relatively steep rise in imports sparked by economic expansion, causing the current account surplus to fall from R6,2 billion in 1987 to R4,25 billion in 1988;
- Short-term money market interest rates will begin rising in the second or third quarter, and banks' prime lending rate will be about 13,5% at the end of next year; and
- At the end of 1988, long-term rates will be between 1-1,5 percentage points higher. ■

Backtrack from Wiehahn

Labour Relations Amendment Bill must be properly thought through

26/11/87

If the *FW* letters columns of the past year provide any indication, many readers would regard as desirable any amending legislation which reduces the ambit of the present labour relations dispensation and restores common law of contract to a position of dominance in our industrial relations system. But labour law, not merely in SA but in all the Western economies as well as in Japan, is no longer based purely on common law notions of contract. Workers are protected from arbitrary and unfair dismissal: the law attempts to provide a clear 'rule of law' basis to industrial relations at the shopfloor level.

For this reason the most tangible reform on the part of government was implementation of the Wiehahn commission recommendations in the late 1970s. At present SA has a labour relations dispensation which has not only been deracialised. It has also worked to deradicalise the industrial conflict which dominated the political and social agenda of the early 1970s prior to implementation of the Wiehahn reforms.

Analysis of the proposed 1987 Labour Relations Amendment Bill, put before Parliament toward the end of this year's session and which doubtless will reappear on the parliamentary agenda in 1988, indicates that government intends to retreat from the highpoint of reform contained in the Wiehahn commission and in particular from the implementation of it by the industrial court during the 1980s.

The explanatory memorandum concludes by noting that a number of different persons, departments of state, institutions, employers' organisations, trade unions, labour lawyers and university units commented on the earlier Amendment Bill and that "the comments on the whole supported the principles contained in the amendments". Apart from the memoranda submitted by the state, it is certainly incorrect to claim that the comments of any of the other bodies "on the whole supported the principles contained in the amendments". To the contrary, the vast majority of the representations objected to much of what was contained in the earlier Amendment Bill and which has now been reinforced in the present version. Let us consider merely two issues: the recommendations relating to a special labour court and the law relating to strikes.

The recommendation for the establishment of a special labour court as contained in the earlier Amendment Bill

Dennis Davis, associate professor of law at UCT, points to problems in the new labour bill which will have to be carefully considered before it becomes law.

has now been extended. It is intended that there should be separate divisions of the special labour court throughout SA as determined by the Minister of Justice. Each special labour court shall consist of a judge of the Supreme Court, who will be chairman, and two assessors. In terms of the Bill, the assessors shall have experience "of the administration of justice or skill in any matter which may be considered by the court".

It seems strange that there is no express provision for the assessors to have experience in the area of labour law and labour relations. Not only will the special labour court have powers of appeal from the industrial court but the proceedings of the industrial court may be brought under review for a special labour court in the same way as the decisions of administrative tribunals are reviewed by the Supreme Court. In addition, a further right is granted to a party in that any party dissatisfied by the decision of the special labour court may appeal to the Appellate Division against the decision order of the special labour court.

When one considers the elaborate appeal and review mechanism it is no small wonder that the Amendment Bill has been described as a "lawyer's charter". The amount of litigation which will take place and the time involved in labour disputes before the courts as well as the cost involved, will be exacerbated enormously by the elaborate appeal mechanisms from the industrial court to the special labour court and into the Appellate Division

In principle, however, there can be little objection to a special labour court which would reconcile conflicting decisions of the industrial court and which would act as an appeal body. Perhaps, however, further appeals to the Appellate Division seem entirely unnecessary and may create litigious difficulties. But there is another fundamental difficulty in that it is proposed to bring back a common law-based judiciary into the area of labour law.

The distinguished English lawyer Lord Wedderburn, in dealing with the position of English judges insofar as labour law is concerned, makes a number of pertinent observations: "A special labour court could pursue the objective of autonomy only if staffed from the outset in a new way Its judiciary could not from its very nature comprise common law Trojan horses without robes . . It could not operate under the presidency of peripatetic justices on leave from the High Court . Labour court judges, whether laymen or lawyers, would be no less 'judicial' than common law judges, merely tuned to a different logic, experience and policy. Unless this problem is faced, separate 'labour courts' can add little or nothing to the autonomy of labour law"

The law relating to strikes is always controversial. The purpose of the law must be to incorporate strikes into the law thereby institutionalising industrial conflict. Exclusion of strike action from the law can only lead to industrial unrest, the possible use of the criminal law — which is always an inappropriate measure in industrial relations — and exacerbated tensions between employer and employee But the new Bill does just this.

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★ Cape Times, Tuesday, December 8, 1987 3

Rosholt calls for negotiation

JOHANNESBURG. — The key to real economic growth in South Africa lies firmly in the hands of the politicians. This is the message in Barlow Rand chairman Mr Mike Rosholt's annual statement.

Mr Rosholt said the last three years had produced virtually no growth in gross national product "and there has been no significant capital investment outside of the mining industry".

The country was set for higher growth but was being held back by sluggish growth in consumer demand and lack of business confidence.

"This will only be regained when there is a start to a negotiating process seen to be capable of producing a power-sharing formula acceptable to all population groups." — Sapa

● Barlow Rand sees rise in earnings — Page 8

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Nedbank: constraints prevent even modest growth

GERALD REILLY

PRETORIA — Constraints bearing down on the SA economy precluded the achievement of even so modest a growth rate as 3%, Nedbank economists say.

In their latest Guide to the Economy, they say "modest" because it was generally accepted this rate was inadequate to keep abreast of the increase in the employment-seeking population, let alone solve the unemployment problem.

The constraints included:

- The straitened financial position of the household sector;
- The exhaustion of the taxable potential of the country and, accordingly, a limitation on government growth;
- The low ebb of entrepreneurial confidence;
- The completion of major infrastructural programmes of the parastatal corporations;
- The tendency towards inventory leanness;
- The long-term decline in gold mining producion; and
- Disinvestment and international sanctions.

"The constraints are not immutable, but while they continue to apply with any force, growth will be very limited at best," the economists say.

The constraints had applied in varying degrees during the 1980s, accounting for the very poor growth performance this decade, they say.

Companies expect 20% sales growth

High hopes for bumper Christmas

9/12/87

KAY TURVEY

BUOYANT early December trading presages a bumper Christmas and many retailers expect to beat their forecasts.

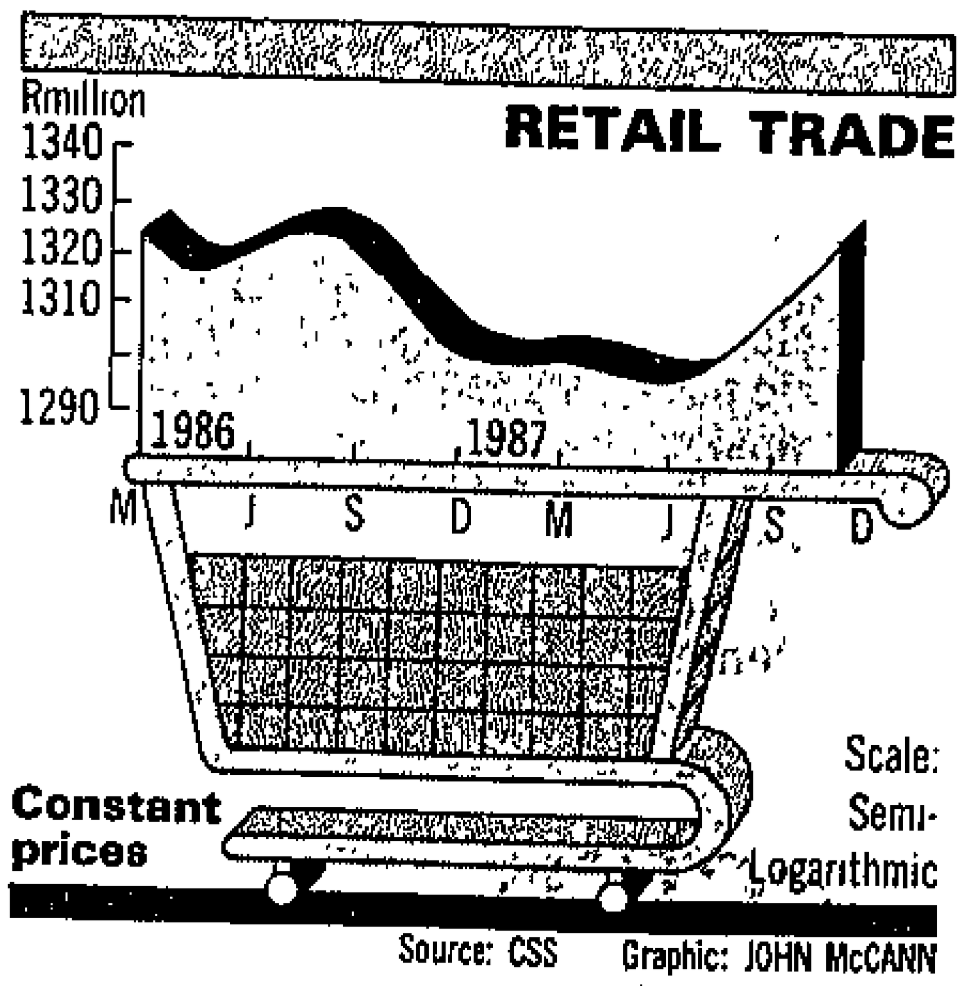
Most consumer-based companies are confident of achieving 20% sales growth, well ahead of inflation of about 16%, while retailers catering for black shoppers are looking at figures in excess of 30%.

Reserve Bank notes in circulation support this optimism. Notes in issue at the end of November are up 23% to R5,9bn on last year's figure and at present they are approaching R6,1bn.

Assocom estimates sales at shops will rocket beyond R8,7bn, 18% above the 1986 Christmas season's figure, with an increase in volume sales for the first time in years.

Assocom statistician Ed Verburg says although forecasts were made before October's stock market crash, Diagonal Street's plunge is not expected to dampen retail sales.

Between 40% and 50% of trade is expected from black consumers. In addition, confidence is stronger with employment up, companies showing higher profits and larger salary increases expected in the New Year.



Source: CSS Graphic: JOHN McCANN

Stable and lower interest rates have restored consumers' willingness to enter

● To Page 2

Bumper Christmas expected

into credit arrangements, says a Stannic spokesman. He notes Stannic instalment sales for the three months to November are 33% up on last year.

Westbank marketing GM Ronnie Watson describes November trading as "an all-time record", but says acute stock shortages in the motor trade could slow the upturn.

McCarthy Nissan MD Ray Nethercott says manufacturers were conservative and misread the market. Given the six-month lead time required by manufacturers, the benefit of improved conditions will not be reaped this year.

However, enormous pent-up demand in the predominantly hire-purchase furniture trade is expected to bring heavy spending in this sector's traditional peak period.

Rusfurn CE Geoff Austin says sales in all stores are up about 30% on the com-

● From Page 1

parable months last year, portending a strong December when turnover usually doubles. Austin notes that not only are hire-purchase sales good, but cash sales at Dions strongly indicate people have more money to spend this year.

Pick 'n Pay CE Raymond Ackerman says hypermarket sales of appliances and big-ticket items have been excellent. Trading in all stores has been 20% up on last year since September and the expectation for December is an increase of 21%.

Less-intense unrest and curtailed boycotts are set to boost black spending this Christmas. The UDF said yesterday it had not called for a consumer boycott or a stayaway during its Christmas campaign against the state of emergency.

C/T Times 10/12/87

Hope for 1988 SA growth

Financial Editor (49)

RESERVE BANK Governor Gerhard De Kock made it clear last night that he is optimistic about the SA economy in the New Year and about "peaceful, evolutionary reform" in this country.

Speaking at a graduation ceremony at the University of Port Elizabeth, he said: "There can be no doubt that 1987 has been a good year for South Africa in many respects, and that the present economic situation is better than it has been for some years.

"Although not yet adequate, business and consumer confidence is steadily improving.

"In spite of the adverse psychological impact of the worldwide decline in share market prices after October 18, the prospects for SA economy remain favourable."

In spite of this, De Kock warned that the country's basic economic and political problems had still to be solved and the present breathing space should be utilized to the full.

Although the drive for trade and financial sanctions against SA seemed to have lost momentum, the threat of further punitive measures had not disappeared.

"The misguided notion that the process of political reform in SA will be promoted and accelerated by sanctions and disinvestment still enjoys the support of influential groups in many countries," he said, but "nothing will serve the cause of black social and political advancement in SA better than rapid economic growth.

"What is left of apartheid might well survive a period of slow growth and relative economic stagnation, but will not be compatible with rapid economic growth and prosperity."

He went on: "The economic realities make a continuing process of change and reform in SA inevitable. While this process can be accelerated or slowed down, it cannot be stopped."

(49) B/day 10/12/87

Change can't be stopped — De Kock

Reform and order 'needed for prosperity'

GRETA STEYN

● DE KOCK

POLITICAL and constitutional reform, along with the maintenance of law and order, are vital for SA's economy to prosper, Reserve Bank Governor Gerhard de Kock said yesterday.

Speaking at a University of Port Elizabeth graduation ceremony, De Kock said the various short- and long-term economic policies currently being applied would not, by themselves, be adequate for the task at hand. Action was needed on both law and order and political reform.

"The economic realities make a continuing process of change and reform in SA inevitable, and while this process can be accelerated or slowed down, it cannot be stopped," he said.

"What is left of 'apartheid' might well survive a period of slow growth and relative economic stagnation, but will not be compatible with rapid economic growth and prosperity."

But there was no "quick fix" to SA's complex political and constitutional problems. "A long haul lies ahead."

However, De Kock believed peaceful, orderly and evolutionary reform in SA was not only desirable but fully attainable.

Referring to the economy, he said the present situation was better than it had been for years.

"Despite the adverse psychological impact of the worldwide decline in share-market prices after October 18, 1987, the prospects for the SA economy for 1988 remain favourable."

However, it would be a grave error to believe the country's basic economic and political problems had been solved.

"We have been granted a valuable breathing space, but it is vitally important that we should utilise it to the full. To believe that the status quo can now be maintained indefinitely would be naive in the extreme."

Economists unsure, despite recovery

10/12/87

IN spite of the economic recovery widely expected by both businessmen and government policy-makers, the performance of the economy remains hesitant and patchy, according to leading economists and business analysts. Their opinions are surveyed in Ernst and Whinney's *Consensus Forecast.*

49 W Mail

Many companies in financial services, manufacturing, construction and retailing have performed well over the past six months, but sectors of the economy such as mining and agriculture have lagged behind. There has been little private investment and much of the economic activity of the last six months has been as a result of government spending, the economists say.

The consensus forecast of the economists and analysts suggests an economic growth rate of 2,2 percent for 1987 and of 2,8 percent next year.

An inflation rate above 18 percent by the end of 1989 is forecast.

'Brighter outlook for economy'

BDay 5/1/88

THE SA economy has shown remarkable resilience in the face of adversity during the year to September 1987 and would probably strengthen in the 1987/88 financial year says MD Marais, chairman of Momentum Life in the annual report.

He says he expects the current financial year to be characterised by relatively stable interest rates, a further drop in the inflation rate and a high real growth rate in the economy, mainly as a result of early indications that the agricultural sector will perform significantly better than in the past five years.

"Both the bearish trend in the dollar and the dangerous political situation in the Middle East augur well for gold.

"My expectation is that gold will stabilise above $500 an ounce for the better part of the year.

"The same favourable trend will apply to the other precious metals and minerals of which SA is an important producer.

"Considering the preponderant importance of precious metals and minerals in SA's export earnings and government revenue, the outlook for the general economy seem brighter, especially if our expectations about agriculture materialise."

Year-end 5,75% boost needed

GDP growth disappointing, Reserve Bank

CAPE TIMES 16/12/87

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PRETORIA. — Further real growth of the economy at a seasonally adjusted 5,75% would be needed in the fourth quarter of this year for a growth rate of 2,5% for the full calendar 1987 to be achieved.

The Reserve Bank states in its latest quarterly report, released yesterday.

This follows the recording of a disappointing annualized increase of only 1,5% in the real gross domestic product in the third quarter, which brought the increase in the GDP for the first three quarters of the year to about 2,75% compared with the same period of last year.

The Bank says that current projections are for a growth rate of the economy of between 2% and 2,5% for the full year.

Steady expansion

It states that developments in the third quarter indicate that the economy appears to have "moved out of the preparatory into the early expansionary stages of a fairly typical cyclical upswing".

Notable features in the third quarter included continued steady expansion of real private consumption expenditure, a modest resumption of inventory accumulation and a bottoming out of the fixed investment cycle.

In addition there had been a firm rate of expansion of non-primary production "that would have been reflected in aggregate output growth but for unexpectedly poor results in agriculture and mining".

Another notable feature was continued healthy — though diminishing — surpluses on the balance of payments on current account.

Real private consumption expenditure recorded its sixth consecutive quarterly increase in the third quarter, while real government consumption expenditure, having grown exceptionally rapidly in the first quarter of 1987 but more moderately in the second quarter, actually decreased in the third quarter, the Reserve Bank says.

The average level of aggregate real government consumption expenditure in the first three quarters was nearly 5% higher than the same period of last year, however.

Real fixed capital spending by the private sector, after declining in the second quarter, increased markedly during the quarter — at an annual rate of approximately 13%.

"This encouraging revival was mainly accounted for by increased fixed capital outlays in manufacturing and agriculture and under the headings of machinery and transport equipment in the financial services sector," the Reserve Bank says.

Rising volumes of merchandise imports, at relatively stable prices, provided the principal explanation of some further shrinking of the surplus on the current account of the balance of payments.

Reserve-related

"The third quarter surplus, at an annualised rate, nevertheless still amounted to R5,4 billion or to approximately 3% of gross domestic product.

"After allowing for fairly modest further outflows of both reserve-related and non reserve-related capital, the current account surplus caused the gross gold and other foreign reserves to rise by another R0,8 billion in the third quarter to R8,6 billion at the end of September."

Referring to the mid-October stock market crash worldwide, the Reserve Bank said it had had little immediate impact on other SA markets.

The SA economy would not be able to fully insulate itself, however, from a further weakening of growth in the international economy. — Sapa

Bank credit used to finance R1bn of deficit

CAPE TIMES 17/12/87

From HELENA PATTEN

JOHANNESBURG. — Government, going against an accepted economic principle, used bank credit to finance its deficit to the tune of just over R1bn in the first six months of the fiscal year.

Figures in the Reserve Bank's latest quarterly bulletin show the banking sector accounted for R1,073bn, or just over 21% of the deficit financing of R5,049bn from April to September this year.

Davis Borkhum Hare economists describe government's use of bank credit as contravening one of the "sacred cows" of disciplined fiscal financing.

"The use of bank finance, of course, increases the monetary base with an expanding effect on the money supply and possible inflationary consequences," Davis Borkhum Hare says in its latest Economic Research.

Slippery slopes

It warns that the SA economy could "be on the slippery slopes of 'Latin American' deficit financing policies with adverse long-term effects on interest rates, the exchange rate and inflation," and calls for immediate action to restore discipline in State financing and spending.

The Reserve Bank bulletin shows that the quarter-to-quarter rate of increase in money supply has accelerated appreciably from 5% in the first quarter to to 15,9% and 14,1% in the second and third quarters respectively.

As a result, M3 money supply at the end of September fell within the targeting "cone" for the first time in the 1987 targeting year.

In excess

Referring to government spending, the Bank said expenditure for the first seven months of the fiscal year had been "significantly in excess" of the budgeted increase of 16,2%. Government spending increased by 19,1% from April to October this year.

Aggregate government expenditure rose by as much as 23,7% in the first quarter of 1987 compared with the same period last year, and more moderately by 18,7% and 20,1% in the second and third quarters of this year.

Other highlights in the report include:

- The surplus on the current account of the balance of payments declined further to R5,4bn, from R7,2bn in the first quarter of 1987 and R5,8bn in the second quarter. But the third-quarter figure still amounts to more than 3% of GDP, compared with an average 4,5% since the beginning of 1985.

Weakness

- The disappointing overall growth in the third quarter of 1987 was caused almost entirely by weakness in the agricultural and mining sectors.
- Bank credit has remained sluggish despite the seasonally adjusted annual rate increase to the private sector from 8,2% in the first half of 1987 to 13,6% in the third quarter.

Economic focus shifts

By AN ECONOMIST

THE geographic focus of world economic activity has shifted centre over the ages.

In the 12th through to the 14th century, the pulse of world trade was concentrated in the Mediterranean Sea area.

By the turn of the 20th century, the focus centred on the New World of America, and world trade began to concentrate in the Atlantic Ocean region, which bordered what was to become the world's richest nation.

Over the past few decades, the buzz of economic life and activity shifted once again. This time eastwards towards the Pacific Basin.

The Pacific Basin hosts a large number of countries, many of which the Westerner would hardly concern himself with.

There are, however, various countries which have, often against tremendous odds shown such remarkable growth that it would be of great concern to anyone interested in developing a nation's potential to its utmost, to take cognisance of these forces that have shaped the countries.

There is no question that Japan alone has by far been the most notable performer since World War 2. Why Japan succeeded whereas others have failed is due to its eclectic choice of Western ideas, and their incorporation and adaption to suit its environment rather than the imposition of a system irrelevant to its needs.

Thus a suitable blending of East and West ensued.

World War 2 had another important result. It provided the Pacific region with the access of free trade into the rich American market.

This relationship was mutually beneficial until recent domestic economic problems in the United States gave birth to the cry for protectionism, which has grown considerably louder as the years have gone by.

Struggling

The overwhelming success of Japan has tended, at least until recently, to overshadow the performance of four other countries, which have often been nicknamed the "Four Tigers".

These countries are Hong Kong, Singapore, Taiwan and South Korea. They have in past years achieved double digit annual growth rates at a time when most Western economies have been struggling to maintain an annual GDP of around 5 percent.

Whereas homogeneity has always been at the core of Japan's success, diversity, creativity, agility and aggressive determination have been the main factors which have encouraged the phenomenal growth in the Four Tigers or Newly Industrialised Countries (NICS).

The Japanese nation has a great and ancient cultural heritage which incorporates a strong and definitive code of ethics and conduct which permeate every facet of Japanese existence.

The binding of the Japanese nation was further entrenched by a strong nationalistic element which embodied the desire to get Japan to regain its proud stature after being defeated in World War 2.

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SOWETAN, Friday, December 18, 1987,

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US influence is heavy

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Rapid economic development became a Japanese priority. The Japanese dream was realised through the determined effort of a cohesive nation who functioned under the guidance of the powerful and capable Ministry of Trade and Industry (MITI).

The growth achieved in the NICS becomes even more astonishing when considering the scarcity of natural resources in these countries, some of which host fairly large populations, for example. South Korea hosts about 40 million people and Taiwan 20 million.

One learns from Japan, with its population of more or less 130 million, that a large population relative to the country's size, need not necessarily be an impediment to growth.

On the contrary, it has been the emphasis on people, or in economic jargon, human capital, that has been at the core of both economic and human development in these countries.

The manufacturing base in the NICS was broadened and accessible to the entire population. Labour was viewed as a valuable resource.

It was, in fact, the only resource that these countries could rely upon as an engine for growth.

Investment in human capital thus became a national priority. In nearly all the Asian countries the State provided free universal schooling, at least until high-school level.

The essence of education in the NICS was that it was initially largely tailored to the needs of the economy and was thus both socially and technically relevant.

The system has since encouraged higher education and post-graduate studies. Today South Korea has one of the highest education levels in the world.

Challenge

The agility and flexibility of an industrious workforce in all the NICS, as well as in Japan, has also been a large factor contributing to their success.

What may surprise many South Africans is that the pervasive government involvement in these economies has not choked economic growth in these regions.

The heavy hand of government in South Korea and Singapore, which pervades nearly every sector of their respective economies, contrasts strongly with the more free market approach that characterises the Japanese economy.

Whereas in the past the United States' relationship with the Pacific Basin was viewed relatively passively, the relationship is now being challenged on several fronts.

Japan is beginning to challenge the United States supremacy as the Free World's economic powerhouse.

This has enormous political implications for the United States.

However, it is chiefly the burgeoning United States trade deficit that is the present, and most blatant, source of friction between the two nations.

This rift has strong implications for the NICS as they too have growing trade surpluses with the United States.

This is due to their export-oriented economic policies, which have been thriving due to their undervalued currencies relative to the US dollar.

Japan manufacturers, due to Japan's rapidly appreciating currency, have tended to go offshore and set up export companies in the NICS.

This has contributed greatly to their balance of payment surpluses vis a vis the United States, and has deceptively made Japan appear to be reducing its trade surpluses with the United States.

Since the stock market collapse on October 19, the United States trade deficit has absorbed the focus of world attention more than ever before.

It has become an extremely politically sore point for the Republican Party, especially with the next United States election coming up in less than a year.

The result has been the growth of an increasingly powerful protectionist lobby.

If some of the protectionist measures suggested are to be incorporated, the NICS would be extremely hard hit. For Taiwan, the US share in its total exports is 48 percent.

Problems

For South Korea, Singapore and Hong Kong, the United States' share of their total exports is 43 percent, 45 percent and 44 percent respectively.

Japan's is slightly less affected at 38 percent.

Thus the importance of the United States maintaining an open door policy to these countries is vital to their existence.

Unlike the past, the low-cost, high quality Asian goods are no longer compensating for the political and economic problems the United States is experiencing due to its balance of payment problems.

Pressure for greater exchange rate appreciation in the NICS is

mounting daily.

Their potential to continue to exhibit phenomenal growth in the near future hinges almost completely on the United States' ability to solve its balance of payments problems without lessening its imports from the Asian countries.

The longer term viability for growth in the NICS depends on a restructuring of their economies which must include a more diversified risk portfolio with respect to its trading partners, instead of relying so heavily on the United States.

Economy expected to improve

Growth rate of 3% in 1988 — FCI

(49)

18/12/87

Cape Times

JOHANNESBURG. — The Federated Chamber of Industries (FCI) is predicting a growth rate in gross domestic product (GDP) of 3% in 1988.

Presenting its economic forecast for next year, the FCI says the expected improvement in economic conditions would be the combined result of increased real domestic spending and increased investment.

It believes the effect of the stock-market crash will be softened by counter-measures implemented by the major industrialized nations.

Boost GDP growth

Private consumers should experience a moderate increase in real wages and salaries, "caused partly by trade union activity, continued improvements in corporate cash flows and by an expected lower inflation rate".

"Rises in fixed investment as well as inventory investment would further boost the growth rate of the GDP," it states.

"It would seem as if public corporations' cut-back on fixed investment has come to a halt. The Lesotho Highlands Water Project, the Mossel Bay Gas Project, as well as spending on township development, low-cost housing and schools, will boost government fixed investment."

Among conditions favouring private investment were rising consumer demand, low interest rates, low price increases of imported machinery and a moderate improvement in business confidence. However, political and fiscal uncertainty could have a dampening effect.

The FCI expects the inflation rate to continue declining — at least in the first half of 1988.

"Upward pressure on the inflation rate will, however, be forthcoming from further declines in the exchange rate against major currencies and, especially, pressure on wages and salaries caused by skill shortages and demands from trade unions for above cost-of-living wage increases.

Inflation however was not expected to be given priority over employment or economic growth.

Exchange rate

It expects the exchange rate to be "kept at a rate which under-values its purchasing power in order to improve the competitiveness of exports and to protect the balance of payments".

"The FCI expects that a relatively stable dollar/rand exchange rate, fluctuating around $0,50, will be maintained during 1988, while the rand will decline, in accordance with the inflation differential, against the other major currencies," it says.

Slower international growth rates together with sanctions would combine to cause exports to perform slightly below potential in 1988, while imports would rise. — Sapa

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The growth's 2,5 percent. But 3,5 is the bottom line

The usually cheery Gerhard De Kock is predicting a low 2,5 percent growth next year. The danger is that 3,5 percent is needed just to keep unemployment where it is. HILARY JOFFE reports

AN economic growth rate of 2,5 percent is better than nothing at all. But in a country in which 3,5 percent is the rate needed just to keep the unemployment level constant, the thought of it is not a very cheerful one.

South Africa's gross domestic product is likely to have grown by two percent this year — and Reserve Bank Governor Gerhard de Kock is now predicting a growth rate of 2,5 percent for 1988.

De Kock this week painted a gloomy picture of South Africa's economic prospects. In his forecast for 1988 he said it would be the fourth year in succession in which South Africa's economy had grown more slowly than the annual 3,5 percent needed just to provide jobs for the ever-increasing number of school leavers.

On the marginally more optimistic side, he said prices were likely to increase by only 15 percent next year (this year's inflation rate will probably be between 16 and 17 percent).

De Kock is still hoping for a growth rate of three percent in 1988 but he seems to have given up seeing it as a possible scenario.

If it were to happen, he has said before and suggested again this week, it "would cause many other things to fall into place", with more savings generated and more tax revenue collected, enabling certain tax rates to be cut.

Forecasts of "disappointing" growth prospects have become standard in the latter part of this year. Gross domestic product grew by five percent in 1984 but by only 1,5 percent last year: per capita growth was actually negative in 1986.

The average annual growth rate between 1980 and 1986 has been one percent — compared with average growth rates of 5,8 percent in the 1960s, 4,7 percent in the first half of the 1970s and two percent in the second half.

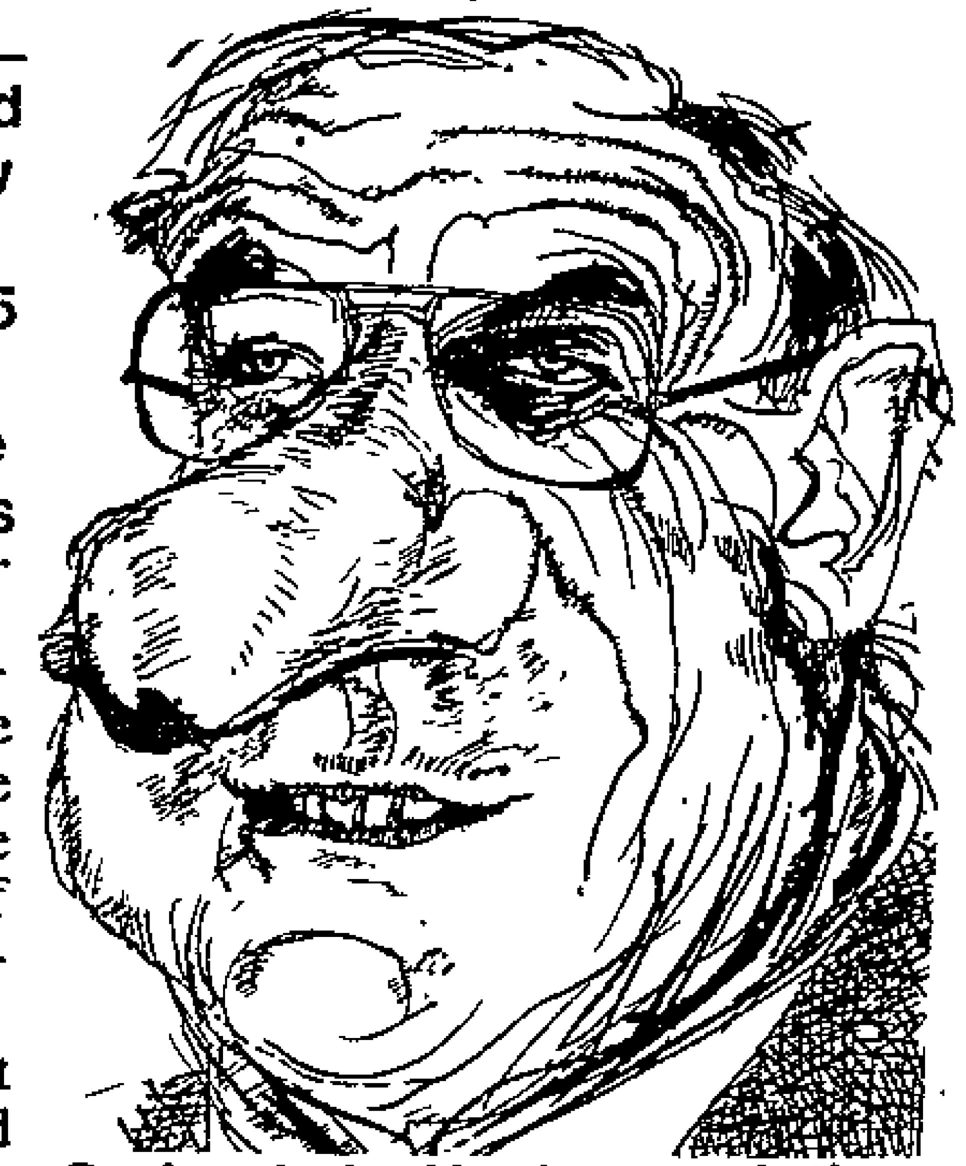
Meanwhile black unemployment stands officially at 18,5 percent and each year of inadequate growth further entrenches the problem.

Growth next year is unlikely to come from exports: domestic demand will have to be the main stimulus. Consumers, companies and the government would be the sources of domestic demand. But many economists are now arguing that consumer and government spending are likely to show only limited increases.

Nedbank economist Edward Osborn writes in a recent Guide to the Economy that there are definite constraints limiting South Africa's growth potential. Some of the factors he mentions are straitened household finances; the exhaustion of the taxable potential of the country, limiting government growth; lack of business confidence; long term decline of gold mining production; and disinvestment and sanctions.

Government consumption spending has been the strongest contributor to economic growth since 1980, but this has been possible because of increases in tax revenue at a rate of increase which, Osborn writes, probably cannot continue into the future without unmanageable deficit budgeting.

Government consumption expenditure has been growing at an average 3,5 percent a year since 1980. But spending by private individuals has been growing by only 1,7 percent in this period. Personal disposable income has actually declined. Exports grew at only 0,45 percent a year between 1980 and 1986.



Gerhard de Kock ... painting a gloomier picture

The chief symptom and the cause of economic decline is the lack of investment: fixed capital formation declined at an average rate of 6,8 percent a year between 1981 and 1986. In other words, investment spending, which would create jobs, on plant, machinery, equipment, and vehicles, as well as on construction has dropped substantially.

Mining investment has gone up, particularly because of development of platinum mines and the need for continuous development in gold mining to maintain capacity. But manufacturing industry investment levels have dropped, as have those of parastatals.

And the government is keeping the economy going with consumption spending (eg on salaries and wages) but government money is not going towards longer-term investment expenditure, which could create jobs.

The reason economists are fairly pessimistic about next year is that none of these sets of actors are likely to generate much in the way of growth or investment.

Exports are not likely to stimulate growth. Growth rates in most South Africa's major trading partners will slow down next year, especially in the wake of the Wall Street crash, and so their demand for South Africa's (and other countries') exports will drop — even if sanctions have no effect. Stimulus for growth will have to come from inside the country. But will individuals or companies spend?

Individual consumers' position overall has not been improving. Wage and salary increases have not kept pace with inflation so household incomes have been declining in real terms (quite apart from the impact of tax).

The exception is wage levels for unionised black workers, particularly those in Cosatu, which, as Andrew Levy and Associates have found, have almost kept pace with inflation. These unions have been winning wage increases for their members higher than the average for the workforce as a whole. On the other hand, high unemployment levels mean more mouths need feeding from an employed worker's wage.

Companies will hopefully invest more but a number of factors continue to limit investment spending. This is despite the fact that money is very cheap — interest rates are running below inflation so it pays to borrow. Lower interest rates have been a major factor behind the huge rises in the profits of many companies this year. The steep rise in interest rates of 1984-84, when the prime overdraft rate (the rate at which banks lend to their best customers) peaked at 25 percent, caused havoc for many companies, who may be hesitant about incurring debts again.

But lack of political confidence continues to be a problem, as is the gloomy economic outlook: if export growth will be low and consumers and businesses won't be increasing their spending by much, investment may not seem worthwhile. South Africa's domestic market for consumer goods remains limited as long as large numbers of employees earn very low wages.

But there are those economists who are still taking a more optimistic view, stressing the short term economic indicators which are improving. Sanlam's economists write in their December Review that three percent growth rate can be achieved in 1988. Real retail sales will rise more quickly, with wage and salary increases and greater willingness of consumers to use credit.

Die groot verskil tussen die getal werkloses volgens die opname en geregistreerde werksoekers kan toegeskryf word aan:

The large difference between the number of unemployed persons according to the survey and registered workseekers ... attributed to: